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# BOARD STRUCTURE AND ACCOUNTING CONSERVATISM IN LISTED NON-FINANCIAL FIRMS IN NIGERIA

**Christian O., Chiedu [1] , Prof, S. A., Anichebe [2], Dr. N. A. Emeka-Nwokeji [3]**
[1]Department of Accountancy, Delta State Polytechnic, Ogwashi-Uku, Delta State, Nigeria
[2, 3]Department of Accountancy, Chukwuemeka Odumegwu Ojukwu University Igbariam Campus, Anambra State Nigeria

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**ABSTRACT:** *The study examines the impact of board structure on accounting conservatism in listed non-financial firms in Nigeria. The longitudinal research design was adopted and the study covered the period from 2010-2019. study period, there are 75 quoted non-financial firms in the Nigerian Exchange Group classification and these will constitute the sample. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant Nigerian Exchange Group fact books were used to collect data. The effect of corporate governance structure on accounting conservatism was analysed using panel regression. This study employed descriptive statistical methods and includes descriptive techniques such as the mean, standard deviation, range, frequency distribution. More importantly, the random effects (RE) and fixed effects (FE) regression as estimated. The findings of the study reveals that Board size (BDS) has a significant impact on accounting conservatism particularly for Market to book (MTB) and income statement based indicators of accounting conservatism. Also, Board independence (BDIND) has a significant impact on accounting conservatism and this is persistent across all three measures of accounting conservatism used in the study. Board gender diversity (BGD) has a significant impact on accounting conservatism particularly, for accrual based indicators. Hence the study recommends the need for corporate boards to reflect and represent all significant stakeholder interests so that board decisions will not be skewed unhealthily. Therefore, the study recommends for the presence of more independent directors in corporate boards. The study recommends the need for an increase in the level of gender diversity in corporate boards. The study recommends that there is need for shareholders to look closely in order to monitor the practices of management.*

**KEYWORDS:** board structure, accounting conservatism, non-financial firms, Nigeria

## INTRODUCTION

Accounting Conservatism is a controversial subject in both policy-making and academic literature. Conservatism is defined traditionally as the practice of "anticipating no profit but anticipating all losses" (Basu, 2003). Basu (2003) considered conservatism as the asymmetric timeliness of earnings reporting, requiring higher verification in recognising good news as gain than recognising bad news as losses. Under both definitions, reported earnings under conservative accounting are understated rather than overstated. Both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) believe accounting conservatism is an undesirable characteristic of accounting information. Both emphasize that neutrality in accounting numbers is preferable so there is no bias in company's financial statements (Mora & Walker, 2015).

Conservatism has been a salient characteristic of accounting information and recent research into this area has documented a significant increase in conservatism in the last few decades (Ain, Agus, Kiswanto & Indra 2020). However, several criticisms have been levelled on the practice of accounting conservatism. For instance, El-habashy (2019) argued that conservatism was a very poor method to solve uncertainty in valuation and income, and it led to a distortion of accounting data. They believed that conservatism may also result in a lack of comparability because there could be no uniform standards for its implementation. Furthermore, Penman and Zhang (2002) claimed that conservatism created hidden reserves and resulted in lower quality earnings. Similarly, Boussaid, Hamza, and Sougne, (2015) argued that due to the understatement of income or assets, conservatism resulted in a misunderstanding of current income or assets and led to inaccurate accounting data.

Since the introduction of the Sarbanes-Oxley Act (SOX) in 2002, corporate governance effectiveness became more important for investors and regulators, and academics argue that particularly, the board structure effectiveness could be another explanation for accounting conservatism (Beekes, Pope, & Young 2004; LaFond and Watts 2008). Even in Nigeria, several board structure reforms have been initiated culminating into the most recent being the 2018 code of corporate governance. According to Lobo & Zhou, (2006), there are two leading perspectives on the relationship between board structure and accounting conservatism. On the one hand is the substitutive perspective (demand side) which holds that conservative accounting can be seen as a vehicle that reduces uncertainty and information asymmetry, so it is expected that companies with a less effective board structure, and in which agency problems are more severe, have a higher contracting demand for conservative financial reporting (Shiyanbola, Adegbie, Oyesola & Salawu 2019). Therefore, the substitutive perspective expects a negative relation between board effectiveness and accounting conservatism. On the other hand, the complementary perspective, holds that an effective board structure favours the implementation of conservative financial reporting (Chi, Liu, & Wang 2009). Therefore, the complementary perspective expects a positive relation between board structure effectiveness and accounting conservatism (Lobo & Zhou, 2006). Therefore, this study is motivated provide an understanding of the nexus between corporate governance and accounting conservatism. The outcome is expected to be quite novel and will help provide a simultaneous assessment of how effective corporate governance is in its effect on accounting conservatism and this will potentially be useful for policy-makers, accounting standard setters, and academics.

