Empirical Study on the Effect of Corporate Governance on Accounting Conservatism in Companies Listed on the Stock Exchange of Thailand

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Abstract

The objective of this research was to examine the effect of corporate governance on accounting conservatism in listed companies in Thailand. This study concentrated on the major characteristics as specified in the Corporate Governance Code for Listed Companies 2017: board structure, board activity, compensation, shareholder structure, and audit committee. Empirical research samples were listed companies on the Stock Exchange of Thailand from 2018 to 2019, excluding listed companies in the process of rehabilitation and companies in the financial institution sector. Thus, there were 906 firms–year observations in total. The data were analyzed by means of Multiple Linear Regression at a significance level of .05. The results revealed that board activity, compensation, shareholder structure, and audit committee had a positive and significant effect on accounting conservatism. However, board structure had no significant influence on accounting conservatism.

Keywords: Corporate governance; Accounting conservatism; Conditional conservatism

Introduction

Stock Exchange of Thailand is a capital market that has attracted Thai and foreign investors. During the COVID – 19 pandemic, investors tend to invest more in the market since the interest rate is low. According to a study of stock holdings in the Thai stock market as of the end of August 2021, foreign investors held stocks with over 5.09 trillion baht in value in the Thai stock market, which is the highest in

the past three years (SET, 2022). To build trust among investors and attract them to make an investment decision, the Stock Exchange of Thailand issued Corporate Governance Code for Listed Companies 2017: CG Code. This Code allows the board of directors to supervise the performance of managers in order to reduce agency problems caused by asymmetric information between shareholders and managers since managers may act for their personal interests instead of maximizing the value of the company for the interests of shareholders (Mazzotta & Veltri, 2014).

Good governance reflects the quality of transparent and verifiable management and takes the interests of all stakeholders into consideration (Srijunpet, 2012). Good governance also assures that investors can obtain quality accounting information to make an investment decision. Especially in the circumstances with higher risk and uncertainty, investors tend to be more risk–averse, and focus on the quality of accounting information and related disclosures in the financial statements. According to Basu's concept of conditional conservatism, more timely recognition of bad news can help companies identify negative net present value projects (Ball, 2001), and also force managers to report loss data in a timely manner. This can alleviate earnings management (Barker & McGeachin, 2015), and prevent improper compensation. Thus, accounting conservatism can be used to reduce information asymmetry between managers, investors and other stakeholders and allow them to more accurately forecast their future profits (LaFond & Watts, 2008). As a result, investment risks are decreased, and the business's cost of capital is eventually lowered.

In 2010, the Financial Accounting Standards Board (FASB) removed accounting conservatism from the financial reporting framework since it can lead to inaccurate accounting statement which is inconsistent with the quality of neutrality of financial reports (FASB, 2010). However, in 2018, The International Accounting Standard Board (IASB) issued the revised Conceptual Framework for Financial Reporting by introducing the concept of prudence to support neutrality while making a judgment under the conditions of uncertainty. The IASB applies prudence to reduce the impact of management's self–centered view which is a challenge for the board of directors to adopt accounting conservatism when the guidelines changes. This study aims to find out whether listed companies required to follow good corporate governance apply accounting conservatism as a guideline to prepare and present their financial reports under uncertainty.

Objective

The objectives of this study are to find

1. The effect of board structure on accounting conservatism,

2. The effect of board activity on accounting conservatism,
3. The effect of compensation on accounting conservatism,
4. The effect of shareholder structure on accounting conservatism, and
5. The effect of audit committee on accounting conservatism.

Scope of Research

This study is empirical research in the form of deductive reasoning. The data were collected to test the theories in regards to the value of accounting conservatism in the form of applying corporate governance in companies listed on the Stock Exchange of Thailand between 2018 and 2019.

