# EFFECTS OF CORPORATE GOVERNANCE ON ACCOUNTING CONSERVATISM: AN INVESTIGATION OF THE MODERATING ROLE OF IFRS ADOPTION IN THE LISTED FIRMS IN MALAYSIA, SINGAPORE, AND THAILAND

**SUTATHIP PHAPHO**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT**
**OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF**
**PHILOSOPHY PROGRAM IN BUSINESS ADMINISTRATION**
**FACULTY OF BUSINESS ADMINISTRATION**
**RAJAMANGALA UNIVERSITY OF TECHNOLOGY THANYABURI**
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| **Name – Surname** | Mrs. Sutathip Phapho |
| **Program** | Business Administration |
| **Dissertation Advisor** | Assistant Professor Nuchjaree Pichetkun, Ph.D. |
| **Dissertation Co-advisor** | Associate Professor Sungworn Ngudgratoke, Ph.D. |
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**DISSERTATION COMMITTEE**

.................................................. Chairman
(Associate Professor Kanibhatti Nitirojntanad, D.B.A.)

Supa Tongkong
.................................................. Committee
(Assistant Professor Supa Tongkong, Ph.D.)

Nartraphee Tancho
.................................................. Committee
(Assistant Professor Nartraphee Tancho, Ph.D.)

S. Ngudgratoke
.................................................. Committee
(Associate Professor Sungworn Ngudgratoke, Ph.D.)

P. Nuchjaree
.................................................. Committee
(Assistant Professor Nuchjaree Pichetkun, Ph.D.)

Approved by the Faculty of Business Administration, Rajamangala University of Technology Thanyaburi in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy

Nartraphee Tancho
.................................................. Dean of Faculty of Business Administration
(Assistant Professor Nartraphee Tancho, Ph.D.)
September 23, 2020

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## ABSTRACT

The purposes of this study were to examine the effect of the OECD principles corporate governance (2004) on accounting conservatism and to investigate the role of the IFRS adoption in the listed firms in Malaysia, Singapore, and Thailand as a moderating variable influencing the impact of the OECD principles corporate governance on accounting conservatism. This study captured accounting conservatism measured through discretionary accruals models. The levels of IFRS modifications, according to Felski (2017), were divided into three groups: (1) the full IFRS adoption, (2) the local IFRS adoption by design, and (3) the local IFRS adoption by default.

The data in this research were secondary data obtained from 603 listed firms in the stock markets in Malaysia and Singapore, and the Stock Exchange of Thailand in 2018. The samples were profitable firms from all industrial groups, excluding financial sectors. The data were analyzed using multiple linear regression, analysis of variance (ANOVA), and Z-scores.

The research results revealed that the OECD principles corporate governance had an effect on accounting conservatism. Moreover, complementary effects and substitutional effects were found on accounting conservatism. The IFRS adoption, as a moderating variable, had mixed effects on the impact of the OECD principles corporate governance on accounting conservatism. This study may benefit corporate governance regulators and corporate governance policymakers in planning and improving the mechanisms affecting accounting conservatism.

**Keywords**: corporate governance, IFRS adoption, accounting conservatism

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# CHAPTER 1
# INTRODUCTION

## 1.1 Background and Statement of the Problem

On December 31st, 2015, ASEAN Economics Community (AEC) was successfully established with "One Vision, One Identity, One community" as its official motto for the organization (Jereza, 2016). The single market and production base involve free flow of goods, services, capital, and skilled labor. This is known as one of the significant components under the AEC Blueprint. The objective of the event was to provide a great opportunity for the members' population to trade and invest on businesses that affect the ASEAN regions and their neighborhood. This makes AEC attractive for both international and domestic investors (AIMO, 2015). Such opportunity has also been highlighted by businesses and governments around the globe. Moreover, most research projects have focused on this area (Sumano, 2015). Talamo (2011) who studied "Corporate Governance and Capital Flows" claimed that opening the country and the investment regimes is a powerful tool to attract investment, especially foreign direct investments (FDI). The flows of FDI are attracted by the countries with higher shareholder protection since it reflects more efficient corporate governance mechanism.

The ASEAN Capital Markets Forum (ACMF) consists of the group of capital market regulators from all ten ASEAN jurisdictions. The primary responsibility of this forum is to develop a deep, liquid, and integrated regional capital market. One of its projects is ACMF Corporate Governance Initiatives that Thailand, Malaysia, Singapore, The Philippines, Indonesia and Vietnam participated. It deals with the level of corporate governance disclosure of the listed firms in the ASEAN region. Another objective of the project is to promote and enhance corporate governance in this region to meet international standards. It is also accepted by investors from different countries around the globe that this project is to support the liberalization of AEC.

Putra (2018) studied the relationship between foreign ownership and profitability in the ASEAN countries based on the effect of ASEAN corporate governance scorecard. The samples were manufacturers of the listed firms in the stock markets of Thailand, Singapore, the Philippines, Indonesia, and Malaysia from 2012-2013. It was found that high ASEAN corporate governance scorecard supported the foreign shareholder role in profits increasing. Justina and Simamora (2017) also found that the big 50 of the highest ASEAN corporate governance scorecards were ranked moderate on the effect of foreign ownership on firm value in ASEAN. Thus, the high ASEAN corporate governance scorecard supports the foreign shareholder role in increasing firm value.

The Asian financial crisis, one of the most significant economic events in recent world history occurred from 1997-1998, affected Thailand and led to a financial crisis in South Korea, Indonesia, the Philippines, and Malaysia. One of the most important causes was the failure of countries with financial mismanagement (Gates, 1998). In regard to the Asian financial crisis, one of the important causes of the financial and economic collapse proposed by many analysts relies on weak corporate governance (Khan, 2003). Subsequently, improvement by reforms in corporate governance was introduced to Asian countries (Cabalu, 2005). Singapore with the strategic review of the Monetary Authority of Singapore (MAS) led to the establishment of Singapore's first Code of Corporate Governance (Code) in 2001 (Koh & Yip, 2016). Chuanrommanee and Swierczek (2007), who studied "Corporate Governance in ASEAN Financial Corporations" in the area of three countries in ASEAN: Malaysia, Singapore, and Thailand, found that their corporate governance practices were consistent with international best practices. However, their practices were inconsistent with the level of corporate governance reported by themselves and by the ratings of international financial institutions. Thus, they concluded that corporate governance in ASEAN was more illusion than fact.

ASEAN Exchanges is one capital market, but the products are distributed from many countries. It is considered as an increase in globalization of financial and product markets since it has raised the interest of both regulators and market participants in the financial reporting quality worldwide (Kothari, 2000). In addition, the mandatory introduction of International Financial Reporting Standards (IFRS) gives rise to an increasing demand of institutional investors for equities (Florou & Pope, 2012). In the national context, low-corruption and better investor protection countries experience a larger increase in foreign portfolio investment (FPI) after they have adopted IFRS relative to other IFRS users (Amiram, 2012).

IFRS is supported worldwide with 27,000 domestically listed companies on 88 major stock exchanges in the world using IFRS Standards (Pacter, 2017). Although the IFRS adoption has increased financial reporting quality (Yurisandi & Puspitasari, 2015), there are several factors that make each country unable to complete the IFRS standards adoption (Limijaya, 2017). The solutions that have been contributed to the IFRS adoption are to adopt IFRS as national standards, recast IFRS as national standard, modify national standard over time to converge to IFRS, base IFRS on national standards, and converge now that refers to expectation of adopting later (Barth, 2014).

The levels of IFRS adoption in each ASEAN country are different. In regard to the environment of these countries, Felski (2017) found that there was a lack of resources to achieve the newest version of IFRS or ensure proper translation of the standards, and the countries made specific changes on IFRS in order to meet their necessities and support their financial reporting environment. According to Felski, the Philippines and Singapore were categorized as IFRS Local Adoption by Design, whereas Thailand was categorized as IFRS Local Adoption by Default.

In Malaysia, full IFRS was introduced by the Malaysian Accounting Standard Board (MASB) on January 1, 2012 (Yeow & Mahzan, 2013). In Singapore, Accounting Standard Council Singapore (ASC) issued Singapore Financial Reporting Standards (International) (SFRS(I)s), or Singapore's equivalent of IFRS on December 29, 2017, with full convergence with IFRS for Singaporean listed companies for the annual period beginning on or after January 1, 2018 (ASC, 2017). However, Thailand is the only one in ASEAN that issued Thai Financial Reporting Standards: TFRS by the Committee on Accounting Standard Setting (CASS). The CASS set up or updated TFRS based on IFRS, which, at that time, had to take up to one or two years from the adoption of IFRS (Chattanrassamee, 2015).

The results of previous studies address that the disclosure of accounting information that achieves high quality in performance is a provision of risk arising from the investment (K. Hasan, 2016), and there are positive association between investor's decision and financial reporting quality (Kwarbai, Jayeoba, Ajibade, & Nwaobia, 2016). The financial reporting mechanisms that contribute to the success and sustainability of the capital market are related to capital allocation, listing on the stock exchange, financial statements, accounting standards, information, etc. (Mureşan, 2012). As illustrated in Figure 1.1, there are many factors that influence financial reports. Corporate governance and IFRS are the factors to the success and sustainability of the capital market while the capital markets are importantly addressed to enhance the corporate governance standards (F. Haque, Arun, & Kirkpatrick, 2008).

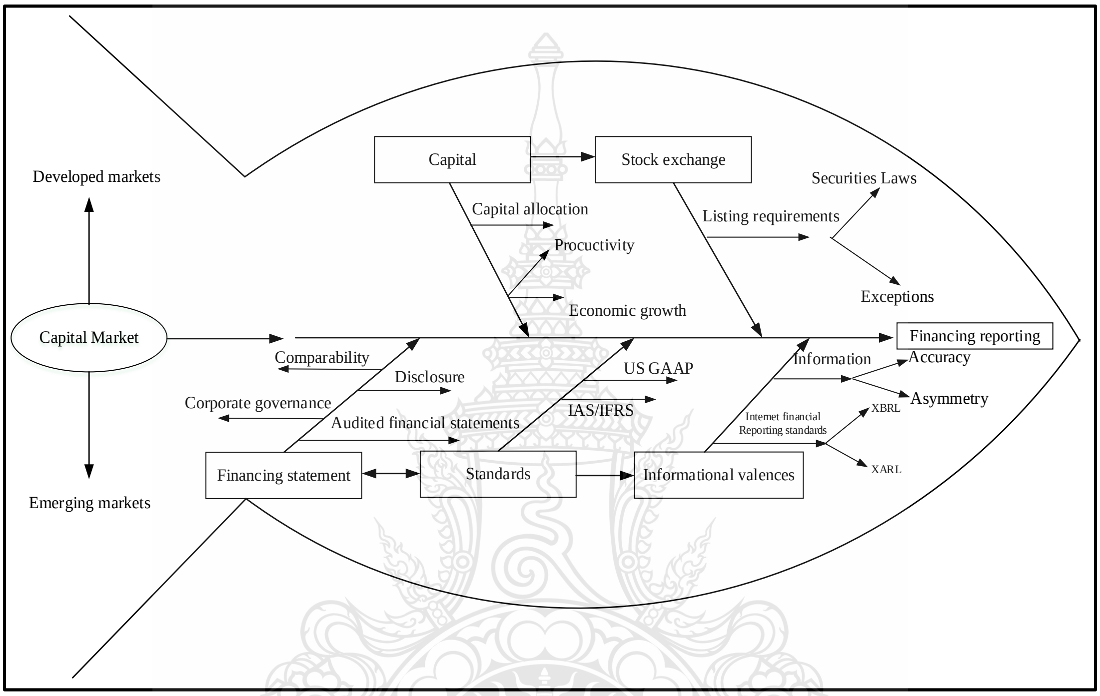


**Figure 1.1** Financial Reporting on Capital Market (Mureşan, 2012)

The reliable financial reports can be produced based on the responsibility of corporate governance structure which consists of seven interrelated mechanism functions comprising oversight, managerial, compliance, audit, advisory, assurance, and monitoring (Rezaee, 2004). The requirements of conservatism has a closer link with a reliable report of past events focusing on the function of accounting (Hellman, 2008). Conservative accounting provides information to outside users without overstated or understated gains and losses (LaFond & Watts, 2008). Since conservatism, a prudent reaction to uncertainty, provides the investor with information about the payoffs to investments, exclusively the uncertainty is involved in these investments (Penman, 2016).

According to the study of Vichitsarawong, Eng, and Meek (2009) concerning the impact of the Asian financial crisis on accounting conservatism in Hong Kong, Malaysia, Singapore, and Thailand, their reforms of corporate governance had a positive meet on accounting conservatism. However, the two roles of accounting conservatism on corporate governance, comprising substitution and complement, were found by researchers. Chi, Liu, and Wang (2009) found that when corporate governance is weakened, accounting conservatism is needed as a substitution. On the other hand, Lara, Osma, and Penalva (2009) indicated that corporate governance and conservatism are not substitutes, but strong corporate governance firms use more accounting conservatism as a complement. The evidence confirmed that corporate governance and accounting conservatism are related.

The relation of corporate governance and financial information was studied in previous research. The principles in focus were a board of director (Eyesan, Dabor, & Adeyemi, 2009; Franczak, 2019; Ogeh Fiador, 2013), ownership structure (Abdelsalam & Street, 2007; Omri & Klai, 2011), the transparency level (Adiloğlu & Vuran, 2012), the roles of stakeholder (Dhaliwal, Li, Tsang, & Yang, 2014; Laan, Ees, & Witteloostuijn, 2008), and disclosure (Ettredge, Richardson, & Scholz, 2001; Martínez-Ferrero, Ruiz-Cano, & García-Sánchez, 2016). The studies investigated the effect of IFRS adoption in various aspects, especially the IFRS adoption on accounting conservatism (André, Filip, & Paugam, 2013; Elshandidy & Hassanein, 2014; Ermina Sari, 2019). Such studies paid a great deal since the "qualitative characteristics" of useful financial information of conservatism that were replaced with "neutrality" of both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (FASB, 2010; IASB, 2018).

The importance of corporate governance in the ASEAN countries has been growing at an international level. However, the IFRS adoption levels among Malaysian listed firms, Singaporean listed firms, and Thai listed firms differs (Felski, 2017). Kao and Wei (2014) and Yunina et al. (2018) found that corporate governance and the IFRS adoption were related. Interestingly, the perspective of IFRS standard is principle-based (Elshandidy & Hassanein, 2014), and requires professional judgments (Benston, Bromwich, & Wagenhofer, 2006). Kolsi and Zehri (2013) further identified that professional judgment and accounting practices to implement the IFRS standard are influenced by culture.

In regards to the relative of IFRS and financial information, Juniarti, Raharjo, and Monica (2018) found that the IFRS adoption reduced the level of conservatism. In contrast, Wardhani (2010), who studied listed firms in ten Asia markets, found that the degree of convergence to IFRS positively affected accounting conservatism.

Most of the aforementioned research studies refer to certain factors, but still lack a comprehensive investigation of all principles of corporate governance based on the OECD version, and the influence of level of IFRS adoption as a moderator role. Therefore, the objectives of this study are to investigate the effect of corporate governance mechanisms on financial information: accounting conservatism among five principles according to the OECD principles of corporate governance – 2004 edition, which comprise the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004). Moreover, this study will also look at the influence of the IFRS adoption whether it has the moderator role.

## 1.2 Purpose of the Study

According to the background of the research and the theoretical perspective, this study aims to examine corporate governance, the IFRS adoption, and accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand, which are comprised of two purposes as follows:

1. To investigate the effects of corporate governance: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand.

2. To investigate the moderating effect of the IFRS adoption level in Malaysia, Singapore and Thailand on the effects of corporate governance variables: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role

of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms.

With this research objective emerging from the literature review of previous studies, the research questions can be delineated. The methods employed in this study include the formulation of specific research hypotheses and data collection from the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand.

## 1.3 Research Questions and Hypotheses

The issue of the IFRS adoption in the developing country is faced with the challenge of different issues, such as culture, weak governance, and education (M. T. Hasan & Rahman, 2017; Judge, Li, & Pinsker, 2010). Furthermore, there is little evidence of the relationship between corporate governance and accounting conservatism of the listed firms of ASEAN countries whether it depends on the IFRS adoption. ASEAN's development of a single market and production base imply that AEC requires developing the capital market in the future since there are different levels of development among AEC member states. Thus, the research questions and hypotheses of this study are as follows:

Research Question 1: Does corporate governance: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board, affect accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

### 1.3.1 The Rights of Shareholders and Key Ownership Functions

According to agency theory, conflict of interest occurs when the value of the shareholder and manager relationships are not optimized due to different interests and asymmetrical information. In order to prevent the management to abuse their position and power to protect their interests, the shareholders may use several different mechanisms, such as ownership concentration (Boshkoska, 2015) since the largest shareholder ownership has a significantly negative effect on accounting conservatism (Y. Wu, 2011). Nevertheless, the study of Alali and Romero (2012) found that the firms with higher ownership concentration disclosed more financial and non-financial information than those with less concentration. In contrast, Alkurdi, Al-Nimer, and Dabaghia (2017) found that the ownership concentration had no effect on conservatism. Based on these findings, this study uses the percentage of shares held by the largest shareholder as the proxy of the rights of shareholders and key ownership functions. Thus, the hypothesis is as follows:

Hypothesis 1.1: There is a significant effect of the percentage of shares held by the largest shareholder on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

**1.3.2 The Equitable Treatment of Shareholders**

According to the principle of the equitable treatment of shareholders, all shareholders of the same series of a class should be treated equally (OECD, 2004). Sidek (2008) identified that the main challenges in ensuring the equitable treatment of shareholders, especially minority shareholders, are related to their three basic rights which are the right to seek information, the right to voice opinions, and the right to seek redress.

Since investor relations is a vital factor to maximize shareholder value (SET, 2014), it is important to ensure the right to seek information. The firm website should provide corporate information, including financial information for shareholders, analysts, and other interested capital market participants for all shareholders to get access to equally (Mendes-Da-Silva, Christensen, & Richardson, 2008). Singh (2018) suggested that information on the website should be quick and easy to search. Moreover, users can aggregate a specific disclosure across all filers for a target period. According to Brown and Hillegeist (2007), information asymmetry was negatively associated with investor relation activities. Thus, the dedication of investor relations on the firm website should be the proxy of the equitable treatment of shareholders. Thus, the hypothesis is as follows:

Hypothesis 1.2: There is a significant effect of investor relations on the website of the firm on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

**1.3.3 The Role of Stakeholders in Corporate Governance**

The framework of corporate governance should recognize the rights of stakeholders (OECD, 2004). The stakeholders refer to shareholders, employees, creditors, customers, suppliers, and local communities. The observance of environmental and social standards is relevant to them (OECD, 2008). The results of previous studies contend that the labor union strength leads to less conditional conservatism (Hsieh, Jung, & Yi, 2017). The mandatory Corporate Social Responsibility (CSR) components have a negative effect on accounting conservatism in Tehran stock exchange corporations (Karsalari, Aghaee, & Ghasemi, 2017). Based on Saudi business environment, sustainability disclosure leads to a decrease in information asymmetry and an increase in the value of accounting conservatism (A. Mohamad, Malo Alain, Ragab, & Ghoneim, 2019). Thus, hypothesis is as follows:

Hypothesis 1.3: There is a significant effect of sustainability reporting on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

**1.3.4 The Disclosure and Transparency**

It is important that the website of the firm discloses the material information regarding the corporation, including its financial situation, performance, ownership, and governance of the firm in a timely manner. This leads to greater transparency and helps improve the perception of investors (Jiang, Raghupathi, & Raghupathi, 2009). Firms use the investor relation page on the firm website as a venue to display both required and voluntary disclosures (Epping Lori & Wilder, 2011). Additionally, more informative investor relation websites are able to decrease the information asymmetry of listed companies (S. d. S. Rodrigues & F. C. Galdi, 2017). Investor relations lead to lower information risk, and successfully reduce risks associated with high information asymmetry (Agarwal, Liao, Nash, & Taffler, 2008).

By utilizing the SEC's 2005, the firms report less conservatively after the risk factor disclosures are included in their 10-K filings (Wang, 2019). In addition, the quality of information on the internet is influenced by the accessibility and quantity of information provided (Chatterjee & Hawkes, 2008). Brown and Hillegeist (2007) believed that the quality of disclosure was difficult to measure. However, the quantity of value relevant information that is conveyed is an important attribute of disclosure quality. Thus, this study used quantity of content on investor relations as the proxy of the disclosure and transparency. Thus, the next hypothesis is as follows:

Hypothesis 1.4: There is a significant effect of the content quantity on investor relations on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

### 1.3.5 The Responsibilities of the Board

According to the corporate governance framework of Malaysia, Singapore, and Thailand, it is suggested that the firm should provide an appropriate balance and a mix of skills, including knowledge, experience of board, and other aspects of diversity, such as gender, board, and age (MAS, 2018; SC, 2017; SEC, 2017). Moreover, the firm should disclose the policy in the firm's annual report (PwC, 2018). Interestingly, Malaysian Corporate Governance Code assigned for large firms, the board must have at least 30% women directors (MAS, 2018). Consequently, this study focused on the board size and its composition, comprising the independent board, audit committee, and genders as follows:

1.3.5.1 Size of the Board

A single board or even a small group of individuals of the board are hard to understand all of the issues of the firm (Conger, Finegold, & III, 1998). Larger boards are expected to obtain more resources, including diverse education, industry backgrounds, and skills with multiple perspectives to improve the quality of the firm's operations (Zahra & Pearce, 1989). Ramly, Sok-Gee, Mustapha, and Sapiei (2015) found that the board size increases the efficiency of the firm. On the other hand, a small board resolves poor communication and decision-making that normally occur in the large board (Yermack, 1996).

The size of the board means the number of the board members while their skills and knowledge are not included (Bonn, Yoshikawa, & Phan, 2004). Nonetheless, Yunos, Ahmad, and Sulaiman (2014) found that the board size and accounting conservatism were not related. Their study is different from the result of Mahmoud and Collins (2018), which found that the board size was negatively associated with accounting conservatism. Thus, the next hypothesis is as follows:

Hypothesis 1.5.1: There is a significant effect of the size of the board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

1.3.5.2 The Independent Board

In general, a clear number of independent board members are not specified. In addition, the non-executive board members should be considered for independent judgment of tasks (OECD, 2004). Thus, the relationship between the independent board and accounting conservatism has been studied. W. Lin, Fan, and Cheng (2011); Mahmoud and Collins (2018); Suleiman (2014) found that there was a positive association between board independence and accounting conservatism while Amran and Manaf (2014) found that the high number of independent non-executive directors shows a low level of conservatism. Thus, the more independent board implies the more connection. Liang, Chen, Fu, and Fang (2017) identified that the higher the network centrality of independent directors is, the lower the accounting conservatism will be. However, Johl, Johl, and Cooper (2015) found that the independent board does not affect firm performance. Therefore, the next hypothesis is as follows:

Hypothesis 1.5.2: There is a significant effect of the proportion of independent board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

1.3.5.3 Proportion of Female Board

The notion of risk aversion between males and females remains unconcluded. Wik, Kebede, Bergland, & Holden, (2004) found that females are more risk-averse than males, which is opposed to the study of Sultana and Zahn (2015), who found that all-male boards are more risk-averse than more gender diverse boards. Several papers found that gender diversity is significantly and positively correlated with accounting conservatism (Boussaid, Hamza, & Sougné, 2015; Makhlouf, Alsufy, & Almubaideen, 2018; Zhou, Accounting, & Finance, 2012). In contrast, Ramly, Sok-Gee, et al. (2015) found that gender diversity decreases firm efficiency. Thus, the next hypothesis is as follows:

Hypothesis 1.5.3: There is a significant effect of the proportion of female board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

1.3.5.4 CEO Duality

CEO duality is the condition when one person takes two responsibilities as CEO and chairman. Previous studies reveal that CEO duality negatively causes the firm performance. This is due to the fact that when both the higher positions of a firm are occupied by the same person, there is no check and balance of authority and power (Rasheed & Nisar, 2018). Some studies pointed out that separation of power between the

CEO and the chairman leads to an increase in conservatism in financial reporting (FOROGHI, AMIRI, & FALLAH, 2013). Interestingly, Yunos (2011) found that CEO duality is not associated with accounting conservatism, whereas Chi et al. (2009) revealed that CEO duality increases the level of conservatism. This is because CEO duality is a weak corporate governance mechanism, so managers use conservation to compensate for this weakness. This, the next hypothesis is as follows:

Hypothesis 1.5.4: There is a significant effect of CEO duality on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

1.3.5.5 Audit committee member

The audit committee is one of the sub-committees of the board. To ensure their responsibilities and credibility, the sub-committee performs the ability to fulfill the audit committee to achieve the financial report objectives. A firm organizes an audit committee within the board to help with the active role in supervising accounting of the firm as well as financial reporting policies and practices, and to improve the quality of financial reporting practices (Salleh & Haat, 2013). However, the stakeholders judge the committee's value by their experience, financial expertise, and frequency of meeting (Sultana, 2015). Hamdan, Al-Hayale, and Aboagela (2012) did not find any influence of the audit committee size and the dependence of members of the audit committee on improving the level of accounting conservatism. Thus, the next hypothesis is as follows:

Hypothesis 1.5.5: There is a significant effect of audit committee members on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

1.3.5.6 Gender of audit committee

According to the notion that females are more risk-averse than males (Wik, Kebede, Bergland, & Holden, 2004), it leads to the adoption of more conservative financial reporting policies (B. Francis, Hasan, Park, & Wu, 2014). In case the number of female directors is higher, the firm's risk will be lower (Fauzi, Basyith, & Ho, 2017). Likewise, Qi and Tian (2012) suggested that female audit committees play a positive role in achieving greater earnings and there should be an increase in the proportion of women on the board of directors. In addition, the finding of Huang and Thiruvadi (2010) indicates that female directors function more effectively than all-male audit committees. Thus, this next hypothesis is as follows:

Hypothesis 1.5.6: There is a significant effect of female audit committee participation on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Research Question 2: Is there the moderating effect on the level of IFRS adoption of corporate governance: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Based on corporate governance associated with less information asymmetry (Cormier, 2014) and the notion by LaFond and Watts (2008), the information asymmetry between the insider and the outsider of the firm generates conservatism. Additionally, the introduction of IFRS gives rise to an impact of corporate governance on information asymmetry reduction (Cormier, 2014). The study on the impact of the mandatory change to IFRS in 2005 by European firms on the level of accounting conservatism found that the decrease in conservatism is most significant in the countries where differences occur when adopting the new IFRS standards (André & Filip, 2012). In addition, the levels of IFRS adoption differ among the listed firms in Malaysia, Singapore, and Thailand (Felski, 2017). Thus, the next hypothesis is as follows:

Hypothesis 2: The IFRS adoption moderates the effect of the corporate governance: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

## 1.4 Research Framework

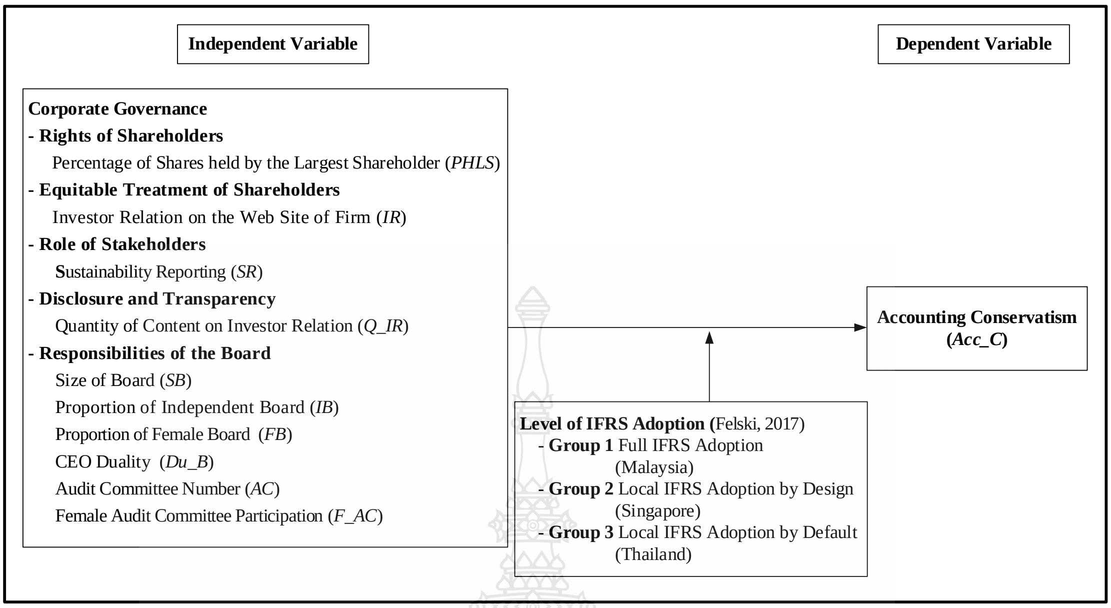


**Figure 1.2** Research Framework

## 1.5 Definitions of Terms

The following definitions of terms describe the terminology used in this study.

**Conservatism**

Conservatism is a prudent reaction to uncertainty to ensure that uncertainty and risks in business situations are adequately considered (FASB, 1980).

**Accounting Conservatism**

Accounting conservatism is the differential verifiability required for recognition of profits versus losses, by the concept of "anticipate no profit, but anticipate all losses" (R. Watts, 2002). It is proven to be able to decrease the level of earnings management in the firm (A. Haque, Mughal, & Zahid, 2016; Lara, Osma, & Penalva, 2012; Nahandi, Baghbani, & Bolouri, 2012). Therefore, accounting conservatism indicates earnings quality (Asri & Habbe, 2017).

**Corporate Governance**

Corporate governance is related to the relationships between the management, the board, shareholders, and other stakeholders of the firm. It determines the structure of setting the objectives of the firm, means to attain those objectives, and means to monitor performance

(OECD, 2015). The five OECD principles of corporate governance (2004) are comprised of the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004).

**Investor Relations**

Investor relations is a task of the firm management in order to provide timely, accurate, useful, meaningful, understandable, and complete information to the investor community. The information conveys the present business status, forecasting future status, transparency, and managing relations (Djordjevic, 2013).

**Information Asymmetry**

Information asymmetry occurs when certain stakeholders possess the firm's private information while other uninformed stakeholders can only access to public information (Brown & Hillegeist, 2007).

**IFRS Adoption**

IFRS adoption means that International Financial Reporting Standards: IFRS replaces the national accounting standards (Yusrina, Mukhtaruddin, Fuadah, & Sulong, 2017). However, the adoption is not a straightforward process (Felski, 2015). Nobes (2011) suggested six different adoption methods that countries can react to IFRS which are adopting the IFRS process, inserting IFRS (unchanged in substance) into laws, endorsing IFRS, fully converging with IFRS (and intending compliance), adapting IFRS, and allowing IFRS. Furthermore, Felski (2017) identified the three levels of IFRS adoption: full IFRS adoption, local IFRS adoption by design, and local IFRS adoption by default.

## 1.6 Scope of the Study

The key objectives of this study are to investigate corporate governance using the five principles of OECD as independent variables whether they affect accounting conservatism of the listed firms in Malaysia, Singapore and Thailand, and to investigate the level of IFRS adoption, including full IFRS adoption, local IFRS adoption by design, and local IFRS adoption by default as the moderator variables.

The data are collected from annual reports of the public firms in 2018, and from the websites of the listed firms in three ASEAN Exchanges, including Bursa Malaysia (MYX, Malaysia), Singapore Exchange (SGX, Singapore), and the Stock Exchange of Thailand (SET, Thailand).

The samples are selected by using the purposive sampling method determined by several criteria based on the firms' financial statements reported in 2018, and the financial period ending on December 31. The firms in the financial sector and those showing losses are excluded from the sampling method of this study. The final samples consist of 603 firms comprising 221 firms from Malaysia, 131 firms from Singapore, and 251 firms from Thailand. The data are analyzed by using Multiple Linear Regression, ANOVA and Z values.

**1.7 Limitations of the Study**

This study has four limitations. Firstly, corporate governance in this study is based on the five areas of the OECD 2004 principles: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board, which are inconsistent with the current version of OECD (G20/OECD) principles of corporate governance. Unlike the former version, the current version includes the principles of the rights of shareholders and the equitable treatment of shareholders as one principle. Moreover, the current version includes the principle of Institutional Investors, Stock Markets, and other intermediaries.

Secondly, the proxies of corporate governance under study are of some configuration while the other aspects of corporate governance variables may also have an effect on financial information (Shiri, Vaghfi, Soltani, & Esmaeli, 2012; Swastika, 2013). This is because some information is limited amongst many firms and the information gathered is based on the public disclosure of the firms, which have a lack of defined standards in the ASEAN countries. Although the firms have disclosed financial information, several disclosure matters are rather small (Sukmadilagaa, Pratamab, & Mulyanic, 2015). Thus, this study collects the data based on the information from the annual reports and the firm websites. Only publicly available and easily accessible information is used.

Thirdly, measurement of accounting conservatism can be conducted in several ways. In this study, only discretionary accruals that have multiple proxies to generalize the results are used.

Lastly, the data regarding the adoption of IFRS are collected from the latest updates on the IFRS Foundation's website.

## 1.8 Organization of the Study

This study consists of five chapters.

Chapter one: Introduction. This chapter presents the background and statement of the problem, research objectives, research questions, hypotheses, conceptual framework, definitions of terms, scope, limitation, and contribution of this study.

Chapter two: Review of Literature. Based on the reviewing of previous studies in related areas to lay a foundation for the study both theoretically and empirically, this chapter is designed to review major theoretical concepts in the field of research on conservatism and the influence of various related factors on it.

Chapter three: Research Methodology. This chapter presents the methodology relevant in this study, based on the research questions, hypotheses, literature review, and the relevant topics of the sampling plan and research design.

Chapter four: Research Results. Mainly presented in this chapter are the research findings that have been analyzed and presented. The hypothesis testing and a summary of findings are reported to the extent of the hypotheses.

Chapter five: Conclusion and Recommendations. This chapter presents a conclusion of the findings in theoretical and practical perspectives, including the discussions of the study which include contributions, limitations, and recommendations for future research.

