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# Effect of Corporate Governance on Conservatism of Quoted Financial and Non-Financial Firms in Nigeria

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***ABSTRACT:*** *The study investigated the effects of corporate governance on conservatism of quoted financial and non-financial firms in Nigeria. Conservatism are essential in any organization. Over the years, studies have revealed, organisations with good financial standing are seen to have problems as a result of practices carried out by them. The study adopted ex-post facto research design using the population of 161 listed companies on Nigerian Stock Exchange at 31st December, 2017. Sample of 30 quoted financial and non-financial firms was purposively selected from 2003-2017. Multiple regression analyses was used. The findings revealed that corporate governance had joint significant effects on conservatism of quoted financial and non-financial firms in Nigeria with (Adj.* $R^2 = 0.46$, $F_{(6,\ 444)} = 13.42$, $p < 0.05$*), (Adj.* $R^2 = 0.44$, $F_{(6,\ 444)} = 18.38$, $p < 0.05$*) respectively.The study concluded that corporate governance had effects on conservatism of quoted financial and non-financial firms in Nigeria. The study recommended that management should comply with code of corporate governance so as to reflect on their financial practices. Furthermore, Government should monitor organizational compliance.*

***KEYWORDS****: Conservatism, Corporate governance, Financial firms, Non-financial firms, Nigeria*

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## I. INTRODUCTION

Conservatism is essential to financial reporting. Conservatism is considered as good practice to financial reporting quality as reliability is enhanced, thereby bringing about effective monitoring of management and contract which is a governance mechanism (Watts, 2003; Ball &Shivankumar, 2005). Conservatism significantly impacts on financial reporting practices for a long time (Watts, 2002). Accounting conservatism curbs the opportunistic behaviour of managers, thereby bringing a reduction of agency problem (Amran & Manaf, 2014). Stronger corporate governance greatly improves implementation of accounting policies in conservatism (Ahmed &Duellman, 2007; Garcia Lara, Garcia Osma&Penalva, 2009).

The disposition of managers in organisations has great influence on the financial reporting practices adopted by such organisations. Corporate governance is defined as “the system by which business corporations are directed and controlled” (The Cadbury Committee, 1992, p.15). The corporate evidenced in companies have brought to forefront the need of effectiveness of accounting standards, auditing processes and financial reporting practices in ensuring reliable accounting information (Adeyemi &Asaolu, 2013).Effective application of corporate governance yields to good financial reporting practices. Researchers have aired various views concerning the global crisis in the world. Some researchers acclaimed the global financial crisis experienced in organisations as a result of weak governance practices. Others view corporate governance as a way of proffering solutions to companies in the world. Good corporate governance is expected to reflect on the financial reporting practices adopted by companies in the presentation of financial reports. Financial reporting is essential in directing a company under the principle of good governance (Berndt & Leibfried, 2007). It is important for companies to apply good governance so as to have good accounting processes as failure in corporate governance greatly affects the financial reporting. Also, manipulation of financial reporting is usually evidenced when there is governance failure (Norwani, Mohamad & Chek, 2011).

Corporate governance brings improvement in the financial reporting of firms. The type of management greatly influence the financial information prepared in companies.The financial practices of companies are being prepared following financial processes. Over the years, the information presented by companies do not align with economic reality as a result of weak and deficient in financial reporting of companies in Nigeria (World Bank, 2004). Studies have evidence of weak financial reporting practice in Nigeria (Unuagbon & Oziegbe, 2016). Poor ethics and corporate governance still pose as serious challenges in financial reporting Nigeria (Adegbie &Fofah, 2016).

The policies and decisions of management affects the financial reporting processes (Khalid &Arief, 2017). Therefore, failure of financial statement to meet with the economic reality of companies affairs is due to the compromise of management in presenting financial information. Therefore, managements of companies need to be questioned for failure to carry out their responsibilities appropriately in the event of corporate scandals.

Lack of adequate enforcement with good monitoring results in poor governance and bad governance brings about financial reporting failure (Norwani *et al.*, 2011). This was evidenced in the fall of some companies such as Cadbury and Lever Brothers Nigeria Plc. (now Unilever Nigeria Plc.) and this negatively affected stakeholders' confidence on reliability of financial reporting practices of companies (Leung &Ilsever, 2013). The fall of companies is acclaimed to poor accounting practices which result in unethical conduct and misuse of power (Aggarwal, 2013), poor and weak corporate governance (Gaio & Raposo,2014; Haat, Rahman & Mahenthiran, 2008; Suleiman, 2014), thus influencing the financial practices in firms. Therefore, absence of integrity, accountability and transparency brings about poor financial practices (Norwani *et al.*, 2011).

