



CORPORATE GOVERNANCE AND ACCOUNTING CONSERVATISM OF LISTED BREWERY FIRMS IN NIGERIA

By

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Abstract

The study investigated the influence of corporate governance on accounting conservatism of listed brewery firms in Nigeria. The study made use of ex-post facto research design for the collection of secondary data. The population for the study consisted of listed brewery firms in Nigerian Exchange Group (NGX) as at 31st December, 2022. The sampled firms must fulfill the responsibility of disclosing their financial statements for eleven consecutive years for the period 2012- 2022. The filtering method of sample selection was used to select four (4) brewery firms. The study adopted the use of descriptive statistics, correlation analysis and robust least square regression technique in the analysis of data. The regression results revealed that board size exerts a positive and insignificant relationship with accounting conservatism; board independence exerts a negative and significant relationship with accounting conservatism; ownership structure exerts a positive and significant relationship with accounting conservatism; and audit committee exerts a positive and significant relationship with accounting conservatism. It was recommended that management of listed brewery firms in Nigeria should carefully explore the usage of corporate governance code of conduct for effective conservation of accounting information since the corporate governance variables (board independence, ownership structure and audit committee) significantly influence accounting conservatism.

Keywords: accounting conservatism, audit committee, board independence, board size, corporate governance, ownership structure

1. Introduction

Accounting conservatism (AC) is a potential quality of earnings management (EM). Nwoye, *et al.* (2020) disclosed that AC had been broadly and extensively studied since the last two decades because the subject matter is believed to be the vital ethical problem militating against the accounting line of work. This principle of accounting conservatism had been debated by contemporary academicians, scholars and accounting standard setters that the accountants should apply the principle of prudence in the preparation of financial statement through the recognition of transactions caused by economic uncertainty. Zhong and Li (2017) affirmed that AC is always present in the preparation of financial statement of corporate organisation and it cannot be disregarded. Olojede, *et al.* (2020) attributed the causes of the scandals of highly rated corporations globally in the last decade to include ineffective and poor corporate governance, weak institutional framework in regulation, compliance and enforcement of relevant standards and rules.



Corporate governance (CG) frameworks and AC alignment enhances the disclosure of some risks and uncertainties that might influence the quality and reliability of accounting information (Liu, 2024). CG mechanism serves as monitoring and control system for the purpose of decreasing agency expenses through the system of checks and balances. The presence of Sound CG organisation helps in installing stakeholder confidence, promoting financial accounting, transparency in order to reduce risks (Pasko, *et al.*, 2021). CG mechanism is explored to promote transparency, fairness and honesty in financial reporting, compliance with ethical and regulatory standard, accountability to shareholders and the efficacy of the board of directors regarding its responsibilities for the oversight of the management operations (Ilaboya & Obaretin, 2015).

The presence of asymmetric treatment of loss and gain contingencies, accelerated depreciation or impairment of assets while requiring cash flows associated with gains to be realized before recognizing increases in asset value are examples of AC policies. Mamidu and Oladutire (2023) stressed that the conservatism of accounting information is the prime cause of corporate failures as a result of the poor audit quality. The rationale behind the AC of financial manipulations among listed brewery firms is caused by weak corporate governance practice. Hence, the gap in research is to investigate the influence of corporate governance on accounting conservatism of listed brewery firms in Nigeria for the period of 2012 to 2022.

2. Literature Review and Hypotheses Development

Concept of Accounting Conservatism

Accounting conservatism (AC) as a principle of accounting is a practice explored by accountants to minimize the falsification of financial figures that create a wider gap in asymmetry of financial statements information for proper dissemination of accounting information. Mrad (2022) affirmed that investors trust of accounting information disclosed is based on the firms' compliance with the principles of AC. This is a measure of good reputation in the financial markets. The practice of AC is the basis for the firms to advert uncertain conditions through the application of AC (Pujiono, *et al.*, 2023). Wolk, *et al.* (2013) defined AC as the process of choosing between generalized accounting practices that bring about underestimation of the assessment of assets or the overestimation of the assessment of debts.