Literature Reviews

Board of directors are required by corporate governance mechanisms require to use accounting figures as a monitoring and controlling tool (Fama & Jensen, 1983). In addition, accounting conservatism can also reduce deadweight loss caused by agency problems according to Ahmed and Duellman (2007). Sultana (2015) found that firms devote resources to large boards to increase their knowledge base in order to be more specialized and can monitor and control financial statements better. Moreover, independent directors and non–board duality encourage companies to present their financial statements with accounting conservatism (Mohammed, Ahmed, & Ji, 2017; Nasr & Ntim, 2018). Previous studies provide evidences showing that board structure leads to an increase in accounting conservatism. Thus, the hypotheses are as follows:

H1a–H1c: There is a positive effect of board structure: board size, board independence and non–board duality on accounting conservatism.

According Resource dependency Theory (Korn & Ferry, 1999), firms with multiple directorships reflect the board's knowledge, competence, various governance characteristics, and can also provide resources for firms. Previous studies found that board expertise also supports accounting conservatism (Enache & Garcia–Meca, 2019) by signaling external auditors for high–level governance of the business. Furthermore, board activity, such a board meeting and board attendance, is positively correlated with accounting conservatism. It also increases the firm value in the future (Boussaid, Hamza, & Sougne, 2015; Saeed, 2020). Previous studies show that board activity leads to an increase in accounting conservatism. Thus, the hypotheses are as follows:

H2 a–H2 c: There is a positive effect of board activity: board expertise, board meeting and board attendance on accounting conservatism.

Board compensation should be taken into consideration since it motivates the board of directors to supervise the management properly, which can decrease agency problem. This is supported by Jeong & Kim (2013), who found a positive relationship between the compensation to outside directors and the level of conservatism in the U.S. firms. Since earnings–based executive compensation contracts may cause more serious ex–post settling up problems, accounting conservatism is required to prevent managers from biasing earning upwards to increase their compensations (Blunck & Rego, 2013). Thus, a positive relationship between CEO compensation and accounting conservatism was found (Li, Henry, & Wu, 2020). Previous studies provide evidences showing that compensation leads to an increase in accounting conservatism. Thus, the hypotheses are as follows:

H3 a–H3 b: There is a positive effect of compensation: board compensation and CEO compensation on accounting conservatism.

The ownership structure has a significant influence on the quality of financial reporting. Janafzaei & Hasani (2015) found that shares held by the board of directors as a governing institution play an important role in leading the firm by making decisions and applying accounting conservatism according to the alignment effect. Moreover, the family's ownership and management increase the earnings quality of the firm since the firm considers long–term benefits. Thus, family firms are motivated to report quality profits with conservative principles (Memon, Fei, Shaique, Usman, & Nazir, 2020; Mohammed, Ismail, & Amran, 2019). However, certain studies found no influence of managerial ownership on accounting conservatism (Enache & Garcia–Meca, 2019; Ursula & Adhivinna, 2018).Previous studies provide evidences showing that shareholder structure leads to an increase in accounting conservatism. Thus, the hypotheses are as follows:

H4 a–H4 c: There is a positive effect of shareholder structure: director ownership, CEO ownership and Family ownership on accounting conservatism.

Financial fraud or a material error in the financial statements occur since audit committee members encounter asymmetric loss function and have to bear reputation costs. Previous studies found that audit committee size had a positive relationship with accounting conservatism (Dao, HassabElnaby, & Said, 2015; Salama & Putnam, 2015). Especially, audit committee members with

financial expertise have more incentives to promote conservative accounting practice to maintain their reputational capital.

However, Yunos, Ahmad, & Sulaiman (2014) found that financial expertise on audit committee do not influence conservatism in Malaysian listed firms. From the literature review, most studies provide evidences showing that audit committee lead to an increase in accounting conservatism. Thus, the hypotheses are as follows:

H5a–H5b: There is a positive effect of audit committee: audit committee size and audit committee with financial expertise on accounting conservatism.

Methodology

Populations and Samples

The population in this research included 789 companies listed on the Stock Exchange of Thailand between 2018 and 2019, excluding firms in Market for Alternative Investment – MAI, firms in financials and property fund, delisted firms, firms under rehabilitation, firms that shall revise their financial statements, and firms with unavailable or inadequate corporate governance and financial data. Thus, there were 906 firm–year observations in total.

