



Ownership Concentration and Accounting Conservatism: The Moderating Role of Board Independence

Thi Minh Hang Nguyen ¹, Anh Tho To ^{1*}, Thi Huyen Phan ¹, Nhat Phuong Diem Ngo ¹,
Thi Thu Hong Ho ¹

¹ University of Finance - Marketing, Ho Chi Minh, Viet Nam.

Abstract

The purpose of this study is to examine the moderating effect of board independence on the relationship between ownership concentration and accounting conservatism. Using fixed-effect regressions for a sample of 165 Vietnamese listed companies from 2007 to 2017, the results revealed that the proportion of outstanding shares owned by the largest shareholder is negatively associated with accounting conservatism and board independence plays a moderating role in this relationship. Our results are robust after applying alternative measures of the largest ownership and correcting for potential endogeneity using fixed-effects regression with instrumental variables. Overall, our evidence shows that firms with concentrated ownership should keep a high non-executive ratio to maintain accounting conservatism. In other words, increasing the number of non-executive directors on boards in firms with a substantial proportion of shares held by the largest shareholder is likely to strengthen the information environment, giving financial reporting more credibility.

JEL Classification: G30; G32.

Keywords:

Large Shareholder;
Accounting Conservatism;
Emerging Market;
Fixed Effects.

Article History:

Received:	04	July	2022
Revised:	02	September	2022
Accepted:	21	September	2022
Available online:	12	October	2022

1- Introduction

The absence of accurate information for shareholders comes from the separation of ownership and control, which causes management to overcompensate [1]. Accounting conservatism is supposed to act as a substitute for corporate governance mechanisms in terms of allowing shareholders to watch and make judgments about managerial behavior [2, 3]. Being shareholders, they might not gain fulfill in-depth information about the organization's operation, which leads to difficulties in their final decisions [4]; therefore, accounting reports are a fundamental and essential source of information for shareholders. In accounting principles, conservatism is the one that requires companies to prepare their financial statements with caution and to exercise a high degree of verification in uncertain situations. Indeed, results from previous studies have shown that more conservative accounting is required by companies with more severe agency issues in the principal-agent relationship [5, 6].

Accounting conservatism can help directors reduce deadweight losses by giving them an early signal for the investment in the existence of negative net present value projects [7, 8], in the way that the accounting principle requires all probable expenses and liabilities to be recorded as soon as they are discovered, whereas revenues and assets can only be registered once they are fully realized. It has also been proven that accounting conservatism can help raise the value of the company and its stock. Accounting conservatism could facilitate directors, particularly outside directors, as a beneficial tool in showing their responsibilities of ratifying and monitoring crucial decisions [9]. As a result, the stronger board with more independence in decision-making is likely to be efficient at appreciating the benefits of conservatism,

* **CONTACT:** totho@ufm.edu.vn

DOI: <http://dx.doi.org/10.28991/ESJ-2023-07-01-07>

© 2023 by the authors. Licensee ESJ, Italy. This is an open access article under the terms and conditions of the Creative Commons Attribution (CC-BY) license (<https://creativecommons.org/licenses/by/4.0/>).

so they are more inclined to require conservative accounting practices [10]. Insider-dominated boards or boards with limited monitoring incentives, on the other hand, are more likely to allow managers to employ aggressive (less conservative) accounting.

However, shareholder-manager agency problems pose consequences seriously in developed economies but not much in emerging countries and even could be mitigated by ownership concentration which causes a more serious conflict between majority and minority shareholders [11]. The shareholders who own the most significant shares can have authority to determine the company's organization and operation, by voting for a board of directors. Hence, determinations of the management council are usually made in favor of the demands of majority shareholders, even if this action is potentially harmful to minority shareholders. According to Cullinan et al. [4], an inverse proportion is observed between the ratio of shares owned and the accounting conservatism. This relationship becomes more significant if 30% of the outstanding stocks are controlled by the largest shareholders.

Although a state-owned enterprise (SOE) equitization process began in the 1990s, state ownership still accounts for a considerable fraction of listed corporations, particularly in Vietnam [12]. As a result, the state, as the majority owner, influences the nomination of non-executive directors in Vietnam. Before 2012, many publicly listed companies had a low ratio of non-executive directors. Then, in July 2012, Circular 121/2012/TT-BTC was adopted to define a new concept of "non-executive directors" to improve transparency and information disclosure [13]. For instance, the non-executive directors, who are not affected by management decisions, could improve board independence. Furthermore, this regulation has made it easier for non-state investors to trust and invest more in publicly listed companies, so that large ownership has steadily shifted from state to private and foreign ownership. Also, there is an increase in the appearance of huge financial organizations with successful investment expertise in many developed markets. As a result, the number of qualified non-executive directors has received significant attention and has gradually increased. Hence, the role of non-executive directors in moderating the relationship between the largest shareholder and accounting conservatism will be investigated in this article, which has not been researched in both developed and developing markets. It contributes to a better understanding of the linkage between the largest shareholder and accounting conservatism in emerging economies like Vietnam, a particularly specialized market.

The remainder of the paper follows the structure: Section 2 outlines the expected connections between concentrated ownership and accounting conservatism, as well as the moderating role of board independence. Section 3 describes the measurement of variables, summarizes the sample, and presents the analyzing method. The key empirical results are discussed in Section 4. Our conclusions are discussed in the final section.

2- Literature review

2-1- Accounting Conservatism and Corporate Governance

The conservatism principle in accounting requires the use of higher standards to record bad news as losses and good news as gains in a company's financial statements. The accruals will disappear if conservatism is not practiced, and the net income will eventually converge into cash flow. Besides, earnings are generally recognized on an accrual basis, so the asymmetric disclosure in the timeliness of earnings also influences accruals. Negative net accruals occur from the timely recognition of losses and the recognition of progressive gains. Therefore, conservatism can be estimated using the level and rate of cumulative negative net accruals [14-17].