**Statement of the Problem**

A number of empirical research exists that analyse the relation between board structure variables and accounting conservatism (Ain, Agus, Kiswanto & Indra, 2020; Surachai, Jintana, Sukanya & Laddawan, 2020; Nasr & Ntim, 2018; Leventis, Dimitropoulos & Owusu-Ansah, 2013; Kootanaee, Seyyedi, Nedaei & Kootanaee, 2013; Xia, & Zhu, 2009; Chi, Liu & Wang, 2009; Lara, Osma & Penalva, 2009). However, one limitation with the that have examined the link between corporate governance and accounting conservatism listed above is that most of the studies employ single measures of accounting conservatism but this study differs from them by adopting a multi-perspective approach which is intended to make the study more robust and provide deeper insight into the issue of accounting conservatism. Specifically, the study incorporates the income statement conservatism, statement of financial position- based conservatism and accruals conservatism. To the best of the researcher's knowledge, this study is the only study focused on listed manufacturing firms in Nigeria that has employed a combination of the three (3) conservatism models and approaches.

## LITERATURE REVIEW AND HYPOTHESES

### Board Independence and Accounting Conservatism

Board independence is a key dimension of corporate governance as it is concerned with the extent to which the board can be said to be objective. The independence of the board can be measured by the number of non-executive or outside directors on the board. The importance of outside directors has been recognized even at the level of policy, with codes of corporate governance giving a special attention to the need to have a reasonable proportion of them on the board of listed firms. Empirical evidence has shown that properly constituted boards with the right mix of non-executive directors tend to contribute an unbiased sense of judgment (Ilaboya & Iyafekhe 2014). The empirical relationship between board independence and accounting conservatism is still a bourgeoning area of accounting research with several researchers now paying close attention to the nexus beween both variables.

For example, Ain, Agus, Kiswanto and Indra (2020) analyse the effect of good corporate governance mechanisms on accounting conservatism. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2014–2016 are the population in this study, which consists of 135 companies. the study shows that **board independence** have a significant positive effect on accounting conservatism. In the same vein, Surachai, Jintana, Sukanya and Laddawan (2020) investigate the relationship between board independence attributes and accounting conservatism of listed companies on the Stock Exchange of Thailand, using a pooled regression model over the period 2014-2018. The 1,855 samples of firm-year observations measuring accounting conservatism were taken using the Basu Model (1997). The empirical results a higher quantity of an independent directors increases accounting conservatism.

Similarly, El-habashy (2019) investigate the corporate governance attributes that influence the level of accounting conservatism in Egyptian listed firms. A sample of the 40 most active non-financial companies collected in the period 2009-2014 was used for hypothesis testing. Panel regression models were used for data analysis. Givoly & Hayn (2000) index is used as conservatism measurement criteria. The results of the research indicate that **board independence** have a significant positive association with the accounting conservatism. In the light of the above, the following research hypothesis is specified:

H01: Board Independence have no significant impact on accounting conservatism

**Board Size and accounting Conservatism**

Board size refers to the total number of directors on the board of each sample firm which includes the Chairman and CEO for each financial year. This includes outside directors, executive directors and non-executive directors. Board size seems to differ from one company to another. And the question of "what size of a board should be" seems not easy to answer. Because the right size of a board depends on many factors such as the size of the corporation, the depth and complexity of issues facing the corporation, the responsibilities that the board should carry out. This study focuses on evaluating the relationship between board size and accounting conservatism and the literature in this regards is quite revealing. For example, Sutathip, Nuchjaree and Sungworn (2020) examine whether corporate governance could be seen as an explanation for accounting conservatism in Malaysia and Singapore. This research used 389 samples, comprising 244 firms from Bursa Malaysia and 145 firms from Singapore Exchange, excluding financial firms. Data were analysed by using the multiple regression. The research results were explained with both notion of large and small board members on accounting conservatism.

