



Accounting Conservatism and Ownership Structure Effect: Evidence from Industrial and Financial Jordanian Listed Companies

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ABSTRACT

This study aims to examine the impact of ownership structure on the level of accounting conservatism in Jordan by using a sample of 99 manufacturing and financial companies listed on the Amman stock exchange between 2005 and 2013. On one hand, ownership structure was measured by: Foreign; governmental; institutional; and concentration of ownership. On the other hand, accounting conservatism was measured by accrual-based measures. This study used the ordinary least square method as the multiple regression analysis. It was found that three of the independent variables were significant and one was not. The study's findings show that there is an inverse effect of governmental ownership on accounting conservatism. In contrast, the study indicates a significant and positive relationship between foreign and institutional ownership with accounting conservatism but the concentration of ownership doesn't affect conservatism. Based on these results, this paper provides some insights for the extant literature in this field and, for interested parties, conveys some conservatism policy implications. Additionally, this study will open doors for researchers to look at accounting conservatism in detail.

Keywords: Accounting Conservatism, Ownership Structure, Amman Stock Exchange

JEL Classifications: G31, M41

1. INTRODUCTION

Literature reviews state that the mitigation of agency problems, the enhancement of contractual agreements, reduced litigation costs, useful decision making and the reduction of the information asymmetry are the benefits provided by accounting conservatism (Ahmed and Duellman, 2007; Lara et al., 2007; Leventis et al., 2013; Al-Sraheen, 2014; Affes and Sardouk, 2016). Thus, under the conditions of uncertainty and economic forces, this makes conservatism a desirable feature of accounting measurement and a valuation concept. These are used to constrain opportunistic management; to secure the interests of shareholders and to increase the company's value.

To enhance the standard of financial reporting, it should mitigate the agency problems linked with managerial investment decisions and commit managers give a well-timed account of "bad news" (as economic losses) rather than "good news" (as economic gains).

In the other words, it mitigates the management's upward bias by producing conservative accounting numbers and by aiding the outsiders to increase the efficient valuation of their claims and debt agreements in the presence of asymmetric information (Lafond and Watts, 2008; Guay and Verrechia, 2006).

Besides the accounting conservatism, the structure of ownership is described as distribution of the company's equity by arrangements and is determined in terms of capital contributions; these include inside equity (managers) and outside equity (Jensen and Meckling, 1976). Further, it takes multi forms based on the kind of the shareholders and their corresponding shares such as the extent of foreign ownership, the managerial percentage of ownership, institutional shareholder ownership, largest personal ownership and governmental ownership (Almudehki and Zeitun, 2012). Sometimes, investors seem uncomfortable about the reliability and credibility of information communicated to them and this pushes them to search out the mechanisms, such as the

ownership structure, that give an idea about the accuracy of the information (Affes and Sardouk, 2016). This leads to controlling the management's free use of cash flow and, also, monitoring the company's overall performance (Almudehki and Zeitun, 2012).

The relationship between ownership structure and accounting conservatism depends on which of the owners greatly influences particular types of managerial decisions about conservative financial reports. Many studies indicated that the ownership structure of listed companies is an essential component in corporate governance variables which contributes to decreasing the incentive to manage incomes and the mechanism to balance the shareholders' interests to increase the relevance and representational faithfulness of accounting numbers (Rouf and Al-Harun, 2011; Al-Sraheen, 2014; Shuto and Takada, 2010; Song, 2015).

Highlighting the adoption of management incentives significantly affects the accounting conservatism and the information quality and, also, the ownership structure leading to keeping the benefits of accounting conservatism in the capital market (Kothari et al., 2010). This paper aims to empirically examine and to investigate whether ownership structure helps to maintain accounting conservatism and to limit the management practices when choosing between the alternative policies to maximize their usefulness. In addition, we seek to answer the following question: What is the contribution of ownership structure on level of conservatism in financial reporting? This question is based on the theoretical arguments that the ownership structure affects the manager-shareholder agency conflict and reduces both the incentive to manage earnings, and the moral hazards and adverse selection problems (Ball et al., 2000; Watts, 2003).

The remainder of the paper is organized as follows. Section 2 outlines the literature review and develops the hypotheses as well as discussing the theoretical framework underpinning this study. Section 3 discusses the research methodology while Section 4 summarizes the results of the empirical investigation. Finally, Section 5 concludes the paper.

2. THEORETICAL BACKGROUND, LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

2.1. Why Choose Jordan to Apply This Research?

As a matter of fact, most of the literature mainly focused on developed countries which have very different contextual backgrounds in comparison to their counterparts in developing countries. The main reason for this study to focus on Jordan is to investigate the many reasons for the country's level of accounting conservatism. Firstly, Jordan experienced many economic developments nationwide owing to noteworthy economic growth (Tahat, 2014). Secondly, the Jordanian circumstances, like significant changes, arising from financial crises over the period related to this study, make Jordan an ideal place to be studied by the current investigation. Thirdly, the strict implementation of accounting regulation gives information about the structure of Jordanian capital market. Finally, the principal factors, which have

influenced Jordan's accounting conservatism and have increased the importance to measure accounting conservatism in emerging markets, such as Jordan, are: Political and economic factors; the legal system; the accounting profession; the taxation system; financial market regulators' decisions; and investors and different related parties.