Management often tends to use aggressive accounting especially when their reward is based on their performance which in turn becomes harmful to firms (Suleiman, 2014). Some of the activities lead to poor conservative reporting. However, good corporate governance brings about good practices in firm. Firms with good and strong corporate governance have higher conservative reporting (Amran *et al.*, 2014). Good governance significantly increases conservative reporting (Abdul-Wahab,Madah & Haron, 2016; Suleiman &Anifowose, 2014). Several empirical evidence exist in the developed world focusing on corporate governance and conservatism with little attention in the developing countries. Some studies focused on a particular industry, financial or non-financial industries. The paper therefore, investigated the effects of corporate governance on conservatism of quoted firms in Nigeria, addressing; what effects have corporate governance on conservatism. Hence, this study explored effect of corporate governance on conservatism of quoted financial and non-financial firms on the Nigerian Stock Exchange (NSE) 2017 so as to validate the mixed results of findings from other studies.

## II. LITERATURE

Governance origin was seen to come from Chaucer's work "where 'governance' was associated with being 'wise and responsible,' or doing that which is appropriate" (Ruparelia &Njuguna, 2016). Corporate governance is important in organisations due to the separation of ownership and management of companies. As a result of the separation, interest of management differs from that of the shareholders establishing the agent-principal relationship. Managers make decisions in their interest and not that of shareholders (Hope &Thomas, 2008).

Larcker, Richardson and Tuna (2007) defined corporate governance as the set of mechanisms in place that influences the decisions of managers when ownership is different from control. Berndt *et al.,* (2007) defined corporate governance as processes, policies, laws and institutions that are set and thereby affects the way companies are directed. The governance of companies lies on its board of directors. It is the responsibilities of the shareholders to ensure proper governance is put in place by appointing directors and auditors in the company. Thus, the board oversees the company by setting strategies, provision of leadership, supervision of the management and stewardship reporting to the shareholders. The presence of strong corporate governance prevents managers carrying out deceptive activities in the financial reporting, the reliability and quality of such companies is thereby enhanced (Heirany, Sandrabadi &Mehrjordi, 2013).Corporate governance aims at to resolving the problem arising in organisations due to separation of management and the shareholders with the key role of financial reporting.

The board can effectively carry out its duties by having appropriate mix and the requisite skills, thereby ensuring sufficient size to effectively discharge their duties and relative to the scale and complexity of the company's operations with diverse experience without compromising independence, competence and integrity. The board should comprise appropriate mix of executives, non-executive and independent non-executive members with the majority of non-executive directors on the board who should be mostly independent (Code of Corporate Governance, 2011; Code of Corporate Governance, 2018).The corporate governance, most especially the board of directors in organisations, serves as monitors to the managers (Garcia Lara, Garcia Osma and Penalva, 2007). The board size was measured using the total number of members on the board. Board independence was measured using the number of independent directors on the board to the total number of directors, and board meetings were measured using the number of annual meetings the board holds.

The members of audit committee are to be financially literate so as to be able to read and have understanding of the financial statement with at least a member to be a financial expert with requisite knowledge in accounting and financial management so as to effectively interpret the financial statement; members of the committee should be non-executive directors and, where possible, majority of independent non-executive directors; meetings of at least once in every quarter. The audit committee should comprise not more than one executive director and shareholders subject to the maximum number of six. Their appointment is a tenure of one year. However, members are capable of re-election annually (Code of Corporate Governance, 2011; Code of Corporate Governance, 2018).

Overseeing the company's financial reporting process primarily lies on the audit committee, and this involves the financial statement integrity, internal control effectiveness with internal and external auditors' monitoring (Kusnadi, Leong, Suwardy & Wang, 2016). Audit committee characteristics such as non-executive directors on the committee, frequency of meetings and member association were found to decrease conservatism (Abdul Wahab*et al.*, 2016). Audit committee size was measured by the number of audit committee members elected on the board. Audit committee independence was measured by the number of independent non-executive directors to the total number of audit committee members, and audit committee meetings were measured by the number of meetings held in the year.

Conservatism has been defined by different authors. Givoly and Hahn (2000) defined conservatism as "a selection criterion between accounting principles that lead to the minimisation of cumulative reported earnings by slower revenue recognition, faster expense recognition, lower asset valuation and higher liability valuation". Conservatism significantly impacts on financial reporting practices for a long time (Watts, 2002). The financial practices have long been influenced with conservatism for over five hundred (500) years (Basu, 1997). Conservatism is beneficial to all stakeholders associated with the firm. Accounting conservatism curbs the opportunistic behaviour of managers, thereby bringing a reduction of agency problem (Amran *et al.*, 2014). The likelihood of managers overstating the earnings and net assets is greatly reduced (Watts, 2003). Managers do not invest in projects with negative Net Present Value and investment that are performing poorly due to the fact that inability to defer loss recognition to a future period (Ball *et al.*, 2005).