In the same vein., Almutairi and Quttainah (2019) investigate how Islamic banks' unique corporate governance system affects accounting conservatism behaviours. Using a large sample of Islamic banks and their matched non-Islamic banks; based on total assets and geographic location, in 15 countries, the study found Islamic banks are about 95% more likely to be more conservative in accounting practices than their counterparts, depending on different model specifications. In addition, they report several board characteristics, such as **size** is an important determinants of accounting conservatism in Islamic banks.

Shiyanbola, Adegbie, Oyesola and Salawu (2019) investigated the effects of corporate governance on conservatism of quoted financial and non-financial firms in Nigeria. The study adopted ex-post facto research design using the population of 161 listed companies on Nigerian Stock Exchange at 31st December, 2017. Sample of 30 quoted financial and non-financial firms was purposively selected from 2003-2017. Multiple regression analyses was used. The findings revealed that board size amongst other corporate governance variables had joint significant effects on conservatism of quoted financial and non-financial firms in Nigeria.

On the contrary, Akbar, Jalal, Morteza and Javadian (2013) investigated the relationship between corporate governance and conservatism in financial reporting of listed companies in Tehran Stock Exchange. In this study, to operationalize the conservatism coupled used Feltham and Ohlson (1995) and Givoly and Hayn (2000) model; and used board size, as proxy for corporate governance. To investigate this relationship used the multiple regression models. Findings of investigation of 146 companies (1259 firm-years) listed in Tehran Stock Exchange in the 2001 to 2012 by unbalanced Panel model representative, relation between conservatism and corporate governance was not significant. In the light of the above, the following research hypothesis is specified:

$H_{02}$: Board Size have no significant impact on accounting conservatism

**Board Diversity and Accounting Conservatism**

Among the various board diversity characteristics, gender is one of the most significant issues faced by modern corporations (Carter et al., 2003). Female directors tend to bring different perspectives to the board and can influence the various board level outcomes including the decision-making process. Supporting the presence of female board members, Walt and Ingley (2003) suggest that sound decision making requires equilibrium between skills and attributes among the board members which could be achieved by appointing more female directors. Some authors argue that female directors are more likely to be objective and independent (Fondas, 2000) and as such tend to ask questions more freely than male directors (Bilimoria & Wheeler, 2000). In evaluating how these perceived gender differences in board effectiveness and performance can influence conservatism, a number of studies have provided some empirical evidence.

For example, Makhlouf, Al-Sufy and Almubaideen (2018) investigated whether corporate governance affect the accounting conservatism. This study used on a panel data set drawn from 68 industrial firms listed on Amman Stock Exchange (ASE) for the period from 2013 to 2016. Accounting conservatism was measured by accrual-based conservatism. The results indicate **that gender diversity**, are significantly positively correlated with accounting conservatism. Similarly, García-Sánchez et al. (2017) examined the influence **of gender diversity** on board affect accounting conservatism in banking sector in nine different countries from the period 2004-2010 for the sample of 159 banks. They also reveal that female experts have positive impact on accounting conservatism and earnings quality in banks. Moreover, they found that there is a lower differential timeliness of recognizing profits declines versus earnings in banks with higher board female diversity.

Srinidhi, Tsui and Zhou (2017) examine the effect of **board gender diversity** on accounting conservatism. Particularly, the authors investigate changes in the degree of conservatism for firms that transit from an all-male board to a gender diverse board. Using a sample of U.S. firms from 1998 to 2014, the results show that the degree of conservatism in accounting increases in firms after the transitions, compared to: (i) firms without transitions and, (ii) firms with transitions that do not involve the induction of a female director (audit committee member). Furthermore, the results show that the increased conservatism is “sticky”, i.e. it does not reverse after departure of female directors.

Wang (2015) study set out to investigate the relationship between **board gender diversity** and conditional accounting conservatism in Finnish context. In the part of empirical test, the author utilizes the incremental coefficient on bad news in Basu (1997)’s regression model to measure conditional accounting conservatism. The percentage of female directors on the board is used to measure board gender diversity. Using a modified Basu (1997)’s pooled regression model for OMX Helsinki 25 firms over the period 2009-2014, the study revealed no significant effect of board gender diversity on conditional accounting conservatism.