Jordan is dominated by the public sector in regulating accounting practices. Consequently, this study assesses the role of these laws and legislation in enforcing companies to apply acceptable levels of accounting conservatism and, therefore, to improve the quality of financial reporting. In addition, researching the application of accounting conservatism has important implications in providing some insights and additional information for everyone interested in the Amman stock exchange and, especially, the Jordan Securities Commission, in developing the policies that may increase the transparency of financial disclosure and the ability to predict each company's future.

2.2. Conservatism

According to the earlier studies there is no common definition of accounting conservatism. Therefore, in an effort to develop a comprehensive definition of this concept, it opens up the subject to researchers. For example, as early as 1924, Bliss defined accounting conservatism as: "Anticipate no profits, but anticipate all losses." (Feltham and Ohlson, 1995) interpret accounting conservatism as an expectation that reported net assets will be less than market value in the long run. Also, (Basu, 1997) defines it as requiring a higher degree of verification for recognizing good news (or positive economic performance) than for recognizing bad news (or negative economic performance) in earnings. (Beaver and Ryan, 2000) pointed it out to be continued decline in the carrying value of a property right over the market value from one period to another. (Givoly and Hayn, 2000) define conservatism as "a selection criterion between accounting principles that leads to the minimization of cumulative reported earnings by slower revenue recognition, faster expense recognition."

Watts, 2003 defines conservatism as the asymmetry in the verification requirements for gains and losses; a greater degree of verification is required for gains than for losses and, thus, limits managers' opportunistic behaviors. (Beaver and Ryan, 2005) define accounting conservatism as the average understatement of the book value of net assets relative to their market value. Also, this reduces information asymmetry between managers and outside shareholders (LaFond and Watts, 2008). In the same parallel, (Kootanaee et al., 2013) refers it to having the effect of a downward bias in net book value of assets rather than their economic value due to the inconsistent and incomplete economic identification in accounting profit. Finally (Wolk et al., 2013) sees accounting conservatism as a means of choosing between accepted accounting practices that may lead to the underestimation of the assessment of assets or the overestimation of the assessment of debts.

From studying the above definitions of accounting conservatism addressed by different researchers over long periods of time, these definitions are, in my opinion, different in their details but linked to each other. Also, they have the same contents in referring to

the verification of the level of gains being higher than the level of losses based on the accounting conservatism policies. All of these definitions recognize that earnings detailed under accounting conservatism are downplayed as opposed to being exaggerated.

The accounting literature addresses two types of accounting conservatism. The first type is unconditional conservatism that is known, also, as *ex ante* or news-independent. The other type is conditional conservatism) that is known, also, as subsequent conservatism and as *ex post* or news-dependent conservatism (Pope and Wailker, 2003).

Unconditional conservatism does not depend on the occurrence of certain facts but does depend on the management's ability and being correct in the selection of conservative accounting policies. This may arise from either tax or political factors or those relating to the interests of self-management (Rashidi, 2011). Examples of this type are either costs of research and development, or postponing the recognition of revenue (Pope and Wailker, 2003), and loading the immediate costs of intangible assets (Lara et al., 2009). However, conditional conservatism relies on predictable events and expects a lower level of verification for bad news as compared to good news. This results in the recognition of bad news in a timelier manner when compared with the recognition of good news (Armstrong et al., 2010). This type is used to raise the efficiency of contracts or corporate governance requirements (Ball et al., 2000). Also, the debt contract is the most crucial source of conditional conservatism (Watts, 2003; Ball and Shivakumar, 2006).

Many explanations are put forward in favor of the existence of conservatism and all highlight that conservatism aids the financial information available to the users. Firstly, contracting explanation, like incentives and debt contracts, are important contracts operated by management (Abu Alkhair, 2008). In addition, the contracts are the primary source of accounting conservatism used by shareholders and debt-holders to increase the conservative financial reporting and decrease agency costs in order to coordinate managerial expectations with those of the shareholders (Watts, 2003). However, as a main ingredient in the contracting process, management tries always to abandon conservatism policies in order to influence the figures in the accounting of these contracts by hiding unfavorable information; using private information to violate debt contracts; to receive extra compensation; and to overstate the financial figures (LaFond and Watts, 2008).

The second explanation is litigation explanation. The researchers pointed that the litigation, associated with the financial practices, encouraged the accounting conservatism because the litigation appeared when profits and net assets were overstated and not when they were understated. Moreover, litigation costs lead companies to choose accounting conservatism so as to reduce earnings if they face high risks resulting from litigation (Watts, 2003; Ikbal and Al-Qdau, 2014). The third kind is taxation explanation. This provides considerations effects on the managerial choice between accounting policies because the taxes, imposed on firms, are based on accounting earnings and asymmetric recognition of losses and gains due to the accounting conservatism in financial reporting.

Firms already making profits can lower or defer their taxes by reducing their earnings by utilizing accounting conservatism (Watts, 2003). The last type is regulation explanation. Standard setters and regulators favor conservative reporting since this cuts down the political costs that they have to bear. (Holthausen and Watts, 2001) argue that the regulation of financial markets and financial transactions directly impacts the accounting disclosure. This leads to making accounting more conservative as a result of the regulations and disclosure requirements of securities commissions which have a role in directing the accounting conservatism.

3. OWNERSHIP STRUCTURE AND ITS RELATIONSHIP WITH ACCOUNTING CONSERVATISM IN THE LITERATURE REVIEW

This paper's primary objective is to examine the impact of the ownership structure (including foreign ownership, governmental ownership, institutional ownership, and concentration of ownership on accounting conservatism. Accordingly, the rest of this section develops the study's hypotheses. Also, this section examines previous accounting conservatism research so as to provide a foundation for developing the formal research hypotheses.

