



## **Managerial Attributes and Accounting Conservatism in Small and Medium-Sized Enterprises.**

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## Abstract

**Purpose-** Motivated by these unclear relations between managerial attributes (e.g. managerial ability, managerial overconfidence and managerial myopia) and accounting conservatism, this study investigates how managerial attributes affect accounting conservatism in Egyptian SMEs.

**Design/methodology/approach-** Using panel data from 198 firm-year observations of non-financial firms listed on Nilex between 2014 and 2022, the study employs several regression models to test the relationships.

**Findings-** Contrary to prevailing literature, our findings indicate that managerial overconfidence and myopia are linked to more conservative reporting, while managerial ability tends to reduce it. These results are robust even after we used different model specifications and statistical methods.

**Practical implications-** By extending existing literature beyond large-firm contexts, the study highlights how managerial attributes interacts with the institutional and financial realities of SMEs in emerging markets. The results provide useful insights for regulators, auditors, and investors assessing the reliability of SME financial reporting.

**Limitations-** The research is constrained by its small sample size, concentration on publicly listed SMEs only, and reliance on indirect proxies for managerial characteristics and accounting conservatism, which may inadequately reflect underlying behaviors. These limitations hinder the generalization of results but offer opportunities for future research with more extensive datasets and alternative measures.

**Originality/value-** This study, to our knowledge, is the first to simultaneously investigate managerial ability, overconfidence, and myopia in the Egyptian SMEs context. It extends the literature by elucidating the influence of managerial characteristics on conservative reporting in emerging markets.

**Keywords:** Managerial ability, Managerial overconfidence, Managerial myopia, Egypt, Conditional conservatism

**Paper type** Research paper

### المستخلص باللغة العربية:

**هدف الدراسة:** تهدف هذه الدراسة إلى البحث في تأثير السمات الإدارية (القدرة الإدارية، الثقة الإدارية المفرطة، قصر النظر الإداري) على مستوى التحفظ المحاسبي في الشركات الصغيرة والمتوسطة المصرية.

**منهجية الدراسة:** بلغت عينة الدراسة ١٩٨ مشاهدة سنوية لبيانات الشركات غير المالية المدرجة في بورصة النيل في الفترة من ٢٠١٤ - ٢٠٢٢، حيث تم استخدام عدد من نماذج تحليل الانحدار لاختبار العلاقة بين متغيرات الدراسة.

**نتائج الدراسة:** تشير نتائج الدراسة إلى أن الثقة الإدارية المفرطة وقصر النظر الإداري لهما تأثير إيجابي على مستوى التحفظ المحاسبي، بينما العلاقة بين القدرة الإدارية ومستوى التحفظ المحاسبي علاقة جوهرية سالبة. وتتسم هذه العلاقات بالثبات حتى بعد استخدام نماذج وأساليب إحصائية مختلفة في التحليل.

**التطبيقات العملية للدراسة:** تسلط الدراسة الضوء على كيفية تفاعل السمات الإدارية مع الواقع المؤسسي والمالي للشركات الصغيرة والمتوسطة في الأسواق الناشئة؛ كما تُقدّم النتائج رؤى قيمة للجهات التنظيمية، المراجعين، والمستثمرين الذين يُقيمون موثوقية التقارير المالية للشركات الصغيرة والمتوسطة.

**حدود الدراسة:** تتمثل حدود الدراسة في صغر حجم العينة، حيث شملت فقط الشركات الصغيرة والمتوسطة المدرجة في بورصة النيل، كما تم الاعتماد على مؤشرات غير مباشرة لقياس السمات الإدارية ومستوى التحفظ المحاسبي. وقد تُعيق هذه الحدود تعميم النتائج، ولكنها تُتيح فرصاً لأبحاث مستقبلية في سياقات مختلفة باستخدام مقاييس أخرى.

**القيمة البحثية للدراسة:** هذه الدراسة هي الأولى التي تبحث في القدرة الإدارية، الثقة المفرطة، وقصر النظر الإداري مجتمعين في سياق الشركات الصغيرة والمتوسطة المصرية. وهي إضافة للأدبيات المحاسبية والإدارية من خلال توضيح تأثير الخصائص الإدارية على التقارير المتحفظة في الأسواق الناشئة.

الكلمات المفتاحية: القدرة الإدارية، الثقة الإدارية المفرطة، قصر النظر الإداري، التحفظ المحاسبي المشروط، مصر.

## 1. Introduction

In contrast to large corporations where decision-making authority is distributed across multiple layers of governance, small and medium-sized enterprises (SMEs) usually rely on a narrow circle of owner-managers or executives. This concentration magnifies the role of managerial attributes in shaping financial reporting and can intensify common agency problems such as information asymmetry and moral hazard (McMahon, 2004). These challenges are linked to higher debt reliance, elevated agency costs, and weaker performance (Ting, et al., 2021).

