



ACCOUNTING CONSERVATISM AND POLITICAL CONSERVATISM IN POST-COMMUNIST AND WESTERN COUNTRIES

Ema Speranta Masca^{1*},
Larissa Margareta Bătrancea²

¹ Faculty of Economics and Law, George Emil Palade University of Medicine, Pharmacy, Science, and Technology of Targu-Mures, Gh. Marinescu no.38, Romania, Targu-Mures,, 540141, România

² Faculty of Economics and Business Administration, Babeș-Bolyai University, Cluj-Napoca, Romania

Rezumat: Acest studiu urmărește manifestarea conservatorismului contabil într-un context politic conservator, analizând companii producătoare de medicamente din țări postcomuniste și occidentale. Am determinat rata incertitudinii contabile pe baza provizioanelor și am utilizat testul Mann-Whitney-U și bootstrap pentru mediane. Conservatorismul politic a fost stabilit prin indicatorii Chapel Hill Expert Survey. Rezultatele arată diferențe privind structura provizioanelor și diferențe clare ale conservatorismului politic, însă nivelul conservatorismului contabil nu diferă semnificativ statistic. Identificăm astfel o asociere conceptuală între conservatorismul contabil și conservatorismul politic, ipoteza noastră fiind parțial validată.

Cuvinte cheie: conservatorism contabil, conservatorism politic, țări postcomuniste, țări occidentale, provizioane

Abstract: This study examines the manifestation of accounting conservatism in a politically conservative context, analyzing pharmaceutical manufacturing companies from post-communist and Western countries. We determined the accounting uncertainty ratio based on provisions and used the Mann-Whitney U test and bootstrap for medians. Political conservatism was established through the Chapel Hill Expert Survey indicators. The results show differences in the structure of provisions and clear differences in political conservatism; however, the level of accounting conservatism does not differ statistically significantly. We thus identify a conceptual association between accounting conservatism and political conservatism, our hypothesis being partially validated.

Keywords: accounting conservatism, political conservatism, post-communist countries, Western countries, provisions

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* Corresponding author: Ema Speranta Masca
e-mail: ema.masca@umfst.ro

1. INTRODUCTION. A BRIEF LITERATURE REVIEW

This study aims to obtain an understanding of the manifestation of accounting conservatism in a politically conservative context and to highlight the interdependence between the economic and political environment of a state. We analyze pharmaceutical manufacturing companies from post-communist and Western countries, considering the structure of provisions, the accounting uncertainty ratio, and conservative tendencies in the political sphere. In pursuing our objective, we compare the two forms of conservatism—accounting and political—in order to identify a possible conceptual association between them.

The Foundational research (Basu, 1997; Beaver & Ryan, 2005; Givoly, Hayn, & Natarajan, 2006) has analyzed conditional and unconditional accounting conservatism, while more recent European literature (André, Filip, & Paugam, 2013) has highlighted the effects of IFRS adoption across different legal systems. At the same time, studies on earnings management (Healy & Wahlen, 1999; Burgstahler & Dichev, 1997) show that accounting conservatism tends to mitigate earnings manipulation. The seminal contributions of Watts (2003a, 2003b) consolidated the understanding of alternative explanations for conservatism and its role in constraining opportunistic managerial behavior. Overall, the literature confirms that the evolution of accounting conservatism reflects the interaction between legal systems, regulation, managerial incentives, and users' demand for financial information (Watts, 2003a, 2003b), which justifies analyzing differences between conservatism in post-communist countries and Western economies.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets embeds prudence in the very definition of provisions, while the former Framework for the Preparation and Presentation of Financial Statements (IASB, para. 37) explicitly linked prudence to uncertainty in recognizing liabilities. Barker and McGeachin (2015) argue that IAS 37 embodies prudence principles, and Anderson (2009) emphasizes that uncertainty drives provisioning behavior.