Boussaid and Sougné (2015) investigate the relationship between corporate board of directors’ attributes and conditional accounting conservatism in the French context. Using a pooled regression model over the period 2009-2012. As a robustness test, they use alternative measures of accounting conservatism, namely time series and accrual-based measures in addition to asymmetric timeliness of earnings. The findings suggest that boards of directors' attributes such **as the board gender** are an important factor in determining the financial reporting quality of French firms

$H_{03}$: Board gender diversity have no significant impact on accounting conservatism

## THEORETICAL FRAMEWORK-AGENCY THEORY

The agency theory was credited to Jensen and Meckling in 1976. Jensen and Meckling (1976) notes that agency is a contract entered into by persons known as the principal and the agent, upon which the agent carries out activities on behalf of the principal who delegated some decision-making authority to the agent. This theory stipulated that the principals (shareholders) are the owners of the firm while agents otherwise known as managements or appointed directors are delegated authorities to run the activities of the firm (Clarke, 2004). Corporate governance mechanisms in general and boards of directors in particular, are created to monitor managers. The demand for these mechanisms appears because of the existence of agency conflicts among the different parties to the firm, and particularly, because of the asymmetries in the incentives and objectives of managers and providers of finance derived from the separation of ownership and control (Jensen & Meckling, 1976). When the design of these mechanisms and provisions permits efficient monitoring by the board of directors, it is expected that good governance will result.

Thus, stronger corporate governance is expected to result in a higher demand for timely information and to prevent managers from hiding less favourable information. Timely information on losses acts as a warning signal to the board of directors, who can investigate the origin of bad news as soon as it is known, lowering the agency costs derived from the monitoring of contracts. We predict that board of directors' structure and characteristics significantly determine firm conditional conservatism, both via the increased demand for conservative accounting numbers and by mitigating aggressive accounting practices. The intention behind corporate governance disclosure is all about encouraging management to be up and doing and be credible and transparent in making decisions that will maximize shareholder's wealth or positive net present value (Shleifer & Vishny, 1997).

## METHODOLOGY

This study utilizes the more robust longitudinal data design which is seen as a combination of both cross-sectional and time-series design properties. The population consists of all non-financial companies in the country quoted on the Nigerian Stock Exchange (NSE) as at December 31, 2020. As at the study period, there are 75 quoted non-financial firms in the Nigerian Stock Exchange classification (NSE, 2021) and these will constitute the sample. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant NSE fact books was be used to collect data. The effect of corporate governance structure on accounting conservatism was analysed using panel regression. This study employed descriptive statistical methods and will includes descriptive techniques such as the mean, standard deviation, range, frequency distribution. More importantly, the random effects (RE) and fixed effects (FE) regression will be estimated. The

Hausman test for both random and fixed models will be conducted to enable us to determine which regression outcome is better.

**Model Specification**

The model for the study examines corporate governance and accounting conservatism. The model adapts those of Shiyanbola. etal. (2019), Surachai etal (2020) and Sutathip etal (2020). The models are presented below;

ACC-CON= $\beta_0 + \beta_1 BDS_{it} + \beta_2\ BDIND_{it} + \beta_3 BDG_{it} + \mu$----------------------------(i)

Where:
ACC-CON= Accounting conservatism
BDIND= Board independence,
BDG= Board gender diversity
BDS= Board Size,
i and t = each firm and each year respectively.

**Table 3.1:** Variable Measurement and Source

| Variable | Definition | Measurement | Source |
|---|---|---|---|
| Accounting conservatism | Income Statement Conservatism (ISC) | Basu (1997) model | Basu (1997) |
| | Statement of financial position sheet Conservatism | Market to book ratio (MTB) | Penman and Zhang, 2002). |
| | Accruals Conservatism (ACCR) | calculated as firm i's income before extraordinary items and discontinued operations, minus cash flows from continuing operations plus extraordinary items and discontinued operations in year t; | Givoly and Hayn (2000) |
| BDS | Board size | Number of individuals on the board | AinAgus Kiswanto, and Indra (2020) |
| BDIND | Board independence | Ratio of non- executive directors to total directors | AinAgus Kiswanto, and Indra (2020) |
| BGD | Board gender diversity | Female to Male board ratio | Adams and Ferreira (2009). |

**Source:** Researcher's compilation (2021)

## PRESENTATION OF RESULTS

**Table 4.1: Descriptive Statistics**

| | Mean | Max | Min | Std. Dev. | J.B | Probability |
|---|---|---|---|---|---|---|
| MTB | 34.29 | 1555.990 | 0.500 | 114.291 | 103.500 | 0.00 |
| ACCR | 0.0906 | 2.966 | 0.006 | 0.3017 | 1916.899 | 0.000 |
| INSC | 0.240 | 2.549600 | 0.000 | 0.2827 | 2256.227 | 0.00 |
| BDIND | 0.652 | 1.00 | 0.2200 | 0.1522 | 18.186 | 0.000 |
| BDS | 9.0467 | 23.00 | 4.000 | 2.7823 | 330.148 | 0.00 |
| BGD | 0.8744 | 7.00 | 0.00 | 1.0225 | 1038.116 | 0.00 |

