Corporate Governance and Accounting Conservatism: Exploring the Linkages and Implications

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ABSTRACT

This study examined the correlation between the corporate governance mechanism and accounting conservatism during the COVID-19 pandemic. In this paper, we employed regression analysis to examine the relationship between several aspects of corporate governance and accounting conservatism, including board independence, audit committee independence, CEO duality, multiple directorships, ownership concentration, and board metric. This study investigates how the COVID-19 pandemic and the adjustments to the Malaysian Code on Corporate Governance (MCCG) 2017 affect the performance and earnings quality of Main Board companies listed on Bursa Malaysia in 2020. Financial and governance data were collected from annual reports and Refinitiv DataStream using a quantitative approach. The first proxy for earnings quality was accounting conservatism, measured by the Khan and Watts (2009) model. Using regression analysis, the study explained how corporate governance mechanisms prevailed over conservatism during the pandemic and how it impacted accounting practice and decision making under increased uncertainty. This study revealed that conventional governance mechanisms for example, board independence, audit committee independence and CEO duality do not affect accounting conservatism. However, board metric, which measures the dispersion and the experience of the board, is positively and significantly related to accounting conservatism. Moreover, the results of this study suggest that the size and profitability of the firms increase the likelihood of using conservative accounting policies. The findings of the study indicate that during crisis period, organizations more extensive governance structures and diverse knowledge are in a vantage position to apply accounting conservatism, which is crucial for ensuring the reliability and credibility of financial reports.

Keywords: Corporate Governance, Accounting Conservatism, Financial Reporting Quality, Crisis Period

INTRODUCTION

The financial crisis of 1997 was an important turning point for several Asian countries including Malaysia. The crisis emphasized the necessity of strong corporate governance to guarantee transparency, accountability, and integrity in the corporate sector. Malaysia, along with other countries, worked to enhance its corporate governance structure in response to the financial crisis and its consequences. Malaysia's ongoing revisions to the Malaysian Code on Corporate Governance (MCCG) demonstrate its dedication to upholding the highest standards of corporate governance. Malaysia strives to promote a corporate environment focused on transparency, accountability, and sustainability through ongoing code revisions that essential for ensuring long-term economic growth and stability. These efforts not only aim at preventing another wave of financial crises but also strengthen Malaysia's reputation as an investment hub. In March 2000, the first Malaysia Code on Corporate Governance (MCCG) was introduced and considered as the first reform in Malaysia after taking into consideration the major financial crisis year 1997/98. A series of reforms in the MCCG 2007, 2012, 2017 and recently April, 2021 is made to keep it relevant and consistent with internationally recognized best practices and standards. In 2017, the MCCG has undergone a significant update that portrayed a new approach to encourage the internalisation of corporate governance culture within organisations. This update highlighted the significance of key governance principles such as board leadership and effectiveness, risk management, and

internal controls. The initiative focused on enhancing transparency as well as accountability by introducing the "CARE" concept (Comprehend, Apply, Report, and Evaluate) to urge organisations to go beyond basic compliance and make real governance improvements.

The major revision on MCCG 2017 introduced substantial enhancements to elevate corporate governance requirements. Key focal points were: 1) Board Independence: Fostering the composition at least half of the board are among independence directors to ensure unbiased oversight and decision-making. 2) Emphasising the significance of having a fully independent Audit Committee to provide efficient financial monitoring and auditor independence. 3) CEO Duality: Recommending against one person serving as both the CEO and board chair to maintain a clear separation between governance and management responsibilities. 4) Multiple Directorship: Directors are advised to restrict their involvement in director roles in listed companies to ensure they can dedicate themselves completely to their duties. 5) Ownership Concentration and Board metric: Dealing with issues arising from ownership concentration and complex group structure such as managing conflicts of interest. 6) Broadening board responsibilities to include risk management, internal controls, and sustainable value creation. The changes were intended to bring Malaysia's corporate governance in line with global standards, emphasising transparency, accountability, and sustainability to safeguard shareholder interests and improve trust and integrity in the capital market. The continuing effort to revise Code on Corporate Governance aimed to strengthen and ensure that the board of directors and audit committees effectively play their roles and responsibilities. The aim of sound corporate governance is to ensure that the company is managed in a way that promotes long-term growth, success, and profitability through effective, entrepreneurial, and responsible management. Effective corporate governance is suggested to enhance information transparency and offering valuable perspectives for executives, shareholders, and policymakers (Al-Hiyari, Kolsi, Lutfi, Shakkour, & aljumah, 2024). Corporate Governance as per OECD Principles, Malaysian Code on Corporate Governance and Sarbanes-Oxley Act refers to the degree to which a company's governance structures and processes are operated within the organization to promote transparency, accountability, and fairness in its operations and management.

