

Change in Leadership and Earnings Management in Unlisted Companies : Empirical Evidence from Cameroon

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ABSTRACT: This study examines the motivations behind earnings management following CEO turnover in unlisted companies in Cameroon. Using a sample of 34 CEO successions across 32 firms between 2016 and 2020, discretionary accrual models developed by Dechow et al. (1995) and Kothari et al. (2005) were applied to detect accounting adjustments. The findings reveal a significant decline in discretionary accruals in the first year of new leadership, indicating an accounting discontinuity. However, this decline is primarily associated with organizational restructuring rather than opportunistic accounting manipulation. Additionally, internally promoted CEOs are more likely to implement downward adjustments than externally appointed leaders. The contribution of this study lies in its contextualized investigation of earnings management practices in unlisted companies, which remain underexplored in the literature.

KEYWORDS : Earnings management, CEO turnover, unlisted companies.

INTRODUCTION

In the context of unlisted companies, empirical studies on the effects of CEO turnover on accounting performance, particularly through accrual management, remain scarce. The literature, much more developed for publicly traded firms, highlights a phenomenon often referred to as the "big bath," in which a new CEO's appointment is accompanied by an apparent deterioration of accounting results, used strategically (Moore, 1973 ; Pourciau, 1993 ; Guan et al., 2005 ; Mard & Marsat, 2008 ; Hazarika et al., 2012 ; Choi et al., 2014 ; Baker et al., 2018 ; Ansari et al., 2021). This accounting manipulation generally aims to artificially reduce current performance to facilitate subsequent recovery. However, the more opaque nature of unlisted companies complicates the analysis of the underlying motivations for these adjustments, necessitating a specific study.

The observed decline in discretionary accruals following Changes in leadership can be interpreted in two distinct ways. On one hand, it may reflect a genuine economic deterioration, often linked to structural crises or inherited poor performance (Warner et al., 1988 ; Weisbach, 1988 ; Denis et al., 1995 ; Huson et al., 2004). Murphy and Zimmerman (1993) emphasize the importance of considering this crisis context to avoid conflating realistic accounting adjustments with opportunistic manipulation. On the other hand, some studies posit opportunistic earnings management, where executives deliberately use accounting levers (provisions, depreciation, deferred expenses) to portray a temporarily weakened financial position, thereby creating leeway for highlighting future performance (Healy, 1985 ; Dechow & Sloan, 1991 ; Wells, 2002 ; Hazarika et al., 2012 ; Choi et al., 2014 ; Baker et al., 2018 ; Ansari et al., 2021). This dual perspective highlights the ambiguity of the observed phenomena.

In publicly traded firms, the nature of the successor and governance structure play a key role in these dynamics. Internal successors, familiar with accounting practices and managerial tolerances, may be more likely to engage in opportunistic discretionary adjustments (Baker et al., 2018 ; Ansari et al., 2021), whereas external executives, facing an unfamiliar environment and seeking legitimacy, may rely on operationally grounded recovery. Furthermore, the frequent absence of rigorous external control (such as less independent boards or concentrated, often family-based governance) creates increased opportunities for strategic earnings management (Hazarika et al., 2012 ; Baker et al., 2018 ; Ansari et al., 2021). These factors call for a contextualized analysis that accounts for the specificities of unlisted companies.

In this perspective, the present study investigates the nature and motivations of accounting adjustments associated with leadership change in unlisted companies : to what extent does the decline in discretionary accruals reflect economic reality or

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opportunistic managerial strategy ? To address this question, the paper is structured in three parts. The first examines hypotheses related to actual performance deterioration versus opportunistic accounting manipulation. The second presents the research methodology, while the third reports empirical results and interprets them in light of the governance characteristics of unlisted companies.

1. Performance management with the change in leadership : an empirical review

Changes in leadership constitutes a strategic turning point within organizations, often accompanied by major structural, strategic, and accounting decisions. Empirical literature shows that the arrival of a new executive is frequently associated with a decline in reported accounting performance, often interpreted as an opportunistic big bath strategy (Pourciau, 1993 ; Wells, 2002). However, this interpretation remains debated, as other factors such as prior firm performance, successor origin, and governance structures also shape managerial reporting behavior. Earnings management refers to managers' discretionary use of judgment in financial reporting to influence the presentation of financial information in pursuit of contractual, political, or reputational objectives (Dechow, Sloan & Sweeney, 1995). Within this framework, big bath accounting consists of concentrating losses and negative adjustments in the first year of the new CEO's tenure, allowing poor performance to be attributed to predecessors while facilitating future performance improvements (Moore, 1973 ; Pourciau, 1993).

1.1. The decline in accruals as a reflection of genuine performance deterioration

A first interpretation of the decline in accruals following CEO turnover considers it as reflecting a genuine deterioration in economic performance. Several studies indicate that managerial transitions often occur in contexts of significant underperformance or corporate distress (Warner et al., 1988; Weisbach, 1988 ; Denis et al., 1995 ; Huson et al., 2004), prompting incoming executives to implement realistic accounting adjustments rather than opportunistic manipulations (Murphy & Zimmerman, 1993). For instance, asset write-downs, including goodwill impairments, may signal a prudent reassessment of past investments. In unlisted companies, the absence of capital market pressure makes such adjustments more credible, often reflecting accounting clean-up efforts rather than reputation-driven strategies. Consequently, the decline in accruals may represent an alignment of financial statements with economic reality rather than a deliberate attempt to distort performance reporting. This reasoning underpins our first research hypothesis (H1) : **The appointment of a new CEO is associated with earnings management positively influenced by financial performance.**

