

EFFECT OF OWNERSHIP STRUCTURE ON ACCOUNTING CONSERVATISM OF LISTED INDUSTRIAL FIRMS IN NIGERIA

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Article History

Received: 07.05.2025

Accepted: 11.06.2025

Published: 30.06.2025

Abstract: This research investigated how diverse patterns of ownership shape the practice of accounting conservatism within Nigeria's listed industrial sector from 2015 to 2024. Ownership was analysed through four dimensions: institutional investors, managerial stakes, foreign participation, and the degree of ownership concentration. Applying a panel multiple regression approach, the study examined four hypotheses. The analysis revealed that institutional, managerial, and foreign ownership each promote higher levels of accounting conservatism, indicating that greater institutional involvement tends to enhance cautious and prudent financial reporting due to their positive interrelation. Conversely, a more concentrated ownership structure was found to undermine accounting conservatism, suggesting that heightened concentration diminishes the extent of prudence in recognising income and expenses. The findings imply that foreign investors are generally better positioned to exert independent scrutiny and discipline over corporate governance, limiting managers' ability to engage in discretionary reporting behaviour and thereby improving the credibility of earnings figures. Based on these insights, the study recommends that industrial firms actively encourage institutional and foreign investments as mechanisms to deter self-interested accounting choices by management. In contrast, excessive concentration of ownership should be avoided, as it risks distorting proper expense recognition and may foster internal conflicts that could compromise governance effectiveness.

Keywords: Accounting Conservatism, Ownership Structure, Institutional Investors, Foreign Ownership, Corporate Governance.

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Introduction

Ownership structure describes how a company's shares are held and divided among its shareholders. This arrangement shapes who controls the company and forms the base for corporate governance. In public companies, how ownership is spread often affects the way financial reports are prepared and how much caution is shown in reporting profits and losses. Accounting conservatism plays an important role here, serving as a guiding rule to make sure financial statements do not overstate assets or income. Bliss (1924) described it as the practice of not recording profits too soon but always preparing for possible losses. Adebisi and Olowookere (2016) describe it as the tendency to record bad news more quickly than good news, which means that more proof is needed before reporting gains. The Financial Accounting Standards Board (FASB) and the Statement of Financial Accounting Concepts (SFAC) No. 2 both highlight that measuring assets and debts often involves judgment and uncertainty. This allows managers some

freedom within accounting standards to decide how to record costs such as stock options, inventory values, or expected losses (Ain, Agus, Kiswanto, & Indra, 2020).

The size of each shareholder's stake affects how much say they have in running the company and in forming the board of directors. A strong ownership position often means greater influence over major decisions. Accounting conservatism can be seen in two ways. The first is unconditional or news-independent conservatism, which stays the same regardless of new events. The second is conditional or news-dependent conservatism, which adjusts figures when new information appears. Many reasons explain why conservatism exists and why it benefits financial reporting.

One explanation is that it helps in contracts and agreements. Lenders and shareholders prefer conservative figures because they lower the chance of managers misusing resources or hiding bad results (Asiriwa et al., 2019; Baryeh, 2014). Still, managers sometimes avoid conservative reporting to cover up poor

Cite this article:

SHUAIBU H. O., GABRIEL F. G., USMAN M. J., (2025). EFFECT OF OWNERSHIP STRUCTURE ON ACCOUNTING CONSERVATISM OF LISTED INDUSTRIAL FIRMS IN NIGERIA. *ISAR Journal of Economics and Business Management*, 3(6), 17-29.

performance, break loan agreements, demand extra bonuses, or make results look better than they really are (Amneh, Munther, & Mohammad, 2017).

Another reason is to avoid lawsuits. Firms are more likely to face legal issues if they report profits or assets too high, so conservatism helps protect them. Taxes are another factor: since taxes are based on profits, managers may choose conservative methods to avoid paying too much. Lastly, rules from regulators and standard-setters often encourage cautious reporting to protect investors and keep companies honest. Requirements from securities commissions also push firms toward conservative practices.

Given these points, this study plans to explore how different ownership structures shape the way managers run listed industrial companies in Nigeria and how this affects the level of caution used in their financial reports.

Statement of the problem

A prominent contention advanced by detractors of accounting conservatism is that agency conflicts exacerbate informational asymmetries between corporate managers and other stakeholders. Alleviating such agency-related frictions is pivotal for enhancing contractual efficiency, mitigating litigation exposure, bolstering decision-making quality, and narrowing the information divide. Nonetheless, a coherent theoretical paradigm elucidating the direct pathway through which conservatism shapes a firm's market reputation remains elusive. Consequently, this inquiry seeks to unravel the extent to which ownership configurations mould conservative reporting tendencies and, by extension, how such tendencies influence a firm's perceived credibility within financial markets.

Moreover, it has been posited that conservative accounting conventions, by deferring the recognition of uncertain prospective gains until they are objectively verifiable, inherently constrain managerial opportunism. This restraint inhibits the inflation of projected earnings, thereby ensuring that managerial incentives do not stray beyond thresholds acceptable to equity holders. Additionally, prudent reporting curbs excessive debt accumulation and discourages the unwarranted distribution of dividends, collectively safeguarding the interests of all parties with stakes in the enterprise.

The interplay between ownership structure and the degree of conservatism embedded in financial statements hinges upon the degree of influence exerted by predominant shareholders over managerial discretion. Empirical scholarship has consistently underscored that a firm's ownership dynamics constitute a cornerstone of corporate governance, acting as a bulwark against profit manipulation while harmonising the interests of shareholders and management—thereby elevating the trustworthiness and informativeness of disclosed financial data. Prior research further indicates that managerial incentives critically modulate the depth of conservatism applied and the attendant quality of financial disclosures. Concomitantly, ownership architecture fortifies the protective benefits that conservatism confers upon capital markets (El-babashy, 2019). In consonance with these insights, the present study endeavours to dissect how ownership structures temper agency conflicts between managers and shareholders, curtail income smoothing, and mitigate risks inherent in moral hazard and adverse selection.

