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Corporate Financial Leader Genders' Effect on Financial Reporting Decisions in an Obedience Pressure Setting

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Abstract

The accounting profession is rules-based but requires corporate financial leaders to make judgments in applying these rules to a particular set of facts. This study focuses on how that judgment can be susceptible in an obedience pressure setting when told to change the financial statements by a superior. Specifically, this study examines the effects of chief executive officer (CEO) gender and corporate financial leader gender effects on corporate financial leader decisions in an obedience pressure setting. The study uses a 2 x 2 between-subjects experiment and practicing corporate financial leaders as participants. The results find a significant relationship between corporate financial leaders gender and corporate financial leaders judgment. Female corporate financial leaders report more conservative earnings than male corporate financial leaders in an obedience pressure environment. However, the gender of the CEO is not relevant to the decision of the corporate financial leader. The study supports occupational socialization, with corporate financial leaders prioritizing their responsibility for financial reporting quality over their relationship with the CEO.

Keywords: Behavioral decision making, corporate financial leader, gender, financial reporting quality, obedience pressure, occupational socialization

Introduction

The number of female corporate financial leaders is growing. In 2023, it was reported that 63 of the Fortune Global 500 companies' chief financial officers (CFOs) were female, representing 12.6% of the companies (Estrada, 2023). It is expected that the percentage of female corporate

financial leaders will continue to increase in future years for two reasons. First, the trends in accounting degree completions and new hires support that females are entering the profession at the same rate as males. The 2021 American Institute of Certified Public Accountants (AICPA) Trends Report found that accounting degree completions were higher for female graduates than male graduates for associate's, master's, and doctorate degrees in 2019-2020, and were equal between genders for bachelor's degree completions (AICPA, 2021). The data also reported that new bachelor's and master's accounting graduates hired into the accounting and finance functions of United States public accounting firms were 49% female for the same time period (AICPA, 2021). This has been constant for the historical six-year period, with male and female hires nearly equaling 50%. The trend reveals that females are entering the profession at the same rate, if not higher rate, as males. Second, the focus on professional development programs and resources has improved in recent years, with companies investing significant resources to provide opportunities for career advancement to all employees. Female employees have the opportunity to progress into advanced decision-making role,s with half of the employees entering the profession being female and company initiatives to promote females at the same rate as male employees. Therefore, it is important to understand the differences in decision-making between male and female corporate financial leaders and the impact on financial reporting quality. This study examines differences in behavioral decision-making between corporate financial leaders to understand the impact of gender bias on financial reporting quality. Specifically, when a corporate financial leader is subjected to an obedience pressure situation from a chief executive officer (CEO), is there an inherent bias to misreport earnings based on the CEO gender, the financial leader gender, or interaction between both? The findings support occupational socialization theory in which the corporate financial leaders do not follow the CEO's demand to misreport earnings. The gender of the CEO proved not to be relevant to the financial reporting decision, showing no gender bias by the corporate financial leader with his or her judgment. The results also find that female corporate financial leaders report lower earnings than male corporate financial leaders demonstrating a more conservative judgment.

2. Financial Reporting Quality and Potential Threats

2.1 Financial Reporting Quality

Financial reporting quality is generally considered to be preparing financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP), the rules and standards set by the Financial Accounting Standards Board (FASB) for the accounting profession. Following U.S. GAAP results in unmodified audit opinions and

shareholder confidence. Financial reporting quality is important for companies as corporate wrongdoings "damage investor confidence, decrease shareholder value, cause misallocation of capital, and increase financial market instability" (Khanna et al., 2015). There are several definitions of financial reporting quality provided in the accounting literature that vary from a broad definition to a detailed definition naming indicators of financial reporting quality. Although the literature defines financial reporting quality in many ways, there is a common underpinning among all the definitions that financial reporting should not mislead users of the financial statements.