Accounting conservatism has been criticised over the year but still plays an essential role in the financial practices (Watts, 2003). Management tends to use aggressive accounting when their reward is based on their performance which in turn becomes harmful to firms (Suleiman, 2014). Good corporate governance brings about good practices in firms. Conservatism is considered as good practice to financial reporting quality as reliability is enhanced, thereby bringing about effective monitoring of management and contract which is a governance mechanism (Watts, 2003; Ball & Shivakumar, 2005).The creditors, minority stockholders, regulatory authorities and the entire firm benefit from accounting conservatism (Watts, 2003; Ahmed *et al.*, 2007). Empirical studies indicate that there is a relationship between good corporate governance and financial practices, and stronger corporate governance greatly improves implementation of accounting policies in conservatism (Ahmed *et al.*, 2007; Garcia Lara *et al.*, 2009).

This paper adopted the accrual-based test of loss recognition model of Ball *et al.* (2005) for measuring conservatism and is stated as follows:

$ACC_{it} = \alpha + \beta_1 DCFO_{it-1} + \beta_2 CFO_{it} + \beta_3 DCFO_{it} * CFO_{it} + e_{it}$

Scaled by average total assets

$ACC_{it}$ = Accruals= Net income + Depreciation – Cash flow from operations (Givoly&Hayn, 2000)

i = Firm

t= Time

DCFO = Dummy variable which takes 1 if $\beta_3 DCFO_{it}$ is negative, otherwise, 0

$CFO_{it}$ =Current cash flow from operations scaled by average total assets

$e_{it}$= Residual error

The positive accounting theory was developed by Watts and Zimmermaninin 1978. This theory helps us to understand what is happening in the world and why organisations act the way they do. Positive theories help us to understand the decision users make with regard to accounting information, helping organisations to make more informed decisions about how and why they present information the way they do (Kabir, 2011). The management plan hypothesis shows that managers in organisations with bonus plan tend to adopt accounting methods that will give an increase in the reported earnings. Omron and El-Galfy (2014) stated that prior to the mid 1960s, accounting research mainly was normative, which seeks to prescribe "what should be" or "what ought to be" with respect to measurement in accounting and financial reporting. The normative accounting research never explained accounting practices empirically. Thus, the development in positive accounting overcame the shortcoming.

Agency theory was developed by Stephen Ross and Barry Minick in 1973 (Minick, 1975). Agency theory postulates the relationship between the principal and agent. Millichamp and Taylor (2008) defined agency as the name given to practice by which productive resources owned by one or groups of persons are managed by another person or group of persons. The overseeing of business by a different party gave rise to agency theory and by nature, man is generally selfish wanting to satisfy himself before others by carrying out activities in the company that will boost his personal interest. This results in the conflict of interest between the principal and agent. As a result of separation of ownership from management of companies, there is evidence of information asymmetry resulting in agency problem or conflict. The agency problem or conflict results in costs for resolving the conflict (Jensen *et al.*, 1976; Eisenhardt, 1989). In order to breach information asymmetry, financial report is usually prepared to portray the company's affairs to the shareholders showing the financial position of a company.

The existence of principal-agent relationship among the management and stakeholders with the information asymmetry yields to a loss in asymmetric function and this induces accounting conservatism (Xia & Zhu, 2009).Principal-agent theory is the beginning of the debate when it comes to issues relating to corporate governance (Jensen *et al.*, 1976). Accounting conservatism aids in the reduction of agency costs (Ahmed &Duellman, 2007). Separation of ownership from management results in information asymmetry among stakeholders (Suleiman, 2014).The corporate governance and most especially the board of directors in organisations serve as monitors to the managers (Garcia Lara *et al.*, 2007). Better decisions are made by the board that comprises greatly of outside directors than a board dominated by inside directors (Tusiime&Nkundabanyanga, 2011).

The stakeholder theory was developed by Freeman (1984). Freeman (1984) stated the origin of the stakeholder concept and that the concept was first used in 1963 at Stanford Research Institute. Stakeholder is defined as "any group or individual who can affect or is affected by achievement of the organisation's objective'' (Freeman, 1984, p.46). The stakeholder theory ensures the protected of the interest of others by the company's management. Everyone affected by company's objectives in one way or the other is referred to as other stakeholders. Stakeholder is seen as networking relationship that connects different individuals and constituencies that in turn influences the governance of a company (Freeman, 1984; Donaldson & Preston, 1995). The stakeholder theory is based on the notion that beyond stakeholders, there are several agents having interest in the actions of companies. The stakeholder theory asserts that companies' responsibility that requires their attention to all parties' interest that is affected by their actions.

