Good Governance and Accounting Conservatism:
Evidence Thai listed Companies

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Abstract— This research has attempted to examine the impact of board director characteristics, ownership structure and information communication technology on accounting conservatism (Con-ACC). The major distinction of this study from prior studies is to investigate the relationship between ICT and accounting policy across industries in Thailand. The dependent variable was firms' accounting conservatism. In the study, explanatory variables included two major groups: corporate governance (CG), in terms of characteristics of board directors and ownership structure; and information communication technology (ICT). For CG consisted of board size, board independent, board meeting and duality directors; while, ownership structure included the highest percentage of share held. For ICT variables, the study employed the percentage of internet used by business sectors. Furthermore, researchers employed firms' size and firm' leverage as control variables. The research scope focused on listed companies in the Stock exchange of Thailand (SET) for seven sectors, consisting of Agro and Food Industry Group, Resources Group, Technology Group, Service Group, Industrials Group, Consumer Products Group, Property and Construction Group, except Finance group. Collected data were from annual financial statements of each company during 2016 – 2018. Finally, 702 listed companies were included in the study. Statistical tools for analysis were Pearson correlation and multiple regression models. The major findings found that the aggregate model provided Adjusted R-square 5.34%; in addition, both CG variables and ICT variables provided a statistically significant relation to CON-ACC at 1% significance level. Focusing on industry level, the results revealed that CG and ICT significantly influenced Con-ACC only two industries: Industry group and Property & Construction Group. For industry sector, CG including board leadership and board meeting provided a statistically significant positive relation to CON-ACC at 1% significance level. The ownership structure as the highest percentage of stockholder also provided a statistically significant relation to CON-ACC at 1% significance level. Interestingly, computer usage and internet usage had a positive relation with 1% significant statistical level. Concerning Property & Construction Group, CG as duality directors provided a statistically significant positive relation to CON-ACC at 1% significance level. The ownership structure as the highest percentage of stockholder provided a statistically significant relation to CON-ACC at 5% level. Similarly, computer usage and internet usage had a positive relation with 1% significant statistics level.

Keywords: Corporate governance, information communication technology, internet usage, accounting conservatism

I. INTRODUCTION

Recently the term "Good governance" has increasingly employed in contemporary literature. The concept of "governance" has been involved in human civilization society. Governance means the process of decision-making to implement or not implement, should do or should not do, under the society acceptance (United nation university, 2019) [1]. Concurrently, Good governance has widely used all over the world, especially in business sector and then

the term "Corporate governance" is a major aspect, which big companies, or public companies, have to develop business policy and restructure organizations. For Thailand, the stock exchange of Thailand (SET) stimulates Thai listed company to be corporate governance by preparing many channels to provide good governance knowledge to listed company, such as developing governance framework manual for listed companies. The governance framework consists to two main parts: Committee level and organize operation level. The components of good governance of committee level consist of board composition, board policies and board practice (SEC, 2019) [2]. Many researchers have conducted many studies to examine the effect of governance mechanisms on business policies. Certainly, financial reporting of listed company is a major issue included in governance framework.

Among accounting academic, they also concentrate in accounting conservatism, is one of the four accounting conventions. These are standards, customs or guidelines regarding the application of accounting rules. Practically, the conservatism principle can divide into two types: unconditional and conditional accounting conservatism. Many researchers have examined about accounting conservatism both conditional and unconditional conservatism such as Givoly and Hayn (2000) [3], and Krishnan and Visvanthan (2008) [4] examined unconditional conservatism. Busu (1997) [5] and Ajinkya and Gift (1984) [6] studied conditional accounting.

Information communication technology (ICT) is a big word related to communication device, as well as the various services. The major benefit of ICT is to corporate electronic technologies to manage information and knowledge. Presently, ICT has been popular in many sectors, especially business sector and education. For Thailand, computer and internet usage have employed increasingly, reflecting from statistical survey report of the National Statistical Office (NSO) [8].