Research Instrument

This tool of this student was secondary data, consisting of annual reports, financial statements, annual data (form 56–1) from 2018 to 2019 available on the website of the Securities and Exchange Commission of Thailand and SETSMART database.

Data Collection

Methods of data collection were divided into 2 types: 1) collecting financial information from the financial reports of each company; 2) collecting information on corporate governance from the annual information form (Form 56–1) and the annual report of each company.

Data analysis

The data were analyzed by using the following statistics: 1) descriptive statistics, including mean, percentage, maximum, minimum and standard deviation to describe variables, and 2) inferential statistics, including multiple regression analysis to test hypotheses.

Variables and Measurement

The effect of corporate governance on accounting conservatism was investigated by the following regression model.

$$CON_{i,t} = \beta_0 + \beta_1 BSI_{i,t} + \beta_2 BIN_{i,t} + \beta_3 BDU_{i,t} + \beta_4 BEX_{i,t} + \beta_5 BME_{i,t} + \beta_6 BAT_{i,t} + \beta_7 BCO_{i,t} + \beta_8 CCO_{i,t} + \beta_9 DOW_{i,t} + \beta_{10} COW_{i,t} + \beta_{11} FOW_{i,t} + \beta_{12} ASI_{i,t} + \beta_{13} AEX_{i,t} + \beta_{14} LEV_{i,t} + \beta_{15} TAS_{i,t} + \beta_j Industry\ dummy + \beta_k Year\ dummy + \varepsilon \quad (1)$$

Table 1 Variables and Measurement in Regression Equations

Independent Variables		Measurement
BSI	Board size	Board size was measured by the total number of board members.
BIN	Board independence	Board independence was measured by the ratio of independent directors to number of board of directors.
BDU	Non–board duality	Non–board duality was coded as 1 if the positions of CEO and chairman are not occupied by same person, or 0 otherwise.
BEX	Board expertise	Board expertise was measured by the number of other firms in which a director is a part of the board.
BME	Board meeting	Board meeting was measured by the number of board meetings per year.
BAT	Board attendance	Board attendance was measured by percentage of the attendance of each director.
BCO	Board compensation	Board compensation was measured by the natural logarithm of monetary compensation paid to all directors.
CCO	CEO compensation	CEO compensation was measured by the natural logarithm of monetary compensation paid to the CEO of the firm.
DOW	Director ownership	Director ownership was measured by a percentage of shares held by director.
COW	CEO ownership	CEO ownership was measured by a percentage of shares held by CEO.
FOW	Family ownership	Family ownership was measured by a percentage of shares held by a private individual shareholder, who might be a founder and/or a member of the family who manages in the firm.
ASI	Audit committee size	Audit committee size was measured by the total number of audit committee.
AEX	Audit committee financial expertise	Audit committee financial expertise was measured by the total number of audit committee financial expertise.
Control Variables		
LEV	Leverage ratio	Leverage ratio was measured by total liability divided by total equity.
TAS	Total asset	Total asset was measured by the natural logarithm of total assets.
Industry Fixed Effects		
AGR	Agro & Food Industry	coded 1 if firm i is in the industry of Agro & Food Industry and 0 otherwise.
COP	Consumer Products	coded 1 if firm i is in the industry of consumer products and 0 otherwise.
IND	Industrials	coded 1 if firm i is in the industry of industrials and 0 otherwise.
PRO	Property & Construction	coded 1 if firm i is in the industry of property and construct and 0 otherwise.
RES	Resources	coded 1 if firm i is in the industry of resources and 0 otherwise.
SER	Services	coded 1 if firm i is in the industry of services and 0 otherwise.
Year Fixed Effects		
Y19	Year 2019	coded 1 if firm i is in 2019, and 0 otherwise.
Dependent Variables		
CON	Accounting Conservatism	Accounting Conservatism is the coefficient β_3, which is computed from the following regression with five–year window backward for each firm for any single year.

