FULafia International Journal of Business and Allied Studies (FIJBAS)
VOLUME 2 ISSUE 1 2024
PRINT ISSN: 1116-5294, ONLINE ISSN: 1116-5251 | https://fijbas.org

EFFECT OF BOARD CHARACTERISTICS ON CONDITIONAL ACCOUNTING CONSERVATISM OF LISTED INDUSTRIAL COMPANIES IN NIGERIA

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Abstract

The separation of ownership from management and the existence of creditors results in information asymmetrical among stakeholders of the firm. Corporate governance was put in place to mitigate corporate scandals as well as align the interest of the shareholders with that of the managers of an organization. This study evaluates the effect of board characteristics on conditional conservative accounting of listed industrial companies in Nigeria from 2013-2022. The study employed longitudinal research design while panel multiple regression was used for the analysis. Board characteristics were measured by board independence, board size and board gender diversity. The study found that board independence has a negative insignificant effect on conditional accounting conservatism, board size has a positive significant effect on conditional accounting conservatism, and gender diversity has a statistically negative insignificant effect on conditional accounting conservatism. The study recommends that the quality of the board should be increased alongside its board independence as this tends to improve accounting conservatism of companies consequently enhancing financial reporting quality of the companies as indicated by the result.

Keywords: Board Characteristics, Conditional Accounting Conservatism, Board Independence, Board Size, Board Gender Diversity

Introduction

The conflict of interest between management and shareholders leads to agency problems because of the separation between ownership and management of the companies. Management may pursue an interest different from that of other stakeholders; hence, the demand for conservative reporting. Accordingly, information asymmetry among equity investors is the key reason for accounting conservatism; that is, conservatism is caused by the non-verification of information, which results in asymmetric loss functions among related parties. When debt is greater, creditors require a higher level of conservatism in accounting reports to avoid potential losses.

Furthermore, where management compensation is tied to performance, managers may employ aggressive accounting to increase their rewards which will increase bankruptcy risk in firms. Therefore, poor corporate governance influences accounting conservatism practices in firms (Lafond & Watts, 2008). Consequently, accounting conservatism is influenced by a number of factors such as corporate characteristics (board size, board independence, board diversity). According to McLeay and Raonic (2007), when agency conflict is controlled through close monitoring by large shareholders, these shareholders put less reliance on financial reporting, and thus adopt less conservative accounting. Alternatively, major shareholders would not employ more conservatism as they might want to conceal their expropriate activities from outsiders.

In addition to reducing managers' opportunistic behaviour, conservatism ultimately improves the quality of the financial information. For instance, conservatism increased the ability of current earnings to forecast future cash flows, and conservatism increased the value relevance of the earnings since it prevented opportunistic managers from using accounting choices that favoured their personal interest (Brown, He & Teitel, 2006). Accordingly, contracts are the primary source of accounting conservatism used by shareholders and debtholders to increase the conservative financial reporting and decrease agency costs to coordinate managerial expectations with those of the shareholders (Watts, 2003). However, as a main ingredient in the contracting process, management tries always to abandon conservatism policies to influence the figures in the accounting of these contracts by hiding unfavourable information; using private information to violate debt contracts; to receive extra compensation; and to overstate the financial figures (LaFond & Watts, 2008). Thus, management incentives significantly influence the level of accounting conservatism in an organization (Ball, et al , 2003).

According to Amran and Manaf (2014), higher board independence does not align with higher conservatism. Instead, the independent non-executive directors do not actually have the power of independence, monitoring and advising the board of directors. Garcı´a, Beatriz and Penalva, (2007) opined that the greater the number of independent directors on the board, the greater efficiency of the board because these directors are considered to be more experienced and possess understanding and knowledge to judge the decisions of the board from various dimensions and also being fully aware of the benefits of conservatism, more of it will be demanded while reporting accounting estimates.
Furthermore, García-Sánchez, et al , (2017) argued that the female are independent thinkers when it comes to making decisions, they are more risk averse and less prone to overconfidence bias compared to their male counterparts and that they concentrate more on trust building leadership style as such improve the efficiency and monitoring capabilities of the board. The greater the efficiency of the board, the greater the demand and level of conservatism.