Good corporate governance ensures that company decisions and activities are in line with the interests of its stakeholders, such as shareholders, employees, consumers, and the community. It includes guidelines that regulate the interaction between management and shareholders with the goal of minimising conflicts of interest and promoting the long-term value creation. In the context of modern corporate governance, the separation of ownership and management is a normal practice that separates shareholders from managerial duties and grants management the power to make day-to-day decisions for companies' successful operation. Separation of ownership and management ensures the business's long-term sustainability by entrusting its responsible management as team of experts with different skills to efficiently run the companies (Elamer, Ntim, Abdou, Zalata, & Elmagrhi, 2019). Therefore, management and the board have the responsibility to discharge the accountability in line with the perspective of stewardship theory. The board and managers are accountable to the shareholders for the company's operations and corporate governance with regard to companies’ objectives and the maximization of shareholder wealth by providing stakeholders with a fair, balanced, and understandable assessment of the organization's financial performance and prospects (high quality financial reporting). The means that they discharge their accountability is their reported financial statement. To ensure the quality of financial statements, there are some principles to prepare the financial statements and one of them is conservatism.

Conservatism is a Generally Accepted Accounting Principles (GAAP) principle and it is exceptionally beneficial because it seeks to standardise and regulate accounting terms, assumptions, and methods. The FASB sees accounting conservatism as a competent approach to cope with uncertainty and assure that uncertainty and risks that are part of running a business are taken into account (Francis, Michas, & Yu, 2013). Conservatism is one of the qualities demanded in a financial statement in order to ensure that it meets the quality requirements, which is the primary means of discharging accountability. Thus, they must monitor conservatism as one of the aspects that contribute to the high quality of financial reporting when preparing the financial statement. This concept is not primarily a theoretical concept but it is a practical way that ensures the financial statements accurately reflect a cautious estimation and therefore preventing overstatement of assets or income. Applying accounting conservatism helps reduce information asymmetry among stakeholders such as investors, auditors, and creditors. Reducing information asymmetry is essential for creating an environment of trust and

transparency which is important for effective corporate governance. Conservative accounting and strong corporate governance can improve a company's investment performance and risk. Managers cannot inflate profits or net assets with a high level of verifiability Zhong & Li (2017). Companies can ensure the reliability and verifiability of their financial statements by following conservative accounting standards, which help prevent over-optimistic financial reporting. Consequently, this improves the company's attractiveness to investors and its risk assessment, since stakeholders have a clearer picture of its financial position. Consistent with Solichah & Fachrurrozie (2019) that found the company uses conservative accounting practices to prevent overly optimistic management and to generate third-party auditable financial statements. Therefore, accounting conservatism is crucial for improving the reliability and credibility of financial reports, boosting investor confidence, and enhancing market efficiency by offering prudent financial estimations and minimizing the chances of unexpected negative surprises. This contributes to market efficiency by ensuring that security prices more properly represent the economic reality of organizations.

LITERATURE REVIEW

A Look at Revisions in Malaysia's Corporate Governance Code

The Malaysian Code on Corporate Governance (Code) which was launched in March, 2000 was a major step towards the reform of corporate governance in Malaysia. The Code was subsequently updated in 2007 to enhance the functions of the board of directors, the audit committee and the internal audit. The Malaysian Code on Corporate Governance 2012 and 2017 (MCCG 2012 and 2017) is concentrating on improving the board structure and composition as the directors are acknowledged as spirited and answerable stewards. In addition, they are responsible for being efficient managers and protectors of the company, not only in terms of defining strategies for development and managing business processes but also in terms of compliance with legal requirements and moral standards, and establishment of a proper system of risk management and internal controls. Boards and management must ensure that they effectively discharge their responsibility to properly channel their activities and resources for the benefit of the company and the shareholders without prejudice to the rights of other stakeholders. The disclosure and transparency of the information helps to make an informed decision. The timely availability of quality and accurate information including the reporting of financial performance are key facets of investor protection and market confidence. Investor confidence in Malaysia was severely affected during the 1997/98 Asian Financial Crisis. Policy makers learnt valuable lessons and focused their attention, amongst others, on the need to raise corporate governance standards. The Code was revised and securities and companies' laws were amended. The Audit Oversight Board was established to provide independent oversight over external auditors of companies. Corporate governance is defined as: "The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interests of other stakeholders." (Cadbury Report, 1992)