Objectives of the Studies

The primary objective of this research work is to examine the effect of ownership structure on accounting conservatism. The specific objectives are to examine the:

- i. Effect of Foreign Ownership on Accounting Conservatism in listed Industrial Firm in Nigeria
- ii. Effect of Institutional Ownership on Accounting Conservatism in listed Industrial Firm in Nigeria
- iii. Effect of Ownership Concentration on Accounting Conservatism in listed Industrial Firm in Nigeria
- iv. Effect of Management Ownership on Accounting Conservatism in listed Industrial Firm in Nigeria

Statement of the Hypotheses

Based on the statement of problem and the objectives of the study, the following hypotheses are formulated to guide the study:

- Ho1:** Foreign Ownership has no significant effect on Accounting Conservatism in listed Industrial Firm in Nigeria
- Ho2:** Institutional Ownership has no significant effect on Accounting Conservatism in listed Industrial Firm in Nigeria
- Ho3:** Ownership Concentration has no significant effect on Accounting Conservatism in listed Industrial Firm in Nigeria
- Ho4:** Management Ownership has no significant effect on Accounting Conservatism in listed Industrial Firm in Nigeria.

Scope of the study

This research focuses on companies listed under Nigeria's industrial goods sector, spanning a ten-year timeframe from 2015 to 2024. The decade-long period is deemed sufficient to thoroughly investigate how various dimensions of ownership structure — namely, foreign ownership, institutional holdings, ownership concentration, and managerial equity — influence the practice of accounting conservatism among these firms. This timeframe offers a robust foundation for evaluating and interpreting the evolving ownership dynamics and reporting patterns within the selected companies. Moreover, the scope of this study is deliberately confined to examining the accrual-based dimension of accounting conservatism as presented in the annual financial statements and reports of Nigeria's listed industrial goods companies.

Conceptual Framework

Concept of Ownership Structure

Agency theory explains that the separation of ownership from managerial control, along with the existence of creditors, inherently creates agency conflicts and amplifies information asymmetry among stakeholders. This misalignment of interests often results in an asymmetric treatment of risks and returns, fostering conditions under which conservative accounting practices become valuable safeguards (Jensen & Meckling, 1976, as cited in Faghani & Ameoi, 2014). Such conflicts typically surface through manipulation of financial statements, fraudulent reporting, and the misappropriation of corporate wealth. Scholars of positive

accounting theory advocate for conservatism as an effective mechanism to limit managerial opportunism by demanding more rigorous criteria for recognising gains and by supporting the prompt elimination of projects with unfavourable net present values (Rahimah, 2011; Martinez, Santana Junior, & Sena, 2021).

Ownership structure is characterised not only by the allocation of equity capital and voting rights but also by the specific identity of shareholders (Murwaningsari & Sistya, 2017). An effective ownership arrangement can mitigate managers' incentives to manipulate reported earnings. Nevertheless, managers frequently exploit informational advantages for personal benefit, distorting earnings to align with their self-interest.

Within corporate settings, the degree of influence a shareholder can exert is primarily determined by their proportion of shareholding and the balance of power relative to other owners. A dominant shareholder with a substantial equity stake may significantly shape corporate governance and financial disclosure quality. Such influence extends to the ability to form or dismantle the board of directors, which in turn oversees executive appointments and dismissals. In contrast, when ownership is more dispersed and lacks a dominant shareholder, managerial autonomy increases as the capacity for effective monitoring diminishes due to shareholder fragmentation.

A substantial shareholder has both the motivation and the capacity to influence board composition and, by extension, to direct management decisions. Managers tend to align their actions with the dominant shareholder's preferences to secure job security and potential benefits. However, when the controlling shareholder's objectives conflict with those of minority shareholders, management often prioritises the interests of the dominant party, which can lead to wealth transfers from smaller shareholders to the largest one, harming operational efficiency and diminishing firm value (Sugiarto & Fachrurrozie, 2018).

Importantly, full majority ownership is not always necessary for effective control. A shareholder holding less than 50% of voting rights may exert decisive influence if the rest of the shares are widely dispersed and held by smaller, less coordinated investors. Cao and An (2015) highlight the distinction between ownership stakes and control rights, noting that when a shareholder's equity surpasses a certain threshold, their practical control can exceed their formal voting rights. Similarly, El-babashy (2019) observes that a controlling shareholder can substantially shape corporate objectives and managerial conduct, potentially leveraging the financial reporting process to pursue private interests. Consequently, firms with controlling shareholders generally tend to adopt lower levels of accounting conservatism, given the heightened influence such owners have over governance structures and disclosure policies.

Foreign Ownership

Foreign ownership denotes the possession of equity interests by individuals who are nationals of other countries or by corporations headquartered beyond the host nation's borders. Such ownership typically materialises when multinational corporations, operating seamlessly across jurisdictions, inject substantial long-term capital into a foreign market either through direct investment or by acquiring indigenous assets. Additionally, it may occur when foreign nationals acquire property rights or equity stakes in

domestic enterprises. Alkurdi, Al-Nimer, and Dabaghia (2017) assert that foreign investors gravitate towards firms exhibiting robust growth prospects and a wealth of reliable, transparent information—conditions that inherently mitigate information asymmetry. Furthermore, foreign stakeholders frequently possess superior incentives and domain-specific acumen to exercise vigilant, independent oversight over managerial conduct. Consequently, an elevated presence of foreign ownership tends to fortify corporate disclosure practices and acts as a formidable deterrent against managerial opportunism and the manipulation of financial statements (An, 2015).

Institutional Ownership

The efficient monitoring hypothesis asserts that institutional shareholding enhances corporate performance by harnessing institutional investors' superior analytical prowess and their capacity to oversee managerial behaviour at comparatively reduced monitoring costs. In contrast, the conflict of interest perspective argues that institutional investors may simultaneously maintain lucrative commercial ties with the firms in which they hold equity stakes, thereby undermining their motivation to enforce rigorous oversight of managerial actions. Similarly, the strategic alignment theory suggests that institutional shareholders and corporate executives may forge symbiotic alliances, aligning their interests in ways that subvert the expected improvements in firm value. Consequently, both the conflict of interest and strategic alignment paradigms predict an inverse relationship between institutional ownership and corporate performance.