In their financial management, many companies select a more democratic decision making style and, therefore, the distribution of stocks with different owners have immense importance and voting rights enable them to influence the management and to force them to work in a manner which protects the stockholders' best interests. At the same time, the literature review focused on the ownership structure as an important component of corporate governance to be taken under consideration because of its role in companies' performance and elevating the interests of both the stakeholders and the company' management (Chau and Gray, 2002; Eng and Mak, 2003; Rouf and Al-Harun, 2011).

3.1. Foreign Ownership

Foreign investors are attracted by high investments in the company and with rich information that they may have linked with the low level of asymmetry information (Fan and Wong, 2002; LaFond and Watts, 2008; Lafond and Roychowdhury, 2008). In addition they have better incentives and expertise to independently observe companies. Therefore, the higher ratios of foreign ownership induces companies to improve their transparency and to reduce opportunistic managerial accounting choices and decisions (An, 2015). Further, Kho et al. (2009) points out the benefits of existing foreign investors if investors from that country have good corporate governance and control over companies. Also, they showed that conservatism reduces the manipulation of financial figures and requires more use of financial statements in contracting and communicating and, thus, the polarization of increased demand for conservative practices (Ball and Shivakumar, 2005).

In Jordan, the Jordanian Government has set strict laws and regulations in order to maximize the level of transparency in the financial statements. Eventually, this will lead to helping foreign

investors to allocate their investments and their expected future cash flows, and to become more confident about the financial statements (Zureigat, 2011; Al-Sraheen, 2014). Consequently, the Jordanian Government issued these regulations and laws, such as the 2000 Privatization Law No. 25, the 2000 Banks Law and the 2009 Corporate Governance Code (2009) in order to encourage investment from non-Jordanians and to guarantee a high level of earning quality through embracing a higher level of conservatism (Fadzil et al., 2014; Hamdan et al., 2011; Hamdan, 2012; Zureigat, 2011).

Turning to examining the relationships between accounting conservatism and foreign ownership, previous studies showed that, in capital markets, foreign investors in capital prioritized companies' equity shares with low levels of asymmetry information. An (2015) depicts how foreign ownership affects the quality of companies' financial reporting by using accounting conservatism as a proxy for financial reporting quality. His findings show that there is a positive association between accounting conservatism and foreign ownership and that accounting conservatism mitigates the managerial opportunism resulting in an improved quality of financial reporting. As major institutional shareholders, (Khanna and Palepu's, 2000) findings show that, in emerging markets, foreign shareholders have stronger incentives and expertise to independently monitor companies in order to protect their wealth and to reduce supervisory costs. Also, (Choi et al., 2011) document that foreign block investors enhance management accountability through the effectiveness of external monitoring and the opportunities for discretionary choices. Consequently, accounting information becomes more constrained.

LaFond and Watts, 2008 evidence shows a positive relationship between the asymmetry of information amongst outside and inside investors and the level of accounting conservatism. Thus, the information asymmetry dominates accounting conservatism. In the same direction, (Cheon, 2003) finds a significant and positive association between foreign ownership and the earnings response coefficient. This is because foreign shareholders earnings quality (measured as discretionary accruals) plays a vital role in their investment decisions. However, (Fan and Wong, 2002) show that foreigner investors are attracted to the companies that have detailed information negatively associated to the level of asymmetry. Accordingly, the hypothesis, which tests the link between foreign ownership and conservatism, is constructed as:

H₀₁: There is a statistically significant association between foreign ownership and accounting conservatism in Jordanian listed companies.

3.2. Government Ownership

When the Government owns a percentage of the ownership as well as the right to hire board of directors or top managers, who make key financial and operating decisions, this leads to influencing accounting outcomes although the company is characterized by strong enforcement mechanisms and disclosure conditions (Baloria, 2014). It is noteworthy that accounting conservatism reflects the quality and, thus, the reliability of financial statements and the effective monitoring of the managers' self-interests. However, in

Government-linked companies, managers are less likely to adopt conservative reporting and aggressive accounting practices enable them to window-dress their short-term performance (Selahudin and Nawang, 2015).

There are two broad outlooks of Government participation in financial markets and their presence in the companies impacts, also, on financial reporting incentives. The first view sees that the companies, which are under the pressure of government control, are more likely to experience the manipulation of earnings by shaping policy to stay in power and collect wealth. Also, according to this view, Governments take control of enterprises and banks in order to provide employment, subsidies and other benefits. In return, they are provided with votes and bribes (La Porta et al., 2002), like hidden company's resources for political purposes, which are often incompatible with maximizing profits for the investors and which may increase the risks facing the shareholders (Shleifer and Vishny, 1998) Further, the companies, which experience Government presence, suffer greater levels of agency problems that provide the possibility of collusion with corporate managers or investors in order to take advantage of the company. This raises the problem of the weakness of the controls because these companies' managers are responsible to the Government and not to the ordinary owners. Consequently, as opposed to the Government, the managers are unlikely to be closely monitored by the major shareholders (Said and Jaafar, 2014; Ang and Ding, 2006; Cuervo and Villalonga, 2000).