Accounting conservatism with a rigorous audit for the recognition of profits and losses (Basu, 1997; Watts, 2003) was applied in this study. Under this requirement, economic losses are recognized in earnings faster than economic gains. Thus, conditional conservatism is appropriate to assess timeliness reflecting the impact of various crises on the firm performance. According to Basu (1997), accounting conservatism of the gains or good news, and losses or bad news was measured together with the returns. This is known as the "reverse regression of earnings on returns" as follows:

$$\frac{E_{it}}{P_{it-1}} = \beta_0 + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R_{it} * DR_{it} + \varepsilon_{it} \quad (2)$$

where E_{it} = Earnings per share of firm i in fiscal year t

$P_{(it-1)}$ = Price per share of firm i at the end of the fiscal year t–1

R_{it} = The rate of return per share of firm i at the end of the fiscal year t–1 to the end of the fiscal year t can be found from

$$R_{it} = \frac{\text{Dividend + Change in Securities Price}}{\text{Securities Price at the Beginning of the Period}}$$

DR_{it} = Dummy variable is 1, $R_{it} < 0$, and equals 0 if $R_{it} \geq 0$

Based on the concept suggested by Basu (1997), this research used the 5–year rolling regressions technique to obtain the firm–level accounting conservatism.

Results

Descriptive Statistics Analysis

The data relevant to corporate governance, accounting conservatism, and firm characteristics were collected to study the effect of corporate governance on accounting conservatism. The total number of listed firms was 906 firm–year observations in this study. The details of data analysis are as follows:

Table 2 Descriptive statistics analysis of the variables from 2018 to 2019

Variables	Min	Max	Mean	S.D.
Board size (BSI) (persons)	5.00	21.00	10.06	2.43
Board independence (BIN) (times)	0.20	0.78	0.42	0.09
Board expertise (BEX) (firms)	0.00	5.94	3.76	1.70
Board meeting (BME) (times)	6.00	29.00	8.07	2.92
Board attendance (BAT) (%)	72.22	100.0	93.24	7.15
Board compensation (BCO) (Ln)	–1.66	4.64	1.58	1.06
CEO compensation (CCO) (Ln)	–0.87	6.33	3.44	0.90
Director ownership (DOW) (%)	0.00	98.52	19.59	21.13
CEO ownership (COW) (%)	0.00	87.60	13.88	18.39
Family ownership (FOW) (%)	0.00	96.39	30.14	26.70
Audit committee size (ASI) (persons)	3.00	5.00	3.15	0.37
Audit committee financial expertise (AEX) (persons)	1.00	3.00	1.10	0.33
Conservatism (CON)	–14.57	15.47	0.14	2.52
Leverage ratio (LEV) (times)	–11.66	20.00	1.28	1.76
Total asset (TAS) (LN)	2.45	14.73	8.88	1.57

Table 2 presents the results of the basic data within the conceptual framework. The mean of board size (BSI) and board independence (BIN) are 10.06 persons, and 0.42 times respectively. In regards to board activity, the mean of board expertise (BEX), board meeting (BME), and board attendance (BAT) are 3.76 firms per director, 8.07 times per year, and 93.24%, respectively. The mean of board compensation (BCO) and CEO compensation (CCO) are 1.58 and 3.44, respectively. For shareholder structure, the mean of director ownership (DOW), CEO ownership (COW), and family ownership (FOW) are 19.59%, 13.88%, and 30.14%, respectively. The mean of audit committee size (ASI) and audit committee financial expertise (AEX) are 3.15 persons, and 1.10 persons, respectively. The mean of conservatism is 0.14. The mean of the leverage ratio (LEV) is 1.28 times, and the mean of the natural logarithm of the total asset (TAS) is 8.88.

Table 3 Frequency and percentage of board structure, and industry/year fixed effect from 2018 to 2019

Variables	Frequency (Case)	Percent (%)
Board structure (BST)		
Non–Board duality (BDU)	717.00	79.71
Board duality	189.00	20.29
Year Fixed Effect		
Year–19 (Y19)	451.00	49.78
Year–18 (Y18)	455.00	50.22

Table 3 presents frequency and percentage of board structure (BST), and industry/year fixed effect from 2018 to 2019. The number of firms with non–board duality (BDU) is 717 firm–years, while the other 89 firm–years are firms with board duality. There are 451 firm years in 2019 (Y19), and 455 firm years in 2018 (Y18).