Krismiaji (2021) argued that slackening down of income acknowledgment, fast-tracking acknowledgment of expenditures and pulling down of asset assessment and increasing obligation appraisal is the rudiment of accounting ideologies arising from conservatism of accounting information. Lara, *et al.* (2012) affirmed that conservatism is an instrument of accounting practice used to address the tendency of earnings management in financial statement. Conservatism and fair value accounting mainly deal with recognition of revenue and losses brought by earnings management. Mamidu and Oladutire (2023) added the existence of worsening carrying value of assets when compared to its market value from one accounting period to another based on prior period. The asymmetrical knowledge between internal and external equity investors is the core reason for the conservatism of accounting information (LaFond & Watts, 2018).



Concept of Corporate Governance

Corporate governance (CG) has been variously defined by different researchers, and these several definitions have evolved over the years. According to Singh, *et al.* (2018), CG is the process explored by the owners, managers, and shareholders of corporate organisations to share their rights and obligations. CG is an apparatus that protects from self-serving conduct of management. However, Uwuigbe, *et al.* (2014) upheld organisation hypothesis by demonstrating that the board adds to the uprightness of financial statements. The essence of CG is the framework and rules adopted by business organisation to link between the stakeholders, the company and the society (Rashid, 2018).

Empirical Review

Board Size and Accounting Conservatism

Board size is a strong CG mechanism that has the likelihood of decreasing the level of AC (Lim, 2011; Kukah, *et al.*, 2016). Board size is the total number of directors sitting on the board of any corporate organization. It is the duty of board of directors to ensure that the organization is taking full advantage of the opportunities at its disposal and that market value of the firm is increasing. A board can be effective if its decision power and influences on the managers is very strong. Ammari, *et al.* (2014) posited that large board size brings about adequate number of people to manage the work load of the board easily, the responsibility is divided among many members and larger size provides more perspectives.

Liu (2024) conducted a study in China on the relationship between AC and corporate CG and documented from the mixed-methods approach that CG has a significant positive relationship with AC. Nasr and Ntim (2018) used some selected listed firms in Egypt to investigate the impact of board size, board independence, separation of the chairman and CEO roles and type of external auditor on AC. The regression result showed that board independence has a positive impact on AC while board size and auditor type have a significant negative impact on AC, and separation of the chairman and CEO roles has insignificant impact on AC. The findings of Elshandidy and Hassanein (2014) revealed that board size has no significant relationship with AC. From the review of literature, the study proposed hypothesis is:

H₁: Board size is positively and significantly related with accounting conservatism.

Board Independence and Accounting Conservatism

Board independence is a fundamental attribute of CG. Literature on CG that board independence is premised on separation of ownership from control of a company. *Ilaboya and Obaretin (2015) opined that* a board is said to be independent when the number of independent non-executive directors not associated with top executives of the firm are more. Literature on corporate governance suggests that board independence is premised on separation of ownership from control of a company. Independent non-executive directors with the right skill sets, who have no business and other relationships which can interfere with the exercise of independent judgment or the ability to act in the best interest of the shareholders are viewed to be more objective to monitor management than inside directors.



The variable of board independence according to (Jensen & Meckling, 1976) synchronizes with the idea of agency theory which is based on the idea that in a modern corporation, there is a separation of ownership and management resulting in agency costs associated with resolving the conflict between the owners and the agents. Zadeh, et al. (2022) studied the relationship between AC and earnings quality and CG as a moderating variable. The regression result showed that board independence, large shareholders, and institutional ownership had a moderating relationship between AC and earnings quality. Al-Abedi, *et al.*, (2022) conducted a study on the impact of corporate governance on accounting conservatism in the financial statements of justice shareholders in Iraq. An ex-post facto research design is explored to sample 30 firms covering the period of 2013 to 2020. The empirical evidence revealed that CG has no significant impact on AC. From the review of literature, the study proposed hypothesis is:

H₂: Board independence is positively and significantly related with accounting conservatism.

Ownership Structure and Accounting Conservatism

Ownership structure is the rudiment principle of CG for minimising the conflicting of interests between controlling shareholders and minority shareholders which is aimed at enhancing AC (Abdullah, et al., 2018). Ownership is always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. Aryani, et al. (2023) stressed that ownership concentrated to institutional investors is based on equity holding relating to investment firms, banks, insurance companies, and other institutional entities. Anwar (2019) added that ownership structure is the distribution of ownership within firm's stakeholders to reduce agency problem for the ability and incentives to control the management.

