

INVESTIGATING THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRINCIPLES AND ACCOUNTING CONSERVATISM FOR COMPANIES LISTED ON SAUDI STOCK EXCHANGE

Ahmed Rajab Abdul-Malik

College of Business Administration, King Faisal University, KSA

ABSTRACT: *In view of the global and local financial collapses and their role in shaking the investors' confidence in the published financial reports, the accounting literature has moved to accounting conservatism as one of the most important accounting policies. Due to the opportunistic use of the administration of this policy and the low level of accounting conservatism of Saudi corporates, literature attempted to find a mechanism that can help reduce such behavior. It resulted in corporate governance principles and the ability to use accounting methods leading to the use of accounting conservatism in the published financial reports. Therefore, the present study is significant because there is not a study in the Saudi accounting literature that investigated this relationship. It aims to investigate the relationship between corporate governance principles (shareholders' equity, transparency and disclosure, board independence, audit committee, and stakeholders) and accounting conservatism. It also aims to find out whether it is positive or negative. Accordingly, it tested a main hypothesis that there is no statistically significant correlation between corporate governance principles and accounting conservatism. It concluded that there is a statistically significant correlation between all corporate governance principles and accounting conservatism for all companies under investigation. It recommends that decision makers in the Saudi Stock Exchange shall enforce applying corporate governance principles due to their positive impact on the integrity of the published financial reports.*

KEYWORDS: Corporate Governance Principles, Accounting Conservatism, Saudi Stock Exchange

INTRODUCTION

Recently, accounting literature has been increasingly interested in accounting conservatism as a result of the global financial collapses in many financial markets that were mainly caused by the absence of accounting conservatism in financial reporting. It is a mechanism of limiting opportunistic behaviors of the administration. Therefore, the dissemination of this phenomenon means earnings management. This concept is widened to involve a set of different accounting practices, including the generally accepted accounting principles (GAAP) representing neutral practices, conservative ones, and arbitrary accounting practices of manipulation and fraudulent financial reporting. Consequently, violating accounting conservatism causes many companies bankruptcy. Hence, controlling authorities were interested in applying corporate governance as a means to face non-conservative practices and activate the conservative ones. The current study aimed to investigate the relationship between corporate governance principles and accounting conservatism to benefit from the published financial reports.

LITERATURE REVIEW

The Relationship between Governance & Accounting Conservatism

The relationship between governance and accounting conservatism was tackled by many authors. They concluded that the effective governance causes great conservatism in the accounting policies (Elsahly, 2009; Shaheen, 2011; Leventis et al., 2013; Artiach and Clarkson, 2013; Boubaker, 2014; Callen et al., 2014; Futing, 2015; Caskey and Laux, 2015; Abbas, 2015; Maali and Anis, 2015).

The Relationship between Transparency and Disclosure and Accounting Conservatism

A group of studies agreed that there is a positive relationship between transparency and disclosure and accounting conservatism by preventing the fraud of the administration in the financial statements (Muhammad, 2014; Hamdan, 2012; Judson and Volker, 2015; Elebary, 2012; Chen and Zhu, 2013).

The Relationship between Shareholders' Equity and Accounting Conservatism

According to Kaehaly and Kerrouche (2013), there is a relationship between shareholders' equity and accounting conservatism because corporate governance plays an effective role through this mechanism to affect accounting conservatism.

The Relationship between Board Independence and Accounting Conservatism

Alorfully (2012) concluded that board independence was one of the factors that caused the existence and continuity of accounting conservatism.

The Relationship between Stakeholders and Accounting Conservatism

Some studies concluded that it is important to define stakeholders. Such definition is reflected in the sound practice of accounting conservatism. In addition, governance and the control of stakeholders cause the high level of accounting conservatism (see Abubakr, 2011; Shaheen, 2011; Mashhadany and Hamid, 2014; Yun et al., 2015).

The Relationship between audit committee and Accounting Conservatism

According to Al-Sinawi et al. (2015), there is a positive relationship between audit committee an accounting conservatism.

Defining and Measuring the Theoretical Framework of Accounting Conservatism

A group of studies contributed to formulate a set of theoretical concepts and terms, e.g. conservatism and governance, principles of governance, and conditional and unconditional conservatism (see Francis et al., 2013; Chan and Hsu, 2013; Hamid and Mansur, 2015; Yaling, 2015; Adam and Gopal, 2008; Souhei, 2015; Watts, 2003; Khalid, 2015).