However, the series of collapses of high-profile companies such as Enron, Bernie Madoff scandals, WorldCom, Lehman Brothers, Tyco International Ltd, and Adelphia Communications Corporation in the USA, Parmalat crises in Italy and HIH Insurance Ltd in Australia. In Nigeria, the cases of Cadbury Nigeria Plc; Afribank Nigeria Plc, NAMPAK, Oceanic Bank Nigeria Plc, and African Petroleum Plc were relatively caused by massive fraud in the accounting choices which brought the subject of corporate governance to global business limelight (Sule, Ibrahim, & Sani, 2019).

From the above empirical studies, studies have been conducted on the board characteristics attributes such as Yunos, Smith and Ismail (2010); Suleiman and Anifowose (2014); Huy (2016), García-Sánchez, Martínez-Ferrero and García-Meca (2017), Makhlouf, Al-sufy and Almubaideen (2018) but their studies are conducted in banking and other non-financial companies. Also, most of the studies are from the developed nations with no basis of empirical findings in the industrial companies in Nigeria.

Furthermore, most of the existing studies focus on asymmetric timeliness model as developed by Basu (1997) but this study measured conditional accounting conservatism by Givoly and Hayn model (2000) model. It is based on this that the study examined effect of board characteristics on conditional conservatism of listed industrial companies in Nigeria. specifically, the study focuses on the effect of board independence, board size, board gender diversity on accounting conservatism in Industrial companies in Nigeria.

The following hypotheses were formulated and tested:

Ho1: Board independence has no significant effect on conditional accounting conservatism in Industrial companies in Nigeria.

Ho2: Board size has no significant effect on conditional accounting conservatism in Industrial companies in Nigeria.

Ho3: Board gender diversity has no significant effect on conditional accounting conservatism in Industrial companies in Nigeria.

Concept of Board Independence

Board independent are directors that have no personal or professional relationship with the company, other than being board members. They are also often referred to as external directors. The presence of independent directors on a board can help to segregate the management and control tasks of a company and this is expected to offset inside members' opportunistic behaviours (Jensen & Meckling, 1976). Because of the independence and specialized expertise of non-executive directors, they are considered as a particularly powerful monitoring device of executive directors' actions (Rediker & Seth, 1995). Really, boards dominated by non-executive directors are likely in a better position to monitor and control managers' opportunistic behaviour. If board composition is a signal of board effectiveness, then the higher the number of non-executive directors on the board, the lower should be the likelihood of managers to use aggressive (more conservative) accounting (Alves, 2019).

According to Ramdani and Witteloostuijn (2010), the agency theory stipulates that a higher level of directors' work is necessary to enhance the firm's performance. However, the agency theory assumes that managers work for their personal gains and, hence, are opportunistic and, consequently, there is a need for their performance to be monitored by a board. Furthermore, Ramdani and Witteloostuijn (2010) stated that when a board was independent, it was able to monitor effectively that company's senior executives and as a result this hindered them from pursing activities which were regarded as self-interest. According to Fama and Jensen (1983) and Jensen and Meckling (1976), directors, who sit on independent boards, do not face any obstacles such as pursuance of personal interests in the company. Hence, according to Ramdani and Witteloostuijn (2010), an independent board is able to perform its role effectively and satisfactorily.

Board Size: Board size refers to the total number of directors on the board of a company at any particular period. Jensen (1993) argues that larger boards are less effective than smaller boards due to difficulties in task coordination. Free-rider problems are more common in larger boards as each board member might rely on others to monitor management (Duellman, 2006). The competing view is that large board information and expertise have an advantage over smaller boards. Larger boards may be more constructive as they have more external linkage and the ability to extract critical resources such as funding and expertise, which lead to higher performance (Pearce & Zahra, 1992; Pfeffer, 1987). Duellman (2006) state that a larger board allows directors to specialise, which in turn enables effective monitoring. Lipton and Lorsch (1992) recommend a board size of between eight and nine directors. Therefore, the board of directors has been described as a corporate governance mechanism responsible for monitoring, directing and controlling organizations towards the fulfillment of their goals (Osisioma, 2013).