A major research question of this study is "Do business committee and ownership structure play a key role on accounting conservatism? And Does the information communication technology impact on accounting conservatism? Therefore, researchers aim to conduct the research to examine the impact of board of director, ownership structure and the usage of computer and internet on accounting conservatism of Thai listed companies.

The organization of the rest of the paper is as follows: Section II deals with the literature review. Section III is concerned with data and methodology, including the data, dependent variables and explanatory variables. Section IV discusses empirical model used and the research findings, and finally the discussions and conclusion provided in Section V.

II. LITERATURE REVIEW

The section presents nine main topics: Agency theory, board size, board independence, duality directors, board meeting, the highest percentage of stockholder, accounting conservatism, information communication technology in Thailand (ICT) and the stock exchange of Thailand (SET).

1. The Agency theory

An important aspect related to conservatism is executive committee or the agent of the companies. Jensen and Meckling (1976) [8] stated the conflicts in terms of economics concept between companies (or can be called principal) and executive boards (or can be called agent). Agents prefer pay for themselves more than protecting the benefits for firms.

2. Board size

The existing literature on corporate governance stated that smaller board size might work more efficient than larger ones. Larger board size is hampered by coordination and communication costs Hermalin and Weisbach (2003) [9]; therefore, the relationship between board size and performance showed a negative sign. Bushman et al. (2004) [10] and Ahmed and Duellman (2007) [11] revealed that the board size is unrelated to the accounting conservatism and asymmetric timeliness of earnings, whereas Ahmed and Henry (2012) [14] pointed that the small boards are associated with the accounting conservatism and asymmetric timeliness of good cash flow and share return news.

3. Board Independent

Beekes et al. (2004) [15] supported the contention in UK boards and showed that firms with a relatively high proportion of outsiders tended to be more conservative. This reflected that independent boards supported the form to be corporate governance, implying that the more number of board independent, the greater accounting conservatism. Furthermore, many studies showed the presence of outside directors reduces the occurrences of financial statement fraud.

4. Duality directors

In term of duality directors means that the chief executive officers (CEO) and the president of company is the same person. Certainly, this person will have full authority in business management. Thus, the separation of the CEO and chairperson is a popular topic for consideration due to impact on CG. Lim [14] stated that the separation of the CEO's and chairperson's roles is the major indicator of good governance and provided positively related to accounting conservatism.

5. Board Meetings

The board meeting affects the limits of outside directors to exercise meaningful control of management (Vafeas, 2000) [15]. The regularly board meet might indicated the presence of company problems. Thus, higher board activity is a likely of corporate responding to the

problems. The more board meeting might lead to more accounting conservatism. Normally, the numbers of board meetings disclosed in annual report in term of director attendance and the number of meetings held a year.

6. The highest percentage of share held

The percentage of share held is the proxy of ownership structure. This variable reflects the distribution of owners; in other word, this reflects the concentration of owner group. If the highest percentage of share held is in one family or relatives, reflecting the low CG. This is because the benefits of firm might distribute within one family or relative only.

7. Accounting Conservatism

Practically, accounting conservatism divided into 2 types: Conditional and unconditional conservatism. Conditional conservatism reacts asymmetrically to bad news and to good news; whereas, unconditional conservatism has no connection of news in stark contrast. A great researcher on conditional conservatism is Basu (1997), who wrote "The conservatism principle and the asymmetric timeliness of earnings". Many researchers conducted new research involving conditional accounting conservatism and referred Basu' papers. While, unconditional conservatism involved the accounting profits and profits in cash of firms. This approach focuses on accrued financial items to imply the real earning management. Givoly and Hayn (2000) employed unconditional conservatism by measured the degree of conservatism in term of accumulated accruals over time.

8. Internet usage

In Thailand ICT has increasing growth as shown in NSO report. However, researcher collected the data and summarized in Table 1 below.