COMMENTING ON LITERATURE

Literature revealed that there is a relationship between accounting conservatism, disclosure and transparency. Additionally, there is a relationship between audit committees and

accounting conservatism. There is also a relationship among shareholders' equity, stakeholders, and board independence. Although, such studies did not reveal the strength of this relation, they formed a theoretical background of the concepts of accounting conservatism and governance that were used to define the study's problems and hypothesis clearly. In other words, literature benefited in:

1. Identifying the various forms of measuring the level of accounting conservatism.
2. Consolidating the theoretical frame of accounting conservatism.
3. Comparing their results to those of the current study.
4. Some studies tackled the relationships among the variables of the current study, as follows:
 - The relationship between governance and accounting conservatism
 - The relationship between shareholders' equity and accounting conservatism
 - The relationship between transparency and disclosure and accounting conservatism
 - The relationship between board independence and accounting conservatism
 - The relationship between audit committee and accounting conservatism
 - The relationship between stakeholders and accounting conservatism

It is a significant study because:

1. No study in literature illustrated the identity of Saudi companies that practiced accounting conservatism and corporate governance and their relationship.
2. To the author's knowledge, it is the first study in KSA that investigates the relationship between the independent variables of the study (i.e. shareholders' equity, disclosure and transparency, board independence, audit committee, and stakeholders) and the dependent one (i.e. accounting conservatism).
3. It used the ratio of market to book as an index of accounting conservatism to define its sample.
4. It adopted a scale of 30 items (under 5 key factors) to measure governance principles to match the guide of governance rules in Saudi Arabia that is used in identifying the entity of companies that apply or those that do not apply governance.
5. It uses (non)financial published data of the companies under study that are listed on the Saudi Stock Exchange as well as the data obtained from the questionnaire.

Statement of the Problem

Most previous studies agree that companies' administration manipulated the flexibility allowed by accounting principles in accomplishing their objectives rather than those of stakeholders and in avoiding accounting conservatism policy. Consequently, a tool should be looked for to control administration and to create balance between the various parties. The study argues that the most appropriate tool is corporate governance. Accordingly, the study

attempts to answer the following major question: Is there a statistically significant correlation between the various principles of corporate governance and accounting conservatism in the Saudi partnership companies? Because of the diversity of corporate governance principles, this question is further subdivided into:

1. Is there a relationship between disclosure and transparency and accounting conservatism?
2. Is there a relationship between shareholders' equity and accounting conservatism?
3. Is there a relationship between board independence and accounting conservatism?
4. Is there a relationship between stakeholders and accounting conservatism?
5. Is there a relationship between audit committees and accounting conservatism?

Objectives

The study mainly aims to:

1. Formulate the theoretical aspects related to accounting conservatism, use them in understanding the relationship between governance and accounting conservatism, and determine how far the Saudi exchange community needs to understand the nature of this relationship.
2. Identify the identity of companies that practice and do not practice accounting conservatism as well as those applying and not applying governance principles. Then, their relationship is tested.
3. Investigate the relationship between governance principles and accounting conservatism in the Saudi partnership companies.
4. Investigate whether the principles that characterize governance reveal the correlation between the need to apply conservative accounting policies.

Significance

Scientific Significance

It is a scientifically significant study because:

1. Accounting literature did not tend to investigate the Saudi companies that practice or do not practice accounting conservatism and the ones that apply or do not apply governance.
2. Some accounting studies tackled the relationship between governance principles and accounting conservatism in environments that differ from the Saudi one. Thus, the study attempts to investigate the relationship between governance principles and accounting conservatism in this environment.
3. It matches the interests of contemporary accounting literature regarding corporate governance principles and their role in accounting conservatism and tackling the issues of financial reporting quality as the scientific research since the beginning of

the 1990s greatly focused on governance and its role in accounting conservatism in the stock exchanges.