It is said that contracting between managers and shareholders could be more efficient by implementing conservatism. The conflicts between managers and shareholders arise from the separation of ownership and management, which results in the two parties' interests being less consistent with each other. Managers are motivated to shift prosperousness from shareholders to themselves or distract them from creating wealth for shareholders, leading to a deadly cost to the company. According to previous research, accounting conservatism assists directors and shareholders in foreseeing managerial opportunistic behaviors. In other words, accounting conservatism can act as a useful monitoring manner for directors and shareholders, reducing disagreements between managers and shareholders [14, 18, 19].

In addition, Ball (2001) [20] mentions conservatism as a governance mechanism that enhances the efficiency of capital allocation by overseeing the investment policies and monitoring the investment decisions of managers. The short-term intention of funding in negative NPV projects could be prevented by the requirement of accounting conservatism which forces managers not to delay losses recognition anymore [21], as well as impose higher costs on biasing financial statements upwards [22]. Consequently, the conservative principle in accounting can be implemented to incentivize management to cut losses earlier and prevent investment in underperforming projects. Furthermore, implementing this principle helps to monitor debt contracts, leading to earlier detection of debt covenant violations [23, 8]. Conservative accounting enhances the effectiveness of contracts between internal parties by restricting the influence of loss-making managers and shifting such rights to financial suppliers early [23]. Another factor is that stockholders' desire to pay as little tax as possible. Conservatism identifies losses more quickly than profits, deferring tax payments and increasing firm value.

2-2- The Impact of Large Shareholders on Accounting Conservatism

A controlling shareholder, often referred to as a block holder, is a person or entity that owns at least 5% of the total number of outstanding shares [24]. According to Leech and Leahy (1991) [25], the controlling shareholder is more likely to actively monitor management. Therefore, ownership concentration can be used to monitor managers' behaviors as an alternative to accounting conservatism. In other words, ownership concentration and accounting conservatism are negatively associated with each other.

The entrenchment impact of large stockholders can also explain this negative relationship. The ownership is usually concentrated in companies from Southeast Asia, while the relationship is decentralized in Western companies [26]. Directors in the listed companies in Southeast Asia, which are owned by family members or the government, typically have decisions for maximizing their interests rather than the other shareholders'. High concentrations of ownership and control may also lead to inefficient or excessive investment [27]. Instead of fairly allocating funds among all shareholders, they have an incentive to pay out a higher amount of the company's cash flows to themselves. Previous research has shown that large shareholders can have a significant impact on the organization of a company and the quality of its financial statements. Chen et al. (2001) [28] observe that companies with highly concentrated shareholdings "may have fewer incentives to improve the quality of reported financial statements". Lin and Liu (2009) [29] discovered that Chinese companies with controlling shareholders pay less attention to the quality of their financial statements, as shown by the engagement of lower-quality auditors. If the largest shareholder's actions result in wealth transfers from minority owners, efficiencies will be affected and degraded in the company's operation [26, 30]. Management might conceal unfavorable effects on the minor shareholders by adopting decisions with a lack of accounting conservatism.

H1: The percentage of shares owned by the largest shareholder is negatively related to accounting conservatism.

2-3- The Moderating Role of Board Independence

Conservatism could be a beneficial tool for directors (especially outside directors) in carrying out their responsibilities of ratifying and monitoring major decisions. Stronger boards are more likely to demand more conservative accounting because they are more skilled at efficient contracting and recognize the benefits of conservatism. According to Beekes et al. (2004) [18], UK companies with a higher ratio of non-executive directors are more likely to identify bad news sooner. Insider-dominated boards or boards with limited monitoring incentives, on the other hand, are more likely to allow managers to employ less conservative accounting. Ahmed and Duellman (2007) [14] show that for a US sample, (i) the percentage of inside directors is adversely associated with conservatism, and (ii) the percentage of outside directors' shareholdings is favorably connected to conservatism, using three distinct metrics of conservatism. Dewu (2008) [31] focused on the supervisory influence of independent directors, claiming that independent directors might encourage more accounting conservatism practicing and that better corporate governance might amplify this influence. According to Chen and Wei (2007) [32], increasing the number of independent members of the board will not delay the reflection of bad news, enhancing accounting conservatism. According to this viewpoint, board independence is favorably related to accounting conservatism. On the other hand, Bushman et al. (2004) [33] discovered that enterprises, which possess different incomes, conduct better procedures for corporate governance. The recognition of bad news in earning earlier than good news by conservatism practicing can be replaced by the presence of the outside ownership directors. However, according to Garcia Lara et al. (2009) [19], the effects of the substitution are comparably small to the relationship between conservatism and strength in corporate governance.

Recent studies have demonstrated that non-executive directors, without direct management, can employ the governance process, and mitigate agency concerns through informed trading [34, 35]. Furthermore, previous research has indicated that corporate control activities, e.g., an introduction of non-executive directors, lead to refocusing events [36]. As a result, conservatism is increasingly demanded, which consistently follows the research outcome from Chen and Wei (2007) [32], i.e., outside shareholders require more conservative financial reporting processes.

Many listed companies in Vietnam have historically been inefficient state-owned enterprises. Before Vietnam became the 150th member of the World Trade Organization (WTO) and Circular 121/2012/TT-BTC came into effect, the number of non-executive directors on the listed companies' boards is limited. Since the implementation of Circular 121/2012/TT-BTC in 2012, their role has gradually improved. Circular 121 formally established additional corporate governance regulations for public companies. It produced a more transparent environment, which has encouraged the divestment of state-owned companies under Vietnam's "Equitization Program". Starting in 1992, the project belonged to the State-owned Company Reformation Plan to enhance SOEs' performance. Large non-state stockholders emerged as a result of these policies. Many of them were international organizations with a track record of successful stock market investments, and they were anticipated to strengthen corporate governance and information openness by boosting the proportion of qualified non-executive directors.

H2: The presence of non-executive directors is positively related to accounting conservatism.