Dita and Heri (2017) studied the relationship between leverage, firm size, managerial ownership, size of board commissioners, profitability and accounting conservatism and documented from the regression result that managerial ownership and size of board commissioners has no significant relationship with AC. Alves (2019) used a sample of 26 non-financial listed firms in Portugal for the period of 2002 to 2016 to investigate the relationship between AC and ownership structure and found out that ownership concentration has a significant positive relationship with AC. From the review of literature, the study proposed hypothesis is:

H₃: *Ownership structure* is positively and significantly related with accounting conservatism.

Audit Committee

Audit committee is known as a sub-committee inside the corporate governance confines whose responsibilities is not only to ensure the quality of financial reporting and disclosures, but also to enhance the internal control apparatus of an organization (Ogoun, et al., 2020). Amer, et al. (2014) stressed that audit committee is as an extra corporate internal governance system whose responsibility is to enhance the effectiveness of monetary administration of an organization as well as corporate reporting quality. Ishaku, et al. (2020) argued that a proficient and knowledgeable audit committee attributes consisting of audit committee size, independence, financial expertise and audit committee meetings will extensively and considerably impact the committee planning and negotiations not only



on the preparation of corporate financial statements and accounts, but also on the corporate external audit procedures to facilitate the timely release of audit reports.

Abu, et al. (2018) opined that corporate organizations choose the members of audit committee from outside the organizations to offer an unbiased and non-discriminatory evaluation and assessment of the organization's practices. Afenya, et al. (2022) disclosed that an audit committee ought to be diverse and adequately and sufficiently to represent a balance of knowledge, skills and views, yet little enough to perform effectively. In Egypt, El-habashy (2019) studied the effect of CG attributes on AC and established that audit committee, gender composition and risk management committee have no significant effect AC. From the review of literature, the study proposed hypothesis is:

H₄: *Audit committee* is positively and significantly related with accounting conservatism.

Theoretical Review

Agency Theory

The agency theory is normally associated with corporate governance studies (Tunyi & Ntim, 2016). The theory was developed by Jensen and Meckley in the year 1976. The principle of conservatism is witnessed in the agency theory, based on the fact that the management has no intention of personal incentives being conserved in the audited financial statement because they do not command huge investments in the company that would make them practice earning management in the reporting of abnormal profits as agents of the shareholders (Li, et al., 2017). The theory describes the conflicts that arise as a result of the separation of ownership and control. There is considerable information asymmetry between the agent and the principal. The agency failed to recognize the presence of board size as a good corporate governance mechanism that might enhance accounting conservatism.

3. Methodology

The study made use of expo-facto research design to investigate the influence of corporate governance accounting conservatism of listed brewery firms in Nigeria. The population of the study consisted of all listed brewery firm Nigerian Exchange Group (NGX). The simple random sampling technique and filtering method was applied to select four (4) Nigeria Brewery Plc, International Brewery Plc, Champion Brewery and Guinness Nigeria Plc for the period of 2012 to 2022. The data were analysed using descriptive statistics, correlation analysis, and robust least square regression techniques in testing the formulated hypotheses with the aid of E-Views 9.0 econometric software.

Model Specification and Measurement of Variables

The least square regressions model was employed in the study. The regression econometric model is specified in equation (1) below:

$$Ac_i = \beta_0 + \beta_1 BS_i + \beta_2 BDI_i + \beta_3 OWS_i + \beta_4 AUDC_i + \varepsilon_{it} \dots \dots \dots (1)$$

Where: AC is Accounting conservatism and it was measured by accrual method (Income + depreciation – net operating cash flow/total asset), BS is Board size and it was measured by the number of directors on the board, BDI is Board independence and it was measured by the ratio of non-executive directors to total board size, OWS is Ownership structure which was measured by the proportion of shares held by



**CORPORATE GOVERNANCE AND ACCOUNTING CONSERVATISM
OF LISTED BREWERY FIRMS IN NIGERIA**

institutional investors to the total number of shares in issue, AUDC is Audit committee which was measured by frequency of audit committee meeting held for the periods, β is variables that vary across companies but do not vary over time, and ε_{it} is error terms over the cross section and time. The presumptive signs of the parameters in the specifications are: $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

4. Results and Discussion

Data Presentation and Analysis

The data presentation and analysis started with descriptive statistics as shown in Table 1 below.