Practical Significance

It is a practically significant study because:

1. It is an attempt to provide a proof on the availability of corporate governance principles in the Saudi partnership companies and their role in following accounting conservatism principles as well as drawing the attention of accounting policy makers regarding the control of such policies. In addition, it highlights the significant role of applying such policies to financial statements by the companies listed on the Saudi Stock Exchange and their relation to applying governance principles.
2. The level of conservatism in the published financial reports of the Saudi partnership companies is high and is reflected on their quality. In turn, the users of such reports will benefit from making sound decisions and there may be positive impacts on the activity of the Saudi Stock Exchange.

Variables

The study adopts a set of independent variables of corporate governance principles (i.e. transparency and disclosure, shareholders' equity, board independence, stakeholders, and audit committee) and the dependent variable (i.e. accounting conservatism). Hypotheses are tested by measuring these variables.

METHODOLOGY

To achieve its objectives, the study makes use of:

Theoretical Part

It is based on the deductive approach by analyzing literature to formulate the theoretical aspect of the study.

Practical Part

A field study is conducted on the Saudi partnership companies by utilizing the deductive approach to identify the relationship between the dependent variable (i.e. degree of accounting conservatism) and the independent one (corporate governance principles) utilizing a set of statistical hypotheses. It aims to investigate the relationship between corporate governance principles and accounting conservatism. Thus, it aims to test the following major hypothesis "there is no a statistically significant correlation between corporate governance principles and accounting conservatism".

Furthermore, five principles of corporate governance (the dependent variables), i.e. transparency and disclosure, shareholders' equity, board independence, stakeholders, and audit committee and accounting conservatism (the independent variable) are tested. Accordingly, the following minor hypotheses are tested:

1. There is no a statistically significant correlation among transparency and disclosure and accounting conservatism.
2. There is no a statistically significant correlation between shareholders' equity and accounting conservatism.
3. There is no a statistically significant correlation between board independence and accounting conservatism.
4. There is no a statistically significant correlation between stakeholders and accounting conservatism.
5. There is no a statistically significant correlation between audit committee and accounting conservatism.

Theoretical Framework

Accounting conservatism is the possibility of decreasing the book value of assets than the market ones on the long term (Abo elkheer, 2008). Thus, accounting the historical cost is conservative. According to the appendix of concepts issued by Financial Accounting Standard Board within the project of the intellectual framework of financial accounting, accounting conservatism is a means of handling the cases of uncertainty that faces the company's administration. It is believed that the long period of accounting conservatism leads to a kind of agreement on its definition as taking into account the potential losses rather than the potential profits on all accounting factors causing the decrease of book value of assets than their market value.

Types of Accounting conservatism: There are two types of conservatism. First, conditional conservatism that depends on predicting certain actions such as cost policy or net realizable value, as mentioned in the international accounting standard no. 2. Net realizable value is the price estimated for sale in the context of normal activity from which the estimated costing for fulfilling and the required costs to complete the process are subtracted. The cost of stock may be non-refundable if it is wasted, degraded, or has low selling price. The same may be applied if the estimated costing for fulfillment or the targeted cost for completing sale are high. Additionally, decreasing the value of the stock to the net realizable value that is less than the agreed upon one from the perspective of not showing assets with a greater value than the expected one than that of sale or use. Estimations of the net realizable value depends on the most documented and available proofs on the value that is expected to be achieved of goods at the time of estimation. Estimations of the net realizable value should also take into account the purpose of having the stock.

For example, the net realizable value of the quantity of the stock is reserved to pay off a fixed price contract or the service contract that depends on its cost. If the sale contract covers a part of the reserved stock, the net realizable value for the rest of stock is based on the general sale cost. Allocations or potential requirements may be raised of the sale contracts if they cover part of the reserved stock or purchase contracts. They were tackled in standard 37. Thus, the stock value is decreased to the net realizable one for each individual item. In some circumstances, it is better to follow this based on collecting the similar or correlated items. It may happen in the case of items related to the same production line of similar purposes and uses that are produced and marketed in the same geographical area or that they cannot be practically evaluated independent from other items in the same production line.

Second, unconditional conservatism (Khalil, 2003) that is not limited to certain actions, e.g. the conservative accounting policies of fixed asset depreciation of accelerated depreciation, immediate recognition of research and development costs, following the historical cost of asset evaluation, and their consequences on decreasing the net value of assets. The study argues that the two types of accounting conservatism should be defined as each of them leads to the same result, i.e. decreasing profit.