H3: The presence of non-executive directors in firms with more concentrated ownership is likely to increase accounting conservatism.

3- Methodology

3-1- Data

165 Vietnamese public firms, listed on the Hochiminh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX) between 2007 and 2017, are included in the research. According to World Bank statistics (<https://data.worldbank.org>), the Vietnamese stock market had 330 listed companies by the end of 2008; so, the sample of 165 companies is very representative. Governance-related variables were manually gathered from annually published reports. Financial variables are collected from DataStream. Based on the ICB (Industry Classification Benchmark) industry classification, Table 1 shows the distribution of our sample.

Table 1. Industry distribution

Industry	Number of Companies	Percentage
Basic Materials	14	8.48
Consumer Goods	34	20.61
Consumer Services	9	5.45
Health Care	3	1.82
Industrials	86	52.12
Oil & Gas	8	4.85
Technology	4	2.42
Telecommunications	1	0.61
Utilities	6	3.64
Total	165	100

3-2- Measurement of Variables

Following Ahmed and Duellman (2013) [15] and Givoly and Hayn (2000) [37], accounting conservatism reflects negative accounting accruals. In other words, the higher the negative accruals, the higher the level of conservative accounting in corporate financial reporting.

State ownership, massive block shares, board size, and board independence are the corporate governance characteristics examined in this study. This study contains some control variables to assure the reliability of the results and to eliminate potential bias: financial leverage, firm size, and growth opportunities. According to the agency theory, a high degree of leverage requires more conservative accounting because it increases the likelihood of conflict between owners and creditors [14]. As a result, leverage may have a positive impact on accounting conservatism. According to Nguyen et al. (2020) [38], we expect a negative connection between firm size and accounting conservatism because larger firms are more visible to capital markets and have less information asymmetry. Furthermore, when estimating accounting conservatism, growth opportunities should be controlled since they introduce disparities that are unrelated to the asymmetric incorporation of news into earnings [14, 39]. Table 2 lists all of the variables.

Table 2. Variable definitions and measurement

Variable	Definition
CONACC	$\text{Accounting conservatism} = \frac{\text{EBEXT}_{it} + \text{DEP}_{it} - \text{OCF}_{it}}{\text{TA}_{it}} \times (-1)$ <p>EBEXT_{it} = Income before tax and extraordinary items DEP_{it} = Depreciation Charge for the year OCF_{it} = Operating Cash Flow TA_{it} = Total Assets</p>
LARGE1, LARGE2, LARGE3	The percentages of shares held by the three largest shareholders, respectively.
Diff1	The difference between LARGE1 and LARGE2.
Diff2	The difference between LARGE1 and LARGE3.
STATE	A dummy variable equals 1 if the percentage of shares held by the state > 30%, and zero otherwise.
LEV	Leverage, computed as (total liabilities)/(total assets).
FSIZE	Firm size, computed as ln(total assets).
BSIZE	Board size, computed as ln(number of directors).
BINDEP	Board independence, calculated as the percentage of non-executive directors on the board.
GRT	Growth opportunities, calculated as the annual percentage increase in total assets.

3-3- Empirical Model

We utilize year and industry fixed effects regressions with firm-level clustering standard errors for the following models to assess the effect of the largest shareholder's ownership on accounting conservatism and the moderating effect of board independence on this relationship:

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{LARGE1}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{BSIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{FSIZE}_{it} + \beta_6 \text{GRT}_{it} + \beta_7 \text{STATE}_{it} + \varepsilon_{it} \quad (1)$$

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{LARGE1}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{LARGE1}_{it} * \text{BINDEP}_{it} + \beta_4 \text{BSIZE}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{FSIZE}_{it} + \beta_7 \text{GRT}_{it} + \beta_8 \text{STATE}_{it} + \varepsilon_{it} \quad (2)$$

Moreover, Diff1 and Diff2 are also used as alternatives for LARGE1 to ensure that the assessment results are robust. The difference between LARGE1 and LARGE2 is represented by Diff1. The difference between LARGE1 and LARGE3 is represented by Diff2.

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{Diff1}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{BSIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{FSIZE}_{it} + \beta_6 \text{GRT}_{it} + \beta_7 \text{STATE}_{it} + \varepsilon_{it} \quad (3)$$

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{Diff1}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{Diff1}_{it} * \text{BINDEP}_{it} + \beta_4 \text{BSIZE}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{FSIZE}_{it} + \beta_7 \text{GRT}_{it} + \beta_8 \text{STATE}_{it} + \varepsilon_{it} \quad (4)$$

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{Diff2}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{BSIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{FSIZE}_{it} + \beta_6 \text{GRT}_{it} + \beta_7 \text{STATE}_{it} + \varepsilon_{it} \quad (5)$$

$$\text{CONACC}_{it} = \beta_0 + \beta_1 \text{Diff2}_{it} + \beta_2 \text{BINDEP}_{it} + \beta_3 \text{Diff2}_{it} * \text{BINDEP}_{it} + \beta_4 \text{BSIZE}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{FSIZE}_{it} + \beta_7 \text{GRT}_{it} + \beta_8 \text{STATE}_{it} + \varepsilon_{it} \quad (6)$$

Although the fixed effects model can minimize unobservable heterogeneity, the calculated coefficients may still be biased if the dependent and explanatory variables are simultaneously determined. This endogeneity problem, according to Wintoki et al. (2012) [40], should be taken into account more because it can hamper causal inference in corporate governance studies. We utilize the instrumental variable fixed-effects regressions recommended by Correia (2018) [41] to avoid the endogeneity bias. This method requires instrumental variables to be highly correlated with endogenous variables but not correlated with the error term or unexplained variations in volatility. We use STATE_{t-1} and LARGE1_{t-1} as instruments for LARGE1, Diff1, and Diff2 (potential endogenous variables).

The main steps of our research process are summarized in Figure 1.