## III. EMPIRICAL REVIEW

Abdul-Wahab*et al.*,(2016) investigated corporate governance and earnings conservatism in Malaysia using financial and insurance companies from 2004-2009. Findings revealed that board expertise and finance, and audit committee independence increases accounting conservatism. Audit committee characteristics such as non-executive directors on the committee and frequency of meetings decreased conservatism after 2007, indicating that financial expertise and audit committee independence are an important determinant factor of conservatism. Audit committee characteristics are essential in enhancing the quality of financial reporting. The revision of the Malaysia Code of Corporate Governance in 2007 affected earnings quality. Also, Abdul-Malik (2017) investigated corporate governance and accounting conservatism using 69 listed companies on the Saudi Stock Exchange with the exclusion of the banks and insurance companies from the period of 2011-2015 and found a significant correlation between corporate governance and accounting conservatism. The corporate governance positively influences the integrity of published financial statement. However, Kootenaee,Seyyedi, Nedaei and Kootenaee (2013) investigated accounting conservatism and corporate governance mechanisms in the Tehran Stock Exchange using multiple regression model on 146 companies from the period of 2001 to 2012. Findings revealed an insignificant relation between conservatism and corporate governance, but profitability was positively related to conservatism.

Suleiman (2014) investigated the effect of corporate governance and accounting conservatism using food and beverages sector in Nigeria for the period of 2003 to 2010. The variables of corporate governance in the study include CEO duality, board size, board composition and managerial shareholding using the regression method of analysis and found a negative influence between board size and conservative reporting. However, there is a significant positive influence between independent directors and conservative reporting. They suggested a smaller board size in the food and beverages sector so as to improve on the accounting numbers. Also, Suleiman *et al.*,(2014) investigated corporate governance and conditional accounting conservatism in Nigeria using food and beverages firms from the period of 2003 to 2010. The corporate governance proxies used include CEO/Chairman separation, board size, board composition, directors' shareholding and presence of an audit committee. Augmented asymmetric accrual to cash flow was used to measure conditional accounting conservatism. Regression method of analysis was used to find the extent of influence. It therefore reveals that firms having good governance increases on conservative reporting significantly. The regulatory bodies such as the Securities and Exchange Commission and Corporate Affairs Commission should ensure that best governance practices by the boards are maintained to improve realisation of accounting numbers.

Amran *et al.,* (2014) investigated board independence and accounting conservatism in Malaysia from the period of 2000 to 2012 using the non-financial firms and found that higher board independence does not relate with higher conservatism as independent non-executive directors have no power to monitor the board of directors. Similarly, Foroghi,Amiri and Fallah, (2013) investigated corporate governance and conservatism of the Tehran Stock Exchange listed companies from 2002 to 2011. The corporate governance proxies used in the study include institutional ownership, CEO/Chair duality and percentage of inside directors. Findings suggested corporate governance having a positive and significant relation with conservatism. Their study supports that corporate governance and conservatism relationship is complementary. A firm with strong and good corporate governance will have increased conservatism in the financial report. Also, Garcia Lara *et al.,* (2007) investigated board of directors' characteristics and conditional accounting conservatism in Spanish from the period of 1997 to 2002 and found that the CEO influence on board of directors affects the degree of accounting conservatism. The presence of a strong board influences conservative accounting which serves as governance tool even in settings having low risk of litigation.

Al-Sraheen (2016) investigated conservatism accounting, board effectiveness and audit committee of listed non-financial firms in Jordan from 2009 to 2011. Findings revealed that conservatism is significantly and positively strengthened by audit committee presence in firms. Financial reporting level was seen to be low as conservatism was absent, hence the necessity of protecting shareholders' interest through the effectiveness of board of directors. Hamdan, Al-Hayale and Aboagela(2012) examined audit committee characteristics and accounting conservatism using 50 Jordanian industrial corporations listed in the Amman Stock Exchange from 2004 to 2009. The book-to-market approach and total accruals to gross profit were employed using pooled data regression and findings revealed a positive relationship between audit committee financial experience and conservatism. However, there is no significant relationship between audit committee size, independence, activity, percentage of common stock owned by audit committee and conservatism.

Xia and Zhu (2009) investigated corporate governance and accounting conservatism of listed companies in China from the period of 2001 to 2006 and found that high ownership degree of leverage, low control of ultimate shareholders and low management ownership lead to conservative reporting. Debt was seen to be most important; then ownership and board was seen to have a little influence on conservative reporting. Boussaid, Hamza and Sougne(2015) examined corporate board attributes and conditional accounting conservatism using pooled regression model in French firms from the period of 2009 to 2012.Findings suggested a positive association between board meeting frequency and board attendance with accounting conservatism. The greater the board's activity, the more conservatism reporting in the financial statement. However, a negative effect between board size and accounting conservatism as conditional accounting conservatism is diminished with the presence of large board size. Gender diversity is seen to have a positive association with accounting conservatism. The presence of female directorship in firms is seen to improve monitoring activities. There is a positive insignificant relation between board independence and conditional conservatism and no significant relationship between board leadership with conditional conservatism. Using time series, accrual-based and asymmetric timeliness of earnings, findings revealed the board of directors attributes as the determinant factor of financial reporting quality.

Garcia Lara *et al.,* (2009) investigated the association between corporate governance and conditional accounting conservatism. Their study focused to consider whether firms that have strong corporate governance has a greater level of accounting conservatism than those with weak corporate governance. Findings revealed that firms with strong governance had a significant greater level of conditional accounting conservatism. This indicates that governance and conservatism are non-substitutes. Also, firms with strong and effective governance make use of discretionary accruals so as to intimate investors about bad news timely.