Importance of Accounting Conservatism

The American Accounting Association discussed the importance of accounting conservatism to compensate for unethical accounting practices followed by the administration in reporting net assets (property rights). It reported that accounting conservatism differs from the accounting environment of the Western countries to that of the other countries. Furthermore, USA is one of the most conservative countries in financial reporting. It also affirmed that accounting conservatism protects the investors.

Governance

According to literature, governance is a set of contracting relationships among the administration, shareholders, and stakeholders through the methods used for the administration of the company and guiding its works to assure performance development, disclosure, transparency, maximizing the benefits of the shareholders on the long run, and considering the benefits of stakeholders.

Principles of Governance

Cadbury report (2002) covered a set of governance principles, the most significant of which are:

- Companies should form a number of committees to support the board of directors, e.g. internal audit, compensations, and appointment of the members of the board.
- The board of directors shall include at least three non-executive members.
- The chairman of board of directors shall be separated from the chairman of the executive administration.

The Organization for Economic Cooperation and Development also defined the key principles of corporate governance that match the variables of the current study:

- Protecting shareholders' equity
- Equity of shareholders
- Disclosure & transparency
- The role of stakeholders
- Responsibilities of the board of directors

Key Principles of Governance

- Risk management

- Providing appropriate control environment
- Disclosure & transparency
- Motivation of the administration

The Relationship between Governance and Accounting Conservatism:

Corporate governance is a factor that affects the degree of accounting conservatism. That is, having a sound and abiding governance system means more intervention and supervision on the part of shareholders and general assemblies on the board of directors and executive bodies to limit financial corruption and administrative deviation. Accordingly, it can be reported that the focus of corporate governance is the administration behavior in the company that attempts to decrease the level of administration's intervention in manipulating profit administration and avoiding accounting conservatism. Accordingly, it is believed that governance is positively related to accounting conservatism. That is, the higher corporate governance principles are, the more demand on applying a high level of accounting conservatism is required. However, the study cannot expect the relationship between these principles and accounting conservatism, whether it is strong, medium, or weak because the field study will reveal such relationship.

According to Darweesh (2007), to achieve a good level of accounting conservatism caused by corporate governance, the National Union of Companies Directors and Ernst Foundation made the following ten recommendations:

1. Thinking about adding independent external persons to bridge the gaps of experience and to assure more independent supervision on the decision making of the board of directors.
2. Thinking about all phases of institutional development in constituting a standing committee to review or another one to set salaries and nominations or all these committees in a greater form than all these topics.
3. Achieving balance between focusing on strategic planning and strong supervision on the key aspects, e.g. risk management, human resources, and circulation of the administrative offices.
4. Setting-up a mechanism by defining specializations and responsibilities required by the board of directors and making sure of obtaining them.
5. When looking for new members for the board of directors, fair, experienced, and those with strong communication should be added.
6. Setting guideline to work in the board of directors and making sure of allocating the required time by the members of the board of directors.
7. Increasing the degree of performance by increasing the number of meetings and the time allocated for meetings.
8. Focusing on information while focusing on the structure and working mechanism of the board of directors.

9. Focusing on defining a certain level as a benchmark of the ownership of the board's members of the institution's shares to achieve the greatest share of balance between their benefits and the benefits of the company and its owners.
10. Following the previous recommendations with a level of sensitivity that matches the maturity of the company and looking for better solutions to look for better appropriateness for the life cycle of the company.

By analyzing the recommendations, they are found to focus on a set of variables to achieve an adequate level of accounting conservatism, i.e. constituting an audit committee, the board independence, and ensuring shareholders' equity. They are the variables tested by the author and their relationship to accounting conservatism in the current study.

Field study

The field study aims to test the hypotheses by analyzing the data collected by the questionnaire. Accordingly, it is divided into:

Variables of the Study and Measurement

The study is based on a set of variables:

The dependent variable (i.e. accounting conservatism) that is measured by actual data in the financial statements from 2011 to 2015 by using the scale introduced by Givoly (2007) and Beaver and Ryan (2000). It is the percentage of market value of the net asset (rights of property) to the book one of the net asset (rights of property). The higher this percentage than one, the more conservatism it indicated. If it is less than one, it indicated the absence of conservatism in the published lists.