Another view argues the advantages of the Government's existence lead to the increased quality of the profits because, when the Government puts pressure on managers to make effective decisions, this leads to increased profit and earning quality. This improves if the government's goal is to improve the governance of companies, which they own, in order to support the existence of an efficient market to bring foreign capital into the country and to lower the cost of capital for local companies (Le and Buck, 2011). Also, it is known that the managers have the ability to manage and operate a company without any intervention from others when they control and manage the company (Jensen and Meckling, 1976). This position enables the managers to act on behalf of the company and gives them authority to drive the corporate resources to maximize their wealth. However, under a complex ownership structure, more severe agency problems may occur from government ownership and result in less conservative reporting and managers being restrained from possible self-interest behaviors (Cullinan et al., 2012).

The implications of government involvement, especially self-serving government view, are ambiguous for accounting conservatism, if the companies believe that the Government seeks evidence that a company is profitable in order to expropriate the owners' wealth. In such circumstances, managers intend to report conservatively. Also, there is a possibility that publicly traded firms with partial state ownership may be taken under pressure by a self-serving Government to optimistically tilt their reporting decisions. On the other hand, if Governments interfere, they may perceive that inefficient companies are trying to look healthier by applying less accounting conservatism (Watts and Zimmerman, 1978).

There are varied results about the role of Government ownership in conservative financial reporting. In such circumstances, Government ownership may either encourage or discourage accounting conservatism. For example, the literature shows more severe agency problems might occur under government ownership. (Mohammed et al., 2011) states that government ownership demonstrates a greater tendency to demand greater levels of accounting conservatism. (Bushman and Piotroski, 2006) show that companies, in countries with high state ownership, quicken recognition of good news and delay recognition of bad news due to possible Government interference. In other words, (Durnev and Fauver, 2008)'s study shows evidence that countries, where Governments use unjust policies and exploitative corporate regulations, make companies less motivated toward transparency and credibility so that they can stop the Government from interfering with the confiscation of the shareholders' wealth. However, Zhu and Li (2008) argue that Governmental ownership provides incentives to opportunistically report higher earnings. Also, (Chen et al., 2010) findings show that Chinese state owned enterprises adopt less conservative accounting because the lenders are less troubled about the downside default risks of these politically favored firms. Consequently, the hypothesis can be formed as:

H₀₂: There is a statistically significant association between Governmental ownership and accounting conservatism conservative by Jordanian listed companies.

3.3. Institutional Ownership

Institutions, such as banks and investment firms, are the main companies that invest in companies. Institutional investment is one of the effective elements of external control over corporate governance. Institutions are the most significant group of investors and have the power to impact the company's management's activities either directly through their ownership or indirectly by trading in their shares (Gillan and Starks, 2003).

Despite the fact that the management control is expensive, the institutional investment helps to provide important information for the company and for the future cash flow, and strategic decisions regarding the accounting conservatism. Corporate monitoring by institutional investors can constrain managers' behaviors because large institutional investors have the opportunity, resources, and ability to monitor, discipline, and influence managers (Gillan and Starks, 2003). Also (Balsam et al., 2003) argue that the institutional investment can discover earning management from increasing in the proportion of its investment in the company and reducing the amount of accruals.

From reducing the problem related to asymmetry information, Jiang and Kim's results (2000) indicate that, in terms of the market, institutional ownership increases accounting conservatism and reduces asymmetry information between managers and other interested parties. Also, they can affect accounting procedures and financial statements, by controlling the administration's behavior to increase the quality of financial statements (Feldmann and Schwarzkopf, 2003; Song, 2015). According to (Feldmann and Schwarzkopf, 2003) the increase the proportion of institutional

investment in the company is linked directly to the proportional increase in the members from outside the company's board of directors. In addition, increasing the number of non-executive directors on the audit Committee increases the degree of independence of the board of directors and its committees. Thus, it increases the effectiveness of corporate governance which is reflected in accounting conservatism.

The paper turns next to the direction of the relationship between institutional ownership and accounting conservatism. Previous studies suggest that institutional ownership is a governance mechanism which gives different and valuable results on the demand for accounting conservatism. Through their investigation, (Chin et al., 2006) show that increased equity ownership by institutional investors is associated with less conservative financial reporting. Collectively, these results are consistent with monitoring institutions demanding conservatism and more long-term institutional investors. Such companies have more chances of taking part in less conservative reporting policies. In the same way, Wuchun et al.'s (2009) and Chi et al.'s (2009) findings show that the companies with larger boards and higher percentages of institutional ownership have lower demands for accounting conservatism. In contrast, Yunos, et al.'s (2011) and Ramalingegowda and Yu's (2012) findings indicate a positive relationship in that institutional investors are one of the influential groups demanding accounting conservatism. Institutional investors are probably more likely to supervise the managers' behaviors through the use of further conservatism practices. (Jiang and Kim, 2000) confirm that any level of institutional ownership increases accounting conservatism and there is, less asymmetry information between managers and other interested parties in the market.

In addition, Lin et al. (2014) show that a lower proportion of institutional investors provide managers with a greater incentive to manipulate accounting earnings. Their results indicate that companies with more conservative financial reporting are less likely to engage in earnings-manipulative activities. Finally, (Obaid, 2010) indicates that institutional ownership has an important role in reducing manipulation and, then, increasing the degree of accounting conservatism through its role in activating the board of directors and audit committees. Consequently, increased institutional ownership may well participate in minimizing the necessary time lapse for the audit task to be completed. Certainly, this which would reduce the time required to achieve the annual report deadline and be more effective and less costly (Al-Ajmi, 2008; Abdelsalam and Street, 2007), from the above the following hypothesis for the association between institutional ownership and conservatism is:

H₀₃: There is a statistically significant association between institutional ownership and accounting conservatism in Jordanian listed companies.