Moreover, managerial ideology affects firm behavior (Hutton, Jiang, & Kumar, 2014). Prior research indicates that political ideology influences corporate decisions, including financial policies (Kim, Pan, & Park, 2018), with more conservative managers tending to adopt more prudent accounting choices. Jia (2013) further documents that political incentives influence financial reporting outcomes.

Institutional context also plays a crucial role. Legal origins explain economic differences (La Porta et al., 1998), which generate divergent approaches to accounting prudence across post-communist and Western countries. Since institutions are humanly devised constraints (North, 1990) and reflect ideological structures (Glewwe, 1989), Bushman and Piotroski (2006) show that institutional environments shape financial reporting outcomes.

In this section, we further present the research design and the method used to determine the level of accounting and political conservatism; subsequently, we present the results obtained for companies from post-communist and Western countries and analyze the differences between the two forms of conservatism. Finally, we formulate discussions and conclusions regarding the conceptual association identified between accounting conservatism and political conservatism.

2. DEFINING THE RESEARCH PROBLEM

In a previous review of the literature (Neag, Masca, 2015), we showed that studies consistently highlight the presence of accounting conservatism, to varying degrees, without contesting its existence; consequently, we consider it appropriate to study accounting conservatism in different contexts. In a previous study (Masca, 2015), we analyzed the implications of accounting conservatism for business sustainability; in the present article, we extend the analysis toward the relationship between accounting conservatism and political conservatism in post-communist and Western countries.



The purpose of the study is to obtain an understanding of the manifestation of accounting conservatism in a politically conservative context.

Objective: Identifying a relationship between accounting conservatism manifested by pharmaceutical manufacturing companies listed on European stock exchanges (Romania, Hungary, Germany, Italy, Switzerland) and conservative tendencies in the political sphere manifested in these countries.

3. PRESENTING THE RESEARCH FINDINGS

3.1. Studied Samples

In pursuing the achievement of the first specific objective, we considered 5–7 pharmaceutical manufacturing companies from Romania, Hungary, the Federal Republic of Germany, the Italian Republic, and the Swiss Confederation. We considered these to be states with market economies and stable democracies that have a high level of education and infrastructure.

Romania has a tradition in the pharmaceutical industry, pharmaceutical exports have grown steadily, and Romanian companies have maintained active production capacities, even if limited compared to domestic demand. Hungary is a major exporter of pharmaceuticals, ranking 20th worldwide in pharmaceutical exports. In the Federal Republic of Germany, the pharmaceutical sector contributes more than 11% to the country's GDP, with continuous investment in innovation, biotechnology, and local pharmaceutical production. In the Italian Republic, there are massive investments in research, production, and advanced technologies in this sector; Italy being the European leader in the production of medicines and vaccines. In the Swiss Confederation, the pharmaceutical industry is the most important economic sector, with pharmaceutical exports forming the basis of a positive trade balance with the United States and the European Union.

3.2. Hypothesis

Since one of the factors studied is represented by conservative tendencies in the political sphere manifested in these states, we considered both post-communist countries, satellite states of the Union of Soviet Socialist Republics located in Eastern Europe (Romania and Hungary), as well as Western countries from Central Europe (Switzerland, Germany, and Italy). Germany integrated into its composition both the post-communist territory, previously known as the German Democratic Republic, and the territory of the Federal Republic of Germany. In recent years, conservative political ideas have manifested in each of these states.

Until 1990, in post-communist countries the concept of financial transparency was unimaginable, distrust dominated society, for which reason we assumed that companies in these countries adopted a conservative accounting policy.

We assume that difficulties in accessing capital, difficulties that companies in post-communist countries were forced to overcome, implied prudence in the adopted accounting policy and the constitution of provisions, possibly in excess. The more fragile economy of post-communist countries compared to that of Western countries imposed the necessity of constituting provisions used as protection against future uncertainties. Unlike these, Western countries, with a coherent legislative framework and a long period of economic stability, we assume did not impose the constitution of provisions to the same extent. In Western countries,

the functioning of capital markets conveys a higher degree of security and a lower appetite for risk; therefore, we assume that here the level of provisions was low.