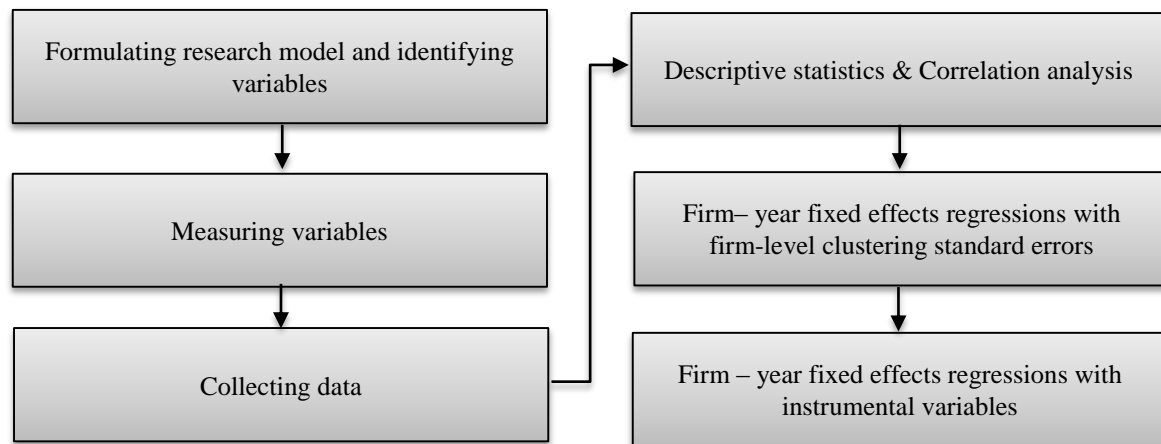


Figure 1. Flowchart of the research methodology

4- Results and Discussion

The average accounting conservatism (CONACC) is -0.05, as seen in Table 3. The negative number reflects the firms' proclivity for being conservative in their financial statements. The average largest ownership (LARGE1) is 38.23%, suggesting that the block owner owns a large proportion of the shares. Board Independence (BINDEP) is 57 percent on average. This is under the Vietnamese governance rule, which stipulates that at least one-third of the board members must be non-executives.

Table 3. Description statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CONACC	1773	-0.05	0.16	-1.13	1.80
LARGE1 (%)	1794	38.23	18.54	0.00	87.46
Diff1 (%)	1790	30.68	21.04	0.00	87.46
Diff2 (%)	1786	35.55	20.09	0.00	87.46
BINDEP	1815	0.57	0.21	0.00	1.00
BSIZE	1815	1.49	0.35	0.69	2.71
LEV	1815	0.48	0.22	0.02	0.95
FSIZE	1815	8.79	0.62	7.08	10.72
GRT (%)	1650	0.16	0.65	-0.67	20.17
STATE	1815	0.54	0.50	0	1

The correlation matrix is shown in Table 4. Although there is no association between LARGE1 and CONACC, there is a minor negative correlation between Diff1/Diff2 and CONACC. This supports our hypothesis that block stockholders are associated with less conservative financial statements. Meanwhile, the largest ownership and state ownership have a strong association, illustrating the state shareholder's dominance in listed companies. It's because many of the companies on the stock exchange have historically been state-owned. Despite the government's reform initiatives, the proportion of state ownership in listed companies has remained high. However, because the variables have a correlation of less than 0.8, multicollinearity may not exist. We look at the VIF coefficients as well, but they're all less than ten. As a result, multicollinearity isn't a concern in our research.

Table 4. Correlation matrix

	LARGE1	Diff1	Diff2	CONACC	BINDEP	LogBSIZE	LEV	FSIZE	GRT
CONACC	0.000	-0.009	-0.009						
BINDEP	0.065	-0.021	0.038	0.030					
LogBSIZE	0.109	0.130	0.111	0.014	-0.304				
LEV	0.154	0.177	0.162	0.054	-0.080	0.250			
FSIZE	0.160	0.137	0.145	-0.016	0.105	0.510	0.311		
GRT	-0.040	-0.014	-0.029	-0.110	-0.009	-0.025	0.083	0.064	
STATE	0.641	0.618	0.647	-0.025	0.059	0.132	0.070	0.055	-0.022

Table 5 shows the results of the fixed effects regression. At the 10% level, the LARGE1 coefficient is substantial, implying that the largest ownership has a detrimental impact on accounting conservatism. Furthermore, at the 10% level, both Diff1 and Diff2 coefficients are strongly negative, showing that the large disparity in the percentages of shares held by the largest shareholder and other major shareholders restricts the level of accounting conservatism. This conclusion might be interpreted in part as a control mechanism in Vietnam, where the high proportion of ownership can be used to monitor management instead of strict accounting. This finding is consistent with Apadore and Noor (2013) [42] and Astami and Tower (2006) [43].

Ownership concentration improves shareholder oversight and is thought to be a regulator of managers' opportunistic conduct. Furthermore, the negative impact of the largest ownership means that the ownership concentration in the listed companies resulted in a stronger entrenchment effect, which reduced accounting report transparency. This hypothesis is more acceptable when the ownership structure of Vietnamese listed companies is more concentrated than in developed countries. This viewpoint is consistent with Cullinan et al. (2012) [4], who claim that the greatest shareholder may have the ability to exert control over the organization and that managers tend to act in ways that suit the interests of the largest shareholder, even though these actions may be harmful to minority ones. They also point out that when the percentage of shares owned by the largest investor comes to over 30, the negative relationship is especially stronger. Wu (2011) [44] also found that after controlling for size, leverage, and growth opportunity, the proportion of the largest shareholder ownership statistically caused negative effects on accounting conservatism, using 5762 firm-years data from China stock exchanges in the years 2001 and 2005. According to this author, the greatest shareholder can encourage corporations to choose aggressive accounting rules that reflect the largest shareholder's interests rather than the economic substance of business transactions.

