

# Corporate Governance and Accounting Conservatism of Quoted Non-Financial Firms in Nigeria

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## Abstract

This study investigates the impact of some corporate governance attributes on accounting conservatism in Nigeria. The study covers the period from 2005 to 2020 of 75 non-financial firms listed on the floor of the Nigerian Exchange Group (NXG). The results of the generalized method of moments (GMM) reveal that while four of the variables board size (BODS), managerial ownership (MOWN), audit committee size (ACS) and number of foreign directors (NFODIR) are positively significant with accounting conservatism; two of the variables chief executive officer with military experience (CEOME) and board independence (BODI) are negatively significant with it but board gender diversity (BGDIV) is insignificant. Again, while the Big4 as well as the number of foreign directors (NFODIR) are positively significant; foreign income (FINCOME) as well as the industry (IDUM) and yearly (YDUM) dummy variables are positively insignificant. The study makes some recommendations such as management should maintain or increase the present level of board size, managerial ownership, audit committee size and the number of foreigners in the board since these variables allowed management to stick to prudence in financial reporting for the period under review.

**Keywords:** Corporate Governance, Accounting Conservatism, Quoted Non-Financial Firms, Nigeria.

## 1.0 Introduction

Financial statements, which are essential medium of revealing how well firms are doing, are produced and displayed by all commercial organizations. In order to demonstrate accountability to interested stakeholders including shareholders, creditors, investors, managers, and the government, to name a few, management uses these financial statements (Egbadju et al., 2023). This means that because financial statements are summaries of all business transactions as well as other events, it is expected that the accounting information they contain will be very helpful to all stakeholders in helping them make business decisions in a way that is effective, economical, and efficient (Egbadju & Odey, 2023). The integrity of financial reporting will surely have a substantial impact on the decisions made by investors as maximizing wealth is their main objective. Enhancing performance and value is the overarching objective of corporate management in order to increase shareholder wealth. Financial performance provides a useful assessment of how management has used its material, financial, and natural resources. It describes how effectively a company's management can meet the various requirements and preferences of its stakeholders. In the same way that the company's stockholders, who are also its primary owners or major proprietors, want to raise more money, the interests of other stakeholder groups, such as management, employees, and creditors, must also be safeguarded and advanced. Iqbal et al. (2019) assert that the primary goal of financial reporting is to guarantee that the financial data of a reporting company is accessible to both present and potential lenders, investors, and other stakeholders so that they may make educated decisions regarding the resources they contributed. Financial reporting is offered to make sure that crucial information is made available to investors; for profitability quality, according to Munjal et al. (2021), is influenced by a number of factors. Thus, the earnings component is financial information's most important component and a crucial tool for decision-making.

Accounting conservatism is currently acknowledged as a topic of interest for academics who are striving to investigate its impact on many other accounting rules because its application is linked to uncertainty. A company's decision to employ accounting conservatism has a substantial impact on the financial statements because it relates to the accountant's subjective opinion throughout the estimation process. Studies have revealed that some accountants follow the accounting conservatism mindset, which places an emphasis on caution and prudence. Li (2020) claims that several countries have been using asymmetric timeliness accounting procedures (conservatism) for long years in their accounting standards. Conservatism is described as "anticipate no profits but anticipate all losses" by Bliss (1924) as cited in Basu (1997). This is related to the tendency of accountants to demand more proof before classifying "good news" as wins than before classifying "bad news" as losses (Basu, 1997). In other words, positive news should be validated differently than negative news, which should be validated as losses (Watts, 2003; Guay & Verrecchia, 2006). Due to the fact that different businesses have different accounting procedures and rules and that accountants are required to give their financial reports honestly, fairly, objectively, and impartially in compliance with those practices, numerous accounting metrics are used in situations of doubt and uncertainty.

The word corporation is derived from the Latin *corpus*, which meaning "body of people," and when combined with the concept of governance, it suggests the use of authority or ownership for the purpose of profit or value maximization (Caminis, 2019). The agency problem that resulted from the separation of ownership and control led to the establishment of corporate procedures by the owners in the form of general norms and principles to control the behavior of managers and other stakeholders. The management team oversees the activities of the company on behalf of the owners or shareholders, and the boards of directors' decisions or inactions have an impact on the corporation's profits quality, according to Ogaluzor and Chukwu (2022). Corporate governance is a type of structures that establishes the ties between the owners and other participants in order to control and direct the business in institutional, regulatory, and other ways. That is, it depicts the relationship between the stakeholders of a company with regard to the rules and laws governing the company (Okoye & Ofoegbu, 2006).