According to Jensen (1993), when compared to smaller-sized boards, large-sized boards are relatively less effective in pursuing their agendas. These sentiments were supported by Lorsch (1992) who conveyed this assumption by stating that, as boards became larger, they were faced with agency problems which resulted in only board members being attracted to the position and, consequently, they were unable to deliver their mandate as board members.

Board Diversity: Diversity takes various forms in a boardroom and can be broadly categorised into skills, expertise and experience. Having the optimal mix of skills, expertise and experience is paramount to ensure that the board is correct. Mikkola (2005) defined gender as a description of the nature, attitudes, and behaviors of men and women. Type theory suggests that men and women have different characteristics. Men have more daring characteristics and tend to process information in a limited way in decision making and tend to be less conservative. Women tend to prefer a safer choice in decision making. Amanatullah, Shropshire, James and Lee (2010) stated that in making decisions, men tend to produce a risky choice. Conversely, women tend to show a safer option, so making them more likely to adopt a more conservative financial reporting (Francis, Hasan, Park & Wu, 2011).

The economic case for a diverse board is that board diversity leads to a more profitable business and creates value for shareholders (Carter, D'Souza, Simkins & Simpson, 2008). This may be explained by several factors. First, diverse directors may not be perfect substitutes for other board members, but they may have unique characteristics that create additional value (Carter, D'Souza, Simkins & Simpson, 2008). Second, a diverse board is seen to have a better understanding of the market place, and is considered to increase innovation and creativity (Carter, D'Souza, Simkins & Simpson, 2008). Moreover, heterogeneous boards can bring alternative perspectives on various issues and greater access to information resulting in creative problem solving (Erhardt, Werbel, & Shrader, 2003). In addition, a higher degree of diversity in a company's board may send a positive signal to potential investors and other stakeholders, such as consumers, suppliers, and the community (Rose, 2007). Hence, a gender and racially diverse board signals that the firm may meet the needs of a diverse marketplace, understand the business environment, and advise the firm executives effectively (Miller & Triana, 2009).

Concept of Accounting Conservatism

Conservatism is derived from the idea of exercising caution in recognizing profits. Accounting conservatism has been viewed and defined by several authors and from different perspectives. Historically, the concept of conservatism is based on the accounting tradition of anticipating no profits but anticipating all losses (Bliss, 1924). This definition appears simple and succinct; however, in the opinion of Devine (1963) accounting conservatism is beyond curtailing profits and anticipating losses. He submitted that accounting conservatism has to do with accounting information, the users of the information and the firm.

Conservatism is a fundamental feature of quality financial statements because it enhances the reliability of financial statements by facilitating effective monitoring of managers and contracts as part of corporate governance mechanisms (Watts, 2003; Ball & Shivakumar, 2005; Basu, 2005). Given that conservatism entails timely recognition of losses than earnings and avoids over estimation of the firm's value, it therefore reduces bankruptcy risk in firms (Wang, 2009). Advocates of conservatism posit that it benefits the users of financial reports as it increases firm value by constraining management's opportunistic payments to themselves or other parties which will ultimately be shared among all parties to the firm, increasing their welfare (Garcia, Beatriz & Penalva, 2009). Conservatism is beneficial for creditors, minority stockholders, the firm as a whole and regulatory authorities (Watts, 2003; Ahmed & Duellman 2007; Zhang 2008).

Basu (1997) defined accounting conservatism as seeking to require a higher level of certainty for the recognition of good news as profits, and to require lower level of certainty for the recognition of bad news as casualties while Watts (2003) defines accounting conservatism as the asymmetry between verification requirements of profits and losses, so that increased difference between the degree of verification required for profits and degree of verification required for losses mean greater conservatism. Hamdan (2012) viewed accounting conservatism as the disclosure of the minimum values of assets, revenues, and higher values for obligations and expenses.

Conditional conservatism refers to the asymmetric recognition in the profit and loss (Basu, 1997), which accelerates the recognition of bad news while delaying the recognition of good news. Ball and Shivakumar (2005) defined conditional conservatism as the bias disclosure accounting of the low book value of shareholders rights, but the unconditional conservatism is the opposite of the previous type, which indicates the systematic and continuous bias of recognition of income (Beaver & Ryan, 2005).