## 1.9 Contribution of the Study

The findings of this study lead to the following contributions. First, the results of this study indicate that the countries in ASEAN are positioned as one market despite verious corporate governance mechanisms on information for stakeholders. This study provides some evidence for the governments, regulators, leaders of organizations for further decision-making.

Secondly, the issues facing global financial reporting standard setters are broad, difficult, and complex (Barth, 2006); therefore, this study is to confirm whether the movement to single standard accounting for the world business still needs to find a joint solution between the relevant organizations, especially IASB and FASB.

Lastly, this study shows the influence of cultures, religions, diversity, and legal system as important factors that should be concerned about in order to comply with the motto of the ASEAN: “One Vision, One Identity, One Community” (Jereza, 2016).

# CHAPTER 2
# REVIEW OF THE LITERATURE

## 2.1 Introduction

The review of the literature consists of nine main sections. The first section provides the theoretical framework for corporate governance, including agency theory, stakeholder theory, and stewardship theory. The second section provides the concept of corporate governance based on five OECD principles: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004), together with corporate governance in Malaysia, Singapore, and Thailand. The third section provides the information about the IFRS adoption, including IFRS implementation statuses of Malaysia, Singapore, and Thailand. The fourth section provides the concept of accounting conservatism. The next two sections provide the information that IASB has an enforcement power on the use of IFRS although the use of a single set of accounting standards does not completely eliminate the impact of culture on financial disclosure (Akman, 2011). Moreover, Gray (1988)'s proposal for incorporating Hofstede's cultural values provides a model for an investigation of the effect of culture on accounting systems. The fifth and the sixth sections provide the four Hofstede's National Cultural Dimensions (Hofstede, 1984) of Malaysia, Singapore, and Thailand, and accounting values by Gray (1988), respectively. Meanwhile, U.S. accounting standards are more rules-based than principles-based (Benston et al., 2006), but the IFRS adoption is principles-based, rather than rules-based (Elshandidy & Hassanein, 2014). To get a wider picture and more benefits for interpretation of the influence on the different of levels of the IFRS adoption, the seventh section presents the principles and the rules of the accounting standard. The eighth section discusses corporate governance and the IFRS adoption on accounting conservatism. Finally, the last section presents the proposed theoretical framework used in this study.

## 2.2 The Theoretical Framework for Corporate Governance

The theoretical framework for corporate governance includes three theories: agency theory, stakeholder theory, and stewardship theory.

### 2.2.1 Agency Theory

Agency theory is a principle that is used for explaining and resolving matters in the relationship between business goals and agents. It is based on the concept of Jensen & Meckling (1976) which suggested that the relationship of the agency theory is due to the fact that the shareholders are able to not only manage the business, but also introduce the need to have a representative in the management. As a result, the relationship between a shareholder as a principal, and a manager as an agent whose responsibilities are relevant to the management, the reports the operation results, and the duty to deliver benefits for the shareholder. Meanwhile, the principal is trying to control the operation of the agency. The management in this theory can also be seen through the agent creating conflict of interest or agency problem (see Figure 2.1).

According to the representative theory, everyone in the organization has the driving force to do for personal benefits. Therefore, the conflict of interests between a shareholder and the manager arises. In other words, the managers tend to continue building up for themselves regardless of the interests of shareholders. The managers will find ways to create maximum value for the firm only when it is considered that they will benefit from it. For instance, managers may not consider the return and opportunities in the long-term growth of the firm simply because the high cost may affect their compensation. This statement is confirmed from contemporary study results that address compensation of management associated with the manipulation of accounting information (HEALY, 1985; Klein, 2006; Rani, Hussain, & Chand, 2013). This situation is considered inefficient management and results in the cost of management that the firm has to bear the burden (agency cost).

Guidelines for solving these problems are that the shareholders should arrange an audit committee and internal auditors to check, and create incentives for the manager by providing compensation based on the ability to make profits. The solution enables the managers to work effectively to meet the demands of the shareholders. Therefore, compensation is an alternative to reduce the problems caused by agents. In so doing, both the shareholders and the managers are satisfied, receiving benefits.

Agency theory leads to the start of corporate governance issues (Subramanian, 2018), but it helps understand the conflicts of interest arising between business goals and agents, which results in potential problems of opportunism and the structures being related to help and supervise, and give them incentives. However, the organizational relationships on corporate governance may be more complicated than those proposed by agency theory, propositions of which may not be accepted in many situations. Other models to managerial motivation and behavior can be comprised of stakeholder theory and stewardship theory.

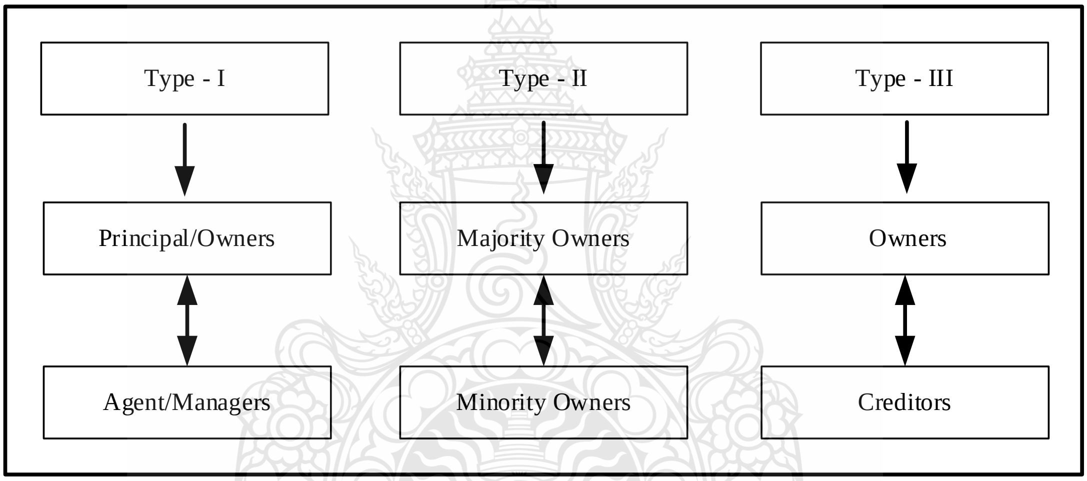


**Figure 2.1** Types of Agency Problem (Panda & Leepsa, 2017)

Figure 2.1 shows that information asymmetry gives rise to agency problems. In type I of agency problem of firms, the problem between the owners or shareholders (principal) and the managers (agent) occurs. The managers may make decisions for their own benefits due to their more operational information of the firms which is not beneficial for the shareholders (Boshkoska, 2015). In terms of ownership concentration, if the firm is controlled by the shareholders, the nature of the agency problem shifts from Agency Problem Type I to Agency Problem Type II which is the conflicts between the controlling owner who is also the manager and the minority owners (Joseph P. H. Fan & T. J. Wong, 2002).

Agency Problem Type III occurs when the firm provides investment in a risky project while the interest of the creditors is limited as only a fixed rate. Meanwhile, shareholders get a higher return if the project is successful. On the other hand, if the project fails, some of the losses are shared for creditors (Panda & Leepsa, 2017). Theoretically, corporate governance takes place as a set of mechanisms to deal with agency problems according to Namazi and Rezaei (2016), who indicated that the earning quality information is related negatively to the firm's agency costs. Figure 2.2 shows the interaction between agency theory, corporate governance and earning quality (Smit, 2015).

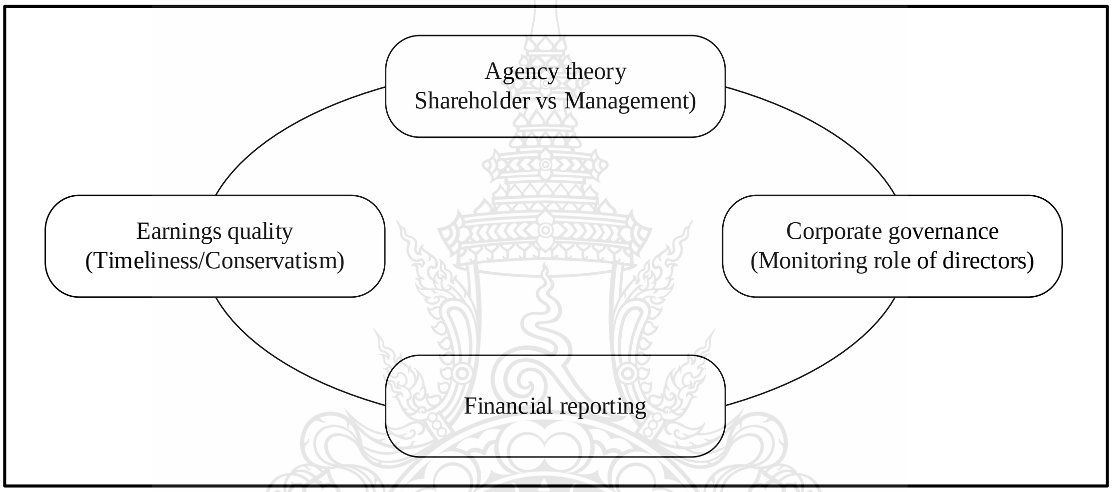


**Figure 2.2** Interaction between Agency Theory, Corporate Governance, and Earning Quality (Smit, 2015)

Figure 2.2 illustrated that, according to agency theory, agency problems occur due to the separation of control and ownership in corporations. A series of corporate governance mechanisms have to be implemented to minimize the agency problems and ensure that the management's interests are aligned with those of shareholders, which is the primary objective of corporate governance. According to agency theory, the board of directors has the responsibility to take care of the potential conflict of interests between the management and the shareholders (Homayoun & Homayoun, 2015). Corporate governance has an influence on information quality including financial reporting (Arieftiara & Utama, 2018; Klai & Omri, 2011; Omri & Klai, 2011). It is generally accepted that earning quality is the summary indicator of financial reporting quality (J. Francis, Olsson, & Schipper, 2008).

**2.2.2 Stakeholder Theory**

Stakeholder theory, written by R. Edward Freeman in 1984, focuses on promoting practical, effective, efficient, and ethical management methods in a highly complex and effective environment (Harrison, Freeman, & Abreu, 2015). It has been suitably applied to organizations or situations.

The principles or interpretations of stakeholder components depend on the nature of the firm. Generally, stakeholders are defined as persons or groups that have, or claim ownership, rights, or interests in a corporation and its past, present, or future activities (Clarkson, 1995). Stakeholders are divided into primary and secondary stakeholders. Primary stakeholders are the group that influences the survival of the organization, and typically comprised of shareholders and investors, employees, customers, and suppliers. ON the other hand, secondary stakeholders are not essential for the survival of the organization, but they have the capacity to mobilize public opinions in favor of, or in opposition to a corporation's performance. Thus, the participation of all stakeholders in the organization can result in enabling the organization to solve the arising problems, facilitate certain business processes, improve the quality of products and services, reduce the reputational risk, increase the availability of resources, and achieve the organizational goals (Krstic, 2014). Therefore, the organization should focus on stakeholders' satisfaction and developing strategies that recognize the importance of all legitimate stakeholders (Benn, Abratt, & O'Leary, 2016). Stakeholder engagement is recognized nowadays as one of the basic mechanisms of corporate social responsibility (Krstic, 2014).

**2.2.3 Stewardship Theory**

Stewardship theory has its roots from psychology and sociology (Davis & Schoorman, 1997). According to the fact that people have behaviors that meet the needs of society, the business will respond to the best interests of shareholders. Leaders of organizations need to create social acceptance to assist in dealing with failures and more justice than individual interests. They work toward the attainment of organizational, group, or societal goals in order to obtain a higher level of satisfaction (Menyah, 2013).

According to this theory, the executive manager is difficult to achieve being an opportunistic shirker. Nonetheless, he wishes to get a job done efficiently, and be a good steward of the corporate assets. Consequently, stewardship theory maintains that there is no inherent as general problem regarding executive motivation (Donaldson & Davis, 1991). Stewardship theory attains the objectives of the firms that the principal and the agent shall be perfectly aligned (Davis & Schoorman, 1997).

Previous studies attempted to validate either agency theory or stewardship theory as one best way to corporate governance and their findings are mixed. The conclusions indicate that both agency theory and stewardship theory are needed in various situations (Davis & Schoorman, 1997). While agency theory assumes that the agent's behavior is based on self-interest which may conflict with the principal's interest, stewardship theory assumes that steward behavior is based on serving others which will align with the principal's interest. Agency theory, stakeholder theory, and stewardship theory are the theoretical framework for corporate governance. The nature of the three theories are shown in Table 2.1.

**Table 2.1** The Theoretical Framework for Corporate Governance (Pande, 2011)

| Serial No. | Theoretical Framework | Basic Discipline | Year of Origin |
|---|---|---|---|
| 1 | Agency Theory | Economics | From 1930's onwards |
| 2 | Stakeholder Theory | Management | From 1970's onwards |
| 3 | Stewardship Theory | Psychology & Sociology | From 1990's onwards |

## 2.3 Corporate Governance

Corporate governance, with respect to the relationships among the board of directors, the management, controlling shareholders, minority shareholders and other stakeholders, refers to the structures and processes of setting and controlling the firms. Good corporate governance encourages the development of a sustainable economy by supporting the performance of firms, and increasing their access to outside capital (Benedetta & Berg, 2009).

Corporate governance has become the subject of debate worldwide by academics, regulators, executives, and investors (Cheffins, 2011). There are a variety of theories in corporate governance. The ultimate theories in corporate governance started with agency theory, extended into stewardship theory, and stakeholder theory. They also evolved to resource dependency theory, political theory, legitimacy theory and social contract theory. However, these theories discourse on the causes and consequences of variables, such as the formation of board structure, audit committee, independent non-executive directors, and the duties of upper management and their organizational and social responsibilities rather than its regulatory structures. Similarly, it is proposed that a mixture of various theories is best to describe an effective and efficient good governance practice rather than hypothesize corporate governance based on a sole theory (Yusoff & Alhaji, 2012).

Governance practices vary across the countries, firms, and their spirit of governance. Substantial corporate governance convergence suggests that different countries may have different company's ownership structures, rules, and institutions. However, the corporate board may still be able to perform common goals, with attention to similar key performance indicators, such as ensuring fair disclosure or accountability (Salvioni & Gennari, 2016).

Among various structural weaknesses in the East Asian countries, failure in the corporate governance systems has received particular attention not only one of the major causes of the crisis, but also the magnifying channel in the post-crisis development (I. C. Nam, Kang, & Kim, 1999). A key aspect of corporate governance in the region is to improve investor protection and provide more transparent information. This enhances local capital markets, and promote foreign investment to provide funds for the long-term economic development.

Individual countries should initially focus on improving national standards of regulations and corporate practice rather than attempting to reach a common set of matrices from the start. When appropriate governance standards are in place, codes of best practice could then be integrated into a consistent framework for all countries to develop more regionally integrated capital markets (Cheung & Chan, 2004). Corporate governance not only improves the value of the firm directly, but also indirectly through the channel of earnings quality (Latif, Bhatti, & Raheman, 2017). Globally, Organization for Economic Cooperation and Development (OECD) is the key organization that assist several countries adopt and implement good corporate governance principles. Moreover, it also supports the World Bank and the International Finance Corporation (IFC).

**2.3.1 OECD Principles of Corporate Governance**

The Organization for Economic Cooperation and Development (OECD) is a well-known organization that provides corporate governance principles: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004). The principles were endorsed by OECD Ministers in 1999 and have become an international benchmark for policymakers, investors, corporations, and other stakeholders worldwide (OECD, 2004).

The OECD's corporate governance principles do not have any obligations for its member countries to comply with, and do not have the intent to prescribe in details. The OECD's corporate governance principles were aimed to provide guidelines on methods and processes of good corporate governance only. However, the principles are considered as a framework for policymakers to apply as the main criteria for enacting municipal laws and regulations related to corporate governance by taking into account the economic, social, legal, and cultural environment. In addition, market participants can also apply these principles to define their own practices.

The OECD's corporate governance principles have the characteristics of being an evolutionary idea that needs to be reviewed and updated periodically. In case there is a significant change in the environmental factors, the firm will be able to compete with the constantly changes by creating and improving the practice of corporate governance in order to respond to the necessities and benefits from new opportunities. Similarly, the government sector has a burden of duty to determine the framework and guidelines for effective good corporate governance, allow the capital market to operate efficiently, and to respond to the expectations of shareholders and stakeholders as well. Therefore, it is crucial that the government and all authorities involved in the capital market must jointly think and decide whether to adopt the concepts and principles of OECD on corporate governance by considering the requirements, the cost, and benefits.

2.3.1.1 Ensuring the basis for an effective corporate governance framework

The framework of corporate governance was established to promote transparency and fairness in the market with the efficient allocation of resources. The corporate governance framework has an impact on the overall economy. It creates the credibility of the capital market, and incentives for participation in the capital market by acting in accordance with the principles of corporate governance. The framework should promote transparent market for leading the market mechanisms to work effectively. The framework of governance should be consistent with the law and support effective supervision and enforcement.

2.3.1.2 The rights and equitable treatment of shareholders and key ownership functions

In practice, the management of a particular firm cannot be done by using the votes of the shareholders in all matters due to the nature of shareholders. The shareholders of the firm consist of individuals and institutions with differences in investment returns, investment objectives, investment time, and investment ability. In addition, the management still needs to make business decisions in a timely manner. Due to complexity of management caused by rapid environmental changes, the shareholders of firms in the capital market can hardly manage their business by themselves. As a consequence, there are the board of directors, management, and shareholders to coordinate the work in each firm.

Corporate governance ensures the equitable treatment of all shareholders regardless minority and foreign shareholders, and the protection of shareholders' rights. Basic rights of shareholder include the right to elect and remove members of the board. Their effective participation in the nomination of candidates, and in voting on individual nominees (or on lists) should be facilitated (Lehuedé, 2016). Shareholders should receive sufficient information, and have the right to participate in decision-making and the right to know the results of the firm's decisions regarding changes in the firm fundamentals.

Moreover, shareholders should enjoy the opportunity to fully participate in the general shareholder meetings, to be informed of the rules and regulations to control the meeting, to receive sufficient and timely information about the date, location, and general meeting agenda. The participation process should not be difficult and/or expensive to cast votes in the meeting. To serve shareholders participating in general meetings, the agenda should be laid out in a simple and clear manner, including questions from shareholders to management and board members. The rules shall ensure that minority shareholders' rights will not be ignored.

The resolution that is approved by the shareholders, such as remunerations of the board members and/or key executives, must be treated by the board. Similarly, the equity component of compensation schemes for the board members and employees should be subject to shareholders' approval. The votes of them should be able, in person or in alternate jurisdictions and/or companies, to promote the use of large information technology, including secure electronic voting systems in all listed firms. The principle of recommendation is to accept voting by proxies, pushing for cross-border voting should be attentive, especially for foreign investors whose shares are typically held in accounts with securities intermediaries. In order to facilitate their votes, laws, regulations, and practices of the firm should allow participation by electronic means for equality of shareholder rights. In addition, prior to any investment, the shareholders expect to acknowledge their voting rights. Their rights should not be altered unless those holding voting shares have had the opportunity to participate in the decision-making.

In certain firms, there are a large number of controlling shareholders who monitor the management closely. They have benefits in terms of information, so they can reduce the agency problem in the legal and regulatory framework. However, it may cause minority shareholders to be exploited. The corporate governance framework should emphasize the protection of the minority shareholders from abusive actions by or in the interest of controlling shareholders acting either directly or indirectly.

2.3.1.3 The equitable treatment of shareholders

Among all shareholders, including minority and foreign shareholders, the corporate governance framework should ensure the equitable treatment of them. Prior to an investment, investors can anticipate being apprised on their voting rights. Minority shareholders should be protected from being exploited by controlling shareholders acting either directly or indirectly. The key used to protect the minority shareholders are disclosure, the clear duty, and loyalty of the board for the firm and all shareholders.

Undoubtedly, it depends on the overall regulatory framework and the national legal system. Regarding foreign shareholders, the corporate governance framework should eliminate obstacles for them and reduce hassles of communication, time, and information to enable them to be treated as equally as domestic shareholders. Similarly, to their voting, the practice should be allowed to participate in modern technology. Moreover, the business, family, other special relationship outside the firm, and other issues of the board and key executives that affect the firm should be disclosed. The firm should also provide a fair and trustworthy easy-to-access channel to provide information and communicate with shareholders (Subramanyam & Dasaraju, 2014).

2.3.1.4 The role of stakeholders in corporate governance

The competitive ability and the success of the firm depend on numerous factors including its stakeholders: investors, financial institutions, business partners, consumers, employees, the surrounding community, civil society organizations, and governments and their institutions (UNCTAD, 2008). The stakeholders should be granted rights established by law or through mutual agreements. Once their rights are violated, they should receive compensation effectively. As stakeholders can participate in the process of corporate governance, the firm should provide a way to access information which is sufficient, reliable, and consistent. In addition, stakeholders should be allowed to contact and inform their concerns freely with the board in regards to the illegal actions or the actions that lack the ethics since stakeholders should not be affected by such actions. As indicated in detail on sustainability reporting, Mitra (2012) suggested that awareness amongst stakeholders leads to a number of organizations publishing structured sustainability reports. However, in some cases, stakeholders' incentives appear to be misaligned with shareholders' interests and the public interests (Ormazábal, 2016).

2.3.1.5 Disclosure and transparency

Shareholders, interested investors, and other stakeholders are looking for the channel to access the information of the firms with sufficient details, consistency, and reliability to compare the firm's business in depth. Therefore, disclosure, transparency, accuracy, and completeness of the information are necessary. The country with strict requirements for the disclosure of information can attract capital inflows, create and maintain confidence in the capital markets of the firms. On the other hand, disclosure of information of slack firms or without enough transparency may cause unethical behavior which destroys the credibility of the capital market. It is invaluable because it does not only cause damage to the firm and its shareholders, but to the overall economy as well. Furthermore, disclosure and transparency, as well as accurate information, help the public gain more understanding about the structure and activities of the firm, which cover the policy of operation. This results in the relevant parts in relation to environmental standards, ethics, and professional standards, including the relationship between the firm and the community in which it operates.

Several any countries apply the concept of materiality by giving a minimum of information that should be disclosed. By the definition, material information is the information omission or misstatement of which could influence the economic decisions taken by the information users. The disclosed information must be based on an equal principle among shareholders. The material information includes, but not limited to, financial and operating results of the firm, the objectives of the firm, major share ownership and voting rights, individual board members and key executives information, related party transactions, foreseeable risk factors, issues regarding employees and other stakeholders, structure and policies of good governance in particular including the content of the policies and practices, and the process of implementing policies and guidelines. Moreover, the firm should provide a communication channel so that shareholders and other stakeholders can easily access to the information in a timely manner with the lowest cost.

The information in both financial and non-financial reports provided for public disclosure should have high quality according to accounting standards and standards of information disclosure. Financial information, including financial statement, should be audited by a knowledge and expertise independent auditor with required qualifications. Several countries define various measures to raise the level of independence of the auditor and engage for responsibility to perform their duties to the shareholders while certain countries have an independent organization to control these auditors.

In addition to the framework and principles of corporate governance, there should be an effective guideline to support the presentation of securities research analysis or investment advice from analysts, brokers, rating agencies, and others for investors' decisions on investment. The information disclosure must be processed without conflicts of interest that may influence credibility of investment research analysis or advice on investing in securities of the aforementioned persons.

2.3.1.6 The responsibilities of the board

The framework of corporate governance should ensure that the firm has established a guideline on strategies for operating, as well as positing an effective system. The board of the firm is responsible for monitoring, measuring the management of the management team. The board also takes responsibility for their performance that involves the firm and shareholders.

The board can be categorized into two types: two-tier boards and unitary boards. In some countries, the supervisory function and the management function are separated and categorized into different bodies, which is called two-tier board. The supervisory board members are composed of shareholder representatives with a control power and responsibility for policies and strategies. Moreover, they also control the operation of the management board that manages the firm. In contrast, unitary board is an only set of board which consists of directors who are executives and non-executives. In some countries, there may be another set of board for an audit purpose in accordance with the statutory body. Regardless any board type, corporate governance principles are intended to be applied in the board structure with the functions of governing the firm and monitoring the management.

In addition, there are several vital responsibilities of the board. Guiding strategies and directions of the firm, and monitoring and measuring performance of the firm to ensure that the firm is able to generate sufficient returns to shareholders. Also, they are responsible to prevent conflicts of interests, and balance competing demands on the firm. The board is not only accountable to shareholders and the firm, but also has a duty to act in their best interests. Besides shareholders, the board is responsible to other stakeholders of the firm, including employees, creditors, customers, suppliers, and local communities. Thus, observance of environmental and social standards is common in their duties. Importantly, both the board and the management have a function and responsibility to disclose and communicate with all stakeholders of the firm. In some countries, these responsibilities rely on an investment relations officer, who reports directly to the board.

It is necessary that the board of the firm be independent for the operation of the firm, in particular from management. This also depends on the composition and structure of the board, and the number of the board, which is an important factor in this judgment. With a single-tier board system, the independence of the board can be seen from the separation between the roles and duties of the chairman and the chief executive officer. However, some firms have the same person in the positions, so the firm should designate a non-executive director to convene or chair sessions as an outside director. Furthermore, owing to the fact that the large shareholder has the power to appoint directors and senior management, the board must be aware that they have duties and responsibilities to the firm and to the minor shareholders as well. Thus, it is crucial that the board should consist of sufficient non-executive directors in order to exercise independent discretion in decision-making in the events of a conflict of interest, reporting financial and non-financial reports that have to be accurate, together with the decision on transactions with those who are connected with the firm, an appointment of directors and senior management, and determination of remuneration for directors.

### 2.3.2 Corporate Governance in Malaysia, Singapore, and Thailand

Corporate governance has the primary objective of overseeing, monitoring, controlling, and supervising those who are authorized to perform administrative duties. For the equity of all stakeholders, the organization's resources should to be used efficiently and effectively to meet the goal, and to maximize benefits in return. Therefore, corporate governance is a mechanism that related parties, both internal and external organizations, will cooperate.

Among Malaysia, Singapore, and Thailand, Singapore is the least affected by the Asia financial crisis. Weak corporate governance was the issue that caused this poor situation, and Asian countries have paid attention to improve corporate governance (Akyüz, 2000; Jongsureyapart, Wise, & Yaftian, 2012; S.Persons, 2006). Many observers suggest that in the Asian culture, stakeholders other than shareholders, especially employees and creditor banks, can also play a useful role in corporate governance (S.-W. Nam & Nam, 2004). However, overlooking the relationship between corporate governance and the financial crisis, corporate governance is essential for economic growth. Obviously, it is the duty of the various departments concerned, including to the firm and markets that should pay attention as a whole (I. C. Nam et al., 1999). In fact, there are other relevant organizations located in Malaysia, Singapore, and Thailand as shown in Table 2.2 (OECD, 2017b) that have various roles in driving corporate governance forward, according to the OECD survey of corporate governance frameworks in Asia.

**Table 2.2** Regulators/Custodians of the Codes and Principle and Other Organizations That Promote Improvement of Corporate Governance: Malaysia, Singapore, and Thailand (OECD, 2017b)

| **Country/ Regulators/Custodians** | **An agency or ad-hoc entity that coordinates CG policies within government** | **Non-profit institutions that promote better corporate governance practice** |
|---|---|---|
| **Malaysia:** | | |
| - Securities Commission Malaysia<br>- Bursa Malaysia Berhad<br>- Bank Negara Malaysia<br>- Companies Commission of Malaysia | - Prime Minister's Department<br>- Malaysian Anti- Corruption Commission<br>- Malaysian Institute of Integrity<br>- Putrajaya Committee on Government linked Companies (GLC) High Performance | - Minority Shareholder Watchdog Group (MSWG)<br>- Institutional Investor Council of Malaysia (IIC)<br>- Malaysian Directors Academy (MINDA)<br>- Malaysian Institute of Accountants (MIA)<br>- Malaysian Institute of Chartered Secretaries and Administrators (MAICSA)<br>- Malaysian Institute of Corporate Governance (MICG)<br>- Federation of Public Listed Companies (FPLC)<br>- Institute of Internal Auditors Malaysia (IIAM) |
| **Singapore:** | | |
| - Accounting and Corporate Regulatory Authority (ACRA)<br>- Monetary Authority of Singapore (MAS)<br>- Singapore Exchange Limited (SGX) | - Monetary Authority of Singapore (MAS) | - Securities Investors Association of Singapore<br>- Singapore Institute of Directors (SID)<br>- Singapore Investment Management Association of Singapore (IMAS)<br>- Chartered Secretaries Institute of Singapore (CSIS) |

**Table 2.2** Regulators/Custodians of the Codes and Principle and Other Organizations That Promote Improvement of Corporate Governance: Malaysia, Singapore, and Thailand (OECD, 2017b) (Cont.)

| **Country/ Regulators/Custodians** | **An agency or ad-hoc entity that coordinates CG policies within government** | **Non-profit institutions that promote better corporate governance practice** |
|---|---|---|
| **Thailand:** | | |
| - Securities and Exchange Commission (SEC) | - Securities and Exchange Commission | - The Thai Institute of Directors (IOD)<br>- The Thai Listed Companies Association (TLCA)<br>- The Thai Investors Association (TIA)<br>- The Association of Securities Companies (ASCO)<br>- The Association of Investment Management Companies (AIMC)<br>- The Thai Bankers' Association<br>- Thaipat Institute |

ASEAN Corporate Governance Scorecard (ACGS) is an ASEAN corporate governance rating. As part of the corporate governance of the ASEAN Capital Markets Forum (ACMF), also known as ACMF Corporate Governance Initiative revealed the quality of corporate governance in the region. This reflects the quality of corporate governance, and encourages corporate governance in the region to be more efficient. Its objective is to create a standard of corporate governance, and apply the standard to businesses in the capital market by demonstrating good corporate governance as a part of the capital market project (Srijunpetch & Arunruangsirilert, 2016).

The countries in the ASEAN region participating in the assessment include Thailand, Malaysia, Singapore, the Philippines, Indonesia and Vietnam (ADB, 2017). The listed firms that will be evaluated ACGS are comprised of the first 100 firms in the ASEAN region with the highest market capitalization as of April 30 of each year, and with disclosed information in English**.** It is interesting that in 2015**,** not only for the top 100 public listed firms in Malaysia were assessed, but also extended to all others, according to market capitalization, (ADB, 2017).

2.3.2.1 Corporate governance in Malaysia

Malaysian legal system is based on common law system (T. A. H. Mohamad & Trakic, 2015). Malaysia's corporate governance framework is contained in several pieces of legislation and guidelines. Currently applicable laws and guidelines include: the Companies Act 2016 (CA 2016), the Financial Services Act 2013 (FSA 2013), the Capital Markets and Services Act 2007 (CMSA), the Malaysian Code on Corporate Governance 2017 (MCCG), Bank Negara Malaysia's (The Central Bank of Malaysia) (BNM) Guidelines on corporate governance, Bursa Malaysia's Main Market, ACE Market and LEAP Market Listing Requirements, and the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia (CCM) (Sankar & Yen, 2019).

In 2015, Malaysia enacted the Capital Market Services Act and Listing Requirements to enhance the integrity of the Malaysian capital market, and the corporate governance culture among the publicly listed firms. The amendments were intended to reinforce investor protection and upheld investor confidence in the Malaysian capital market while creating sustainable shareholder value. In addition, the Securities Commission was also in the process of charting the Malaysian Corporate Governance Priorities for the next five years, as well as making amendments to the Malaysian Code on corporate governance. Subsequently, the Minority Shareholder Watchdog Group (MSWG) and the Securities Commission (SC) form the Malaysian Code for Institutional Investors (MCII) in 2014 regulated the area of investor stewardship. Later, Malaysia established the Institutional Investor Council to join investors to make more commitment towards becoming responsible investors by imposing their corporate governance expectations on investee firm (ADB, 2017).

Due to the differences in regulatory and economic environments, cultural, the size of capital markets, and the effectiveness of governance mechanisms which lead to the diversity of the board, the findings may not extend across the national country (H. Kang, Cheng, & Gray, 2007). Consequently, the importance and value of various governance structures, including board diversity still cannot find a conclusion and essential investigation to find the answer. In Malaysia, public listed firms are required to disclose their diversity policies covering skill sets, gender, ethnicity, and age. It not only evaluates benefits for the stakeholders of the firms but also fill the gap in gender diversity in line with the target set by the Government of Malaysia (ADB, 2017).

As the role of the domestic ranking body, the Minority Shareholder Watchdog Group continued to advocate and educate Malaysian publicly listed firms to enhance, and improve their corporate governance practices and disclosures. Collaboration with the board and management of the public listed firms on assessments using ASEAN Corporate Governance Scorecard (ACGS) methodology for all public listed firms leads Malaysian listed firms to meet an international standard of corporate governance (ADB, 2017).

The latest edition of corporate governance code of Malaysia is Malaysian Code on Corporate Governance. It consists of three principles including board leadership and effectiveness, effective audit and risk management, and integrity in corporate reporting and meaningful relationship with stakeholders (SC, 2017).

2.3.2.2 Corporate governance in Singapore

The Singapore legal system is based on common law system (Chng & Tsen, 2018). The Singapore corporate governance regime comprises a mix of mandatory rules, captured mainly in the Companies Act (Chapter 50) (CA), the Securities and Futures Act (Chapter 289) (SFA), the listing rules (Listing Rules) of the Singapore Exchange Securities Trading Limited (SGX), and best practice recommendations in the form of the Code of Corporate Governance. All companies incorporated in Singapore, as well as the duties of directors and officers are overarched by the Companies Act.

The Singapore Exchange (SGX), an overseas supervisor of the securities market, works closely with the organizations that raise Singapore capital market, and introduce the international standard of corporate governance, namely the Monetary Authority of Singapore and the Commercial Affairs Department. The combination of legislation, listing rules, and the Code of Corporate Governance of Singapore is conducive to sufficient flexibility for the public listed firms. Singapore's action is indicative in maintaining good standards of corporate governance. At both the regional and global levels, Singapore is recognized as a nation with a highly robust corporate governance framework. According to the report of Asian Corporate Governance Association and KPMG entitled "Balancing Rules and Flexibility" in 2014 that examined the corporate governance requirements across 25 markets, Singapore was ranked the third globally, trailing behind the United Kingdom and the United States, and the first in Asia (ADB, 2017).