According to agency theory and the opportunistic perspective, managers may intentionally use disclosure tone to influence market perception for various reasons such as earnings management, increasing stock prices, financing, personal interests, and compensation (Pouryousof, et al., 2025). From the agency perspective, conservatism decreases the likelihood of managers exaggerating financial performance by requiring stricter verification of profits while promptly disclosing losses (Obiedallah & El Mahdy, 2025). Meanwhile, upper echelon theory, Hambrick and Mason, (1984) emphasizes that variations in personal attributes across managers exist in conservatism, risk aversion, and decision-making processes.

Zhong and Li (2017) note that studies investigating the influence of managerial-specific attributes on accounting conservatism are scarce. Most prior studies on accounting conservatism gave focused on companies in developed countries, emphasizing either managerial ability or confidence (Ahmed & Duellman, 2013; Haider, et al., 2021; Qiao, et al., 2024), and almost not attention has been paid to managerial myopia.

This study contributes in several ways. First, it provides the first empirical evidence from Egyptian SMEs examining managerial ability, overconfidence, and myopia simultaneously. Second, by including managerial myopia, it advances the conservatism literature by

highlighting the role of managerial myopia -as a unique determinant of reporting behavior- on accounting conservatism, focusing on a topic that has not been widely explored before.

The rest of the paper is organized as follows: Section 2 explains the research background and the formulation of the hypotheses. Section 3 describes the research methodology. The results analysis is reported in Section 4. Finally, Section 5 presents the conclusion and future directions.

## 2. Theoretical perspective and hypotheses development

Our study is grounded in agency theory and upper echelon theory. The integration of these two theories provides a dual framework: agency theory highlights conservatism's role in reducing conflicts of interest (Khurana & Wang, 2015; Salehi & Sehat, 2019; Obiedallah & El Mahdy, 2025), while upper echelons theory explains why managerial characteristics' produce heterogeneous outcomes in the degree of conservatism across firms (Popli, et al., 2022; Liu & Hooy, 2025). Furthermore, the integration of these perspectives offers a richer understanding of why some SMEs adopt more prudent reporting practices than others, emphasizing that conservatism is not only a firm-level choice but also a behavioral outcome of managerial attributes (Hilary & Hsu, 2011; Ismail, et al., 2021)

Managerial ability is theorized to enhance efficiency in resource allocation, improve monitoring, and strengthens the credibility of financial reporting. High-ability managers are more capable of aligning firm resources with strategic objectives, improving monitoring, and sustaining transparent communication with investors (Demerjian, et al., 2013; Francis, et al., 2022). From an agency perspective, such high-ability managers are more likely to adopt conservative accounting as a means of signaling competence and reliability to external stakeholders, thereby reducing financing costs, improving access to credit and signal reliability (Yung & Chen, 2018), especially important in SMEs. Upper echelons theory suggested that competent managers, aware of their reputational capital, are likely to leverage prudent reporting to secure

long-term benefits (Popli, et al., 2022). Accordingly, we hypothesize that:

**H1: Managerial ability is positively associated with accounting conservatism in SMEs.**

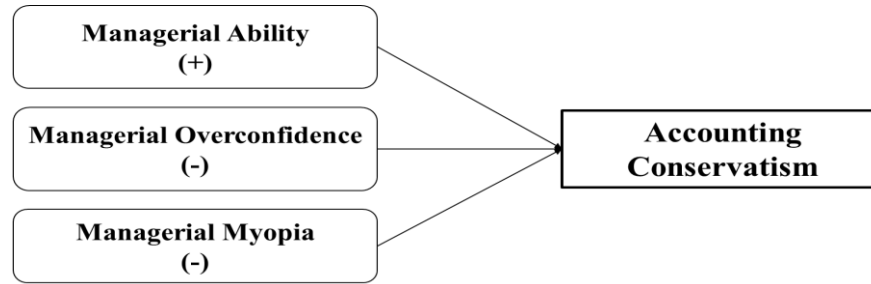
By contract, managerial myopia- defined as a short-term orientation toward immediate results over sustainable growth (Czakan, et al., 2023; Zhu, et al., 2025). This bias is linked to reduced long-term investments, encourage earnings management, and a preference for short-term gains at the expense of long-term value (Sheng, et al., 2022; Salehi, et al., 2024; Arya & Ramanan, 2024). In the agency theory framework, myopic managers resist conservatism because it reduces short-term reported earnings, undermining their immediate performance evaluations and bonus incentives (Gounopoulos, et al., 2024). From the upper echelons' perspective, managers with short-term cognitive orientations transfer these biases into less prudent reporting, weakening conservatism (Le-Bao, et al., 2025). As SMEs are highly sensitive to managerial decision-making due to concentrated authority, myopia may exert particularly strong effects. Based on these arguments, we expect that:

**H2: Managerial myopia is negatively associated with accounting conservatism in SMEs.**

Managerial overconfidence reflects systematic overestimation of returns and underestimation of risks, leading to delayed recognition of losses and aggressive financial reporting (Ahmed & Duellman, 2013; Kim, 2021; Hu, et al., 2024). Multiple studies have from large firms found a negative correlation between managerial overconfidence and accounting conservatism. These studies suggest that overconfident managers are likely to resist conservatism (adopt less conservative practices) since it contradicts their optimistic outlook and constrains their discretion in reporting, increasing the risk of financial misstatements (Ahmed & Duellman, 2013; Qiao, et al., 2024). From an agency perspective, overconfidence undermines conservatism by creating incentives for risk-taking and opportunistic reporting (Hejranijamil, et al., 2020; Saini & Singh, 2025). Based on these arguments, we expect that:

**H3: Managerial overconfidence is negatively associated with accounting conservatism in SMEs.**

Figure 1 presents the conceptual framework of the study, which links managerial ability, myopia, and overconfidence to accounting conservatism based on agency theory and upper echelons theory.



**Figure 1: Conceptual Framework: Managerial Attributes and Accounting Conservatism**

The framework illustrates the hypothesized relationships between managerial attributes and accounting conservatism in SMEs. Managerial ability is expected to have a positive association with conservatism, while managerial myopia and managerial overconfidence are expected to have negative associations.

Building on this framework, the study develops three hypotheses, which are summarized in *Table I*.

**Table I** Hypotheses of the Study

Hypothesis	Statement	Expected Direction	Rationale
H1	Managerial ability is positively associated with accounting conservatism in SMEs.	(+)	Able managers allocate resources efficiently and enhance reporting credibility.
H2	Managerial myopia is negatively associated with accounting conservatism in SMEs.	(-)	Myopic managers emphasize short-term earnings and resist

Hypothesis	Statement	Expected Direction	Rationale
H3	Managerial overconfidence is negatively associated with accounting conservatism in SMEs.	(-)	conservative practices that reduce current profits. Overconfident managers overestimate returns and underestimate risks, leading to delayed loss recognition and weaker conservatism.

### 3. Research Design and Methodology

#### 3.1. Population and Sample Selection

The initial sample included all SMEs listed on the Nilex Stock Exchange between 2014 and 2022. Consistent with prior researches (Barthelmess & Langlois, 2020; Lisi S & Grimaldi, 2024), financial firms were excluded because they are subject to different regulatory frameworks, capital structures, and reporting standards, which make their financial ratios and conservatism measures non-comparable to non-financial SMEs.

Firms that were delisted during the study period were also removed to ensure consistency of reporting across the nine-year panel.

Missing data were handled systematically. Observations lacking essential financial information required for calculating the conservatism proxy or managerial attributes were excluded. This approach ensures the reliability of the variables used in the models, although it reduces the sample size.

The final dataset comprises 198 firm-year observations from 22 non-financial SMEs with complete data coverage for the study period.

While this selection may limit generalizability, it provides a robust sample for analyzing conservatism in Egyptian SMEs with reliable and consistent data. *Table II* describe the sample by sector.

**Table II**  
**Sample Distribution by Sector**

Sector	Number of SMEs	Number of Observations
Basic Resources	1	18
Health Care & Pharmaceuticals	1	9
Industrial Goods, Services and Automobiles	3	27
Real Estate	5	45
IT, Media & Communication Services	1	9
Food, Beverages and Tobacco	2	18
Trade & Distributors	2	18
Education Services	1	9
Contracting & Construction Engineering	3	27
Building Materials	2	18
<b>Totals</b>	<b>22</b>	<b>198</b>

### 3.2. Study Independent, Dependent, and Control Variables

The hypotheses of the study are tested using the panel data and the Model (1) is used for testing of the hypotheses of the study as follows:

$$Cons_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 MYO_{it} + \beta_3 OVER_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 AUR_{it} + \varepsilon_{it} \quad (1)$$

#### **Dependent variable:**

**Accounting conservatism (Cons):** Following (Beaver & Ryan, 2000), accounting conservatism is calculated as multiplying the book-to-market ratio by -1. The book-to-market ratio is an appropriate and reliable proxy for conservatism in the context of Egyptian SMEs because their market values are a strong indicator of investor perceptions of reporting credibility.

#### **Independent variable:**

- **Managerial ability (MA):** This study measures managerial ability using managerial ability score developed by

(Demerjian, et al., 2012), based on a two-stage data envelopment analysis (DEA). Applying this measure in the SME context allows us to capture managerial efficiency even where organizational structures are less complex.