	AC	BS	BDI	OWS	AUDC
Mean	-0.058018	13.00000	73.84829	54.90244	4.024390
Median	-0.050600	13.00000	78.57000	66.00000	4.000000
Maximum	0.332600	18.00000	92.86000	86.00000	5.000000
Minimum	-0.949400	9.000000	38.46000	6.000000	3.000000
Std. Dev.	0.173966	2.190890	15.01910	26.24100	0.473698
Skewness	-3.111184	0.346579	-0.848926	-0.781846	0.081593
Kurtosis	18.52898	2.562500	2.708276	2.241579	4.547023
Jarque-Bera	478.1064	1.147786	5.069996	5.159740	4.134011
Probability	0.000000	0.563328	0.079262	0.075784	0.126564
Sum	-2.378732	533.0000	3027.780	2251.000	165.0000
Sum Sq. Dev.	1.210568	192.0000	9022.937	27543.61	8.975610
Observations	41	41	41	41	41

The Table 1 above showed that accounting conservatism (AC) has a minimum value of -0.94 and maximum value of 0.33 with an average value of -0.05 with a standard deviation value of 0.17. Board size (BS) has a minimum value is 9 members and a maximum of 18 members with an average of 13 board members and a standard deviation value of 2.19. Board independence (BDI) has a minimum of 38.46% and a maximum of 92.86% with an average of 73.84% and a standard deviation value of 15.01. Ownership structure (OWS) has a minimum value of 6.00 and a maximum of 86.00 with an average of 54.90 and a standard deviation value of 26.24. Audit committee (AUDC) has a minimum value of 3.00 and a maximum of 5.00 with an average of 4.02 and a standard deviation value of 28.89. Block ownership (BOW) shows a minimum value of 11.00, and a maximum value is 95.00 with an average value of 60.05 and a standard deviation value of 0.47. On the Jarque–Bera test of goodness-of-fit, the outcome suggests that AC, BDI and OWS follow a normal distribution while BS and AUDC follow an abnormal distribution.



Correlation Analysis

The correlation analysis result was presented in Table 2 below.

Table 2

Correlation Analysis

Correlation t-Statistic	AC	BS	BDI	OWS	AUDC
AC	1.000000				

BS	-0.035330	1.000000			
	-0.220777	-----			
BDI	-0.113545	-0.273847	1.000000		
	-0.713707	-1.778149	-----		
OWS	0.176768	-0.241776	0.334948	1.000000	
	1.121580	-1.556058	2.219985	-----	
AUDC	0.083409	0.240889	-0.151656	-0.156678	1.000000
Source: EViews 9.0	0.522708	1.549996	-0.958171	-0.990691	-----

Table 2 above showed that board size (BS) was negatively and weakly correlated with accounting conservatism (AC = -0.0353) with t-statistic value of -0.2207. This indicates that larger board size would be less conservative of accounting information. Board independence (BDI) was negatively and moderately correlated with accounting conservatism (AC = -0.1135) with t-statistic value of -0.7137. This indicates that increase in board independence to low level of conservative of accounting information. Ownership structure (OWS) was positively and moderately correlated with accounting conservatism (AC = 0.1767) with t-statistic value of -1.1215. This implies that the presence of ownership structure to high level of accounting conservatism. Audit committee (AUDC) was positively and weakly correlated with accounting conservatism (ACSV = 0.0834) with t-statistic value of 0.5227. This indicates that the presence of audit committee might enhance conservatism of accounting information. The correlation coefficient revealed that none of the explanatory variables was perfectly related and it implies the absence of multicollinearity.

Regression Result

The robust least square regression technique was applied to test our formulated hypotheses. The results were presented in Table 3 below:



Table 3
Regressions results

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-0.081896	0.030422	-2.691984	0.0071
BS	0.000297	0.001214	0.245051	0.8064
BDI	-0.000649	0.000179	-3.622895	0.0003
OWS	0.000641	0.000102	6.294773	0.0000
AUDC	0.010659	0.005421	1.966181	0.0493
Robust Statistics				
Rw-squared	0.032611	Adjust Rw-squared	0.032611	
Scale	0.060746	Rn-squared statistic	46.07993	
Prob(Rn-squared stat.)	0.000000			
Non-robust Statistics				
Mean dependent var	-0.058018	S.D. dependent var	0.173966	
S.E. of regression	0.179794	Sum squared resid	1.163734	

Source: EViews 9.0

Decision Rule

Hypotheses is tested at 5% (0.05) at level of significance. The null hypothesis (H_0) was accepted, if the probability value (P-value) is greater than 5% (0.05) otherwise rejected. Table 3 above revealed that Rw^2 value of 0.032611 implies that there was 3% systematic variation in the dependent variable explained by explanatory variables. The low value of Rw^2 means the none inclusion of other possible variables that might contribute to accounting conservatism. However, the account of the overall significance of the model, the Rn-squared statistic value of 46.07 and its associated probability of 0.00 indicates that all the explanatory variables taken holistically significantly explain the dependent variable. Hence, the explanatory power of the model is strong.