Taking into account the first specific objective, the above-mentioned aspects, as well as the interdependence between the economic and political environment of a state, we formulated the following hypothesis:

H: There are differences between pharmaceutical companies from post-communist countries and those from Western countries regarding the approach to accounting conservatism expressed through provisions (volume, structure, and level). Furthermore, political conservatism differs between these two groups of countries, and accounting conservatism may be associated, at least partially, with political conservatism.

3.3. Research Design

Our research is cross-sectional in nature, with data analyzed for the year 2023, and is conducted in two stages, which we present below. For each of the two stages, we used quantitative research methods.

We determined the level of accounting conservatism by using provisions as the main mechanism of prudence, and we calculated the accounting uncertainty ratio as a weighted ratio between the value of provisions and total liabilities. From the financial reports available on the website of each stock exchange, we collected information for the analyzed companies regarding the structure of provisions, their value, and the total value of liabilities. We analyzed the structure of provisions and the accounting uncertainty ratio for each of the mentioned countries and for each of the two groups of countries: post-communist and Western. We tested the uncertainty ratio by applying the Mann–Whitney U test (two-sided), using Python. We used the Mann–Whitney U test (two-sided) because we analyzed the group of pharmaceutical companies from post-communist countries (12 companies) and the group of pharmaceutical companies from Western countries (26 companies), these being small and independent groups for which we cannot assume a normal data distribution; we have nonparametric data and independent observations. To estimate confidence intervals for the group medians, 5,000 bootstrap samples were generated, with a fixed seed for reproducibility.

Next, we determined political conservatism at the country level, using the indicators provided by the Chapel Hill Expert Survey (CHES).

Finally, seeking to identify a relationship between accounting conservatism manifested by pharmaceutical manufacturing companies and conservative tendencies in the political sphere manifested in the countries of residence of the companies, we compared the two forms of conservatism—accounting and political.

3.4. Research Findings

In an attempt to demonstrate our hypothesis, we considered pharmaceutical manufacturing companies from Romania (8 companies listed on the Bucharest Stock Exchange), Hungary (5 companies listed on the Budapest Stock Exchange), Germany (9 companies listed on the Frankfurt Stock Exchange), Italy (7 companies listed on the Milan Stock Exchange), and Switzerland (8 companies listed on the Swiss Exchange).

In our analysis, we considered Germany as a Western country because the share of the territory and population of the German Democratic Republic was not major (approximately 30% and approximately 20%, respectively), and today the German economy is the largest in the European Union (contributing approximately 24% to the total GDP of the EU).

Regarding the volume of provisions, we found a wide variety of the uncertainty ratio from one company to another, even among companies resident in the same country. The different behavior of companies with respect to provisions suggests a low influence of accounting culture, regulations, specific characteristics of the pharmaceutical manufacturing



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industry, or the political or economic environment. Accounting behavior appears to be determined rather by the company's accounting policy and financial policy and by the specific characteristics of its stage of development.

With regard to the structure of provisions, we observe that in all states there are companies that have constituted provisions for employee benefits and provisions for risks. In companies from post-communist countries, Romania and Hungary, provisions for litigation have significant weights and provisions for doubtful receivables are present. In companies from Western countries, Italy and Switzerland, we note the presence of provisions for environmental protection and for decommissioning and restructuring.

From the analysis of the volume and structure of provisions, we find that, although their volume appears to depend on the internal decisions of each company, the structure of the constituted provisions is particularized for companies from the two groups of countries, post-communist and Western.

Further, seeking to identify differences regarding the median of the uncertainty ratio for companies from post-communist countries and those from Western countries, we applied the Mann–Whitney U test (two-sided) for the two groups of companies. We considered the standard threshold $\alpha = 0.05$; the test statistic was $U = 110$, and the probability of recording a difference as large as the one observed in the sample was $p = 0.153$, a value that does not allow the rejection of the null hypothesis (the distributions of the two groups do not differ significantly). The effect was medium (Cliff's $\delta = -0.295$), with higher values recorded in Western countries, but the difference between the two groups was not statistically significant.