Board characteristics and Conditional Conservatism

Sari, et al (2018) examined the effect of characteristics of directors in risk-taking on accounting conservatism of 55 companies listed on Indonesia Stock Exchange during the observation period of 2012. Data obtained through survey and documentation. Partial least square was used for the analysis, and the results showed that the risk-taking characteristics of directors (gender, compensation, stock ownership, and conservative attitudes) affect accounting conservatism. A year observation might not give a significant feature of characteristics of directors in risk-taking on accounting conservatism hence, a longer period observation is better for a robust finding.

Suleiman et al (2019) examined the effects of corporate governance on conditional accounting conservatism in the Nigeria food and beverages sector for the period 2003 to 2010. The study developed a composite measure of corporate governance consisting of five internal governance proxies (CEO/Chairmanship separation, board size, board composition, directors' shareholding, and presence of an audit committee). Conditional accounting conservatism is measured using the augmented asymmetric accrual to cash flow measure (AACF) while the extent of the influence was estimated using regression method of analysis. Controlling leverage, firm size and sales growth and profitability, the result shows that the asymmetric incorporation of bad news into earnings is significantly faster (timelier) than the incorporation of good news in firms with good governance. Hence, the coefficient for composite governance is positive and statistically significant. The study is limited to a composite measure of corporate governance which paved the way for other studies to examine determinants such as audit quality, ownership structure variables, regulations. The period of the study is obsolete which means that this work will bridge the gap in the period of the study.

Al-sraheen (2017) examined the relationship between the corporate governance mechanisms related to the ownership structure, board of directors, audit committee and auditor quality along with company attributes and the accounting conservatism of 348 Jordanian companies from 2009 to 2011. Upon using the multiple regression analyses, the results show that ownership structure, institutional and foreign ownership were significant while family and managerial ownership were not statistically significant. Board independence, financial expertise and board tenure were significant, while board size, CEO and multiple directorships were not significant. On the other hand, audit committee and auditor independence were statistically significant to conservatism, while auditor brand name, company size and debt contract were reported to be negatively and not significantly related to conservatism. The period of the study is too short.

Suleiman (2018) examined the effects of corporate governance mechanisms on accounting conservatism in the Nigeria food and beverages sector for the period 2003 to 2010. The study focuses on CEO duality, board size, board composition and managerial shareholding as proxies for corporate governance mechanisms. The negative accrual measure of conservatism was employed in estimating conservatism while regression method was used for the analysis. The result reveals a significant negative influence of board size and a significant positive influence of independent directors on the board on conservative reporting. The study cannot generalised to other sectors because while this study has a wider coverage.

García-Sánchez, et al (2019) investigated the influence of gender diversity on board and financial expertise on audit committee on accounting conservatism in banking sector in nine different countries of Europe from the period 2004-2010 for the sample of 159 banks. They also reveal that female experts have a 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 and expert directors in auditing committees. The period of the study could have been extended to 2016 since it was conducted 2017.

Makhlouf, et al (2020 investigated the effect of board diversity on accounting conservatism from 68 industrial firms listed on the Amman Stock Exchange (ASE) in Jordan for the period of 2013 to 2016. Board diversity was measured by gender diversity, education level, average age and nationality diversity while accounting conservatism was measured by accrual-based conservatism. The results indicate that gender diversity, education level and nationality diversity are significantly positively correlated with accounting conservatism. However, the findings fail to reveal any significant effect of directors' age on accounting conservatism. Even though the objective of the study was achieved, this study includes other variables to the board diversity studied by Makhlouf, et al (2018).

Nasr and Ntim (2020) investigated the effect of corporate governance (CG) mechanisms (board size, board independence, separation of chairman and chief executive officer (CEO) roles and external auditor type) on accounting conservatism in Egypt. Archival data relating to CG and accounting conservatism are collected and analysed using multivariate regression techniques. The findings indicate that board independence is positively associated with accounting conservatism. By contrast, board size and auditor type are negatively associated with accounting conservatism, while separating the chairperson and CEO roles has no significant relationship with accounting conservatism. The study examines both internal and external determinants of accounting conservatism which shows robustness of variables combination because the model was able to account for variation on accounting variation to the extent of 62.5%.