Any organization's corporate governance structure plays a major role in preserving positive relationships with stakeholders and adding value to the business through reporting or disclosing items that are legally required to be included in financial statements of businesses; failure to do so could result in penalties from the appropriate authorities (Mainoma & Nasir, 2023). It makes it possible that the directors act in the best interests of the company as a whole and are held accountable to capital providers for the use of assets to further the company's objectives. That is, the essence of corporate Board of Directors' efficient oversight role consists of procedures that enable stakeholders to exert control over management for the best outcome, while also fostering ethical principles and entrepreneurial and strategic leadership (Razaq et al, 2023)

Although several studies have linked corporate governance with the problem of performance or tax avoidance, only very few have linked it with conservative practices. For examples, it was discovered by Lara et al (2007) that the stronger the boards, the more they use conditional conservative accounting. Nguyen et al. (2023); Arogundade and Ajibade (2023); Sabatini and Lasdi (2022), to mention but a few found conflicting results between corporate governance attributes and accounting conservatism. For as much as the results from previous studies have shown mixed outcomes, the main objective of this study is to investigate the impact which some corporate governance characteristics may have on the practices of conservative accounting in the financial statements of quoted non-financial firms in Nigeria. This study differs in several ways because it introduces some new variables, over longer periods for more

sample size. This study introduces two new corporate governance attributes- chief executive officer (CEO) with military experience and foreign directorship as well as foreign income as a new control variable which none to the best of my knowledge has used. It also covers a longer time period (2005 to 2020) than the other studies. With respect to the number of firms, it uses more seventy-five firms.

Following this introduction, the rest of the paper is divided into five sections with the literature review in section two, methodology in section three, discuss of results in section four and the fifth section concludes this paper.

## 2.0 Literature Review and Hypotheses Development

### *Agency Theory and Conditional Accounting Conservatism*

The two types of conservatism as defined and presented by Beaver and Ryan (2005) are the conditional conservatism and the unconditional conservatism. Conditional conservatism, also known as ex post conservatism or news dependent, is the idea that while book values are not recorded when things are going well (conservative conduct), they are quickly recorded when things are going badly. Unconditional conservatism, also known as ex ante conservatism or news independence, is the theory that expected unrecorded goodwill is produced by the accounting procedure that is decided upon at the time assets and liabilities are created (Ha, 2019).

The majority of research focuses on corporate governance as a conflict monitoring tool between management and shareholders. Nevertheless, corporate governance structures are not very responsive to stakeholder demands and are not optimally constructed to alleviate agency concerns (Richardson, 2006). There is no explicit recourse that shareholders can take against management expropriations, save than expensive shareholder lawsuits. Previous studies offer sufficient proof that conditional conservatism, or asymmetrically prompt loss recognition, protects against managerial opportunism (Watts, 2003; Beaver & Ryan, 2005; Satria et al, 2022). Because conditional conservatism requires more stringent verification standards for gains than for losses, it can lead to the recognition of losses before gains are realized and gains are not being recognized until after realization. Additionally, because conservative reporting is required, losses from overinvestment are less likely to be recognized later. Managers are discouraged from taking on negative net present value (NPV) projects because they know that future losses in cash flows will be recognized in the income statement earlier (Ha, 2019).

### *Empirical Literature*

Arogundade and Ajibade (2023) attempted a research study on the extent to which corporate governance has impacted accounting conservatism in Nigeria. Annual secondary panel data which covered the period 2012 to 2021 collected from the financial reports of 14 firms listed on the Nigerian Exchange Group (NGX) was used. The OLS regression results indicated that risk management committee, audit committee size and gender diversity was all insignificant with accounting conservatism represented by BASU (1997) and market to book (MTB). Nguyen et al. (2023) tested, in empirical research, the impact which ownership concentration has had on accounting conservatism in Vietnam. The study made use of sampled 165 Vietnamese listed companies for 11 years starting from 2007 to 2017 making a total of 1,815 firm-year observations. The results of the ordinary least squares (OLS) showed that board size (BS) and board independence (BI) positively and significantly influenced Givoly and Hayn (2000) accounting conservatism measurement, the largest shareholders negatively and significantly influenced it.

Sabatini and Lasdi (2022) undertook research to determine if there is any relationship between corporate governance and accounting conservatism in Indonesia. The researchers used annually sourced panel data collected over the period from 2017 to 2019 on 123 manufacturing firms quoted on the floor of the Indonesia Stock Exchange (IDX). The OLS regression results showed that managerial ownership and independent commissioners was positively significant with accounting conservatism.