In order to see how much the median of the uncertainty ratio varies from one company to another, we applied bootstrap for medians (5,000 bootstrap resamples, fixed seed for reproducibility) for the uncertainty ratio for the group of post-communist countries (0.0146) and the group of Western countries (0.0339) (Table 1). For the upper limit of the 95% percentile, the confidence intervals of the two groups of states are not entirely the same, the bootstrap difference taking values between -0.01809 and 0.04398 . Consequently, there is no significant difference between the median uncertainty ratio for post-communist states and the median uncertainty ratio for Western states.

Both the Mann–Whitney U test and the bootstrap analysis show that there is no statistically significant difference regarding the median of the uncertainty ratio determined for the two samples: the sample consisting of pharmaceutical manufacturing companies from post-communist countries and the sample consisting of pharmaceutical manufacturing companies from Western countries.

Table no. 1 Bootstrap statistics for the median of the uncertainty ratio in post-communist and Western countries

Group	n	Observed median	CI 95% (bootstrap, percentila)	Bootstrap mead
Post-communist countries (RO + HU)	12	0.0146	[0.00310;0.04313]	0.0193
Western countries (DE +IT+CH)	26	0.0339	[0.01738;0.05677]	0.0343
Difference (Western countries – post-communist countries)	-	0.01928	[-0.01809; 0.04398]	0.0150

Source: Author's calculations. CI = confidence interval (95th percentile); the difference represents the Western median minus the post-communist median.

The obtained results suggest that, in the analyzed sample, the differences between post-communist and Western countries regarding the uncertainty ratio are not statistically significant, although values in Western countries tend to be higher.

For determining the level of political conservatism of the five states, we used information from the Chapel Hill Expert Survey platform, which is intended for the study of information related to political parties. As a proxy to determine the level of political conservatism of the mentioned countries, we used the conservatism of political parties in each country.

To establish its values, we used the following indicators: party, family, vote, lrgen, lrecon, and GAL-TAN. Family refers to the ideological family of the party, while vote refers to the percentage of votes obtained by the respective party in the most recent national elections. Lrgen is an indicator that reflects the general left–right ideology of the party in the political spectrum. Sometimes, a right-wing party may adopt left-wing measures and vice versa. Moderate left refers to social democracy, while the far left includes socialism and communism. Moderate right refers to liberalism and, possibly, monarchism, while the far right refers to nationalism and fascism. Lrecon is an indicator that refers to the left–right position of the party regarding economic issues: the regulatory system, privatization, taxation system, government spending, welfare state, free-market economy, reduced state control, and low taxes. The GAL–TAN indicator refers to the socio-cultural position—abortion rights, same-sex marriage, and the party’s democratic participation—Green/Alternative/Libertarian versus Traditional/Authoritarian/Nationalist.

We do not deny the fact that the choice of this proxy was influenced by the possibility of using the information provided by the Chapel Hill Expert Survey platform; this represents another limitation of our study. Since the platform does not provide information for the year 2023, for our study we relied on data as close as possible to the present moment, namely the year 2024.

We understand that in our study we omitted many of the important indicators that reflect the level of political conservatism in the countries studied: institutional conservatism, constitutional conservatism, national-identity conservatism, moral-religious conservatism, fiscal conservatism, specific authoritarianism, non-cultural conservatism, position toward the European Union, conservatism manifested in foreign and security policy, the demographic dimension, etc. However, by using lrgen, lrecon, and GAL–TAN, we capture economic conservatism, cultural-value conservatism, and the general left–right ideological orientation of parties.