Model 1 was employed to test hypotheses 1–5 which are the main issues of the test. The results of hypothesis testing are shown in Table 4.

Table 4 Tests of H1–H5: the correlation between corporate governance and accounting conservatism

$$CON_{i,t} = \beta_0 + \beta_1 BSI_{i,t} + \beta_2 BIN_{i,t} + \beta_3 BDU_{i,t} + \beta_4 BEX_{i,t} + \beta_5 BME_{i,t} + \beta_6 BAT_{i,t} + \beta_7 BCO_{i,t} + \beta_8 CCO_{i,t} + \beta_9 DOW_{i,t} + \beta_{10} COW_{i,t} + \beta_{11} FOW_{i,t} + \beta_{12} ASI_{i,t} + \beta_{13} AEX_{i,t} + \beta_{14} LEV_{i,t} + \beta_{15} TAS_{i,t} + \beta_j Industry\ dummy + \beta_k Year\ dummy + \varepsilon \quad (1)$$

Variable	Expect Sign	Unstandardized Coefficients		Standardized Coefficient (Beta)	t–value	p–value	Collinearity Statistics	
		Est. Coe. (B)	Std. Error				Tolerance	VIF
Intercept		–10.0054	1.3771		–7.2658	0.0000*		
BSI	(+)	0.0006	0.0404	0.0006	0.0158	0.9874	0.8087	1.6428
BIN	(+)	–0.2447	0.8359	–0.0097	–0.2928	0.7698	0.8447	1.1839
BDU	(+)	–0.3434	0.2004	–0.0555	–1.7138	0.0869	0.8845	1.1305
BEX	(+)	0.1200	0.0500	0.0812	2.4015	0.0165*	0.8108	1.2333
BME	(+)	0.1162	0.0281	0.1350	4.1404	0.0000*	0.8707	1.1485
BAT	(+)	0.0640	0.0110	0.1818	5.8096	0.0000*	0.9458	1.0573
BCO	(+)	0.4310	0.1109	0.1822	3.8861	0.0001*	0.8212	1.3739
CCO	(+)	0.2425	0.1174	0.0864	2.0650	0. 0392*	0.8288	1.8909
DOW	(+)	–0.0053	0.0063	–0.0442	–0.8329	0.4051	0.8292	1.9979
COW	(+)	–0.0041	0.0070	–0.0298	–0.5794	0.5624	0.8493	1.8628
FOW	(+)	0.0104	0.0035	0.1101	2.9754	0.0030*	0.8763	1.4785
ASI	(+)	0.7555	0.2166	0.1114	3.4876	0.0005*	0.9072	1.1023
AEX	(+)	0.4299	0.2353	0.0563	1.8266	0.0681	0.9760	1.0245
LEV		–0.0187	0.0453	–0.0131	–0.4135	0.6794	0.9247	1.0814
TAS		–0.1224	0.0763	–0.0764	–1.6048	0.1089	0.8084	1.4486
Industry		–0.0375	0.1814	–0.0066	–0.2065	0.8364	0.9026	1.1079
Year		–0.4825	0.1548	–0.0959	–3.1174	0.0019*	0.9787	1.0217
Adjust R^2						0.1617		
F–value						11.2712		
p–value						0.0000*		
Durbin–Watson						1.9749		

Table 4 presents the correlation between corporate governance and accounting conservatism with accounting conservatism (CON) as the dependent variable as in Model 1. This model is significant at reliability level of 95% (p–value = .05). Thus, it is statistically valid. The adjusted R^2 of the model is 0.1617, which means that the explanatory variables are able to explain the dependent variable by 16.17%.