3.4. Concentration of Ownership

Concentration of ownership refers to the ownership concentrated in the limited number of shareholders. Usually, they possess a large percentage of shares that allows them to participate in the company's management and to direct its financial and operational

policies. However, the concentration of ownership may have many advantages or disadvantages. When ownership is concentrated, particularly in developing countries, shareholders owning the major part of the firm's shares get to control the voting privileges as well, and, therefore, this puts them in a powerful position. They continue to dominate even when there is conflict over the control with the minority shareholders (Kiatapiwat, 2010). Also, these dominant shareholders end up usually take care of their own interests through the manipulation of earnings information (Song, 2015). Next, the high concentration of ownership imposes high costs on small investors wishing to exercise their control and cash flow rights (Klein, 2002). However, in some cases, there are positive aspects of block holders. They improve the company's performance and may help to select accounting policies to reduce the management's opportunistic behaviors and to make optimum use of the company's resources and increase the investors' trust (Ammann et al., 2011; Lskavyan and Spatareanu, 2011; Cheung et al., 2005).

Several studies have proposed to address the relationship between the concentration of ownership and the timeliness of earnings. (Dou et al., 2013) note that major shareholders have two forms of impact on the financial reporting. Firstly, this is through direct intervention in the company's activities such as financing, investment and management decisions. Secondly, it is through the major shareholders' influence from either obtaining private information and exploiting it for personal benefits or by influencing managers' decisions by threatening them to sell their rations from company's shares.

However, through examining the relationship between the concentration of ownership in the hands of majority shareholders and the remaining minority shareholders, managers benefit from this relationship in achieving their goals, and from the determination of the dimensions of family control, (Lskavyan, and Spatareanu, 2011). Also, (Kwon et al., 2006) argue that either the concentration of ownership or the dispersion of most of the shareholders gives managers an opportunity to achieve their own interests over the shareholders' interests. (Alkhalaf, 2009) refers to the higher percentage of ownership dispersion resulting in a lack of incentive for shareholders to monitor the company's activities, and the shareholders' poor participation in either the company's decisions or management policies such as accounting conservatism. Astami and Tower (2006) studied company features and accounting methods. The results show that low financial levels, low concentrations of ownership and more investment opportunities lead to more conservative actions in financial statements. Apadore and Mohd-Noor (2013) findings show that the concentration of ownership is likely to increase the annual report processing time. Hence, the hypothesis given below can be formed:

H₀₄: There is a statistically significant association between the concentration of ownership and accounting conservatism in Jordanian listed companies.

4. RESEARCH METHODOLOGY

The reason of this study is to analyze the effects of ownership structure on conservative accounting. Therefore, this study makes

use of a descriptive and correlational research plan using panel data. It uses purely secondary data taken from the yearly reports of sampled listed companies which were obtained online. We make use of multiple regression analysis in estimating the study's hypotheses.

4.1. Sample Selection

Using a sample of industrial and financial Jordanian companies listed on the Amman stock exchange between 2005 and 2013, this paper investigates the impact of ownership structure (including the foreign, governmental, institutional, and concentration of ownership) on these companies' accounting conservatism. The population consisted initially of 226 quoted companies which issued annual reports during the above mentioned period. However, for various reasons, some of these companies had to be excluded. Firstly, because of the nature of their work and activities, the study omitted 124 companies listed as part of the diversified financial services sector and the services sector. Secondly, the study eliminated, also, from the sample 3 more companies which had incomplete financial statements.

In addition, the study selected the industrial and financial sectors because these are the largest and most important sectors of the Jordanian financial market and represent 76% of the total market value of public shareholding companies based on the published market value at the Amman stock exchange (www.ase.com.jo). Also, the financial sector has not been addressed sufficiently in the previous Jordanian studies related to accounting conservatism. Consequently, this study's final sample includes 99 companies (industrial companies, and financial companies which consist of banks and insurance companies). The selected data for analysis is for the period between 2005 and 2013 because the lack of availability of ownership data before 2005 and the number of companies that were not listed on the Amman stock exchange prior to this period. The sample consists of 37 financial companies, and 62 manufacturing firms.

Panel A: Summary of sample selection

Overall population firm listed on the ASE	226
Less	
Services institution	56
Diversified financial services	68
Firms with insufficient data	3
Final sample	99
Total observations	891

4.2. Variables Measurement

4.2.1. Measurement of accounting conservatism

Even though the previous literature developed various proxies for accounting conservatism, many of them captured accounting conservatism only partially and each of them had its strengths and weaknesses. In line with previous empirical studies, this study relies on measuring the level of accounting conservatism on the accrual-based measure of conservatism proposed by (Givoly and Hayn, 2000; Ahmed and Duellman, 2007; Wang, 2009). The reason for this is the reversal of accounting accruals in the next period. Conservative accounting leads to negative accruals and the more negative the accruals, the more accounting conservatism

in companies' financial reports. Therefore, the total accruals approach is:

Accruals: (Income + depreciation expense - net operating cash flow/total assets).