## IV. METHODOLOGY

The study adopted the *ex-post facto* research design. This is a technique suitable for time order assessment of variables. The effect of the independent variables (compliance with code of corporate governance) on the dependent variable (financial reporting practices) of listed companies for the period of 15 years from 2003 to 2017. The study examined the quantitative effect of corporate governance on the financial reporting practices in quoted financial and non-financial firms in Nigeria by the use of audited financial statement, thereby extracting figures and amounts that indicate the practices in firms. The population of the study included one hundred and sixty-one (161) quoted financial and non-financial companies on the Nigerian Stock Exchange as at December 31, 2017.

The purposive sampling technique which is non-probability sampling technique was used to select quoted financial and non-financial companies that consistently publish their annual financial reports from 2003 to 2017. The criteria that were employed for the selection of sample size were that the companies must be listed on the Nigerian Stock Exchange before 2003. They must be listed for the period of the entire investigation; necessary information needed for the conduction of this study must be available.

The panel regression model was employed using the Unobserved Effect Model (UEM) which could be fixed or random effect in order to test the effect of some selected corporate governance variables on financial reporting practices. The multiple regression was employed to test the hypothesis.

CV = f(BZ, BI, BM, ACZ, ACI, ACM) …… Equation 1

The models below are for the quoted financial firms and non-financial firms.

$CV_{it}= \beta_0 + \beta_1 BZ_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 ACZ_{it} + \beta_5 ACI_{it} + \beta_6 ACM_{it} + e_{it}$ Model 1

$\beta_0$ = Intercept for each model
$\beta_1 - \beta_6$ = Coefficients of the independent variables
$e_{it}$ = Disturbance terms that absorbs effect from other variables that are ignored

## V. RESULTS AND FINDINGS

The degree of relationship between the financial reporting practices variables: earnings quality (EQ), accrual quality (AQ) and conservatism (CV). The corporate governance variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM) for the selected 60 firms, 30 firms each for the financial and non-financial firms.

**Table 1 Correlation Matrix between the Variables for Financial Firms**

| Variables | CV | BZ | BI | BM | ACI | ACM | ACZ | VIF |
|---|---|---|---|---|---|---|---|---|
| CV | 1.000 | | | | | | | N/A |
| BZ | 0.074 | 1.000 | | | | | | 4.990 |
| BI | -0.039 | **-0.541** | 1.000 | | | | | 1.510 |
| BM | 0.044 | **0.176** | 0.035 | 1.000 | | | | 1.230 |
| ACI | -0.021 | **-0.162** | **0.215** | **-0.083** | 1.000 | | | 1.420 |
| ACM | -0.012 | 0.023 | 0.021 | **0.226** | **-0.446** | 1.000 | | 1.430 |
| ACZ | -0.056 | **-0.830** | **0.480** | 0.054 | -0.066 | **0.223** | 1.000 | 4.640 |

**Source: Researcher's Study, 2019**

**Notes**: Table 1 shows the correlation matrix of the dependent and independent variables. The dependent variable include conservatism (CV). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). VIF is the measure for multicollinearity and N/A means not applicable. The values were calculated using 450 firm year observations for 30 quoted financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

The results in Table 1 show the association between conservatism and other independent variables. There is evidence that conservatism has a positive and weak association with board size and board meetings with correlation values of 0.074 and 0.044 respectively, while a negative and weak association with board independence, audit committee independence, audit committee meetings and audit committee size with correlation values of -0.039, -0.021, -0.012 and -0.056 respectively. The study used both the size of the correlation coefficient and the variance inflation factor to check for the presence of multicollinearity. It was discovered that the value of the correlation coefficient is below 0.7 and the value of the variance inflation factor is less than 5. This suggests that the explanatory variables of board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM) were not perfectly correlated for the 30 selected financial firms.

**Table 2 Correlation Matrix between the Variables for Non-Financial Firms**

| Variables | EQ | AQ | CV | BZ | BI | BM | ACI | ACM | ACZ | VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| EQ | 1.000 | | | | | | | | | N/A |
| AQ | 0.008 | 1.000 | | | | | | | | N/A |
| CV | -0.009 | 0.021 | 1.000 | | | | | | | N/A |
| BZ | -0.032 | 0.049 | -0.006 | 1.000 | | | | | | 2.390 |
| BI | -0.013 | -0.033 | -0.010 | **-0.425** | 1.000 | | | | | 1.300 |
| BM | **-0.195** | -0.021 | 0.003 | **0.150** | -0.037 | 1.000 | | | | 1.030 |
| ACI | 0.013 | 0.104 | -0.058 | **-0.280** | -0.041 | 0.013 | 1.000 | | | 1.260 |
| ACM | -0.015 | -0.053 | -0.034 | **0.093** | 0.002 | -0.013 | **0.112** | 1.000 | | 1.100 |
| ACZ | 0.068 | -0.018 | -0.020 | **-0.715** | **0.366** | **-0.109** | **0.397** | **0.126** | 1.000 | 2.440 |