Agency Theory

Agency theory addresses the contractual relationships among the agent (director of the firm) and the principal (shareholders of the firm) whereby shareholders delegate responsibilities of the directors to manage their business. This theory shows that when both of the parties are expected to optimize their utility, there is a good reason to believe that the agent (directors) may engage in opportunistic behaviour at the expense of the interest of shareholders (Jensen & Meckling, 1976). In other words, the relationship among shareholders and firm managers is replete with conflicting interests due to the separation of management and ownership. Al-Fayoumia and Abuzayed (2010) argue that this separation leads the managers to control the most vital information that is related to the corporate management and its operations. On the other hand, shareholders, who are not responsible for daily issues of the corporate, do not have to get the similar information as corporate managers do.

In addition, agency theory assumes that information asymmetry and agency costs arise due to such separation too (Jensen & Meckling, 1976; Fama & Jensen, 1983). Regarding the agency costs, a number of monitoring costs could also directly involve accounting such as the need for the engagement of an external auditor (Gaffikin, 2008). Beside the cost of controlling the conflicts related to the principal/agent relationship, there are other costs incurred under this concept. In principle, several costs stemming from conflicts within the principal/agency relation arise from opportunistic behavior of firm management. The task of conservative accounting as reported by LaFond and Watts (2008) is to act as a mechanism to limit the incentives of managers and their capacity to manipulate financial figures and so decrease such asymmetry and the deadweight losses that information asymmetry creates. This raises company and equity values. In short, the problems that rise due to information asymmetry among shareholders and managers imposes more use of financial reporting in communicating and contracting, and therefore attract a demand for a high level of conservative reporting (Ball & Shivakumar, 2005).

Methodology

The study adopts longitudinal research design. This design describes relationships between dependent and independent variables over a long period of time (2013-2022). The data for the study were sourced secondarily from audited annual reports of 13 listed industrial companies in Nigeria as at 2020. A panel multiple regression was used to test the effect of board characteristics on conditional accounting conservatism. The study shall also conduct a basic classic assumption test of multicollinearity, variance inflation factor, normality test and Heteroskedasticity test. The linear relationship is depicted in the model as:

$$CACCR_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 BS_{it} + \beta_3 BD_{it} + \beta_4 FS_{it} + \varepsilon_{it}$$

Where:

CACCR = Conditional Accounting conservatism

BI = Board independence of the firm i in year t

BS = Board size of the firm i in year t

BD = Board diversity of the firm i in year t

FS = Firm size of the firm i in year t

$\mathcal{E}_{it}$ *= Error Margin*

β_0 *= Intercept*

β_1 *to* β_4 *= Regression Coefficients*

Table 1 VARIABLE MEASUREMENT

Type Variable	***Variable***	***Variable Measurement***	***Source***
Dependent	*Conditional Accounting conservatism*	$CONSERV_{it} = (\ IBEXT_{it} + DEP_{it} - CFO_{it}\ ) X - 1$ =(net income before extraordinary item plus depreciation expense less cash flow from operations averaged, over 3 years by total assets and centred around year t) X -1	Givoly & Hayn model (2000).
Independent	*Board independence*	*Proportion of independent directors to board size*	*Ramdani & Witteloostuijn (2010), Jensen and Meckling (1976)*
Independent	*Board size*	*Number of directors at the board*	*Ellili (2013), Suleiman and Anifowose (2014)*
Independent	*Board diversity*	*Proportion of female directors to total board members of the company*	*Miller & Triana (2009), Erhardt, Werbel and Shrader (2003).*
Independent	*Firm size*	*Logarithms of total assets*	*Sun & Lin (2011), Li, Pike and Haniffa (2008)*

Result and Discussion

Table 2 Descriptive Statistics

	CACCR	BI	BS	GD	FS
Mean	-0.022137	0.605459	13.90000	0.199154	7.231829
Median	0.002942	0.577381	14.00000	0.210000	6.529767
Maximum	0.267386	0.923077	21.00000	0.670000	9.800101
Minimum	-0.444729	0.176471	7.000000	0.000000	4.860386
Std. Dev.	0.119094	0.130489	2.727551	0.112567	1.464954
Skewness	-1.007586	0.292333	0.190616	0.569634	0.177655
Kurtosis	4.844712	3.545930	2.755507	4.774517	1.547404
Jarque-Bera	40.42937	3.465987	1.111038	24.08706	12.11318
Probability	0.000000	0.176754	0.573774	0.000006	0.002342
Observations	130	130	130	130	130