Table 4 also provides the evidence in regards to the effect of corporate governance on accounting conservatism. The coefficients of board size (BSI), board independence (BIN) and non–board duality (BDU) are not significant. Thus, the hypotheses H1a to H1c are not supported. The coefficients of board expertise (BEX), board meeting (BME), and board attendance (BAT) are positive and significant at a significance level of .05. Thus, the hypothesis H2a to H2c are supported. The coefficients of board compensation (BCO), and CEO compensation (CCO) are positive and significant at a significance level of .05. Thus, the hypotheses H3a and H3b are supported. The coefficient of family ownership (FOW) is positive and significant at a significance level of .05. Thus, the hypothesis H4c is supported. Nonetheless, the coefficients of director ownership (DOW) and CEO ownership (COW) are not significant. Thus, the hypotheses H4a to H4b are not supported. The coefficient of audit committee size (ASI) is positive and significant at a significance level of .05. Thus, the hypothesis H5a is supported. However, the hypotheses H5b is not supported since the coefficient of audit committee financial expertise (AEX) is not significant. In additional, the coefficient of year fixed effect (Year) is negative and significant at a significance level of .05.

Conclusion

Limitations for the 2018–2019 study period involve the use of accounting conservatism prior to COVID 19. The results revealed that board expertise, board meeting, board attendance, board compensation, CEO compensation, family ownership, and audit committee size had a positive and significant effect on accounting conservatism. However, board size, board independence, non– board duality, director ownership, CEO ownership and audit committee financial expertise had no influence on accounting conservatism.

Discussion

The results of hypothesis testing 1– 5 show the influence of board structure, board activity, compensation, shareholder structure, and audit committee on accounting conservatism. It was found that **board structure**: board size, board independence and non–board duality had no influence on accounting conservatism. Thus, Hypothesis 1 was rejected. In case the board of committee is large, each director may

expect other directors to act on his or her behalf (Yermack, 1996). According to Governance Code for listed companies 2017, the number of independent directors shall be more than half if the Chairman is also the CEO of the firm (SEC, 2017). In case independent directors lack of real independence, time, and information (Amran & Manaf, 2014), accounting conservatism may not be applied in the organization. Similarly, Yunos et al. (2014) also found no influence of board size on accounting conservatism, Boussaid et al. (2015) found no influence of board independence on accounting conservatism, and Boonlert–U–Thai and Phakdee (2018) found no influence of non–board duality on accounting conservatism.

Board activities, which consists of board expertise, board meeting and board attendance, had a positive influence on accounting conservatism. Thus, Hypothesis 2 was accepted. According to dependence theory, directors are responsible for connecting the firm with uncertain external factors and external dependencies. Effective uncertainty management leads to power and increases survival likelihood (Hillman, Cannella, & Paetzold, 2000). The directors will monitor the firm policies assigned to the management through meetings and their participation in the financial reporting process will encourage the management to create more accounting conservatism practices and report quality profit data (Cahyani & Khafid, 2020; Nariman & Ekadjaja, 2018). This is supported by Enache and Garcia–Meca (2019) and Al–Absy, Ismail, and Chandren (2019), who found a positive influence of Board expertise. Similarly, Boussaid et al. (2015) found a positive influence of board meeting on accounting conservatism, and Saeed (2020) found a positive influence of board attendance on accounting conservatism.

Compensation, which consists of board compensation and CEO compensation, had a positive influence on accounting conservatism. Thus, Hypothesis 3 was accepted. In fact, high compensation to the directors encourages them to sufficiently supervise the management, which strengthens the alignment of directors and shareholders. Directors concentrate on accounting conservatism in order to reduce information asymmetry between managers and shareholders. Thus, accounting conservatism is increasingly preferred in firms with a management compensation policy based on accounting profits to prevent overpaying executives (Blunck & Rego, 2013). The results of this study are consistent with Jeong and Kim (2013) and Iwasaki, Otomasa, Shiiba, and Shuto (2018), who found a positive influence of board compensation. In addition, Li et al. (2020), Hu and Jiang (2018), and Brockman, Ma, and Ye (2015) also found a positive influence of CEO compensation on accounting conservatism.