4.2.2. Measure of ownership structure

With respect to independent variables, they are measured as follows:

- Institutional ownership: Computed as the percentage of the total number of shares held by Institutional investors (Leventis et al., 2013).
- Foreign ownership: Computed as the percentage of the total number of shares held by foreigners (Ali et al., 2008; Klai and Omri, 2011).
- Governmental ownership: It represents the percentage of the total number of shares held by the Government (Selahudin and Nawang, 2015).
- Concentration of ownership Percentage of the total number of shares held by the largest shareholders who own more than 5% of the total equity (Jing and Lu, 2008).

4.3. Control Variable

Company size is computed by the natural logarithm of total assets; profitability is measured by the return on assets. Leverage is measured by the percentage of total liabilities to the total assets ratio. Growth is calculated by the percentage of total assets for current year as compared to the previous year (Al-Sraheen, 2014; Kim et al., 2013; Scott, 2012; Kootanaee et al., 2013).

4.3.1. Model development

In order to examine the variables in this study, this paper develops the following regression model:

$$AC_{it} = \alpha_0 + \alpha_1 \text{ForeiO}_{it} + \alpha_2 \text{GovO}_{it} + \alpha_3 \text{InstO}_{it} + \alpha_4 \text{ConcO}_{it} + \alpha_5 \text{siz}_{it} + \alpha_6 \text{Lev}_{it} + \alpha_7 \text{Gth}_{it} + \alpha_8 \text{prof}_{it} + \epsilon_{it}$$

Where,

AC refers to accounting conservatism; ForeiO refers to the Foreign ownership; GovO refers to the governmental ownership; InstO indicates the Institutional ownership; ConcO refers to the ownership concentration and Fsize; Profit refers to firm size and profitability respectively; Lev refers to leverage; and Gth is growth.

5. EMPIRICAL RESULTS

5.1. Descriptive Analysis

Table 1 provides a descriptive analysis for the variables examined in this study; it shows the mean, standard deviation, the minimum, the maximum and Skewness and Kurtosis. A visual inspection of Table 1 reveals that accounting conservatism had a mean of (-0.003) and a standard deviation of (0.298). This means that the discrepancy in the level of accounting conservatism was driven by different organizational structures and institutional factors. These findings are consistent with the findings of previous studies, such as (Givoly and Hayn, 2000; Jain and Rezaee, 2004). They confirm that the negative ratio refers to the increase in the

Table 1: Descriptive statistics for the variables examined in the study

Variables	Minimum	Maximum	Mean±SD	Skewness	Kurtosis
AC	-2.99	1.925	-0.003±0.298	6.974	59.266
FORE	0.000	1.000	0.216±0.252	1.397	1.030
GOV	0.000	1.000	0.227±0.259	0.920	-0.171
INST	0.000	0.963	0.137±0.228	1.845	2.736
CONC	0.000	1.000	0.568±0.234	-0.458	-0.386
C SIZE	5.74	10.39	7.503±0.819	1.235	1.158
LEV	0.000	1.795	0.453±0.273	0.611	0.280
GTH	0.463	2.312	1.066±0.212	1.510	5.808
PROF	0.000	0.339	0.186±0.028	0.638	7.883

This table presents a descriptive analysis for the ownership structure variables and the conservatism, AC: Accounting conservatism is measured as total accruals approach, FORE: Foreign ownership is measured by the percentage of shares outstanding held by foreign investors divided by the total common shares outstanding, GOV: Governmental ownership: Its represent the percentage of shares outstanding held by government divided by the total common shares outstanding. INST: Institutional ownership: Total common shares held by institutional investors divided by the total common shares outstanding, CONC: Concentration of ownership is determined by the percentage of shares outstanding held by the largest shareholders who own more than 5% of the total equity, C SIZE: Company size is computed by natural logarithm of total assets, LEV: Leverage is measured by total liabilities to total assets ratio, GTH: Growth is calculated by the percentage of total assets for current year to previous year, PROF: Profitability is measured by the return on assets, SD: Standard deviation

level of the accounting conservatism and the implementation of more conservative accounting standards. Also, the enforcement of regulations on Jordanian companies have resulted in their becoming more conservative in their financial reporting (Al-Sraheen, 2014).

Further inspection of Table 1 shows that the mean of foreign ownership is 0.216. This percentage may give an opportunity to control and supervise these companies and their participation in the decision-making process (Zureigat, 2011). In the sample, the mean value for governmental ownership is 0.227 with minimum = 0% and maximum = 100%. This means that the Jordanian Government may become effective in improving the companies' performance as reflected in conservative financial statements. In addition, Table 1 outlines that, in the sample, institutional ownership ranges from 0.000 (minimum) to 0.293 (maximum with a mean of 0.048 of the company's shares owned by institutional investors. This may indicate that the institutional investors, such as foreign investors, may enhance the monitoring function of these investors. Finally, in the sample period, the mean value for concentration of ownership concentration was 0.568 (minimum = 0%; maximum = 100%). Approximately half of Jordanian companies' shares fall within concentrated ownership. This finding is very close to Al-Shammari and Al-Sultan (2009) finding of concentration of ownership to be about 55%. However, there is another view which argues that the creation of the concentration of ownership may reflect the fact that the existing legal framework is unable to provide adequate security for investors because owners maintain large positions in the companies (Chen and Hsu, 2009).

Moreover, Table 1 provides statistics about the control variables included in this paper covering firm size, profitability, leverage and growth. In addition, the Skewness and Kurtosis results in Table 1 indicate that data, used in this study, is normally distributed. In this regard, Hair et al. (2003) argue that, when values are between -1 and +1, an appropriate range of Skewness

illustrates that the data is normal. On the other hand, it should be between -3 and $+3$ for the Kurtosis. Table 1's results are consistent with the above discussion meaning that the data is normally distributed.