Table 1: the percentage of internet usage by activity to use Internet: 2017 – 2018

Activity to use Internet	2017	2018	increase
Sending or receiving e-mail	32.6%	38.6%	6.0%
Search general Information/goods or services	40.4%	45.2%	4.8%
Order/Purchase goods or services Online	8.8%	12.5%	3.8%
Business and offering products / services	3.8%	5.0%	1.2%
Social Network (Facebook, Twitter, GooglePlus, Line, ect.)	94.0%	94.1%	0.2%
Education learning activties	18.5%	19.7%	1.3%
Voice over Internet protocol (VOIP)	33.7%	38.6%	5.0%
Internet Banking , Mobile Banking	7.8%	11.8%	4.0%

Source: NSO and compiled by author (2019)

Table 1 shows that the highest percentage of internet access is Social network (94.1%). Search general information of goods or services is 45.2% and voice communication is 38.6% the same as sending or receiving e-mail. The highest increase of internet access is for

sending or receiving e-mail (6%) and then voice communication at 5%.

9. Stock Exchange of Thailand (SET)

The Thai capital market has developed into two phases, starting with the Bangkok Stock Exchange, and following by the Securities Exchange of Thailand (SET) on May 1974, which officially started trading in 1991. The major aims are to promote securities trading for stimulate savings and mobilize domestic capital. In 1974, the SET incorporated under the Securities Exchange of Thailand Act, B.E. 2517 for the trading of listed securities and promoting personal financial planning to support economic strength both household and business. Regarding Thai capital market, it consists of two markets called SET and mai (Market for Alternative Investment) (SET, 2019) [16]. The SET performed five objectives, consisting of 1) to develop financial platform for innovative and accessible to stakeholders locally, regionally, and globally; 2) To innovate product development for sustainability of future growth; 3) To support business competencies and professional integrity; 4) To perform as the best business partners and social supporters, and 5) To continuously creating, sharing, and generating knowledge (SET, 2019) [17]. The SET classified into eight industries below: Agro & Food, Resources, Technology, Service, Industrials, Consumer Products, Property and Construction, and Financial.

III Data and Methodology

1. Data

The Scope of the population used in the research is Thai listed companies on the Stock Exchange of Thailand (SET). Collected data were from annual financial statements of each company during 2016 – 2018. Companies with unavailable data excluded from the study. Therefore, the study included 702 listed companies within seven sectors, except finance group.

2. Research Variable

The study employed one dependent variable as unconditional accounting conservatism (CON-ACC) and independent variable group: corporate governance (CG) and information communication technology (ICT). Additionally, researcher included two control variables: firms' leverage and firms' size. The proxy of dependent variable, independent variables and control variables are shown in Table 2 below.

Table 2: The mnemonics and definitions of variables

Variables	Mnemonic	Definition
Dependent variable		
1. Accounting conservatism	CON-ACC	$\dfrac{\text{Net profits}_t - \text{Operating cash fl}\ldots}{\text{Total asset}_{t-1}}$
Independent variable		
1.1. Board size	BS	A number of member of board directors
1.2. Board independence	BI	A number of board independent

Table 2: The mnemonics and definitions of variables (Cont.)

Variables	Mnemonic	Definition
Independent variable		
1.3. Board duality	*BD*	Dummy 1 for CEO and present is the same person: 0 for otherwise
1.4. Board meeting	*MEET*	A number of board meeting
1.5. the highest percentage of share held	*HPS*	The highest percentage of share held
1.6 Internet usage	*INUSE*	The percentage of internet usage in business sector
Control Variable		
1. Firm size	*FS*	Logarithm of firms' total assets
2. Firm leverage	*FL*	Ratio between debt and total asset

Thereafter collecting data, researchers employed descriptive statistics analysis, Pearson correlation analysis and multiple regression models to analysis.

IV EMPIRICAL MODELS AND FINDINGS

1. Descriptive statistics

The descriptive analysis was employed to inspect minimum, maximum, mean and standard deviation of each variable. The results are shown in Table 3 below.