Advancing this discourse, Bach (2018) delineates institutional investors into two distinct archetypes: those impervious to external pressures and those vulnerable to such influences. Pressure-resistant investors—including brokerage firms, mutual funds, and specialised investment entities—typically maintain relationships with portfolio companies that are exclusively investment-oriented. By contrast, pressure-sensitive investors—such as banks and insurance corporations—often intertwine their investment interests with broader commercial dealings involving their investee firms, a duality that may impair their efficacy in monitoring managerial conduct.*

Ownership Concentration

Ownership concentration refers to a corporate scenario wherein a substantial fraction of a company's equity capital is controlled by a limited cadre of shareholders. As highlighted by Christianto and Feliana (2015), the presence of dominant equity holders inherently constrains the extent to which managers can wield unchecked authority, since a concentrated ownership structure reduces the sway of widely scattered minor investors. However, Cullinan, Wang, Wang, and Zhang (2012) observe that firms, even within a single national context, may display differing levels of ownership concentration attributable to unique organisational attributes or sector-specific dynamics.

Ordinarily, controlling shareholders possess a significant equity position that not only affords them the right to intervene directly in strategic and operational decision-making but also enables them to influence the formulation of the firm's financial policies. In settings where equity is consolidated in the hands of a few, these principal shareholders command considerable voting rights, empowering them to shape the firm's governance architecture

decisively. Such dominant stakeholders often exhibit both the incentive and the capability to scrutinise managerial conduct diligently. As articulated by Song (2015), elevated ownership concentration can foster a governance environment wherein a controlling party actively monitors managerial behaviour, effectively mitigating opportunistic tendencies and better harmonising managerial objectives with those of principal owners.

Managerial Ownership

Murwaningsari and Sistya (2017) contend that managers may engage in earnings manipulation by selecting accounting methods that serve their own interests, leading to less conservative financial reporting. This tendency becomes more pronounced when managerial ownership stakes are higher and when compensation packages are closely tied to reported performance. Such behaviour enables managers to overstate financial results, diverting focus away from genuine value creation and ultimately increasing agency costs while diminishing firm value over time (Ruch & Taylor, 2015). Furthermore, managers may exploit privileged information to shift benefits intended for investors towards their own advantage (Song, 2015). To counteract such opportunistic tendencies, principals can mitigate information asymmetry by implementing well-structured incentive systems and establishing robust monitoring mechanisms designed to constrain agents who might otherwise act against shareholders' interests (Jensen & Meckling, 1976).

Consistent with agency theory, higher levels of managerial ownership are expected to better align managers' objectives with those of shareholders, thereby reducing agency conflicts between the two groups (Jensen & Meckling, 1976, as cited in Ruch & Taylor, 2015). However, prior research suggests that managerial ownership can produce dual outcomes: it may foster incentive alignment, strengthening managers' commitment to shareholder value, but it can also lead to management entrenchment, where managers gain excessive control that insulates them from disciplinary mechanisms.

Concept of Accounting Conservatism

Traditionally, conservatism in accounting has been characterised by the maxim "anticipate no profit but anticipate all losses" (Bliss, 1924). Martinez, Santana Junior, and Sena (2021) describe conservatism more precisely as the asymmetric recognition of earnings, whereby positive news must meet stricter verification thresholds to be recorded as gains, while negative news is reflected more promptly as losses. In practice, accounting conservatism represents a cautious stance adopted by accountants when faced with multiple reporting alternatives. When more than one reporting option exists, this prudence favours choices that avoid inflating asset values or income figures. As Tuwentina and Wirama (2014) highlight, the conservative principle acts as a safeguard for investors, helping shield them from misguided investment decisions that could arise from overly optimistic financial reports.

In relation to earnings, managers often prefer less conservative (more optimistic) accounting approaches, as conservatism constrains their ability to engage in opportunistic behaviour. Kazemi, Hemmati, and Faridvand (2011) similarly argue that conservatism serves as a valuable constraint on management's tendency towards excessive optimism, ensuring a more cautious presentation of financial results.

According to Song (2015), conservatism entails a degree of caution in applying judgement when estimating figures under uncertainty, ensuring that assets and revenues are not overstated while liabilities and expenses are not understated. The Financial Accounting Standards Board (2010) further explains that, in the face of possible measurement errors, these should lean towards understating rather than overstating a firm's net income and net assets.

Baryeh (2014) posits that conservative accounting is an effective governance tool, helping to mitigate agency problems and bridge information gaps between managers and stakeholders. Similarly, Omar, Faudziah, and Ismail (2014) recognise conservatism as a means of constraining directors' opportunistic tendencies. By delaying the recognition of profits until they are verifiable and ensuring prompt recognition of losses, conservatism reduces managers' motivation to manipulate earnings. Chen, Faghani, and Ameoi (2014) observe that managers often resort to earnings management to meet investor expectations and prevent adverse impacts on share prices. However, conservative reporting practices help stabilise market reactions to financial news, thereby diminishing the incentives for such managerial manipulation.

Conditional Conservatism

Kothari (2012) characterises conditional conservatism as the deliberate application of differential verification thresholds when recognising favourable versus unfavourable economic events. Within this framework, firms impose more stringent standards for recording revenues and profits, while losses and expenses are acknowledged expeditiously upon the emergence of adverse information. Consequently, conditional conservatism institutionalises an inherent asymmetry, whereby bad news is incorporated into reported earnings more swiftly than good news (Adeniji, 2016).

This asymmetrical timeliness in recognising gains and losses constitutes the cornerstone of conditional conservatism. For instance, Adeniji (2016) provides empirical validation by examining the nexus between accounting earnings and stock returns, demonstrating that the coefficient associated with negative returns exceeds, in absolute magnitude, that of positive returns. This empirical pattern underscores the tendency of firms to reflect detrimental developments in earnings reports more promptly than favourable ones.

Conditional conservatism plays an instrumental role in fortifying governance structures such as debt covenants, executive compensation arrangements, and overall corporate monitoring. By mandating the timely and prudent recognition of economic losses, it elevates the credibility and reliability of financial disclosures. Consequently, numerous scholars contend that conditional conservatism serves as the most robust and trustworthy proxy for assessing the integrity and quality of a firm's financial reporting practices.