- **Managerial myopia (MYO):** Constructed following following (Anderson & Hsiao, 1982; Salehi, et al., 2022), is obtained Model (1) and (2)

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \varepsilon_{it} \quad (1)$$

$$Mktg_{it} = \beta_0 + \beta_1 Mktg_{it-1} + \varepsilon_{it} \quad (1)$$

In these models,  $ROA_{it}$  and  $Mktg_{it}$  denote return on assets (ROA) and sales and marketing costs, respectively, for the firm  $i$  in the year  $t$ . Then, the predicted values which are obtained from models are compared with the real values. In case the difference between predicted ROA and real ROA is positive and the difference between predicted sales and marketing cost and the real one is negative, it means that the firms of this group have a positive financial performance and their costs of sales and marketing are declined. Hence, such firms have managerial myopia and value of 1 is assigned to them, otherwise 0. This proxy reflects short-termism by identifying managers who improve short-term performance while cutting long-term investment in sales and marketing.

- **Managerial overconfidence (OVER):** This study calculated overconfidence, following (Salehi, et al., 2022), by dividing the residual of total asset growth regression ( $Assets.Gr_{it}$ ) by sales growth ( $Sales.Gr_{it}$ ) that is estimated separately for each industry year. In the case regression, residual is larger than 0 and this index is 1, otherwise 0. This index is based on the fact that in firms where assets grow at a higher rate than sales, managers have more investment than their peers.

$$Assets.Gr_{it} = \beta_0 + \beta_1 Sales.Gr_{it} + \varepsilon_{it} \quad (3)$$

This method is valuable because it measures systematic overinvestment beyond what financial fundamentals suggest, providing a quantifiable proxy for overconfidence where direct psychological measures like surveys are impractical

due to limited disclosure. The method is especially useful in contexts like Egyptian SMEs, where the depth of information available for analysis is limited (TOMA, et al., 2021; Aljifri, 2023)

#### ***Control variables:***

Consistent with prior conservatism literature (Ahmed & Duellman, 2013; Ismail, et al., 2021), the following variables are considered as control variables' in this paper.

- SME size (*SIZE*): which is computed from the natural logarithm of SME assets.
- Financial leverage (*LEV*): which is computed by dividing total liabilities into total assets.
- Agency cost (*AUR*): which is computed by dividing annual sales into total assets.
- SME age (*YEAR*): The natural logarithm of the number of years of listing.

These variables capture structural firm differences that may influence conservatism independent of managerial attributes.

Panel data regression is employed to test the hypotheses, with robustness checks using alternative model specifications (fixed effects, random effects, and additional controls). This approach allows for controlling unobserved heterogeneity across SMEs and provides stronger inference regarding the effect of managerial attributes on conservatism.

## **4. Results analysis**

### *4.1.Descriptive statistical analysis*

The descriptive statistics of variables are presented in *Figure 2* and *Table III*. When analyzing the provided descriptive statistics, distinctive characteristics and numerical ranges are observed for each variable in the table. Accounting conservatism (Cons) exhibits a mean of -0.508 and a standard deviation of 0.761. Its skewness is 0.000 and a kurtosis value of -0.231, indicating a significantly left-skewed distribution with a flatter shape. Managerial myopia (MYO) shows a mean of 0.42 and a standard deviation of 0.495. The

skewness of 0.309 indicates a slight right-skewed distribution, while a kurtosis of -1.924 suggests a shape somewhat lower than the normal distribution. Managerial overconfidence (OVER) has a mean of 0.420 and a standard deviation of 0.4911, with a skewness of 0.329 and a kurtosis of -1.896, indicating a normal distribution. Managerial ability records a mean of -0.344 and a standard deviation of 3.892, with a skewness of 0.368 and a kurtosis of -1.034, showing a normal distribution. SME size (SIZE) reports a mean of 17.378 and a standard deviation of 1.427, with a skewness of 0.977, and a kurtosis is 1.349, revealing a slight right-skewed distribution and a shape somewhat lower than the normal distribution. Leverage (LEV) exhibits a mean of 0.445 and a standard deviation of 0.494, with a skewness of 0.000 and a kurtosis of -0.231 indicating a significantly left-skewed distribution with a flatter shape. Agency cost (AUR) has a mean of 0.592 and standard deviation of 0.981, with a skewness of 0.000 and a kurtosis of -0.231, revealing a significantly left-skewed distribution with a flatter shape.

In summary, the data from the table illustrate the statistical characteristics of various variables related to SME managerial attributes and accounting conservatism. These statistics provide crucial insights into the distribution shapes and potential data properties of each variable, which are essential for further analysis of the relationship between managerial attributes and accounting conservatism.