1.2. Accounting discontinuity as an opportunistic earnings management strategy

A second perspective views managerial transitions as opportunities to implement opportunistic accounting strategies, regardless of actual economic performance. Such strategies rely on discretionary modifications of accounting policies (such as depreciation schedules, provisioning practices, or asset valuation) to influence reported earnings without altering operational activity. Numerous studies recognize discretionary accruals as a primary instrument of earnings manipulation (Healy, 1985 ; Dechow & Sloan, 1991 ; Wells, 2002 ; Hazarika et al., 2012 ; Choi et al., 2014 ; Baker et al., 2018 ; Ansari et al., 2021). Empirical evidence suggests that newly appointed executives, particularly externally recruited CEOs, tend to adopt conservative accounting choices during their initial tenure year (Reitenga & Tearney, 2003 ; Baker et al., 2018 ; Ansari et al., 2021). Such practices artificially depress initial performance, thereby facilitating the presentation of improved results in subsequent periods. In unlisted companies, where external monitoring mechanisms are often weaker, this strategy may be easier to implement. This perspective leads to our second hypothesis (H2) : **When a new CEO is appointed, discretionary accounting variables exert a significant negative effect on earnings management.**

1.3. The Influence of organizational restructuring and successor origin

The arrival of a new CEO is frequently associated with organizational and strategic restructuring processes. In this context, accounting adjustments may reflect broader reorganization strategies rather than purely performance or reputation concerns. Several studies note that restructuring activities (including asset disposals, plant closures, and workforce reductions) are often accompanied by the recognition of exceptional charges, facilitating strategic repositioning (Elliot & Shaw, 1988 ; Khurana & Lippincott, 2003). In unlisted companies, where restructuring processes are less subject to public scrutiny, such adjustments may temporarily reduce earnings as part of efforts to stabilize operations or justify organizational changes. This reasoning forms the basis of our third hypothesis (H3) : **CEO turnover is associated with earnings management influenced by organizational restructuring activities.**

Furthermore, successor origin and governance configuration also shape earnings management behavior (Watts & Zimmerman, 1978). An external CEO, often recruited to signal strategic change, may be incentivized to implement radical accounting choices to assert authority (Ansari et al., 2021). Conversely, an internal successor, perceived as a continuation of previous leadership, may be less inclined to introduce major changes, yet may still rely on discretionary adjustments to consolidate legitimacy. Additionally, governance quality plays a crucial role in constraining earnings management practices. Effective governance mechanisms

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(including independent boards, separation of CEO and chair roles, and frequent board meetings) tend to limit managerial discretion (Hazarika et al., 2012 ; Baker et al., 2018). In contrast, weaker governance environments may facilitate such practices. This reasoning supports our fourth hypothesis (H4) : **Downward earnings management is more frequent when the newly appointed CEO is promoted internally.**

2. Methodological approach adopted in the field study

This section presents the methodological framework adopted for this research. It details the nature of the data mobilized and the structure of the analyzed sample, the approach used to estimate discretionary accruals, and the empirical models retained for hypothesis testing

2.1. Nature of the data and sample structure

The analyzed sample was constructed using multiple complementary data sources. Accounting and financial data were primarily obtained from the Statistical and Fiscal Declarations (Déclarations Statistiques et Fiscales, DSF) collected by the National Institute of Statistics (INS) of Cameroon. These data were supplemented with information derived from official records documenting CEO turnover events, as well as responses obtained through questionnaires administered directly to the firms concerned. The triangulation of these sources enhanced both the reliability and the comprehensiveness of the collected information, thereby strengthening the empirical basis of the study.

Table 1 : Method of collecting data on CEO turnover (List format)

		Total	Filtered	Retained
Minutes collected from Courts of First Instance registries (September 2022 – December 2024)	Douala-Bonanjo	9	5	4
	Yaoundé administrative centre	3	2	1
	Limbe	2	1	1
Questionnaire data on CEO turnover (February 2024 – January 2025)	Bamenda	4	2	2
	Bafoussam	5	0	1
	Batouri	1	0	1
	Douala	29	11	18
	Edéa	1	0	1
	Garoua	2	1	1
	Maroua	1	0	1
	Yaoundé	9	1	8
Data collected from corporate digital platforms (February 2024 – October 2024)	Various websites	11	2	9
	Observations retained	69	25	44
Final CEO turnover sample				34
Combined additional observations				10

Source : Compiled by the authors based on calculations.

The sample selection process relied on rigorous criteria. First, the succession had to involve an executive leader, including positions such as Chief Executive Officer (CEO), Chairman and Chief Executive Officer, General Manager, Chairman of the Board of Directors, as well as managing directors of limited liability companies (LLCs) or independent managers. Second, the successor had to be clearly identifiable as the principal executive authority of the firm. In addition, accounting and financial data had to be available for the entire period covered by the study. Finally, firms operating in the banking and insurance sectors were excluded from the analysis due to their specific accounting and regulatory frameworks, which could introduce biases in the interpretation of the results.

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Table 2 : Data distribution and sample structure

Tables	Table 2			Table 3		Table 4			Total
Years covered	2013	2014	2015	2016	2017	2018	2019	2020	/
Number of observations	4,038	4,038	4,038	1,725	1,725	236	236	235	/
Sampled firms	/	/	/	16	12	2	1	1	32

Source : Compiled by the authors based on calculations.

Based on these criteria, we identified 34 CEO turnover cases across 32 firms over the period from 2016 to 2020. We then classified the types of successor executives and matched them with their respective year of appointment, corresponding to fiscal year N, as reported in the following table.

Table 3 : Characteristics of CEO turnover in the studied entities

Year of CEO change			Decision type leading to CEO appointment		
	Freq.	%		Freq.	%
2020	2	5.88	Family council designation	15	44.12
2019	2	5.88	Self-appointment	8	23.53
2018	2	5.88	Board of directors designation	7	20.59
2017	12	35.29			
2016	16	47.06	Other nomination	4	11.76
Total	34	100.00	Total	34	100.00

Source : Elaborated by the authors based on calculations.