Table no. 2 Level of political conservatism recorded by Romania, Hungary, Germany, Italy, and Switzerland

Country	Economic (ECO)	Cultural (CUL)	General (GEN)
Romania	5.125	6.961	6.785
Hungary	3.926	6.386	6.475
Germany	5.178	4.684	5.177
Italy	4.894	5.417	5.576
Switzerland	5.582	5.114	5.687
Group of countries	Economic (ECO)	Cultural (CUL)	General (GEN)
Post-communist (Romania + Hungary)	4.545	6.683	6.635
Western (Germany + Italy + Switzerland)	5.223	5.072	5.482

Source: Author’s calculations. . ECO, CUL, and GEN are scores calculated for political conservatism based on the indicators presented on the CHES platform.



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We determined the conservatism of political parties in each country using the indicators mentioned above (general ideology, economic dimension, and socio-cultural dimension). To establish the influence of each party, the Chapel Hill Expert Survey uses the percentage of votes obtained by the party in the most recent national elections.

In our study, we defined ECO as the economic conservatism score of each country, calculated as the weighted average of Irecon scores; we defined CUL as the cultural-social conservatism score of a country, calculated as the weighted average of GAL–TAN scores; and we defined GEN as the general left–right ideological orientation score of a country, calculated as the weighted average of Irgen scores.

We determined these scores and thus determined the level of political conservatism of each country. In the following table, we present the level of political conservatism (weighted by vote share) recorded by post-communist and Western states.

In Romania, economic conservatism is almost balanced, cultural conservatism appears to be profound, and general ideological conservatism is clearly oriented to the right. The parties that contributed to the increase in economic conservatism are the National Liberal Party (PNL) and Save Romania Union (USR); the parties that increased the score of cultural conservatism were those with an extreme right-wing, national-conservative ideological orientation, the Alliance for the Union of Romanians (AUR), SOS, and the Young People's Party (POT).

Hungary is a country that is less conservative from an economic point of view, but with cultural and general ideological conservatism oriented to the right. The high level of cultural and general ideological conservatism is influenced by the parties Fidesz–KDNP Alliance (having a very large share, it is the main source of Hungarian conservatism) and the Alliance of Young Democrats—Movement for a Better Hungary (JOBBIK). Parties in Hungary obtained values of the ECO, CUL, and GEN indicators that are either very low or very high, which shows political polarization.

In Germany, economic conservatism and general ideological conservatism are almost balanced, while cultural conservatism is moderate. The party that recorded extreme scores on all indicators is the Alternative for Germany (AfD), followed by the Christian Social Union in Bavaria (CSU).

In Italy, cultural and general ideological conservatism are slightly oriented to the right, while economic conservatism is moderate. The parties that recorded high scores on all conservatism indicators are Fratelli d'Italia and Lega.

In Switzerland, all calculated conservatism indicators take almost balanced values, the three forms of conservatism studied being slightly oriented to the right. The parties that recorded high scores on all conservatism indicators are the Swiss People's Party (SVP/UDC) and the Federal Democratic Union of Switzerland (EDU/UDF).

In post-communist countries, cultural conservatism and ideological-general conservatism are more pronounced; democratic rights such as the right to abortion, same-sex marriage, and democratic participation of parties are more difficult for the population to accept. With regard to economic conservatism, it is more moderate.

In Western countries, by contrast, economic conservatism is more pronounced; the regulatory system, privatization, taxation system, government spending, and the welfare state have a stricter, more predictable approach. Each of these countries is market-oriented; they are economically liberal-conservative. In these countries as well, general ideological conservatism is oriented to the right, as in the case of post-communist countries, but its level is more moderate. Western countries demonstrate higher cultural tolerance compared to post-communist ones.

The most relaxed approach to economic conservatism is found in Hungary, which records high cultural conservatism. The most moderate country from a cultural point of view is Germany. The highest level of economic conservatism is recorded in Switzerland, which has an

open attitude from a cultural perspective. In the political spectrum, Romania appears to have the most right-wing positioning, the country closest to the center being Germany.

Considering the above, we consider that our hypothesis:

There are differences between pharmaceutical companies from post-communist countries and those from Western countries regarding the approach to accounting conservatism expressed through provisions (volume, structure, and level). Furthermore, political conservatism differs between these two groups of countries, and accounting conservatism may be associated, at least partially, with political conservatism.

was partially validated.