Source: Researcher's compilation (2021)

Table 4.1 shows the descriptive statistics for the variables and as observed, the mean MTB stood at 34.29 with a standard deviation of 114.3. The maximum and minimum values stood at 1555.9 and 0.50 respectively. ACCR has a mean value of 0.0906 and a standard deviation of 0.3017. The maximum and minimum values stood at 2.966 and 0.006 respectively. Income statement conservatism (INSC) measured using the Basu approach has a mean of 0.240 with maximum and minimum values of 2.549 respectively. BBDIND has mean value of 0.65 which indicates that on the average about 65% of board members are independent members with a standard deviation of 0.15. This ratio is commendable and if properly engaged can improves the board objectivity, reduce agency cost and improve board and corporate reputation. BDS has mean of approximately nine (9) members with a standard deviation of 2.78 indicating the extent of dispersion from the mean. Though there is yet no consensus on what an optima board size should be, the argument is that board size should reflect all stakeholder/shareholder interest. The maximum and minimum values stood at 23 and 4 respectively. The mean for Board gender diversity (BGD) is 0.874 and this suggest that on the average companies in the distribution have approximately one (1) female in their boards. This is still a very poor gender representation in corporate boards and thus companies really need to begin increasing female presence and gender mix in their boards.

Table 4.2: Pearson Correlation Result

| | BDIND | BDS | BGD | MOWN | FOWN | MTB | ACCR | INSC |
|---|---|---|---|---|---|---|---|---|
| BDIND | 1 | | | | | | | |
| Prob | | | | | | | | |
| BDS | 0.08768 | 1 | | | | | | |
| Prob | 0.0289 | | | | | | | |
| BGD | -0.062 | 0.4284 | 1 | | | | | |
| Prob | (0.123) | (0.000) | | | | | | |
| MTB | -0.0307 | 0.4551 | 0.2134 | -0.1606 | -0.0338 | 1 | | |
| Prob | (0.446) | (0.00) | (0.00) | (0.000) | (0.400) | | | |
| ACCR | -0.0219 | 0.0441 | 0.0274 | 0.00162 | 0.39393 | 0.00198 | 1 | |
| Prob | 0.5852 | 0.2725 | 0.4963 | 0.9679 | 0.000 | 0.9607 | | |
| INSC | 0.0517 | -0.055 | -0.089 | -0.0873 | -0.0703 | 0.10778 | 0.01348 | 1 |
| Prob | 0.198 | 0.1656 | 0.0252 | 0.0297 | 0.0799 | 0.0072 | 0.7374 | |

Source: Researcher's compilation (2021)

The Pearson correlation results shows the correlations between MTB is negatively correlated with BDIND (r=-0.0307) though not significant at 5% (p=0.446), positively correlated with BDS(r=0.4551) and significant at 5% (p=0.00) and also positively correlated with BGD(r=0.21334) and significant at 5% (p=0.000). The Pearson correlation results shows the correlations between ACCR is negatively correlated with BDIND (r=-0.0219) though not significant at 5% (p=0.5852), positively correlated with BDS(r=0.0441) though not significant at 5% (p=0.2725) and also positively correlated with BGD(r=0.0274) but not significant at 5% (p=0.4963).INSC is positively correlated with BDIND (r= 0.0517) though not significant at 5% (p=0.198), negatively correlated with BDS(r=-0.055) though not significant at 5% (p=0.1656) and with BGD(r=-0.089) and significant at 5% (p=0.0252).

Table 4.3 Variance Inflation Factor Test

| Variable | Centered VIF |
|---|---|
| BDS | 1.5816 |
| BDIND | 1.1447 |
| BGD | 1.2935 |

Source: Researcher's compilation (2021)

Before proceeding to conduct the regression, the test for multicollinearity between the variables is conducted using the variance inflation factor (VIF). Basically, the VIF explains how much of the variance of a coefficient estimate of a regressor has been inflated, as a result of collinearity with the other regressors. Essentially, VIFs above 10 are seen as a cause of concern as observed, none of the variables have VIF's values more than 10 and hence none gave serious indication of multicollinearity.