2.3.2.3 Corporate governance in Thailand

Thai legal system has been developed uniquely within the legal structure of civil law system. As can be found in Thai codes and enacted laws, the form of drafting, the hierarchy of law, and interpreting methods are common in the civil law style. However, the legal practices of Thai lawyers including judges seems to be a combination of the common law and the civil law styles (Prasitmonthon, 2016). Company laws in Thailand include the Thai Civil and Commercial Code for private companies, and the Public Limited Companies Act B.E. 2535 (1992) amended up to No. 3 B.E. 2551 (the PLC) for public limited companies. In addition, public limited firms whose shares are listed on the SET, and firms that issue securities to the public shall comply with the Securities and Exchange Act B.E. 2535 as amended up to No. 4 B.E. 2551 (2008) (Luengruengtip, 2013).

In 1997, Thailand encountered the financial crisis. The one of the causes started from institutional weakness, such as fragile relationship between organizations, namely government and business, banks or non-bank corporations, and the high corporate leverage. These events were caused by poor corporate governance, guarantees of the implicit government, moral hazard problems carrying to more risks and inefficient investments (Akyüz, 2000).

However, the corporate governance systems in Thailand has been continuously developed after the 1997 crisis (Jongsureyapart et al., 2012; Phannarong, 2010) through mandatory and voluntary approaches (S.Persons, 2006). The mandatory approach includes revising laws and regulations to enhance the rights of minority shareholders and creditors. This helps increase the accountability of the board of directors, and make accounting and auditing standards consistent with the international accounting standards (IAS) and the international standards of auditing (ISA). In addition, the voluntary approach includes best practice guidelines for the board of directors and audit committees, as well as the corporate governance rating.

The Thai Securities Exchange Commission (SEC) has also strengthened its efforts to educate and protect small investors, and increased its enforcement to enhance the transparency and reliability of financial reports (S.Persons, 2006). The most recent

Corporate Governance Code of Thailand is the Corporate Governance Code for Listed Companies 2017 issued by the Securities and Exchange Commission, together with relevant capital market organizations. The principles of this Code is integrated into the essence of principles and best practices of the G20/OECD principles of corporate governance with two main parts: principles and sub-principles, and guidelines and explanations (SEC, 2017).

Thai firms have a one-tier board system. For every category of Thai firm, the board of directors has the power and duty to manage the business of the company in accordance with the firm's business objectives, the articles of association, and the shareholder resolutions. They shall perform their duty with loyalty and care to preserve the interests of the company. The scope of power and duty of the board of directors depends on the articles of association and the shareholders' resolutions of the companies (Luengruengtip, 2013).

One of Thai institutions that promotes better corporate governance practice is Thai Institute of Directors (IOD) appointed with ACMF to set scores for PLCs and stakeholders use for their objective. The assessment criteria were developed by referring to the Organization for Economic Cooperation and Development (OECD). The principles of corporate governance and Thailand's Corporate Governance Code for Listed Companies are composed of rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board. The firms are classified into the three highest scores groups: good, very good, and excellent, and will be publicly announced (IOD, 2018). Thai scores have been confirmed from previous studies that the firm with a high IOD score reflects high corporate governance, and earnings quality. This is measured by standard deviation (Meeampol, Rodpetch, Srinammuang, & Wongsorntham, 2013).

## 2.4 The IFRS Adoption

The International Financial Reporting Standards (IFRS) is a set of accounting standards with a three-tier governance structure developed by the International Accounting Standards Board (IASB), which is becoming the global standard for the preparation of public company financial statements. This board is governed and overseen by accountable

IFRS Foundation Trustees who also monitor the board of public authorities (IFRS Foundation Monitoring Board). Moreover, the IFRS Advisory Council provides advice to the trustees and the board while the board consults extensively with a range of other standing advisory bodies and consultative groups.

Regarding public accountability, the monitoring board is a group of capital market authorities that provides a formal link between the trustees and public authorities to enhance the public accountability of the IFRS Foundation. For governance, the trustees of the IFRS Foundation are responsible for the governance and oversight of the international accounting Standards Board, including the Constitution, and due process for the development of the accounting standards.

In fact, the International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation (see Figure 2.3). Barth (2014) addressed that IFRS is different from most domestic standards, i.e. US GAAP, with the reasons as follows:

- IFRS focuses on the principles, not rules that requires judgment to apply.

- IFRS focuses on economics, not conventions, with an attempt to enhance information quality.

- IFRS does not provide an answer to every question.

The IASB's mission is to develop the IFRS and bring transparency, accountability, and efficiency to financial markets worldwide (Ismail, 2017). To reduce the gap between IFRS and US GAAP, the two principles that the local accounting standard setter is supposed to follow, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) remain committed to collaborate (Barth, 2014).

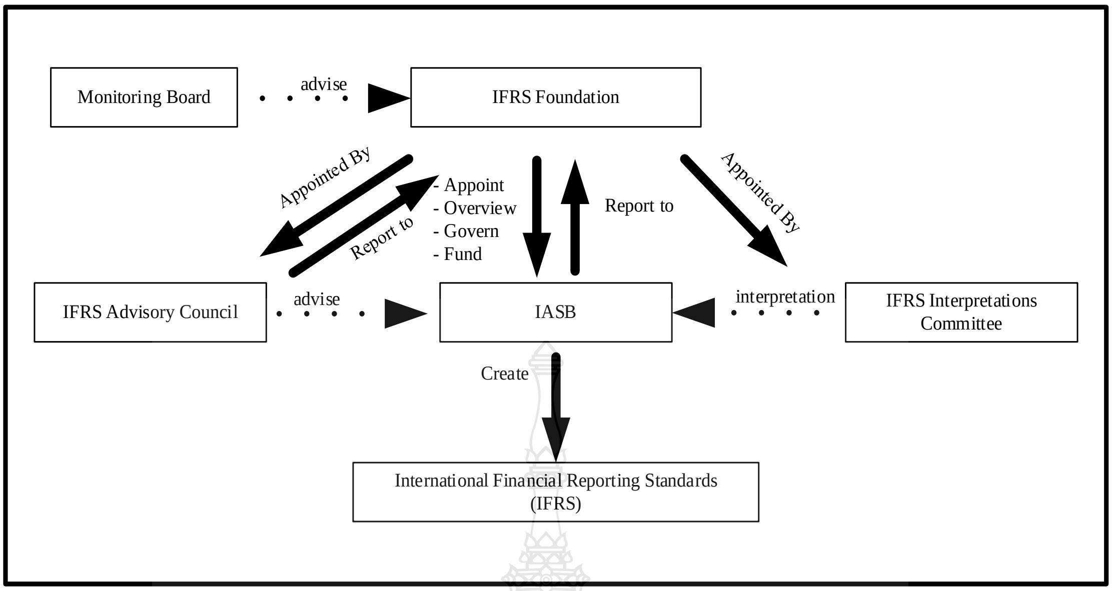


**Figure 2.3** IFRS Organization Structure (Barth, 2014)

According to the IFRS Foundation's website, IFRS is posed in the aspect to bring transparency, accountability, and efficiency to global financial markets. For transparency, IFRS enhances the international comparability and quality of financial information by enabling investors and other market participants to be informed economic decisions. For accountability, IFRS reduces the information gap between the capital providers and the people to whom their money has entrusted. Its standards provide information that is needed to hold the accounting management. As a source of globally comparable information, IFRS remains vital to regulators around the world. For efficiency, IFRS helps investors to identify opportunities and risks across the world to improve capital allocation.

For businesses, the use of a single, trusted accounting language lowers the cost of capital, and reduces international reporting costs (IFRS®). In case IFRS is adopted by all countries adopt, accounting information will be a single global standard. In addition, the adoption of IFRS is supported by economic organizations, such as World Bank and United Nation. Both of them have an objective to be a long-term supporter of work to develop a single set of high-quality global accounting standards. In this regard, the organizations have played a leading role in encouraging the development of IFRS and their use around the world. Additionally, one of the G20 policies cited in the G20 Leaders

Declaration in Los Cabos on 18-19 June 2012 was announced that continuing work would be performed to achieve convergence to a single set of high-quality accounting standards.

Figure 2.4 illustrates accounting regulations and high quality financial information recommended by the international Federation of Accountants (IFAC) (Valle, 2009). The accounting regulation that affects the high-quality financial information is divided into three parts: accounting standards, audit standard, and independence. The framework of accounting standards and audit standard are suggested by the International Standard Setters to ensure that accounting and auditing services are of the right quality.

In order to proceed the standards, it is necessary for a country to follow the four elements: adoption without alteration, accurate translations, implementation guidance and education, and national roadmaps for adoption and implementation. To enhance corporate governance, it is vital to set out competence requirements for those preparing financial statements, adopt and implement OECD's principles, establish ethical principles applicable to board of directors, stipulate the role of an effective director, support and increase the role for audit and compensation committees, and mandate CEO and CFO act as formal signatories to financial statements. Additionally, another aspect that influences the high-quality financial information is the competent of accountants and auditors who depend on education and ethics.

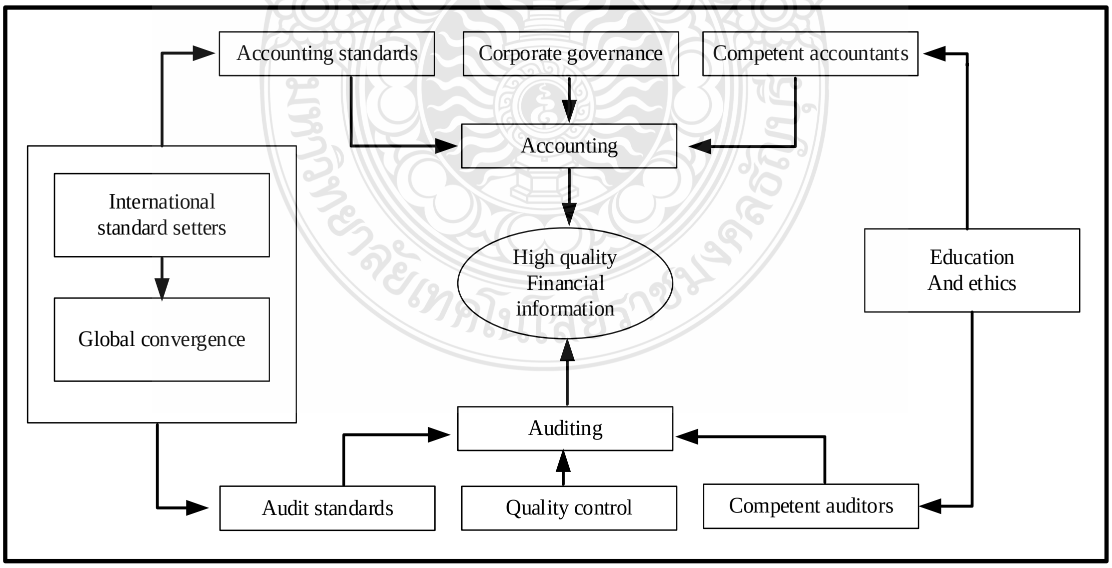


**Figure 2.4** Accounting Regulation and High Quality Financial Information (Valle, 2009)

The IFRS Foundation shows its jurisdiction profiles, updated on April 25, 2018. Currently, the profiles of 166 jurisdictions all around the world are completed. A summary is provided in Table 2.3 as follows:

**Table 2.3** The 166 Jurisdictions Represent All Parts of the Globe (Foundation, 2018)

| Number of Jurisdictions | | | | | |
|---|---|---|---|---|---|
| **Region** | **Jurisdictions** | **Jurisdictions that require IFRS standards for all or most domestic publicly accountable entities** | **Jurisdictions that require IFRS standard as % of total Jurisdictions in the region** | **Jurisdictions that permit or require IFRS standards for at least some (but not all or most) domestic publicly** | **Jurisdictions that neither require nor permit IFRS standards for any domestic publicly accountable entities** |
| Europe | 44 | 43 | 98% | 1 | 0 |
| Africa | 38 | 36 | 95% | 1 | 1 |
| Middle East | 13 | 13 | 100% | 0 | 0 |
| Asia-Oceania | 34 | 25 | 74% | 3 | 6 |
| Americas | 37 | 27 | 73% | 8 | 2 |
| Total | 166 | 144 | 87% | 13 | 9 |
| As % of 166 | 100% | 87% | | 8% | 5% |

According to the table, only 13 % of 166 jurisdictions do not require IFRS for all or most domestic publicly accountable entities while 8% of the jurisdictions partly permit IFRS. However, 5% still has neither require nor permit IFRS for any domestic publicly accountable entities. Among the 22 jurisdictions, Thailand permits the use of IFRS for financial institutions only, not listed companies. Indonesia, only one jurisdiction is in the process of converging national standards substantially, but not entirely with IFRS. Vietnam has 7 jurisdictions using the national or regional standards.

In fact, the results of empirical academic studies vary, and most discussions of improving the literature are related to two different points (Sadeghian & Kakaei, 2014). Regarding sponsor group, financial information and accounting procedures are needed. The financial information is prepared for common goals if it is to inform investors, so the principles and procedures should not be expected to change from one country to another. On the other hand, it is argued that uniformity of cultural environments affects the accounting, laws, economy, and politics. As a result, various countries under the international standardized accounting procedures would be extremely in a difficult situation. Some also believe that due to the variety of environmental conditions, the development of an efficient set of international accounting standards seems impossible.

Opinions from accomplices, governments, media, and especially professional accountants have supported the adoption (Joshi, Yapa, & Kraal, 2016). In the aspect of accounting information quality, the results presented in the literature are not unanimous on the IFRS adoption and accounting quality (Duarte, Saur-Amaral, & Azevedo, 2015). Some found that IFRS leads to improving, and increasing in earnings quality (Nulla, 2014; Sun, Cahan, & Emanuel, 2011). Others argued that, for example, there is no difference in accounting information quality before and after the full convergence of IFRS (Surianti, 2015). Moreover, switching to IFRS does not improve the financial reporting quality (Suadiye, 2017). In the predictive ability view**,** there is no difference between IFRS and US GAAP (Price, 2014). On the other hand, the success of IFRS as an international accounting standard depends on its technical quality, economically yielding to both users and reporters of the financial statements, and their acceptance across different jurisdictions despite their political, cultural, and economic diversities (Nijam & Jahfer, 2016).

In fact, the IFRS adoption does not lead to an increase in earnings quality. However, the results find that earnings quality does increase with the IFRS adoption where the country's investor protection regime gives stronger protection to the investors (Houqe, Easton, & van Zijl, 2014).

In the generalized IFRS adoption, the foundation reporting business environment was to be changed (Soderstrom & Sun, 2007). The previous study of Auer (1996) on a comparison between IAS-based and Swiss GAAP claimed that IAS-based conveys a higher information content for investors than Swiss GAAP, unlike the comparison between the IAS-based and EC Directives. Callao, Ferrer, Jarne José, and Laínez José (2009) contended that the first application of IFRS of the EU members had different effects on the financial reporting among the countries. Their literature reviews on the effects of IFRS adoption on financial reporting from the quantitative point of view and the qualitative characteristics of information are shown in Table 2.4.

**Table 2.4** Application of IFRS of EU Members (Callao et al., 2009)

| Author (year)/Topic | Country analyzed | Results |
|---|---|---|
| **Authors (year):**<br>Ferrer et al. (2008)<br><br>**Topic:**<br>Impact of IFRS on the financial information reported by European listed groups | 11 European countries | In Spain, France, Ireland, Sweden and the United Kingdom, the firms' image under local standards differs significantly from under IFRS, because the change in standards affects numerous accounting figures and financial ratios. The impact is more moderate in the remaining countries. |
| **Authors (year):**<br>Sellhorn and Skaife (2008)<br><br>**Topic:**<br>Mandated IFRS reporting results in more comparable financial information | France, Germany, and the UK | IFRS does not increase the valuation usefulness of accounting information across countries. |
| **Authors (year):**<br>Beckman et al. (2007)<br><br>**Topic:**<br>Reconciliations from German GAAP to IFRS and US GAAP | Germany | More conservative reporting is under German GAAP than IFRS or US GAAP. |
| **Authors (year):**<br>van der Meulen et al. (2007)<br><br>**Topic:**<br>Attribute differences between US GAAP and IFRS earnings | Germany | US GAAP and IFRS only differ with regard to predictive ability. |
| **Authors (year):**<br>Hung and Subramanyam (2007)<br><br>**Topic:**<br>Effects of IFRS in countries with European-continental accounting systems | Germany | Total assets and the book value of equity are significantly higher under IFRS than under German GAAP. |
| **Authors (year):**<br>Christensen et al. (2007)<br><br>**Topic:**<br>Economic consequences of mandatory application of IFRS | UK | Mandatory IFRS adoption does not benefit all firms in a uniform way. |
| **Authors (year):**<br>van Tendeloo and Vanstraelen (2005)<br><br>**Topic:**<br>Effects of IFRS on earnings management | Germany | Adoption of IFRS cannot be associated with lower earnings management. |

**Table 2.4** Application of IFRS of EU Members (Callao et al., 2009) (Cont.)

| Author (year)/Topic | Country analyzed | Results |
|---|---|---|
| **Authors (year):** Bartov et al. (2005)<br><br>**Topic:** Comparative value relevance of earnings under German GAAP, US GAAP and IFRS | Germany | Earnings prepared under US GAAP or IFRS have higher value relevance than earnings under German GAAP. |
| **Authors (year):** Larson and Street (2004)<br><br>**Topic:** Progress and impediments to convergence to IFRS | 17 European countries | Development of a “two-standard” system (IFRS for consolidated financial statements of listed companies and local GAAP for non-listed companies); and the two most significant impediments are the complicated nature of particular IFRS and the tax-orientation of many national systems. |
| **Author (year)**: Jermakowicz (2004)<br><br>**Topic:** Impact that IFRS conversion has on companies, their internal organization and accounting and finance strategy | Belgium | Important changes in internal and external reporting activities of companies, and significant impact on their reported equity and net income. |

### 2.4.1 IFRS Implementation Status of Malaysia, Singapore, and Thailand

IFRS implementation can generally be done in two aspects: full adoption and convergence (Sari & Sarumpaet, 2019). At the state level, adoption means that national accounting standards are directly replaced with IFRS (Yusrina et al., 2017). The countries that implement convergence are meant to adopt all IFRS, but they need to adjust the condition in their country (Ermina Sari, 2019). The approach is taken by individual countries may differ with respect to convergence (S. Lin, Riccardi, & Wang, 2016). The convergence is a gradual mechanism (Yusrina et al., 2017). Likewise, Uwaoma and Ordu (2015) identified that convergence which involves moving from the local system to IFRS is not easy as in any transitional process. The different levels of the IFRS adoption in ASEAN countries are due to many plausible reasons, such as (1) lack of resources in the local accounting standard board, (2) changes in IFRS: when the process of adopting IFRS standard is done, IASB has already revised the new version of IFRS, (3) the language barrier: certain countries in ASEAN must translate IFRS from English into their local languages, and (4) infrastructures in the accounting professions, which are not yet ready (Acaranupong, 2019; Chattanrassamee, 2015; Yusrina et al., 2017).

Despite not a full adoption, convergence shows minimal differences with IFRS. The difference is in terms of time or a bit of an exception in the application-specific standard settings (Yusrina et al., 2017). The situation of IFRS implementation in ASEAN recently updated the websites of related organizations offered by the IFRS foundation. However, this part focuses only on the implementation of IFRS in Malaysia, Singapore, and Thailand.

2.4.1.1 IFRS implementation status of Malaysia

Malaysian Accounting Standards Board (MASB) is the organization of accounting standard setting. It was established under the Financial Reporting Act 1997 as an independent authority to develop, and issue accounting and financial reporting standards in Malaysia. The Act provides the standards issued by the MASB legal authority. Malaysia is the only one in ASEAN that has already adopted IFRS Standards for its all companies.

2.4.1.2 IFRS implementation status of Singapore

In the history, Singapore Accounting Standards adhered to IFRS rather than the FASB standard (Teen & Phan, 1999). Singapore has adopted all effective IFRS, except for IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. It has made several modifications primarily for transition provisions and effective dates of the IFRS that it has adopted. Accordingly, Singapore Financial Reporting Standards (SFRS), are substantially aligned with IFRS. The non-adoption of IFRIC 2 does not affect Singapore-incorporated companies (both listed and non-listed). The sole modification to the requirements of IFRS does not affect the listed Singapore-incorporated companies, but could affect the non-listed Singapore-incorporated companies. A new financial reporting framework similar to IFRS will be introduced for mandatory application by Singapore-incorporated companies listed on the Singapore Exchange (SGX) for the annual periods beginning on or after 1 January 2018. Felski (2017) categorized Singapore's IFRS adoption as the IFRS adoption by design group due to its higher level of development. The country does not only adopt full IFRS, but also make their own adjustments to better fit their reporting environment.

2.4.1.3 IFRS implementation status of Thailand

The Federation of Accounting Professions (FAP) is the official accounting standards-setting body in Thailand. The FAP was created under the Accounting Professions Act 2004. Accounting standards are set by the Federation's Accounting Standards Committee

(ASC). Six members of the ASC represent regulators (securities, banking, insurance, etc.) and the others are from academia, international audit firms, and industry. The members of the ASC are appointed by the FAP board. However, issuing accounting standards requires approval from the Oversight Board of Accounting Profession. Thai Financial Reporting Standards (TFRS) are currently translated and have adopted the six steps for each TAS/TFRS. It is necessary to ensure that CFOs or accountants understand and prepare themselves for this update/new issue. The FAP targets the full adoption of all IFRS issues in 2019 and the implementation gap for a year (Chattanrassamee, 2015). The fundamental principles of Thai accounting have been reformed due to IFRS since 2000, which use IFRS or US GAAP for some transactions (Benyasrisawat, 2011). However, Thai Accounting Standards also include several national standards that differ from IFRS Standards (Wijayana & Gray, 2019). Felski (2017) categorized the IFRS adoption of Thailand as the IFRS adoption by default group because it has limited resources which do not allow the same opportunity as full adoption.

**2.4.2 The IFRS Adoption and Earnings Quality**

The IFRS Adoption is a set for transparent and accurate accounting information. There are several questions from many scholars whether there is a possibility for the IFRS adoption. The provisions leading to a single standard accounting for global with the condition of the differences of each country include laws, cultures, and beliefs. Thus, the relationship between the adoption of IFRS and accounting information broadly are studied. Previous studies were still of doubtfulness. On the other hand, in Europe, earnings management is more progressive since the IFRS adoption (Callao & Jarne, 2010). The New Zealand firms had lower earnings quality under IFRS (Kabir, Laswad, & Islam, 2010). In contrast, the results between German GAAP and the IFRS adoption do not show any differences in earnings management (Tendeloo & Vanstraelen, 2005). The adoption of IFRS in Australia does not enhance accounting quality (Bryce, Ali, & Mather, 2015). The environment is influential in the low investor protection countries. Thus, the IFRS adoption increases earnings quality (Houqe et al., 2014) while mandatory adoption of IAS/IFRS has decreased the earnings management level for the companies with good corporate governance. Those depend on foreign financial markets (Zéghal, Chtourou, & Sellami, 2011).

## 2.5 Accounting Conservatism

Accounting conservatism, one of the accounting principles, results in earnings. It reflects bad news more quickly than good news (Basu, 1997). Accounting conservatism limits the opportunistic actions of managers. When the management is carried out on the quality of earnings, accounting conservatism is considered as a barrier for earnings management (Utomo, Pamungkas, & Machmuddah, 2018), and affects earning quality (Asri, 2017; Utomo et al., 2018).

Numerous researchers have been interested in accounting conservatism. Previous studies pay attention to both accounting conservatism and various variables, such as accounting conservatism and firm investment efficiency (Lara, Osma, & Penalva, 2010), accounting conservatism and corporate information environment (Hu, Li, & Zhang, 2014), accounting conservatism and the cost of equity capital (Chan, Lin, & Strong, 2009), and accounting conservatism and IFRS (Elshandidy & Hassanein, 2014; Zeghal & Lahmar, 2016).

Generally, the conservation requirement is often linked with reliable reporting of past events. Over time, international accounting standards have increasingly become future-oriented (Hellman, 2008). However, Financial Accounting Standards Board (FASB) attempts to ban conservatism to achieve neutrality of information (R. L. Watts, 2003).

## 2.6 National Cultural Dimensions of Malaysia, Singapore, and Thailand

Excluding divergences in politics and religion, culture is an important issue of the "One Identity", the motto of the ASEAN (Jereza, 2016). The great well-known aspects of international cultural dimensions rely on Geert Hofstede's cultural dimensions. Hofstede identified four national cultural dimensions, including power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity (Hofstede, 1984). Next, the two additional cultural dimensions provided by Hofstede and his associates are long-term orientation versus short-term orientation, and indulgence versus restraint (Hofstede, Hofstede, & Minkov, 2010). The details of his original four cultural dimensions (Hofstede, 1984) are as follows:

**1. Individualism versus Collectivism**

Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves, and their immediate families. Collectivism stands for a preference for a tightly knit social framework in which individuals can expect their relatives, or other in-group members to look after them in exchange for unquestioning loyalty. The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among individuals, which is related to people's self-concept of "I" or "we".

**2. Large versus Small Power Distance**

Power distance is excepted by the members of a society that power in institutions and organizations is unequally distributed. This affects the behavior of the less and the more powerful members of society. People in large power distance societies accept a hierarchical order, and believe that everybody has a place which needs no further justification. People in small power distance societies strive for power equalization and demand justification for power inequalities. The fundamental issue addressed by this dimension is how a society handles inequalities among people when they occur.

**3. Strong versus Weak Uncertainty Avoidance**

Uncertainty avoidance is the degree that the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to believe promising certainty and to maintaining institutions protecting conformity. Strong uncertainty avoidance societies maintain rigid codes of belief and behavior, and are intolerant towards deviant persons and ideas. Weak uncertainty avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance are more easily tolerated. The fundamental issue of this dimension is how society reacts to the fact that time runs one way and the future is unknown. Humans apply this dimension to their institutions and organizations. The study of Snitker (2010) showed that the culture of uncertainty avoidance is usually based on rules. In addition, Kanagaretnam, Lim, and Lobo (2013) claimed that the relation between uncertainty avoidance and accounting conservatism is positive.

**4. Masculinity versus Femininity**

Masculinity stands for a preference in the society for achievement, heroism, assertiveness, and material success while femininity stands for a preference for relationships modesty caring for the weak and the quality of life. This fundamental issue addressed by this dimension is how a society allocates social roles to the genders. Some societies strive for maximum social differentiation between the genders. The norm is that men are more outgoing with assertive roles while women are more caring with nurturing roles. Generally, most institutions are male. Such maximum-social-differentiation society will permeate their institutions with an assertive mentality. The society become "performance society" evident which is called "masculine", even from the values of their women.

Hofstede-insights website provides the original four National Cultural Dimensions scores: power distance, individualism, masculinity, and uncertainty avoidance of Malaysia, Singapore, and Thailand as shown in Figure 2.5.

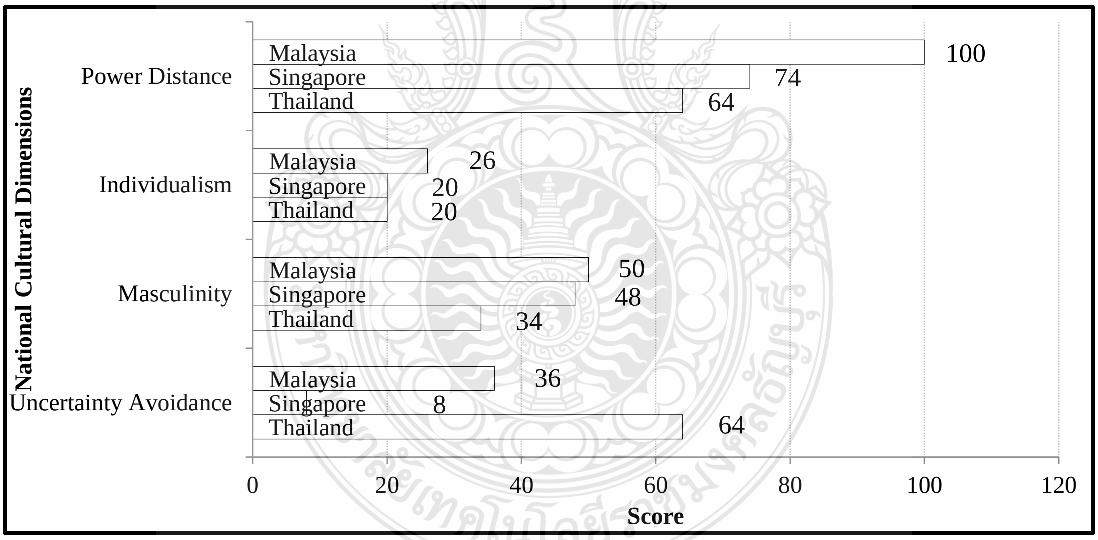


**Figure 2.5** National Cultural Dimensions of Malaysia, Singapore, and Thailand

In Table 2.5, Hofstede-insights' website explains the National Cultural Dimensions of Malaysia, Singapore, and Thailand in four dimensions as follows:

**Table 2.5** Four National Cultural Dimensions of Malaysia, Singapore, and Thailand

| Country/Score | National Cultural Dimensions |
|---|---|
| | **Power Distance Dimension**: |
| **Malaysia (Score of 100)** | Malaysia scores very high on this dimension (score of 100) which means that people accept a hierarchical order in which everybody has a place and which needs no further justification. Hierarchy in an organization is seen as reflecting inherent inequalities, centralization is popular**,** subordinates expect to be told what to do, and the ideal boss is a benevolent autocrat. Challenges, to the leadership are not well-received. |
| **Singapore (Score of 74)** | Singapore scores high on this dimension (score of 74). With a Confucian background (Chinese) they normally have a syncretic approach to religion, which is also the dominant approach in Singapore. One of the key principles of Confucian teaching is the stability of society, which is based on unequal relationships between people. Confucius distinguished five basic relationships: ruler-subject, father-son, older brother-younger brother, husband-wife, and senior friend-junior. Employees expect to be told what to do. Control is expected, and attitude towards managers is formal. Communication is indirect and the information flow is selective. |
| **Thailand (Score of 64)** | Thailand scores 64 on PDI index, slightly lower than the average Asian countries (71). It is a society in which inequalities are accepted; a strict chain of command and protocol are observed. Each rank has its privileges and employees show loyalty, respect, and deference for their superiors in return for protection and guidance. This may lead to paternalistic management. Thus, the attitudes towards managers are more formal, the information flow is hierarchical and controlled. |
| | **Individualism Dimension:** |
| **Malaysia (Score of 26)** | Malaysia, with a score of 26 is a collectivistic society. This is manifest in a close long-term commitment to the member "group", being as a family, extended family or extended relationships. Loyalty in a collectivist culture is paramount and it overrides most other societal rules and regulations. Such a society fosters strong relationships, where everyone takes responsibility for fellow members of their group. In collectivistic societies, offence leads to shame and loss of face. Employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion take account of the employee's in-group. Management is the management of groups. |
| **Singapore (Score of 20)** | Singapore, with a score of 20 is a collectivistic society. This means that the "We" is important, people belong to in-groups (families, clans or organizations) who look after each other in exchange for loyalty. Here we can also see the second key principle of the Confucian teaching: The family is the prototype of all social organizations. A person is not primarily an individual; rather, he or she is a member of a family. Children should learn to restrain themselves and overcome their individuality so as to maintain the harmony in the family. Harmony is found when everybody saves face in the sense of dignity, self-respect, and prestige. Social relations should be conducted in such a way that everybody's face is saved. Paying respect to someone is called giving face. Communication is indirect and it is in the harmony of the group that has to be maintained; open conflicts are avoided. A "yes" doesn't necessarily mean "yes"; politeness takes precedence over honest feedback. The relationship has a moral basis and this always has priority over task fulfilment. The face of others has to be respected and especially as a manager; calmness and respectability is very important. |

**Table 2.5** Four National Cultural Dimensions of Malaysia, Singapore, and Thailand (Cont.)

| Country/Score | National Cultural Dimensions |
|---|---|
| **Thailand (Score of 20)** | With a score of 20 Thailand is a highly collectivist country. This is manifest in a close long-term commitment to the member "group" (a family, extended family, or extended relationships). Loyalty to the in-group in a collectivist culture is paramount, and it overrides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group. In order to preserve the in-group, Thais are not confrontational, and in there communication, a "Yes" may not mean an acceptance or agreement. An offence leads to loss of face, and Thais are very sensitive. They do not want to feel shamed in front of their group. Personal relationship is key to conducting business and it takes time to build such relations. Thus, patience is necessary, as well as not openly discussing business on the first occasion of meeting. |
| **Malaysia (Score of 50)** | **Masculinity Dimension:**<br>A high score (Masculine) on this dimension indicates that the society will be driven by competition, achievement, and success, with success being defined by the winner/best in field – a value system that starts in school and continues throughout organizational life.<br>A low score (Feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A Feminine society is one where quality of life is the sign of success and Standing out from the crowd is not admirable. The fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine).<br>With an intermediate score of 50, a preference for this dimension cannot be determined**.** |
| **Singapore (Score of 48)** | **Masculinity Dimension:**<br>Singapore scores 48 and is in the "middle" of the scale, but it is more on the Feminine side. This means that the softer aspects of culture such as leveling with others, consensus, sympathy for the underdog is valued and encouraged. Being modest and humble is seen as very important; thus, showing that one knows all has become to educate the counterparts who do not like it at all. Conflicts are avoided in private and work life, and consensus at the end is important. During discussions being cautious is important, not to be too persistent. We can also see the feminism in the government's definitions of the five "shared values", as well as the community support and the respect for the individual. |
| **Thailand (Score of 34)** | Thailand scores 34 on this dimension and is, thus, considered a Feminine society. Thailand has the lowest Masculinity ranking among the average Asian countries of 53 and the World average of 50. This lower level is indicative of a society with less assertiveness and competitiveness, as compared to those where these values are considered more important and significant. This situation also reinforces more traditional male and female roles within the population. |

**Table 2.5** Four National Cultural Dimensions of Malaysia, Singapore, and Thailand (Cont.)

| Country/Score | National Cultural Dimensions |
|---|---|
| | **Uncertainty Avoidance Dimension:** |
| **Malaysia (Score of 36)** | Malaysia scores 36 on this dimension and, thus, has a low preference for avoiding uncertainty. Low UAI societies maintain a more relaxed attitude in which practice counts more than principles and deviance from the norm are more easily tolerated. In societies exhibiting low UAI, people believe there should be no more rules than are necessary and if they are ambiguous or do not work; they should be abolished or changed. Schedules are flexible; hard work is undertaken when necessary, but not for its own sake. Precision and punctuality do not come naturally; innovation is not seen as threatening. |
| **Singapore (Score of 8)** | Singapore scores 8 on this dimension and, thus, the score is very low on this dimension. In Singapore, people abide by many rules, not because they have a need for structure, but because of high PDI. Singaporeans call their society a "Fine country", meaning "You'll get a fine for everything". |
| **Thailand (Score of 64)** | Thailand scores an intermediate 64 on this dimension, but it slightly indicates a preference for avoiding uncertainty. In order to minimize or reduce this level of uncertainty, strict rules, laws, policies, and regulations are adopted and implemented. The ultimate goal of this population is to control everything in order to eliminate or avoid unexpected result. As a result of this high Uncertainty Avoidance characteristic, society does not readily accept change and is very risk-adverse. The change has been seen for the greater good of the in the group. |

## 2.7 Accounting Value and IFRS Adoption

Accounting values are performed by Gray (1988), which are derived from a review of accounting literature and practice**.** Its dimensions can be shown as follows:

- **Professionalism versus Statutory Control**: a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.