The distribution of CEO arrivals over this period is uneven, with a strong concentration in 2016 (16 cases) and 2017 (12 cases), compared to only two cases each in 2018, 2019, and 2020. The year of the new CEO's arrival is referred to as year N. Regarding the mechanisms of accession to the CEO position, the results reveal a diversity of governance arrangements. Fifteen CEOs were appointed by a family council, reflecting the significant influence of family structures in the governance of Cameroonian companies. Seven CEOs were appointed by a board of directors, indicating a more formalized, institutionalized selection process. Eight CEOs self-appointed, meaning they assumed leadership without a formal designation, often in contexts of governance gaps or informal succession. Finally, four CEOs were appointed by an authorized entity, in accordance with the procedures stipulated in the company's statutes. The characteristics of the successor CEOs across different business sectors are presented as follows :

Table 4 : Characteristics of the studied companies and CEOs

Business sectors			CEO positions		
	Freq.	%		Freq.	%
Commerce and vehicle repair	10	27.78	Manager of LLC	20	58.82
Business services	6	16.67	Chairperson of the Board	3	8.82
Transport and warehousing	2	5.56	General Director	11	32.35
Fishing and aquaculture	2	5.56			
Wood industry excluding furniture manufacturing	2	5.56			
Metal products manufacturing	2	5.56			
Petroleum refining and coking	1	2.78			
Textile and garment manufacturing	1	2.78			
Cereal-based product manufacturing	1	2.78			
Construction	1	2.78			
Educational activities	1	2.78			
Total	32	100.00	Total	34	100.00

Source : Prepared by the authors based on calculations.

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The characteristics of the successor CEOs and the companies involved reveal a predominance of limited liability companies (LLCs), with 20 CEOs serving as managers. There are also 11 general directors and three chairpersons of the board, the latter primarily heading mixed-economy companies. From a sectoral perspective, the majority of the companies studied (22 out of 32) operate in the tertiary sector, with strong representation from commercial activities and business services. The secondary sector, particularly manufacturing, is underrepresented in the sample, with only four companies included.

2.2. Measurement of variables used

To detect such manipulations, researchers often rely on discretionary accruals. The modified Jones model (Dechow et al., 1995) estimates the normal portion of adjustment entries to isolate the discretionary components of earnings. This model was further refined by Kothari et al. (2005), who incorporate economic profitability (ROA) as a control variable, making the analysis more robust. Concurrently, economic profitability, calculated as operating income divided by total assets, reflects the firm's actual performance. Additional accounting variables are employed to enrich the analysis. For example, ratios such as depreciation and provisions / total assets and reversals / total assets can signal artificial earnings adjustments. Similarly, changes in working capital requirements (WCR) or cash balances relative to total assets are used to capture real manipulations. Finally, firm size, measured by the logarithm of total assets, is a structural variable that influences the capacity to manage earnings and the level of stakeholder scrutiny (Watts & Zimmerman, 1986). These indicators thus help understand managerial motivations in a CEO turnover context, even outside publicly listed companies. The variables used are as follows :

Table 5 : Measurement of variables used

Category	Variables names	Formula	References
Accounting performance	DA Dechow & al. (1995) DA = TA – NDA	$\frac{TA_t}{A_{t-1}} = \beta_1 \left(\frac{1}{A_{t-1}} \right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{A_{t-1}} \right) + \beta_4 ROA_t + \varepsilon_t$	Dechow et al. (1995)
		$NDA = \beta_0 + \beta_1 \left(\frac{1}{A_{t-1}} \right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{A_{t-1}} \right) + \beta_4 ROA_t$	
	DA Kothari & al. (2005) DA = TA – NDA	$\frac{TA_t}{A_{t-1}} = \beta_1 \left(\frac{1}{A_{t-1}} \right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{A_{t-1}} \right) + \varepsilon_t$	Kothari et al. (2005)
		$NDA = \beta_1 \left(\frac{1}{A_{t-1}} \right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{A_{t-1}} \right)$	
Financial Performance	Economic Profitability (ROA)	$\frac{RE - IS}{TA}$	Murphy & Zimmerman (1993)
Accounting Variables	R&D	$\frac{R\&D \text{ expenses}}{TA}$	
	Depreciation & Provisions (DOTAT)	$\frac{\text{Depreciation and provisions}}{TA}$	
	Reversals (REPRI)	$\frac{\text{Reversals of impairments and provisions}}{TA}$	
	ΔBFR	$\frac{\Delta BFR(\text{Change in working capital})}{TA}$	
	Cash Flows (REV_REC)	$\left(\frac{\Delta REV_t - \Delta REC_t}{TA} \right)$	
	Sales (REV)	$\frac{\text{Revenue (Chiffre d'affaires)}}{TA}$	
Structural Variables	Size (TAIL)	Logarithm of total assets	
	Debt ratio (END)	$\frac{\text{Total liabilities}}{TA}$	
	Fixed Assets (IMMOB)	$\frac{\text{Tangible assets}}{TA}$	

Definitions : TA_t = Total Accruals ; A_{t-1} = Total assets of the previous year ; ΔREV_t = Change in sales [N – (N-1)] ; ΔREC_t = Change in receivables [N – (N-1)] ; PPE_t = Total tangible fixed assets ; DA_t = Discretionary accruals ; β_0 , β_1 , β_2 , β_3 , β_4 = Regression coefficients to estimate ; RE = Operating income ; IS = Income taxes ; TA = Total assets.

2.3. Statistical model used

In this study, statistical models were employed to analyze discretionary accruals, which serve as a key indicator of earnings management. In a second phase of the analysis, a Student's t-test was applied to compare the mean discretionary accruals

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according to the origin of the successor CEO. The objective was to determine whether internally promoted CEOs engage more in downward earnings management than externally recruited CEOs, as suggested by certain corporate governance and signaling theories. This test allows for assessing whether the observed difference between the two groups is statistically significant, thereby supporting the hypothesis that the origin of the CEO influences earnings management practices.