Table 4.4. Corporate governance and MTB Regression

| ***Variable*** | Aprori Sign | Fixed Effects Model | Random Effects Model |
|---|---|---|---|
| C | | 294.86* (6488.4) {0.000) | 270.38 (237.02) {0.2548} |
| BDS | + | -137.09* (206.3) {0.000} | -969.454 (942.03) {0.3042} |
| BDIND | + | 126.011* (483.47) {0.009} | 107.833 (119.08) {0.3659} |
| BGD | + | 233.34 (3998.7) {0.5599} | -246.25 (218.34) {0.3042} |
| *Model Parameters* | | | |
| $R^2$ | | 0.553 | 0.0142 |
| Adjusted $R^2$ | | 0.514 | 0.0007 |
| F-statistic | | 11.94 | 0.9548 |
| Prob(F-stat) | | 0.00 | 0.445 |
| Durbin-Watson | | 1.83 | 0.459 |

Model Diagnostics

| | | | |
|---|---|---|---|
| $\chi^2_{Hetero}$ | (0.466) | $\chi^2_{Norm}$ | 0.483 |
| $\chi^2_{Serial/Corr}$ | (0.274) | $\chi^2_{Hausman}$ | 19.53 |
| $\chi^2_{Ramsey\ Reset}$ | (0.705) | | (0.000) |

Source: Researcher's compilation (2021)

Table 4.4 show the regression results examining the impact of corporate governance on MTB measure of accounting conservatism. According to Givoly & Hayn (2000), the market-to-book (M-to-B) ratio is commonly defined as the market value of a firm's equity divided by the book value of equity. The idea underlying the use of MTB as a measure of accounting conservatism is that, *ceteris paribus*, a conservative accounting system tends to depress the net book values of a firm relative to the firm's true‟ economic value. Therefore, a higher MTB implies a higher degree of accounting conservatism, and vice versa. The gap between the market value and the book value of equity is a measure of the degree of reporting conservatism (Roychowdhury & Watts 2004; García Lara & Mora 2004). The fixed effects

(FE) results based on the hausman test value (p=0.042) is used as the preferred estimation. The $\chi^2_{Hausman}$ statistic and p-value (11.183, p=0.04) indicates that the fixed effects model estimation is the appropriate estimation for the model indicating the existence of significant correlations between firms specific disturbances and the beta's. The $\chi^2_{Hetero}$ p-value (0.466) implies the homoscedastic behaviour of the errors and the $\chi^2_{Serial/Corr}$ p-value (0.274) also reveals the absence of serial correlation. In addition, $\chi^2_{ramsey\ Reset}$ p-value (0.705) reveals that the model is correctly specified .

The $R^2$ for the regression stood at 0.553 with indicates that corporate governance is able to account for about 55.3% of systematic variations in MTB with an adjusted value of 51.4%. The F-stat is 11.94 (p-value = 0.00) is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The analysis of coefficients reveals that BDS has a negative (-137.09) effect MTB which is statistically significant at 5% (p=0.000). The result implies that in an increase in the board size results in a decline in MTB which suggests reduced conservatism. BDIND has a positive (126.011) effect on the MTB which is statistically significant at 5% (p=0.009). This implies that an increase in the level of board independence results in an increase in MTB which is indicative in this case of higher conservatism. BGD has a positive (233.34) effect though not statistically significant at 5% (p=0.2182).

Table 4.5. Corporate governance and ACCR

| ***Variable*** | Aprori Sign | Fixed Effects Model | Random Effects Model |
|---|---|---|---|
| *C* | + | 0.4535*<br>(0.0373)<br>{0.000) | 0.4205*<br>(0.0439)<br>{0.000} |
| BDS | + | 0.0002<br>(0.0011)<br>{0.8248} | -0.0015*<br>(0.0013)<br>{0.2778} |
| BDIND | + | 0.0372*<br>(0.0125)<br>{0.0034} | 0.0226<br>(0.0183)<br>{0.2192} |
| BGD | + | -0.02011*<br>(0.01)<br>{0.0476} | 0.0064<br>(0.0298)<br>{0.8312} |
| *ar(1)* | | 0.5588<br>(0.1652)<br>{0.0009} | |
| *Model Parameters* | | | |
| $R^2$ | | 0.887 | 0.0072 |
| Adjusted $R^2$ | | 0.863 | 0.00111 |
| F-statistic | | 37.5065 | 0.3738 |
| Prob(F-stat) | | 0.00 | 0.8664 |
| Durbin-Watson | | 2.3 | 0.6987 |

| Model Diagnostics | | | |
|---|---|---|---|
| $\chi^2_{Hetero}$<br>$\chi^2_{Serial/Corr}$<br>$\chi^2_{Ramsey-Reset}$ | (0.182)<br>(0.355)<br>(0.827) | $\chi^2_{Norm}$<br>$\chi^2_{Hausman}$ | 0.6712<br>16.622<br>(0.000) |