The MCCG of 2012 and 2017 which replaced the 2007 Code outlines the fundamental guidelines and the detailed suggestions concerning the structures and procedures that should be implemented by the companies to ensure that good corporate governance becomes an essential part of their business operations and practices. The MCCG 2012 and 2017, like all corporate governance codes, advocates the adoption of standards that go beyond the minimum prescribed by regulation. The implementation of the MCCG 2012 and 2017 by companies is on voluntary basis. Companies are, however, obliged to disclose on compliance with the MCCG 2012 and 2017 in their annual reports. The MCCG 2012 and 2017 is based on leadership and governance roles of the board, strengthening of the board through improving its efficiency, and the independence of the board. The MCCG 2012 and 2017 also enables the companies to implement corporate disclosure policies that has elements of good disclosure. There is encouragement of companies to disclose their policy on the treatment of shareholders. As a result of Corporate Governance reforms in Malaysia, public listed companies are now required to disclose their internal control practices. Practice Note No. 9/2001 of Bursa Malaysia requires the listed issuer under paragraph 15.27(b) (A statement of Internal Control) to make a statement in their annual report about the statement of internal control of the listed issuer as a group and the statement related to risk management. This statement must be guided by the Statement of Internal Control: Guidance for Directors of Public Listed Companies issued by the Bursa Malaysia Taskforce Internal Control. The Taskforce took note of recommendations from several sources such as the Turnbull Report that issued the guidance for the directors

listed on the London Stock Exchange, and the International Standards on Auditing as adopted by the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants (MICPA) in developing this guidance. Neither an audit committee nor any board committee is solely responsible for the integrity of the internal control system; even the Board may choose to delegate such responsibility (Abed, Hussin, Haddad, Al-Ramahi, & Ali, 2022). A survey jointly conducted by Bursa Malaysia and PricewaterhouseCoopers in 1998 found that institutional investor does consider the existence of an internal audit function in firms before they make an investment decision. It is expected that the higher the internal control of the firms, the better accounting conservatism in the firms. Thus, accounting conservatism in public listed companies is expected to be higher compared to before the non-reform period.

Diverse outcomes of corporate governance reforms in Malaysia are evidenced by empirical studies conducted from 2019 to 2024. For example, Cao (2022) showed the considerable effect board independence where all the strategies would be found effective with an independent board, while Mohammed (2022) found the effectiveness of audit committees and financial reporting quality where audit committee independence is positively associated with high quality of financial reporting . Also, Aluwi et al. (2023) in the findings, illustrates the significance of merging independent governance systems that will encourage transparency, accountability and ultimately success in the organizational arena. These findings are in line with the emerging global standards that require very stringent governance practices.

The Role of Corporate Governance Mechanisms

Accounting conservatism is actually the manipulation of accounting practices in a way that will lead to lower reported earnings and net asset values despite their real economic values. This approach is very prevalent in most accounting standards where the balance sheet items such as assets and liabilities are normally measured at historical cost and this is inherently followed by a downward bias. Other GAAPs which support this conservative approach include the R&D costs, inventory valuation where they are valued at the lower of cost or market, and goodwill impairment. However, there are variations in the application of these principles by managers, and as a result, there is a high level of cross-sectional and time-series inconsistency in the degree of conservatism despite the standardisation of the rules. These variations are inevitable, but their risks can be managed by implementing sound governance practices that lead to quality financial reporting. To the extent that the board of directors, audit committees, and other similar governance structures remain vigilant, they are important in the monitoring and implementation of the conservative accounting standards. In Malaysia, changes to the Malaysian Code on Corporate Governance and Bursa Malaysia Listing Requirements have enhanced the provisions on transparency and the quality of the financial reporting. These reforms seek to increase the effectiveness of monitoring and enforcing corporate governance systems with a view of improving accounting conservatism among firms. The subsequent sections of this paper will discuss these governance mechanisms in more detail while paying attention to the ways in which they enhance the use of conservative accounting policies and the quality of financial reports.