Director ownership and CEO ownership, as the components of **shareholder structure**, had no significant influence on accounting conservatism. Thus, Hypothesis 4a and 4b were rejected. Firms with director ownership and CEO ownership structure can help align manager interests with shareholder interests

in accordance with incentive alignment effect (Chou, 2015; C. Jensen & Mecking, 1976; M. C. Jensen & Murphy, 1990). Thus, it is not necessary to apply the principles of accounting conservatism in this case. This is consistent with Suleiman. (2014)and Enache and Garcia–Meca (2019),who found no influence of directors ownership on accounting conservatism. Moreover, LaFond and Roychowdhury (2008) and Ursula and Adhivinna (2018) found no influence of CEO ownership on accounting conservatism. However, family ownership which is the component of shareholder structure had a positive influence on accounting conservatism. Thus, Hypothesis 4c was accepted. Family ownership was found to aim at long–term benefits, and the management is motivated to report quality profits for the family's reputation (Cascino, Pugliese, Mussolino, & Sansone, 2010). This is in line with Mohammed et al. (2019) and Memon et al. (2020), who found that family ownership had a positive influence on accounting conservatism.

Audit committee size, as a component of **audit committee**, had a positive influence on accounting conservatism. Thus, Hypothesis 5a was accepted. In the survey of 1,200 audit committee in 17 countries conducted by KPMG (2006), the audit committee encounter greater risk of financial litigation than other members of the firm. Thus, it is necessary to promote conservatism in financial reporting. Salama and Putnam (2015) and Dao et al. (2015) also found that audit committee size had a positive influence on accounting conservatism. However, audit committee financial expertise had no significant influence on accounting conservatism. Thus, Hypothesis5b was rejected. The reason is that accounting conservatism was eliminated from the Conceptual Framework for Financial Reporting by the Financial Accounting Standard Board (FASB) in 2010 due to the inequality of neutrality of financial reports. As a result, the role of accounting conservatism decreases in the aspect of audit committee financial expertise. Similarly, Yunos et al. (2014) found that financial expertise on audit committee does not influence conservatism.

Suggestion

This study found that companies in Thailand have complied with the Corporate Governance Code for Listed Companies 2017: CG Code in the process of financial report preparation. It is suggested that the study in the future should focus on the outcome and benefits of applying accounting conservatism in their business organizations in the aspects of capital costs and firm performance, for example.

New Knowledge

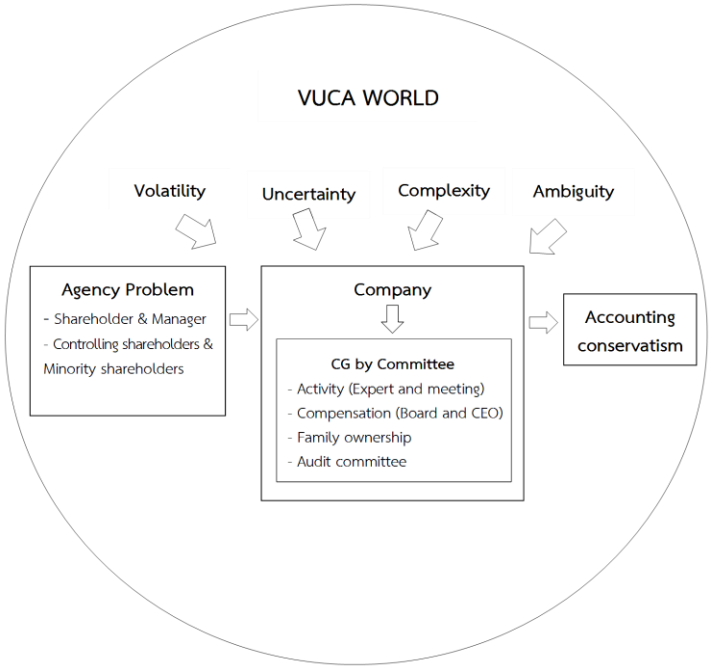


Figure 1 Body of knowledge

Conflicts between Shareholder and Manager and conflicts between controlling shareholders and minority shareholders are the agency problems that can be commonly found in organizations. Companies have to rely on corporate governance driven by the board of directors to provide justice for all parties. In the "VUCA World", the problem tends to be more serious and complicated. In order to deal with volatility and the uncertainty of the business environment is "accounting conservatism". This research strongly indicates that family ownership which is the shareholder structure in most of Thai companies, expert committee that frequently attend the meetings, and the number of audit committees had a higher effect on the adoption of accounting conservatism.

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