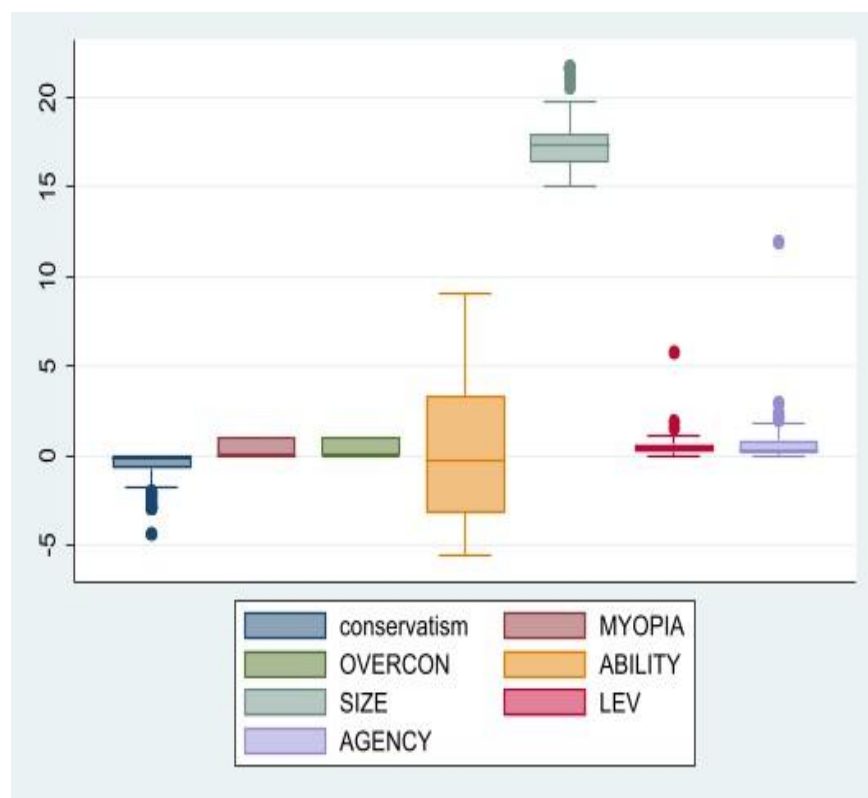


Figure 2. Statistics of Variables

Table III Descriptive Statistics

Variables	Mean	St. Deviation	Min.	Max.	Skewness	Kurtosis
Cons.	-0.508	0.761	-4.383	0.000	0.000	-0.231
MYO	0.42	0.495	0	1	0.309	-1.924
OVER	0.420	0.4911	0	1	0.329	-1.896
MA	-0.344	3.892	-5.539	9.025	0.368	-1.034
SIZE	17.378	1.427	15.078	21.689	0.977	1.349
LEV	0.445	0.494	0.000	5.763	0.000	-0.231
AUR	0.592	0.981	0.000	11.905	0.000	-0.231

**Note(s):** This table illustrates the descriptive statistics of the sample to test the relation between managerial attributes and accounting conservatism in SMEs.

The correlation between managerial attributes and accounting conservatism in SMEs is reported in *Table IV* and illustrated in

*Figure 3.* The correlation coefficient between managerial myopia, managerial overconfidence and accounting conservatism is 0.0928 and 0.047; respectively, indicated insignificant positive relationship. However, the correlation coefficient between managerial ability and accounting conservatism is -0.180 indicating a significant negative relationship. This suggests that higher level of managerial ability correspond to lower levels of accounting conservatism, although this correlation is not particularly strong. Finally, SME size (SIZE) and leverage (LEV) has a correlation coefficient of 0.2740 and 0.156; respectively, indicating that higher level of accounting conservatism is associated with bigger SMEs and higher level of leverage.

In summary, these correlation coefficients provide insights into the relationships between managerial attributes and accounting conservatism. They contribute to a nuanced understanding of how managerial attributes and other variables influence the level of accounting conservatism in SMEs.



**Figure 2: Correlation between managerial attributes and accounting conservatism**

**Table IV Correlation Matrix**

Variables	Cons	MYO	OVER	MA	SIZE	LEV	AUR
Cons	1						
MYO	0.0928	1					
OVER	0.0468	-	1				
MA	-0.1804*	0.0690	-0.0511	1			
SIZE	0.2748*	-	-0.1076	-0.1437*	1		
LEV	0.1560*	-	-0.1094	-0.0225	0.3044*	1	
AUR	0.0648	-	-	-0.0275	-0.1345	0.0321	1

*Note(s):* \* Correlation is significant at the 0.05 level; and \*\* Correlation is significant at the 0.01 level.