The independent variables are corporate governance principles (i.e. transparency and disclosure, shareholders' equity, board independence, stakeholders, and audit committee). They were measured using a set of items (mentioned in the appendixes) that reflect the relative importance played by these variables in affecting accounting conservatism. They were distributed on the five-point Likert scale and the manual collection of these variables from the annual reports of the board of companies.

Sample Selection

The population of the study covers the partnership companies listed on the Saudi Stock Exchange numbered (124) that belong to all sections with published reports from 2011 to 2015, except for banks and insurance companies because of their nature (see www.tdawul.com). Only 69 companies were selected with the following features:

1. Reports of the board of directors and governance as governance measure.
2. Calculating the percentage of market to book ratio as conservative measure.

Table (1) shows the population and sample of the study

Table (1) summary of the companies of the sample

Sector	No. of companies in the sample	Total number of companies in each sector	Percentage of representation in each sector
Petrochemicals	9	14	64.20%
Cement	10	14	71.50%
Retail	6	15	40%
Energy & Facilities	2	2	100.00%
Food Agriculture	10	20	50.00%
Tele-Communication	4	4	100.00%
Multiple Investment	6	7	85.71%
Industrial Investment	8	15	53.33%
Construction & Building	10	17	58.82%
Real Estate	2	8	25.00%
Development			
Transportation	1	5	20.00%
Media & Publishing	1	3	33.33%
Total	69	124	56%

Tools of the Study

Two tools were adopted. First, a questionnaire to collect the required data to test the (in)validity of the hypotheses. The five-point Likert scale was used to transform the descriptive perceptions to quantitative images. The questionnaire included (30) items representing the key principles of corporate governance and their detailed items. It was distributed to the participants as each company of the (69) ones received (10) questionnaires. Accordingly, they numbered (690) ones to investigate the most significant items that affect accounting conservatism. Second, the variables of governance were manually collected from the annual reports in the reports of the boards of companies (under investigation) in their databases.

Methods of Data Collection

E-mails and interviews were adopted in collecting data. questionnaires were distributed to the participants and they had enough time to complete them. Then, they were examined and analyzed to define valid responses, as shown in table (2).

Table (2) questionnaires were distributed to Sample and response

Category	No. of distributed questionnaires	No. of excluded questionnaires	No. of received questionnaires	No. of questionnaires valid for analysis	
				Number	Percentage of response
Administration	690	90	600	600	87%

Table (2) shows that the total percentage response was (87%) which was appropriate and can be adopted in conducting the statistical analysis.

Statistical Methods

Data were quantitatively analyzed using SPSS V.19 where the required and appropriate statistical tools were adopted, as follows:

1. Validity and reliability coefficients
2. Measures of central tendency represented by the arithmetic mean used to obtain the means of responses from the questionnaire; standard deviation that expression values dispersion from their arithmetic mean; and percentage of the arithmetic mean (relative importance) that means the arithmetic mean with the maximum value on Likert scale and is used to express the arithmetic mean with percentage. The item is acceptable if it scored more than (60%).
3. T-test that is used to test the hypothesis related to the arithmetic mean via SPSS V.19. Additionally, significance level (0.05) was adopted as a basis of accepting or refusing the hypothesis. The alternative hypothesis is accepted if it is less than or equal to (0.05) indicating a statistical relation. The null hypothesis is accepted and the alternative one is refused if t-value is greater than (0.05) indicating the lack of the statistically significant relation.
4. Correlation analysis of testing the relationship between the dependent variable (i.e. accounting conservatism) and the independent ones (i.e. transparency and disclosure, shareholders' equity, board independence, stakeholders, and audit committee).
5. Binomial test of the practices of accounting conservatism and governance in Saudi corporates, as shown in table (3).

Table (3) Results of Binomial Test

Sample	Years										Sig. level
	2011		2012		2013		2014		2015		
	NO. of observations	%									
Companies that practice accounting conservatism	40	58%	45	65%	59	86%	62	90%	65	94%	.015
Companies that do not practice accounting conservatism	29	42%	24	35%	10	14%	7	10%	4	6%	
Companies that do not apply governance	14	20%	7	10%	10	14%	9	13%	8	11%	.031
Companies that apply governance.	55	80%	62	90%	59	86%	60	87%	61	89%	

Source: Prepared by the author based on the statistical results

*Binomial (AE) 50%

Table (3) shows a description of the variable that reflects the percentage of market to book ratio as a conservatism scale. It also shows a description of (governance) variable that was manually collected from the annual reports of the reports of the board of companies (under

study) in their databases. It shows the high number of Saudi companies that practice accounting conservatism and those applying governance in the last years of the series.