Table 5. Fixed effects regressions

CONACC						
LARGE1	-0.00129*	-0.00317***				
	(-1.67)	(-3.13)				
LARGE1*BINDEP		0.00312***				
		(2.63)				
Diff1			-0.00110*	-0.00223***		
			(-1.88)	(-2.80)		
Diff1*BINDEP				0.00185*		
				(1.90)		
Diff2					-0.00119*	-0.00267***
					(-1.68)	(-2.66)
Diff2* BINDEP						0.00238**
						(2.24)
BINDEP	0.0703**	-0.0511	0.0633**	0.00773	0.0659**	-0.0193
	(2.48)	(-0.97)	(2.22)	(0.21)	(2.32)	(-0.43)
BSIZE	0.0479**	0.0438**	0.0465**	0.0444**	0.0449**	0.0416**
	(2.49)	(2.29)	(2.44)	(2.35)	(2.35)	(2.21)
LEV	0.155***	0.160***	0.152***	0.157***	0.151***	0.155***
	(3.02)	(3.10)	(3.01)	(3.11)	(2.95)	(3.02)
FSIZE	-0.122***	-0.119***	-0.122***	-0.121***	-0.121***	-0.118***
	(-3.59)	(-3.52)	(-3.65)	(-3.60)	(-3.51)	(-3.43)
GRT	-0.0172	-0.0173	-0.0166	-0.0166	-0.0170	-0.0171
	(-1.25)	(-1.26)	(-1.20)	(-1.21)	(-1.24)	(-1.25)
STATE	-0.0158	-0.0151	-0.0172	-0.0157	-0.0153	-0.0135
	(-0.36)	(-0.34)	(-0.38)	(-0.35)	(-0.37)	(-0.33)
Constant	0.872***	0.922***	0.869***	0.894***	0.864***	0.892***
	(3.07)	(3.32)	(3.12)	(3.26)	(3.03)	(3.19)
Observations	1603	1603	1601	1601	1598	1598
Year	Yes	Yes	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes	Yes	Yes
F-statistics	3.85***	3.93***	3.78***	3.72***	3.77***	3.64***
R square	0.0481	0.0512	0.0482	0.0497	0.0490	0.0511

Note: ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 5 also revealed a link between accounting conservatism and the proportion of non-executive directors. Ahmed & Duellman (2007) [14] and Nasr and Ntim (2018) [45] got the same result. This finding suggests that non-executive directors are more likely to use conservative accounting as a management control technique. Lin et al. (2011) [46] also found that independent directors have a beneficial impact on accounting conservatism in a sample of A-shares are market listed companies in Shanghai and Shenzhen from 2007 to 2009. It indicates that as the percentage of non-executive directors rises, accounting conservatism rises.

Table 5 shows that the estimated coefficient on the interaction term between BINDEP and LARGE1 is positive at the significance level of 1%, indicating the moderating influence of board independence on the connection between the largest ownership and accounting conservatism. The findings imply that the largest ownership-accounting conservatism link is weakened by board independence. In other words, in companies with a substantial number of shares held by the largest shareholder, keeping a high non-executive director ratio helps to increase accounting conservatism. When we replace LARGE1 with Diff1 and Diff2, the findings remain the same. Furthermore, because the coefficients of BSIZE are notably positive at the level of 5%, high board sizes promote accounting conservatism, emphasizing the monitoring role of powerful boards once again. This finding agrees with Ahmed and Henry (2012) [47], who found a similar impact in Australia.

Regarding the financial control variables in Table 5, the firm size and leverage of the companies are the most significant factors in determining accounting conservatism. In addition, negative values from the "FSIZE" coefficient

indicate that scopes of conservative accounting are reduced in larger enterprises. In other words, more effective internal control procedures are not required in companies. Furthermore, an improvement in the company's financial liabilities has been observed corresponding to the high leverage, which was also reported by Lafond and Roychowdhury (2008) [5].

Table 6 and Table 7 show the results of the instrumental variable fixed-effects regressions to control for the endogeneity bias. At the ten percent level, the coefficients on LARGE1, Diff1, and Diff2 are significant, confirming the negative influence of the largest ownership on accounting conservatism. Because the predicted coefficients on the interaction term in Table 6 are still significantly positive, the moderating function of board independence remains valid. The coefficients on STATE_{t-1} and LARGE1_{t-1} are very significant in the first-stage regression, showing that the historical values of the largest ownership and state ownership greatly explain the current largest ownership. Our instrument's variable is valid by the F-statistics' values, which are larger than 10 in the first-stage regression. Also, evaluating the over-identifying restrictions by the Hansen test method, there are no correlations between the instrument's variables and error terms. All the diagnostic investigations imply that consistency is achieved for the chosen instrument's variables and regression results. In particular, the results are also retained for the endogeneity bias study.

Table 6. Fixed-effects instrumental variables estimation

	First stage	Second stage	First stage	Second stage	First stage	Second stage
	LARGE1	CONACC	Diff1	CONACC	Diff2	CONACC
<i>Instruments</i>						
STATE _(it-1)	-11.97*** (-4.23)		-11.96*** (-3.24)		-11.36*** (-3.37)	
LARGE1 _(it-1)	0.752*** (25.08)		0.779*** (18.11)		0.842*** (25.77)	
<i>Instrumented</i>						
LARGE1		-0.00145* (-1.94)				
Diff1				-0.00141* (-1.94)		
Diff2						-0.00136* (-1.96)
<i>Control variables</i>						
BINDEP	-0.795 (-0.57)	0.0683** (2.37)	-7.069*** (-3.31)	0.0597** (2.05)	-3.421* (-1.91)	0.0634** (2.18)
BSIZE	-0.493 (-0.51)	0.0470** (2.42)	-1.949 (-1.29)	0.0450** (2.33)	-1.351 (-1.15)	0.0437** (2.27)
LEV	-1.147 (-0.57)	0.164*** (3.16)	-3.280 (-1.04)	0.161*** (3.15)	-3.840 (-1.55)	0.160*** (3.07)
FSIZE	1.286 (0.91)	-0.129*** (-3.70)	0.957 (0.33)	-0.130*** (-3.79)	2.632 (1.29)	-0.128*** (-3.59)
GRT	0.00465 (0.02)	-0.0168 (-1.24)	0.564 (1.30)	-0.0160 (-1.18)	0.0678 (0.31)	-0.0166 (-1.23)
STATE	15.29*** (5.43)	-0.0169 (-0.38)	16.99*** (4.79)	-0.0146 (-0.32)	15.25*** (5.00)	-0.0158 (-0.36)
Observations	1592	1592	1590	1590	1587	1587
Year fixed	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed	Yes	Yes	Yes	Yes	Yes	Yes
<i>F test of excluded instruments:</i>						
F-statistics	314.56		168.12		332.51	
P-value	0.000		0.000		0.000	
<i>Overidentification test of all instruments</i>						
Hansen J-statistics	0.674		0.667		0.625	
P-value	0.4117		0.4143		0.4292	