#### 4.2. Multiple regression analysis of managerial attributes and accounting conservatism in SMEs

The regression analysis outcomes, presented in *Figure 4* and *Table V*, provide important insights into how managerial attributes influence accounting conservatism in Egyptian SMEs.

Contrary to the hypothesized directions, the empirical evidence reveals relationships that diverge from theoretical expectations, underscoring the unique institutional and financing environment in which SMEs operate.

The regression coefficient for managerial ability (MA) is -0.027, with a standard error (SE) of 0.013. This indicates that, holding other variables constant, a reduction of 0.027 units accounting conservatism is associated with every one-unit decrease in managerial ability.

While H1 predicted a positive relationship, the evidence indicates that skilled managers may rely less on conservative reporting. One explanation is that competent managers possess greater confidence in their ability to manage risks, optimize operations, and secure financing, reducing their perceived need for cautious accounting. In SMEs, where boards and creditors often grant talented managers substantial discretion, this confidence may translate into less conservative practices. From the lens of upper echelons theory, such managers may prefer optimistic reporting to signal their strategic vision, even if it reduces prudence in financial statements.

Moreover, the regression coefficient for managerial myopia (MYO) is 0.239 with a standard error (SE) of 0.106. This indicates that, holding other variables constant, an increasing of 0.236 units accounting conservatism is associated with every one-unit increase in managerial myopia. This finding contradicts H2, which posited a negative association.

In the SME context, this result can be interpreted as a form of “defensive conservatism.” Myopic managers, driven by short-term

concerns such as satisfying creditors or reducing litigation risk, may deliberately understate assets or accelerate expense recognition to signal prudence and protect immediate financing access. This aligns with emerging-market evidence that firms facing credit constraints often employ conservative reporting as a short-term safeguard. From an agency perspective, conservatism may serve as a tool for myopic managers to build credibility in the present, even at the expense of long-term value creation.

In addition, the coefficient for managerial overconfidence (OVER) is 0.201 with a standard error (SE) of 0.109. This indicates that, holding other variables constant, an increase of 0.201 units in accounting conservatism is associated with every one-unit increase in managerial overconfidence. While H3 anticipated a negative relationship, the evidence suggests that overconfident managers in this sample tend to adopt slightly more conservative reporting practices.

A rational explanation is that in environments with weak investor protection and reliance on bank financing, overconfident managers may use conservatism strategically to reassure creditors and maintain access to capital. This behavior contrasts with findings from large developed-market firms, where overconfidence often reduces conservatism through aggressive reporting. In Egyptian SMEs, the institutional context may reverse this tendency, making conservatism an adaptive signal of credibility.

Firm size (SIZE) shows a positive and significant effect (0.146,  $p < 0.01$ ), indicating that larger SMEs are more conservative, likely reflecting stronger scrutiny and higher financing needs. Leverage (LEV) and agency cost (AUR) exhibit the expected signs but are not statistically significant, suggesting their influence is weaker compared to managerial attributes.

These results show that the influence of managerial attributes on conservatism in SMEs differs from theoretical expectations derived from large-firm contexts. Specifically:

H1 is rejected: Managerial ability reduces conservatism rather than increasing it.

H2 is rejected: Managerial myopia increases conservatism instead of reducing it.

H3 is rejected: Managerial overconfidence has a weak positive relationship with conservatism, rather than a negative one.

These findings highlight the importance of contextualizing theory within the institutional realities of emerging-market SMEs. In this setting, conservatism appears to function less as a governance safeguard against managerial opportunism and more as a defensive mechanism employed by managers—particularly those who are myopic or overconfident—to secure short-term financing and maintain stakeholder trust. This underscores that accounting conservatism is shaped not only by agency costs and cognitive biases but also by the strategic responses of managers to external financing pressures and regulatory environments.

**Table V: Estimated Results by Regression Model**

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-statistic</i>	<i>Prob.</i>	<i>VIF</i>
Constant	-3.346	0.689	-4.86	0.000	N/A
MYO	0.239	0.106	2.26	0.025	1.06
OVER	0.201	0.109	1.84	0.068	1.11
MA	-0.027	0.0133	-2.06	0.041	1.03
SIZE	0.146	0.0389	3.75	0.000	1.19
LEV	0.128	0.109	1.18	0.241	1.11
AUR	0.090	0.053	1.68	0.095	1.07
Observations			198		
R-Square			0.1415		
RMSE			0.7163		
F-test			5.24		
Prob.			0.001		