Board of Directors (BOD) Independence

Boards of Directors are the most critical aspect of corporate governance and have been extensively studied in numerous publications. The board's roles and responsibilities include determining the organization's mission and purpose, selecting, supporting and evaluating the chief executive, engaging in strategic planning, monitoring programmes and services, providing a sound financial statement, advising on the organization's public image, raising funds, and ensuring compliance with legal and ethical requirements (Dimingu & Mogaji, 2024; Farquhar, 2024; Pal & Monika Rastogi, 2024; Paruchuri, Hoempler, Cowen, Cannella, & Nahm, 2024; Sepulveda-Nuñez, Fong Reynoso, & Llamosas-Rosas, 2024). It clearly shows that the directors do not manage the firm’s businesses but they provide directions to ensure the company’s vision is fully implemented. Muravyev (2024) analyzes how board monitoring affects corporate disclosure practices, showing that there is a positive (complementary) relationship between the amount of disclosure and the proxies for board monitoring used. This is consistent with (Tajuddin, Akter, Mohd-Rashid, & Mehmood, 2023) research on the effect of board characteristics, including size and independence on the quality of sustainability reporting, as a reflection of the board’s monitoring role. Regulators and academics have multiple interpretations of independent directors. In its Listing Requirements, Bursa Malaysia stipulates those independent directors must possess two

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types of independence: independence from a controlling shareholder and independence from management. However, the meaning of independence changes from nation to nation. The Cadbury report in the United Kingdom defines independence as independence from management (Cadbury, 1992). This perspective illustrates the separation of management and control in the shareholding structure of British corporations. Consequently, efforts are typically concentrated on enhancing managerial controls. The Toronto Stock Exchange (TSE) Committee report on corporate governance, on the other hand, demands two categories of independent board members: (i) the idea of unrelated directors who are fundamentally independent of management, and (ii) independence from a significant or controlling shareholder. The purpose of this restriction on the significant shareholder's ability to elect the board is to ensure that a portion of the board, at least in terms of numbers, reflects the investment of the public or minority shareholder in the company and is unrelated to the significant shareholder or the company. Also, earlier research proposes diverse definitions of the independence of non-executive directors (NED), and it is a common phenomenon for the terms NEDs and independent directors to be used interchangeably. In general, boards of directors consist of two different types of director namely executive and non-executive director (Annuar, 2018; Arora, 2024; Hoitash & Mkrtchyan, 2022; Pina e Cunha, Nogueira Leite, Rego, & Hernández-Linares, 2024; Putra & Setiawan, 2024). The executive director is responsible for the daily business operations and management of the organization. They are directly responsible for making decisions concerning marketing and finances. Using their skills and knowledge, they also assist in formulating corporate strategy for the success of the organization.

On the other hand, independent directors are not involved in the daily operations of the business. Consequently, they are required to use independent judgement when dealing with the firm's management in areas such as pay awards, executive director compensation, and terminations (Bonini, Deng, Ferrari, John, & Ross, 2022; M. Gao & Huang, 2024; Weir & Laing, 2001) contends that the NED will not be useful if its members have served for a significant number of years on the same boards, on which they have had the opportunity to develop close relationships with the executive directors. Thus, from the perspective of agency theory, independent directors are expected to enhance quality of financial reporting (Biswas, Bala, & Mandal, 2023; Chouaibi, Belhouchet, Almallah, & Chouaibi, 2022; Porter & Sherwood, 2023). On the other hand, the BOD has “fiduciary responsibility” (de Mariz, Aristizábal, & Andrade Álvarez, 2024; Majumdar, 2019; Ortega, 2023; Shenghao & Jiangling, 2024). The BOD is responsible to protect the shareholders' assets. Thus, the BOD is responsible for guiding and assisting management in good planning and resource allocation so that shareholder assets are utilized effectively and efficiently. The “resource dependence” by R. Salancik & Pfeffer (1978) also become one of the boards functions. It was first developed in the seminal works of R. Salancik & Pfeffer (1978). The boards are seen as an instrument for sourcing critical resources and information for the firm (Havrylyshyn, 2024; Taglialatela, Pirazzi Maffiola, Barontini, & Testa, 2023; Vandebeek, Voordeckers, Huybrechts, & Lambrechts, 2024) besides the monitoring roles. In addition, Alves (2023) and Singh & Sharma (2024) claims that true independence will always be a problem so long as the CEO has a dominant role in selecting directors. Only an independent nominating committee acting on the basis of a comprehensive board evaluation and in collaboration with a search organization can achieve true thought and action independence. The "monitoring role" of the board of directors will serve to align the interests of principals and agents. The board that is involved in decision-making processes such as recruiting or terminating top management, giving management operating authority, and supporting management decisions can monitor (act as a watchdog) the management behaviour to ensure that it serves the shareholders' best interests. The monitoring effectiveness of boards has a positive correlation with conservative accounting (Y. Gao & Wagenhofer, 2021). Liu & Sun (2022) also show that independent directors are more cautious in monitoring financial reporting when they are exposed to a greater litigation risk, which is still in line with the fact that these directors are still sensitive to liability risk even though they may not be personally liable to pay damages or legal costs. However, the board members' power could be exploited if they cooperate with management to engage in data manipulation and other fraudulent acts. Consequently, the participation of independent board members/more non-executive members is considered as a technique of enhancing accounting conservatism (Alves, 2021). The BOD comprised dependent directors (current or past employees or have a family relationship with the firms) and independent directors (outside director who did not have any financial of family relationship with the firms). Better monitoring results in higher quality reported earnings for the boards that have a higher proportion of independent directors serving as board members (Borokhovich, Parrino, & Trapani, 1996; Chin-Fang, Lin, & Wang, 2023; Kusnadi, Srinidhi, Sun, & Wang, 2022; Mihail & Micu, 2021; Mulgrew & Forker, 2006).