Source: Researcher's compilation (2021) * sig @5%, ** sig @ 10%

The relationship between corporate governance and accrual measure of conservatism is presented in table 4.5. Givoly and Hayn (2000) suggest that the sign and the magnitude of accumulated accruals over time are measures that can be used to gauge the degree of accounting conservatism. A consistent predominance of negative accruals across firms over a long period is, ceteris paribus, an indication of conservatism, while the rate of accumulation of net negative accruals is an indication of the shift in the degree of conservatism over time" (Givoly & Hayn 2000; p.292). Numerous studies have been conducted based on the above-mentioned measures of conservatism (Givoly & Hayn, 2000; Holthausen & Watts, 2001).

The $\chi^2_{Hausman}$ statistic and p-value (16.622, p=0.00) indicates that the fixed effects model estimation is the appropriate estimation for the model indicating the existence of significant correlations between firms specific disturbances and the beta's. The $\chi^2_{Hetero}$ p-value (0.182) implies the homoscedastic behaviour of the errors and the $\chi^2_{Serial/Corr}$ p-value (0.355) also reveals the absence of serial correlation. In addition, $\chi^2_{Ramsey\text{-}Reset}$ p-value (0.827) reveals that the model is correctly specified. The autoregressive procedure ar (1) was employed to control for potential serial correlation in the errors.

The $R^2$ for the regression stood at 0.887 with indicates that corporate governance is able to account for about 88.7% of systematic variations in ACCR with an adjusted value of 86%. The F-stat is 37.507 (p-value = 0.00) is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model.

The analysis of coefficients reveals that BDS has a positive (0.0002) effect on the ACCR which is however not statistically significant at 5% (p=0.8248). BDIND has a positive (0.0372) effect on ACCR which is statistically significant at 5% (p=0.0034). The result implies that an increase in the level of board independence, increases accruals which indicates less conservatism. BGD has a negative (-0.0201) effect on the accruals which is statistically significant at 5% (p=0.0476). The result implies that increased BGD ratio on corporate boards reduces accruals which indicates more conservatism practice.

Table 4.6. Corporate governance and Income Statement Conservatism

| ***Variable*** | Aprori Sign | Fixed Effects Model | Random Effects Model |
|---|---|---|---|
| C | + | 0.4237*<br>(0.0369)<br>{0.000) | 0.4023*<br>(0.0278)<br>{0.000} |
| BDS | + | -0.0050*<br>(0.0010)<br>{0.000} | -0.0008*<br>(0.0010)<br>{0.4302} |
| BDIND | - | 0.0541*<br>(0.0145)<br>{0.0003} | 0.05138*<br>(0.0204)<br>{0.0123} |
| BGD | + | -0.03132<br>(0.0310)<br>{0.3157} | -0.02167<br>(0.0219)<br>{0.3256} |

| | | | |
|---|---|---|---|
| *Model Parameters* | | | |
| $R^2$ | | 0.900 | 0.0328 |
| Adjusted $R^2$ | | 0.868 | 0.0139 |
| F-statistic | | 27.985 | 1.7322 |
| Prob(F-stat) | | 0.00 | 0.127 |
| Durbin-Watson | | 1.80 | 0.691 |

| Model Diagnostics | | | |
|---|---|---|---|
| $\chi^2_{Hetero}$<br>$\chi^2_{Serial/Corr}$<br>$\chi^2_{Ramssey\ Reset}$ | (0.3927)<br>(0.862)<br>(0.372) | $\chi^2_{Norm}$<br>$\chi^2_{Hausman}$ | 0.6712<br>11.232<br>(0.000) |

Source: Researcher's compilation (2021)

Table 4.6 show the regression results examining the impact of corporate governance on Income Statement Conservatism [Market-based measure]. This approach is credited to Basu (1997) that tested conditional conservatism by regressing annual accounting earnings on stock returns for the same year separately for companies with negative returns and positive returns, adopting returns as a proxy for bad/good news. Conservatism results in earnings being timelier and more sensitive concurrently to publicly available bad news than good news (Basu 1997). So, financial reporting is conservative since it defers recognition of good news and accelerates the recognition of bad news.