Source: Generated from Eviews, 2024

From the descriptive statistics above, the average value of conservatism stood at approximately -0.022. The standard deviation indicated 0.119 for conservatism while 2.728, 0.130, 0.113, & 1.465 represents board size, board independence, gender diversity, and firm size respectively. CACCR, BS, BI, GD and FS revealed a maximum value reached of approximately 0.267, 21.000, 0.923, 0.670, 9.800 respectively with a minimum reached of -0.44, 7.00, 0.18, 0.00 and 4.86 for CACCR, BS, BI, GD and FS respectively.

The skewness of the result of CACCR, BS, BI, GD and FS with their respective coefficients of -1.01, 0.19, 0.29, 0.57 which is greater than the threshold of 0 means that all the variables are positively and weakly skewed signifying that all the variables across the panel is scantily above the mean value. Also, the kurtosis results reflect that the series is leptokurtic with regards to CACCR with a coefficient of 4.844, BS with a coefficient of 2.756, BI with a coefficient of 3.546 and GD with a coefficient value of 4.775. This implies that all the series in the distribution are leptokurtic since their respective coefficients is greater than the threshold of 3. Finally, the result revealed 130 observations.

Table 3 Correlation Matrix

	CACCR	BI	BS	GD	FS
CACCR	1.000000				
BI	-0.289653	1.000000			
BS	0.441277	-0.480577	1.000000		
GD	-0.065553	-0.033857	-0.127540	1.000000	
FS	0.225408	0.052951	-0.230647	0.074576	1.000000

Source: Generated from Eview, 2024

The result of the above table is a correlation matrix that explains the association between the dependent and the independent variable. The result shows a positive relationship/correlation between Board Size (BS) and conditional Accounting Conservatism with a coefficient of 0.441277 whereas both Board Independence (BI) and Gender Diversity (GD) shows a negative correlation on Accounting Conservatism with the coefficient of -0.289653 and -0.065553 respectively.

Table 4 Variance Inflation Factor

Variance Inflation Factors

Sample: 1 130

Included observations: 130

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
BI	0.007103	31.95261	1.407863
BS	1.53E-05	35.90337	1.321335
GD	0.006987	4.280923	1.030472
FS	4.25E-05	27.16223	1.062746
C	0.012650	148.3803	NA

Source: Generated from Eview, 2024

The result of multicollinearity above test for whether the independent variables are highly correlated. From the table, since the respective VIFs are less than 10 (1.408, 1.321, 1.030 & 1.063), this means that there is absence of autocorrelation.

Table 5 Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.937051	Prob. F(4,125)	0.1084
Obs*R-squared	7.587797	Prob. Chi-Square(4)	0.1079
Scaled explained SS	11.24847	Prob. Chi-Square(4)	0.0239

Source: Generated from Eview, 2024

The above table 5 shows the heteroskedasticity test using the Breush-Pagan-Godfrey estimation technique. The Observed R-Squared of 7.587797with the probability value of 0.1079 which is greater than the t-value of 5% indicates homoscedasticity of the residuals and can be said to be desirable. This, however, reveals absence of heteroscedasticity in the residuals, since the null hypothesis states that the residuals are homoscedasticity, and the alternative hypothesis says the residuals are heteroscedasticity.

Table 6 Hausman Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	0.058287	4	0.9996

** WARNING: estimated period random effects variance is zero.

Source: Generated from Eview, 2024

The Hausman test guides to choose between the fixed effect and cross section random effect from the Ordinary Least Square Regression. If the probability is below the threshold of 5%, use the fixed effect model, otherwise use the cross section random effect model. Therefore, since the probability of 0.9996 from the Hausman test is greater than 5%, the cross section random effect model is adopted in this study.