Corporate financial leaders have a key role in delivering financial information that is not deceptive. Corporate financial leaders, such as CFOs, chief accounting officers (CAO) and controllers, have a fiduciary responsibility to the shareholders and the board of directors of the company (Friedman, 2014). These financial reporting leaders typically oversee the process of preparing financial reports and are expected to be the "gatekeepers" or "watchdogs" of financial information accuracy of the company and bear the prime responsibility for reporting accurate and timely financial disclosures for the firm (Caglio et al., 2018; Ham et al., 2017). Dichev et al. (2013) add that financial reporting leaders are the key decision makers about earnings quality as they manage accounting standards and use discretion on how to apply the standards to a particular set of facts. As financial reporting leaders oversee the company's financial reporting process, this individual likely has the most direct impact of all the executive team on accounting-related decisions, such as choosing an accounting method or making accounting adjustments (Ge et al., 2011; Geiger and North, 2006; Mian, 2001). They have the ability to manipulate financial reporting information through various methods (Feng et al., 2011). The concern of inaccurate financial reporting has led to a considerable amount of research into the quality of corporate earnings.

2.2 General Model of Pressure

One threat to financial reporting quality is CEO social influence pressure on the corporate financial leader. DeZoort and Lord (1997) presented a general model of pressure that includes a pressure stimulus, stress response, strain outcome, and individual characteristics. This model was adapted for the current study, as shown in Figure 1.

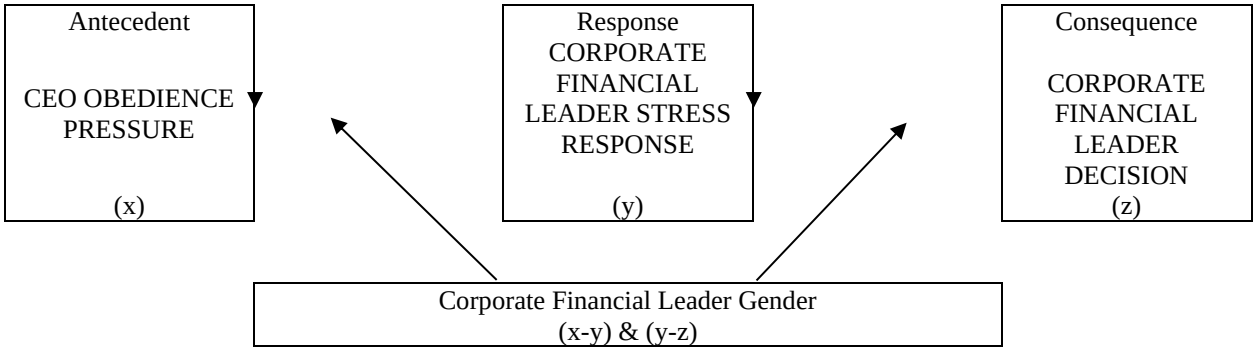

Figure 1: General Model of Pressure Adapted
(adapted from DeZoort and Lord (1997) for current study)

The current study examines CEO social influence pressure, specifically obedience pressure, as the pressure stimulus. This study focuses on the partnering in management decision-making between the company CEO and the corporate financial leader. The corporate financial leader reports directly to the CEO within the current organizational structure. This gives the CEO the opportunity to assert obedience pressure on the corporate financial leader, which can affect the quality of financial reporting. This study investigates corporate financial reporting decisions in an obedience pressure setting where a CEO *tells* the corporate financial leader to misstate financial statements to meet an earnings target. Obedience pressure is the focus of the study, rather than compliance pressure, where a CEO *asks* the corporate financial leader to misstate financial statements to meet an earnings target, for two reasons. First, obedience pressure is the more extreme of the two pressures. Bishop et al. (2017) found that both obedience pressure and compliance pressure are effective in motivating some CFOs to misreport earnings. However, in larger accounting scandals, it is typically an obedience pressure setting where the CEO demands, not asks, the CFO to report fraudulent earnings. Second, previous research by Davis et al. (2006) found that nearly half of the management accountants in the study violated explicit policy when faced with obedience pressure from an immediate superior, indicating that obedience pressure is relevant to management accountants.

The current study identifies the stress response component of the model to focus on how professionals perceive obedience pressure at a point in time. The strain outcome is the impact on the corporate financial leader's reporting decision.

Lastly, the general model of pressure includes an individual characteristic that can change how the participant responds to the stress and related strain outcome. Based on the increasing number of female

accountants in the accounting profession, the study examines gender as an individual characteristic.

