

**THE RELATIONSHIP BETWEEN CORPORATE  
GOVERNANCE MECHANISMS AND COMPANY  
ATTRIBUTES AND ACCOUNTING CONSERVATISM OF  
JORDANIAN LISTED COMPANIES**

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**THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE  
MECHANISMS AND COMPANY ATTRIBUTES AND ACCOUNTING  
CONSERVATISM OF JORDANIAN LISTED COMPANIES**

**By**

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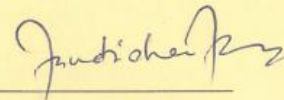
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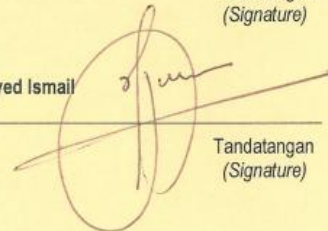
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## ABSTRACT

This study examines 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 Jordanian listed companies. The theoretical foundation of such a relationship was provided by five comprehensive theories which are the agency theory, the positive accounting theory, the resource dependence theory, stewardship and the signaling theory. The data were obtained from the annual reports of 348 Jordanian companies from 2009 to 2011. Upon using the multiple regression analysis, the results show that the relationship between the corporate governance mechanisms and accounting conservatism was somewhat varied. Fifteen hypotheses were developed in this study. Seven of them were significant while eight were not. For 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 due to the higher level of P-value compared to 0.05. 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. These results indicate that corporate governance plays a vital role in enhancing the level of conservatism and reducing agency conflict. Further, regulator bodies in Jordan should increase the effectiveness of corporate governance in Jordanian companies in order to enhance the quality of financial reports. In addition, this study opens up avenues for more studies on accounting conservatism not only in Jordan, but also in other countries where this area of study is lacking. Furthermore, it opens up opportunities and provides avenues for more in-depth research related to the quality of financial reports.

**Keywords:** corporate governance, accounting conservatism, board of directors, accrual-based, Jordan

## ABSTRAK

Kajian ini mengkaji hubungan antara mekanisme tadbir urus korporat yang berkaitan dengan struktur pemilikan, lembaga pengarah, jawatankuasa audit dan kualiti juruaudit serta atribut syarikat dan konservatisme perakaunan syarikat-syarikat yang tersenarai di Jordan. Asas teori dalam perhubungan tersebut telah disediakan berdasarkan lima teori yang komprehensif iaitu teori agensi, teori perakaunan positif, teori pergantungan sumber, dan teori pengawasan dan pengisyaratan. Data diperolehi daripada laporan tahunan 348 buah syarikat di Jordan dalam tempoh 2009-2011. Dalam analisis regresi berganda, keputusan menunjukkan bahawa hubungan di antara mekanisme tadbir urus korporat dan konservatisme perakaunan adalah agak berbeza-beza. Lima belas hipotesis telah dibangunkan dalam kajian ini. Tujuh daripadanya adalah signifikan manakala lapan lagi didapati tidak signifikan. Bagi struktur pemilikan, pemilikan institusi dan pemilikan asing adalah signifikan manakala pemilikan keluarga dan pemilikan pengurusan didapati tidak signifikan secara statistik. Kebebasan lembaga pengarah, kepakaran kewangan dan tempoh lantikan lembaga pengarah adalah signifikan manakala saiz lembaga pengarah, Ketua Pegawai Eksekutif dan kepelbagaian jawatan pengarah didapati tidak signifikan kerana nilai P berada pada tahap yang lebih tinggi berbanding 0.05. Sebaliknya, jawatankuasa audit dan kebebasan juruaudit secara statistiknya signifikan kepada konservatisme, manakala penjenamaan juruaudit, saiz syarikat dan kontrak hutang dilaporkan negatif dan tidak signifikan dengan konservatisme. Keputusan ini menunjukkan bahawa tadbir urus korporat memainkan peranan penting dalam meningkatkan tahap konservatisme dan mengurangkan konflik agensi. Tambahan lagi, badan-badan pengawal selia di Jordan perlu meningkatkan keberkesanan tadbir urus korporat dalam syarikat-syarikat di negara tersebut bagi meningkatkan kualiti laporan kewangan. Di samping itu, kajian ini membuka ruang kepada lebih banyak kajian tentang konservatisme perakaunan bukan sahaja di Jordan, tetapi juga di negara-negara lain yang kekurangan kajian dalam bidang ini. Tambahan pula, kajian ini membuka peluang dan menyediakan ruang bagi penyelidikan yang lebih mendalam berkaitan kualiti laporan kewangan.