Honarbaksh (2022) studied whether there is any relationship between corporate governance and accounting conservatism in Iran. The researchers used annual panel data collected over the period from 2010 to 2020 on 165 non-financial firms quoted on the floor of the Tehran Stock Exchange (TSE). The results of the OLS regression revealed that institutional ownership and board independence positively and significantly influenced accounting conservatism represented by the BASU (1997) measurement; CEO duality negatively and significantly impacted it while information asymmetry, audit committee independence, auditor tenure, auditor rotation, ownership concentration and board size were insignificant. Mrad (2022) carried out research on the extent to which corporate governance has impacted accounting conservatism in France. Secondarily sourced annual panel data which covered the period 2014 to 2019 collected from the financial reports of 60 French firms was used. The OLS regression results indicated that board size, CEO duality and ownership concentration were negatively and statistically significant; outside directors and the Big4 are positively significant while managerial ownership and state ownership were insignificant.

Chiedu et al. (2022a) researched on the extent to which corporate governance have affected accounting conservatism of quoted non-financial firms in Nigeria. Secondary data collected from annual reports of 75 quoted companies quoted on the floor of the NGX over the period from 2010 to 2019 was used. The OLS regression results showed that while board independence and gender diversity positively and significantly influenced accounting conservatism represented by Penman and Zhang (2002) market to book (MTB) and Givoly & Hyan (2000), board size negatively and significantly influenced them. Chiedu et al. (2022b) investigated the effect of ownership structure on accounting conservatism in Nigeria. Secondary data collected from annual reports of 75 quoted companies quoted on the floor of the NGX over the period from 2010 to 2019 was used. The OLS regression results showed that while managerial ownership positively and significantly influenced accounting conservatism represented by Penman and Zhang (2002) market to book (MTB); foreign ownership was insignificant.

Khan et al. (2022) carried out research to determine the effect of corporate governance on accounting conservatism in Pakistan. The study used annual secondary panel data obtained from 70 quoted firms covering the period 2009 to 2021. The OLS regression model results indicated that while board diversity, managerial ownership, board independence, board attendance and Institutional ownership had a positive and statistical impact on BASU accounting conservatism; foreign ownership was negatively significant with it. Satria et al. (2022), in this research, investigated the effect which corporate governance and political connections have had on accounting conservatism in Indonesia and Malaysia. Secondarily sourced panel data over the period from 2018 to 2021 obtained on 27 Indonesian and 26 Malaysian manufacturing firms quoted on their respective Stock Exchanges were used. The OLS regression results for both Indonesia and Malaysia showed that while managerial ownership and independent commissioners were positively insignificant with accounting conservatism, political connection was negatively significant with it.

Widijaya (2022) attempted an empirical examination of how corporate governance and accounting conservatism in Indonesia. Annual secondary panel data over the period from 2016 to 2020 obtained on

436 Indonesian manufacturing firms quoted on the Indonesia Stock Exchange was used. The OLS results showed that while board independence positively and significantly impacted Givoly & Hyan (2000) accounting conservatism, the Big4 and board size were insignificant. Quttainah and Almutairi (2018) attempted an empirical study of how corporate governance enhanced the practices of accounting conservatism of Islamic banks and non-Islamic banks in fifteen selected countries. The study used secondary panel data over the period from 1993 to 2015 obtained from 82 Islamic Banks and 82 Commercial Banks listed on the Bank Scope database making a total of 1,886 firm-year observations. The OLS regression results indicated that board size, board independence, board reputation, board tenure, board diversity age, board diversity gender was all positively significant with C\_SCORES accounting conservatism measurement including the following control variables bank size, growth, cashflow change.

Nasr and Ntim (n. d.) empirically tested whether corporate governance has affected accounting conservatism in Egypt. The study used secondary panel data over the period from 2011 to 2013 obtained from 67 companies making a total firm-years observation of 201. The OLS regression results indicated that there was a positive and significant relationship between board independence and Givoly and Hayn’s (2000) measure of accounting conservatism; Big4 and board size was negatively significant, while CEO-Chairman Separation was insignificant.

The study, therefore, hypothesizes that:

- H<sub>1</sub>: There is no significant relationship between board size and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>2</sub>: There is no significant relationship between board independence and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>3</sub>: There is no significant relationship between board gender diversity and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>4</sub>: There is no significant relationship between managerial ownership and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>5</sub>: There is no significant relationship between chief executive officer (CEO) military experience and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>6</sub>: There is no significant relationship between number of foreign directors and accounting conservatism of quoted non-financial firms in Nigeria.
- H<sub>7</sub>: There is no significant relationship between audit committee size and accounting conservatism of quoted non-financial firms in Nigeria.