3. Literature Review and Hypotheses Development

This study investigates corporate financial leader judgment in an obedience pressure setting where a CEO *tells* the corporate financial leader to misstate financial statements to meet an earnings target. Different gender combinations between the CEO and the corporate financial leader are evaluated to understand the impact on corporate financial leader decisions. Based on prior accounting and psychology literature, it is expected that gender will influence financial reporting leaders' judgments.

Upper echelons theory suggests that "organizational outcomes–strategic choices and performance levels–are partially predicted by managerial background characteristics" (Hambrick and Mason, 1984). These managerial background characteristics, such as gender, have been reviewed in empirical studies. However, Plöckinger et al. (2016) explain how empirical studies show the effect of upper echelons theory and its relation to financial accounting without the explicit terminology of 'upper echelons theory.' For example, Krishnan and Parsons (2008) examine whether the earnings quality of accounting information is impacted by the gender diversity of senior management. The findings show that earnings quality is positively associated with higher gender diversity in the senior management team. This finding extends the upper echelons theory literature without specifically referring to the theory. Similarly, subsequent upper echelons theory research by Peni and Vähämaa (2010) explores the association of female CFOs and earnings management strategies. The results suggest that female CFOs follow more conservative financial reporting strategies compared to male CFOs. A more recent study by Liu et al. (2016) also investigates the effect of CFO gender on earnings management. The findings are similar to the Peni and Vähämaa (2010) study and support that female CFOs are more conservative in financial reporting and engage in less earnings management compared to male CFOs. These studies explore the association of gender and financial reporting but do not explicitly link the outcomes to upper echelons theory literature.

An opposing viewpoint to the upper echelons theory is occupational socialization theory. Occupational socialization theory suggests "socialization takes place in adulthood through occupational training, exposure to organizational culture, and workplace factors" (Mason and Mudrack, 1996). Smith and Rogers (2000) investigate gender-based differences in multiple accounting decision situations. The results find that when specific rules were tested or violated, individuals behaved similarly regardless of gender. However, when gray areas are involved, the male and

female participants behaved differently. As the current study involves an ethics-based situation, it is expected that upper echelons theory will prevail.

Based on upper echelons theory and previous literature, it is expected that male corporate financial leaders reporting to a male CEO will report higher earnings than a male corporate financial leader reporting to a female CEO. Additionally, it is expected that female corporate financial leaders to report lower earnings than male corporate financial leaders. Stated formally:

H1: Male corporate financial leaders under obedience pressure from a male CEO to meet an earnings target will report higher earnings than male corporate financial leaders under obedience pressure from a female CEO.

H2: Male corporate financial leaders under obedience pressure from a male CEO to meet an earnings target will report higher earnings than female corporate financial leaders under obedience pressure from a male CEO.

Additionally, it is expected that female corporate financial leaders reporting to a female CEO will report lower earnings than a female corporate financial leader reporting to a male CEO. Social identity theory suggests "that individuals seek to maintain a positive social identity through self-categorization processes based on the salient demographic characteristics" (Tajfel and Turner, 1986). Previous research has found that subordinates with supervisors of the same gender receive higher levels of support and respect than subordinates who report to supervisors of different genders (Foley et al., 2006). However, violations of expectations, such as abusive supervision, pose a threat to the subordinate's identity. Therefore, a female corporate financial leader would question her social identity with the female CEO when the female CEO tells the female corporate financial leader to change the accounting judgment. This uncertainty would cause the female corporate financial leader to report a more conservative accounting judgment.

Females identify with other females based on self-categorization processes. They believe that they are similar. If a female CEO asserts obedience pressure and tells the female corporate financial leader to misstate earnings, the female corporate financial leader will no longer have a positive social identity with the female CEO. That would cause the female corporate financial leader to report lower earnings. If a male CEO asserts obedience pressure and tells the female corporate financial leader to misstate earnings, the female corporate financial leader's social identity would not be affected, as she did not have a strong social identity with the male CEO. Stated formally:

H3: Female corporate financial leaders under obedience pressure from a female CEO to meet an earnings target will report lower earnings than female corporate financial leaders under obedience pressure from a male CEO.

H4: Female corporate financial leaders under obedience pressure from a female CEO to meet an earnings target will report lower earnings than male corporate financial leaders under obedience pressure from a female CEO.