Note: ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 7. Fixed effects instrumental variables estimation for the model including an interaction term

	First stage		Second stage	First stage		Second stage	First stage		Second stage
	LARGE1	LARGE1 * BINDEP	CONACC	Diff1	Diff1 * BINDEP	CONACC	Diff2	Diff2 * BINDEP	CONACC
<i>Instruments</i>									
STATE _(it-1)	-11.98*** (-4.23)	-6.979*** (-3.76)		-11.95*** (-3.25)	-7.131*** (-3.03)		-11.35*** (-3.37)	-7.035*** (-3.34)	
LARGE1 _(it-1)	0.787*** (20.36)	-0.0726*** (-2.98)		0.753*** (11.78)	-0.148*** (-3.00)		0.794*** (15.54)	-0.0842** (-2.57)	
LARGE1 _(it-1) *BINDEP	-0.0582 (-1.09)	0.881*** (22.43)		0.0430 (0.46)	1.020*** (13.45)		0.0801 (1.08)	1.002*** (19.64)	
<i>Instrumented</i>									
LARGE1			-0.00312*** (-2.97)						
LARGE1*BINDEP			0.00274** (2.07)						
Diff1						-0.00305*** (-2.98)			
Diff1*BINDEP						0.00273** (2.27)			
Diff2									-0.00315*** (-3.02)
Diff2*BINDEP									0.00290** (2.30)
<i>Control variables</i>									
BINDEP	1.494 (0.59)	4.087** (2.09)	-0.0393 (-0.68)	-8.766** (-2.36)	-14.04*** (-3.76)	-0.0233 (-0.52)	-6.573* (-1.92)	-5.345** (-2.08)	-0.0417 (-0.81)
BSIZE	-0.401 (-0.42)	-0.339 (-0.48)	0.0433** (2.25)	-2.016 (-1.32)	-1.584 (-1.58)	0.0418** (2.19)	-1.476 (-1.26)	-0.994 (-1.21)	0.0397** (2.08)
LEV	-1.187 (-0.59)	-1.403 (-1.09)	0.167*** (3.20)	-3.256 (-1.03)	-3.723* (-1.84)	0.167*** (3.24)	-3.792 (-1.53)	-3.052* (-1.80)	0.164*** (3.12)
FSIZE	1.182 (0.84)	1.139 (1.17)	-0.126*** (-3.61)	1.035 (0.36)	1.522 (0.71)	-0.128*** (-3.70)	2.772 (1.36)	1.816 (1.17)	-0.124*** (-3.48)
GRT	0.00485 (0.02)	0.0426 (0.28)	-0.0170 (-1.25)	0.564 (1.30)	0.373 (1.21)	-0.0161 (-1.19)	0.0681 (0.31)	0.0973 (0.60)	-0.0167 (-1.24)
STATE	15.26*** (5.43)	9.457*** (5.25)	-0.0159 (-0.36)	17.02*** (4.79)	10.37*** (4.40)	-0.0129 (-0.29)	15.31*** (5.00)	9.529*** (4.88)	-0.0137 (-0.31)
Observations	1592	1592	1592	1590	1590	1590	1587	1587	1587
Year fixed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>F test of excluded instruments:</i>									
F-statistics	225.56	215.31		115.10	111.21		231.32	262.20	
P-value	0.000	0.000		0.000	0.000		0.000	0.000	
<i>Overidentification test of all instruments</i>									
Hansen J-statistics			0.682			0.666			0.620
P-value			0.4088			0.4145			0.4310

Note: ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

5- Conclusion

After controlling for the problems of heteroskedasticity, autocorrelation, and potential endogeneity by applying fixed effects with clustered robust standard errors and fixed effects with instrumental variables to a sample of 165 Vietnamese listed companies from 2007 to 2017, the results show a high proportion of shares held by the largest shareholder leads to less conservative accounting, confirming that the largest shareholders benefit personally or impact management decisions. Furthermore, this research also discovers the moderating effect of board independence on the relationship between ownership concentration and accounting conservatism. Therefore, to reduce agency conflicts and improve the information environment, more non-executive directors are expected to demand more conservative accounting reports.

By using alternative measures of the largest ownership, our findings are robust enough to highlight the impact of the largest shareholder and the role of non-executive directors in managing the quality of the financial statements of Vietnamese listed firms. As a result, board independence in Vietnamese listed firms is a valuable tool for supporting conservative accounting. In other words, firms with highly concentrated ownership tend to urge nonexecutive directors to increase supervision. From an application standpoint, the results recommend that the listed firms should consider the quality of their financial statements to nominate and appoint non-executive directors to their board, especially in firms with highly concentrated ownership.

However, several limitations require the development of future extensive studies. Non-executive directors should be classified as being nominated by controlling or minority shareholders to properly explain their actions in improving the information environment and the quality of financial statements. It would also be interesting to explore non-executive directors' characteristics such as gender, age, tenure, ownership, and so forth to further understand the aforementioned moderating impact.