- **Uniformity versus Flexibility**: a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time, as opposed to flexibility in accordance with the perceived circumstances of individual companies.

- **Conservatism versus Optimism**: a preference for a cautious approach to measurement so as to cope with the uncertainty of future events, as opposed to a more optimistic, laissez-faire, and risk-taking approach.

- **Secrecy versus Transparency**: a preference for confidentiality and the restriction of disclosure of information of the business only to those who are closely involved with its management and financing. This is opposed to a more transparent, open, and publicly accountable approach.

Extending the theory of the original four dimensions of Hofstede, Gray (1988) analyzed the linkage on accounting value. Gray's hypotheses are as follows:

**H1**: The higher a country ranks in terms of individualism, the lower it ranks in terms of uncertainty avoidance and power distance. Then, it is more likely to be ranked highly in terms of professionalism.

**H2**: The higher a country ranks in terms of uncertainty avoidance and power distance, the lower it ranks in terms of individualism. Then, it is more likely to be ranked highly in terms of uniformity.

**H3:** The higher a country ranks in terms of uncertainty avoidance, the lower it ranks in terms of individualism and masculinity. Then, it is more likely to be ranked highly in terms of conservatism.

**H4:** The higher a country ranks in terms of uncertainty avoidance and power distance, the lower it ranks in terms of individualism and masculinity. Then, it is more likely to be ranked highly in terms of secrecy.

However, Gray (1988) did not empirically test his hypotheses of how these cultural characteristics are related to these proposed accounting values. Gray (1988)'s paper has been picked up for researches in the later time. The relationship between Gray's accounting value and accounting practices is shown in Table 2.6 as follows:

**Table 2.6** Relationship between Gray's Accounting Value and Accounting Practices (Gray, 1988)

| Gray's Accounting Value | Accounting Practices |
|---|---|
| Professionalism/Statutory Control | Authority and Enforcement |
| Uniformity/Flexibility | |
| Conservatism/Optimism | Measurement of assets and profits |
| Secrecy/Transparency | Information Disclosures |

Next, Borker (2012) identified that Gray's accounting value dimensions are most linked with IFRS. They were compared with the results from the BRIC analysis. The IFRS-favorable profile based on Gray's four original values dimensions is shown in Table 2.7. He suggested practical applications to facilitate successful IFRS implementation in individual countries or groupings. IFRS-favorable profile is comprised of professionalism, flexibility, optimism, and transparency.

**Table 2.7** IFRS-favorable Profile Based on Gray's Four Original Values Dimensions (Borker, 2012)

| Gray's Accounting Value | Dimensions IFRS-favorable Profile |
|---|---|
| Professionalism vs. Statutory Control | Professionalism |
| Uniformity versus Flexibility | Flexibility |
| Conservatism versus Optimism | Optimism |
| Secrecy versus Transparency | Transparency |

## 2.8 Principle-Based and Rule-Based Accounting Standard

The principle-based and the rule-based accounting standards have been widely for a long time. Shields, Arthur, Helliar, Weetman, and Wood (2006) defined the rules and principles as follows:

"Rule as a means of establishing an unambiguous decision-making method. There can be no doubt about when and how it is to be applied while principle as general statement, with widespread support, which is intended to support truth and fairness and acts as a guide to action while principle as general statement, with widespread support, which is intended to support truth and fairness and acts as a guide to action."

There are two well-known major standard setters: Financial Accounting Standard Board (FASB), and the International Accounting Standard (LASB). US GAAP is set by FASB and considered as rules-based. IFRS is set by LASB, and considered as principles-based (Guillaume & Pierre, 2016). These are the major differences lying in these two conceptual approaches (Forgeas, 2008). In October 2002, the FASB issued a proposal that rejects the 'principles-only" standard with the reason of the comparability since the principle-based requires professional judgments which may be different from interpretations for similar transaction (Benston et al., 2006). Meanwhile, the principle-based is promoted worldwide, because accounting alternatives reflect economic substance and judge the most suitable accounting treatment (Lim & Cheng, 2016). Burgemeestre, Hulstijn, and Tan (2009) compare characterization of rules and principles by dimensions to enhance safety and security in the international trade between EU and US. The EU regulations (AEO self-assessment) are essentially principle-based, whereas the American system (C-TPAT) is rule-based as shown in Table 2.8 as follows:

**Table 2.8** Characterization of Rules and Principles by Dimensions (Burgemeestre et al., 2009)

| Dimension | Typical Principles | Typical Rules |
|---|---|---|
| Temporal | ex post | ex ante |
| Conceptual | general / universal / abstract | specific / particular / concrete |
| Functional | large discretionary power | little discretionary power |
| Representation | declarative (what) | procedural (how) |
| Knowledge | needed quite a lot | relatively little |
| Exception handling | allow for exceptions defeasible) | all or nothing (strict) |
| Conflict resolution | by weight (trade off) | no conflicts possible |

Table 2.8 shows the characterization of rules and principles by dimensions when they are generated to accounting standard system. Bration (2010) identified that GAAP and IFRS hold out materially different accounting treatment and the differences matter. GAAP tends to constrain while IFRS is flexible. GAAP's constraints reflect normative choices, particularly preferences for conservatism, verifiability, and transparent disclosure of current period results. Furthermore, he points out that in the country where the IFRS adoption is implemented, a block holder governance system controls or influences over internal decision-making over internal decision-making, and suffers from diminished problems of agency and information asymmetry. Any questions arising based on a discretionary treatment can be addressed by direct inquiry. Moreover, Peytcheva, Wright, and Majoor (2014) argued that the accounting system based on the IFRS adoption is as principle-based rather than rules-based (Elshandidy & Hassanein, 2014) which requires more evidence, especially for auditing.

## 2.9 The Relationship of Corporate Governance, IFRS Adoption and Accounting Conservatism

### 2.9.1 Corporate Governance and Accounting Conservatism

Earnings should represent current performance, current earnings should be an indicator for future earnings, and current earnings should be free from earnings management (Ahrens, 2009). The researchers have been interested in studying the relationship between corporate governance and the earnings. According to the results of research these days, most issues are related to uniform voice on a positive influence of corporate governance on earnings. For instance, the better the quality of corporate governance is, the better the quality of earnings (Antonio, Laela, & Darmawan, 2019), the better compliance with corporate governance reduces discretionary accruals which imply lower managerial opportunistic behavior (Bhuiyan, Roudaki, & Clark, 2013), or earnings accuracy is higher for firms with effective corporate governance (Shin & Kim, 2019). Some research also revealed negative relationships between the quality of corporate governance and the level of accruals (Bistrova & Lace, 2012).

The corporate governance monitoring is the effectiveness in mitigating managers' opportunistic discretionary accounting choices. It also reduces agency costs, and improves the quality of reported accounting earnings (Akileng, 2014). Moreover, corporate governance effectively improves the earnings quality and value of the firm (Latif et al., 2017). The earnings accuracy is also higher with effective corporate governance (Shin & Kim, 2019). However, previous studies have not yet been able to find a clear conclusion about these relationships because some evidence shows other results.

Rauf, Johari, Sharifah, Buniamin, and Rahman (2012) maintained that the board size does not influence the practice of earnings management. Thus, earnings quality and corporate governance may not be relevant. Subsequently, Yunina et al. (2018), who studied the food and beverage firms in Indonesia, found that the proportion of independent commissioner does not influence the accounting conservatism level. Similarly, the study of Yodbutr (2017) confirmed that the corporate governance level does not affect earnings quality. Nevertheless, Shah, Butt, and Hasan (2009) showed that corporate governance and earnings management are positively related. However, Al-sraheen (2014) confirmed that corporate governance plays a vital role in enhancing the level of conservatism and reducing agency conflicts.

Accounting conservatism for corporate governance has two roles: substitution and complement. As substitutional role, accounting conservatism is demanded for various contracts parties (R. L. Watts, 2003). Concluded by A. S. Ahmed and Duellman (2007), accounting conservatism assists the board of directors in reducing the agency cost of the firm. In addition,  Chi et al. (2009) claimed that when corporate governance is weakened, it is a phenomenon that there is the need for more accounting conservatism for substitution.

However, Lara et al. (2009) indicated that corporate governance and conservatism are not substitutes, and strong corporate governance firms use more accounting conservatism to inform investors. Their result is supported by later studies, such as Peterson and Whitworth (2013), who confirmed the positive relation between institutional ownership and accounting conservatism. They explained that institutional ownership has both greater resources and incentives to monitor. Their monitor efforts may be pressured for the firm to be more conservative. Additionally, K. Ahmed and Henry (2012), who studied the relationship between voluntary adoption of the selected corporate governance mechanisms and accounting conservatism, identified that firms voluntarily adopt and perceive best practice corporate governance mechanisms, and employ unconditional accounting conservatism as a complimentary agency control device.

Accounting conservatism is not only related to corporate governance, it is also related to the culture and legal regime that interact as substitutes in explaining accounting conservatism (T. Kang, Lee, Ng, & Tay, 2004). Moreover, Y. Ding, Jeanjean, & Stolowy, (2005) identified that cultural values matter more than the legal origin when explaining divergences from International Accounting Standards (IAS). Ball, Kothari, & Robin, (2000) identified that common laws on country’s earnings are more with conservatism than the code laws. The study of Bjornsen et al., (2018) also indicated that countries with the greater numbers of religions tend to adopt higher accounting conservatism. Southeast Asia is a source of people with diverse religious backgrounds (Bouma, Pratt, Ling, & Hill, 2010). The religions diverse is an important issue of the “One Identity” on the motto of the ASEAN, which is in full “One Vision, One Identity, One Community” (Jereza, 2016). the

Religious diversity index in Southeast Asia found by Brennan (2014) is shown in Figure 2.6 as follows:

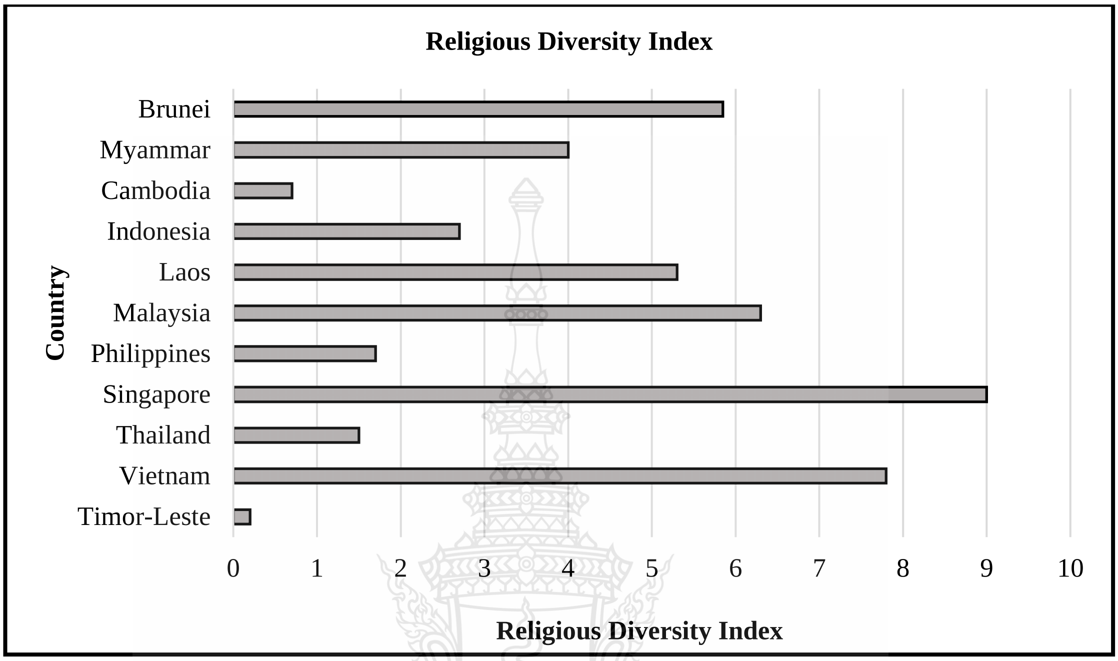


**Figure 2.6** Religious Diversity Index in Southeast Asia (Brennan, 2014)

Figure 2.6 focuses on Malaysia, Singapore, and Thailand. However, Singapore is the most religiously diverse county in Southeast Asia (Brennan, 2014). Islam is the major religion of Malaysia, which is the country with great diversity (Kleinmeyer, 2004). However, it obtains the less diversity index than Singapore. Thailand is the least in the diverse dimension (Brennan, 2014).

This study provides various results of the previous studies between corporate governance and accounting conservatism in the aspect of the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board as follows:

2.9.1.1 The rights of shareholders and key ownership functions and accounting conservatism

The principle of the corporate governance framework requires the right of shareholders to be protected, including minority shareholders and institutional investors

(OECD, 2017a). It focuses on ownership that exists across countries, which comprises of dispersed ownership (outsider systems) and concentrated ownership (insider systems) (Maher & Andersson, 1999).

Two examples of the countries where dispersed ownership is applied are the United States and the United Kingdom (Gorga, 2009). In regards to the dispersed ownership system, the basic conflict of interest is between strong managers and widely-dispersed weak shareholders.

On the other hand, concentrated ownership obtains the basic conflict between controlling shareholders (or blockholders) and weak minority shareholders (Maher & Andersson, 1999). Concentrated ownership structures are a common feature in Asian economies while dispersed structures are less typical (OECD, 2017b). The incentive effects of ownership concentration can be identified into two types of effects: the alignment effect and the entrenchment/information effect (Claessens & Fan, 2002; Shuto & Takada, 2009). The previous literature has shown the presence of both alignment effect and entrenchment/information effect.

Entrenchment effects suggests that larger shareholders control the firm, and possess a greater scope for acting in their own private interests (Morck, Shleifer, & Vishny, 1988). This results in negative effects on financial performance (Damayanti, Lindrianasari, Komalasari, Dewi, & Gamayuni, 2018). Joseph P. H. Fan and T. J. Wong (2002) proposed that the power of ownership concentration prevents leakage of proprietary information about the firms, but it is associated with low earnings informativeness. According to this, previous studies indicated that the percentage of shares held by the largest shareholder are negatively related with accounting conservatism (Cullinan, Wang, Wang, & Zhang, 2012; El-Habashy, 2019; Y. Wu, 2011). El-Habashy (2019) considered that the concentration of ownership increases the effectiveness of control by shareholders, and prevents managers' performance. According to Cullinan et al. (2012), the management may serve the interests of this largest shareholder to the exclusion of the interests of minority shareholders who generally prefer more conservative reporting. As a result, conservatism is negatively associated with the percentage of the largest shareholder when the ownership percentage exceeds 30%. Likewise, Kung, Cheng, and James (2010) demonstrated that concentrated ownership is more likely to lower earnings conservatism when using private communication to reduce information asymmetry and resolve agency problems internally. R. M. Yunos, M. Smith, and Z. Ismail (2010a) identified that owing to the entrenched effect of major shareholders in Malaysian firms, the substantial shareholders in Malaysia adopt less conservative accounting.

The alignment effect as the notion suggests involves larger shareholders having an incentive to optimize firm performance since an increase in firm wealth gives rise to personal wealth (Tsao & Chen, 2012). Thus, as a credible commitment, they are willing to build a reputation for not expropriating minority shareholders (Joseph P.H. Fan & T.J. Wong, 2002). Additionally, Alali and Romero (2012) claimed that firms with higher concentration disclose more financial and non-financial information than firms with less concentration.

However, the other reason that the largest shareholder use the potential governance is that they have benefits from accounting conservatism which is a tool for monitoring management when they encounter more growth options and higher information asymmetry. Thus, the relationship between the largest shareholder and accounting conservatism are related positively (Ramalingegowda & Yu, 2012). For the factors that influence market-based mechanisms, contracts, legislation, and law are affected in creating a stable value for shareholders so that ownership concentration is discovered whether it is related to accounting conservatism (Dalvi & Mardanloo, 2014). In addition, Nawang and Selahudin (2015) stated that power of ownership concentration leads to hiring managers based on relationship resulting in that the highest share owner ignores to closely do the monitoring role.

2.9.1.2 The equitable treatment of shareholders and accounting conservatism

The corporate governance framework establishes the equitable treatment of shareholders both domestic shareholders and foreign shareholders. The firm should set a system of communication, as well as the time and information, for them (OECD, 2004). The channel provides the information that indicates the equitable treatment of shareholders on the firm website owing to speed, lower costs, and the possibility of reaching large groups of investors (Geerings, Bollen, & Hassink, 2003). The firm website is a resource that everyone can access information from anywhere and at any time. Furthermore, shareholders should be able to access the information rapidly.

The website as a way of considering the accessibility of information is provided by the firm. Both the accessibility and quantity of information provided affect the quality of internet-based information (Chatterjee & Hawkes, 2008). The information of financial reports on the internet can help investors to make investment decisions. Thus, the market's reaction on information in the market share can be accelerated (Sadalia, Rahamani, & Muda, 2017). However, information on firm websites also has led to a number of information quality problems. For example, it contains outdated information, the information is not easily accessible, and the users do not know where to find the information they are looking for (Eppler & Muenzenmayer, 2002). In addition, although the enhanced public trust of web disclosure has a positive benefit, many firms have not implemented the recommended web disclosure principles and best practices (Lee & Joseph, 2013).

Investor relations is a task of the firm management in order to provide timely, accurate, useful, meaningful, understandable, and complete information to the investor community. Its information conveys present business status, a forecast of future status, transparency, and managing relations (Djordjevic, 2013). Furthermore, the format of investor relations activity provides more than one channel, including websites of firm, meeting with investors, company news-releases, and annual reports.

Supported by Wang (2019), who studies the risk factor disclosures (RFDs) and accounting conservatism, firm reports are less conservative after RFDs have been included in their 10-K filings. This is a substitutive effect. This study expected that dedication of investor relations on firm websites would affect accounting conservatism less. Agarwal et al. (2008); S. d. S. Rodrigues and F. C. Galdi (2017) identified that the effective investor relations lead to lower information risks, and are associated with high information asymmetry. This is in line with Brown and Hillegeist (2007), who contended that the information asymmetry is negatively associated with investor relations activities. However, the evidence of Chang, D'Anna, Watson, and Wee (2008) showed the influence of the value of investor relations on the reduction of asymmetry information in the firm that has low asymmetry information.

2.9.1.3 The role of stakeholders in corporate governance and accounting conservatism

The rights of stakeholders may be defined by law, as well as terms of the contract. However, in some matters even though they are not provided, the firms should be aware that in order to maintain the firm's reputation and results of operations of the firms, it is also necessary to concern the interests of broad of stakeholders (OECD, 2004). This part is related to stakeholder theory which is a theory that focuses on the importance of stakeholders of the firms. It consists of communities, customers, competitors, NGOs, producers, businesses or the environment. When firms understand and recognize the importance of stakeholders, this helps promote the exchange of knowledge, concepts or the exchange of useful resources among them. If the firms understand the social environment and the real needs better, the firms can benefit all stakeholders, and that enhances their image. The stakeholder management theory holds that resources are invested by firms to secure their stakeholders (Cheng & Kung, 2016). Currently, concerning the environment, corporate social responsibility (CSR), and sustainability reports are the fields that get attention. Voluntary Standalone Reports (VSR), known as "Sustainability Reports", "Environmental Reports", "GRI Reports" and "Citizenship Reports" (Mahoney, Thorne, Cecil, & Lagore, 2013), conveys disclosures on the firm's most critical impacts on the environment, society, and economy (GRI, 2013). Thanjunpong, Awirothananon, and Dechsiri (2019) studied the impact of sustainable development report on firm performance in Thailand. They maintained that sustainable development report is significantly positive and related to firm performance, especially for excellent corporate governance firms. Nevertheless, in Thailand, Lerskullawat and Prukumpai (2017) argued that there are no differences in performance between Thai sustainability investment firms and non-Thai sustainability investment firms.

A. Mohamad et al. (2019) identified that there are different viewpoints among researchers between the disclosure about sustainable development and the quality of financial report. Their viewpoints are "integration relationship" and "alternatives relationship". The topic of integration relationship concerns high quality financial information, containing motives to disclose all types of information, such as the information of sustainable development. However, it comes to the topic of alternative relationship when the companies of quality financial report resort to the information of sustainable development as a procedure to compensate the deficiency in the quality of financial information.

The concept of the quality of financial reporting reflects the accuracy of financial reports on disclosing information about the operations of the corporation in order to inform investors (Karsalari et al., 2017). Generally, firms provide the report of corporate social responsibility (CSR) and sustainability report in the annual report (SGX, 2016) or separate them into one single report (Clement & Searcy, 2012) for investor and other stakeholders. However, the stakeholders should consider the financial reporting as a responsibility of firms in disclosure on the environment, society, and the economy.

The study of Hsieh et al. (2017) indicates that labor union strength leads to less condition conservatism. It likely results from the union's ability to reduce the likelihood of layoffs. Nonetheless, A. Mohamad et al. (2019) observed that there is a positive relationship between accounting disclosure of sustainable development and accounting conservatism. They further explained that increasing disclosure of sustainability leads to an increase in the value of accounting conservatism. Their study consists of the concept of "integration relationship". However, the relationship between CSR and accounting conservatism is in line with the concept of alternatives relationship according to Burke, Chen, and Lobo (2020). They found a negative relationship between CSR performance and conditional conservatism. Their explanation is based on the concept of alternatives relationship.

CSR performance demonstrates the firm's commitment to meeting various needs of the stakeholders and developing long-term relationships which will reduce concerns of the parties about managerial opportunities. Better CSR performance would be associated with a lower demand for conditional conservatism. Furthermore, CSR engagement helps improve firm's information environment, and reduce information asymmetry between the firm and outside stakeholders. It also generates demand for conditional conservatism. Thus, the firm that has stronger CSR performance will likely meet a lower demand of conditional conservatism.

From another perspective, Rezaee and Tuo (2017) argued that non-financial disclosures are associated with a one-year lead in sustainability performance, whereas current year sustainability performance is linked to more disclosures of historical non-financial information in the year-end annual filings. In line with the suggested notion from previous studies, firms setting CSR disclosure is a crucial element to reduce information asymmetry regarding business risks in the future. They are not directly related to short-term financial performance (Cho, Kang, Lee, & Park, 2020).

In addition, stakeholders are usually concerned about environments; most of them are related to provision of CSR reports or sustainability reports. This issue is evident and supported by Chongruksut (2016) who found that, in 2011, the majority of Thai firms in the SET 100 index group had no sustainability reports. The majority of firms with sustainability reports were in the resource industry. Likewise, Suttipun and Stanton (2012) used a questionnaire for in their study to sort out the reasons for making or not making environmental disclosures of Thai firms. They found that the most important reason for not disclosing environmental information was that the firms had no environmental impact, and that there were no environmental regulations or standards in Thailand. Many Thai firms only undertake environmental reporting when it is mandatory.

To this end, Herbert and Graham (2018) explained that the one key reason that the firms provide sustainability reporting is to increase their legitimacy within society and prevent damage of the reputation and legitimacy of firms. Thus, they are most likely to limit the negative disclosures on sustainability reports. Although there has been a large increase in the number of firms reporting on sustainability activities, these disclosures are not all widely accepted. In addition, Kurniawan and Wibowo (2009) also contended that CSR disclosure practices in Indonesian banks are driven by the government regulation. There is a lack of evidence to support the relationship between conservatism and the Indonesian banks' CSR reporting. Similarly, Karsalari et al. (2017) concluded that the mandatory CSR components have a negative result with regard to accounting conservatism.

2.9.1.4 Disclosure and transparency and accounting conservatism

OECD set the principles of disclosure and transparency, stating that the corporate governance framework has to include disclosure that is timely and accurate on all material matters in the corporation, such as financial situation, performance, ownership, and governance of the firm(OECD, 2004). Increasing of corporate disclosure and transparency reduces the asymmetric information between informed and uninformed investors (Chiyachantana, Nuengwang, Taechapiroontong, & Thanarung, 2013).

Disclosure of significant information should include financial and non-financial information. The firm should provide a channel of communication and information on which users can easily access in regard to equality and timely manner with the lowest cost.

Wang (2019) explained that risk factor disclosures affect accounting conservatism, which depends on the two opposing effects, namely, the stimulative effects and substitutive effects. On the one hand, risk factor disclosures are substitute for conservatism by revealing important information that may partly meet the contracting and litigation demands for conservatism. On the other hand, risk factor disclosures may stimulate a greater level of conservatism by increasing the level of risk perceived by financial statement users who, in turn, may demand more conservative reporting.

In some study of substitutive effects, firms report less conservatively after risk factor disclosures are included in the 10-K filings. Thus, the reason as risk factor disclosures can be an appealing alternative to conservatism since unbiased financial reporting is highly valued by investors and other stakeholders. Mo (2015) proposed that less conservative firms are more likely to increase voluntary disclosures around debt financing than at other times. Meanwhile, Chang et al. (2008) identified that the information disclosure effect on the decrease of asymmetry information must depend on its quality as well. Moreover, Papa (2016) explained the user perspective on financial instrument risk disclosures under the international financial reporting standards, and found that the five barriers of risk disclosures include risk disclosures being difficult to understand, qualitative disclosures provided being uninformative and often not aligned to quantitative, users having low confidence in reliability of quantitative disclosures, disclosures having low consistency and comparability, and top-down integrated messaging on overall risk management being missing.

One of the most prominent platforms for information provision today is the website of the firm (Eppler & Muenzenmayer, 2002). It is a way of considering accessibility of the information provided by the firm. Both the accessibility and quantity of information provided affect the quality of the internet-based information (Chatterjee &

Hawkes, 2008). The information of financial reporting on the internet can help investors to make investment decisions. Thus, market's reaction on information on market shares can be accelerated (Sadalia et al., 2017). However, information on the firm website also leads to a number of information quality problems. For example, it contains outdated information, it is not easily accessible, and the users do not know where to find the information (Eppler & Muenzenmayer, 2002). Despite positive benefits of enhanced public trust of the web disclosure, many firms has not implemented the recommended web disclosure principles and best practices (Lee & Joseph, 2013).

Investor relations is a task of the firm management in order to provide timely, accurate, useful, meaningful, understandable, and complete information to the investor community. Its information conveys present business status, forecasting future status, transparency, and managing relations as shown in Table 2.9 (Djordjevic, 2013). The effective investor relations lead to a lower information risk that is associated with high information asymmetry (Agarwal et al., 2008) which is negatively associated with investor relations activities (Brown & Hillegeist, 2007).

The three stages of investor relations on the internet are comprised of the first stage: the internet presence, presentation of general firm information; the second stage: the provision of specific information for investors in terms of both content and structure; and the last stage: the use of specific advantages offered by the internet, including the use of hyperlinks, changing the language, and downloading files (Geerings et al., 2003). This is consistent with Djordjevic (2013), who showed the history of investor relations in the three eras: the Communication Era (1945-1970), the Financial Era (1970-2000), and the Synergy Era (after 2000).

**Table 2.9** Investor Relations Activity (Djordjevic, 2013)

| Conveying information | Activities |
|---|---|
| Present business status | Explaining information about the business and environment; explaining recent development and decisions on the basis of company's long-term planning and strategy |
| Forecasting future status | Highlighting future prospects of the business rather than historical performance; Focusing on long term strategies; Focusing on long term opportunities for the business |
| Transparency | Avoiding over-expectations from the target audiences; Facing adverse news openly and honestly |
| Managing relations | Providing analysts with access to the top management; Being proactive rather than re-active; Employing an investor relations staff or a department that is able to explain details and is responsive to analysts' inquiries and requests |

Djordjevic, (2013) explained that, in the Current Era: The Synergy Era, the demand of investors is not only a financial disclosure, but also information for making an investment decision. The company's strategy, management team, and mission and vision, amongst others, are vital information in this regard. Thus, Table 2.2 shows conveying of information and activities that are more important for investor relations officers to provide for investors, which is not only to communicate the financial language, but also important to strategically communicate with investors**.**

Three elements of an effective IR website are comprised of design, technology, and content. The content element includes a corporate profile, financial data, a downloadable version of earnings report, highlight marketing materials, and search engine optimization (SEO) (Nasdaq, 2018). According to the guidebook of the Bucharest Stock Exchange (BVB) in Romania, the best practices for IR communication the key area of which consists of general content presence, mandatory content, recommended information, modern access tools and navigation solutions, complementary communication channels, and offline opportunities (BVB, 2017).

Previous studies show the information on firm's websites in various aspects. The internet financial reporting significantly has an influence on a company's share trading frequency and price (Sadalia et al., 2017). The more informative IR websites result in a decrease in the bid-ask spread of Brazilian listed companies (S. Rodrigues & F. Galdi, 2017). In relation to the firm size effect, large firms use the internet for investor relations purposes more extensively than smaller firms (Geerings et al., 2003). The firms that report more conservatively when their disclosures of the specific risk factor are less, but when there are more disclosures with uncertainty, they tend to report less conservatively (Wang, 2019).

2.9.1.5 The responsibilities of the board and accounting conservatism

The board of firm is a group of people who work together for the group effectiveness. Baninajarian and Abdullah (2009) developed a model of group effectiveness based on literature reviews of organizational work teams and group effectiveness. The model is illustrated in Figure 2.7.

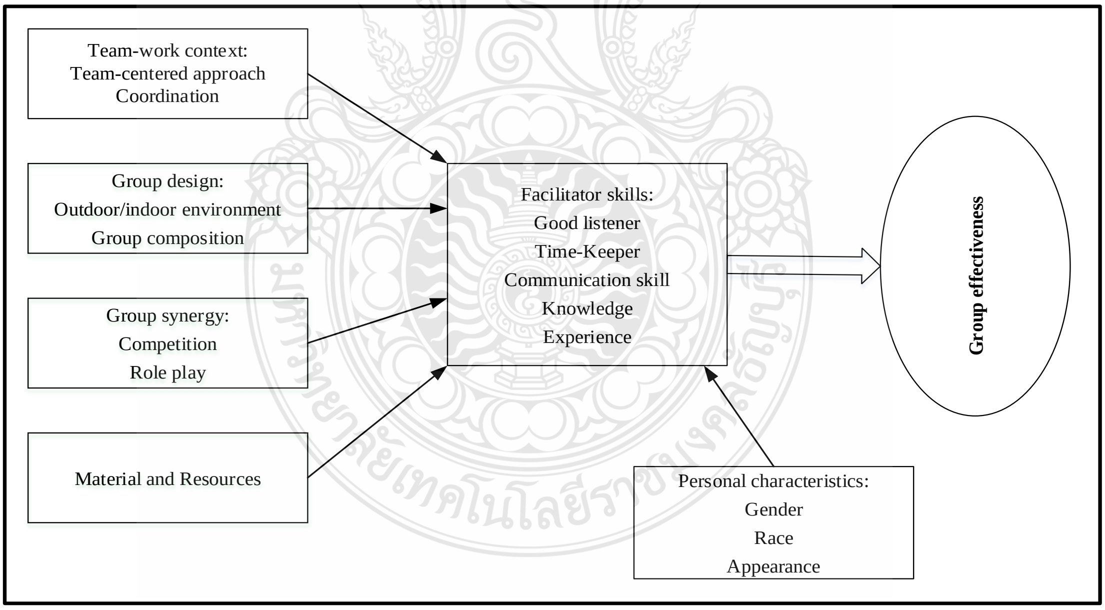


**Figure 2.7** Model of Group Effectiveness (Baninajarian & Abdullah, 2009)

Figure 2.7 shows the model of group effectiveness, in which the group structure is comprised of team-work context, group design, and group synergy. The group structure is supplemented by materials and resources which are available for group members to accomplish their tasks. The second factor influencing the group effectiveness is the role of facilitator in the group process. These are two sets of influences on group effectiveness. In addition, personal characteristics as mediated which include appearance, gender, and race also affect the group effectiveness.

This model implies that group effectiveness consists of both group structure and group process. It is adopted for the board of firm. The notion of structural and process characteristics of the board is assumed to produce the board effectiveness and also to contribute to the organizational effectiveness (Bradshaw, Murray, & Wolpin, 1992). However, the study of Wan and Ong (2005) found that board structure does not affect board process, while board process is related to board performance.