4. Methodology

4.1 Experiment Design and Case Development

The experiment was conducted using a 2 x 2 between-subjects experiment design and practicing corporate financial leaders as participants. The first independent variable of CEO gender was manipulated at two levels of male or female, and the second independent variable of corporate financial leader gender was measured at two levels of male or female.

The initial case materials were adapted from previous studies by DeZoort et al. (2003) and Bishop et al. (2017). All participants were presented with the base case information. The participants were then randomly assigned to one of the two CEO gender groups and given information describing the scenario to which they were randomly assigned. In the male CEO gender condition, the materials stated:

> You propose an adjustment to write down inventory to net realizable value based on your estimates of future customer demand and sales price. Christopher, the company's CEO, meets with you to discuss the year-end financial reporting results. After you explain the effects of your proposed inventory write-down, which would reduce earnings per share (EPS) from $1.10 to $1.06, he emphasizes the extreme importance of meeting the current year's earnings target of $1.08 and **tells** you to change your proposed inventory write-down. Christopher says, "If we make this entry, it will just kill our company. I am **telling** you to go back and fix this now so that we meet our target."

The materials for the female CEO gender condition stated:

> You propose an adjustment to write down inventory to net realizable value based on your estimates of future customer demand and sales price. Christina, the company's CEO, meets with you to discuss the year-end financial reporting results. After you explain the effects of your proposed inventory write-down, which would reduce EPS from $1.10 to $1.06, she emphasizes the extreme importance of meeting the current year's earnings target of $1.08 and **tells** you to change your proposed inventory write-down. Christina says, "If we make this

entry, it will just kill our company. I am **telling** you to go back and fix this now so that we meet our target."

The materials also contained one manipulation check question to ensure that the participants read and understood the CEO gender condition.

After participants considered the case background and randomized treatments, they were asked to make a judgment related to a corporate financial reporting decision. The corporate financial reporting decision question instructed the participants to indicate their opinion as to the pretax EPS they would record based only on the information presented in the case. The judgment was measured on a sliding scale from 0 to 100, where 0 represented the initial adjustment of $1.06 and 100 represented the EPS before any adjustments of $1.10.

4.2 Kelley Followership Questionnaire

The study included several classification questions to better understand the participants, including total professional experience, professional experience as a corporate financial leader, current title, revenue of the company, professional certifications, and education. In addition, the Kelley Followership Questionnaire was used to identify the participants' followership style (Kelley, 1992). Kelley established five followership styles of alienated, conformist, exemplary, passive, and pragmatist. The responses to 20 closed-ended questions were used to classify the participants into one of the following styles.

5. Results

5.1 Descriptive Results

Seventy-six participants completed the online case materials. Twelve participants who failed the CEO gender manipulation check were excluded, leaving 64 participants for analysis. Table I provides an overview of participant demographics. The participants are equally split between male (50%) and female (50%). Participants have significant professional experience, with 85.9% having more than 15 years of professional business experience and 40.6% having over 15 years of experience being responsible for preparing the company's financial statements. Current titles reveal that participants are mostly chief financial officers (35.9%), controllers (29.7%), and vice presidents of finance (15.6%). They represent organizations of varying sizes, with 32.8% working for companies with $10 million to $50 million in annual revenue and 20.3% working for companies with over $1 billion in annual revenue. The participants hold numerous professional certifications (92.2% hold at least one certification), with the certified management accountant (CMA) and certified public accountant (CPA) designations being the most predominant.