6- Declarations

6-1- Author Contributions

Conceptualization, T.M.H.N., and A.T.T.; writing—original draft preparation, T.M.H.N., A.T.T., and T.H.P.; writing—review and editing, A.T.T., N.P.D.N, and T.T.H.H. All authors have read and agreed to the published version of the manuscript.

6-2- Data Availability Statement

The data presented in this study are available on request from the corresponding author.

6-3- Funding

The authors received financial support from the University of Finance – Marketing for the research.

6-4- Institutional Review Board Statement

Not applicable.

6-5- Informed Consent Statement

Not applicable.

6-6- Conflicts of Interest

The authors declare that there is no conflict of interest regarding the publication of this manuscript. In addition, the ethical issues, including plagiarism, informed consent, misconduct, data fabrication and/or falsification, double publication and/or submission, and redundancies have been completely observed by the authors.

7- References

- [1] Yimenu, K. A., & Surur, S. A. (2019). Earning Management: From Agency and Signalling Theory Perspective in Ethiopia. *Journal of Economics, Management and Trade*, 24(6), 1–12. doi:10.9734/jemt/2019/v24i630181.
- [2] Houston, J. F., Lin, C., & Xie, W. (2018). Shareholder protection and the cost of capital. *Journal of Law and Economics*, 61(4), 677–710. doi:10.1086/700269.
- [3] Ni, X., & Yin, S. (2018). Shareholder litigation rights and the cost of debt: Evidence from derivative lawsuits. *Journal of Corporate Finance*, 48, 169–186. doi:10.1016/j.jcorpfin.2017.10.008.
- [4] Cullinan, C. P., Wang, F., Wang, P., & Zhang, J. (2012). Ownership structure and accounting conservatism in China. *Journal of International Accounting, Auditing and Taxation*, 21(1), 1–16. doi:10.1016/j.intaccaudtax.2012.01.001.
- [5] Lafond, R., & Roychowdhury, S. (2008). Managerial ownership and accounting conservatism. *Journal of Accounting Research*, 46(1), 101–135. doi:10.1111/j.1475-679X.2008.00268.x.

- [6] Ramalingegowda, S., & Yu, Y. (2012). Institutional ownership and conservatism. *Journal of Accounting and Economics*, 53(1–2), 98–114. doi:10.1016/j.jacceco.2011.06.004.
- [7] Caskey, J., & Laux, V. (2017). Corporate governance, accounting conservatism, and manipulation. *Management Science*, 63(2), 424–437. doi:10.1287/mnsc.2015.2341.
- [8] Watts, R. L. (2003). Conservatism in accounting part I: Explanations and implications. *Accounting Horizons*, 17(3), 207–221. doi:10.2308/acch.2003.17.3.207.
- [9] Mrad, M. (2022). Accounting conservatism and corporate cross-listing: The mediating effect of the corporate governance. *Cogent Economics & Finance*, 10(1), 2090662. doi:10.1080/23322039.2022.2090662.
- [10] Cheng, J., Cummins, J. D., & Lin, T. (2021). Earnings management surrounding forced CEO turnover: evidence from the U.S. property-casualty insurance industry. *Review of Quantitative Finance and Accounting*, 56(3), 819–847. doi:10.1007/s11156-020-00910-z.
- [11] Kumar, P., & Zattoni, A. (2014). Ownership, managerial entrenchment, and corporate performance. *Corporate Governance: An International Review*, 22(1), 1–3. doi:10.1111/corg.12053.
- [12] Dang, L.N., Nguyen, D.D., Taghizadeh-Hesary, F. (2021). State-Owned Enterprise Reform in Viet Nam: Progress and Challenges. *Reforming State-Owned Enterprises in Asia*. ADB Institute Series on Development Economics, Springer, Singapore. doi:10.1007/978-981-15-8574-6_12.
- [13] To, A. T., & Suzuki, Y. (2019). The change in board independence in the presence of firm risk and regulation. *Contaduria y Administracion*, 64(4), 5. doi:10.22201/FCA.24488410E.2020.2233.
- [14] Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics*, 43(2–3), 411–437. doi:10.1016/j.jacceco.2007.01.005.
- [15] Ahmed, A. S., & Duellman, S. (2013). Managerial Overconfidence and Accounting Conservatism. *Journal of Accounting Research*, 51(1), 1–30. doi:10.1111/j.1475-679X.2012.00467.x.
- [16] Aier, J. K., Chen, L., & Pevzner, M. (2014). Debtholders' demand for conservatism: Evidence from changes in directors' fiduciary duties. *Journal of Accounting Research*, 52(5), 993–1027. doi:10.1111/1475-679X.12062.
- [17] Beatty, A., Weber, J., & Yu, J. J. (2008). Conservatism and Debt. *Journal of Accounting and Economics*, 45(2–3), 154–174. doi:10.1016/j.jacceco.2008.04.005.
- [18] Beekes, W., Pope, P., & Young, S. (2004). The Link between Earnings Timeliness, Earnings Conservatism and Board Composition: Evidence from the UK. *Corporate Governance: An International Review*, 12(1), 47–59. doi:10.1111/j.1467-8683.2004.00342.x.
- [19] García Lara, J. M., García Osma, B., & Penalva, F. (2007). Accounting conservatism and corporate governance. *Review of Accounting Studies*, 14(1), 161–201. doi:10.1007/s11142-007-9060-1.
- [20] Ball, R. (2001). Infrastructure Requirements for an Economically Efficient System of Public Financial Reporting and Disclosure. *Brookings-Wharton Papers on Financial Services*, 2001(1), 127–169. doi:10.1353/pfs.2001.0002.
- [21] Francis, J. R., & Martin, X. (2010). Acquisition profitability and timely loss recognition. *Journal of Accounting and Economics*, 49(1–2), 161–178. doi:10.1016/j.jacceco.2009.09.003.
- [22] Guay, W., & Verrecchia, R. (2006). Discussion of an economic framework for conservative accounting and Bushman and Piotroski (2006). *Journal of Accounting and Economics*, 42(1–2), 149–165. doi:10.1016/j.jacceco.2006.03.003.
- [23] Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics*, 39(1), 83–128. doi:10.1016/j.jacceco.2004.04.001.
- [24] Dlugosz, J., Fahlenbrach, R., Gompers, P., & Metrick, A. (2006). Large blocks of stock: Prevalence, size, and measurement. *Journal of Corporate Finance*, 12(3), 594–618. doi:10.1016/j.jcorpfin.2005.04.002.
- [25] Leech, D., & Leahy, J. (1991). Ownership Structure, Control Type Classifications and the Performance of Large British Companies. *The Economic Journal*, 101(409), 1418. doi:10.2307/2234893.
- [26] Claessens, S., & Fan, J. P. H. (2002). Corporate Governance in Asia: A Survey. *International Review of Finance*, 3(2), 71–103. doi:10.1111/1468-2443.00034.
- [27] Andres, P. de, & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of Banking and Finance*, 32(12), 2570–2580. doi:10.1016/j.jbankfin.2008.05.008.
- [28] Chen, C. J. P., Chen, S., & Su, X. (2001). Is accounting information value-relevant in the emerging Chinese stock market? *Journal of International Accounting, Auditing and Taxation*, 10(1), 1–22. doi:10.1016/S1061-9518(01)00033-7.