As shown above, we found that although the volume of provisions constituted is specific to each individual company, nevertheless, the structure of provisions differs depending on the residence of companies: in post-communist countries or in Western countries. We also found that there are no statistically significant differences regarding the level of accounting conservatism between the two groups of countries. Therefore, the first part of the hypothesis, according to which there are differences between pharmaceutical companies from post-communist countries and those from Western countries regarding the approach to accounting conservatism expressed through provisions (volume, structure, and level), was partially validated.

We also found that between the two groups of countries (post-communist and Western), there are clear differences regarding political conservatism, differences also highlighted by the structure of provisions constituted at the company level; therefore, we observe a conceptual association between accounting conservatism and political conservatism, and consequently, the second part of our hypothesis was validated.

4. CONCLUSIONS

The analysis of the volume of provisions reflects an independent approach to provisions by each individual company. The structure of the constituted provisions suggests profound institutional and legal differences between the two groups of companies resident in post-communist countries and in Western countries, even if their value and weight differ from one company to another.

Attempting to highlight possible relationships between companies' accounting policies and the political environment, we observe that, although the level of accounting conservatism encountered in pharmaceutical companies from post-communist countries and from Western countries is similar, political conservatism scores differ from one group of countries to another.

Thus, by applying the Mann–Whitney U test and bootstrap for medians, with 5,000 replications on the uncertainty ratio determined at the level of pharmaceutical companies from the two groups of countries mentioned, we found that there are no statistically significant differences. Even though the median values of the uncertainty ratio differ (0.0146 in companies from post-communist countries and 0.0339 in companies from Western countries), this difference is not statistically significant for $p = 0.153$ (a value that does not imply rejection of the null hypothesis). The effect was medium but not significant: Cliff's $\delta = -0.295$. The bootstrap intervals overlap.

We assume that the specific characteristics of the pharmaceutical industry and the uniform application of International Financial Reporting Standards influenced companies' behavior regarding the volume of provisions and the level of accounting conservatism recorded by companies from the two groups of countries.

Therefore, from the analysis of the studied sample, we found that the level of accounting conservatism of pharmaceutical companies from post-communist countries is not significantly higher than that of pharmaceutical companies from Western countries.

With regard to political conservatism, we used the indicators presented on the Chapel Hill Expert Survey platform to construct three scores for each country: economic conservatism,



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socio-cultural conservatism, and general ideological conservatism. We found that in post-communist countries, cultural and social conservatism is more pronounced, while in Western countries, economic conservatism is higher. In post-communist countries, the level of general ideological conservatism is higher, these countries being more left-oriented than Western countries.

By corroborating the differences regarding the structure of provisions constituted at the level of companies from post-communist countries and at the level of companies from Western countries with the differences regarding the political conservatism of the two groups of countries, we identify a conceptual association between accounting conservatism and political conservatism. Although we cannot statistically assert that political conservatism determines a certain accounting behavior, we nevertheless observe a correlation between the concrete way in which companies constitute provisions and the political approach to conservatism.

Of course, our research, although coherent, is limited from several points of view and can be developed on multiple levels. We studied a small sample of companies, which limits the statistical relevance of the applied tests. In addition, our sample is heterogeneous in terms of company size and capital. We considered only financial information related to the 2023 financial year; a study conducted over a longer period would present companies' accounting policies more clearly. We analyzed accounting conservatism through a single indicator—the constituted provisions, namely the uncertainty ratio. We did not quantify the effect of political conservatism on accounting conservatism using advanced econometric analyses.

We consider that the mentioned limitations do not invalidate our study, but they constitute solid arguments for the further development of our research.

Future research may extend the analysis by enlarging the sample and adopting a longitudinal design to capture the dynamics of accounting conservatism over time. Additionally, the use of multiple conservatism proxies and advanced econometric models could allow a more precise quantification of the relationship between accounting conservatism and political conservatism.

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