Based on the individual relationship of the explanatory variables, the signs of the z-statistics showed that board size (BS) exerts a positive (0.2450) and insignificant (0.8064) relationship with accounting conservatism (AC). The positive relationship implies a change in BS brings about conservative of accounting information but it is statistically insignificant at $p\text{-value} > 0.05$. Board independence (BDI) exerts a negative (-3.6228) and significant (0.0003) relationship with AC. The negative relationship implies a change in BDI brings about less conservative of accounting information but it is statistically significant at 1%. Ownership structure (OWS) exerts a positive (6.2947) and significant (0.0000) relationship with AC. The positive relationship implies a change in OWS brings about enhance conservative of accounting information but it is statistically insignificant at 1%. Audit committee (AUDC) exerts a positive (1.9661) and significant (0.0493) relationship with AC. The positive relationship implies a change in AUDC brings about enhance conservative of accounting information



but it is statistically insignificant at 5%. The overall variables signify that corporate governance significant relationship with accounting conservatism.

Discussion of Findings

The regression results revealed that board size exerts a positive and insignificant relationship with accounting conservatism. The result was in agreement with the findings of Elshandidy and Hassanein (2014) that board size has no significant relationship with AC while in disagreement with the findings of Nasr and Ntim (2018) that board size has a significant negative impact on AC. This indicates that the hypothesis was rejected that board size is positively and significantly related with accounting conservatism. Board independence exerts a negative and significant relationship with accounting conservatism. The result was in agreement with the findings of Zadeh, et al. (2022) that board independence had a moderating relationship between AC while in disagreement with the findings of Al-Abedi, *et al.*, (2022) that board independence as variable of CG has no significant impact on AC. This indicates that the hypothesis was accepted that board independence is significantly related with accounting conservatism.

Ownership structure exerts a positive and significant relationship with accounting conservatism. The result was in agreement with the finding of Alves (2019) that *ownership concentration has a significant positive relationship with AC* while in disagreement with the findings of Dita and Heri (2017) that *managerial ownership has no significant relationship with AC*. This indicates that the hypothesis was accepted that *ownership structure* is positively and significantly related with accounting conservatism. Audit committee exerts a positive and significant relationship with accounting conservatism. The result was in disagreement with the finding of El-habashy (2019) that audit committee has no significant effect AC. This indicates that the hypothesis was accepted that audit committee is significantly related with accounting conservatism.

5. Conclusion and Recommendations

The study investigated the influence of corporate governance on accounting conservatism of listed brewery firms in Nigeria. Conservatism is a principle of accounting that had been debated by contemporary academicians, scholars and accounting standard setters that the accountants should apply the principle of prudence in the preparation of financial statement through the recognition of transactions caused by economic uncertainty. Expo-facto research design was used to sample four (4) Nigeria Brewery Plc, International Brewery Plc, Champion Brewery and Guinness Nigeria Plc for the period of 2012 to 2022 and analysed using descriptive statistics, correlation analysis and robust least square regression techniques.

The study concluded that board exerts a positive and insignificant relationship with accounting conservatism, board independence exerts a negative and significant relationship with accounting conservatism, ownership structure exerts a positive and significant relationship with accounting conservatism and audit committee exerts a positive and significant relationship with accounting conservatism.



The following were the study recommendations:

- (i) Since ownership structures as a corporate governance variable is significant and positive, management of listed brewery firms in Nigeria should engage more institutional investors for the purpose of accounting conservatism.
- (ii) The study recommended that audit committee is another unique corporate governance variable that management should explore in the area of accounting conservatism among listed brewery firms in Nigeria.
- (iii) Management of listed brewery firms in Nigeria should be caution against changes in board independence because the corporate governance variable has adverse influence on accounting conservatism significantly.
- (iv) The study recommended that management of listed brewery firms in Nigeria should carefully explore the usage of corporate governance code of conduct for effective conservation of accounting information since the corporate governance variables (board independence, ownership structure and audit committee) significantly influence accounting conservatism.

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