3. Study results

The results of this study are organized into two sections. The first section presents the behavior of discretionary accruals around the arrival of new CEOs, accompanied by descriptive statistics on the selected variables and model validity tests. The second section focuses on the estimation of the empirical models.

3.1. Description of Selected Variables

This section describes the discretionary accruals and the main financial, accounting, and structural determinants likely to influence their variation. The analysis is further enriched by a statistical examination of central tendencies and dispersion of the variables used in the study, as follows :

Table 6 : Descriptive statistics of the variables studied

	Obs.	Min	Max	mean	Std error
DECHOW1995 Accruals	32	-85.54%	12.47%	-40.91%	26.57%
KOTHARI2005 Accruals	32	-78.73%	47.14%	-43.26%	33.73%
ROA	32	-0.692	0.115	-0.211	0.272
DOTAT	32	0.000	0.082	0.015	0.025
REPRIS	32	0.000	0.007	0.000	0.001
ΔBFR	32	-0.621	0.812	0.120	0.285
ΔREV-ΔREC	32	-0.568	0.118	0.216	0.454
REV	32	0	28.812	8.119	2.286
TAIL	32	5.612	11.954	9.298	1.466
END	32	0	0.712	0.189	0.497
IMMOB	32	0.000	0.799	0.279	0.290
CEO origin	Internal promotion				21
	External hire				13

Source : Authors' calculations

At the fiscal year marking the assumption of office by the new CEOs, discretionary accruals represent on average 43.26% of total assets according to the modified Jones model, and 40.91% according to the Kothari model. Their variation is substantial, ranging from -85.54% to +12.47%, with standard deviations reflecting significant inter-firm heterogeneity. Financial performance, measured by the return on assets (ROA), indicates cumulative deficits of up to 21.1% of total assets. ROA ranges from -69.2% to +11.5%, highlighting considerable disparities among firms. Depreciation and provision charges account for an average of 1.5% of total assets, with some firms recording none and others reaching 8.2%, illustrating divergent accounting policies.

Reversals of impairments are infrequent and relatively homogeneous across the sample. Working capital requirements (ΔBFR) average 12% of total assets, ranging from -62.1% (financing surplus) to +81.2%, confirming strong heterogeneity in financing needs. Cash collections represent on average 21.6% of total assets, with some firms showing high receivables (up to 62.1%) and others very low (11.8%), further increasing dispersion. Revenue averages 8.11 times total assets, but some firms generate none while others reach a ratio of 28.11, reflecting pronounced differences in economic structure. Investments in tangible assets represent on average 27.9% of total assets, ranging from 0% to 79.9%, indicating contrasting investment strategies.

We subsequently analyzed the evolution of discretionary accruals over the N-2 to N period surrounding the CEO turnover. This analysis allowed us to determine whether discretionary accruals differ significantly from one fiscal year to another and to assess whether a decline in accruals occurs with the arrival of a new CEO, as observed in publicly listed companies. The trends in discretionary accruals were closely examined to identify such patterns.

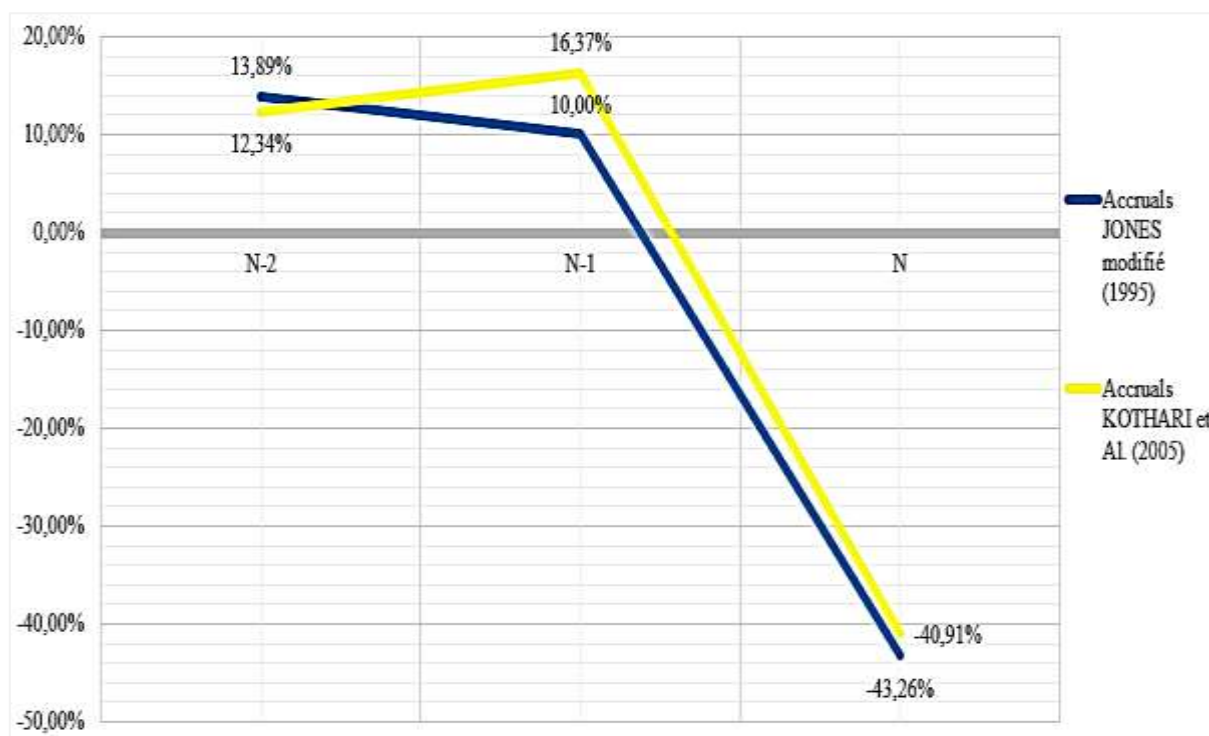


Figure 1 : Dynamics of Discretionary Accruals around CEO Turnover

Source : Authors' elaboration based on calculations

The figure illustrates the evolution of the average discretionary accruals of the companies studied over the years N-2 to N, surrounding the CEO turnover. The results indicate a decline in discretionary accruals in year N, coinciding with the arrival of new CEOs, compared to years N-2 and N-1. However, it is crucial to assess whether this decline is statistically significant. These analyses allow us to determine the level of significance of the reduction in discretionary accruals in year N for the sample of CEO changes. To this end, comparative tests were conducted and are presented in the table below :