**Kata kunci:** tadbir urus korporat, konservatisme perakaunan, lembaga pengarah, asas keakruan, Jordan

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## **LIST OF ABBREVIATIONS**

AC	Audit Committee
ASE	Amman Stock Exchange
BCBS	Basle Committee on Banking Supervision
CEO	Chief Executive Officer
IFRS	International Financial Reporting Standards
JACPA	Jordanian Association of Public Accountants
JSC	Jordan Securities Commission
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Square
PCAOB	Public Company Accounting Oversight Board
SOX	Sarbanes Oxley
VIF	Variance Inflation Factors

## LIST OF APPENDICES

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# CHAPTER ONE

## INTRODUCTION

### 1.0 Background of Study

Accounting conservatism is considered as the most effective principle underpinning accounting valuation and has a lengthy historical application to financial accounting exceeding, five centuries (Basu, 1997; Sterling, 1970). Nonetheless, the concept of conservatism faces significant criticism by academics, capital market regulators and standards-setters. Critics such as LaFond and Watts (2008) argued that conservatism leads to understate of net assets in the present period leading to overstate of earnings in the future periods due to the understate of future expenses. Despite heavy criticism, previous empirical studies reported that conservatism has increased during the past decades (Givoly & Hay, 2002; Lobo & Zhou, 2006). This suggests critics may overlook major benefits of conservatism. The lengthy persistence and resilience to criticism of accounting conservatism are intriguing empirical impasses producing a number of significant unanswered questions.

Previous studies have defined conservatism by the aphorism “anticipate no profit, but anticipates all losses” (Watts, 2003a). Basu (1997) defined accounting conservatism as earnings asymmetric timeliness that requires high level of verification for recognizing of good news as an economic profit than recognizing bad news as an economic loss. Givoly and Hayn (2000) defined accounting conservatism as a choice between the principles of accounting that lead to decrease the cumulative earnings by slower recognition of



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## **APPENDICES**



## **APPENDIX A**

### **Definitions for the Abbreviations of the Initial Model**

## Definitions for the Abbreviations of the Initial Model

<b>Symbol</b>	<b>Variables</b>	<b>Description and Measurement</b>	<b>Predicted Direction</b>	<b>Relevant Hypotheses</b>
	<b>Dependent Variable</b>			
ACCR	Accounting Conservatism	ACCR= [(income +depreciation expenses– operating cash flows)] ÷Total assets. ACCR = (Accruals / 3 years) X (-1).		
<b>Symbol</b>	<b>Variables</b>	<b>Description and Measurement</b>	<b>Predicted Direction</b>	<b>Relevant Hypotheses</b>
	<b>Ownership Structure</b>			
OWINST	Institutional Ownership	Institutional ownership measured as ratio, “by dividing the number of shares held by the institutions to the total number of firm's shares.	+	H1a
OWFOREI	Foreign Ownership	Foreign ownership measured as the percentage of shares held by foreigners to total number of firm's shares.	+	H1b
OWFAM	Family Ownership	Family ownership measured as the percentage of shares held by families to total number of firm's shares.	+	H1c
OWMAN	Managerial Ownership	Managerial ownership calculated as the percentage of shares held by directors on the board to the total number of firm's shares.	–	H1d
BIND	Independence	Board independence measured proportion of independent directors to total directors on board.	+	H2a
BSIZ	Size	Board size is the natural logarithm of total number of board members.	+	H2b
BCEO	CEO Duality	Dummy variable = 1 if CEO/Chairman roles combine;0 if separate.	+	H2c
BFIX	Financial Expertise	Percentage of board members with financial expertise to total directors on board.	+	H2d
BTEN	Tenure	Average years the independent directors served on the firm’s board.	+	H2e

<b>Symbol</b>	<b>Variables</b>	<b>Description and Measurement</b>	<b>Predicted Direction</b>	<b>Relevant Hypotheses</b>
BMULT	Multiple Directorships	Percentage of board members with more than two outside directorships to total directors on board.	+	H2f
	<b>Audit Committee</b>	Dummy variable = 1 if company has audit committee and 0 otherwise.	+	H3
ACIND	Audit committee independence	The proportion of independent members in the audit committee		
ACFE	Financial expertise	The total number of audit committee Members with financial expertise divided by the total number of audit committee members.		
ACD	Diligence	Diligence, awarding a score of 1 if the audit committee meets at least four times or more in financial year; and 0 otherwise		
	<b>Auditor Quality</b>			
AUIND	Independence	Measured by non-audit fee/total fee ratio.	+	H4a
AUBRAN	Brand Name	Dummy variable = 1 if the external auditor engaged by Big 4 firm, and 0 otherwise.	+	H4b
	<b>Company Attributes</b>			
CSIZE	Size	Company size measured by log of total assets.	+	H5a
CDEBT	Debt Contract	Noncurrent liabilities/total assets.	+	H5b