

**The effect of CEO social influence pressure on
CFO financial reporting decisions**

Carol C. Bishop
Assistant Professor
Georgia Southwestern State University
carol.bishop@gsw.edu

F. Todd DeZoort
Professor
The University of Alabama
tdezoort@cba.ua.edu

Dana R. Hermanson
Professor
Kennesaw State University
dhermans@kennesaw.edu

Working Paper
October 2014

Acknowledgments: This paper is based on the first author's dissertation at Kennesaw State University. We gratefully acknowledge the financial assistance received from Columbus State University in the data collection phase of this research project. We also appreciate assistance from Doug Boyle, Joe Carcello, Jeff Cohen, Filip Cojbasic, Marianne Fortuna, Terry Shevlin, Anne Wilkins, Shelly Ye, and workshop participants at Kennesaw State University.

The effect of CEO social influence pressure on CFO financial reporting decisions

ABSTRACT

This study examines the effect of Chief Executive Officer (CEO) social influence pressure on the Chief Financial Officer's (CFO's) financial reporting decisions. Specifically, we evaluate the impact of inappropriate compliance pressure (a request) or obedience pressure (an order) from the CEO on the CFO's propensity to make revisions to financial results in order to meet an earnings target. This study extends archival research and survey evidence examining why CFOs appear to participate in accounting manipulations. The results of a between-subjects experiment (CEO pressure manipulated at three levels: no pressure, compliance pressure [request], or obedience pressure [demand]) with 69 public company CFOs indicate that compliance pressure and obedience pressure from the CEO each significantly increase CFOs' willingness to revise their initial inventory adjustments in the direction preferred by the CEO, with no significant difference between the compliance and obedience pressure groups. Interestingly, although compliance pressure did not create increased levels of *perceived* pressure in the CFOs relative to the no pressure group, compliance pressure generated an actual response (i.e., revision of the initial adjustment) similar to that under obedience pressure. We also find that CFOs with more accounting experience are less likely to revise their initial adjustment. Ultimately, the results support concern that both obedience pressure and compliance pressure from CEOs impact CFOs' financial reporting decisions. The results also provide evidence that compliance pressure alone is sufficient to influence CFOs' reporting behavior.

Keywords: Accounting manipulation, Chief Financial Officer, Chief Executive Officer, compliance pressure, obedience pressure, social influence