Table 7 : Analysis of discretionary accruals over the period N-2 to N

		Discretionary accruals	
		Dechow & al. (1995)	Kothari & al. (2005)
N-2	Mean	13.89%	12.34%
	Median	20.80%	11.52%
N-1	Mean	10.00%	16.37%
	Median	10.62%	19.72%
N	Mean	-43.26%	-40.91%
	Median	-48.07%	-42.27%
N-2 to N-1	Mean difference	0.038	-0.040
	P-value	0.869	0.757
N-2 to N	Mean difference	0.571**	0.532**
	P-value	0.000	0.000
N-1 to N	Mean difference	0.532**	0.572**
	P-value	0.000	0.000

** indicates significance at the 1% level.

Source : Prepared by the authors based on calculations.

The tests conducted indicate a significant decline in discretionary accruals in year N, corresponding to the CEO turnover, compared to years N-2 and N-1. In contrast, the difference in mean accruals between years N-2 and N-1 is not significant. This finding suggests that incoming CEOs adopt accounting policies that differ from those of their predecessors. Examination across fiscal years reveals

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that the decline in accruals occurs in year N, while the decrease observed in year N-1 is not statistically significant. These results are consistent with previous studies (Pourciau, 1993 ; Wells, 2002 ; Mard & Marsat, 2008 ; Hazarika et al., 2012 ; Choi et al., 2014 ; Baker et al., 2018 ; Ansari et al., 2021), supporting the view that CEO turnover is associated with a clear break in accounting policies. The evidence highlights that managerial transitions in non-listed firms can induce abrupt shifts in discretionary accounting choices, reflecting either strategic adjustments or realignment of reporting practices, rather than gradual changes over preceding years.

3.2. Estimation of the selected models

Building on the approach of Murphy and Zimmerman (1993), this section presents the results of preliminary tests assessing the suitability of the explanatory variables for the model. Multicollinearity analysis was conducted using a correlation matrix complemented by the computation of Variance Inflation Factors (VIFs) to ensure the reliability of the estimations.

Table 8 : Correlation matrix

	Ac_DECH	Ac_KOTH A	ROA	ENT	DOTAT	REPRIS	ΔBFR	ΔREV_Δ RE	ΔREV	TAIL	IMMO B
Ac_DECHO	1										
Ac_KOTHA	0.654	1									
ROA	-0.197	0.854	1								
ENT	0.025	0.217	0.253	1							
DOTAT	-0.143	-0.025	-0.286	0.019	1						
REPRIS	0.168	0.014	0.130	0.001	0.258	1					
ΔBFR	0.048	0.230	-0.007	0.385	-0.064	0.521	1				
ΔREV_ΔRE	0.103	0.140	0.087	-0.165	0.277	0.516	0.516	1			
ΔREV	0.049	0.230	-0.007	0.214	-0.064	0.521	0.996	0.516	1		
TAIL	0.731	0.651	0.078	0.358	0.007	0.279	0.677	0.596	0.891	1	
IMMOB	-0.541	-0.198	0.067	0.299	-0.198	0.386	0.248	0.350	0.299	0.316	1

Source : Elaborated by the authors based on calculations.

The correlation analysis highlights that the relationship between financial performance and discretionary accruals strongly depends on the model used. Profitability shows a weak negative correlation with accruals estimated using the Dechow model, suggesting that higher financial performance reduces the incentive to manipulate results discretionarily. In contrast, profitability is strongly and positively correlated with accruals derived from the Kothari model, which explicitly incorporates performance in the estimation of normal accruals. Leverage exhibits a weak positive correlation, indicating a limited disciplinary effect of creditors on earnings management practices. Depreciation and provisions show a moderately negative correlation, confirming their use as a discretionary accounting lever to reduce reported earnings, particularly during managerial transitions, although they do not constitute a dominant factor. Conversely, reversals of impairments exert minimal influence on accruals dynamics, reflecting their limited usage. Finally, changes in working capital, cash collections, and sales display weak correlations with discretionary accruals, suggesting that these accruals primarily reflect internal accounting choices rather than mere operational cycle fluctuations, which serve mainly as a contextual economic backdrop rather than as direct determinants of earnings management.

Tableau 9 : Collinearity diagnostics

	1/VIF	VIF
ROA	0.818	1.222
ENT	0.494	2.023
DOTAT	0.778	1.285
REPRIS	0.655	1.527
ΔBFR	0.003	289.828
ΔREV_ΔRE	0.003	289.350
REV	0.660	1.514
TAIL	0.480	2.083

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IMMOB	0.723	1.383
Mean VIF		65.025

Source : Elaborated by the authors based on calculations

The variance inflation factor (VIF) analysis, in line with the recommendations of Hair et al. (2014), reveals a very high level of collinearity in the initial model, with a mean VIF of 65.025. This high collinearity is primarily due to the variation in working capital (ΔBFR) and the variation in cash collections ($\Delta REV - \Delta REC$), whose VIF values approach 289. Tolerances below the critical 10% threshold confirm the redundancy of these variables with other indicators related to firm size and activity, making model adjustment necessary. To preserve economic information while reducing collinearity, an exploratory factor analysis (EFA), recommended by Jolliffe (2002) for dimensionality reduction, was performed. This analysis identifies two main components : one associated with performance and accounting charges (profitability and depreciation), and the other grouping activity and operational flow variables. This factorial structuring thus facilitates the selection of relevant variables and enhances the robustness and interpretability of the estimated model.