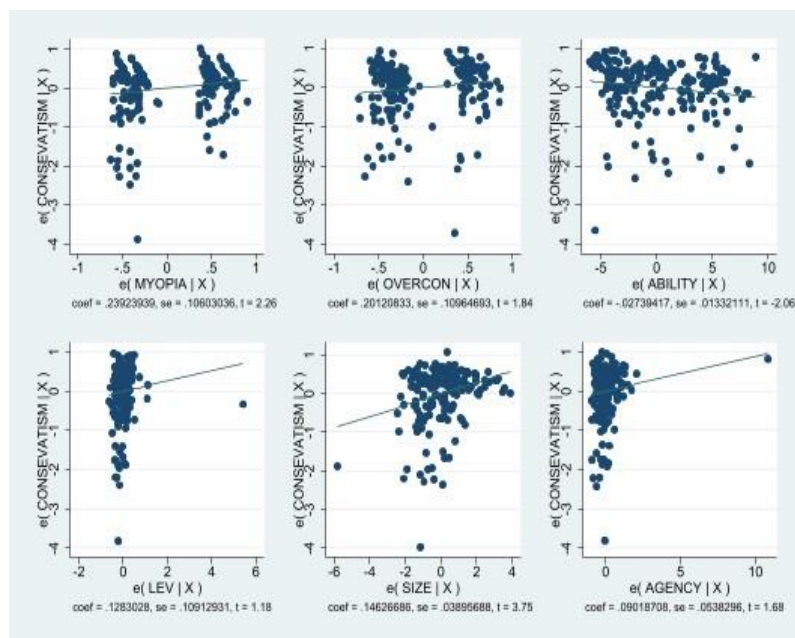


Figure 4: Regression analysis results of managerial attributes and accounting conservatism

To assess robustness, Figure 5 presents regression coefficients with 95% confidence intervals, while Figure 6 illustrates the relative importance of managerial and firm-level variables in explaining conservatism

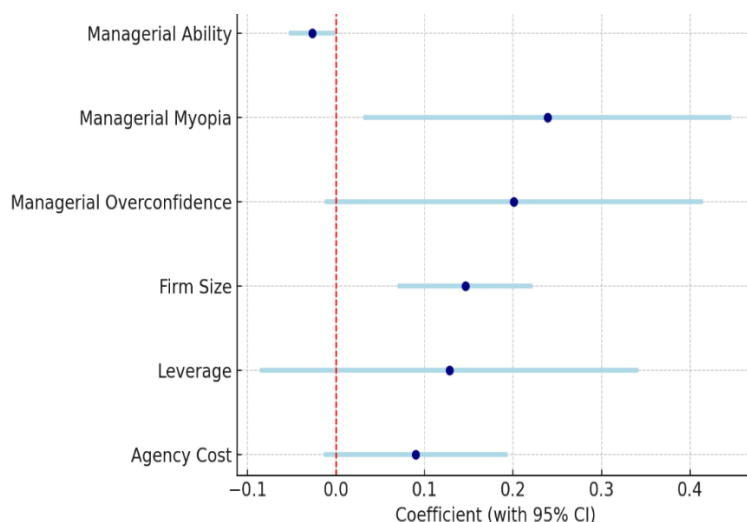
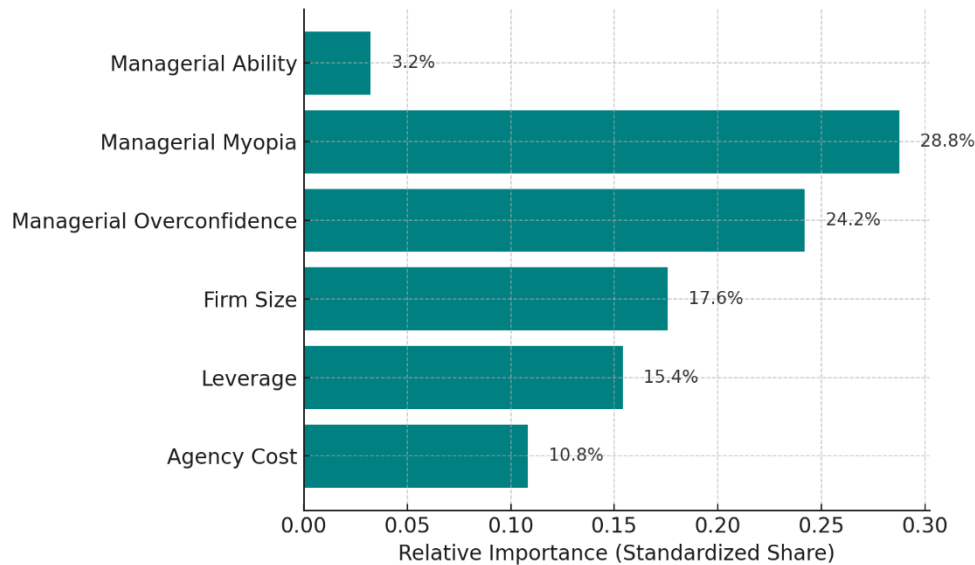


Figure 5: Regression Coefficient and 95% Confidence Intervals

Results indicate that managerial ability reduces conservatism, while managerial myopia increases it. Managerial overconfidence has a weak positive effect. Firm size is positively associated with conservatism, while leverage and agency costs show no significant influence.