### 3.0 Methodology

Using correlational research design, the study investigates the relationship between corporate governance and accounting conservatism of enterprises in Nigeria. The population of the study consists of 106 non-financial enterprises listed on the floor of the NGX. In order to conduct this study, secondary data from 75 out of 106 organizations' annual reports were gathered over a period of sixteen (16) years, from 2005 to 2020, totaling 1,200 observations.

**Table 1: Measurement and Definitions of Variables.**

Variables Names	Definitions	Variable Types	Measurements	Authorities
ACON	Accounting Conservatism	Dependent	See Section 3.2.1*	Chiedu et al. (2022)
ACON (-1)	One year lag of ACON	Instrumental	Preceding or Last year ACON	-

## Egbadju (2024). Corporate Governance and Accounting Conservatism of Quoted Non-Financial Firms in Nigeria.

BODS	Board size	Independent	Total number of directors on the board	Nguyen et al. (2023)
BODI	Board independence	Independent	Percentage (%) of independent or outside directors on the board	Nguyen et al. (2023)
BODIV	Board gender diversity	Independent	A board that has at least one female on it. It takes the value '1' if a female is there, otherwise '0'	Arogundade and Ajibade (2023)
MOWN	Managerial ownership	Independent	Proportion (%) of shares own by managers	Sabatini and Lasdi (2022)
CEOME	Chief Executive Officer (CEO) Military Experience	Independent	A dummy variable which equals '1' if the board has a CEO who was a former Army, Navy or Airforce officer, otherwise '0'	None used it of the literature reviewed in this study
NFODIR	Foreign Directors	Independent	Proportion (%) of directors who are foreigners	None used it of the literature reviewed in this study
ACS	Audit Committee Size	Independent	Total number of persons in audit committee	Arogundade and Ajibade (2023)
BIG4	The four biggest audit firms in the world (Deloitte & Touche; PwC; Ernst & Young; KPMG)	Control	A dummy variable which takes the value '1' if audited by one of the big4 auditors, otherwise '0'	Mrad (2022)
FINCOME	Foreign Income	Control	Income earned outside the shores of Nigeria	None used it of the literature reviewed in this study
YDUM	Year Fixed Effect Dummy	Control	A dummy variable which takes the value '1' for each year	-
IDUM	Industry Sector Fixed Effect Dummy	Control	A dummy variable which takes the value '1' for each industry	-

**Source:** Researcher's Computations from Extant Literature.

**Dependent Variable:** Givoly and Hyan (2000) used the non-operating negative accrual (NA) as a measure of conservatism. The quantity of negative accruals that are present over time in an entity's financial statement can be utilized as a stand-in for accounting conservatism. He contended that because earnings are frequently reported on an accrual basis, accounting conservatism uses accruals to delay the recognition of economic benefits and hasten the realization of economic losses. Therefore, timely loss recognition and gradual gain recognition will result in negative net accruals. The more caution there is, the higher the level of cumulative negative accruals. The NA is modeled as:

$$\frac{TACC - OPACC}{Total Assets} \times (-1)$$

Where:

TACC - Total Accruals (Earnings before extraordinary items - Operating Cash Flow)

OPACC - Operating Accruals ( $\Delta$ inventory +  $\Delta$ Receivables +  $\Delta$ Other current assets -  $\Delta$ payables -  $\Delta$ other current liabilities)

$\Delta$  = Change which means the difference between the values this year and last year.

**Model Specification**

The functional equation of accounting conservatism represented by the Givoly and Hyan (2000) to test the seven (7) hypotheses specified is stated as in equation 1:

$$ACON = f (BODS, BODI, BODIV, MOWN, CEOME, NFODIR, ACS) \dots\dots\dots (Eq1)$$

In this study, we used the Generalized Method of Moments (GMM) regression estimation technique. GMM is a dynamic panel or longitudinal data estimator that can effectively handle the dynamism in corporate finance in a globalized economic environment with firms and countries individual or specific effects. Generalized Method of Moments (GMM) regression estimation technique is a generic method for the estimation of statistical model parameters. The essence of using GMM for a dynamic panel data is to practically solve the problem of endogeneity bias which simultaneously tackles unobserved heterogeneity (Chung et al.,2018). GMM is designed to handle the problems of multicollinearity, heteroscedasticity and autocorrelation but especially second order correlation. Many studies in corporate finance which tries to explain causal-effect relationships often encounter difficulties in dealing with endogeneity and this can lead to inconsistent and biased parameter estimates (Wintoki et al., 2012) or we may not even get the right coefficient sign-positive or negative (Ketokivi & McIntosh, 2017), thereby resulting in misleading inferences, conclusions and interpretations (Li et al., 2021). The GMM model makes use of the lagged dependent variable as an instrument. The use of lagged dependent variable is, first, to eliminate autocorrelation in the residuals and, secondly, to capture the dynamism in panel data by controlling for endogeneity bias. By including the lagged value of the dependent variable, that is, GIVOLY<sub>it-1</sub>, due to unobserved heterogeneity transforms the static model to a dynamic one.

Including the lagged dependent variable to equation 1, we have equation 2 below:

$$GIVOLY_{it} = \beta_0 + \beta_1 GIVOLY_{it-1} + \beta_2 BODS_{it} + \beta_3 BODI_{it} + \beta_4 BODIV_{it} + \beta_5 MOWN_{it} + \beta_6 CEOME_{it} + \beta_7 NFODIR_{it} + \beta_8 ACS_{it} + \beta_9 BIG4_{it} + \beta_{10} FINCOME_{it} + \beta_{11} YDUM_{it} + \beta_{12} IDUM_{it} + \varepsilon_{it} \dots\dots\dots (Eq2)$$

Where the definitions are as stated in Table1 above.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}, \beta_{11}$  and  $\beta_{12}$  are the beta coefficients of the independent variables. From this study, we expect  $\beta_1$  to  $\beta_{12}$  to be greater than zero.

$\varepsilon_{it}$  = Error term.

This study adapted the model previously used by: Arogundade and Ajibade (2023); Nguyen et al. (2023) and Nguyen et al. (2023) but while they all used OLS regression method, this study uses the dynamic generalized method of moments (GMM).

**4.0 Results and Discussion**

**Table 2: Univariate Data Analyses (Descriptive Statistics)**

	BODS	BODI	BGDIV_	MOWN	CEOME	FINCOME	ACS	BIG4	NFODIR	IDUM	YDUM
Mean	8.69	6.28	0.10	1.10	0.11	214.	8.14	0.33	1.53	4.30	8.55
Median	9.00	6.00	0.10	0.05	0.00	0.00	9.00	0.00	0.00	4.00	9.00
Maximum	17.00	16.00	0.66	502.	4.00	5.78	9.00	1.00	8.00	9.00	16.00
Minimum	3.000	1.00	0.00	0.00	0.00	-263.	5.00	0.00	0.00	0.00	1.00
Std. Dev.	2.42	2.31	0.11	16.31	0.52	299	1.35	0.47	2.00	2.70	4.59

Skewness	0.51	0.95	1.03	26.42	6.07	16.02	-0.95	0.70	1.17	0.10	-0.01
Kurtosis	3.17	4.29	4.10	783.55	43.70	266.23	1.91	1.49	3.31	1.71	1.79
Jarque-Bera	52.51	256.	263.	293	8646	336.	230.	203.	267.	80.86	69.4
Probability	0.00	0.00	0.00	0.00	0.000	0.00	0.00	0.00	0.00	0.00	0.00
Sum	9998	7231	123.	1267.	135.	2.46	936	384.	1769.	4945.	9835.
Sum Sq. Dev.	6778	6165.	14.46	305	311.15	1.03	210	255.	4629.	8431.	24274.
Observations	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200

Source: Researcher's Computations (2023) Using EViews13 Software.

The statistics in Table 2 show that the mean values of the variables as well as the maximum values. Since the mean values are lower than the maximum values, it confirms that there are no outliers in our data.

### *Bivariate Data Analysis (Correlation Analysis)*

The correlation analyses among the variables are meant to first determine the association between each pair of the dependent and independent variables as well as among the explanatory variables. The degree of association may be weak (0.00 to 0.5), moderate (0.51 to 0.8) or high (0.81 and above). A very high association among the regressors poses a problem of multi-collinearity (Gujarati, 2003).