Unconditional conservatism

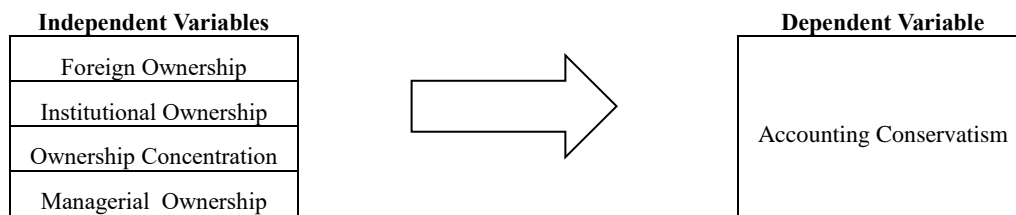
Unconditional conservatism—often termed *ex ante* or news-independent conservatism—entails the systematic application of conservative accounting practices irrespective of whether specific economic events have materialised (Sugiarto & Fachrurrozie, 2018). In stark contrast to conditional conservatism, which mandates the recognition of losses or expenses only upon concrete

evidence of asset impairment, unconditional conservatism dictates that such costs be recorded proactively, even absent definitive economic substantiation (Ellili, 2013). Common manifestations include the immediate expensing of intangible investments such as research and development, as well as the employment of depreciation and amortisation techniques that deliberately exceed actual economic obsolescence—for example, accelerated depreciation of tangible assets and the conservative treatment of goodwill.

Another pertinent illustration is the adherence to historical cost accounting for long-duration projects whose net present value appreciates over time, thereby deferring income recognition and systematically understating shareholders' equity. Consequently,

this practice typically results in a book value of net assets that trails the firm's market valuation.

Unconditional conservatism implies that initial accounting decisions regarding asset and liability recognition generate latent, unrecognised goodwill over time. Apadore and Mohd-Noor (2013) underscore that conditional and unconditional conservatism each perform distinct yet complementary roles within the financial reporting landscape: the traditional conservatism paradigm aligns more closely with conditional conservatism, whereas heightened legal and regulatory risk justifies the concurrent application of both forms. Their empirical findings further demonstrate an inverse relationship between the two approaches—such that a greater degree of unconditional conservatism generally corresponds to a diminished level of conditional conservatism.



Empirical Review

Alkurdi, Al-Nimer, and Dabaghia (2017) rigorously examined the interplay between ownership structures and accounting conservatism across a sample of 99 manufacturing and financial firms listed on the Amman Stock Exchange spanning 2005–2013. Their conceptualisation of ownership structure encompassed foreign, governmental, and institutional holdings, as well as ownership concentration, while conservatism was operationalised through accrual-based proxies. Employing multiple regression analysis, they uncovered that governmental ownership exerted a deleterious impact on conservatism, whereas foreign and institutional ownership both exhibited statistically significant positive influences. Ownership concentration, however, did not demonstrate a meaningful association. The authors suggested that extending the study period through 2016 could have enhanced the study's relevance and empirical strength.

Amos et al. (2016) investigated the ramifications of institutional ownership for the earnings quality of listed Nigerian firms within the Food, Beverages, and Tobacco sector from 2005 to 2013. Leveraging panel regression techniques to accommodate both cross-sectional and temporal variations, they revealed a negative correlation between institutional ownership and earnings quality, while firm size, included as a control variable, did not exhibit a significant effect.

Bach (2018) analysed the discrete and interactive effects of state and foreign ownership on the adoption of conservative accounting practices in Vietnamese firms over the 2005–2015 horizon. Utilising pooled weighted least squares estimation, the study substantiated a robust positive association between enhanced financial disclosure and greater conservatism, with foreign ownership markedly amplifying the propensity for conservative reporting.

Ellili (2013) explored how ownership structure and board configuration jointly shape accounting information quality within

29 firms listed on the Abu Dhabi Securities Exchange during 2008–2009. The ownership dimensions included managerial, blockholder, and institutional stakes, complemented by the Herfindahl Index to measure ownership concentration. Discretionary accruals, estimated via the Jones models, served as proxies for earnings manipulation. Findings indicated that managerial ownership significantly curtailed discretionary accruals, thereby restraining earnings management. Institutional ownership exerted a negative but statistically insignificant effect, while the Herfindahl Index did not exhibit any notable impact. The author acknowledged that the narrow timeframe posed a limitation, suggesting that extended longitudinal analyses could yield deeper insights.

Kim, Sonu, and Choi (2014) probed the consequences of the ownership-control wedge—defined as the misalignment between ownership rights and managerial control—on conservatism in Korean chaebol-affiliated firms. Their empirical evidence demonstrated that a widened wedge erodes conservatism proxies and weakens governance structures, with this detrimental effect being magnified in firms already characterised by frail governance mechanisms.

Obigbemi, Omolehinwa, and Mukoro (2017) analysed the influence of ownership configuration on earnings manipulation among 137 Nigerian firms. Applying ordinary least squares regression and Pearson correlation analysis, they identified a significant positive association between ownership structure and earnings management practices. Notably, block ownership emerged as a mitigating factor, exhibiting a significant inverse relationship with earnings manipulation, thereby highlighting its governance role as an effective monitoring mechanism.

Omar, Faudziah, and Ismail (2014) evaluated the extent to which ownership structure and directors' financial literacy impact accounting conservatism within a sample of 116 Jordanian firms for the 2011 fiscal year. Regression analyses revealed that

institutional and family ownership, along with directors' financial expertise and tenure, positively influenced conservatism levels. Conversely, board members holding multiple directorships were linked to diminished conservatism. The authors advocated for an extended observation window to bolster the robustness of these insights.

Sousa and Galdi (2016) explored the effect of ownership concentration on earnings quality in Brazilian corporations over the 1999–2014 period. Conservatism was gauged through earnings persistence and the asymmetric timeliness of earnings recognition. Their findings underscored that higher ownership concentration enhances both earnings quality and the prompt recognition of losses, thereby exerting a disciplining influence on financial reporting practices.

Suleiman and Anifowose (2014) investigated the contribution of corporate governance mechanisms to fostering conditional conservatism within Nigeria's food and beverage sector for the 2003–2010 period. Constructing a composite governance index based on proxies such as board size, board independence, CEO-chair duality, directors' equity holdings, and the existence of an audit committee, they employed the Augmented Asymmetric Accrual to Cash Flow (AACF) metric. Their results demonstrated that firms with robust governance frameworks assimilated adverse economic information into earnings more expediently than favourable news, underscoring the pivotal role of governance in reinforcing conditional conservatism.**

Theoretical Framework

Agency Theory

Agency theory serves as a cornerstone for elucidating the conflicts that inherently arise when ownership and managerial control are decoupled within corporate structures. Jensen and Meckling (1976) define an agency relationship as a contractual bond in which principals (the owners) delegate authority to agents (the managers), thereby creating fertile ground for misaligned interests and self-serving behaviour. Investors supply capital with the expectation that managers will act to enhance shareholder wealth; however, due to information asymmetries and personal incentives, managers may instead pursue strategies that primarily benefit themselves rather than the shareholders.