Furthermore, Validity and reliability of the questionnaire were tested. Table (4) shows the result of applying Cronbach's alpha to measure reliability and internal consistency of the questionnaire. While Cronbach's alpha was (0.752), validity coefficient was (0.82) which was good because it is higher than the accepted percentage. In addition, Cronbach's alpha and validity coefficient of each item were higher than the accepted percentage (60%), as shown in table (4).

Table (4) Validity & Reliability Coefficients

No.	V a r i a b l e s	No. of items	Reliability coefficient (α)				V a l i d i t y						
1	Transparency & Disclosure	4	0	.	8	0	2	0	.	7	8	0	
2	Shareholders' equity	7	0	.	7	6	0	0	.	8	4	5	
3	board independence	1	2	0	.	7	8	0	0	.	8	1	5
4	S t a k e h o l d e r s	3	0	.	7	1	6	0	.	8	2	0	
5	A u d i t c o m m i t t e e	4	0	.	7	0	5	0	.	8	4	0	
Total		3	0	0	.	7	5	2	6	0	.	8	2

Table (5) shows the results of descriptive statistics of the study variables (accounting conservatism) and governance principles (transparency and disclosure, shareholders' equity, board independence, stakeholders, and audit committee).

Table (5) Results of descriptive statistics

Variable	2011		2012		2013		2014		2015	
	Mean	Std. Dev.								
Conservatism	1.999	2.257	1.657	0.800	1.895	0.983	2.579	1.394	2.680	2.350
Transparency	.785	.069	0.788	0.068	0.796	0.066	0.794	0.063	0.794	0.067
Shareholders' equity	.944	5.394	1.107	7.796	0.121	0.717	0.902	5.409	0.952	0.080
Stakeholders	.766	1.047	0.212	0.297	0.272	12.27	0.196	0.379	0.135	0.831
Board independence	9.213	1.014	9.323	0.903	9.451	1.075	9.404	0.861	9.448	0.128
Audit committee	3.402	2.572	1.984	1.4205	3.196	2.567	2.986	1.324	3.526	1.511

Source: Prepared by the author based on the statistical results

Table (5) shows the high level of accounting conservatism over the years of analysis. That is, the values of the companies' means were higher than one; they were (1.999) in 2011 and decreased by (17%) in 2012. Over the years of analysis, the values of accounting conservatism in the companies increased to (2.680) in 2015. This indicated the commitment of companies over this period to accounting conservatism practices to increase trustworthiness of the financial statements.

Additionally, the means of disclosure and transparency were high over the years of study to reach (79%), indicating the commitment of the Saudi companies to the requirements of

disclosure and publishing according to the instructions of Saudi Stock Exchange and Saudi Arabian Monetary Authority. This is the case with the other variables, except stakeholders that was (0.766) at the beginning of analysis then decreased in 2015 to (0.135).

Results of Test Hypotheses

The author displays the results of the field study and hypotheses testing using the aforementioned statistical methods.

Result of the major hypothesis that states that "there is no a statistically significant correlation between corporate governance principles and accounting conservatism." Therefore, the minor ones are tested first.

The first minor hypothesis states that "there is no a statistically significant correlation between transparency and disclosure and accounting conservatism". Table (6) shows the result of testing this hypothesis

Table (6) Result of testing the first minor hypothesis

Correlation	Statistics	Transparency & disclosure
Accounting conservatism	Correlation coefficient	0.642
	Significance level	0.001
	Number	69

Table (6) shows that correlation coefficient was (0.642) and the significance level was (0.001). By comparing them to the hypothetical significance level (0.05), it is found that the significance level is less than the hypothetical one. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, there is a statistically significant medium correlation between transparency and disclosure and accounting conservatism in the Saudi partnership companies. Consequently, this result agrees with Sabri (2004) and Khlid et al. (2015) arguing that when companies have a high level of transparency and disclosure, the accounting policies they follow are conservative in estimating such policies.