**Figure 6: Relative Importance of Explanatory Variables**

Figure 6 illustrates the relative importance of explanatory variables based on standardized coefficients. Managerial myopia exerts the largest positive influence on conservatism, while managerial ability has the strongest negative effect. Managerial overconfidence shows a moderate positive influence, whereas firm size contributes modestly. Leverage and agency costs play minimal roles. These patterns highlight the dominant role of behavioral attributes over structural firm factors in shaping conservatism among SMEs.

### 4.3. Further Analysis

To further validate the stability of the impact of managerial attributes on accounting conservatism, this study employs several different model specifications for additional robustness checks.

These checks include introducing additional control variables, and using different statistical methods to analyze the data. Firstly, additional control variables are introduced, such as managerial ownership and SME age, since managerial ownership may influence accounting conservatism, while SME age may affect the managerial attributes, conservatism level and SME's risk tolerance. In addition to OLS regression analysis, this study utilizes fixed effects and random effects models to account for potential unobserved heterogeneity, thereby enhancing the robustness of the estimation results. The results of robustness tests using different model specifications and statistical methods are presented in *Table IV*.

As depicted in Table, irrespective of adjustments in model specifications or the application of different statistical methods, the positive influence of managerial myopia and managerial overconfidence on accounting conservatism persists as significant and stable. Also, the negative impact of managerial ability persists as significant and stable.

Furthermore, findings from both the fixed effects and random effects models indicate that managerial myopia and managerial overconfidence heightening impact and managerial ability dampening impact on accounting conservatism remains robust even when accounting for potential unobserved heterogeneity. This underscores the reliability of the research hypothesis.

**Table IV Robustness test results for different model specifications and statistical methods**

Model Type	MA regression coefficient	MYO regression coefficient	OVER regression coefficient	Control variables included	Notes
Adjusted model	-0.029 (0.015)	0.237 (0.107)	0.207 (0.110)	All control variables	Includes managerial ownership and SME age
Fixed effects	-0.029 (0.013)	0.233 (0.104)	0.114 (0.109)	All control	Controls for

model				variables	unobserved heterogeneity
Random effects model	-0.028 (0.106)	0.236 (0.103)	0.151 (0.108)	All control variables	Controls for unobserved heterogeneity

*Note(s):* Standard errors are reported in parentheses. Across all models, managerial ability (MA) remains negatively associated with accounting conservatism, while managerial myopia (MYO) consistently shows a positive and significant effect. Managerial overconfidence (OVER) exhibits a stable but marginally significant positive effect. These consistent patterns across specifications confirm the robustness of the results.

## 5. Conclusion

This research explored the relationship between managerial traits and accounting conservatism in Egyptian SMEs. The evidence challenges conventional expectations: rather than reducing prudence, myopic and overconfident managers in this context appear more likely to adopt conservative practices, possibly as a way to reassure creditors and secure financing in an environment characterized by weak investor protection. Conversely, highly skilled managers seem less reliant on conservative reporting, perhaps due to their confidence in accessing resources and managing risks without resorting to cautious accounting.

This study contributes in three distinct ways. Most importantly, it provides rare empirical evidence from SMEs in an emerging market, simultaneously addressing managerial ability, overconfidence, and myopia. In addition, it demonstrates that theories built from large-firm data may not fully apply to SMEs, where structural and institutional conditions shape outcomes differently. Furthermore, it highlights that conservatism in SMEs may serve as a defensive response to financing constraints rather than a pure governance safeguard.

For regulators and auditors, the findings underline the need to factor in managerial psychology when assessing reporting quality. For lenders and investors, the results suggest that conservative reporting should be interpreted carefully, as it may reflect short-term strategic positioning rather than a strong governance framework.

Despite its contributions, the study faces several limitations. The sample is limited to listed non-financial SMEs, constraining generalizability to unlisted firms or larger corporations. The proxies for managerial ability, myopia, and overconfidence are indirect and subject to measurement error, while the book-to-market ratio primarily captures unconditional conservatism. Future studies could expand the scope to larger and cross-country samples, apply alternative measures of conservatism, and employ advanced econometric techniques (e.g., dynamic GMM, instrumental variables) to address endogeneity. Additionally, incorporating non-financial dimensions such as ESG practices or governance quality would enrich understanding of how managerial attributes interacts with broader institutional factors.

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