- [29] Lin, Z. J., & Liu, M. (2009). The impact of corporate governance on auditor choice: Evidence from China. *Journal of International Accounting, Auditing and Taxation*, 18(1), 44–59. doi:10.1016/j.intaccudtax.2008.12.005.
- [30] Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. (2002). Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance*, 57(6), 2741–2771. doi:10.1111/1540-6261.00511.
- [31] Zhao, D. W., Zeng, L., & Tan, L. C. (2008). Supervision of independent directors and earnings conservatism: an empirical study based on Chinese listed firms. *Accounting Research*, 9, 55-63.
- [32] Chen, S., & Wei, M. (2007). Board independence earnings conservatism and investor protection. *Journal of Sun Yatsen University, Social Science Edition*, 2, 96-102.
- [33] Bushman, R., Chen, Q., Engel, E., & Smith, A. (2004). Financial accounting information, organizational complexity and corporate governance systems. *Journal of Accounting and Economics*, 37(2), 167–201. doi:10.1016/j.jacceco.2003.09.005.
- [34] Admati, A. R., & Pfleiderer, P. (2009). The “wall Street Walk” and shareholder activism: Exit as a form of voice. *Review of Financial Studies*, 22(7), 2645–2685. doi:10.1093/rfs/hhp037.
- [35] Edmans, A., & Manso, G. (2011). Governance through trading and intervention: A theory of multiple blockholders. *Review of Financial Studies*, 24(7), 2395–2428. doi:10.1093/rfs/hhq145.
- [36] Berger, P. G., & Ofek, E. (1999). Causes and effects of corporate refocusing programs. *Review of Financial Studies*, 12(2), 311–345. doi:10.1093/rfs/12.2.311.
- [37] Givoly, D., & Hayn, C. (2000). The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative? *Journal of Accounting and Economics*, 29(3), 287–320. doi:10.1016/S0165-4101(00)00024-0.
- [38] Nguyen, T. T., Duong, C. M., Nguyen, N. T. M., & Bui, H. Q. (2020). Accounting conservatism and banking expertise on board of directors. *Review of Quantitative Finance and Accounting*, 55(2), 501–539. doi:10.1007/s11156-019-00851-2.
- [39] Roychowdhury, S., & Watts, R. L. (2007). Asymmetric timeliness of earnings, market-to-book and conservatism in financial reporting. *Journal of Accounting and Economics*, 44(1–2), 2–31. doi:10.1016/j.jacceco.2006.12.003.
- [40] Wintoki, M. B., Linck, J. S., & Netter, J. M. (2012). Endogeneity and the dynamics of internal corporate governance. *Journal of Financial Economics*, 105(3), 581–606. doi:10.1016/j.jfineco.2012.03.005.
- [41] Correia, S. (2018). IVREGHDFE: Stata module for extended instrumental variable regressions with multiple levels of fixed effects. Boston College Department of Economics, Massachusetts, United States.
- [42] Apadore, K., & Mohd Noor, M. (2013). Determinants of Audit Report Lag and Corporate Governance in Malaysia. *International Journal of Business and Management*, 8(15), 151. doi:10.5539/ijbm.v8n15p151.
- [43] Astami, E. W., & Tower, G. (2006). Accounting-policy choice and firm characteristics in the Asia Pacific region: An international empirical test of Costly Contracting Theory. *International Journal of Accounting*, 41(1), 1–21. doi:10.1016/j.intacc.2005.12.004.
- [44] Wu, Y. (2011). Research on the relationship between controlling shareholder and accounting conservatism in China. *Applied Mechanics and Materials*, 65, 579–584. doi:10.4028/www.scientific.net/AMM.65.579.
- [45] Nasr, M. A., & Ntim, C. G. (2018). Corporate governance mechanisms and accounting conservatism: evidence from Egypt. *Corporate Governance: The International Journal of Business in Society*, 18(3), 386–407. doi:10.1108/cg-05-2017-0108.
- [46] Lin, W., Fan, X., & Cheng, X. (2011). Board Independence and Accounting Conservatism: Evidence Based on Listed Companies in China. 2011 International Conference on Management and Service Science. doi:10.1109/icmss.2011.5998441.
- [47] Ahmed, K., & Henry, D. (2012). Accounting conservatism and voluntary corporate governance mechanisms by Australian firms. *Accounting & Finance*, 52(3), 631–662. doi:10.1111/j.1467-629X.2011.00410.x.