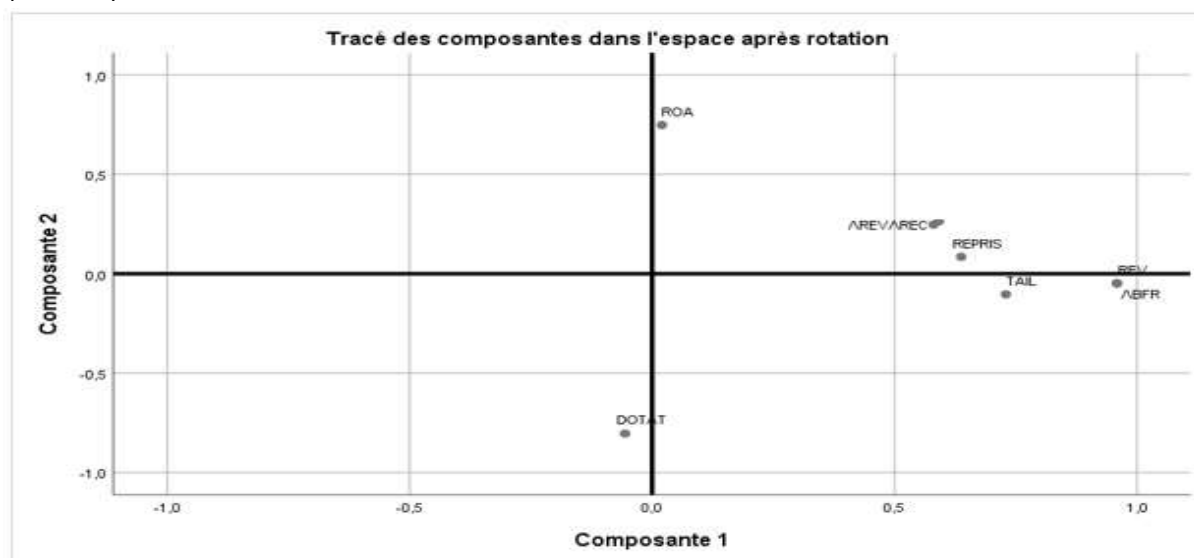


Figure 2 : Collinearity analysis among explanatory variables

Source : Elaborated by the authors based on calculations

Based on the results of the exploratory factor analysis, adjustments were made to reduce collinearity while maintaining the theoretical coherence of the model. In the first component, depreciation and amortization allowances were removed in favor of profitability, considered more synthetic and directly linked to the managerial behaviors under study. In the second component, firm size was excluded, as its information was already captured by the activity and operational flow variables. The final model therefore retains profitability, leverage, discretionary accounting variables (provisions, amortizations, and write-backs), as well as fixed assets, ensuring a balanced representation of financial, accounting, and structural dimensions. This selection procedure, in line with the methodological recommendations of Greene (2012) and Wooldridge (2013), contributes to improving the stability of estimated coefficients, reducing redundancy effects among variables, and strengthening the robustness and validity of the economic interpretations derived from the econometric estimates.

Table 10 : Breusch-Pagan test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Number of observations = 32	
Ho : Constant variance	
Chi2(1)	2.36
Prob > chi2	0.125

Source : Based on the authors' calculations

In addition to the collinearity diagnostics, a heteroskedasticity test was conducted to examine the assumption of constant error variance in the regression model. Following the recommendations of Breusch and Pagan (1979), the Breusch-Pagan test, adapted

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for firm-level data, was applied to the sample. The results indicate a χ^2 statistic of 2.36 with a p-value of 0.125 for 32 observations, which is insufficient to reject the null hypothesis of homoscedasticity at conventional significance levels. Therefore, the residuals can be considered to exhibit constant variance. This outcome demonstrates that, despite the initial complexity of the variable relationships and the identified collinearity issues, the adjustments implemented allowed for a satisfactory econometric model, ensuring more stable, robust, and economically interpretable estimates, thereby reinforcing the empirical credibility of the analyses.

In addition to the collinearity diagnostics, a heteroskedasticity test was conducted to examine the assumption of constant error variance in the regression model. Following the recommendations of Breusch and Pagan (1979), the Breusch-Pagan test, adapted for firm-level data, was applied to the sample. The results indicate a χ^2 statistic of 2.36 with a p-value of 0.125 for 32 observations, which is insufficient to reject the null hypothesis of homoscedasticity at conventional significance levels. Therefore, the residuals can be considered to exhibit constant variance. This outcome demonstrates that, despite the initial complexity of the variable relationships and the identified collinearity issues, the adjustments implemented allowed for a satisfactory econometric model, ensuring more stable, robust, and economically interpretable estimates, thereby reinforcing the empirical credibility of the analyses.

The study of incoming CEOs' behavior in unlisted firms employs multiple linear regression to identify the factors explaining the decline in discretionary accruals. This method allows for the simultaneous assessment of accounting, financial, and organizational variables on the dependent variable, while accounting for potential interactions. It is particularly suitable for analyzing Big Bath Accounting, as it distinguishes opportunistic adjustments from effects related to economic and operational constraints.