Fama & Jensen (1983) showed that the board of directors is a mechanism responsibility that is important to track the performance of the functions of management, and the need for concealment benefits of stakeholders of the firm. One of the major responsibilities of the board of directors rely on ensuring that shareholders and other stakeholders have high-quality disclosures on the financial and operating results of the entity that are entrusted with the governing by the board of directors. Most corporate governance codes around the world include the OECD and the ICGN principles, the CACG guidelines, the Cadbury Report, and the King II, specifically requiring the board of directors to provide shareholders and other stakeholders with the information related to the financial and operating results of the firm. This is to enable stakeholders to completely understand the nature of the business, current state of affairs, and how the business is being developed in the near future (UNCTAD, 2006).

The extent of the responsibilities of the board in previous studies includes size of the board and size of the committee and board composition, which is made up of many parts: skills and qualifications, independence, diversity, tenure, and refreshment (Deloitte, 2016). In regards to the board size and the committee, larger members are expected to have diverse education and industry backgrounds, skills, and multiple perspectives to improve the operation quality of the firm (Zahra & Pearce, 1989). In addition, Conger, Finegold, & III, (1998) further explained that the combination between experience and knowledge of members must be consistent with the strategic demands that the firm is facing. Moreover, the business environment is more complex and now impossible in practice for a single member or even a small group of individual members to understand all the issues (Conger et al., 1998). In contrast, a small group of members can decrease problems of communication and coordination that the large size of members has to face, and it also increases the ability of the small board to control management (Jensen, 1993; Yermack, 1996).

The independence of the board is one point that has been discussed worldwide. Beekes, Pope, and Young (2004) pointed out that by theoretically, monitoring effectiveness of outside directors can occur after two conditions. Firstly, sufficient incentives are provided for monitoring, which is influenced by factors of economic, social, and legal, as well as sufficient expertise. The board formed by an audit sub-committee (Wu, Habib, & Weil, 2012) in order to assist with overseeing the management doing the financial reporting process. Their role is often linked to the quality of financial information. Thus, the audit committee should be able to improve their task and the firm's internal control quality that is the destination of shareholders protection (Supriyaningsih & Fuad, 2016). It is confirmed by Levitt, (2000), who points out that the audit committee is one of the most reliable guardians of the public interest. Many studies propose that audit committee attributes, such as expertise in accounting, are related to financial reporting quality (Hamdan et al., 2012; Kamarudin & Ismail, 2014; Kipkoech, 2016; Leong, Wang, Suwaedy, & Kusnadi, 2015). According to Leong et al. (2015), audit committees in listed firms on Singapore Exchange already consist of a majority of independent directors; therefore, they do not find evidence to increase independence of audit committees in improving the quality of financial reporting. Moreover, they found valuable evidence that if audit committees are made up only of accounting experts, it does not affect the financial reporting quality. The committee should be comprised of members who have skills regarding financial or supervisory expertise. Their roles also include reducing conflicts between auditors and management (Davidson, Goodwin-Stewart, & Kent, 2005). The topics of the responsibilities of the board that researchers are interested in varying in many aspects as follows:

(1) Board size and accounting conservatism

Abdul-Manaf, Amran, & Zainol-Abidin, (2014) stated that there is a difference in the level of accounting conservatism between firms with a small board size and firms with a large board size. Both of them also have advantages and disadvantages. The advantage to one can be a disadvantage to the other. Smaller boards have an advantage of lower coordination costs and less free riding among board members, but the disadvantage is that they have fewer advisors and monitors of management (Bushman, Chen, Engel, & Smith, 2004). Empirically, Y. Wang, Young, & Chaplin, (2009) indicated that firm performance on the board size is also mixed. One the one hand, the large board reduces environmental uncertainty to ensures the flow of communication between the firm and its diverse publics (Pearce & Zahra, 1992). They accumulate resource and various information that benefit the value of firms, especially independent boards which is more effective in a richer information environment (Cheng, Chen, & Wang, 2015).

Furthermore, larger boards are more effective in preventing managerial discretionary behavior. One reason behind this result may be that larger boards are more likely to devolve responsibilities to board committee members than smaller boards (García-Meca & Sánchez-Ballesta, 2009). On the other hand, the large boards can cause coordination costs, free rider problems (Lehna, Patroa, & Zhao, 2004), as well as poor communication and decision-making which affect the effectiveness of groups (Yermack, 1996). In addition, Jensen (1993) suggests that keeping the small board can help firm performance, and the board size between seven or eight would result in the availability of participants, flexibility in management, coordination with the CEO, as well as the opportunity to more meeting; as a result, the administration is efficient (Jensen, 1993).

For another perspective, the board size should be neither too large nor too small (a number of 10 administrators seems to be optimal) in order to avoid diverting opinions that profit the manager and allow earnings management (Kouki, Elkhaldi, Atri, & Souid, 2011). Meanwhile, Epps and Ismail (2009) argued that firms with 75-90 percent of independent board or firms with a board size of between nine and twelve have higher positive discretionary accruals. Other studies address that the board size depends on the environment.

Haleblian and Finkelstein (1993) found that large boards have an effect more on firm performance in a turbulent environment rather than in a stable environment. This is supported by the study of Lin and Lee (2008) in the companies with high organizational complexity or high dependence on external resources with a large board.

This is beneficial because of a greater demand for the board consultation. Nevertheless, Bonn et al. (2004) identified that the board size is just the number which is less potential than skills and knowledge.

Given the aspect of accounting conservatism, Yunos et al. (2014) argued that the board size is not associated with conservatism since the board size is only a factual number of directors. It does not reflect the skills and knowledge that are subject to the functional efficiency of the board. Akhtaruddin, Hossain, Hossain, and Yao (2009) contended that the number of boards has a positive effect on voluntary disclosure of information which indicates the capability to influence managers to disclose more voluntary information and use accounting conservatism as the governance tool to reduce litigation risks. Moreover, the directors may spend more time in advising rather than monitoring firm performance (Ahmad, Abdullah, Jamel, & Omar, 2015).

**(2) Composition of board and accounting conservatism**

This study focuses on diversity of board as job function and gender, including independent board, gender on board, CEO duality, audit committee, and gender on audit committee.

**- Independent board and accounting conservatism**

The acts of the board of directors as the brain of the firms must be managed on the right balance between shareholders, directors, auditors and other stakeholders. An independent board are seen as an integral element of a  corporate governance norms (Khan & Kotishwar, 2011). Independent boards are made up of the persons entrusted by shareholders to represent them, and help to reduce agency problems. Furthermore, the Code of Corporate Governance and regulators recommend the composition of board members to be balanced and consist of independent board (Fuzi, Halim, & M.K, 2016). Garg (2007) suggested that different proportions of board independence have a dissimilar impact on firm performance. Jensen (1993) indicated that without the direction of an independent leader, it is more difficult for the board to perform its critical function. This study is supported by Beaslay (1996), who observed that outside members on the board of directors increase the board's effectiveness on monitoring management for the prevention of financial statement fraud. For that matter, board independence is overall a positive sign that help mitigate bad corporate reputation (Zhang, 2012).

An independent board, who hold a large number of directorships in other companies, can substantially reduce the earnings management practices due to their expertise and experience (Rajpal, 2012). However, some studies discover that there is mixed evidence that independent directors add value and improve the performance of the firm (Garg, 2007) and mixed association between proportions of independent directors and firm performance. Although the firm is comprised of the highest number of independent directors, it would not be assured to enhance firm performance (Fuzi et al., 2016). As the relation on accounting conservatism, many studies show positive association between board independence and accounting conservatism (Beekes et al., 2004; Lin et al., 2011; Mahmoud & Collins, 2018; Suleiman, 2014). Beekes et al. (2004) suggested that the experience of independence about the financial reporting process from external organization enhances accounting quality and understanding of the importance of applying conservatism through reporting.

Mahmoud and Collins (2018) explained that more independent board implies various knowledge, expertise, and experience which enable them to monitor management activities and influence conservatism more effectively. They further stated that their findings support agency theory, which suggests that more independent directors are more likely to use accounting conservatism as a tool to reduce agency conflict. Additionally, Suleiman (2014) supported that boards that are mostly constituted of inside directors may lead to the transfer of wealth to themselves instead of stakeholders. The board also uses conservative accounting as a tool to facilitate management control (El-Habashy, 2019). Nevertheless, Amran and Manaf (2014) found that the high number of independent non-executive directors shows a low level of conservatism. For their explanation, independent board performs a little role of monitoring due to lack of real independence, time, and not enough information. The other aspect of Enache and Garc´ıa-Meca (2019) identified that the outside board has an effect on monitoring and contracting, such as politicians. They can lower the sensitivity of earnings to bad news. Then, confirmation can be made that not all outside directors are equally effective in monitoring and contracting.

Liang et al. (2017) explained that the network centrality of independent directors might have both a positive and a negative impact on accounting conservatism. On the one hand, because of the supply side of accounting conservatism, their reputation incentive would drive them to perform better. Therefore, the motivation to provide high accounting conservatism is strengthened. On the other hand, considering the demand side of accounting conservatism, creditors, and shareholders can be conscious that independent directors with high network centrality usually have a good reputation and independence, and they can always improve the quality of corporate governance. They can be an alternative mechanism for accounting conservatism.

There are some other factors that influence the working of independent board, such as the relationship between them and the group that concerns the firm. For example, family-control firms (Jaggi, Leung, & Gul, 2009), and political connection (Mohammed, Ahmed, & Ji, 2017). Jaggi et al. (2009) pointed out that the monitoring effectiveness of independent corporate boards is moderated in family-controlled firms that are dominant in Asian corporations (Hashim & Devi, 2008), especially the firms in Thailand. This aspect still strongly persists although time passes by (Suehiro & Wailerdsak, 2004). There are four groups of businesses: closed family business, specialized family business, authoritarian family conglomerates, and modem family conglomerates that will be facing a challenge in the capital market. This result comes from the fact that the independent board role is not linked with accounting conservatism in Thai firms in the emergence of the ASEAN Community.

For another relationship, Mohammed Nor et al. (2017) stated that political connection provides a moderating effect negatively on the positive relationship between accounting conservatism and the board independence. This is supported by the study of Imai, (2006), "Mixing Family Business with Politics in Thailand." It was found that the political participation of family members is positively associated with the profitability of family businesses. In addition, Chienwattanasook and Fongsiri (2007) identified that the degree of independence board ratio of Thai firms does not have an effect on firm performance. Nowadays, the close ties between politicians and businessmen issue is widely disputed, and become a major concern in the corporate governance area in Thailand (Sitthipongpanich, 2004).

In Malaysia, the Code of Corporate Governance suggests that the minimum composition of one-third of independent directors, for which Johari, Mohd Saleh, Jaffar, and Hassan (2009) identify that it is not adequate to monitor the management solely from earnings management practices. Differently from the above, (Smit, 2015) found that there is no relationship between independent board and accounting conservatism.

**- Gender of board and accounting conservatism**

Gender diversity board is engaged in a large picture and non-routine problem solving; consequently, an increase in their creativity may lead to functional conflicts. Therefore, being regarded as gender diversity board has both positive and negative significance for decision making and processes (Hillman, Shropshire, & Jr, 2007; Yaru, 2015). Gender diversity of the board has been picked up for many corporate governance studies.

The positive association is found in existing studies between females and firm performance. Female directors can develop trust leadership (Man & Wong, 2013). Furthermore, Julizaerma and Sori (2012) suggested that women directorship may influence firm performance. Terjesen, Sealy, and Singh (2009) indicate that women directors improve corporate governance through better use of the whole talent pool's capital as well as building more inclusive and fairer business institutions that better reflect their present generation of stakeholders. Ramly, Chan, Mustapha, and Sapiei (2015) proposed that women directors are more effective on boards if they are also appointed as independent directors. In regard to their characteristics, Gull (2018) addressed that the experience of women has a substantial impact on the quality of financial statements.

In contrast, Mahadeo, Soobaroyen, and Hanuman (2012) found that women remain poorly represented on boards. The enhancement of earnings persistence which is one of the proxies of earnings quality could not be attributed to gender diversity. It does not display significant differences among firms with female and male directors (Hili & Affes, 2012). This result is supported by the research of Carter, D'Souza, Simkins, and Simpson (2010), who did not find any significant relationship between the gender or the ethnic diversity of the board, and the importance of the board committees and the financial performance. Consistent with the earnings quality that is measured by discretionary accruals, there are no significant differences for firms with female and male top executives (Ye, Zhang, & Rezaee, 2010). Another study shows that accounting performance has significantly negative associations with gender diversity (Darmadi, 2010). An identical study of a gender diverse board found that the earnings management conflicts mitigate in countries where the gender equality is high (Kyaw, Olugbode, & Petracci, 2015).

For studies on board diversity, one or more attributes may be used as proxies for diversity. Gender of board appears to be the most widely observed attribute (Darmadi, 2010). Some countries have passed legislation establishing a gender quota system by introducing reserved seats for women in board of directors (Makhlouf et al., 2018). For example, Malaysian corporate governance regulates that the board must have at least 30% of women directors in large companies (SC, 2017). In Singapore and Thailand, although Corporate Governance Code does not assign the proportion of females on the board like Malaysian Corporate Governance Code, it is suggested that listed firms should also consider issues of board diversity in terms of gender (MAS, 2018; SEC, 2017).

Previous studies show mixed results about efficiency of females. Female CEOs are more ethical and risk-averse, so they are positively related to accounting conservatism (Ho, Li, Tam, & Zhang, 2014). It is said that the higher the number of female directors, the lower the firm's risk (Fauzi et al., 2017). Wik et al. (2004) studied the measurement of risk aversion from experimental data, and revealed that females are more risk-averse than males. In contrast, Sultana and Zahn (2015) explained that the number of female directors on the board is not significantly associated with earnings conservatism. They found that all-male boards are more risk-averse than more gender diverse boards, and also suggested that a firm with a higher number of female directors on the board is not necessarily associated with the persistence of earnings conservatism than a firm with a single female director on the board.

However, many papers found that gender diversity is significantly positively correlated with accounting conservatism (Boussaid et al., 2015; Makhlouf et al., 2018; Zhou et al., 2012). Their reason is that gender diversity affects firm performance with more prudent reporting practices since females play a significant role in enhancing the creditability of financial statements, and improve the disclosure mechanisms.

**- CEO duality and accounting conservatism**

CEO duality refers to CEO who is also the chairman of the board. The two theories that conflict views of CEO duality are agency theory and stewardship theory. Agency theory supports the separation of these roles, but stewardship theory supports CEO duality. Stewardship theory focuses not on motivation of the CEO but rather facilitative, empowering structures, and it proposes that effectiveness will be enhanced by fusion of the incumbency of the roles of the chair and CEO, and will also produce superior returns to shareholders than separation of the two roles of chair and CEO (Donaldson & Davis, 1991). From the agency theory perspective, the one who is in charge of both management implementation and control is not consistent with the concept of checking and balancing (Kim & Buchanan, 2008). According to stewardship theory, the executive manager essentially needs to do a good task, and be far from being an opportunistic shirker. Thus, this theory holds that there is no inherent, general problem of executive motivation (Donaldson & Davis, 1991).

Yunos (2011) studied on firms in Malaysia as the sample of the study. It was found that CEO duality was not associated with accounting conservatism. The study result is not surprising because there are number of empirical evidences on the CEO duality. Previous papers show the effects of both duties are indeed mixed. It can be implied that leadership structure is dependent on other factors, such as complex business, family, and non-family firms.

For listed firms in Singapore, the data show a negative relationship between CEO duality and accounting conservatism. El-Habashy (2019) found that CEO/Chair separation is related to a low level of accounting conservatism practice. It can be explained that when both the higher positions of a firm are occupied by the same person, there is no check and balance of authority and power (Rasheed & Nisar, 2018). Some studies point out that if the positions of CEO and chairman of the board of firm are separated, it affects an increase of conservatism in financial reporting (Foroghi et al., 2013). Chi et al. (2009) used Taiwan listed firms as the sample of their study, and found that CEO duality increases the level of conservatism. Since CEO duality is a weak corporate governance mechanism, managers use conservation to compensate for this weakness.

Brickley, Coles, and Jarrell (1997) suggested most large firms that the costs of separation of CEO and Chairman are larger than the benefits. Klein (1998) who studies firm performance and board committee structure found that inside directors provide valuable information. These support the working of efficient CEO duality. In another aspect of study, Ramdani and Witteloostuijn (2010) found that the impact of CEO duality on firm performance in Malaysia and Thailand are different across the conditional quantities of the distribution of firm performance by CEO duality being beneficial for average performing firms. However, it is not significant for low and top performing firms. As a result, this suggests that no one theory is superior to the other in all circumstances (Yunos, 2011).

**- Audit committee and accounting conservatism**

The audit committee is one of the sub-committees of the board. Their act is to enhance the ability of the board to fulfill its legal responsibilities, and ensure the credibility and the financial reports objective. A firm organizes an audit committee within the board to make an active role in overseeing the firm's accounting and financial reporting policies and practices, including improving the quality of financial reporting practices (Salleh & Haat, 2013). From the discovery of Leong, Wang, Suwardy, and Kusnadi (2015), if audit committee are made up only of accounting experts, it does not affect the financial reporting quality. The committee also consists of members that possess other skill-set in terms of finance or supervisory expertise. Supporting by DeZoort and Salterio (2001), they found that varying in knowledge levels leads to systematic differences in judgments of audit committee members.

Although there are more members of audit committee, skills and knowledge consequently are still problems in terms of poor communication and decision-making that overwhelm the effectiveness of groups (Yermack, 1996). On the other hand, if the members have complete skills and knowledge, they influence reduction of environmental uncertainty(Pearce & Zahra, 1992), and this definitely affects the financial reporting quality. Felo, Krishnamurthy, and Solieri (2003) found a positive relationship between the size of the audit committee, and the financial reporting quality, but did not find the relationship between the audit committee independence and the financial reporting quality. Hamdan et al. (2012), did not find any influences between the audit committee size and the dependence of members of the audit committee on improving level of accounting conservatism. They further explained that the audit committee is not in execution because there is an apparent financial or family connection with the members of the audit administration. Thus, independence of the committee never leaves any impact on conservatism. Ghafran and O'Sullivan (2012) synthesized recent empirical research in various aspects of the audit committee's governance role as shown in Figure 2.8.

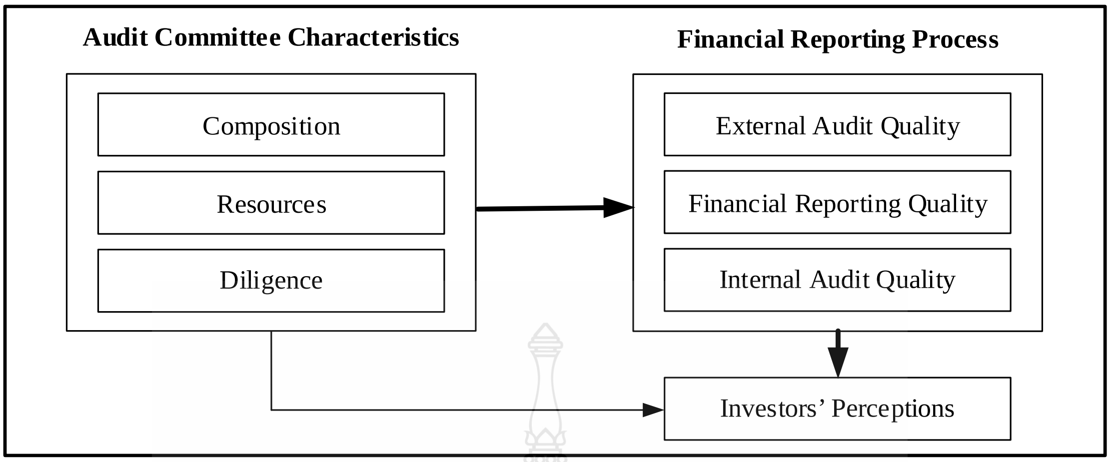


**Figure 2.8** The Model to Investigate Various Aspects of Audit Committees' Governance Role (Ghafran & O'Sullivan, 2012)

Figure 2.8 shows empirical research that investigated various aspects of the audit committees' governance role of Ghafran and O'Sullivan (2012), who stated that audit committee effectiveness can be categorized into its key components: external audit quality, financial reporting quality, and internal audit quality. The category of audit committee characteristics is comprised of composition, resources, and diligence. A composite measure of audit committee size is comprised of independence, expertise, and meeting frequency. The others resources imply the role of audit committees that monitor the approval of resources from management, and ensure external resources for companies. Moreover, the diligence view as a primary process factor needs to achieve the audit committee effectiveness. Their review documents are significant as an amount of evidence offering support to current regulations concerning the desired characteristics of audit committees.

This study presents more details in the literature of corporate governance and accounting conservatism as shown in Table 2.10 as follows:

**Table 2.10** Summary of the Effect of Corporate Governance Variables on Accounting Conservatism

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Author (year)**:<br>El-Habashy (2019)<br><br>**Topic:**<br>The Effect of Corporate Governance Attributes on Accounting Conservatism in Egypt | Market: Egyptian Stock Market<br>Sample: Nonfinancial firms<br>Corporate Governance Attributes measure:<br>- Management ownership,<br>- Institutional ownership,<br>- the largest shareholders<br>Accounting Conservatism measure:<br>The accrual basis | - The largest shareholders have a negative impact on accounting conservatism.<br>- Board size has no effect on accounting conservatism<br>- A positive association between the proportion of non-executive directors and accounting conservatism<br>- The negative relationship between CEO/Chair separation and conservative accounting<br>- Audit quality is positive with accounting conservatism |
| **Authors (year)**:<br>Thanjunpong et al. (2019)<br><br>**Topic:**<br>The Impact of Sustainable Development Report on Firm Performance in Thailand | Market: Stock Exchange of Thailand<br>Sample: Non-financial listed firms<br>Sustainable Development Report measure:<br>The GRI index score<br>Firm Performance measure:<br>Tobin's (1969) Q and<br>earnings per share: EPS | The significantly positive relationship between Sustainable Development Report and Firm Performance for excellent corporate governance firms |
| **Author (year)**:<br>Wang (2019)<br><br>**Topic:**<br>Risk Factor Disclosures and Accounting Conservatism | Sample: USA firms in the Compustat universe with 10-K Filings, exclude firms in the financial industry<br>Risk Factor Disclosures measure:<br>Risk factor disclosures in 10-K filings<br>Accounting Conservatism measure:<br>Khan and Watts' (2009) and Givoly and Hayn's (2000) | Firms report less conservatively after RFDs are included in their 10-K filings |
| **Author (year)**:<br>Mahmoud and Collins (2018)<br><br>**Topic:**<br>Corporate governance mechanisms and accounting conservatism: evidence from Egypt | Market: Egyptian Exchange (EGX)<br>Sample: Companies of the EGX-100 index<br>Corporate governance mechanisms measure: - Board size,<br>- Board independent<br>- Separation/ CEO duality and<br>- Auditor type<br>Conservatism measure:<br>Givoly and Hayn Model, | 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 and board independence is positively associated with accounting conservatism. |
| **Authors (year)**:<br>Alkurdi et al. (2017)<br><br>**Topic:**<br>Accounting Conservatism and Ownership Structure Effect: Evidence from Industrial and Financial Jordanian Listed Companies | Market: The Amman stock exchange<br>Sample: Industrial and financial Jordanian listed companies<br>Accounting Conservatism measure:<br>Accrual-based<br>Ownership Structure measure:<br>- Institutional ownership<br>- Foreign ownership<br>- Governmental ownership<br>- Concentration of ownership percentage of the total number of shares held by the largest shareholders who own more than 5% of the total equity | - An inverse effect of governmental ownership on accounting conservatism<br>- Positive relationship between foreign and institutional ownership with accounting conservatism<br>- The concentration of ownership doesn't affect conservatism |

**Table 2.10** Summary of the Effect of Corporate Governance Variables on Accounting Conservatism (Cont.)

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Authors (year)**:<br>Karsalari et al. (2017)<br><br>**Topic:**<br>The Effect of Mandatory Corporate Social Responsibility on Accounting Conservatism in Tehran Stock Exchange Corporations | Market: Tehran Stock Exchange<br>Sample: 100 corporations<br>Corporate Social Responsibility measure: Dummy Variable<br>Accounting Conservatism measure: Corporation's net income | The mandatory CSR components have a negative effect on the accounting conservatism |
| **Authors (year)**:<br>Lerskullawat and Prukumpai (2017)<br><br>**Topic:**<br>Sustainable Development and Firm Performance : Evidence from Thailand | Market: Stock Exchange of Thailand<br>Sample: Two groups:<br>- Thai Sustainability Investment firms and<br>- Non- Thai Sustainability Investment firms<br>Sustainable Development measure: Thai Sustainability Investment (THSI) scheme<br>Firm performance measure:<br>- Return on asset<br>- Return on equity<br>- Economic value added | No differences in performance between the Thai Sustainability Investment firms and non- Thai Sustainability Investment firms |
| **Authors (year)**:<br>N. F. Mohammed et al. (2017)<br><br>**Topic:**<br>Accounting conservatism, corporate governance and political connections | Market: Bursa Malaysia<br>Sample: Listed firms in Malaysia<br>Accounting Conservatism measure: Asymmetric timeliness measure (also known as conditional conservatism<br>Corporate governance measure:<br>- Board size, Audit committee<br>- CEO/chair separation<br>- Board independence<br>- Management ownership<br>- Government ownership<br>Political connections measure:<br>The ratio of politically connected directors | - Board independence is positively associated with accounting conservatism<br>- Management ownership is negatively associated with accounting conservatism<br>- Political connection has a negative moderating effect on the positive relationship between accounting conservatism and board independence |
| **Authors (year)**:<br>S. d. S. Rodrigues and F. C. Galdi (2017)<br><br>**Topic:**<br>Investor relations and information asymmetry | Market: The Brazilian Securities, Commodities, and Futures Exchange<br>Information asymmetry measure:<br>Bid-ask spread<br>Investor relations: The primary information obtained by accessing IR websites | The more informative IR websites are able to decrease the bid-ask spread of Brazilian listed companies |
| **Authors (year)**:<br>Boussaid et al. (2015)<br><br>**Topic:**<br>Corporate Board Attributes and Conditional Accounting Conservatism: Evidence From French Firms | Sample: SBF120 French firms<br>Corporate Board Attributes measure:<br>- Board Size<br>- Gender Diversity<br>- Board Activities<br>Accounting Conservatism measure:<br>Basu model | - Negative relation between board size and conditional accounting conservatism<br>- Positive relation between Gender Diversity and conditional accounting conservatism<br>- Positive relation between Board Activities and conditional accounting conservatism |

**Table 2.10** Summary of the Effect of Corporate Governance Variables on Accounting Conservatism (Cont.)

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Author (year)**:<br>Mo (2015)<br><br>**Topic:**<br>Dynamic Relationship Betwee Voluntary Disclosure And Conservatism | Sample: Standard & Poor's Compustat North America Industrial Annual File database<br>Voluntary Disclosure measure: Management earnings forecasts<br>Conservatism measure: C-score | Less conservative firms are more likely to increase voluntary disclosures around debt financing than at other times. |
| **Authors (year)**:<br>Ramly, Sok-Gee, et al. (2015)<br><br>**Topic:**<br>Gender Diversity, Board Monitoring And Bank Efficiency In ASEAN-5 | Sample: Listed commercial banks in Gender Diversity ASEAN measure:<br>- Gender<br>- Education background and<br>- The number foreign directors<br>Board monitoring measure:<br>Board size and independence | - Gender diversity decreases bank efficiency<br>- Board size increase, the banks started to have better efficiency<br>- Board independence increases bank efficiency |
| **Author (year)**:<br>Smit (2015)<br><br>**Topic:**<br>The quality of reported earnings and the monitoring role of the board: Evidence from small and medium companies | Market: Johannesburg Securities Exchange<br>Sample: South African listed companies<br>The board measure:<br>- Number of directors on the board<br>- The percentage of non-executive directors on the board<br>Earnings quality measure:<br>Conservatism and the timeliness of earnings | There is no relationship between the boards and conservative accounting practices |
| **Authors (year)**:<br>Ho et al. (2014)<br><br>**Topic:**<br>CEO Gender, Ethical Leadership, and Accounting Conservatism | Sample: COMPUSTAT between 1996, the first year that CEO gender data became available<br>Accounting Conservatism measure:<br>Accruals base | Female CEOs report more conservative earnings. |
| **Authors (year)**:<br>Subramanyam and Dasaraju (2014)<br><br>**Topic:**<br>Corporate Governance and Disclosure Practices in Listed Information Technology (IT) Companies in India | Sample: Indian Corporate IT sector<br>Corporate Governance measure:<br>- Statement of Company Philosophy on Code of Governance<br>- Board Matters,<br>- Nomination Matters<br>- Remuneration Matters, Audit Matters<br>- Communication with Shareholders<br>Disclosure Practices measure:<br>Corporate governance disclosure scorecard developed by Standard & Poor's | - Corporate governance disclosure increases performance<br>- A country's government environment especially legal and market infrastructure highly affect The companies' rate of disclosure which then increases profitability |
| **Author (year)**:<br>Suleiman (2014)<br><br>**Topic:**<br>Corporate Governance Mechanisms and Accounting Conservatism | Sample: Listed food and beverages firms<br>Corporate Governance Mechanisms measure:<br>- C.E.O/Chairman Separation,<br>- Board Size<br>- The percentage of outside directors<br>- Total number of shares held by directors<br>Accounting Conservatism measure:<br>Net negative accruals | - Board size is negatively related with conservatism<br>-The percentage of outside directors is positively related with accounting conservatism<br>- C.E.O/Chairman Separation and Total number of shares held by directors are not related to accounting conservatism |

**Table 2.10** Summary of the Effect of Corporate Governance Variables on Accounting Conservatism (Cont.)

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Authors (year)**:<br>Yunos et al. (2014)<br><br>**Topic:**<br>The influence of internal governance mechanisms on accounting conservatism | Market: Bursa Malaysia<br>Sample: Non-financial listed firm<br>Internal governance mechanisms measure:<br>- Independent directors<br>- Financial expertise<br>- Board size<br>- CEO duality<br>- Audit committee meeting<br>Accounting Conservatism measure:<br>Asymmetric timeliness | -The proportions of independent directors and financial expertise on the board have a positive effect on conservatism<br>- No significant association is found for board size and CEO duality<br>- Audit committee meeting leads to more conservatism |
| **Authors (year)**:<br>Alali and Romero (2012)<br><br>**Topic:**<br>The use of the Internet for corporate reporting in the Mercosur (Southern common market): The Argentina case | Market: Buenos Aires Stock Exchange | The companies with higher concentration disclose more financial and non-financial information than companies with less concentration |
| **Author (year)**:<br>Y. Wu (2011)<br><br>**Topic:**<br>Research on the Relationship Between Controlling Shareholder and Accounting Conservatism in China | Market: Shanghai Stock Exchange and the Shenzhen Stock Exchange<br>Sample: Listed companies, exclude financial companies<br>Controlling Shareholder measure:<br>The percentage of shares held by the largest shareholder<br>Accounting Conservatism measure:<br>The links between total accruals and operating cash flows | The percentage of the largest shareholder ownership significantly has a negative effect on accounting conservatism |
| **Authors (year)**:<br>Kung et al. (2010)<br><br>**Topic:**<br>The Effects of Corporate Ownership Structure on Earnings Conservatism: Evidence from China | Sample: All publicly-listed nonfinancial China companies<br>Corporate Ownership Structure measure:<br>Proportion of non-tradable shares<br>Earnings Conservatism measure:<br>Basu's (1997) conservatism model | Higher non-tradable shares have lower earnings conservatism |
| **Authors (year)**:<br>R. M. Yunos et al. (2010a)<br><br>**Topic:**<br><br>Accounting Conservatism And Ownership Concentration: Evidence From Malaysia | Sample: 300 non-financial Malaysian listed firms<br>Accounting Conservatism measure:<br>- Asymmetric timeliness<br>- Accrual-based.<br>Ownership Concentration measure:<br>- Percentage of substantial shareholding held by executive and non-executive directors over outstanding shares<br><br>- Percentage of substantial shareholding held by outsiders over outstanding shares | Substantial shareholders in Malaysia adopt less conservative accounting |

**Table 2.10** Summary of the Effect of Corporate Governance Variables on Accounting Conservatism (Cont.)

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Authors (year)**:<br>Kurniawan and Wibowo (2009)<br><br>**Topic:**<br>Analysis on Accounting Conservatism and CSR Disclosures of Indonesian Banks Listed on IDX from 2004 to 2007 | Sample: 21 Indonesian banks that went public in 2003-2007<br>Accounting Conservatism measure:<br>The discretionary accrual<br>CSR Disclosures measure:<br>CSR disclosure index | - CSR disclosure practices in Indonesian banks are driven by government regulation<br>- There is an insignificant relationship between conservatism and CSR disclosure score |
| **Authors (year)**:<br>Agarwal et al. (2008)<br><br>**Topic:**<br>The Impact of Effective Investor Relations on Market Value | Sample: 2 Groups that Best Overall IR' by IR Magazine: Large firms and Small firms<br>The quality of firm investor relations measure:<br>The annual Investor Relations Magazine Investor Relations Awards from 2000 to 2002 | The effective IR leading to lower information risk |
| **Authors (year)**:<br>Mendes-Da-Silva et al. (2008)<br><br>**Topic:**<br>Determinants of Internet Financial Disclosure In An Emerging Market: Lessons From Brazil | Market: The São Paulo Stock Exchange<br>Internet Financial Disclosure measure:<br>Web characteristics | Both firm size and the quality of corporate governance are positively related to the level of voluntary disclosure of financial information on the Internet |
| **Authors (year)**:<br>Beekes et al. (2004)<br><br>Topic:<br>The Link Between Earnings Timeliness, Earnings Conservatism and Board Composition: evidence from the UK | Sample: UK firms<br>Earnings conservatism measure:<br>The relation between accounting earnings and share returns<br>Board Composition measure:<br>- Number of outside board members<br>- Total board size<br>- The proportion of outsiders on the board of directors.<br>- Percentage of institutional ownership<br>- Blockholder | - Number of outside board members, The proportion of outsiders on the board of directors, Blockholder related positively on earnings conservatism<br>- Total board size, Percentage of institutional ownership not related on earnings conservatism |
| **Authors (year)**:<br>Joseph P. H. Fan and T. J. Wong (2002)<br><br>**Topic:**<br>Corporate ownership structure and the informativeness of accounting earnings in East Asia | Sample: Firms from seven East Asian economies -- Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand<br>Corporate ownership structure measure:<br>- Concentrated ownership<br>- Controlling owners<br>Earnings informativeness measure:<br>earnings-return relation | Concentrated ownership and Controlling owners associated with low earnings informativeness |

### 2.9.2 The IFRS Adoption and Accounting Conservatism

According to the study of the impact of the mandatory change to IFRS in 2005 by European firms on the level of accounting conservatism, it was found that the decrease in conservatism is most significant in the countries which have the greatest difference with the new IFRS (André & Filip, 2012). However, the accounting standard cannot drive the reporting quality. Many factors have an influence on it, such as economic and political factors (Ball, Robin, & Wu, 2003) including culture, legal system, and religion concern.