Table I: Demographic Information **(n=64)**

		Male		Female	
Total Years of Professional Business Experience	Less than 5 years	1	1.6%	0	0.0%
	5 to 10 years	1	1.6%	3	4.7%
	11 to 15 years	2	3.1%	2	3.1%
	16 to 20 years	3	4.7%	10	15.6%
	21 to 25 years	7	10.9%	6	9.4%
	Over 25 years	18	28.1%	11	17.2%
Total Years of Professional Experience Responsible for Preparing Company's Financial Statements	Less than 5 years	4	6.3%	4	6.3%
	5 to 10 years	7	10.9%	10	15.6%
	11 to 15 years	6	9.4%	7	10.9%
	16 to 20 years	2	3.1%	4	6.3%
	21 to 25 years	5	7.8%	4	6.3%
	Over 25 years	8	12.5%	3	4.7%
Current Title	Accounting Manager	1	1.6%	1	1.6%
	Assistant Controller	1	1.6%	2	3.1%
	Chief Financial Officer	12	18.8%	11	17.2%
	Controller	7	10.9%	12	18.8%
	Finance Manager	1	1.6%	1	1.6%
	Vice President of Finance	6	9.4%	4	6.3%
	Other Professional	4	6.3%	1	1.6%
Annual Revenue of Current Employer	Less than $10 million	1	1.6%	6	9.4%
	$10 million to $50 million	12	18.8%	9	14.1%
	$51 million to $100 million	6	9.4%	3	4.7%
	$101 million to $200 million	1	1.6%	6	9.4%
	$201 million to $300 million	2	3.1%	2	3.1%
	$301 million to $400 million	1	1.6%	0	0.0%
	$401 million to $500 million	0	0.0%	0	0.0%
	$501 million to $1 billion	0	0.0%	2	3.1%
	Over $1 billion	9	14.1%	4	6.3%
Professional Certifications (88 total responses as participants can hold multiple certifications)	CMA	23	26.1%	17	19.3%
	CPA	12	13.6%	20	22.7%
	Other	8	9.1%	3	3.4%
	None	2	2.3%	3	3.4%
Highest Educational Degree	Undergraduate Degree in Accounting	11	17.2%	20	31.3%
	Other Undergraduate Degree	2	3.1%	1	1.6%
	MBA	16	25.0%	8	12.5%
	Master's in Accountancy	1	1.6%	3	4.7%
	Other Master's Degree	2	3.1%	0	0.0%

Table II shows the participant followership styles, with the majority of participants classified as exemplary followers. Exemplary followers have both high independent thinking and high active engagement. Only five participants are labeled as pragmatist followers, which has both middling independent thinking and middling active engagement. No participants were identified as alienated, conformist, or passive followers. This demographic

information was beneficial to the study as it indicated the participants' propensity to follow the orders of a superior. All participants included in the study were determined to have middling independent thinking (7.8%) or high independent thinking (92.2%), meaning that they do not simply follow the instructions of another individual without first considering the consequences. This confirms that the participants would make their own independent decision when faced with an obedience pressure situation.

Table II: Kelley Followership Style Demographic Information **(n=64)**

Followership Style	Number of Participants	Percentage
Exemplary	59	92.2%
Pragmatist	5	7.8%

The mean corporate financial reporting decision in the male CEO gender condition was 11.06, compared to the mean of 10.70 in the female CEO gender condition. The average corporate financial reporting decision by male corporate financial leader was 15.12, compared to the mean of 6.21 by female corporate financial leaders. The mean, standard deviation, and number of observations for each combination are presented in Table III.

Table III: Descriptive Statistics – Corporate Financial Reporting Decision **(n=61)**
Mean, (Standard Deviation), *Number of Observations*

	Corporate Financial Leader Gender – Male	Corporate Financial Leader Gender – Female	
CEO Gender – Male	16.18 (19.62) *17*	4.86 (13.40) *14*	11.06 (17.77) *31*
CEO Gender – Female	13.93 (20.65) *15*	7.47 (17.42) *15*	10.70 (19.06) *30*
	15.12 (19.81) *32*	6.21 (15.39) *29*	

Note: A boxplot analysis of corporate financial reporting decisions identified three outliers. These outliers were eliminated when analyzing the corporate financial reporting decision variable. This explains the number of observations of 61 in the analysis, compared to the 64 participants who fully completed the survey and passed the manipulation check.

5.2 ANCOVA Results

Table IV displays the ANCOVA model for corporate financial reporting decisions. The only control variable that is significantly related to corporate financial reporting decisions is whether the participant holds any professional certifications. Therefore, professional certification was included in the final ANCOVA model as a control variable.