Discretionary accruals represent the portion of accounting adjustments exceeding what is expected under the firm's normal operating activities, potentially reflecting managerial choices. Econometric estimation thus allows determining whether the observed decline results from intentional manipulation or from normal economic factors. The models of Dechow et al. (1995) and Kothari et al. (2005) provide complementary approaches : Dechow isolates discretionary accruals from economic fluctuations, while Kothari incorporates performance to refine the measurement. The Dechow model decomposes total accruals into predictable accruals, related to normal operating activities (changes in sales and assets), and discretionary accruals, residual and potentially strategic. Applied to the sample of 32 firms studied, these models allow the identification of opportunistic accounting levers versus adjustments dictated by economic constraints, setting the stage for the presentation of the synthetic results table.

Table 11 : Estimation of the discretionary accruals model by Dechow et al. (1995)

Variables	Coef	Std. Err	B	t-Stat	Prob.	95% conf. Inter	
ROA	0.005	0.021	0.031	0.248	0.816	-0.037	0.047
ENT	0.014	0.025	0.058	0.562	0.583	-0.066	0.038
Var_comp	0.004	0.011	0.043	0.364	0.729	-0.018	0.026
Immob	-0.325	0.042	-0.789	-7.754	0.000	-0.410	-0.242
C_	-0.012	0.023		-0.058	0.034	-0.058	0.034
R-squared	0.782	Mean dependent var					0.0282
Adjusted R-squared	0.761	Degrees of freedom					3
S.E. of regression	0.032	S.D. dependent var					0.0011
Prob (F-statistic)	0.000	Degrees of freedom					28
F-statistic	38.62	Sum squared resid					0.113

** indicates significance at the 1% level.

Source : Based on the authors' calculations

The regression results applied to discretionary accruals demonstrate the strong explanatory power of the Dechow et al. (1995) model, with an R^2 of 0.782 and an adjusted R^2 of 0.761, indicating that over three-quarters of the variability in accruals is explained by the model's variables. The significant F-statistic (38.62) and the low standard error (0.032) confirm the robustness and precision of the estimated coefficients. While profitability (ROA), leverage, and overall accounting variables do not have a statistically significant effect, suggesting that managers do not adjust their practices based on economic performance or standard financial constraints, the fixed assets variable emerges as a key factor, with a significant negative coefficient (-0.325, $p = 0.000$), indicating that a more capital-intensive asset structure strongly limits discretionary leeway. The Kothari et al. (2005) model, by incorporating

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economic performance, refines these estimates and allows distinguishing the truly discretionary portion of accruals from the part related to real performance, thereby enhancing the assessment of managerial accounting opportunism in non-listed companies.

Table 12 : Estimation of the discretionary accruals model by Kothari & al. (2005)

Variables	Coef	Std. Err	B	t-Stat	Prob.	95% conf. Inter	
ROA	0.178	0.044	0.410	4.052	0.000	0.089	0.267
ENT	-0.032	0.038	-0.085	-0.842	0.406	-0.110	0.046
Var_comp	0.094	0.028	0.303	3.368	0.002	0.038	0.150
Immob	-0.238	0.041	-0.660	-5.859	0.000	-0.320	-0.156
Cons_	-0.020	0.017		-1.186	0.246	-0.055	0.015
R-squared	0.781	Mean dependent var					0.0282
Adjusted R-squared	0.761	Degrees of freedom					3
S.E. of regression	0.027	S.D. dependent var					0.0012
Prob(F-statistic)	0.000	Degrees of freedom					28
F-statistic	36.45	Sum squared resid					0.145

** indicates significance at the 1% level.

Source : Based on the authors' calculations

The regression results applied to discretionary accruals using the Kothari et al. (2005) model demonstrate excellent explanatory power, with an R^2 of 0.781 and an adjusted R^2 of 0.761, indicating that approximately 78% of the variability in accruals is explained by the selected variables. The F-statistic of 36.45 ($p = 0.000$) confirms the joint significance of the variables, while the low standard error (0.027) reflects the precision of the estimates. Analysis of the coefficients reveals contrasting effects : economic profitability (ROA) has a positive and highly significant effect (coefficient 0.178 ; $p = 0.000$), suggesting that the most profitable firms exhibit higher accruals, and accounting variables (Var_comp) also show a positive significant effect (0.094 ; $p = 0.002$). In contrast, leverage is not significant ($p = 0.406$). The fixed assets variable emerges as the central factor in the reduction of accruals, with a strong negative coefficient (-0.238 ; $p = 0.000$), indicating that a higher intensity of fixed assets significantly limits discretionary flexibility, confirming that asset structure is a major lever in curbing opportunistic earnings management practices.

Table 13 : Discretionary accruals by the origin of managers

		Internally promoted managers (n = 19)	Externally recruited managers (n = 13)	t- test		
				t	Sig.	Mean difference
Dechow & al. (1995) Model	Mean	-46.58%	-38.41%	-7.255	0.000	-0.432**
	Median	-53.97%	-37.59%			
Kothari & al. (2005) Model	Mean	-58.70%	-14.92%	-8.710	0.000	-0.409**
	Median	-59.48%	-19.66%			

** indicates significance at the 5% level.

Source : Based on the authors' calculations

The results indicate that the average discretionary accruals are significantly lower when the executive is promoted internally compared to an externally recruited executive. This finding supports our fourth hypothesis, which posits that downward earnings management is more frequently observed in the context of internal promotions. It suggests a more cautious, or even conservative, approach by internally promoted executives, often reflecting a concern for continuity and internal legitimacy.

The literature on Big Bath Accounting highlights the use of discretionary accruals to concentrate losses in a specific period, typically the first year of a mandate, in order to enhance future earnings (Healy, 1985 ; Dechow & Sloan, 1991 ; Wells, 2002). In privately held firms, where market pressures are absent, accounting opportunism may manifest differently. Analysis of hypotheses H1 through H4 shows that economic performance (ROA) does not significantly influence the reduction in discretionary accruals (coefficient = 0.005 ; $p = 0.816$), thereby invalidating H1 and suggesting that performance is not used as a manipulation lever.