**Table 3: Covariance Correlation Analysis**

Covariance	BODS	BODI	BGDIV	MOWN	CEOME	FINCOME	ACS	BIG4	NFODIR	IDUM	YDUM
BODS	5.89										
	1.00										
BODI	4.47	5.36									
	0.79	1.00									
BGDIV	0.03	5.36	0.01								
	0.11	0.00	1.00								
MOWN	-1.36	-0.84	0.04	265.85							
	-0.03	-0.02	0.02	1.00							
CEOME	-0.05	-0.041	-0.00	-0.09	0.27						
	-0.05	-0.03	-0.03	-0.01	1.00						
FINCOME	-203.	-414.	627	-1135.	167.	8.96					
	-0.03	-0.06	0.02	-0.00	0.11	1.00					
ACS	1.11	0.71	0.01	0.71	-0.11	-39.	1.83				
	0.34	0.23	0.09	0.03	-0.15	-0.09	1.00				
BIG4	-0.08	-0.22	0.015	-0.28	-0.04	-529	0.158	0.22			
	-0.07	-0.20	0.28	-0.04	-0.15	-0.04	0.25	1.00			
NFODIR	2.18	1.83	-0.00	-1.41	-0.15	-275.	0.87	-0.06	4.03		
	0.45	0.39	-0.02	-0.04	-0.15	-0.05	0.32	-0.06	1.00		
IDUM	0.74	0.59	0.01	-2.01	0.16	127.	0.73	0.06	1.03	7.33	
	0.11	0.09	0.02	-0.05	0.11	0.02	0.19	0.04	0.19	1.00	
YDUM	0.02	-0.96	0.15	-4.98	-0.07	109	0.17	0.19	0.19	0.13	21.11
	0.00	-0.09	0.29	-0.07	-0.03	0.08	0.03	0.09	0.02	0.01	1.00

Source: Researcher's Computations (2023) Using EViews13 Software.

From Table 2 above, there is only one relationship that has a high degree of association among them. They are NFODIR with ACS (0.866730); All other associations are weak and this attest to the fact that there is no problem of multicollinearity among the variables.

### *Regression Models Estimation Results and Hypotheses Testing*

**Table 4: Regression Results (Dependent Variable: ACON)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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ACON (-1)	-0.424103	0.003851	-110.1410	0.0000
BODS	1.385790	0.398420	3.478213	0.0009
BODI	-1.217991	0.444819	-2.738173	0.0078
BGDIV_	-4.347408	4.684253	-0.928090	0.3564
MOWN	0.011040	0.002674	4.128139	0.0001
CEOME	-74.44521	33.48042	-2.223544	0.0293
FINCOME	8.63E-07	8.46E-07	1.020740	0.3107
ACS	4.371305	0.744630	5.870439	0.0000
BIG4	5.769204	1.945054	2.966089	0.0041
NFODIR	2.797924	0.632631	4.422681	0.0000
IDUM	25.31020	34.59918	0.731526	0.4668
YDUM	-0.315381	0.351782	-0.896523	0.3729
@LEV(@ISPERIOD("2005"))	-10.01794	0.704682	-14.21626	0.0000
@LEV(@ISPERIOD("2006"))	2.569133	0.915515	2.806216	0.0064
@LEV(@ISPERIOD("2007"))	-1.646999	0.626217	-2.630078	0.0104
@LEV(@ISPERIOD("2008"))	-0.107535	0.384723	-0.279513	0.7806
@LEV(@ISPERIOD("2009"))	6.998830	6.237063	1.122135	0.2655
@LEV(@ISPERIOD("2010"))	6.998830	6.237063	1.122135	0.2655
@LEV(@ISPERIOD("2011"))	1.244613	0.315216	3.948444	0.0002
@LEV(@ISPERIOD("2012"))	0.386536	0.383066	1.009057	0.3163
@LEV(@ISPERIOD("2013"))	0.449512	0.437106	1.028381	0.3072
@LEV(@ISPERIOD("2014"))	0.309474	0.415832	0.744228	0.4591
@LEV(@ISPERIOD("2015"))	-10.01794	0.704682	-14.21626	0.0000
@LEV(@ISPERIOD("2016"))	2.569133	0.915515	2.806216	0.0064
@LEV(@ISPERIOD("2017"))	-1.646999	0.626217	-2.630078	0.0104
@LEV(@ISPERIOD("2018"))	-0.107535	0.384723	-0.279513	0.7806
@LEV(@ISPERIOD("2019"))	6.998830	6.237063	1.122135	0.2655
@LEV(@ISPERIOD("2020"))	1.244613	0.315216	3.948444	0.0002
@LEV(@ISPERIOD("2013"))	0.386536	0.383066	1.009057	0.3163
@LEV(@ISPERIOD("2014"))	0.449512	0.437106	1.028381	0.3072
@LEV(@ISPERIOD("2015"))	0.309474	0.415832	0.744228	0.4591
@LEV(@ISPERIOD("2016"))	-1.083248	0.353137	-3.067496	0.0030
@LEV(@ISPERIOD("2017"))	8.373960	1.042377	8.033525	0.0000
@LEV(@ISPERIOD("2018"))	-3.001411	0.651293	-4.608390	0.0000
@LEV(@ISPERIOD("2019"))	-5.230379	1.247334	-4.193247	0.0001
@LEV(@ISPERIOD("2020"))	-1.511078	0.479715	-3.149951	0.0024