**Source: Researcher's Study**

**Notes:** Table 2 shows the correlation matrix of the dependent and independent variables. The dependent variables include conservatism (CV). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). The values were calculated using 450 firm year observations for 30 quoted non-financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

Table 2 shows the correlation coefficients between the dependent and independent variables for non-financial firms. There is evidence that conservatism has a positive and weak relation with only board meetings with a correlation value of 0.003 and there is a negative and weak association between conservatism and board size, board independence, audit committee independence, audit committee meetings and audit committee size with correlation values of -0.006, -0.010, -0.058, -0.034 and -0.020 respectively.

To test for the possibility of multicollinearity, the correlation coefficient and the variance inflation factor was used, and it was discovered that the correlation coefficient values are less than 0.7 and the values of the variance inflation factor are less than 5. This implies that the explanatory variables used in this study are not perfectly correlated.

The regression results based on pooled OLS. The Hausman test is conducted to determine a more efficient model. Significance of the hausman test implies a fixed effect; otherwise, we use the random effect. However, further test is conducted before the use of random effect model, Bresuch-Pagan Langragian multiplier for random effect is conducted. When significant, we use the random effect for the purpose of our analysis, otherwise we use the pooled OLS.

The Pooled OLS is used, In addition, Panel B of the table presents the Adjusted R-square, F-statistic, Hausman test, Breush-Pagan Langragian multiplier test for random effects, serial correlation test, heteroscedasticity test and the Pesaran cross sectional dependence test.

**Table 3 Pooled Effect of Corporate Governance on Conservatism**

**Dependent Variable: CV**

| | **Financial Sector** | | | **Non-Financial Sector** | | |
|---|---|---|---|---|---|---|
| **Variables** | **Coefficient** | **t-stat** | **p-value** | **Coefficient** | **t-stat** | **p-value** |
| BZ | 0.261 | 2.313 | (0.035) | 0.261 | 2.739 | (0.041) |
| BI | 0.401 | 5.617 | (0.000) | 0.399 | 2.524 | (0.046) |
| BM | 0.103 | 0.715 | (0.475) | 0.058 | 0.153 | (0.879) |
| ACZ | 0.014 | 0.053 | (0.958) | -0.046 | -0.164 | (0.870) |
| ACI | -0.162 | -0.375 | (0.707) | -0.358 | -1.197 | (0.232) |
| ACM | -0.145 | -0.574 | (0.567) | -0.281 | -0.433 | (0.665) |
| Constant | -0.055 | -0.109 | (0.913) | 0.600 | 0.979 | (0.328) |
| Adjusted $R^2$ | 0.46 | | | 0.44 | | |
| F | 13.42 (0.003) | | | 18.38 (0.002) | | |
| Wald Test | - | | | - | | |
| Hausman Test | 5.69 (0.459) | | | 1.17 (0.978) | | |
| Bresuch-Pagan RE Test | 0.00 (1.000) | | | 0.32 (0.285) | | |
| Heteroscedasticity Test | 18881.23(0.000) | | | 4.3e+0.5 (0.000) | | |
| | 0.307 (0.584) | | | 1.072 (0.308) | | |
| Serial Correlation Test | 1.47 (0.141) | | | 0.827 (0.408) | | |
| Pesaran CD Test | 450 | | | 450 | | |
| Observations | | | | | | |

**Notes:** Table 4.7 reports Pooled OLS regression results of the effects of corporate governance on accounting conservatism. The dependent variable is conservatism (CV) and the explanatory variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM). The probability values are in parentheses.

Table 3 reports the regression results of the effects of corporate governance on conservatism in selected financial listed firms. There is evidence that board size, board independence, board meetings and audit committee size have a positive relationship with conservatism in financial listed firms in Nigeria, while audit committee independence and audit committee meetings have a negative relation with conservatism among selected financial firms in Nigeria. In addition, there is evidence that board size and board independence have a significant positive relationship with conservatism among selected listed financial firms in Nigeria (BZ= 0.261, *t*-test = 2.313, p = 0.035<0.05, BI=0.401, *t*-test = 5.617, p = 0.000<0.05). This implies that board size and board independence were significant factors influencing changes in the conservatism of selected listed financial firms in Nigeria. In sharp contrast, board meetings and audit committee size have an insignificant positive relation with conservatism of financial firms in Nigeria (BM = 0.103, *t*-test= 0.715, p = 0.475>0.05, ACZ= 0.014, *t*-test=

0.053, p = 0.958>0.05), while audit committee independence and audit committee meetings have an insignificant negative relation with conservatism of financial firms in Nigeria (ACI= -0.162, *t*-test= -0.375, p = 0.707>0.05, ACM= -0.145, *t*-test = -0.574, p = 0.567>0.05). This implies that board meetings, audit committee size, audit committee independence and audit committee meetings were not significant factors influencing changes in conservatism of selected financial firms in Nigeria.