The second minor hypothesis states that "there is no a statistically significant correlation between shareholders' equity and accounting conservatism". Table (7) shows the result of testing this hypothesis

Table (7) Result of testing the second minor hypothesis

Correlation	Statistics	Shareholders' equity
Accounting conservatism	Correlation coefficient	0.912
	Significance level	0.048
	Number	69

Table (7) shows that correlation coefficient was (0.912) and the significance level was (0.048). By comparing them to the hypothetical significance level (0.05), it is found that the significance level is less than the hypothetical one. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, there is a statistically significant medium correlation between shareholders' equity and accounting conservatism in the Saudi partnership

companies. This result agrees with Marciukaityte (2006) that investors prefer the conservative accounting policies.

The third minor hypothesis states that "there is no a statistically significant correlation between board independence and accounting conservatism". Table (8) shows the result of testing this hypothesis

Table (8) Result of testing the third minor hypothesis

Correlation	Statistics	Board independence
Accounting conservatism	Correlation coefficient	0.535
	Significance level	0.000
	Number	69

Table (8) shows that correlation coefficient was (0.535) and the significance level was (0.000). By comparing them to the hypothetical significance level (0.05), it is found that the significance level is less than the hypothetical one. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, there is a statistically significant medium correlation between board independence and accounting conservatism in the Saudi partnership companies. This result agrees with Ahmed and Duellman (2007) arguing that when companies have a level of board independence, they follow conservative accounting policies.

The fourth minor hypothesis states that "there is no a statistically significant correlation between stakeholders and accounting conservatism". Table (9) shows the result of testing this hypothesis

Table (9) Result of testing the fourth minor hypothesis

Correlation	Statistics	Stakeholders
Accounting conservatism	Correlation coefficient	0.108
	Significance level	0.007
	Number	69

Table (9) shows that correlation coefficient was (0.108) and the significance level was (0.007). By comparing them to the hypothetical significance level (0.05), it is found that the significance level is less than the hypothetical one. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, there is a statistically significant medium correlation between stakeholders and accounting conservatism in the Saudi partnership companies. In other words, "stakeholders" variable represented by the percentage of ownership with other companies, their names and transactions with these stakeholders are weakly interested in following conservative accounting policies by the company. That is, accounting conservatism protects debtors and shareholders' equity. This result agrees with Shaheen (2012).this means that applying conservatism policies is not affected by stakeholders relationships.

The *fifth minor hypothesis* states that "there is no a statistically significant correlation between audit committee and accounting conservatism". Table (10) shows the result of testing this hypothesis.

Table (10) Result of testing the fifth minor hypothesis

Correlation	Statistics	Audit committee
Accounting conservatism	Correlation coefficient	0.855
	Significance level	0.000
	Number	69

Table (10) shows that the correlation coefficient was (0.855) and the significance level was (0.000). By comparing them to the hypothetical significance level (0.05), it is found that the significance level is less than the hypothetical one. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, there is a statistically significant strong correlation between audit committee and accounting conservatism in the Saudi partnership companies. This result agrees with Krishman and Visvamathan (2008) and Mahdi and Sina (2015) that argue that there is a positive relationship between the independence of audit committee and accounting conservatism in the company. This could be attributed to the fact that having strong audit committees and experienced auditor help accounting conservatism.

Accordingly, the minor hypotheses lead to the result of the major one that there is correlation with varying degrees between corporate governance principles and accounting conservatism in the Saudi partnership companies.

RESULTS AND DISCUSSION

- 1- Accounting conservatism is one of the mechanisms that were used to reduce conflict between management and stakeholders and to create balance of interests.
- 2- It decreases asymmetric information and it achieved a high degree of transparency in financial reporting.
- 3- The Saudi partnership companies achieve a high degree of governance and accounting conservatism if compared to other Arab counties.
- 4- The companies that apply governance also apply conservative policies. The most significant principles they follow are: Large board of directors, board independence, independent audit committees, experience of the auditor, separation of the chairman of the board of directors from the general manager of the company, and the high level of transparency and disclosure.
- 5- Refusing the major null hypothesis and accepting the alternative one. That is, there is a positive correlation in varying degrees (from weak to strong) between corporate governance principles and accounting conservatism.
- 6- Refusing the first minor hypothesis and accepting the alternative one. That is, there is a medium correlation between transparency and disclosure and accounting conservatism.