Table 7 Regression Result

Dependent Variable: CACCR
Method: Panel EGLS (Period random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BI	-0.047536	0.084689	-0.561297	0.5756
BS	0.017315	0.003956	4.377270	0.0000
GD	-0.064830	0.035024	-1.851015	0.0665
FS	0.014871	0.006637	2.240613	0.0268
C	-0.327317	0.111654	-2.931535	0.0040

Effects Specification

	S.D.	Rho
Period random	0.000000	0.0000
Idiosyncratic random	0.106995	1.0000

Weighted Statistics

R-squared	0.258882	Mean dependent var	-0.022137
Adjusted R-squared	0.235167	S.D. dependent var	0.119094
S.E. of regression	0.104154	Sum squared resid	1.355997
F-statistic	10.91604	Durbin-Watson stat	1.162594
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.258882	Mean dependent var	-0.022137
Sum squared resid	1.355997	Durbin-Watson stat	1.162594

Source: Generated rom EViews, 2024

Discussion of Findings

The regression result revealed that Board Independence (BI) has a coefficient of -0.048 with a t-statistics of -0.561 and a p-value of 0.576. The result shows that Board Independence has a negative but insignificant effect on accounting conservatism of listed industrial companies since the p-value of 0.5756 is greater than 5%. This implies that an increase in Board Independence will result to a corresponding decrease in accounting conservatism. Therefore, the null hypothesis which states that “board independence has no significant effect on accounting conservatism of industrial companies in Nigeria” is accepted.

Board Size (BS) has a positive coefficient of 0.017 with a t-statistics of 4.377 and a p-value of 0.000. The result implies that a unit increase in Board Size will result to a 0.017 increase in accounting conservatism of listed industrial companies in Nigeria. Therefore, since the p-value of 0.00 is less than the threshold of 5%, it then implies that Board Size has a positive significant effect on accounting conservatism of listed industrial companies in Nigeria. Hence, the null hypothesis which states that Board Size has no significant effect on Accounting Conservatism of industrial companies in Nigeria is rejected and the alternative accepted.

Also, Gender Diversity showed a coefficient of -0.065, t-statistics of -1.851 and a p-value of 0.067. This simply means that an increase in gender diversity will result to a corresponding decrease in accounting conservatism in industrial companies in Nigeria. The result shows that gender diversity has a statistically negative insignificant effect on accounting conservatism of listed industrial companies since the p-value of 0.067 is greater than 5%. Therefore, the null hypothesis which states that gender diversity has no significant effect on accounting conservatism in industrial companies in Nigeria is accepted and the alternative rejected. Furthermore, firm size has a positive significant effect on accounting conservatism with p-value of 0.0268. This implies that an increase in firm size will result to a corresponding increase in accounting conservatism by 0.014871 coefficient.

The R-Squared of approximately 0.26 indicates that only 26% variation in accounting conservatism is explained by the variables captured in this study, while the remaining 74% are explained by the variables not included in the model. The F-statistic examines the overall significance of the regression model inclusive of all variables. Therefore, by examining the overall fit and significance of the model, it could be observed that the model has a better fit since the p-value (0.000) of F-statistic is less than 0.05 as depicted in the cross section random regression analysis.

Conclusion and Recommendations

From the finding of the study, it is concluded that an increase in members of the board will significantly enhance the timely recognition of loss or the swift recognition of gains immediately they are realized as accounting conservatism of industrial companies requires their financial statements to be prepared with a high degree of verification. It is also concluded that an increase in the number of independent directors on the board will result to a decrease in the degree of caution or verification process with regards to the timely acknowledgement of losses in the financial statements by industrial companies in Nigeria thereby plummeting accounting conservatism. Finally, it is concluded that an increase in the number or ratio of females on the board will reduce accounting conservatism of industrial companies in Nigeria as participation of females on the board tends to exhibit lower level of accounting conservatism although insignificantly. Based on the finding and conclusion, the study recommends that:

Industrial companies in Nigeria are encouraged to reduce the number of independent/non-executive directors on the board as this will enhance accounting conservatism and generate the needed assurance for an improved financial reporting quality of the companies.

Also, quality of the board should be increased alongside its board independence as this tends to improve accounting conservatism of companies consequently enhancing financial reporting quality of the companies as indicated by the result.

Females should be less represented on the board as an increase in the ratio of females on the board tends to reduce accounting conservatism consequently eroding the quality of financial statements.

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