Table 2 displays the matrix of Pearson correlation for the relationship between dependent and independent variables. It is deployed to measure the strength and the direction of the linear relationship between any two variables. The results below in the correlation coefficient demonstrate a positive and significant relationship between accounting conservatism and institutional ownership at a value of 0.168^{**} and foreign at 0.023^* . In addition, the correlation matrix highlights a negative and significant association between accounting conservatism and governmental ownership at a value of -0.109^{**} . Moreover, Table 2 shows that there are insignificant associations between concentration of ownership and accounting conservatism. Finally, the control variables under company size and growth show a negative and a positive relationship respectively with accounting conservatism while leverage and profitability show no relationship with accounting conservatism.

5.2. Regression Results

The coefficients table demonstrates the interrelationships between accounting conservatism as the dependent variable and a number of other independent variables (ownership structure and control variables). So, before conducting the regression analysis, multicollinearity was tested by Tolerance and variance inflation factor (VIF) to detect any noises in the model. When carried out for the purpose of this investigation, this statistical gave results which showed no multicollinearity problems. As shown in the Table 2, we see that this test checks the linear interaction through

the tolerance calculated for each independent variable and, then, calculates the VIF. As noted from Table 3, all tolerance values are mostly <0.993 . This confirms that there is no linear correlation problem among all independent variables used in this study (Gujarati, 2004. p. 359). Consequently, we can say that the study model does not suffer from a linear correlation problem and this shows the strength of the study model in explaining the impact on the dependent variable. In order to confirm the VIF result, (Bashir, 2003) asserts that, when the VIF is higher than 5, this means that there is a linear correlation problem of the independent variables. Consequently, Table 3 shows that inflation coefficient of variation of all the values do not exceed 5.

Another regression condition, used in this study, is the autocorrelation problem. The Durbin-Watson test is a suitable and most commonly used measure among economists to indicate this problem. This test ranges between two numbers (0 and 4) which indicate the result is close to zero; this refers to the existence of a strong and positive correlation. The nearer the number is to 4 the more strong and negative correlation exists while the optimum result ranges between 1.5 and 2.5. This refers to the lack of correlation between the values and Table 3 shows that the D-W is 1.579. It is within the appropriate range and, thus, is clear of the autocorrelation problem (Gujarati, 2004. p. 496). Next, we state the analysis of the regression.

This study uses the ordinary least square regression analysis to analyze the impact of ownership structure on accounting conservatism for a sample of Jordanian listed companies. An analysis of Table 3 shows that the model is quite revealing with an adjusted- R^2 of (0.46) suggesting that the ownership structure proxies, used in this study, matters for accounting conservatism.

Table 2: Pearson correlation matrix

	AC	FORE	CONSE	GOV	INST	C SIZE	LEV	GTH	PROF
AC	1								
FORE	0.023*	1							
CONSE	0.029	0.438**	1						
GOV	-0.109**	-0.026	0.056	1					
INST	0.168**	0.213**	0.282**	-0.308**	1				
C SIZE	-0.080*	0.416**	0.019	-0.108**	0.312**	1			
LEV	-0.007	0.1350	0.069	-0.185	0.214	0.288	1		
GTH	0.132**	-0.004	0.025	-0.031	0.068	-0.009	-0.014	1	
PROF	0.048	0.021	0.029	0.104**	0.043	0.023	-0.059	-0.017	1

This table presents the correlation matrix for the variables examined in the current study, ** and * indicate significance levels of 0.01 and 0.05 respectively

Table 3: Regression results for the accounting conservatism and the ownership structure

Variables	Unstandardized coefficients		t	Significant	Collinearity statistics	
	B	Standard error			Tolerance	VIF
Constant	0.144**	0.297	4.878	0.000		
Foreign ownership	0.025	0.013	1.960	0.050	0.644	1.554
Governmental ownership	-0.014	0.007	-1.926	0.054	0.855	1.170
Institutional ownership	0.063	0.012	5.102	0.000	0.728	1.374
Concentration ownership	-0.021	0.014	-1.417	0.157	0.699	1.430
Company size	-1.762	0.387	-4.553	0.000	0.690	1.449
Leverage	-0.277	0.766	-0.362	0.718	0.882	1.134
Growth	0.089	0.024	3.641	0.000	0.993	1.007
P	8.401	5.176	1.623	0.105	0.979	1.021

Model summary, Adjusted R^2 : 0.46, F-value: 8.715**, significant: 0.000, Durbin-Watson: 1.579, this table provides the regression analysis for testing the relationship between ownership structure and accounting conservatism **and *indicate significance levels of 0.01 and 0.05 respectively, VIF: Variance inflation factor

Additionally, the ANOVA table below demonstrates that the model is significant, with an F-value of 8.715 confirming the model used is suitable for the purpose of this study. According to the analysis provided in Table 3, Hypotheses 1, 2 and 3 are accepted, and 4 is rejected.

Table 3 provides the analysis of this examination; it reports mixed results. Table 3 indicates statistically positive relationships between accounting conservatism and each of foreign and institutional ownership with coefficients (t-values) of 0.025 (1.960) and 0.063 (5.102) respectively and P-values of <5%. On the other hand, Table 3 reveals significant and negative associations between accounting conservatism and governmental ownership with coefficients (t-values) of (-0.014) (-1.926). However, concentration of ownership does not show a relationship with accounting conservatism. A further analysis shows some significant relationships between accounting conservatism and some control variables including, firm size and growth with coefficients of (-1.762) and (0.089) respectively.