- 7- Refusing the second minor hypothesis and accepting the alternative one. That is, there is a strong correlation between shareholders' equity and accounting conservatism.
- 8- Refusing the third minor hypothesis and accepting the alternative one. That is, there is a medium correlation between board independence and accounting conservatism.
- 9- Refusing the fourth minor hypothesis and accepting the alternative one. That is, there is a weak correlation between stakeholders and accounting conservatism.
- 10- Refusing the fifth minor hypothesis and accepting the alternative one. That is, there is a strong correlation between audit committee and accounting conservatism.
- 11- Accordingly, there is a positive impact of governance on accounting conservatism and disclosure in the Saudi Stock Exchange. This, in turn, affects the ability of financial reporting to achieve transparency and the features of information quality.

The following recommendations are made:

- 1- Professional organizations and authors should conduct more studies to measure accounting conservatism level in the Saudi market, investigate the positive and negative results of accounting conservatism and limiting its negative ones, and compare it to the requirements of the international financial reporting standards, especially after the interest in such standards in Saudi Arabia from 2017.
- 2- Professional organizations should set clear instructions and rules on the applications of accounting conservatism in the accounting practices to be followed by the Saudi companies to limit fraud in accounting.
- 3- Companies should consolidate and activate governance principles due to their positive impact in limiting accounting conservatism in the Saudi partnership companies.

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APPENDIX

No.	Items	Importance				
		Very important	Important	Neutral	Unimportant	Very unimportant
1	Key investors in the company					
2	Names of the investors who own more than (10%) of the company shares					
3	Names of the company's employees and those who own shares in the company.					
4	Schedule of the meetings of the general assembly of investors					
5	Topics to be discussed in the meetings					
6	Proposals submitted in the meetings					
7	Extraordinary meetings					
8	Name of the chairman of board of directors					
9	Details of the chairman of board of directors					
10	Names of the members of the board of directors					
11	Executive members of the board of directors					
12	Responsibilities of the board of directors					
13	Affiliate committees					
14	Rewards of the members of the board of directors					
15	Rewards of each member of the board of directors					
16	Schedule of the meetings of the board of directors					
17	Plans of the board of directors towards dividends					
20	Predictions of the administration					

	of potential profits					
21	Predictions of the administration of sales					
22	Investment plans to be implemented over the next years					
23	Disclosure of the followed accounting policies and consistency of using this policy					
24	Percentage of ownership with other companies					
25	Names of the competent bodies					
26	Percentage of dealing with these bodies					
27	Members of the audit committee					
28	Compensation fees					
29	Report of the committee attached to the lists illustrating the level of accounting conservatism used through the applied accounting policies					
30	There is a job of internal audit					

Appendix (2) Elements of measuring the independent variables

Independent variable	Measurement elements	Independent variable	Measurement elements
Shareholders' equity	<ol style="list-style-type: none"> 1. Key investors in the company 2. Names of the investors who own more than (10%) of the company shares 3. Names of the company's employees and those who own shares in the company. 4. Schedule of the meetings of the general assembly of investors 5. Topics to be discussed in the meetings 6. Proposals submitted in the meetings 	Board of directors	<ol style="list-style-type: none"> 1. Name of the chairman of board of directors 2. Details of the chairman of board of directors 3. Names of the members of the board of directors 4. Executive members of the board of directors 5. Responsibilities of the board of directors 6. Affiliate committees 7. Rewards of the members of the board of directors 8. Rewards of each member of the board of directors

	7. Extraordinary meetings		<ul style="list-style-type: none"> 9. Schedule of the meetings of the board of directors 10. Plans of the board of directors towards dividends 11. Training programs for the board of directors 12. No. of shares owned by the members of the board of directors
Transparency & Disclosure	<ul style="list-style-type: none"> 1. Predictions of the administration of potential profits 2. Predictions of the administration of sales 3. Investment plans to be implemented over the next years 4. Disclosure of the followed accounting policies and consistency of using this policy 	Stakeholders	<ul style="list-style-type: none"> 1. Percentage of ownership with other companies 2. Names of the competent bodies 3. Percentage of dealing with these bodies
		Audit committee	<ul style="list-style-type: none"> 1. Members of the audit committee 2. Report of the committee attached to the lists illustrating the level of accounting conservatism used through the applied accounting policies 3. Compensation fees 4. There is a job of internal audit