Table 3: Descriptive Statistics of Variables

	Mean	Median	Std. Deviation
CON-ACC	0.029	0.030	0.081
BI	4.150	4.000	1.283
BS	10.325	10.000	2.543
BD	0.480	0.000	0.500
MEET	7.393	6.000	3.311
HPS	34.265	31.160	18.166
INUSE	28.150	29.600	2.800
FS	9.792	10.000	0.722
FL	0.416	0.411	0.234

Table 3 presents an overview of the preliminary data from 702 listed companies in seven industry groups. The results showed that the mean of CON-ACC is 0.029. The CG variables: the mean of board independence is 4.15; whereas, the mean of board size and the board meeting are 10.325 and 7.393 respectively. CEO and present quite represent in a half (0.48). The mean of internet usage in business sector are 28.15%. The mean of firm size and firm leverage are 9.792 and 0.416 respectively.

Then, Pearson correlation analysis was used to determine the relationship between two variables, as well as to check the multicollinearity problem. The results of correlation are shown in Table 4.

Table 4 resulting the correlation analysis of all variables shows that no explanatory variables provided multicollinearity due to all correlation below 0.80 Gujarati and Porter [18].

Table 4 Correlation coefficient between variable

	CON_ACC	BI	BD	BS	MEET	HPS	INUSE	FL	FS
CON_ACC	1.00								
BI	0.04	1.00							
BD	0.15	0.16	1.00						
BS	0.10	0.58	-0.01	1.00					
MEET	0.04	0.23	0.01	0.10	1.00				
HPS	0.12	0.06	0.09	0.09	-0.02	1.00			
INUSE	-0.06	-0.01	0.03	-0.03	0.01	0.02	1.00		
FL	0.08	0.08	0.10	0.12	0.00	0.00	-0.01	1.00	
FS	-0.05	0.29	0.09	0.23	0.19	0.08	0.01	0.31	1.00

In this research, Multiregression was employed to study the effect of corporate governance and information communication technology (ICT) on firms' business

$$CON\text{-}ACC_{i,t} = \beta_0 + \beta_1 BI_{i,t} + \beta_2 BD_t + \beta_3 BS_{i,t} + \beta_4 MEET_{i,t} + \beta_5 HPS_t + \beta_6 INUSE_{i,t} + \beta_7 FL_t + \beta_8 FS_{i,t} + \varepsilon_{i,t}$$

policies as accounting conservatism as follows:

Where, i and t denote i and year t, respectively. $\varepsilon_{i,t}$ is error term for individual i in year t.

The regression results showed the explanatory power of independent variables with regard to accounting conservatism shown in Table 5 below.

Table 5: Regression results

Variable	
Constant	0.02
BI	-0.01
BS	0.02***
BD	0.01**
MEET	0.00
HPS	0.00***
INUSE	-0.01*
FS	0.02
FL	-0.00
Adjusted R^2	0.04
F-statistic	4.73***
Observations	702

Note: * ** and *** refer to 10%, 5% and 1% significance level respectively

The results of regression model reports that CG in terms of board size, the highest percentage of share held and board duality directors provided positive relation to accounting conservatism at 1% and 5% significant level respectively. Interestingly, ICT in terms of internet usage by business sector provided a significant negative relation

to accounting policy at 10% significance level. The adjusted R^2 was 0.04.

V. Discussions and Conclusions

The board director characteristic and ownership structure had significantly impact on accounting conservatism. This reflected that the power of board management and the company owners influencing on the performance report of firms through accounting transaction record, especially accrual items. This might distort financial information of firms, leading to information asymmetry among the company, shareholders and investors. This was associated with Dalton and Dalton's (2005), who argued that managers have more control over accounting measures than the market measures. Interestingly, the internet usage in business sector quite low affected accounting conservatism. This might be because of accounting policy of firm directly related to management concept of board directors. ICT is just a tool for business operation only. In the investor's side, ICT is a major tool for explore or search an important financial and non-financial data for analysis before making decision. Thus, ICT for investors will be the next explanatory variables for further research.

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