### 2.9.3 Corporate Governance, the IFRS Adoption on Accounting Conservatism

Previous studies show the results of the effect corporate governance on the IFRS adoption on accounting information with a number of different aspects. The implementation of good governance mechanisms has really narrowed the level of earnings management after the IFRS adoption (Bouchareb, Ajina, & Souid, 2014). The IFRS adoption could significantly improve the quality of accounting information. Nevertheless, IFRS needs to reduce information asymmetry, and use corporate governance mechanisms as a means to enhance the quality of accounting information (Kao & Wei, 2014).

The IFRS adoption affects declines of conservatism. As a result, the independent board of directors force the management to use more accounting conservatism (Elshandidy & Hassanein, 2014). Subsequently, the adoption of IFRS and corporate governance practices by Malaysian construction firms contribute higher accounting qualities (Abdullah, Maruhun, Tarmizi, & Rahman, 2018). Board independence and audit committees also play an important and effective role in reducing earnings management after the introduction of IFRS (Marra, Mazzola, & Prencipe, 2011). Hooghiemstra, Hermes, Oxelheim, & Randøy (2014) explained that the higher level of disclosure and transparency information according to the framework of IFRS makes it easier for directors to identify and monitor the accounting policies applied by the firm. This study presents more details on the literature of corporate governance, accounting conservatism, and the IFRS adoption in Table 2.11 as follows:

**Table 2.11** Summary of the Effect of Corporate Governance, the IFRS Adoption on Accounting Conservatism

| Author (year) /Topic | Methods | Results |
|---|---|---|
| **Authors (year):**<br>Juniarti et al. (2018)<br><br>**Topic:**<br>The Accounting Conservatism of the Adoption of IFRS in Indonesia | Market: The Indonesian Stock Exchange<br>The Accounting Conservatism measure: Basu (1997 model | The adoption of the IFRS has reduced levels of conservatism |
| **Authors (year):**<br>Yunina et al. (2018)<br><br>**Topic:**<br>The Effect of IFRS Convergence, Independent Commissioner Proportion and Commissioners Board Size on Accounting Conservatism Level. | Market: Indonesian Stock Exchange (BEI)<br>Sample: 14 Food and Beverage companies<br>IFRS Convergence measure:<br>Dummy scale<br>Independent Commissioner Proportion measure:<br>Independent Commissioner divided by the number of commissioners<br>Commissioners Board Size measure:<br>The number of the members of commissioners' board<br>Accounting Conservatism Level measure:<br>Profit before extraordinary items plus Depreciation and amortization cost minus Operating cash flow and all divided by the total asset | - IFRS convergence positively influences the level of accounting conservatism<br>- Proportion of independent commissioner did not influence the level of accounting conservatism<br>- Size of commissioner board negatively and significantly influenced the level of accounting conservatism |
| **Authors (year):**<br>Kao and Wei (2014)<br><br>**Topic:**<br>The Effect of IFRS, Information Asymmetry And Corporate Governance on The Quality of Accounting Information | Market: Shenzhen Stock Exchange<br>Sample: 42 companies issuing both A shares and B shares<br>Information Asymmetry measure:<br>The lowest ask quote and the highest bid quote<br>Corporate Governance measure:<br>- State ownership<br>- Ownership by senior managers<br>- Ownership by major shareholders, directors and supervisors<br>- The percentage of pledged shares<br>Quality of Accounting Information measure:<br>- Predictability,<br>- Feedback,<br>- Timeliness and<br>- Faithful presentation | - IFRS improves the predictive value and timeliness, and it can't influence representational faithfulness significantly<br>- The information asymmetry degrades the quality of accounting information<br>- IFRS can improve the information asymmetry but promote the quality of accounting information not significantly<br>- IFRS would restrain a negative effect of state ownership, manager ownership, blockholder and directors-supervisor ownership |
| **Author (year):**<br>Wardhani (2010)<br><br>**Topic:**<br>The Effect of Degree of Convergence to IFRS and Governance System to Accounting Conservatism: Evidence From Asia | Market: Ten Asia Market<br>Sample: Listed companies in ten countries: Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand<br>Degree of Convergence to IFRS measure:<br>The reports of similarities and differences between of local GAAP to IFRS issued by Big 4 public accounting firms<br>Accounting Conservatism measure:<br>Discretionary accrual | The degree of convergence positively affects accounting conservatism |

## 2.10 Research Model

According to the aforementioned theoretical background and several relevant empirical studies, the research model for this study has been developed. Corporate governance, as an independent variable, comprises the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. The adoption of IFRS, including full IFRS adoption, local IFRS adoption by design, and local IFRS adoption by default, is a moderator variable and accounting conservatism is the dependent variable. The research model is as shown in Figure 2.9 as follows:

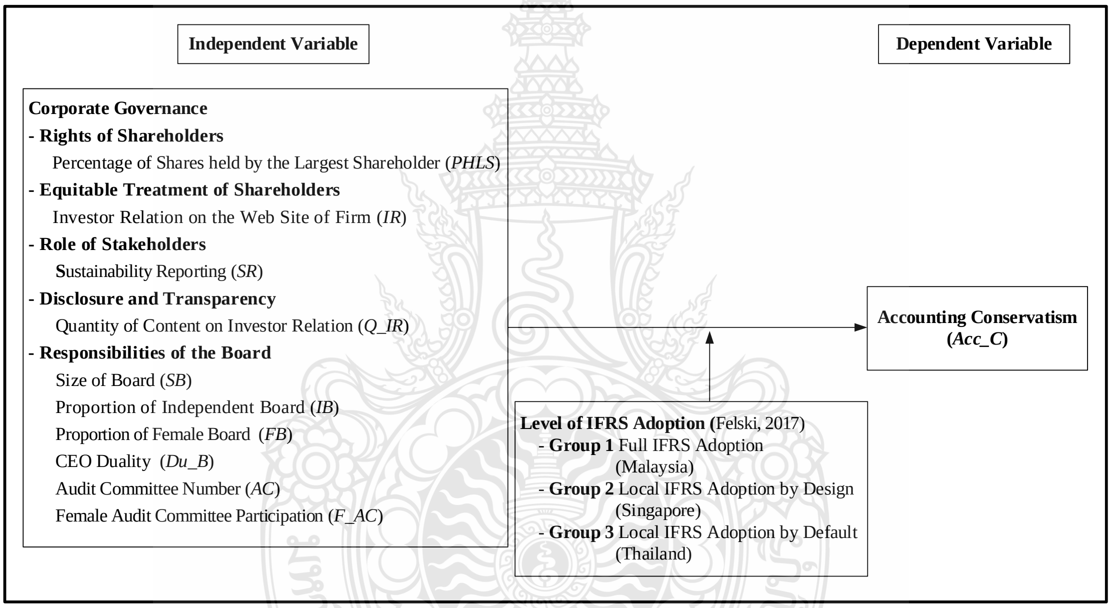


**Figure 2.9** Research Model

# CHAPTER 3
# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter describes the research methodology that was used to test the hypotheses developed in the preceding chapter, by investigating the effect of corporate governance and the IFRS adoption on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, the Stock Exchange of Singapore, and the Stock Exchange of Thailand. This study uses the five principles of corporate governance that are provided by OECD as the proxy of corporate governance. The principles are the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. These are used as independent variables of this study. Accounting conservatism is the dependent variable, and the level of IFRS adoption is the moderator variable.

## 3.2 Data Collection

The data used in this study were collected from secondary sources through the annual reports that are published on the listed firms' websites. The population comprises all of the listed firms on the Stock Exchange in Malaysia, Singapore, and Thailand in 2018. The samples were selected by using the following criteria:

1. The sample firms exclude the listed firms in the financial sector since those firms are highly regulated, and might confound the study results.

2. The end of fiscal year of the sample firms are consistent with the calendar year.

3. The sample firms have not been classified as loss performance.

In 2018, the primary data of the firms in the three countries are comprised of 1,903 firms: 794 firms from Malaysia, 493 firms from Singapore, and 616 firms from Thailand. This study excluded 1,228 firms: 544 firms from Malaysia, 343 firms from Singapore, and 341 firms from Thailand, due to their characteristic, namely being in the financial sector, having incomplete information, or being categorized as loss firms. The data were drawn from 675 firms: 250 firms from Malaysia, 150 firms from Singapore, and 275 firms from Thailand. Furthermore, some of the samples were removed because of becoming potential outliers 72 firms: 29 firms from Malaysia, 19 firms from Singapore, and 24 firms from Thailand. Thus, the final samples contain 603 firms: 221 firms from Malaysia, 131 firms from Singapore, and 251 firms from Thailand.

## 3.3 Research Design

This study is quantitative research used a cross-sectional as the instrument for data collection. The measurement of corporate governance was developed to cover the OECD Corporate Governance principles (OECD, 2004). It includes the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. The IFRS adoption is measured based on the IFRS website information and the model of Felski (2017). Accounting conservatism is measured by an accrual-based approach.

### 3.3.1 Corporate Governance Measurement

3.3.1.1 The rights of shareholders and key ownership functions measurement

The overarching principle of the corporate governance framework regarding the rights of shareholders and key ownership functions is that the corporate should protect and facilitate the exercise of shareholder's rights, and ensure the equitable treatment of all shareholders including minority and foreign shareholders (OECD, 2017a). Although these rights also depend on the legal rules of the jurisdiction in their countries (Rafael La Porta, Florencio Lópezde-Silanes, Andrei Shleifer, & Vishny, 1997), the outcome advocated by this principle is also to sustain the integrity of capital markets by protecting non-controlling shareholders, building their confidence, and reducing their risk (OECD, 2017a).

Previous studies show the relationship of the investor protection and the related factors. The strong investor protection is reflected in high free floats (Hearn, Phylaktis, & Piesse, 2017), and higher floating ratios lead to significantly higher trading activity. The broadening discovery shows that the relationship between the free float and liquidity is evident in all regions regardless of the degrees of economic development or geographic locations. It is noticeable when the legal structure and corporate governance environment are strong (Ding, Ni, & Zhong, 2016). The work of Lins and Warnock (2004) explained the importance of the free float which international investors should be concerned about and they indicate that information asymmetry should be bored  on firms that are controlled by a major shareholder which causes the risk to investors. For these reasons, high ownership concentration or low free float ratio is perceived as bad signal to investors (Bostancı & Kılıç, 2017).

Furthermore, there is broad evidence of the relationship with earnings found by Leuz, Nanda, and Wysocki (2003). They addressed that Canada which is the country of highly concentrated ownership may restrain the earnings management because of corporate governance, and they also found that the earnings management is negatively associated with the quality of minority shareholder rights and law enforcement. This is in line with Jalili and Masumpour (2015), who indicated that there is a negative significant relationship between shareholders rights and discretionary accruals. Additionally, traditional principal-agent problems are related between owners and managers, which is deepened by the weak governance and limited protection of minority shareholders (Dharwadkar, George, & Brandes, 2000).

However, agency problems that exist in emerging markets are not solely between owners and managers, but also between controlling shareholders and minority shareholders (Chen & Yu, 2012; Maher & Andersson, 1999). According to Bao and Lewellyn (2017); Yuan Ding, Zhang, and Zhang (2007), the number of shares held by the largest shareholder as a percentage of the total number of outstanding shares is a representative for the rights of shareholders and key ownership functions.

3.3.1.2 Equitable treatment of shareholder measurement

The equitable treatment of shareholders according to OECD principles stated that "The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights" (OECD, 2004).

The objective of investor relations (IR) is to define and communicate the firm's message to existing and potential investors, with the goals of aligning the expectations of shareholders with those of the firm, expanding the investor base by targeting desired investors for the firms, and helping the firms understand their investors and their perception of the firms (Vlittis & Charitou, 2012). Thus, this study used the appearance of investor relations (IR) on the main menu of the firm's website where all shareholders can access equitably as the measure of equitable treatment of the shareholders.

3.3.1.3 Role of stakeholders measurement

The most salient stakeholders regardless of industry differences are shareholders and the government (Şener, Varoğlu, & Karapolatgil, 2016). Stakeholders are now more aware of the impact that businesses have on the economy, environment, and society. This impact may be positive or negative (BM, 2018).

Communicating with stakeholders and ascertaining their views are very important for enabling firms to provide relevant information. This can be done in many ways, for instance, by community panels, staff surveys, industrial relations, consumer surveys, opinion polls, workshops with combined stakeholder dialogues on specific issues, and meetings with external experts. Another method is providing stakeholders with contact details and/or comments or feedback forms in published reports or by employing firm websites to encourage stakeholders to give input about the information they are interested in and about their opinions on the firm's behavior (UNCTAD, 2008).

Their information needs are rarely based on financial information alone. They are based on an assessment of risk and opportunity using information on a wide variety of immediate and future issues. These pieces of information are collected in the sustainability report. Thus, the sustainability report is a report that is published by a firm on economic, environmental, and social impacts that are caused by the firm's everyday activities.

Additionally, a sustainability report reveals the organization's values and governance model, and it illustrates the linkage between its strategy and commitment to a sustainable global economy (GRI). The information's sustainability disclosure may be done in the annual report (SGX, 2016). Since the mid-1990, it is usually under key terms such as "corporate citizenship" or "corporate social responsibility" (Daub, 2007). Currently, some firms use "Sustainability Statement" incorporated the subject into their annual reports. Alternatively, if it is more appropriate for the circumstances of the issuer, the issuer may include a summary in its annual report and issue a full standalone sustainability report subsequently (SGX, 2016). However, in the content of sustainability reporting, there are no differences between firm's belonging to different sectors based on environmental, social, and economic dimensions (Kumar, Gunasekaran, Singh, Papadopoulos, & Dubey, 2015).

Thus, according to the literature review in Chapter 2, and Rezaee and Tuo (2017), who used sustainability disclosure quantity as a proxy for whether the firm issues sustainability reports, this study used sustainability reports as the proxy of role of stakeholders.

3.3.1.4 Disclosure and transparency measurement

Sihombing and Pangaribuan (2017) studied corporate governance structure, disclosure, and information asymmetry in Indonesia banking industry. They found that information asymmetry which is a condition with an imbalance of information between management as an information provider (preparer) with the shareholders and other stakeholders is reduced by the higher implementation disclosure. The disclosure of information of organization is basically provided by legislation; however, channels for the information dissemination is as important as the content of the information itself (OECD, 2015).

The study of Michener and Bersch (2013) provided the identification and evaluation of a framework and a vocabulary of transparency. They said the transparency depends on two necessary and jointly sufficient conditions of visibility and infer ability of the information to draw accurate conclusions. The corporate website for investor relations is a voluntary disclosure medium (Debreceny, Lymer, & Trabelsi, 2008). This is also based on the study of Saxton, Neely, and Guo (2014) that used the total number of disclosure items on each organization's website as disclosure measurement. Diamond (1985) also claimed that the incentives for investors for private information are reduced when information of the firm is disclosed publicly. Thus, this study used the quantity of content on the drop-down menu in the investor relations menu as a representative of disclosure and transparency.

3.3.1.5 Responsibilities of the board measurement

Based on the literature review in Chapter 2, the measure of responsibilities of the board includes:

(1) Board Size

(2) Board Composition

- Proportion of Independent Board
- Proportion of Females on Board
- CEO Duality
- Audit Committee Members
- Females at least one person on Audit Committee Participation

**3.3.2 The IFRS Adoption Measurement**

Based on the literature review in Chapter 2, the adoption of IFRS is organized into three groups (Felski, 2017) as follows:

1. Group 1 Full IFRS Adoption (Malaysia)
2. Group 2 Local IFRS Adoption by Design (Singapore)
3. Group 3 Local IFRS Adoption by Default (Thailand)

**3.3.3 Accounting Conservatism Measurement**

Lara et al. (2009) used the three proxies to measure conservatism: one is market-based, and the other two are accruals-based. They found that on average, discretionary accruals tend to inform investors about bad news in a timelier manner in strong-governance firms. Supporting whether discretionary accruals is a proxy for earnings management, it is related to conservatism negatively (Abed, Al-Badainah, & Serdaneh, 2012). As illustrated by the studies of Karami, Taban, and Aleyasin (2014); Lobo and Zhou (2006), a decrease in discretionary accruals would indicate an increase in conservatism. According to the literature review, this study calculated the levels of conservatism based on the concept of discretionary accruals.

Measuring of conservatism in this study summarizes each of these roles by adopting the modified Jones model by the concept of calculation of the total accrual as depicted in equation (1)-(7)

Jones (1991) contended that firms usually manage earnings through accrual items on both revenues and expenses. Nondiscretionary accruals are assumed to be constant from period to period, as well as and expectations model in equation (1) for total accruals to control changes in the economic circumstances of the firm.

$$TA_{it}/A_{i,t-1} = \alpha_i(1/A_{i,t-1})+\beta_1 i(\Delta Rev_{i\,t}/A_{i,t-1}) + \beta_{2i}(PPE_{it}/A_{i,t-1}) + \varepsilon_{it} \quad (1)$$

Note:

$TA_{it}$ = total accruals in year $t$ for firm $i$

$A_{i,t-1}$ = total assets in year *t-1* for firm *i*

$\Delta Rev_{i\,t}$ = revenues in year *t* less revenues in year *t-1* firm *i*

$PPE_{it}$ = gross property, plant, and equipment in year *t* for firm *i*

$\varepsilon_{it}$ = error term in year *t* for firm *i*

Next, Dechow Model Dechow et al. (1995) known as Modified Jones Model continue based on the constant of nondiscretionary accruals as shown in equation (2).

$$NDA_{i,t} = \alpha_i(1/A_{i,t-1}) + \beta_1 i(\Delta Rev_{i\,t}/A_{i,t-1}) + \beta_{2i}(PPE_{it}/A_{i,t-1}) \quad (2)$$

Note:

$NDA_{i,t}$ = non-discretionary accruals in year *t* for firm *i*

All other variables are previously defined.

Dechow et al. (1995) commented that in the original Jones Model, the change in revenues is considered as nondiscretionary accrual. However, the modified Jones Model assumes that all changes in credit sales in the event period result from earnings management. Thus, nondiscretionary accrual and total accrual are shown in equations (3) and (4).

$$NDA/A_{i,t} = \alpha_i(1/A_{i,t-1}) + \beta_1 i(\Delta Rev_{i\,t}/A_{i,t-1} - \Delta Rec_{i\,t}/A_{i,t-1}) + \beta_{2i}(PPE_{it}/A_{i,t-1}) \quad (3)$$

$$TA_{it}/A_{i,t-1} = \alpha_i(1/A_{i,t-1}) + \beta_1 i(\Delta Rev_{i\,t}/A_{i,t-1} - \Delta Rec_{i\,t}/A_{i,t-1}) + \beta_{2i}(PPE_{it}/A_{i,t-1}) + \varepsilon_{it} \quad (4)$$

Note:

$\Delta Rec_{i\,t}$ = receivables in year *t* less receivables in year *t-1* firm *i*

All other variables are previously defined.

Next, Ball and Shivakumar (2006) adopted modified Jones Model and pointed out that the accrual implicates the asymmetric recognition of gains and losses. Their model is shown in equation (5).

$$TA_{it}/A_{i,t-1} = \alpha_i(1/A_{i,t-1})+\beta_1 i(\Delta Rev_{i\,t}/A_{i,t-1}-\Delta Rec_{i\,t}/A_{i,t-1}) + \beta_{2i}(PPE_{it}/A_{i,t-1}) + \beta_{3i}(CFo_{it}/A_{i,t-1}) + \beta_{4i}[(NEG\_CFOi,t)/A_{i,t-1})] + \beta_{5i}[(NEG\_CFO^{*}\, CFo_{it})/A_{i,t-1})] + \varepsilon_{it} \quad (5)$$

Note:

$CFO_{it}$ = Cash Flow From Operation year $t$ firm $i$

$NEG\_CFOi,t$ = An indicator variable set equal to one if CFO is less than zero, and zero otherwise

All other variables are previously defined.

Sloan (1996) indicated that the earnings is related to cash flow from operating activities, and accruals. In addition, according to Mohammed et al. (2019), the total accruals for particularly a firm in a year and industry is the same to the earnings before interest and tax (EBIT) minus cash flow from operation (CFO) while i represents industry, and t represents the year. The total accruals came from revenue and operating activities as shown in equation (6).

$$TA_{it} = EBIT_{it} - CFO_{it} \quad (6)$$

Note:

$TA_{it}$ = total accruals in year $t$ for firm $i$

$EBIT_{it}$ = the earnings before interest and tax in year $t$ for firm $i$

$CFO_{it}$ = cash flow from operation in year $t$ for firm $i$

Since TA is calculated from NDA plus DA, the higher the level of the discretionary accruals, the lower the earnings quality gathered (Amir, Shaari, & Ariff, 2018). This, the residuals from regression model (5) is used as a proxy for discretionary accruals (DA). This study used the absolute values of discretionary accruals as a proxy for the level of conservatism by multiplying the absolute values of discretionary accruals by -1 (DA). Thus, the higher values of it represent the higher level of conservatism (Yunos, Smith, & Ismail, 2010).

Subsequently, this study found out the effect of corporate governance, and the adoption of IFRS on accounting conservatism by using equation (7):

$$Acc\_C = \alpha_0 + \alpha_1 PHLS + \alpha_2 IR + \alpha_3 SR + \alpha_4 Q\_IR + \alpha_5 SB + \alpha_6 IB + \alpha_7 FB + \alpha_8 Du\_B + \alpha_9 AC + \alpha_{10} F\_AC + \varepsilon_{it} \quad (7)$$

Note:

*Acc_ C* = The level of accounting conservatism

*PHLS* = Percentage of shares held by the largest shareholder

*IR* = Dedication of investor relations on firm websites

*SR* = Sustainability report or corporate social responsibility report separated from the annual report

*Q_IR* = Content Quantity on Investor Relations

*SB* = Size of the Board

*IB* = Proportion of Independent Board

*FB* = Proportion of Females on Board

*Du_ B* = CEO duality

*AC* = Audit Committee Members

*F_AC* = Female Audit Committee Participation

Concerning the effect of corporate governance on accounting conservatism from two countries, this study tested the significance of differences between the two regression coefficients, which are commonly applied by Paternoster, Brame, Mazerolle, and Piquero (1998). This study tested the equality of the coefficients of the ten corporate governance variables that representing corporate governance on accounting conservatism in the listed firms in the three countries of Malaysia, Singapore, and Thailand by using Z values. The formula is illustrated as follows:

$$Z = \frac{B_i - B_j}{\sqrt{SEB_i^2 + SEB_j^2}}$$

Note:

B = Regression Coefficients

SE = Standard error

*i, j* = Country

**Table 3.1** The Variables of Corporate Governance

| Variables | Measurement |
|---|---|
| Rights of shareholders | Percentage of the largest shareholder<br>(Bao & Lewellyn, 2017; Y. Ding, Zhang, & Zhang, 2007)) |
| Equitable treatment of shareholders | Dedication of investor relations on firm websites:<br>1 = Investor relations on the main menu of firm website<br>0 = Otherwise |
| Role of stakeholders in corporate governance | Sustainability reporting:<br>1 = Sustainability report or Corporate Social Responsibility report separated from the annual report<br>0 = Otherwise<br>(Adopt from Ibrahim, M. S., Darus, F., Yusoff, H., & Muhamad, R. (2015) |
| Disclosure and transparency | Content Quantity on investor relations<br>(Adopt from AChang, M., D'Anna, G., Watson, I., & Wee, M. (2008)) |
| Responsibilities of the board | Size of the Board:<br>- Total of board members<br>Independence Board:<br>- Proportion of Independent Board<br>Females on Board<br>- Proportion of Females on Board<br>CEO Duality:<br>1 = The same person of CEO and the chairman<br>0 = The separate of CEO and the chairman position<br>Audit Committee Members:<br>Total of Audit committee Members<br>Female Audit Committee Participation:<br>1 = Females at least one person on Audit Committee Members<br>0 = All male members |

### 3.4 Summary of Variables

Based on the literature review in Chapter 2 and the newly introduced variables in this present study, Table 3.2 summarizes all the variables in this study.

**Table 3.2** Summary Definition of Variables

| Variable | Definition |
|---|---|
| *Acc_C* | The level of accounting conservatism |
| *PHLS* | Percentage of shares held by the largest shareholder |
| *IR* | Dedication of investor relations on firm websites |
| *SR* | Sustainability Report or Corporate Social Responsibility Report separate from<br>the annual report |
| *Q_IR* | Content quantity on investor relations |
| *SB* | Size of the board |
| *IB* | Proportion of independent board |
| *FB* | Proportion of females on board |
| *Du_B* | CEO Duality |
| *AC* | Audit committee members |
| *F_AC* | Females at least one person on audit committee participation |

# CHAPTER 4
# RESEARCH RESULTS

## 4.1 Introduction

This chapter discusses an empirical study aiming to 1) investigate the effects of corporate governance variables including the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand and 2) investigate the moderating effect of the level of the IFRS adoption in 2018. The population of this study included registered firms on the Stock Exchanges in the three countries. This section employed descriptive statistics, Multiple Linear Regression, ANOVA and Z-scores to analyze the data. As mentioned earlier, the purposes of this study are twofold as the following:

1. To investigate the effects of corporate governance: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand.

2. To investigate the moderating effect of the level of the IFRS adoption by Malaysia, Singapore and Thailand on the effects of corporate governance variables including: the rights of shareholders and key ownership functions, the equitable Treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board, on accounting conservatism of the listed firms.

## 4.2 Research Findings

This section shows descriptive statistics obtained from the data collection process. The frequency distribution and percentage of four discrete variables, including *IR*, *SR*, *Du_B*, and *F_AC* are shown in Table 4.1. In Table 4.2-4.4 six continuous variables, including *PHLS*, *Q_IR*, *SB*, *IB*, *FB*, and *AC*, are presented, consisting of rudimentary data of statistical figures, including minimum, maximum, mean, median, mode, standard deviation, Skewness, and Kurtosis.

This study assigned four discrete corporate governance variables. Table 4.1 shows descriptive statistics, namely frequency and percent. The first variable is *IR*: Dedication of investor relation on firm websites, which is classified into two groups: Dedication of investor relations on firm websites and the other does not show. In Malaysia, 180 listed firms, that is 81.44%, are dedicated to investor relation on firm websites, while 41 firms or 18.56% are not show. Singaporean listed firms show 111 firms or 84.73% that are dedicated to investor relation on firm websites, while 20 firms or 15.27 % are not show. In Thailand, 242 listed firms or 96.41% are dedicated to investor relation on firm websites, while 9 firms or 3.59% are not show.

The second variable is *SR*: Sustainability Report or Corporate Social Responsibility Report separated from the annual report. The variable is classified into two groups: Sustainability report or Corporate Social Responsibility report separated from the annual report and included in the annual report. In Malaysia, 46 listed firms or 20.81% are separated from the annual report, while 175 firms or 79.19% are included in the annual report. In Singapore, 71 listed firms or 54.20% are separated from the annual report, while 60 firms or 45.80 % are included in the annual report. In Thailand, 130 listed firms or 41.04% are separated from the annual report, while 148 firms or 58.96% are included in the annual report.

The third variable is *Du_B*: CEO duality. CEO comes from the chaiman of the board. In Malaysia, 35 listed firms or 15.84% are CEO duality, while 186 firms or 84.16% are separation of the two positions. In Singapore, 45 listed firms or 34.35% are CEO duality, while 86 firms or 65.65 % are separation of the two positions. For Thailand, 25 listed firms or 9.96% are CEO duality, while 226 firms or 90.04% are separation of the two positions. Listed firms in Singapore are the most CEO duality, while the least are listed firms in Thailand.

**Table 4.1** Descriptive Statistics of Discrete Variables

| Variable | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| *IR* | Malaysia | 1 | 180 | 81.44 | 81.44 | 81.44 |
| | | 0 | 41 | 18.56 | 18.56 | 100.00 |
| | | | 221 | 100.00 | 100.00 | |
| | Singapore | 1 | 111 | 84.73 | 84.73 | 84.75 |
| | | 0 | 20 | 15.27 | 15.27 | 100.00 |
| | | | 131 | 100.00 | 100.00 | |
| | Thailand | 1 | 242 | 96.41 | 96.41 | 96.41 |
| | | 0 | 9 | 3.59 | 3.59 | 100.00 |
| | | | 251 | 100.00 | 100.00 | |
| | | Total | 603 | | | |
| *SR* | Malaysia | 1 | 46 | 20.81 | 20.81 | 20.81 |
| | | 0 | 175 | 79.19 | 79.19 | 100.00 |
| | | | 221 | 100.00 | 100.00 | |
| | Singapore | 1 | 71 | 54.20 | 54.20 | 54.20 |
| | | 0 | 60 | 45.80 | 45.80 | 100.00 |
| | | | 131 | 100.00 | 100.00 | |
| | Thailand | 1 | 103 | 41.04 | 41.04 | 41.04 |
| | | 0 | 148 | 58.96 | 58.96 | 100.00 |
| | | | 251 | 100.00 | 100.00 | |
| | | Total | 603 | | | |
| *Du_B* | Malaysia | 1 | 35 | 15.84 | 15.84 | 15.84 |
| | | 0 | 186 | 84.16 | 84.16 | 100.00 |
| | | | 221 | 100.00 | 100.00 | |
| | Singapore | 1 | 45 | 34.35 | 34.35 | 34.35 |
| | | 0 | 86 | 65.65 | 65.65 | 100.00 |
| | | | 131 | 100.00 | 100.00 | |
| | Thailand | 1 | 25 | 9.96 | 9.96 | 9.96 |
| | | 0 | 226 | 90.04 | 90.04 | 100.00 |
| | | | 251 | 100.00 | 100.00 | |
| | | Total | 603 | | | |
| *F_AC* | Malaysia | 1 | 87 | 39.37 | 39.37 | 39.37 |
| | | 0 | 134 | 60.63 | 60.63 | 100.00 |
| | | | 221 | 100.00 | 100.00 | |
| | Singapore | 1 | 39 | 29.77 | 29.77 | 29.77 |
| | | 0 | 92 | 70.23 | 70.23 | 100.00 |
| | | | 131 | 100.00 | 100.00 | |
| | Thailand | 1 | 135 | 53.78 | 53.78 | 53.78 |
| | | 0 | 116 | 46.22 | 46.22 | 100.00 |
| | | | 251 | 100.00 | 100.00 | |
| | | Total | 603 | | | |

**Note:** All variables are dummy variables: *IR* as the proxy of the Equitable Treatment of Shareholders **(**1**=** Dedication of investor relation on firm websites**,** 0 otherwise)**;** *SR* as the proxy of the Role of Stakeholders in Corporate Governance (1= Sustainability Report or Corporate Social Responsibility Report separated from the annual report**,** 0 otherwise); *Du_B* and *F_AC* as the proxy of the Responsibilities of the Board; *Du_B*(1 = Chairman of the board and CEO is the same person, 0 otherwise); and *F_AC* (1 **=** Female at least one person on Audit Committee Participation, 0 otherwise).

The last variable is *F_AC*: Females at least one person on Audit Committee Participation. Malaysia has 87 listed firms or 39.37% for female participation, while 134 firms or 60.63% are for all male members. Singapore has 39 listed firms or 29.77% for female participation, while 92 firms or 70.23 % are for all male members. Thailand has 135 listed firms or 53.78% for female participation, while 116 firms or 46.22% are for all male members. For Female participation on Audit Committee, listed firms in Thailand are the most, as for the least are listed firms in Singapore.

Tables 4.2-4.4 show descriptive statistics based on observation, including basic statistics of continuous corporate governance variables of listed firms in Malaysia, Singapore. and Thailand, respectively, including minimum, maximum, mean, median, mode, standard deviation including Skewness and Kurtosis of seven variables: *PHLS* is representative of Percentage of shares held by the largest shareholder; *Q_IR* is Content Quantity on Investor Relations; *SB* is Size of the Board; *IB* is Proportion of Independent Board; *FB* is Proportion of Females on Board; and *AC* is Audit Committee Members, which is already transformed by taking log as *AC_Lg*. All continuous independent variables for Skewness are between -2.00 and +2.00 (Somda & Marius, 2016), and for Kurtosis less than 5 (Nizah & Azmir, 2015), the data of which are set to show a normal distribution.

Table 4.2 shows Descriptive Basic Statistics of Continuous Variables of listed firms in Malaysia, including the first variable: *PHLS* showing the minimum value 5.710, maximum value 74.310, average value 31.626 (SD=15.873), while the median and mode are 30.230 and 14.43[a], respectively (Skewness = 0.465, Kurtosis = -0.405). The second variable is *Q_IR*, showing the minimum value 0.000, maximum value 15.000, average value 5.249 (SD = 3.775), while the median and mode are 5.000 and 0.000, respectively (Skewness = 0.236, Kurtosis = -0.650). The next variable is *SB*, showing the minimum value 4.000, maximum value 15.000, average value 7.855 (SD = 1.944), while both median and mode are 8.000 (Skewness = 0.521, Kurtosis = 0.496). The fourth variable is *IB*, showing the minimum value 0.167, maximum value 0.833, average value 0.469 (SD = 0.133), while the median and mode are 0.444 and 0.500, respectively (Skewness = 0.315, Kurtosis = -0.226). The fifth variable is *FB*, showing the minimum value 0.000, maximum value 0.500, average value 0.145 (SD = 0.124), while the median and mode are 0.142 and 0.000, respectively (Skewness = 0.617, Kurtosis = -0.143). The sixth variable is *AC*, showing the minimum value 3.000, maximum value 6.000, average value 3.452 (SD = 0.656), while both median and mode are 3.000 (Skewness = 1.248, Kurtosis = 0.765). And the last variable is *AC_Lg*, showing the minimum value 0.477, maximum value 0.778, average value 0.531 (SD = 0.076), while both median and mode are 0.477 (Skewness = 1.007, Kurtosis = -0.219).