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Similarly, the manipulation of accounting variables is not observed (coefficient = 0.004 ; $p = 0.729$), invalidating H2 and indicating that adjustments are not driven by opportunistic Big Bath behavior. In contrast, the asset structure emerges as a key determinant of the decline in accruals (coefficient = -0.325 ; $p = 0.000$), confirming H3 for economic or organizational reasons, such as asset rationalization, rather than for accounting manipulation. H4 is partially supported : internally promoted executives exhibit lower discretionary accruals, but this reduction reflects their firm-specific knowledge and the implementation of economically justified measures rather than opportunistic accounting strategies.

This study situates itself within the Big Bath Accounting framework, which posits that executives can exploit accounting levers to artificially concentrate losses in their initial period and enhance subsequent results. Hypotheses H1 and H2, informed by Murphy & Zimmerman (1993) and Pourciau (1993), assumed that financial performance and the manipulation of accounting variables could influence the reduction in discretionary accruals. In the privately held firms examined, results show that ROA (0.005 ; $p = 0.816$) and accounting variables (0.004 ; $p = 0.729$) are not significant, indicating that incoming executives do not intentionally manipulate results through accounting levers. Instead, organizational restructurings, notably adjustments in fixed assets (coefficient = -0.325 ; $p = 0.000$), drive a reduction in accruals for legitimate economic reasons. Internal promotion further accentuates adjustment management without manipulation. Thus, in contrast to publicly listed firms, privately held firms exhibit a decline in discretionary accruals dictated by economic and organizational constraints rather than opportunistic accounting behavior, thereby invalidating H1 and H2.

CONCLUSIONS

This study aimed to analyze the nature and motivations of earnings management during executive transitions in privately held firms, with a particular focus on the evolution of discretionary accruals. Drawing on the concepts of Big Bath Accounting and organizational restructuring, the research sought to determine whether the observed decline in accruals upon the arrival of a new executive reflects genuine economic deterioration or opportunistic accounting behavior. Econometric analyses conducted on a sample of 34 cases across 32 Cameroonian firms reveal a significant reduction in discretionary accruals in the fiscal year of the executive change. Results from both the Dechow and Kothari models indicate that economic performance and aggregate accounting variables do not have a significant effect on discretionary accruals, suggesting that incoming executives do not manipulate results through accounting levers. In contrast, the fixed asset structure exerts a strongly negative and significant impact, showing that the decline in accruals is primarily driven by organizational and economic measures rather than opportunistic strategies.

The findings also show that the reduction in discretionary accruals is more pronounced when the executive is promoted internally. This suggests that deep knowledge of the organization and internal processes enables executives to implement targeted economic adjustments, such as rationalization of fixed assets or resource reallocation, without resorting to opportunistic accounting manipulations. This distinction is critical : unlike publicly listed firms, where Big Bath practices may concentrate losses in the first year, the privately held firms in this study demonstrate that adjustments are motivated by operational necessity and managerial prudence. Internally promoted executives leverage their legitimacy and expertise to manage results strategically, yet non-manipulatively, thereby enhancing the firm's financial stability and credibility. These observations confirm that, in a non-listed context, informal governance and internal knowledge play a central role in limiting opportunistic behavior, and that accrual reductions can be interpreted as responses to genuine economic needs rather than manipulation tools.

Despite the robustness of the findings, several limitations should be noted. The small sample size (32 cases) restricts the generalizability of the conclusions to the broader population of privately held firms, and the absence of detailed qualitative data, such as interviews or information on executives' personal objectives, limits a full understanding of managerial motivations. Additionally, the specificity of the Cameroonian context warrants caution in extrapolating results to other institutional environments or industry sectors. Future research could benefit from comparative studies across countries or sectors, as well as longitudinal analyses capturing subsequent financial and organizational performance. Such approaches would help better distinguish necessary economic adjustments from potentially opportunistic accounting practices and identify contextual conditions that foster or constrain the emergence of Big Bath Accounting in privately held firms.

Appendix 1: Study sample

PAMOL PLANTATIONS (PAMOL)
CONSEIL NATIONAL DES CHARGEURS DU CAMEROUN (CNCC)
SOCIETE NATIONALE DES RAFFINERIES (SONARA)
SOCIETE CAMEROUNAISE DE DEPOT PETROLIERS (SCDP)

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CAMEROON HOTELS CORPORATION (CHC HILTON)
SOCIETE DE DEVELOPPEMENT DU COTON DU CAMEROUN (SODECOTON)
COTONNIERE INDUSTRIELLE DU CAMEROUN (CICAM)
TRADING EXPLOITATION (TRADEX SA)
UNITED TRANSPORT AFRICA (UTA)
OK FOODS CAMEROUN
ALUBASSA
SOCIETE NOUVELLE DE CONTREPLAQUES DU CAMEROUN
SOCIETE DES GRUMES DU CAMEROUN
SOCIETE FORESTIERE ET INDUSTRIELLE
GENERAL DES TOLES D'ACIERS (GTA)
SCPA BETAYENE ET ASSOCIE
SOCIETE DE TRANSFORMATION DE BOIS DE LA KADE
SOCIETE NOUVELLE DE PIECES AUTOMOBILES
SOCIETE PANAFRICAIN DES MATERIAUX DE CONSTRUCTION
SOCIETE KAMI AUTO SARL
SODITRA SARL
SINOWORLD SARL
GALAXY INTERNATIONAL
GROUPE GLOBAL BUSINESS CORPORATION SARL
YOUDOM SARL
SUGETCON LLC
SOCIETE GLOBAL TECHNOLOGIES SOLUTIONS
GSB PRIVE LAIC LA PETITE GLORIA
GROUPE SCOLAIRE BILINGUE AMARYLLIS
GEOLAB SARL
GROUPE SCOLAIRE BILINGUE MILLENIUM
ETS HAOUA EPSE AMINOU

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