*Effects Specification*

Cross-section fixed (first differences)				
Period fixed (dummy variables)				
Mean dependent var	0.073892	S.D. dependent var	28.59625	
S.E. of regression	33.31564	Sum squared resid	1018918.	
J-statistic	54.95293	Instrument rank	74	
Prob(J-statistic)	0.146954			

**Source:** Researcher's Computations (2023) Using EViews13 Software.

**Discussion of the Regression Results.**

Table 4 above shows the regression estimation results of the relationship between corporate governance measurements (BODS, BODI, BODIV, MOWN, CEOME, NFODIR, ACS) as well as some control variables (BIG4, FINCOME) including fixed effect variables (IDUM, YDUM) and accounting conservatism of the 75 sampled firms. A look at the coefficient (-0.424103) of ACON (-1) shows that it is negatively significant (t-Statistics=-110.1410 and p= 0.0000) at the 1% levels of significance. This result

contradicts the extant literature that the dependent variable and its lag move in the same direction and must be significant (Egbadju & Jacob, 2022). The negative coefficient means that the current year conservative practice is not directly affected by previous period conservative practice and this is not a good sign at all. Again, since the p-value of Sargon statistic or J-Statistic (0.146954) is higher than the threshold of 5% and 10% or more suggested by Roodman (2009), our model is free from the problem of instruments proliferation. From the result above, all corporate governance mechanisms (BODS, BODI, MOWN, CEOME, NFODIR, ACS) statistically and significantly impacted accounting conservatism apart from BODIV which was insignificant.

Particularly, BODS relationship with ACON is positively significant with a coefficient of 1.385790, a t-Statistic of 3.478213 and a p-value of 0.0009 at the 1% levels of significance. This suggests that an increase in BODS will increase ACON. That is, the more members are added to the board, the more board members tend to be more conservative. The sign or direction as well as the size or magnitudes are in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between BODS and accounting conservatism. This result is in line with that of Nguyen et al. (2023) but contradicts those of Mrad (2022) and Honarbakhsh (2022).

BODI relationship with ACON is negatively significant with a coefficient of -1.217991, a t-Statistic of -2.738173 and a p-value of 0.0078 at the 1% levels of significance. This suggests that an increase in BODI will reduce ACON. That is, the more outside directors are added to the board, the more the board members tend to be less conservative. The sign or direction is contrary to our expectations but the size or magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between BODI and accounting conservatism. This result is not in line with any previous study but contradicts those of Nguyen et al. (2023) and Sabatini and Lasdi (2022).

MOWN relationship with ACON is positively significant with a coefficient of 0.011040, a t-Statistic of 4.128139 and a p-value of 0.0001 at the 1% levels of significance. This suggests that an increase in MOWN will increase ACON. That is, the more shareholdings' managers have, the more management tend to be more conservative. The sign or direction as well as the size or magnitudes are in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between MOWN and accounting conservatism. This result is in line with those of Sabatini and Lasdi (2022); Khan et al. (2022); Chiedu et al. (2022) and Satria et al. (2022) but contradicts that of Mrad (2022). CEOME relationship with ACON is negatively significant with a coefficient of -74.44521, a t-Statistic of -2.223544 and a p-value of 0.0293 at the 1% levels of significance. This suggests that an increase in CEOME will reduce ACON. That is, the more CEOME that are hired, the more management tend to be less conservative. The sign or direction is contrary to our expectations but the size or magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between CEOME and accounting conservatism. No previous study made used of this variable.

ACS relationship with ACON is positively significant with a coefficient of 4.371305, a t-Statistic of 5.870439 and a p-value of 0.0000 at the 1% levels of significance. This suggests that an increase in ACS will increase ACON. That is, the more members are added to the audit committee, the more management is constraint to be more conservative. The sign or direction as well as the size or magnitudes are in line

with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between ACS and accounting conservatism. This result is not in line with any previous study but contradicts that of Arogundade and Ajibade (2023).