**Table 4.2** Descriptive Basic Statistics of Continuous Variables of Listed Firms in Malaysia

| Variable | N | Min | Max | Mean | Median | Mode | S.D. | Skewness | Std. Error of Skewness | Kurtosis | Std. Error of Kurtosis |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *PHLS* | 221 | 5.710 | 74.310 | 31.626 | 30.230 | 14.43[a] | 15.873 | 0.465 | .164 | -0.405 | .326 |
| *Q_IR* | 221 | 0.000 | 15.000 | 5.249 | 5.000 | 0.000 | 3.775 | 0.236 | .164 | -0.650 | .326 |
| *SB* | 221 | 4.000 | 15.000 | 7.855 | 8.000 | 8.000 | 1.944 | 0.521 | .164 | 0.496 | .326 |
| *IB* | 221 | 0.167 | 0.833 | 0.469 | 0.444 | 0.500 | 0.133 | 0.315 | .164 | -0.226 | .326 |
| *FB* | 221 | 0.000 | 0.500 | 0.145 | 0.142 | 0.000 | 0.124 | 0.617 | .164 | -0.143 | .326 |
| *AC* | 221 | 3.000 | 6.000 | 3.452 | 3.000 | 3.000 | 0.656 | 1.248 | .164 | 0.765 | .326 |
| *AC_Lg* | 221 | 0.477 | 0.778 | 0.531 | 0.477 | 0.477 | 0.076 | 1.007 | .164 | -0.219 | .326 |

**Note:** *PHLS* as the proxy of the Rights of shareholders and key ownership functions = Percentage of shares held by the largest shareholder; *Q_IR* as the proxy of disclosure and transparency = content quantity on investors relation; *SB*, *IB*, *FB*, *AC* as the proxy of the responsibilities of the board; *SB* = size of board; *IB* = proportion of independent board; *FB*= proportion of female on board; *AC*=audit committee members; *AC_Lg* is transformed of *AC*.

Table 4.3 shows Descriptive Basic Statistics of Continuous Variables of the listed firms in Singapore. The first variable is *PHLS*, showing the minimum value 10.000, maximum value 83.830, average value 39.688 (SD = 19.177), while the median and mode are 37.320 and 18.53[a], respectively (Skewness = 0.592, Kurtosis = -0.662). The second variable is *Q_IR*, showing the minimum value 0.000, maximum value 15.000, average value 4.939 (SD=3.553), while both median and mode are 5.000 (Skewness = 0.624, Kurtosis = 0.228). The next variable is *SB*, showing the minimum value 3.000, maximum value 14.000, average value 7.084 (SD=2.166), while the median and mode are 7.000 and 6.000, respectively (Skewness = 1.144, Kurtosis = 1.394). The fourth variable is *IB*, showing the minimum value 0.214, maximum value 0.833, average value 0.490 (SD=0.111), while both median and mode are 0.500 (Skewness = 0.137, Kurtosis = 0.543). The fifth variable is *FB*, showing the minimum value 0.000, maximum value 0.500, average value 0.116 (SD = 0.118), while the median and mode are 0.125 and 0.000, respectively (Skewness = 0.817, Kurtosis = 0.451). The sixth variable is *AC*, showing the minimum value 2.000, maximum value 5.000, average value 3.290 (SD = 0.575), while both median and mode are 3.000 (Skewness = 1.619, Kurtosis = 2.064). And the last variable is *AC_Lg*, showing the minimum value 0.301, maximum value 0.699, average value 0.511 (SD = 0.069), while both median and mode are 0.477 (Skewness = 1.246, Kurtosis = 1.461).

**Table 4.3** Descriptive Basic Statistics of Continuous Variables of Listed Firms in Singapore

| Variable | N | Min | Max | Mean | Median | Mode | S.D. | Skewness | Std. Error of Skewness | Kurtosis | Std. Error of Kurtosis |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *PHLS* | 131 | 10.000 | 83.830 | 39.688 | 37.320 | 18.53a | 19.177 | 0.592 | 0.212 | -0.662 | 0.420 |
| *Q_IR* | 131 | 0.000 | 15.000 | 4.939 | 5.000 | 5.000 | 3.553 | 0.624 | 0.212 | 0.228 | 0.420 |
| *SB* | 131 | 3.000 | 14.000 | 7.084 | 7.000 | 6.000 | 2.166 | 1.144 | 0.212 | 1.394 | 0.420 |
| *IB* | 131 | 0.214 | 0.833 | 0.490 | 0.500 | 0.500 | 0.111 | 0.137 | 0.212 | 0.543 | 0.420 |
| *FB* | 131 | 0.000 | 0.500 | 0.116 | 0.125 | 0.000 | 0.118 | 0.817 | 0.212 | 0.451 | 0.420 |
| *AC* | 131 | 2.000 | 5.000 | 3.290 | 3.000 | 3.000 | 0.575 | 1.619 | 0.212 | 2.064 | 0.420 |
| *AC_Lg* | 131 | 0.301 | 0.699 | 0.511 | 0.477 | 0.477 | 0.069 | 1.246 | 0.212 | 1.461 | 0.420 |

**Note:** *PHLS* as the proxy of the rights of shareholders and key ownership functions = percentage of shares held by the largest shareholder; *Q_IR* as the proxy of disclosure and transparency = content quantity on investors relation; *SB*, *IB*, *FB*, *AC* as the proxy of the responsibilities of the board; *SB* = size of board; *IB* = proportion of independent board; *FB*= proportion of female on board; *AC*=audit committee members; and *AC_Lg* is transformed of *AC*.

Table 4.4 shows Descriptive Basic Statistics of Continuous Variables of the listed firms in Thailand. The first variable is *PHLS*, showing the minimum value 4.550, maximum value 83.550, average value 29.659 (SD = 16.389), while the median and mode are 25.040 and 14.020, respectively (Skewness = 0.940, Kurtosis = 0.482). The second variable is *Q_IR*, showing the minimum value 0.000, maximum value 16.000, average value 7.538 (SD = 3.320), while the median and mode are 8.000 and 9.000, respectively (Skewness = -0.366, Kurtosis = -0.061). The next variable is *SB*, showing the minimum value 6.000, maximum value 15.000, average value 10.139 (SD = 2.008), while the median and mode are 10.000 and 9.000, respectively (Skewness = 0.446, Kurtosis = -0.119). The fourth variable is *IB*, showing the minimum value 0.091, maximum value 0.750, average value 0.402 (SD = 0.101), while the median and mode are 0.375 and 0.333, respectively (Skewness = 0.551, Kurtosis = 0.962). The fifth variable is *FB*, showing the minimum value 0.000, maximum value 0.500, average value 0.198 (SD = 0.136), while the median and mode are 0.182 and 0.000, respectively (Skewness = 0.424, Kurtosis = -0.691).

The sixth variable is *AC*, showing the minimum value 2.000, maximum value 5.000, average value 3.143 (SD = 0.373), while both median and mode are 3.000 (Skewness = 2.036, Kurtosis = 3.826). And the last variable is *AC_Lg*, showing the minimum value 0.301, maximum value 0.699, average value 0.495 (SD = 0.047), while both median and mode are 0.477 (Skewness = 1.700, Kurtosis = 3.608).

**Table 4.4** Descriptive Basic Statistics of Continuous Variables of Listed Firms in Thailand

| Variable | N | Min | Max | Mean | Median | Mode | S.D. | Skewness | Std. Error of Skewness | Kurtosis | Std. Error of Kurtosis |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *PHLS* | 251 | 4.550 | 83.550 | 29.659 | 25.040 | 14.020 | 16.389 | 0.940 | 0.154 | 0.482 | 0.306 |
| *Q_IR* | 251 | 0.000 | 16.000 | 7.538 | 8.000 | 9.000 | 3.320 | -0.366 | 0.154 | -0.061 | 0.306 |
| *SB* | 251 | 6.000 | 15.000 | 10.139 | 10.000 | 9.000 | 2.008 | 0.446 | 0.154 | -0.119 | 0.306 |
| *IB* | 251 | 0.091 | 0.750 | 0.402 | 0.375 | 0.333 | 0.101 | 0.551 | 0.154 | 0.962 | 0.306 |
| *FB* | 251 | 0.000 | 0.500 | 0.198 | 0.182 | 0.000 | 0.136 | 0.424 | 0.154 | -0.691 | 0.306 |
| *AC* | 251 | 2.000 | 5.000 | 3.143 | 3.000 | 3.000 | 0.373 | 2.036 | 0.154 | 3.826 | 0.306 |
| *AC_Lg* | 251 | 0.301 | 0.699 | 0.495 | 0.477 | 0.477 | 0.047 | 1.700 | 0.154 | 3.608 | 0.306 |

**Note:** *PHLS* as the proxy of the rights of shareholders and key ownership functions = percentage of shares held by the largest shareholder; *Q_IR* as the proxy of disclosure and transparency = content quantity on investors relation; *SB*, *IB*, *FB*, *AC* as the proxy of the responsibilities of the board; *SB* = size of board; *IB* = proportion of independent board; *FB*= proportion of female on board; *AC*=audit committee members; and *AC_Lg* is transformed of *AC*.

One-Way ANOVA analysis was used for testing the level of accounting conservatism in three countries: Malaysia, Singapore, and Thailand, and the results are shown in Table 4.5 The values are statistically significant at the .05 level ($F_{2,2256}$ = 254.707, p =.000), which can be concluded that the level of accounting conservatism in Malaysia, Singapore, and Thailand are significantly different. It is evidenced that the accounting standard system in these countries affect accounting conservatism. Malaysia show the level of accounting conservatism less than Singapore (Mean Diff =-.3778), while Malaysia shows the level of accounting conservatism more than Thailand (Mean Diff =.5595). In addition, between Singapore and Thailand, Singapore are more on accounting conservatism than Thailand (Mean Diff =.9374). For the ranking of accounting conservatism level, Singapore is the highest; its accounting standard system is based on the Local IFRS Adoption by Design. Next is Malaysia; its accounting standard system is based on Full IFRS Adoption. Lastly, Thailand, its accounting standard system is based on the Local IFRS Adoption by Default. More details are shown in Table 4.5 as follows:

**Table 4.5** ANOVA Analysis of Accounting Conservatism in Three Countries: Malaysia, Singapore, and Thailand

| Country i | Country j | Mean of accounting conservatism of country i | Mean of accounting conservatism of country j | Mean Diff. (i-j) | Std. Error | Sig | 95% Confidence Interval | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Lower Bound | Upper Bound |
| Malaysia | Singapore | -0.0771 | 0.3007 | -.3778* | .0369 | .000* | -.4503 | -.3055 |
| Malaysia | Thailand | -0.0771 | -0.6366 | .5595* | .0359 | .000* | .4890 | .6300 |
| Singapore | Thailand | 0.3007 | -0.6366 | .9373* | .0420 | .000* | .8549 | 1.0200 |

* Significant at a 0.05 level

## 4.3 Multiple Regression Results

In this section, the study analyzes the influence of all corporate governance variables towards accounting conservatism as measured by residual from total accrual equation multiply -1: *Acc_C*, additionally, the moderator role of the IFRS adoption. According to the literature review presented in Chapter 2, this study used the Percentage of the largest shareholder: *PHLS* as the representation of the rights of shareholders and key ownership functions, dedication of investor relations on firm websites: *IR* as the representation of the equitable treatment of shareholders, Sustainability Report or Corporate Social Responsibility Report separated from the annual report: *SR* as the representation of the Role of Stakeholders in Corporate Governance, Content Quantity on Investor Relations :*Q_IR* as the representation of Disclosure and Transparency, and the last the representation of responsibilities of the board are Size of the Board: *SB* and Board composition, including Proportion of Independent Board: *IB*, Proportion of Females on Board: *FB*, CEO Duality: *Du_ B*, Audit Committee Member: *AC* and Females at least one person on Audit Committee Participation: *F_AC*. This study does not have a problem of multicollinearity; according to Akinwande, Dikko, and Agboola (2015), it is allowed in a regression analysis if the VIF is less than five.

Research Question 1: Is there the effect of corporate governance, including the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board, on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Multiple regression analysis was used to test the following hypotheses:

Hypothesis 1: The corporate governance, including the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board, affects accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand. Sub-hypotheses are as the following:

Hypothesis 1.1: There is a significant effect of percentage of shares held by the largest shareholder on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.2: There is a significant effect of investor relations on the websites of firms on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.3: There is a significant effect of sustainability reporting on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.4: There is a significant effect of quantity of the content on investor relations on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.1: There is a significant effect of size of the board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.2: There is a significant effect of proportion of the independent board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.3: There is a significant effect of proportion of the female board on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.4: There is a significant effect of CEO duality on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.5: There is a significant effect of audit committee members on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Hypothesis 1.5.6: There is a significant effect of female audit committee participation on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Table 4.6 shows the results of multiple regression analysis of the data from the three countries. The $R^2$ of the model is .248, suggesting that the explanatory variables explained the dependent variable by 24.80%.

Table 4.6 provides all the coefficients of corporate governance variables that are significant at the .05 level. Hypothesis 1.1: the effect of percentage of shares held by the largest shareholder on accounting conservatism, (b = -.006, p = .000); hypothesis 1.2, the effect of dedication of investor relations on firm websites on accounting conservatism, (b = .393, p = .000); hypothesis 1.3, the effect of sustainability report or corporate social responsibility report separated from the annual report on accounting conservatism (b = -.223, p = .000); hypothesis 1.4, the effect of content quantity on investor relations on accounting conservatism (b = -.035, p = .000); hypothesis 1.5.1, the effect of size of the board on accounting conservatism (b = .034, P = .000); hypothesis 1.5.2, the effect of proportion of independent board on accounting conservatism (b = 1.715, p = .000); hypothesis 1.5.3, the effect of proportion of females on the board on accounting conservatism (b = 2.115, p = .000); hypothesis 1.5.4, the effect of CEO duality on accounting conservatism (b = .199, p = .000); hypothesis 1.5.5, the effect of audit committee members on accounting conservatism (b = .790, p = .000); and hypothesis 1.5.6, the effect of females at least one person on audit committee participation on accounting conservatism (b = -.349, p = .000).

**Table 4.6** Effect of Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Three Countries: Malaysia, Singapore, and Thailand

| Independent Variables | Unstandarized Coeffecients | | Standardized Coeffecients | *t*-test | *p*-value | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | b | Std.Error | | | | Tolerance | VIF |
| (Constant) | -1.735 | .145 | | -12.002 | .000* | | |
| *PHLS* | -.006 | .001 | -.100 | -5.077 | .000* | .859 | 1.164 |
| *IR* | .393 | .062 | .139 | 6.363 | .000* | .697 | 1.435 |
| *SR* | -.223 | .039 | -.140 | -5.756 | .000* | .566 | 1.768 |
| *Q_IR* | -.035 | .005 | -.166 | -6.898 | .000* | .575 | 1.739 |
| *SB* | .034 | .009 | .084 | 3.746 | .000* | .670 | 1.492 |
| *IB* | 1.715 | .146 | .278 | 11.753 | .000* | .600 | 1.666 |
| *FB* | 2.115 | .150 | .347 | 14.066 | .000* | .548 | 1.824 |
| *Du_ B* | .199 | .046 | .082 | 4.320 | .000* | .936 | 1.069 |
| *AC_Lg* | .790 | .134 | .170 | 5.886 | .000* | .400 | 2.501 |
| *F_AC* | -.349 | .041 | -.206 | -8.583 | .000* | .578 | 1.729 |
| *F* | | | 74.019 | | | | |
| *p*-value | | | .000* | | | | |
| $R^2$ | | | .248 | | | | |
| Adj $R^2$ | | | .244 | | | | |

* Significant at a significance level of 0.05.

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm websites; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separated from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO are the same person; *AC_Lg* Audit Committee Members; and *F_AC* = Female at least one person on Audit Committee Participation.

Considering individual countries, the results are shown in Tables 4.7, 4.8, and 4.9, respectively.

Table 4.7 shows the results of the multiple regressions analysis to investigate effect of ten corporate governance variables on accounting conservatism in Malaysian listed firms. The $R^2$ of the model is .216, suggesting that the explanatory variables explained the dependent variable by 21.60%.

**Table 4.7** Effect of Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency, and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Malaysia

| Independent Variables | Unstandarized Coeffecients | | Standardized Coeffecients | *t*-test | *p*-value | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | b | Std.Error | | | | Tolerance | VIF |
| (Constant) | -.089 | .211 | | -.420 | .674 | | |
| *PHLS* | -.010 | .001 | -.214 | -6.922 | .000* | .734 | 1.362 |
| *IR* | .275 | .070 | .143 | 3.912 | .000* | .522 | 1.916 |
| *SR* | -.297 | .055 | -.160 | -5.410 | .000* | .797 | 1.255 |
| *Q_IR* | .029 | .007 | .165 | 4.131 | .000* | .441 | 2.266 |
| *SB* | .017 | .013 | .045 | 1.263 | .207 | .543 | 1.841 |
| *IB* | 1.211 | .187 | .252 | 6.477 | .000* | .463 | 2.162 |
| *FB* | .530 | .201 | .106 | 2.638 | .008* | .432 | 2.312 |
| *Du_ B* | .035 | .057 | .017 | .621 | .535 | .907 | 1.103 |
| *AC_Lg* | -.862 | .215 | -.144 | -4.015 | .000* | .545 | 1.836 |
| *F_AC* | -.420 | .047 | -.324 | -8.918 | .000* | .530 | 1.887 |
| *F* | | | 30.777 | | | | |
| *p*-value | | | .000* | | | | |
| $R^2$ | | | .216 | | | | |
| Adj $R^2$ | | | .209 | | | | |

* Significant at a significance level of 0.05.

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm website; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separate from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO are the same person; *AC_Lg* Audit Committee Members; and *F_AC* = Female at least one person on Audit Committee Participation.

Table 4.7 provides the coefficients of corporate governance variables which are significant at .05 and support the hypotheses including hypothesis 1.1, the effect of percentage of shares held by the largest shareholder on accounting conservatism (b= -.010, p = .000); hypothesis 1.2, the effect of dedication of investor relations on firm websites on accounting conservatism (b = .275, p =.000); hypothesis 1.3, the effect of sustainability report or corporate social responsibility report separated from the annual report on accounting conservatism  (b = -.297, p = .000); hypothesis 1.4, the effect of content quantity on investor relations on accounting conservatism  (b = .029, p =.000);

hypothesis 1.5.2, the effect of proportion of independent board on accounting conservatism (b = 1.211, p = .000); hypothesis 1.5.3, the effect of proportion of females on board on accounting conservatism (b = .530, p = .008); hypothesis 1.5.5, the effect of audit committee members on accounting conservatism (b= -.862, p = .000); and hypothesis 1.5.6, the effect of female audit committee participation on accounting conservatism (b = -.420, p = .000). There are insufficient evidences to support hypothesis 1.5.1 (the effect of size of the board on accounting conservatism**,** b = .017, p = .207), and hypothesis 1.5.4 (the effect of CEO duality on accounting conservatism**,** b = .035, p = .535).

Table 4.8 shows the results of the multiple regressions analysis to investigate effect of ten corporate governance variables on accounting conservatism in Singaporean listed firms. The $R^2$ of the model is .346, suggesting that the explanatory variables explained the dependent variable by 34.60%.

Table 4.8 provides the coefficients of corporate governance variables which are significant at .05 and support the hypotheses including: hypothesis 1.1, the effect of percentage of shares held by the largest shareholder on accounting conservatism (b = .004, p = .004); hypothesis 1.2, the effect of dedication of investor relations on firm websites on accounting conservatism (b = -.677, p = .000); hypothesis 1.4, the effect of content quantity on investor relations on accounting conservatism (b = .082, p =.000); hypothesis1.5.2, the effect of proportion of the independent board on accounting conservatism (b = -.606, p =.011); hypothesis 1.5.3, the effect of proportion of females on the board on accounting conservatism (b = .862, p = .009); hypothesis 1.5.4, the effect of CEO duality on accounting conservatism (b = -.228, p = .000); hypothesis 1.5.5, the effect of audit committee members on accounting conservatism (b = -1.372, p =.000); and the last hypothesis 1.5.6, the effect of female audit committee participation on accounting conservatism (b = -.167, p = .034). There are insufficient evidences to support hypothesis 1.3 (the effect of Sustainability report or Corporate Social Responsibility report separated from the annual report on accounting conservatism, b = -.069, p =.231) and hypothesis 1.5.1 (the effect of Size of the Board on accounting conservatism, b = -.008, p = .565).

**Table 4.8** Effect of Rights of Shareholder, Equitable Treatment of Shareholder, Role of Stakeholders, Disclosure and Transparency, and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Singapore

| Independent Variables | Unstandarized Coeffecients | | Standardized Coeffecients | *t*-test | *p*-value | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | b | Std.Error | | | | Tolerance | VIF |
| (Constant) | 1.418 | .233 | | 6.083 | .000 | | |
| *PHLS* | .004 | .001 | .129 | 2.893 | .004* | .620 | 1.613 |
| *IR* | -.677 | .087 | -.348 | -7.758 | .000* | .610 | 1.639 |
| *SR* | -.069 | .058 | -.054 | -1.200 | .231 | .608 | 1.645 |
| *Q_IR* | .082 | .009 | .441 | 9.382 | .000* | .556 | 1.799 |
| *SB* | -.008 | .013 | -.025 | -.575 | .565 | .642 | 1.558 |
| *IB* | -.606 | .239 | -.105 | -2.541 | .011* | .714 | 1.400 |
| *FB* | .862 | .327 | .149 | 2.635 | .009* | .385 | 2.600 |
| *Du_ B* | -.228 | .057 | -.168 | -4.023 | .000* | .708 | 1.412 |
| *AC_Lg* | -1.372 | .252 | -.400 | -5.450 | .000* | .228 | 4.379 |
| *F_AC* | -.167 | .078 | -.130 | -2.126 | .034* | .329 | 3.040 |
| *F* | | | 28.141 | | | | |
| *p*-value | | | .000* | | | | |
| $R^2$ | | | .346 | | | | |
| Adj $R^2$ | | | .334 | | | | |

* Significant at a significance level of 0.05.

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm website; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separate from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO are the same person; *AC_Lg* Audit Committee Members; *F_AC* = Female at least one person on Audit Committee Participation.

Table 4.9 shows the results of the multiple regressions analysis to investigate effect of ten corporate governance variables on accounting conservatism in Thai listed firms. The $R^2$ of the model is .560, suggesting that the explanatory variables explained the dependent variable by 56.00%.

**Table 4.9** Effect of Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency, and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Thailand

| Independent Variables | Unstandarized Coeffecients | | Standardized Coeffecients | *t*-test | *p*-value | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | b | Std.Error | | | | Tolerance | VIF |
| (Constant) | -2.215 | .323 | | -6.861 | .000 | | |
| *PHLS* | -.001 | .002 | -.012 | -.428 | .669 | .929 | 1.076 |
| *IR* | .146 | .215 | .021 | .678 | .498 | .779 | 1.283 |
| *SR* | -.134 | .070 | -.068 | -1.919 | .056 | .616 | 1.622 |
| *Q_IR* | -.046 | .012 | -.133 | -3.947 | .000* | .673 | 1.486 |
| *SB* | .050 | .019 | .118 | 2.596 | .010* | .367 | 2.723 |
| *IB* | -.397 | .385 | -.031 | -1.032 | .303 | .824 | 1.213 |
| *FB* | .096 | .312 | .015 | .309 | .758 | .322 | 3.102 |
| *Du_ B* | .322 | .119 | .077 | 2.701 | .007* | .931 | 1.074 |
| *AC_Lg* | 3.456 | .418 | .453 | 8.267 | .000* | .255 | 3.929 |
| *F_AC* | .282 | .083 | .138 | 3.405 | .001* | .466 | 2.145 |
| *F* | | | 73.253 | | | | |
| *p*-value | | | .000* | | | | |
| $R^2$ | | | .560 | | | | |
| Adj $R^2$ | | | .552 | | | | |

* Significant at a significance level of 0.05.

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm website; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separated from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO are the same person; *AC_Lg* Audit Committee Members; and *F_AC* = Female at least one person on Audit Committee Participation.

Table 4.9 provides the coefficients of corporate governance variables which are significant at .05 and support the hypotheses including: hypothesis 1.4, the effect of content quantity on investor relations on accounting conservatism (b = -.046, p = .000); hypothesis 1.5.1, the effect of size of the board on accounting conservatism (b = .050, p = .010); hypothesis 1.5.4, the effect of CEO duality on accounting conservatism (b = .322, p = .007); hypothesis 1.5.5, the effect of audit committee members on accounting conservatism (b = 3.456, p = .000); and lastly Hypothesis 1.5.6, the effect of female audit committee participation on accounting conservatism (b = .282, p = .001). There are insufficient evidences to support the other five hypotheses, including, hypothesis 1.1 (the effect of percentage of shares held by the largest shareholder on accounting conservatism, b= -.001, p = .669); hypothesis 1.2 (the effect of dedication of investor relations on firm websites on accounting conservatism ,b = .146, p = .498): hypothesis 1.3 (the effect of sustainability report or corporate social responsibility report separate from the annual report on accounting conservatism, b = -.134, p = .056); hypothesis 1.5.2 (the effect of proportion of independent board on accounting conservatism, b = -.397, p = .303); and hypothesis 1.5.3 (the effect of proportion of females on board on accounting conservatism, b = .096, p = .758).

In summary, Table 4.10 shows the comparison of regression analysis of the three countries as follows:

**Table 4.10** Regression Coefficients Showing Effect of Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency, and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Malaysia, Singapore, and Thailand

| Independent Variables | Malaysia | | | Singapore | | | Thailand | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unstandarized Coeffecients | | P-Value | Unstandarized Coeffecients | | P-Value | Unstandarized Coeffecients | | P-Value |
| | b | Std.Error | | b | Std.Error | | b | Std.Error | |
| (Constant) | -.089 | .211 | .674 | 1.418 | .233 | 000 | -2.215 | .323 | .000 |
| *PHLS* | -.010 | .001 | .000* | .004 | .001 | .004* | -.001 | .002 | .669 |
| *IR* | .275 | .070 | .000* | -.677 | .087 | .000* | .146 | .215 | .498 |
| *SR* | -.297 | .055 | .000* | -.069 | .058 | .231 | -.134 | .070 | .056 |
| *Q_IR* | .029 | .007 | .000* | .082 | .009 | .000* | -.046 | .012 | .000* |
| *SB* | .017 | .013 | .207 | -.008 | .013 | .565 | .050 | .019 | .010* |
| *IB* | 1.211 | .187 | .000* | -.606 | .239 | .011* | -.397 | .385 | .303 |
| *FB* | .530 | .201 | .008* | .862 | .327 | .009* | .096 | .312 | .758 |
| *Du_B* | .035 | .057 | .535 | -.228 | .057 | .000* | .322 | .119 | .007* |
| *AC_Lg* | -.862 | .215 | .000* | -1.372 | .252 | .000* | 3.456 | .418 | .000* |

**Table 4.10** Regression Coefficients Showing Effect of Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency, and Responsibilities of the Board, on Accounting Conservatism of Listed Firms in Malaysia, Singapore, and Thailand (Cont.)

| **Independent Variables** | **Malaysia** | | | **Singapore** | | | **Thailand** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Unstandarized Coeffecients** | | **P-Value** | **Unstandarized Coeffecients** | | **P-Value** | **Unstandarized Coeffecients** | | **P-Value** |
| | **b** | **Std.Error** | | **b** | **Std.Error** | | **b** | **Std.Error** | |
| *F_AC* | -.420 | .047 | .000* | -.167 | .078 | .034* | .282 | .083 | .001* |
| *F* | | | 30.777 | | | 28.141 | | | 73.253 |
| *p-value* | | | .000* | | | .000* | | | .000* |
| *R2* | | | .216 | | | .346 | | | .560 |
| *Adj R2* | | | .209 | | | .334 | | | .552 |

* Significant at a significance level of 0.05.

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm website; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separate from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO are the same person; *AC_Lg* Audit Committee Members; and *F_AC* = Female at least one person on Audit Committee Participation.

2. Research Question 2: Is there the moderating effect of the level of the IFRS adoption on the effect of corporate governance, including the Rights of Shareholders and Key Ownership Functions, the Equitable Treatment of Shareholders, the Role of Stakeholders in corporate governance, Disclosure and Transparency, and the Responsibilities of the Board, on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Hypothesis 2: The IFRS adoption moderates the effect of the corporate governance, including the Rights of Shareholders and Key Ownership Functions, the Equitable Treatment of Shareholders, the Role of Stakeholders in Corporate Governance, Disclosure and Transparency, and the Responsibilities of the Board, on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand.

Concerning the effect of corporate governance on accounting conservatism from two countries, this study tested the significance of differences between the two regression coefficients, which are commonly applied by Paternoster, Brame, Mazerolle, and Piquero

(1998). This study tested the equality of the coefficients of the ten corporate governance variables that representing corporate governance on accounting conservatism in the listed firms in the three countries of Malaysia, Singapore, and Thailand by using Z values. The comparison of the relative effects of corporate governance on accounting conservatism, as measured by Z Value which expresses as the difference in coefficient divided by its standard error for Malaysia and Singapore, Singapore and Thailand, and Thailand and Malaysay, is shown in Tables 4.11-4.13, respectively.

According to the comparison between Malaysia and Singapore, Table 4.11 shows the four variables of corporate governance of the listed firms of Malaysia that had affect accounting conservatism less than that of the listed firms of Singapore. They are *PHLS* (Z = -9.90), *SR* (Z = -2.85), *Q_IR* (Z = -4.65), and *F_AC* (Z = -2.78). The three variables of corporate governance of the listed firms of Malaysia had affect accounting conservatism more than that of the listed firms of Singapore. They are *IR* (Z = 8.53), *IB* (Z = 5.99), and *Du_B* (Z = 3.26). The remaining variables, *SB* (Z = 1.36) , *FB* (Z = -0.86), and *AC_Lg* (Z = 1.54) had affect accounting conservatism but were not significant different at 0.05 between listed firms in Malaysia and Singapore. More details are shown in Table 4.11 as follows:

**Table 4.11** Coefficient, and Z Value, Testing Two Coefficients of Corporate Governance Variables: a Comparison of Listed Firms between Malaysia and Singapore

| Independent Variables | Coefficient Value | | Z Value |
|---|---|---|---|
| | Malaysia | Singapore | |
| *PHLS* | -.010 | .004 | -9.90* |
| *IR* | .275 | -.677 | 8.53* |
| *SR* | -.297 | -.069 | -2.85* |
| *Q_IR* | .029 | .082 | -4.65* |
| *SB* | .017 | -.008 | 1.36 |
| *IB* | 1.211 | -.606 | 5.99* |
| *FB* | .530 | .862 | -0.86 |
| *Du_B* | .035 | -.228 | 3.26* |
| *AC_Lg* | -.862 | -1.372 | 1.54 |
| *F_AC* | -.420 | -.167 | -2.78* |

* Significant at a 0.05 level

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm websites; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separated from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO is the same person; *AC_Lg* Audit Committee Members; *F_AC* = Female at least one person on Audit Committee Participation

According to the comparison between Singapore and Thailand, Table 4.12 shows the five variables of corporate governance of the listed firms of Singapore that had affect accounting conservatism less than that of the listed firms of Thailand. They are *IR* (Z = -3.55); *SB* (Z = -2.52); *Du_B* (Z = -4.17); *AC_Lg* (Z = -9.89); and *F_AC* (Z = -3.94). The two variables of corporate governance of the listed firms of Singapore that had affect accounting conservatism more than that of the listed firms of Thailand. They are *PHLS* (Z value = 2.24) and *Q_IR* (Z = 8.53). The remaining variables, *SR* (Z = 0.72) , *IB* (Z = -0.46), and *FB* (Z = 1.69) had affect accounting conservatism but were not significant at 0.05 between the listed firms of Singapore and Thailand. More details are shown in Table 4.12 as follows:

**Table 4.12** Coefficient, and Z Value, Testing Two Coefficients of Corporate Governance Variables: a Comparison of Listed Firms between Singapore and Thailand

| Independent Variables | Coefficients Value | | Z Value |
|---|---|---|---|
| | Singapore | Thailand | |
| *PHLS* | .004 | -.001 | 2.24* |
| *IR* | -.677 | .146 | -3.55* |
| *SR* | -.069 | -.134 | 0.72 |
| *Q_IR* | .082 | -.046 | 8.53* |
| *SB* | -.008 | .050 | -2.52* |
| *IB* | -.606 | -.397 | -0.46 |
| *FB* | .862 | .096 | 1.69 |
| *Du_B* | -.228 | .322 | -4.17* |
| *AC_Lg* | -1.372 | 3.456 | -9.89* |
| *F_AC* | -.167 | .282 | -3.94* |

* Significant at a 0.05 level

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm website; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separated from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board, *SB* = Size of Board; *IB* = Proportion of Independent Board, *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO is the same person; *AC_Lg* Audit Committee Members; *F_AC* = Female at least one person on Audit Committee Participation

According to the comparison between Thailand and Malaysia, Table 4.13 shows the two variables of corporate governance of the listed firms of Thailand had affect accounting conservatism less than that of the listed firms of Malaysia. They are *Q_IR* (Z = -5.40) and *IB* (Z = -3.76). The four variables of corporate governance of the listed firms of Thailand had affect accounting conservatism more than that of the listed firms of Malaysia. They are *PHLS* (Z = 4.02); *Du_B* (Z = 2.18); *AC_Lg* (Z = 9.19), and *F_AC* (Z = 7.36). The remainging variables, *IR* (Z = -0.57); *SR* (Z = 1.83); *SB* (Z = 1.43) and *FB* (Z = -1.17) had affect accounting conservatism but were not different at 0.05 between the listed firms of Thailand and Malaysia. More details are shown in Table 4.13 as follows:

**Table 4.13** Coefficient, and Z Value, Testing Two Coefficients of Corporate Governance Variables: a Comparison of Listed Firms between Thailand and Malaysia

| Independent Variables | Coefficients Value | | Z Value |
|---|---|---|---|
| | Thailand | Malaysia | |
| *PHLS* | -.001 | -.010 | 4.02* |
| *IR* | .146 | .275 | - 0.57 |
| *SR* | -.134 | -.297 | 1.83 |
| *Q_IR* | -.046 | .029 | -5.40* |
| *SB* | .050 | .017 | 1.43 |
| *IB* | -.397 | 1.211 | - 3.76* |
| *FB* | .096 | .530 | - 1.17 |
| *Du_B* | .322 | .035 | 2.18* |
| *AC_Lg* | 3.456 | -.862 | 9.19* |
| *F_AC* | .282 | -.420 | 7.36* |

* Significant at a 0.05 level

**Note:** *PHLS* as the proxy of the Rights of Shareholders and Key Ownership Functions = Percentage of shares held by the largest shareholder; *IR* as the proxy of the Equitable Treatment of Shareholders = Dedication of investor relation on firm websites; *SR* as the proxy of the Role of Stakeholders in Corporate Governance = Sustainability Report or Corporate Social Responsibility Report separated from the annual report; *Q_IR* as the proxy of Disclosure and Transparency = Content Quantity on Investor Relation; *SB*, *IB*, *FB*, *Du_B*, *AC_Lg*, and *F_AC* as the proxy of the Responsibilities of the Board; *SB* = Size of Board; *IB* = Proportion of Independent Board; *FB* = Proportion of Female on Board; *Du_B* = Chairman of the board and CEO is the same person; *AC_Lg* Audit Committee Members; *F_AC* = Female at least one person on Audit Committee Participation; com = accounting comservatism as the complementary role; and sub = accounting comservatism as the substitutional role.