This theory is anchored in three fundamental premises: individuals are driven by self-interest and generally exhibit risk aversion; organisations naturally harbour internal conflicts; and information is unevenly distributed, which agents can manipulate to their advantage. Together, these premises explain why agency costs emerge—owners must devote resources to monitoring managerial actions and establishing bonding mechanisms to align behaviour with shareholder objectives and to mitigate opportunistic tendencies (Harvey, Lins, & Roper, 2004). When control is concentrated in the hands of managers rather than owners, the probability of decisions that erode shareholder value increases. To address this, firms typically adopt incentive-based remuneration and implement robust governance structures.

Moreover, the cost of detecting and punishing managerial misconduct ex post often exceeds the benefits, making preventive governance mechanisms more effective than corrective ones. As such, strong governance frameworks should prioritise transparency

and align managerial incentives with those of shareholders to reduce information asymmetry and limit earnings manipulation.

In the context of financial reporting, agency theory highlights how ownership structures directly influence the extent of accounting conservatism employed. Without adequate monitoring, managers—sometimes aided by accountants—may manipulate financial statements to distort earnings, serving personal or political agendas. By determining voting rights and oversight capacity, ownership structures act as an internal control system that can restrain such opportunistic behaviour and promote more prudent, credible accounting practices.

Consistent with this theoretical foundation, the present study adopts agency theory to explore how distinct ownership configurations—namely institutional, managerial, foreign, and concentrated ownership—impact the degree of accounting conservatism in Nigerian listed industrial firms. This perspective underscores the critical importance of sound governance arrangements in safeguarding the transparency and reliability of financial reporting while protecting the interests of shareholders.

Positive Accounting Theory

Positive Accounting Theory (PAT), as developed by Watts and Zimmerman (1986), interprets conservatism as a practical accounting device that plays a crucial role in preserving the integrity of contractual relationships within firms. Under this framework, conservatism is highly valued for strengthening the credibility of financial statements, thereby providing creditors, investors, and other stakeholders with greater confidence in the trustworthiness of reported earnings and net asset values. Consequently, robust corporate governance mechanisms often encourage managers to favour conservative reporting practices as a way to mitigate agency conflicts and minimise the costs associated with contractual arrangements.

Fundamentally, PAT extends the core principles of agency theory to explain and predict managerial choices in financial reporting. It posits that managers—as agents entrusted with decision-making power—make accounting policy decisions that reflect both their contractual commitments and self-interests. Accounting figures thus serve as vital governance tools within these agency relationships, directly influencing executive compensation, the enforcement of debt covenants, and other binding contractual provisions. By applying agency theory, Watts and Zimmerman (1986) demonstrate that managers strategically adopt conservative accounting techniques to lower monitoring and bonding costs, credibly signal compliance with contractual terms, and navigate governance constraints more effectively.

In this light, Positive Accounting Theory provides a rigorous theoretical basis for understanding the persistence of conservatism in corporate financial reporting, especially in contexts where agency relationships and contractual obligations significantly shape accounting policy decisions.

Contracting Governance Theory

Sugiarto and Fachrurrozie (2018) assert that contracting governance theory posits that the prompt recognition of adverse economic information empowers shareholders to intervene decisively to safeguard and enhance firm performance. Specifically, when managers undertake projects with zero or

negative net present value, conservative accounting expedites the dissemination of such unfavourable outcomes to the board or shareholders, enabling them to hold management accountable and, if warranted, to impose disciplinary measures or replace underperforming executives without unnecessary delay. In this regard, earnings conservatism operates as an intrinsic governance mechanism that aligns managerial behaviour with shareholder interests. As Bach (2018) aptly summarises, the contracting governance perspective contends that firms with more robust governance frameworks are inherently predisposed to adopt conservative accounting practices as a means of strengthening managerial oversight and control.

Complementing this view, contracting debt theory emphasises the pivotal role of conservatism in safeguarding creditor interests. Creditors, who bear asymmetric risk profiles—limited upside but significant downside exposure—rely on mechanisms that constrain potential losses. To this end, debt contracts frequently incorporate covenants that protect creditors by restricting dividend distributions or providing recourse to claim assets in the event of deteriorating financial performance. The efficacy of such covenants hinges on the timely reporting of negative financial developments. Conservative accounting addresses this necessity by ensuring that losses and liabilities are recognised promptly, thereby equipping creditors to enforce contractual rights and minimise loss exposure (Amos, Ibrahim, Nasidi, & Ibrahim, 2016).

Collectively, these theoretical perspectives underscore conservatism's critical function as a contractual safeguard—simultaneously reinforcing shareholder governance and fortifying creditor protection through the provision of timely, credible financial disclosures.

Stewardship Theory

In contrast to the assumptions underpinning agency theory, stewardship theory proposes an alternative paradigm in which managers are viewed as trustworthy stewards who prioritise organisational goals over self-interest (Donaldson & Davis, 1991). Rooted in social psychology, stewardship theory emphasises executives' intrinsic motivation to act in the collective interest of the firm rather than pursuing individualistic gains. In this view, managers derive greater satisfaction from behaviours that advance organisational objectives, thereby aligning their personal utility with the success of the enterprise (Omar, Faudziah, & Ismail, 2014).

Smallman (2004) reinforces this perspective by arguing that when shareholder wealth is maximised, stewards simultaneously achieve their own utility maximisation, as organisational prosperity inherently fulfils their professional and personal aspirations. Moreover, stewards are expected to mediate competing interests among stakeholders, thereby promoting a harmonious balance that sustains firm performance and governance stability.

Unlike agency theory, which advocates for strict separation of leadership roles to mitigate potential conflicts, stewardship theory supports the consolidation of the roles of chairman and chief executive officer. It further favours a governance structure composed predominantly of expert executive directors rather than independent non-executive directors (Faghani & Ameoi, 2014).