6. CONCLUSIONS AND DISCUSSIONS

A number of findings emerge from the current investigation. Firstly, the ownership structure has a statistically significant relationship with the accounting conservatism; in particular, this suggests that the ownership structure influences the level of accounting conservatism and provides more reliable financial reports. This result is consistent with the findings of Leventis et al., 2013; Brown et al., 2011; Chi et al., 2009; Ahmed and Duellmann, 2007; Lara et al., 2009.

The result illustrates a positive and significant relationship between foreign ownership and accrual conservatism, our finding is consistent with previous research (Mohandi and Odeh, 2010; Al-Sraheen, 2014; Zureigat, 2011), who concluded that companies with higher proportions of foreign ownership contribute positively to improving the quality of financial reports in Jordan. Also, (Cheon, 2003; Choe et al., 2005; Smith et al., 2008) conclude that foreign ownership increases accounting conservatism in order to resolve information asymmetries and to monitor opportunistic managerial accounting choices and decisions and, thereby, increasing the transparency of financial reports.

In addition, accounting conservatism models show the positive and negative impacts of government ownership on accounting conservatism. Consequently, this means more severe agency problems may occur from government ownership and result in less conservative reports and increase controls in order to enhance the quality of the financial reports. This confirms the conclusions of (Zhu and Li, 2008; Chen et al., 2010). However, on the other hand, (Ben-Nasr et al., 2012; Kiatapiwat, 2010; Bushman and Piotroski, 2006) show statistical evidence indicates that government ownership is associated with the low quality of earnings. Also, the possibility of collusion with the directors of other companies provides reasons for the lack of accounting conservatism.

Further, the evidence shows that institutional ownership makes a positive and influential contribution to the accruals. Consequently,

the presence of institutional investors helps greatly in promoting accounting conservatism as an effective governance practice. This is reflected in the lack of bias by management in order to achieve their interests in terms of providing users with reliable financial information that assists them in their important decision making. This result is consistent with the results of (Chih and James, 2008; Siregar and Utama, 2008; Mehran et al., 2010; Obaid, 2010; Ramalingegowda and Yu, 2012) who reported that institutional ownership is more likely to monitor the managers' behaviors through using proper accounting policies in financial reports. However, this result disagrees with the findings (Dalvi and Mardanloo, 2014) that there is no relationship between institutional investors and accounting conservatism.

Finally this study did not find that concentration of ownership had a significant effect on accounting conservatism. Therefore, it can be declared that companies with higher percentage of shares belonging to few people have no association with accounting conservatism and this means that not all different types of ownership influence the performance reflected by accounting conservatism. This conclusion agrees with Dalvi et al.'s (2013) and Nekounam et al.'s (2012) findings. However, it disagrees with Song's (2015) finding that a relationship between and the increasing concentration of ownership causes the reduction of the conflict of interests between majority and minority shareholders and, thus, reduces the demand for accounting conservatism.

The control variables, examined in this paper, provide, also, some insights to the findings. For instance, the results show a statistically negative impact between firm size and accounting conservatism. This means that, generally, larger firms are less conservative and, thus, have the ability to increase governance. This result is consistent with the findings of (Rahimah, 2011) and (Suleiman, 2014) and contrary to the findings of (Joo, 2009) that, under positive accounting theory, larger firms are more conservative in order to avoid political costs. In addition, growth had a negative influence on accounting conservatism and this shows that the company applied conservative or financial methods affect the company's growth opportunities. This result agrees with the findings of (Caskey and Laux, 2013) and (Ghosh and Moon, 2005). Also, the results show that leverage had no clear association with accounting conservatism. This result reflects the weakness of the practical pressures from the creditors of these firms towards the application of conservative financial methods. This result is confirmed by (Al-Sehli, 2009), and at variance with Joo's (2009) findings of a relationship between leverage and conservatism. Finally, the result, related to profitability, is contrary to our expectation in line with the relationship to accounting conservatism. However, it does not have a strong enough influence on conservative practice. This conclusion is inconsistent with the findings of (Kung et al., 2010) and (Ahmed and Duellman, 2007). It was noted that highly profitable firms tend to use more conservative accounting.

As shown in this paper, the results of our study provide significant contributions and policy implications to accounting and finance research, regulation and practice. Hence, all parties of interest (including shareholders, creditors, regulators,

CEOs) can benefit from this study's results. For example, finance directors can use accounting conservatism to lessen the conflicts between shareholders and creditors' interests. Also, the results may assist the Jordanian policy makers and regulators to introduce new requirements that improve conservatism practices among Jordanian listed companies. Nonetheless, this study's results can help the corporate management to create greater awareness with regard to the significance of accounting conservatism in boosting the credibility and quality the companies' accounting information. Future studies may focus on issues that have not been addressed. First and foremost, most scholars perform empirical analysis by learning Basu's model. We can't forecast whether utilizing different models will obtain the same conclusions. Secondly, this study's results are robust in controlling the effects of other forms of corporate governance. Similarly, audit committee's characteristics and board composition may directly influence the conservatism practices. Finally, this study's results cannot be generalized due to the exclusion of the service sector from the sample. For this reason, we propose that future research includes the service sector in order to provide generalizable results.

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