Table IV: ANCOVA Results – Corporate Financial Reporting Decision **(n=61)**
R Squared = 0.201 (Adjusted R Squared = 0.144)

Source	Sum of Squares	df	Mean Square	F-statistic	p-value
Corrected Model	4015.108	4	1003.777	3.515	.013
Intercept	935.070	1	935.070	3.274	.076
Certifications	2715.763	1	2715.763	9.509	.003
CEO Gender	98.434	1	98.434	.345	.560
Corporate Financial Leader Gender	1516.466	1	1516.466	5.310	.025
CEO Gender x Corporate Financial Leader Gender	55.400	1	55.400	.194	.661
Error	15993.089	56	285.591		
Total	27236.000	61			
Corrected Total	20008.197	60			

Note: A boxplot analysis of corporate financial reporting decisions identified three outliers. These outliers were eliminated when analyzing the corporate financial reporting decision variable. This explains the number of observations of 61 in the analysis, compared to the 64 participants who fully completed the survey and passed the manipulation check.

The overall ANCOVA model is significant, and there is a significant relationship between corporate financial leader gender and corporate financial reporting decision (significant at the 0.05 level). The female corporate financial leaders reported lower (more conservative) earnings in the obedience pressure setting compared to the male corporate financial leaders, regardless of the CEO's gender.

However, the ANCOVA results do not support any of the hypotheses. The hypotheses predicted differences in corporate financial leader judgments based on the CEO's gender and the corporate financial leader gender combination. There is no evidence that CEO gender affects corporate financial leader judgments, nor is there any evidence of an interaction between CEO gender and corporate financial leader gender. Rather, the results provide support for occupational socialization theory. This theory recognizes that differences between male and female ethical orientations may exist before employment, but these differences disappear as employees are socialized within the work environment (Smith and Rogers, 2000). Based on occupational socialization theory, males and females will respond similarly in the same occupational environment (Betz et al., 1989). This proved to be true as the participants prioritized their responsibility for financial reporting quality and ethical decision making.

6. Conclusion

6.1 Gender Diversity in the Profession

The results of the study find that female corporate financial leaders report more conservative earnings than male corporate financial leaders

when the CEO demands they revise the company earnings. The results support previous research that female corporate financial leaders are more conservative and risk-averse compared to male corporate financial leaders. This study adds to previous literature by identifying an additional scenario in which females make different judgments than their male peers. The results of this study confirm that as more females advance to corporate financial leaders in future years, reported earnings will be more conservative.

6.2 Occupational Socialization in the Profession

The study's findings also highlight the relevance of occupational socialization in the role of the corporate financial leader. The participants did not follow the CEO's demand to misreport earnings. The gender of the CEO proved not to be relevant to the financial reporting decision, showing no gender bias by the corporate financial leader with his or her judgment. This demonstrates that financial reporting quality is of the utmost importance to the corporate financial leader. Previous research has found several situations in which males and females make different judgments from each other. These situations range from accounting education,the accounting profession, and specific disciplines within the profession. However, the results of this study contrast with previous research due to the role of the corporate financial leader and the level of experience of the participants in this study. More than 60% of the participants have been responsible for preparing the company's financial statements for 11 or more years. Another explanation is that 92.2% of the participants hold a professional certification, such as a CPA license or CMA certification. Both credentials require continuing professional education, including ethics education, to reinforce the importance of ethical decision making in the profession. A third consideration is that the individuals understand the responsibility that comes with the corporate financial leader role. These individuals realize that they bear the primary responsibility for financial reporting quality and take this duty seriously.

6.3 Limitations and Future Research

The study is subject to several standard limitations applicable to experimental design and survey research based on case study material. The case involved only a single scenario and there was no opportunity for group decision making that is found in practice. Additionally, although it was a gender-balanced sample, 92.2% of the participants were categorized as exemplary followers, while the remaining 7.8% were classified as pragmatist followers. No participants were in the other three follower categories of alienated, conformist, or passive. It can be challenging to find participants

who meet these criteria of dependent thinkers and passive engagers due to the nature of the accounting profession.

Additional research into pressure situations that may cause corporate financial leaders to misreport earnings is encouraged. Future research may examine lower-level accountants in an obedience pressure scenario from their supervisor. The participants in this study were very experienced professionals so the results may be different for a less experienced group of participants. It would be interesting to investigate if occupational socialization prevails for a sample size of younger corporate financial leaders, or if the corporate financial leaders succumb to the pressure as these individuals are still in the process of gaining experience and building their professional network.

Conflict of Interest: The author reported no conflict of interest.

Data Availability: All of the data are included in the content of the paper.

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Declaration for Human Participants: This study has been approved by the University of Scranton IRB, and the Belmont Report and "The Common Rule" were followed.

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