# CHAPTER 5
# CONCLUSION AND RECOMMENDATIONS

This chapter pinpoints conclusion and discussion on the research findings. The limitations of the study and recommendations for future research are also provided, respectively.

## 5.1 Conclusion

This study investigated the effect of corporate governance as recommended by Organization for Economic Cooperation and Development (OECD) on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand by moderating with the three levels of International Financial Reporting Standards (IFRS) adoption.

The research questions are as follows:

Research Question 1: Is there the effect of corporate governance on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Research Question 2: Is there the moderating effect of the level of the IFRS adoption on the effect of corporate governance on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Corporate governance aspects consisting of the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board are independent variables, while accounting conservatism is a dependent variable. It was measured based on the concept of discretionary accruals, as recommended by Ball and Shivakumar (2006) and the IFRS adoption as a moderator variable, which is divided into three groups (Felski, 2017): full IFRS adoption (Malaysia), local IFRS adoption design (Singapore), and local IFRS adoption default (Thailand).

Accounting conservatism in Malaysia Singapore and Thailand was affected by corporate governance in relation to substitutional effects and complementary effects as follows:

In Malaysia, the aspects of corporate governance that affect accounting conservatism as substitutional effects are the rights of shareholders and key ownership functions, the role of stakeholders in corporate governance and the responsibilities of the board (audit committee members and females participation on audit committee members). Accounting conservatism was used as complementary effects in the aspects of the equitable treatment of shareholders, disclosure and transparency and the responsibilities of the board (proportion of independent board and proportion of females on board).

In Singapore, the aspects of corporate governance that affect accounting conservatism as substitutional effects are the equitable treatment of shareholders, the responsibilities of the board (proportion of independent board, audit committee members and females participation on audit committee members). Accounting conservatism was used as complementary effects in the aspects of the rights of shareholders and key ownership functions, disclosure and transparency and the responsibilities of the board (proportion of females on board and CEO duality). In addition, the role of stakeholders in corporate governance has no effect on accounting conservatism.

In Thailand, the aspects of corporate governance that affect accounting conservatism as substitutional effects are only disclosure and transparency and CEO duality. The other responsibilities of the board including size of the board, proportion of females on board, audit committee members and females participation on audit committee members affect accounting conservatism as complementary effects. In addition, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, and the role of stakeholders in corporate governance have no effect on accounting conservatism.

Additionally, this study found that the levels of accounting conservatism ranked from high to low were listed firms in Singapore, Malaysia, and Thailand. According to the fact that the accounting standard in Singapore is based on the local IFRS adoption by design, on full IFRS adoption in Malaysia, and on local IFRS adoption by default in Thailand, the accounting standard based on the local IFRS adoption by design was found to have the highest accounting conservatism, followed by full IFRS adoption, and local IFRS adoption by default respectively. However, the effects of corporate governance in five aspects on accounting conservatism in each country were inconsistency. Therefore, this study indicated that the IFRS adoption had mixed effects on the impact of the OECD's corporate governance aspects on accounting conservatism.

## 5.2 Discussion of Research Findings

This section provides research discussion regarding the research questions and hypothesis testing.

Research Question 1: Is there the effect of corporate governance on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

This study presents a discussion on five aspects of corporate governance on accounting conservatism as follows:

### 5.2.1. The Effect of the Rights of Shareholders and Key Ownership Functions on Accounting Conservatism

The percentage of shares held by the largest shareholder is used as the proxy of the rights of shareholders and key ownership functions. In Malaysian listed firms, the percentage of shares held by the largest shareholder negatively affects accounting conservatism. This is the aspect of the entrenchment effect: exploiting private information to achieve personal benefits. Yunos, Smith & Ismail (2010) contended that it is the entrenched effect of major shareholders in Malaysian firms. The notion proposes that larger shareholders have greater control over firms; as a result, they have a greater scope for performing regarding their private interests (Morck et al., 1988). This notion is consistent with Kung and Cheng (2010); Yunos Smith & Ismail (2010); Wu (2011); El-Habashy (2019), who explained that the largest shareholder ownership has a significantly negative effect on accounting conservatism.

Concentrated ownership, supported by Fan and Wong (2002), is associated with low earnings informativeness. It is the cause of exploiting private information to achieve personal benefits. El-Habashy (2019) documented that ownership concentration increases the effectiveness of control frameworks by shareholders, and it is considered a control mechanism that can improve managers' performance. As a result, they provide less accounting conservatism. Firms with a large shareholder tend to serve the interests of the largest shareholder with the exclusion of the interests of minority shareholders who generally prefer more conservative reporting by the management. Cullinan, Wang & Zhang (2012) observed that conservatism is negatively associated with the percentage of shares held by the largest shareholder when the ownership percentage exceeds 30%. According to the data of Singaporean listed firms, the percentage of shares held by the largest shareholder positively effects accounting conservatism.

In line with this, Alali and Romero (2012) claimed that firms with higher concentration disclose more financial and non-financial information than those with less concentration. An alignment effect is used for an appropriate explanation by larger shareholders who have an incentive to optimize firm performance and increases in the firm wealth that is translated into increases in personal wealth as a credible commitment that they are willing to build for not expropriating the minority shareholders (Fan & Wong, 2002). The other interesting aspect is suggested by Ramalingegowda and Yu (2012) stating that the more difficult for higher shareholders to direct monitor management in the firms with more growth options and higher information asymmetry, the more they choose the potential governance benefits of conservatism. However, Thai firms show no relationship between the percentage of the largest shareholder on accounting conservatism. Being consistent with Dalvi and Mardanloo (2014); Alkurdi Al-Nimer & Dabaghia (2017), it is found that ownership concentration has no effect on accounting conservatism. It can be explained that concentrated ownership leads to hiring managers based on relationship so that they are unlikely to be closely monitored (Nawang & Selahudin, 2015).

#### 5.2.2 The Effect of Equitable Treatment of Shareholders on Accounting Conservatism

Dedication of investor relations on firm websites is used as the proxy of equitable treatment of shareholders. The result shows in different aspects among the listed firms in Malaysia, Singapore, and Thailand.

In the listed firms in Singapore, it is successfully implemented in the investor relations duties performed by the management. The effectiveness of investor relations leads to the lower information risk that is associated with high information asymmetry (Agarwal et al., 2008; Rodrigues & Galdi, 2017). In other words, the information asymmetry is negatively associated with investor relations activities (Brown & Hillegeist, 2007), so it is not necessary to provide more accounting conservatism.

In contrast, the listed firms in Malaysia, in regards to the role of accounting conservatism as the complement, show the dedication of investors relation on firm websites that affects accounting conservatism positively. It can be implied that accounting conservatism has a complementary role.

The listed firms in Thailand show the dedication of investor relations on firm websites being not related to accounting conservatism. There may be other ways for them to be provided for practical assistance. Similarly, for the London Stock Exchange, the issue of investor relations is proved by firms except for websites, investor relations can be taken in the form of meetings with investors, company news-releases, and annual reports (LSE, 2010). The other possible way, as suggested by Chang, Anna, Watson & Wee (2008), can be investor relations activities, which can reduce information asymmetry of just only the firm that has low asymmetry information.

**5.2.3 The Effect of the Role of Stakeholders in Corporate Governance on Accounting Conservatism**

Based on stakeholder theory**,** the participation between the organization and all stakeholders can result in enabling the organization to solve the arising problems, facilitate certain business processes, improve the quality of products and services, reduce the reputational risk, increase the availability of resources, and achieve the organizational goals (Krstic, 2014). Among Malaysia, Singapore, and Thailand, only Malaysian listed firms show a negative effect between the role of stakeholders in corporate governance in which sustainability report or corporate social responsibility report is separated from the annual report as the proxy on accounting conservatism.

Malaysian listed firms can be in the theory of stakeholders related to the importance of the various groups that surround the firms. In the same way, as suggested by Burke, Chen & Lobo (2020), a negative relationship exists between CSR performance and conditional conservatism. The explanation is based on the concept of alternatives relationship, stating that CSR performance demonstrates the firm’s commitment to meeting various needs of the stakeholders and to develop long-term relationships, which will reduce concerns of the parties about managerial opportunities, and better CSR performance would be associated with lower demand for conditional conservatism. Likewise, in the study of Karsalari, Aghaee & Ghasemi (2017), it was found that the mandatory CSR components have a negative effect on accounting conservatism. Furthermore, according to their reason, CSR engagement helps improve a firm's information environment and reduce information asymmetry between the firm and outside stakeholders. It also generates demand for conditional conservatism. Thus, the firm that has stronger CSR performance will be likely to meet lower demand for conditional conservatism. Being supported by Hsieh, Jung & Yi (2017), it was found that the labor union strength leads to less condition conservatism, which likely results from the unions' ability to reduce the likelihood of layoffs.

For Singaporean listed firms and Thai listed firms, the role of stakeholders in corporate governance does not affect accounting conservatism. This is in line with the study of Chongruksut (2016), who found that in 2011 the majority of Thai firms in the SET 100 index group had no sustainability reports. The majority of firms with sustainability reports were in the resource industry. Additionally, Suttipun and Stanton (2012) used a questionnaire to study the reason for making or not making environmental disclosures of Thai firms. They found that the most important reasons for not disclosing environmental information were that their firms had no environmental impact and that there were no environmental regulations or standards in Thailand. Many Thai firms only undertake environmental reporting when it is mandatory. To this end, Herbert and Graham (2018) explain the one key reason that firms provide sustainability reporting is to increase their legitimacy within the society and to prevent damage to the reputation and legitimacy of the firms. There is a tendency to limit negative disclosures on sustainability reports. Thus, although there has been a large increase in the number of firms reporting on sustainability activities, these disclosures are not widely accepted.

For these reasons, there is no influence of the role of stakeholders in corporate governance on accounting conservatism in Singaporean listed firms and Thai listed firms. This study confirms that the environmental issue which does not only have an environmental impact on the operation of firms, but also on the economic and social aspects (GRI, 2013). Special attention should be given to the issues related organizations and relevant regulations.

#### 5.2.4 The Effect of Disclosure and Transparency on Accounting Conservatism

Content quantity on investor relations is used as the proxy of disclosure and transparency. Among Malaysia, Singapore, and Thailand, disclosure and transparency affect accounting conservatism. However, only in Thai listed firms, disclosure and transparency affect less accounting conservatism, which is opposite from the listed firms in both Malaysia and Singapore. Thai listed firms are identified under the notion of substitutive effect where the content quantity on investor relations is an alternative for informing investors and other stakeholders regarding firm's risks. As a consequence, accounting reporting is presented more naturally. According to Wang (2019), risk factor disclosures can be an appealing alternative to conservatism since unbiased financial reporting is highly valued by investors and other stakeholders. This result supports the study of Mo (2015), who claims that less conservative firms are more likely to increase voluntary disclosures.

For listed firms in Malaysia and Singapore, a stimulative effect based on Wang (2019) for accounting conservatism is applied in relation to the content quantity on investor relations. However, it is interesting for further research to find out the answer for the listed firms in the two countries that may show the content on investor relations in the current era concerning present business status, forecasting the future status, transparency, and managing relations (Djordjevic, 2013). After all, disclosure plays an important role and becomes the duty on accounting conservatism.

#### 5.2.5 The Effect of the Responsibilities of the Board on Accounting Conservatism

Size of the board and board composition are picked as the proxy of the responsibilities of the board. Its influence on accounting conservatism shows different results among the listed firms from the three countries: Malaysia, Singapore, and Thailand, based on agency theory, stewardship theory, and group effectiveness (Baninajarian & Abdullah, 2009). The notion of structural and process characteristics of the board and the behavior of gender of the board are assumed to produce the board effectiveness and also contribute to the organizational effectiveness (Bradshaw et al., 1992).

5.2.5.1 The Effect of Size of the Board on Accounting Conservatism

Size of the boards of Malaysian listed firms and Singaporean listed firms cannot be used to measure changes in accounting conservatism. It is in line with Yunos, Ahmad & Sulaiman (2014), who observed that board size is not associated with accounting conservatism. Board size is just an only number; it does not imply their knowledge and skills, so the board size might not be an issue (Bonn et al., 2004). Wan and Ong (2005) suggested that the board process seems to play a more important role than the board structure. The other aspect can be explained that the directors may spend more time advising rather than monitoring firm performance (Ahmad et al., 2015).

Unlike the listed firms in Thailand, the data show the number of boards positively affects accounting conservatism. In the same direction, the large board reduces environmental uncertainty to ensure the flow of communication between the firm and its diverse public (Pearce & Zahra, 1992). Supported by Zahra and Pearce (1989), larger boards are more diverse in terms of education, industry backgrounds, and skills, with multiple perspectives to improve the quality of the firm's operations. Furthermore, larger boards seem to be more effective regarding prevention of managerial discretionary behavior. One reason behind this result may be that larger boards tend to devolve more responsibilities to board committee members than smaller boards (García-Meca & Sánchez-Ballesta, 2009). Akhtaruddin et al., (2009) provided that the number of boards has a positive effect on information voluntary disclosure which indicates that they can be capable of influencing managers to disclose more voluntary information and using accounting conservatism as the governance tool to reduce litigation risks. Additionally, this aspect goes along with the notion of complementary effects.

5.2.5.2 The Effect of Proportion of Independent Board on Accounting Conservatism

The relationship between proportion of independent board and accounting conservatism shows differences among the listed firms in Malaysia, Singapore, and Thailand. There is a positive relationship between independent boards and accounting conservatism in listed firms in Malaysia. This aspect is in line with Mahmoud and Collins (2018) who found that board independence is positively associated with accounting conservatism with the notion of group effectiveness that is both structure and process of the board (Wan &

Ong, 2005). The more outside board is to be filled with various experience, knowledge and expertise, the more accounting conservatism is likely to be used as a tool for reducing agency conflict, while inside directors may lead to transfer of wealth to themselves, instead of stakeholders. In addition, the outside board tends to play the role of monitoring more.

Consequently, accounting quality applies conservatism through reporting, which is supported by agency theory (Yunos et al., 2014; Mohammed et al., 2017; Mahmoud and Collins, 2018). This study supports the statement of Johari et al., (2009), saying that the minimum composition of one-third independent directors, as suggested by the code of corporate governance in Malaysia, is not adequate to monitor the management from earnings management practices. This result supports agency theory which suggests that more non-executive directors are likely to adopt more conservative accounting as a tool to reduce agency problems and facilitate management control (El-Habashy, 2019).

The more independent board implies the more connection. The listed firms of Singapore show an agreeable result with the study by Liang et al., (2017), who found that the higher the network centrality of independent directors, the lower the accounting conservatism. It was further explained that because of the reliability of creditors and shareholders on the network, the centrality of independent directors affects less accounting conservatism.

In contrast, no significant association is found between independence board and accounting conservatism in the listed firms in Thailand. Moreover, the degree of independence board ratio of Thai firms has no effect on firm performance (Chienwattanasook & Fongsiri, 2007) which is derived from the monitoring effectiveness of independent corporate boards which are moderated in family-controlled firms (Jaggi et al., 2009). This kind of firm is dominant in Asian corporations (Hashim & Devi, 2008), especially in Thailand. Suehiro and Wailerdsak (2004) identified that family firms in Thailand still strongly persist although the Asia crisis has passed. The firms can be divided into four groups, including closed family businesses, specialized family businesses, authoritarian family conglomerates, and modem family conglomerates. In case the trade barriers decrease and the globalization increases, businesses will be faced with a challenge in the capital market.

The result shows one of the evidences that the independent board role is not linked with accounting conservatism in Thai firms during the emergence of the ASEAN Community because family firms remain strongly. However, Mohammed, Ahmed & Ji (2017) stated that political connection has a negative moderating effect on the positive relationship between accounting conservatism and board independence. From the study of Imai (2006), "Mixing Family Business with Politics in Thailand" and the political participation of family members are found and positively associated with the profitability of family businesses. Nowadays, the close ties between politicians and businessmen issues are widely disputed and become a major concern in the corporate governance area in Thailand (Sitthipongpanich, 2004).

5.2.5.3 The Effect of Proportion of Females on Board on Accounting Conservatism

This study shows the proportion of females on board is related to accounting conservatism only in the listed firms in Malaysia and Singapore demonstrating the positive result between them. However, the proportion of females on board in Thai listed firms cannot be used to measure changes in accounting conservatism.

In Malaysia, the listed firms that show more on the proportion of females on board are related more to accounting conservatism. These results are the evidence showing that mechanisms of corporate governance code have already worked. Malaysian corporate governance regulates the board having at least 30% of women directors in large firms (SC, 2017).

In Singapore, according to the corporate governance code for listed firms, it is suggested that listed firms should consider issues of board diversity in terms of gender, skills, experiences, and knowledge of the firm (MAS, 2018) and disclose the board diversity policy in the firm's annual report (PwC, 2018). This study is consistent with Ho et al., (2014), who found that female CEOs are positively related to accounting conservatism. This study is also consistent with the notion of females being more risk-averse than males (Wik et al., 2004). Thus, the higher the number of female directors, the lower the firm's risks (Fauzi et al., 2017). It is confirmed by previous studies that female directors can develop trust leadership. Man and Wong (2013) and Julizaerma and Sori (2012) suggested that women directorship may influence firm performance.

Terjesen, Sealy & Singh (2009) indicated that women directors improve corporate governance via the better use of the whole talent pool's capital, as well as about building more inclusive and fairer business institutions, which better reflect on the present generation of stakeholders. Ramly, Chan, Mustapha & Sapiei (2015) observed that women directors are more effective on the board if they are also appointed as independent directors. As per their characteristics, experiences of women have substantial impacts on the quality of financial statements.

On the other hand, the result of Thai listed firms is not agreeable to Malaysian and Singaporean listed firms. Accounting conservatism is not dependent on the proportion of females on the board. This is consistent with Sultana and Zahn (2015), who indicated that the number of female directors on the board is not significantly associated with the timeliness or persistence of earnings conservatism. They further explained that the effect of the group's financial accounting decision-making depends on the mechanism in question and the ability of an individual within the group situation. Moreover, they found that all-male boards are more risk-averse than more gender diverse boards.

5.2.5.4 The Effect of CEO Duality on Accounting Conservatism

CEO duality, when the CEO also holds the chairman of the board position, is against agency theory, but is supported by stewardship theory (Donaldson & Davis, 1991). The results showed that CEO duality only in the listed firms in Singapore and Thailand was related to accounting conservatism.

In Malaysian listed firms, the data did not support both agency theory and stewardship theory since CEO duality was not associated with accounting conservatism. According to Yunos (2011), firms in Malaysia as the study sample were found that the CEO duality was not associated with accounting conservatism. The result is not surprising because empirical evidence on the CEO duality in the previous papers showed the effects of both that are mixed. It can be implied that leadership structure is dependent on other factors, such as complex business, family, and non-family firms.

In Singaporean listed firms, a negative relationship between CEO duality and accounting conservatism were found and supported by agency theory. One who is in charge of both management implementation and control is not consistent with the concept of checking and balancing (Kim & Robert Buchanan, 2008). In line of statement of Rasheed and Nisar (2018), that is both higher positions of the firm are occupied by the same person; there is no check and balance of authority and power. However, it is inconsistent with the study of El-Habashy (2019), it was found that CEO/Chair separation is related to a low level of accounting conservatism practice.

In Thai listed firms, there was a positive effect of CEO duality on accounting conservatism according to stewardship theory, which does not focus on the incentives of the CEO, but on the facilities. The empowering structures of CEO duality hold that fusion of the incumbency of the roles of chair and CEO will enhance more effectiveness and, as a result, produce superior returns to shareholders than a separation of the roles of chair and CEO (Donaldson & Davis, 1991). However, the other aspects should not be ignored.

According to the study of Chi, Liu & Wang (2009) that used Taiwan listed firms as a sample of the study and found that CEO duality increases the level of conservatism. Since CEO duality is a weak corporate governance mechanism, managers use conservation to compensate for the weakness. In addition, it is interesting that the two papers may be strong support for the result of Thai listed firms. Brickley, Coles & Jarrell (2009) suggested for most large firms that the costs of separation of CEO and Chairman are larger than the benefits, and Klein (1998), who studied firm performance and board committee structure, found that inside the board of directors valuable information could be provided. The evidence supports the working of efficient CEO duality. Additionally, the result of this study is in line with the study of Ramdani and Witteloostuijn (2010) on the impact of CEO duality on firm performance in Malaysia and Thailand. It was found that the conditional quantities of the firm performance distribution by CEO duality are beneficial for average performing firms, but not significant for low performing firms and top performing firms. It is suggested that no theory is superior to another in all circumstances (Yunos, 2011).

5.2.5.5 The Effect of Audit Committee Members on Accounting Conservatism

The board forms an audit committee in order to assist them with their task. The audit committee oversees the management doing the financial reporting process, and their role is often linked to the quality of financial reporting. Thus, the existence of the audit committee should be able to improve the quality of financial reporting and the firm's internal control quality leading to shareholders' protection (Supriyaningsih & Fuad, 2016).

Among the listed firms in the three countries, audit committee members can be used as a variable to measure changes in accounting conservatism. Audit committee members of listed firms in Malaysia and Singapore negatively influence accounting conservatism. However, there is a positive relation between audit committee members and accounting conservatism in the listed firms in Thailand.

According to Leong, Wang, Suwardy & Kusnadi (2015), if audit committees are made up only of accounting experts, this does not affect the financial reporting quality. The committee also consists of members that possess other skill-set in terms of finance or supervisory expertise. Thus, the more audit committee members, the more benefits on the firm.

However, how the degree of accounting conservatism is affected depends on two roles of accounting conservatism for corporate governance: substitution and complement. Substitutional role, when corporate governance is weakened, is a phenomenon that the need for more accounting conservatism is for the substitutional type (Chi et al., 2009). On the other hand, the complementary role is relevant when the strong corporate governance firms use more accounting conservatism to inform investors (Lara et al., (2009). The evidence can be used to explain the results that occur on the listed firms in Malaysia, Singapore, and Thailand.

5.2.5.6 The Effect of Females at Least one Person on Audit Committee Participation on Accounting Conservatism

The study results show the effects of the participation of the female audit committee on accounting conservatism, which is similar to the effects of the audit committee on accounting conservatism, i.e. among the listed firms in Malaysia, Singapore, and Thailand.

For listed firms in Malaysia and Singapore, the result supports both notions of the risk-averse of males which is found by Sultana and Zahn (2015), but opposed to Wik, Kebede, Bergland & Holden (2004) who found that females are more risk-averse than males. Therefore, the issue regarding "risk-averse between male and female" is still unconcluded; both of the notions may be used to describe the results of different effects on females at least one person on the audit committee participation on accounting conservatism of the listed firms in Malaysia, Singapore, and Thailand. Additionally, the listed firms in Thailand are found to be consistent with Makhlouf, Alsufy & Almubaideen (2018), who found that gender diversity is significantly and positively correlated with accounting conservatism.

From the discussion above, the listed firms in the three countries, Malaysia, Singapore, and Thailand use accounting conservatism as the tool differently by considering each country and across the countries. As a result of the notion of the two roles of accounting conservatism for corporate governance, substitution and complement, the substitutional effects provide a strong corporate governance effect on less accounting conservatism. This is confirmed by a study of the sequence of Watts (2003); Ahmed and Duellman (2007); Chi, Liu & Wang (2009). On the other hand, the complementary role is consistent with the notion that strong corporate governance has a more effect on accounting conservatism. In this regard, Lara, Osma & Penalva (2009) indicated that corporate governance and conservatism are not show substitutes. Moreover, these results can be used to explain the three theories of agency theory, stakeholder theory, and stewardship theory.

Research Question 2: Is there the moderating effect of the IFRS adoption level on the effect of corporate governance on accounting conservatism of the listed firms in the Stock Exchange of Malaysia, Singapore, and Thailand?

Ten variables of corporate governance in this study are related to ownership, shareholders, stakeholders, disclosure and board of directors, which are based on the fact that concentrated ownership can solve conflicts of interest (Boshkoska, 2015), it is the right of all shareholders to seek information (Sidek, 2008), the effectiveness of investor relations lead to lower information risk (Agarwal et al., 2008; Sandrielem Rodrigues & Galdi, 2017), and increasing corporate disclosure and transparency reduces the asymmetric information between informed and uninformed investors (Chiyachantana et al., 2013) and board effectiveness (Bradshaw et al., 1992). Thus, nine of the ten corporate governance variables were considered high value which implies strong corporate governance.

The only one variable, i.e. the CEO also holds the position of the chairman of the board (CEO duality) is regarded as weak in corporate governance (Chi et al., 2009) because of no checking and the imbalance of authority and power (Rasheed & Nisar, 2018). The relationships between nine variables of corporate governance excluding CEO duality, and accounting conservatism are negative which can be explained by the notion of substitutional effects (Chi et al., 2009). On the other hand, the effects on accounting conservatism are positive, which is congruent with the work of Lara, Osma & Penalva (2009) indicating that strong corporate governance firms use more accounting conservatism to inform investors, i.e. the complementary effects. The effect of the persistence of CEO duality on accounting conservatism is explained in the opposite direction in that negative or positive relationship between them are the complementary effects (substitutional effects).

Considering individual countries, both substitutional effects and the complementary effects are used to describe corporate governance variables that affect accounting conservatism. Thus, corporate governance had inconsistent effect on accounting conservatism even though the country had the same level of the IFRS adoption. Consequently, it is concluded that the IFRS adoption had a mixed effect on the impact of corporate governance variables on accounting conservatism. There might be variables, such as religions, legal systems, and cultures that might explain the inconsistency in this study. According to Ball, Robin & Wu (2003), who studied incentives versus accounting standards in four East Asian countries, comprising Hong Kong, Malaysia, Singapore and Thailand, the evidence show that accounting standard *per se* cannot drive the reporting quality and the IFRS standard requires professional judgments (Benston et al., 2006). Kolsi and Zehri (2013) also identified that professional judgment and accounting practices to implement are influenced by culture. In addition, Ding, Jeanjean & Stolowy (2005) contended that cultural values matter more than legal origin in explaining divergences from the International Accounting Standards (IAS). Moreover, Bjornsen, Do & Omer, (2018) and Kang, Lee, Ng & Tay (2004) concluded that religion, legal regime, and culture interact as substitutes when explaining accounting conservatism. Thus, this study result is discussed as follows:

Bjornsen, Do & Omer (2018) identified that countries with the greater numbers of religions tend to adopt higher accounting conservatism, and when considering the religious diversity index in Southeast Asia by Brennan (2014), it shows the more diversity of religions in Malaysia and Singapore than in Thailand. Thus, Malaysia and Singapore are more related to accounting conservatism than Thailand.

In terms of legal systems, both Malaysia and Singapore are rooted in a common law (Mohamad & Trakic, 2015; Chng & Tsen, 2018) but in Thai legal system is based on civil law (Prasitmonthon, 2016). Ball, Kothari & Robin (2000) identify that common laws on countries' earnings concern conservatism more than code laws.

When taken culture dimensions into consideration, uncertainty avoidance according to Hofstede (1984) prefers rules (Snitker, 2010) and is positively related to conservatism (Kanagaretnam et al., 2013). The uncertainty avoidance scores that show on the website (https://www.hofstede-insights.com) for Malaysia, Singapore, and Thailand are 36, 8, and 64, respectively. Thailand is ranked the highest on conservatism, followed by Malaysia and Singapore.

## 5.3 Contributions of the Study

### 5.3.1 Theoretical Contributions

The prior literature in the area of corporate governance mostly focused on some of its aspects, especially the aspects of the rights of shareholders and key ownership functions, and the responsibilities of the board. This study extensively examined all the OECD principles of corporate governance in the 2004 version, on accounting conservatism. Since information plays a vital role in decision-making for stakeholders, the expanded corporate governance aspects of this study focused on reduction of information asymmetry.

The strength of technology makes communication easier for sharing of information, saving time, and saving costs, and its main advantage influences elimination of information asymmetry. Investor relations which are displayed on the firm websites indicate that the firms have complied with corporate governance on the principle of the equitable treatment of shareholders, in the aspect of information, and disclosure and transparency. In addition, the sustainability report presents the organizational values and governance model on the firm websites are related to the principle of the role of stakeholders in corporate governance. This study covers all aspects of corporate governance that are consistent with the current situation while previous studies focused on one role of corporate governance on accounting conservatism, which is comprised of substitutional effects and complementary effects, this study extensively focused on all of them.

Globalization of capital markets has increased the demand for harmonization of accounting standards all over the world. Regulators believe that IFRS developed by International Accounting Standards Board (IASB) provides harmonized financial reporting which would bring transparency, accountability, and efficiency to capital markets around the world.

With various limitations and reasons, ASEAN countries have to find solutions for accounting standard harmonization, which have three levels: full IFRS adoption, local IFRS adoption by design, and local IFRS adoption by default. This study tested these levels of IFRS adoption and accounting conservatism amongst financial markets in ASEAN. It leads to an avenue of accounting uniformity in measurement, disclosure, and presentation which is easier for stakeholders to use accounting information for decision making processes in ASEAN financial market and global financial markets. This study further extensively examined the role of the IFRS adoption that affects the impact of corporate governance on accounting conservatism.

**5.3.2 Practical Contributions**

The findings of this study lead to the following practical contributions. Firstly, the results of this study indicate that, in the countries in ASEAN as positioning one market, the corporate governance mechanisms on financial information for stakeholders show mixed results between substitutional effects and complementary effects. Then, this study provides some evidence for governments, regulators, and leaders of organizations for further decision-making.

Secondly, the issues that are faced with global financial reporting standard setters are broad, difficult, and complex (Barth, 2006), this study confirms whether differences of the IFRS adoption have an influence on financial information; therefore, it is neceassary to find a joint solution between the relevant organizations, especially IASB, the Financial Accounting Standards Board (FASB), and the agencies that coordinate corporate governance policies within the government and local professional accounting organizations for accounting standardization.

Lastly, for expansion in a wider picture, the results of this study show that the influence of cultures, religious diversities, and legal systems may be an important factor that should be concerned.

## 5.4 Research Limitations and Suggestions for Future Research

### 5.4.1 Research Limitations

This study has four limitations. Firstly, corporate governance in this study is based on the five aspects of the OECD 2004 principles: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board, which is inconsistent with the current version of OECD (G20/OECD). According to the new key aspects of corporate governance are that the aspects of the rights of shareholders and key ownership functions with the equitable treatment of shareholders are combined, and there are modifications on the aspects that are related to institutional investors, stock markets, and other intermediaries.

Secondly, the proxies of this corporate governance considered are some configuration, other aspects of corporate governance variables may also have an effect on financial information (Shiri et al., 2012; Swastika, 2013). However, more information is limited amongst many of the firms and the information gathered is based on the public disclosure of the firms, which is the lack of defined standards of the ASEAN countries. Even though the firms have disclosed financial information, several disclosure matters are quite small (Sukmadilagaa et al., 2015). As a result, this study collected the data only in 2018, based on information from the annual reports and firm websites. Only the information that is publicly available and easily accessible was collected.

Thirdly, the measurement of accounting conservatism can be done in several ways. This study used only discretionary accruals for determining it, though the use of multiple proxies might help to generalize the results.

Lastly, this study cannot identify the degree of IFRS adoption among the three countries, and the data regarding the adoption of IFRS were collected from the latest update on the IFRS Foundation's website, which might be changed from time to time.

**5.4.2 Suggestions for Future Research**

It is recommended that another piece of research that is similar to this current one should be conducted again by using another form of measurement on accounting conservatism in another timeframe, and comparing various characteristics of the firms based on the up-to-date OECD corporate governance version. Using another aspect of corporate governance variable may also affect financial information. Further study might expand the area of study to the other countries in the ASEAN region. In addition, current information on the IFRS Foundation's website should be beneficial for future research. The other factors, such as culture, religious diversity, and legal systems should also be considered in further studies on the IFRS adoption.

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## Biography

| | |
|---|---|
| **Name – Surname** | Mrs. Sutathip Phapho |
| **Date of Birth** | September 13, 1959 |
| **Address** | 44 Raj Amnuay Road, Muang Nan District, Nan 55000 |
| **Education** | Master’s Degree in Accounting (M.Acc), 2008 |
| **Work Experience** | Lecturer, Nan Technical College, 1982 – 2019 |
| **Telephone Number** | 08-1952-2193 |
| **Email Address** | jp.1309@hotmail.com |