Within the context of this study, stewardship theory provides a useful lens for examining how ownership structure may influence

the degree of accounting conservatism exercised by management in Nigerian industrial firms. By presuming managerial commitment to organisational objectives, stewardship theory suggests that managers are likely to adopt prudent accounting practices not out of external pressure but from an inherent commitment to safeguarding the firm's long-term value and the interests of stakeholders.

In contrast to agency theory—which recommends the clear separation of leadership responsibilities to minimise conflicts of interest—stewardship theory advocates combining the roles of chairman and chief executive officer. It also supports a governance framework that relies more heavily on experienced executive directors rather than on independent non-executive board members (Faghani & Ameoi, 2014).

For the purposes of this study, stewardship theory offers an alternative perspective for exploring how ownership structure might affect the level of accounting conservatism adopted by management in Nigerian industrial firms. By assuming that managers act as trustworthy stewards dedicated to the firm's objectives, this theory implies that prudent accounting choices stem not primarily from external oversight but from managers' own sense of responsibility to protect the organisation's long-term performance and serve stakeholders' best interests.

Summary

This chapter has delivered a comprehensive examination of ownership structure, with particular emphasis on the core facets explored in this research: foreign ownership, institutional shareholding, ownership concentration, and managerial ownership. It has also provided an extensive discussion of accounting conservatism, highlighting its essential function in upholding the reliability and transparency of financial reporting. Moreover, relevant empirical studies were critically reviewed to demonstrate how each ownership dimension distinctly shapes the application of conservative accounting practices. Finally, this chapter outlined the theoretical underpinnings—encompassing agency theory, positive accounting theory, stewardship theory, and contracting governance theory—thereby establishing a robust conceptual framework to inform the study's analysis and interpretation of empirical findings.

Methodology

This study adopted an ex-post facto research design, grounded exclusively in secondary data sources to ensure objectivity and replicability. The research population encompassed the entire cohort of fourteen (14) industrial goods firms listed on the Nigerian Stock Exchange (NSE) as of 2024. These firms are: Austin Laz & Company Plc, Berger Paints Plc, Beta Glass Plc, CAP Plc, Cement Company of Northern Nigeria Plc, Cutix Plc, Dangote Cement Plc, First Aluminium Nigeria Plc, Greif Nigeria Plc, Lafarge Africa Plc, Meyer Plc, Notore Chemical Industries Plc, Portland Paints & Products Nigeria Plc, and Premier Paints Plc.

A census sampling approach was rigorously employed, governed by stringent inclusion parameters: only firms that were listed prior to 2015 and that maintained continuous operations up to 2024 were selected. This deliberate sampling criterion guaranteed the availability of complete, consistent panel data across the ten-year span, thereby reinforcing the credibility, validity, and reliability of the analytical outcomes.

Secondary data covering a decade (2010–2019) were systematically sourced from audited annual reports and financial statements accessed via the NSE. These authoritative documents provided robust, verifiable metrics for key variables, including foreign shareholding, institutional equity stakes, ownership concentration, managerial ownership, and accrual-based indicators of accounting conservatism.

To rigorously examine the impact of ownership structure on accounting conservatism within Nigeria’s listed industrial goods sector, advanced panel data regression techniques were deployed. Both fixed effects and random effects estimators were computed, with the optimal model specification determined through comprehensive diagnostic evaluations. Specifically, the Variance Inflation Factor (VIF) was utilised to detect multicollinearity, the Breusch-Pagan test assessed heteroskedasticity, and serial correlation diagnostics ensured the robustness of the estimations. In addition, descriptive statistics and correlation analyses were conducted to summarise data distributions and provide initial insights into the relationships among the principal variables under investigation.**

The regression model’s functional form is specified as follows:

$$ACCR = f(FO, IO, OC, MO, FS)$$

The linear model specification is thus;

$$ACCR_{it} = \beta_0 + \beta_1FO_{it} + \beta_2IO_{it} + \beta_3OC_{it} + \beta_4MO_{it} + \beta_5FS_{it} + e_{it}$$

Where:

$ACCR_{it}$ = Accrual based for firm *i* at time *t* (Proxy for Accounting conservatism)

FO_{it} =Foreign ownership for firm *i* at time *t* (Proxy for ownership structure)

IO_{it} = Institutional Ownership for firm *i* at time *t* (Proxy for ownership structure)

OC_{it} =Ownership concentration for firm *i* at time *t* (Proxy for ownership structure)

MO_{it} = Managerial Ownership for firm *i* at time *t* (Proxy for ownership structure)

FS_{it} = Firm size, control variable for firm *i* at time *t*(proxy for ownership structure)

$\beta_1 - \beta_5$ = Coefficient of explanatory variables

β_0 = Constant or Intercept

e = Error Term.

Variable Measurement

Table 1: Variable Measurement

Variable	Type of variable	Measurement	Source
Accrual based (ACCR)	Dependent	Accrual-Based measure of accounting conservatism = [(income + depreciation expenses – operating cash flows)] ÷ Total assets. $ACCR = (Accruals / 3 \text{ years}) \times (-1)$.	Billings, Morton, & Stanford-Harris, 2002; Givoly & Hayn, 2000; Duellman, 2006
Foreign Ownership (FO)	Independent	Number of shares in country <i>i</i> by institutions domiciled in a country different from country <i>i</i> where the firm is incorporated as a percentage of the Total shares of country <i>i</i> (FactSet).	(Ferreira & Matos, 2008)
Institutional Ownership (IO)	Independent	Institutional ownership is measured by dividing the shares that are held by the institutions to the gross number of firm's shares.	Siyaparani & Kashani (2014), Nekounam, Sefiddashti, Goodarzi & Khademi (2012), Al-Najjar (2010)
Ownership Concentration	Independent	Number of stock owned by individual investors and large-block shareholders at least 5 per cent of equity ownership within the firm	Yunos, Smith & Ismail (2010), Siyaparani and Kashani (2014)
Managerial Ownership	Independent	Number of shares held by managers as a proportion of the number of shares outstanding (average across firms)	Donglin & Song (2009), Ellili (2013), Akinobu and Tomomi (2010)
Firm size	Control Variable	Natural log of firm total asset	Akinyomi & Adebayo (2013)

Data Presentation and Analysis

The data cover the ownership structure variables (foreign ownership, institutional ownership, ownership concentration and

managerial ownership) and accounting conservatism. Basically, ownership structure variables which were sourced from the annual report of the companies.