Concerning the magnitude of the estimated parameters, the coefficients for the financial firms are 0.261, 0.401, 0.103, 0.014, -0.162 and -0.145. This implies that a unit increase in board size, board independence, board meetings and audit committee size will lead to 0.261, 0.401, 0.103 and 0.014, increase in conservatism respectively, while a unit increase in audit committee independence and audit committee meetings will lead to decrease of 0.162 and 0.145 in conservatism of selected financial firms in Nigeria respectively.

The Adjusted $R^2$ measures the proportion of the changes in conservatism in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings. This explains about 46 per cent changes in conservatism in Nigeria, while the remaining 54 per cent were other factors explaining changes in conservatism for financial firms but were not captured in the model.The F- test of 13.42 is statistically significant with $p < 0.05$. This indicates that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in conservatism in selected financial firms in Nigeria.

For the quoted financial firms, at the level of significance of 0.05, the F- test is 13.42 and P-value of 0.003 which is less than 0.05. On the overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has no significant effect on conservatism in quoted financial firms in Nigeria was rejected. Thus, the alternative hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on conservatism in quoted financial firms in Nigeria was accepted at 5 per cent level of significance.

In addition, Table 3 reports the regression results of the effects of corporate governance on conservatism in selected non-financial listed firms. There is evidence that board size, board independence and board meetings have a positive relationship with conservatism in non-financial listed firms in Nigeria, while audit committee size, audit committee independence and audit committee meetings have a negative relation with conservatism among selected non-financial firms in Nigeria. In addition, there is evidence that board size and board independence have a significant positive relationship with conservatism among selected listed non-financial firms in Nigeria (BZ= 0.261, *t*-test = 2.739, p = 0.041<0.05, BI=0.399, *t*-test = 2.524, p = 0.046<0.05). This implies that board size and board independence were significant factors influencing changes in the conservatism of selected listed non-financial firms in Nigeria. In sharp contrast, board meetings has an insignificant positive relation with conservatism of non-financial firms in Nigeria (BM = 0.058, *t*-test= 0.153, p = 0.879>0.05), while audit committee size, audit committee independence and audit committee meetings have an insignificant negative relation with conservatism of non-financial firms in Nigeria (ACZ= -0.046, *t*-test= -0.164, p = 0.870>0.05, ACI= -0.358, *t*-test= -1.197, p = 0.232>0.05, ACM= -0.281, *t*-test = -0.433, p = 0.665>0.05). This implies board meetings, audit committee size, audit committee independence and audit committee meetings were not significant factors influencing changes in conservatism of selected non-financial firms in Nigeria.

Concerning the magnitude of the estimated parameters, the coefficients for the non-financial firms are 0.261, 0.399, 0.058, -0.046, -0.358 and -0.281. This implies that a unit increase in board size, board independence and board meetings will lead to 0.261, 0.399 and 0.058, increase in conservatism respectively, while a unit increase in audit committee size, audit committee independence and audit committee meetings will lead to decrease of 0.046, 0.358 and 0.281 in conservatism of selected non-financial firms in Nigeria respectively.

The Adjusted $R^2$ measures the proportion of the changes in conservatism in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings. This explains about 44 per cent changes in conservatism in Nigeria, while the remaining 56 per cent were other factors explaining changes in conservatism for non-financial firms but were not captured in the model.The F- test of 18.38 is statistically significant with $p < 0.05$. This indicates that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in conservatism in selected non-financial firms in Nigeria.

For the quoted financial firms, at the level of significance of 0.05, the F- test is 18.38 and P-value of 0.002 which is less than 0.05. Overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has no significant effect on conservatism in quoted non-financial firms in Nigeria was rejected. Thus, the alternative hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has significant effect on conservatism in quoted non-financial firms in Nigeria was accepted at 5 per cent level of significance.

The paper revealed that board size had a significant positive effect on conservatism of quoted financial and non-financial firms in Nigeria. Board size improves the ability of firms to incorporate economic losses into accounting earnings timely for both quoted financial and non-financial firms in Nigeria. This study is in contrast with the findings of Suleiman (2014) who found a negative influence between board size and conservative reporting. Also, Boussaid, Hamza and Sougne (2015) found a negative effect between board size and accounting conservatism as conservatism is diminished with the presence of larger board size. Smaller board size tends to improve the accounting numbers and Kootenaee, Seyyedi, Nedaei and Kootenaee (2013) who found an insignificant relation between conservatism and corporate governance.