The $\chi^2_{Hausman}$ statistic and p-value (11.232, p=0.00) indicates that the fixed effects model estimation is the appropriate estimation for the model indicating the existence of significant correlations between firms specific disturbances and the beta's. The $\chi^2_{Hetero}$ p-value (0.392) implies the homoscedastic behaviour of the errors and the $\chi^2_{Serial/Corr}$ p-value (0.862) also reveals the absence of serial correlation. In addition, $\chi^2_{Ramsey\text{-}Reset}$ p-value (0.372) reveals that the model is correctly specified.

The $R^2$ for the estimation stood at 0.53 which indicates that corporate governance is able to account for about 53% of systematic variations in income statement conservatism with an adjusted value of 46.8%. The F-stat is 22.985 (p-value = 0.00) is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The estimation results reveals that BIND has a negative (-0.005) effect on income statement conservatism which is statistically significant at 5% (p=0.000). The result implies that an increase in board independence results in a decline in income statement conservatism as the presence of more independent board members may help to ensure that management do not control earnings in response to market information especially lowering earnings in relation to bad news. Also, BDS has a negative (-0.005) effect on income statement conservatism which is statistically significant at 5% (p=0.000). The result implies that an increase in board size results in a decline in income statement conservatism. Just as in the case of board independence, the result suggest that the presence of larger boards may help to ensure that management do not control earnings in response to market information especially lowering earnings in relation to bad news. BGD has a negative (-0.0313) effect on the income statement conservatism though not statistically significant at 5% (p=0.3157).

On the overall, the result shows that BDS has a significant impact on accounting conservatism particularly for MTB and income statement based indicators of accounting conservatism. Therefore, the study rejects the null hypothesis that Board size has no significant effect on accounting conservatism. The study is in tandem with Sutathip, Nuchjaree and Sungworn (2020) On the overall, the result shows that BDIND has a significant impact on accounting conservatism and this is persistent across all three measures of accounting conservatism used in the study. Therefore, the study rejects the null hypothesis that Board independence has no significant effect on accounting conservatism. The finding is in tandem with El-habashy (2019), Ain, Agus, Kiswanto and Indra (2020) but is in contrast with Noor and Kamarul (2014). On the overall, the result shows that BGD has a significant impact on accounting conservatism particularly, for accrual based indicators. Therefore, the study rejects the null hypothesis that Board gender diversity has no significant effect on accounting conservatism. The finding is in tandem with Shiyanbola, Adegbie, Oyesola and Salawu (2019), Makhlouf, Al-Sufy and Almubaideen (2018) but in contrast Boussaid and Sougné (2015) .

## CONCLUSION

Conservatism has been a salient characteristic of accounting information and recent research into this area has documented a significant increase in conservatism in the last few decades. Several explanations are presented to justify the existence of conservatism and existing empirical evidence provides support for the contractual and litigation explanations, although taxation and regulation also contribute to the existence of conservatism. However, several criticisms have been levelled on the practice of accounting conservatism mainly because it is a very poor method to solve uncertainty in valuation and income, and it led to a distortion of accounting data and also result in a lack of comparability because there could be no uniform standards for its implementation. Furthermore, conservatism results in lower quality earnings due to the understatement of income or assets n in a misunderstanding of current income or assets and led to inaccurate accounting data. Therefore, this study is motivated provide an understanding of the nexus between corporate governance and accounting conservatism. This study adopts a multi-perspective approach to accounting conservatism incorporating the income statement conservatism, statement of financial position conservatism and accruals conservatism. The findings of the study reveals that BDS has a significant impact on accounting conservatism particularly for MTB and income statement based indicators of accounting conservatism. **Also,** BDIND has a significant impact on accounting conservatism and this is persistent across all three measures of accounting conservatism used in the study. BGD has a significant impact on accounting conservatism particularly, for accrual based indicators. In the light of the study findings, the following recommendations are suggested; Firstly, the study recommends the need for corporate boards to reflect and represent all significant stakeholder interests so that board decisions will not be skewed unhealthily. Given, that there are certain scenarios where it is less risky for companies to be conservative and may be in the best interest of the organisation, it is possible that boards that show less capacity for heterogeneity in opinions and views can over-stretch the justifications for conservatism to actually become a tool for distortions of accounting information and reducing earnings quality. Hence, it is recommended that corporate boards must be balanced and represent diverse stakeholder interests.

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