Data Analysis and Results

Table 1: Descriptive Statistics

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Accr	70	-.002	.022	-.047	.04
Fo	70	.019	.026	0	.139
Io	70	.015	.027	0	.095
Oc	70	.041	.103	0	.838
Mo	70	.012	.019	0	.055
Fs	70	9.941	1.212	8.419	12.261

Source: Generated from Stata, 2024.

The analysis of foreign ownership reveals that foreign shareholders hold a maximum equity stake of 0.139% in the sampled industrial companies. This indicates that while certain firms within the sector have succeeded in attracting foreign investment, there is clear evidence that some companies have not attracted any foreign shareholding at all. This suggests that the activities and market positioning of these firms may not be sufficiently appealing to foreign investors to motivate equity acquisition.

Similarly, the findings show that the maximum proportion of shares owned by institutional investors—entities other than the companies themselves—stands at 0.95%. This implies that although some industrial companies have attracted investment

from institutional shareholders, the level of institutional ownership remains negligible in others, as indicated by the minimum recorded value of 0%. This disparity suggests varying degrees of attractiveness and credibility among companies within the sector from the perspective of institutional investors.

Furthermore, the analysis highlights the low level of managerial ownership across the firms studied. This limited equity stake held by managers suggests a potential misalignment of interests between management and external shareholders. Such a gap could hinder effective convergence of managerial and shareholder objectives, potentially exacerbating agency problems within the firms.

Table 2: Correlation Matrix

Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) accr	1.000					
(2) fo	-0.194	1.000				
(3) io	0.394	-0.200	1.000			
(4) oc	0.030	0.004	0.401	1.000		
(5) mo	0.150	0.141	-0.227	-0.082	1.000	
(6) fs	0.447	-0.139	0.688	0.463	-0.285	1.000

Source: Generated from Stata, 2024

The correlation analysis reveals that multicollinearity is unlikely to pose a problem, as all correlation coefficients among the variables remain below the 0.7 threshold. Notably, foreign ownership shows a negative correlation of -0.19 with accounting conservatism, indicating that higher levels of foreign ownership tend to correspond with lower degrees of conservatism in the firms studied. In contrast, institutional ownership displays a positive, albeit weak, correlation with accounting conservatism, suggesting a slight direct relationship. Overall, the correlation coefficients range from -0.194 to 0.447, supporting the reliability of the regression results and confirming the absence of significant multicollinearity among the explanatory variables.

Table 3: Variance Inflation Factor

VIF	1/VIF
2.140	0.467
1.980	0.504
1.310	0.763
1.110	0.905
1.060	0.942
1.520	

Source: Generated from Stata, 2024

To mitigate the risk of inflated standard errors and ensure accurate interpretation of the effects of the explanatory variables, the Variance Inflation Factor (VIF) for each independent variable is expected to fall within the range of 1 to 10, as suggested by Gujarati (2004). A VIF value exceeding 10 would indicate the presence of multicollinearity, which could compromise the reliability of the regression estimates. The VIF results for the explanatory variables in this study confirm that all values lie within the acceptable range, thereby indicating the absence of multicollinearity concerns in the model.

Table 4: Heteroskedasticity Result

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of accr

chi2(1) = 1.95

Prob > chi2 = 0.1630

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Source: Generated from Stata, 2024

Ordinary Least Squares (OLS) regression aims to minimize residuals, thereby producing the smallest possible standard errors for the estimated coefficients. However, when heteroskedasticity is present, observations with larger error variances exert disproportionate influence on the regression estimates, potentially compromising the efficiency and reliability of the results. Homoskedasticity implies that the variance of the residuals is constant across all levels of the explanatory variables, resulting in a consistent scatter of residuals. To detect heteroskedasticity, the Chi-square statistic and its corresponding probability value are examined: if the probability value is less than 5%, heteroskedasticity is indicated. In this study, the probability value exceeds the 5% threshold, indicating that the residuals are homoskedastic and confirming the absence of heteroskedasticity in the regression model.

Table 5: Regression Result

Regression results

Accr	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Fo	-.124	.069	-1.81	.076	-.261	.013	*
Io	.314	.111	2.82	.007	.091	.537	***
Oc	-.039	.02	-2.01	.049	-.078	0	**
Mo	.296	.262	1.13	.263	-.228	.821	
Fs	.023	.011	2.02	.048	0	.046	**
Constant	-.237	.115	-2.07	.043	-.466	-.007	**
Mean dependent var		-0.002		SD dependent var		0.022	
R-squared		0.232		Number of obs		69.000	
F-test		3.439		Prob > F		0.001	
Akaike crit. (AIC)		-401.197		Bayesian crit. (BIC)		-387.792	

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Generated from Stata, 2024

Foreign Ownership and Accounting Conservatism

Foreign ownership demonstrates a negative relationship with accounting conservatism; however, this effect is statistically insignificant, as evidenced by a p-value above the 5% significance threshold. Conceptually, the presence of foreign investors is expected to restrict managerial discretion in financial reporting by enhancing monitoring and reducing information asymmetry, thereby improving earnings quality. Foreign shareholders often bring specialized expertise and strong incentives to independently supervise corporate activities, fostering greater transparency and curbing opportunistic accounting behaviors. Nonetheless, the results specific to the industrial goods sector indicate that foreign

ownership does not significantly impact accounting conservatism. This lack of significance may stem from the comparatively low levels of foreign equity stakes within the sampled companies, which limits foreign investors' ability to substantially influence managerial reporting decisions..

Institutional Ownership and Accounting Conservatism

Institutional ownership exhibits a positive and statistically significant impact on accounting conservatism, with a p-value below the 5% significance level. The findings reveal that a 1% increase in institutional ownership corresponds to a 0.314 rise in the degree of accounting conservatism. This suggests that a greater

presence of institutional investors encourages firms to adopt more prudent accounting policies. These results support the efficient monitoring hypothesis, which argues that institutional investors, owing to their superior expertise and ability to oversee managerial conduct cost-effectively, enhance the quality of financial reporting. Conversely, the findings contradict the conflict of interest hypothesis, which anticipates a negative association between institutional ownership and firm performance due to potential conflicts stemming from business relationships.