Board independence had a positive significant effect on conservatism of financial and non-financial firms in Nigeria. This means that independent directors have the knowledge in monitoring accounting quality effectively. This supports the findings of Boussaid, Hamza and Sougne (2015) who found a positive relation between board independence and conservatism. Abdul-Wahab, Madah and Haron (2016) found audit committee independence increases accounting conservatism. The study also supports the findings of Suleiman (2014) who found a significant positive influence between independent directors and conservative reporting. Also, Abdul-Malik (2017) found a significant correlation between corporate governance and accounting conservatism. The corporate governance positively influences the integrity of published financial statement. Also, the findings support Foroghi, Amir and Fallah (2013) who found corporate governance having a positive and significant relation with conservatism. Their study supports that corporate governance and conservatism relationship is complementary. This is in contrast with the findings of Kootenaee, Seyyedi, Nedaei and Kootenaee (2013) who found an insignificant relation between conservatism and corporate governance.

Board meetings had an insignificant positive effect on conservatism of financial and non-financial firms in Nigeria. This means that board meetings increase the ability of firms to incorporate economic losses into accounting earnings timely but not in a sufficient manner. Board meetings enable the practices which reflect better accounting choices in firms. This study is in line with the study carried out by Boussaid, Hamza and Sougne (2015) who found a positive association between board meeting frequency with accounting conservatism.

Audit committee size had an insignificant positive effect on conservatism of financial firms in Nigeria. This means that audit committee size increases the ability of firms to incorporate economic losses into accounting earnings timely but not in a sufficient manner. This study supports the findings of Hamdan, Al-Hayale and Aboagela (2012) who found no significant relationship between audit committee sizes with conservatism. The study is not in conformity with the findings of Al- Sraheen (2016) who found that conservatism is significantly and positively strengthened by audit committee presence in firms. Also, Abdul-Malik (2017) found a significant positive correlation between corporate governance and accounting conservatism.

Audit committee size had an insignificant negative effect on conservatism of non-financial firms in Nigeria. Audit committee size does not spur firms in disclosing losses immediately. The study negates the findings of Al- Sraheen (2016) who found that conservatism is significantly and positively strengthened by audit committee presence in firms. Also, Abdul-Malik (2017) found a significant positive correlation between corporate governance and accounting conservatism.

Audit committee independence has an insignificant negative effect on conservatism of financial and non-financial firms in Nigeria. This means that audit committee independence does not transform in the ability of firms to incorporate economic losses into accounting earnings timely. This negates the findings of Abdul-Malik (2017) who found a significant correlation between corporate governance and accounting conservatism. The corporate governance positively influences the integrity of published financial statement.

Audit committee meetings have an insignificant negative effect on conservatism of financial and non-financial firms in Nigeria. Increase in audit committee meetings does not spur firms to disclose losses immediately. This study contradicts the findings of Al- Sraheen (2016) who found that conservatism is significantly and positively strengthened by audit committee presence in firms. Also, Abdul-Malik (2017) found a significant positive correlation between corporate governance and accounting conservatism.

This paper aligns with agency theory of the importance of monitoring the activities of managers, and better decisions are made of board that comprises greatly of outside directors than a board that is dominated by inside directors (Tusiime&Nkundabanyanga, 2011). The board independence tends to exercise a greater and better control on the activities of managers of firms. The board of directors in organisations serves as monitors to the managers (Garcia Lara *et al.*, 2007). The effectiveness of the board is essential with the practices carried out in firms.

**Implications to Research**

The managements of quoted financial and non-financial firms in Nigeria are knowledgeable of their compliance level with code of corporate governance and its influence on the financial practices. This would assist them on improvement with their compliance level so as to improve on the company's image.The shareholders are aware about the financial reporting practices of firms, aiding their imperative informed economic decisions to further invest in the firms. Stakeholders are equally provided with information about the various financial practices in firms to know about their true state of affairs, thereby enhancing their decision-making process.

Government and regulators are provided with the information about the level of compliance with the code of corporate governance by quoted firms in Nigeria which enables them implement policies to improve and develop the code of corporate governance that would enhance the corporate images, growth and market value of companies in Nigeria which translate to the government generating more revenue for the country.

## VI. CONCLUSION

The paper examined effect of corporate governance on conservatism of quoted financial and non-financial firms in Nigeria. Findings revealed that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on conservatism of quoted financial and non-financial firms in Nigeria. The study concluded that corporate governance has a significant effect on conservatism of quoted financial and non-financial firms in Nigeria.

The paper revealed that corporate governance has a significant effect on conservatism for both quoted financial and non-financial firms in Nigeria. Conservatism is significantly and positively influenced by the board size and board independence of quoted financial and non-financial firms in Nigeria. The study therefore concluded that corporate governance has a significant effect on conservatism, especially the board size and board independence of quoted financial and non-financial firms in Nigeria.

Conclusively, the successful existence of companies relies on compliance with corporate governance, thereby adopting financial practices that will bring about credibility of the financial reports of quoted financial and non-financial firms. Therefore, good corporate governance affects the financial practices of firms which boost corporate images, growth and market value of companies.

**Future research**

This paper focused on corporate governance and conservatism of quoted financial and non-financial firms in Nigeria. Future research can investigate using control variables.

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