NFODIR relationship with ACON is positively significant with a coefficient of 2.797924, a t-Statistic of 4.422681 and a p-value of 0.0000 at the 1% levels of significance. This suggests that an increase in NFODIR will increase ACON. That is, the more foreign members are added to the board, the more board members tend to be more conservative. The sign or direction as well as the size or magnitudes are in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between NFODIR and accounting conservatism. No previous study made used of this variable.

For the control variables, while the Big4 was positively significant; FINCOME as well as the industry and yearly dummy variables are positively insignificant.

***Additional Tests of Robustness.***

Where both the industry fixed effect and year fixed effect dummy variables are removed, the regression results in Table 4 above did not significantly differ from that of Table 5 below. This attest to the robustness of the fact that corporate governance has helped in improving accounting conservatism of firms for the period under consideration.

**Table 5: Method: Panel Generalized Method of Moments**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACON (-1)	-0.423801	0.003816	-111.0603	0.0000
BODS	1.263589	0.287429	4.396171	0.0000
BODI	-1.077592	0.298899	-3.605203	0.0006
BGDIV_	0.730271	2.888605	0.252811	0.8011
MOWN	0.013838	0.002578	5.367717	0.0000

CEOME	-87.77158	29.82082	-2.943299	0.0044
FINCOME	3.35E-07	9.61E-07	0.348992	0.7281
ACS	3.584621	0.702212	5.104757	0.0000
BIG4	5.751589	2.214542	2.597191	0.0114
NFODIR	2.906690	0.497160	5.846594	0.0000
@LEV(@ISPERIOD("2005"))	-11.91626	0.613056	-19.43746	0.0000
@LEV(@ISPERIOD("2006"))	2.696069	0.810147	3.327874	0.0014
@LEV(@ISPERIOD("2007"))	-1.436856	0.590422	-2.433608	0.0174
@LEV(@ISPERIOD("2008"))	-11.91626	0.613056	-19.43746	0.0000
@LEV(@ISPERIOD("2009"))	2.696069	0.810147	3.327874	0.0014
@LEV(@ISPERIOD("2010"))	-1.436856	0.590422	-2.433608	0.0174
@LEV(@ISPERIOD("2011"))	-0.539378	0.103565	-5.208126	0.0000
@LEV(@ISPERIOD("2012"))	11.76023	0.834965	14.08469	0.0000
@LEV(@ISPERIOD("2013"))	0.816762	0.191398	4.267349	0.0001
@LEV(@ISPERIOD("2014"))	0.083453	0.158701	0.525850	0.6006
@LEV(@ISPERIOD("2015"))	0.128436	0.166337	0.772145	0.4425
@LEV(@ISPERIOD("2016"))	-0.066908	0.157057	-0.426010	0.6714
@LEV(@ISPERIOD("2017"))	-1.326586	0.183166	-7.242527	0.0000
@LEV(@ISPERIOD("2018"))	7.883049	0.719379	10.95813	0.0000
@LEV(@ISPERIOD("2019"))	-3.556718	0.693799	-5.126438	0.0000
@LEV(@ISPERIOD("2020"))	-4.825994	1.202761	-4.012430	0.0001
@LEV(@ISPERIOD("2005"))	-1.737993	0.371053	-4.683943	0.0000
<i>Effects Specification</i>				
Cross-section fixed (first differences)				
Period fixed (dummy variables)				
Mean dependent var	0.074041	S.D. dependent var	28.56607	
S.E. of regression	27.57615	Sum squared resid	701129.2	
J-statistic	55.99168	Instrument rank	74	
Prob(J-statistic)	0.173119			

**Source:** Researcher's Computations (2023) Using EViews13 Software.

## 5.0 Conclusion and Recommendations

This study investigates the relationship between corporate governance and accounting conservatism of listed firms in Nigeria. Using secondary data over the period from 2005 to 2020 of 75 firms listed on the floor of the Nigerian Exchange Group (NXG). The generalized method of moments (GMM) results reveals that BODS, MOWN, ACS and NFODIR are positively significant with accounting conservatism; CEOME and BODI are negatively significant with accounting conservatism while BGDIV is insignificant. Again, while the Big4 as well as the number of foreign directors (NFODIR) are positively significant; foreign income as well as the industry and yearly dummy variables are positively insignificant.

Based on the results above, the study recommends that:

- i. Management should maintain or increase the present level of board size, managerial ownership, audit committee size and the number of foreigners in the board since these variables allowed management to stick to prudence in financial reporting for the period under review.
- ii. Investigate the reason CEO with military experience and outside directors could not help in conservative book keeping since they are negatively related to GIVOLY.
- iii. Investigate the reason female presence in the board could not help in conservative book keeping since it is insignificant.

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