Ownership Concentration and Accounting Conservatism

Ownership concentration has a negative and statistically significant impact on accounting conservatism, with a p-value of 0.049. The analysis shows that a 1% increase in ownership concentration leads to a 0.039 reduction in the degree of conservatism. This implies that firms with more concentrated ownership are less likely to engage in conservative accounting behaviors, such as promptly recognizing losses and deferring profit recognition. The findings further suggest that when ownership is more dispersed, as seen in some industrial goods companies, increased managerial oversight is required to mitigate higher agency costs, which can influence firm performance. On the other hand, in firms where ownership is highly concentrated, controlling shareholders may pursue private benefits to the detriment of minority shareholders, thereby weakening both accounting conservatism and the overall performance of the firm.

Managerial Ownership and Accounting Conservatism

Managerial ownership shows a positive yet statistically insignificant influence on accounting conservatism, as reflected by a p-value above the 5% significance level. This indicates that a 1% increase in directors' equity holdings does not produce a meaningful effect on the adoption of conservative accounting practices within the industrial goods sector. This outcome is consistent with the managerial entrenchment hypothesis, which argues that when managers possess significant ownership stakes, they tend to gain increased autonomy and discretion, potentially prioritizing personal interests over those of shareholders and diminishing effective oversight. Such entrenchment weakens the capacity for corrective measures or removal, thereby reducing the expected monitoring impact of managerial ownership on financial reporting behavior.

Additionally, firm size—used as a control variable to strengthen the model's validity—exhibits a positive and statistically significant relationship with accounting conservatism, indicated by a p-value below 5%. This finding suggests that larger companies during the study period tend to implement more conservative accounting policies, possibly driven by intensified external scrutiny and greater concerns regarding reputation management.

Discussion of Findings

The study finds that, despite the general expectation that greater foreign ownership promotes improved corporate transparency and curbs managerial opportunism, this relationship is not statistically significant within the industrial goods sector examined. The lack of significance may be attributed to the relatively modest levels of foreign shareholding in these companies, which likely constrains foreign investors' ability to effectively influence managerial accounting decisions. As such, the study supports the hypothesis

that foreign ownership does not meaningfully affect accounting conservatism in this specific context. This outcome aligns with the findings of Le, Pavelko, Nhan Do, and Ngo (2017) and Kim, Sonu, and Choi (2014), who also observed no significant association between foreign ownership and conservatism. In contrast, the results diverge from those of Bach (2018), who reported a positive and statistically significant impact of foreign ownership on the adoption of conservative accounting policies.

Institutional Ownership and Accounting Conservatism

The study demonstrates that an increase in institutional ownership significantly and positively influences accounting conservatism, suggesting that firms with greater institutional shareholding are more inclined to implement conservative accounting policies. This evidence underscores the critical role institutional investors play in restraining managerial opportunism and enhancing the credibility of financial disclosures. These findings are consistent with Obaid (2010), who noted that institutional ownership fortifies corporate governance structures—especially by strengthening the oversight functions of boards and audit committees—thereby reducing earnings manipulation and encouraging the adoption of conservative accounting practices.

Ownership Concentration and Accounting Conservatism

The findings indicate that ownership concentration negatively and significantly influences accounting conservatism, meaning that higher ownership concentration corresponds with reduced adherence to conservative financial reporting. This implies that in firms where ownership is concentrated, controlling shareholders may be motivated to extract private benefits, which can compromise transparency and weaken the firm's dedication to conservative accounting principles. Based on this empirical evidence, the study rejects the hypothesis that ownership concentration has no meaningful impact on accounting conservatism.

Managerial Ownership and Accounting Conservatism

Managerial ownership exhibits a positive yet statistically insignificant influence on accounting conservatism. This suggests that increases in directors' shareholdings do not meaningfully affect the adoption of conservative accounting practices within Nigeria's listed industrial goods firms. While the managerial entrenchment hypothesis posits that greater managerial ownership may lead to increased control and potential pursuit of self-interest at the expense of shareholders due to weakened oversight, the study's results align more closely with the incentive alignment hypothesis. This latter perspective argues that higher managerial shareholding strengthens the alignment between managers' interests and those of external shareholders, potentially improving firm performance and curbing opportunistic behavior, even though this effect does not translate into a significant change in accounting conservatism in the examined setting.

Conclusion and Recommendations

This study investigated the impact of ownership structure on accounting conservatism among Nigerian listed industrial goods companies. It focused on the roles of foreign ownership, institutional ownership, ownership concentration, and managerial ownership in influencing the adoption of conservative accounting policies. Chapter One outlined the study's background, problem

statement, research questions, objectives, hypotheses, scope, and significance. The empirical results indicated that institutional ownership positively and significantly affects accounting conservatism, while ownership concentration has a significant negative impact. In contrast, foreign and managerial ownership showed no statistically significant influence, underscoring the complex and varied effects of different ownership types on conservative financial reporting. Based on these insights, the study advocates for strategies to attract and reinforce institutional investors, limit excessive ownership concentration, and strengthen corporate governance frameworks to promote transparency and reliable financial disclosures. Ultimately, this research enriches the existing literature on corporate governance and accounting conservatism in Nigeria's industrial sector, offering valuable guidance to investors, regulators, and policymakers seeking to enhance the quality of financial reporting and safeguard stakeholder interests.

Conclusion

The findings from this study indicate that institutional ownership has a positive and significant impact on accounting conservatism. This suggests that as institutional investors increase their equity stake in industrial firms, there is a corresponding enhancement in the firms' commitment to conservative accounting practices. This outcome supports the view that institutional investors, owing to their expertise and monitoring capacity, play a vital role in mitigating earnings manipulation and ensuring the reliability of financial reports. Therefore, strengthening institutional ownership can serve as an effective governance mechanism for promoting transparency and protecting shareholder interests.

Conversely, managerial ownership demonstrates a positive but statistically insignificant relationship with accounting conservatism. This implies that an increase in the proportion of shares held by managers does not exert a significant direct influence on conservative financial reporting practices within the observed firms. Nonetheless, in line with the incentive alignment hypothesis, greater managerial shareholding may still encourage managers to align their actions more closely with shareholder interests, potentially enhancing overall firm performance and reducing opportunistic tendencies. Although this effect is not statistically significant in this study, it underscores the importance of balancing managerial ownership levels to achieve optimal governance outcomes.

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