The importance of the board to have a higher number of independent directors is due to the director's expertise, knowledge and skills in their area which can contribute to reporting quality and company performance. As per recent MCCG Practice 4.1, at least half of the board must consist of independent directors. The decisions that the independent director undertakes will result in improvements to both the performance of the business and the reliability of the information that is delivered. Independent directors are able to provide better protection for the owners' interests because, as was mentioned in the preceding section, they are less likely to have conflicts of interest. For large companies, the majority of board members are independent directors.

Audit Committee (AC)

The efficiency of audit committees (AC) especially with financial expertise in monitoring the firm's internal control and the integrity of the firm's financial reporting quality has become the focus of regulators and corporate governance committees all over the world (Al-Shaer, Salama, & Toms, 2017; Ananzeh, 2024; Bananuka & Nkundabanyanga, 2023; Daryaei, Balani, & Fattahi, 2024; Kibiya, 2016; Mardessi, 2022; Velte, 2023b). AC is accountable for reviewing the truthfulness of the company's financial reporting as well as supervising the independence of the firm's external auditors. This is accomplished by the AC's independent evaluation of management's activities and decision-making processes. The ability of the AC to carry out their responsibilities successfully is contingent on the presence of a majority of independent directors on the board, as well as the knowledge and experience of the committee members, with at least one of them coming from a financial background. The evidence that such accruals are related to audit committees for independent and expertise to increase the financial firm performance means that the characteristics should be given priority in the selection of members for the audit committees. This is in line with such recommendations and guidelines as provided by the Public Company Accounting Oversight Board or PCAOB as it is popularly known (PCAOB, 2023). The PCAOB (2023) has recommended that audit committees should consist of independent directors that have adequate financial experience and adequate amount of time to spend in this role. These are also in consistent with Mohammed Ibrahim et. al. (2023) proposition which underscores the appropriateness of employing intelligence and financial literacy as two important criteria for choosing members of the audit committee rather than the frequency of meetings.

Using an experimental design, they discovered a reduction in perceived audit risk when there is an audit committee, frequent audit committee meetings, and auditors in attendance. The Blue-Ribbon Committee (1999) also emphasizes that audit committee members must be independent and possess the ability to appropriately comprehend and analyze financial information. Therefore, this Committee proposes that audit committee members should be independent, financially literate, and at least one member should have accounting knowledge and financial management expertise in order to adequately monitor the quality of the firm's provided financial information. In the Malaysian perspective, Bursa Malaysia through their latest listing requirements, July 2022 requires all the public listed companies to include the Audit Committee Report in the annual reports. The requirements that must be included in the Audit Committee Reports are: 1) audit committee members must be composed of not fewer than three members (Para 15.09(1)(a), 2) all members must be non-executive directors with majority of them should be independent (Para 15.09(1)(b), 3) at least one member is financially literate (Para 15.09(1)(c), 4) chairman of the committee must be independent director (Para 15.10), 5) there are written terms of reference for the audit committee to refer to (Para 15.11, 6) the number of meeting (Para 15.13, 7) must include the summary of audit committee activities (Para 15.15) and 8) reporting of breaches to the exchange (Para 15.16).

Gulf Cooperation Council (GCC) banks with larger audit committees, greater independence, and members with financial experience are more likely to demonstrate accounting conservatism, according to an analysis by Hamdan (2020). The authors find that the reform of the 2007 Malaysian Code of Corporate Governance leads in a more conservative approach to earnings. Two audit committee characteristics, notably financial expertise and independence, are found to boost accounting conservatism after 2007 and lead to the quality of financial reporting (K. Ahmed & Henry, 2012; Madah Marzuki, Abdul Wahab, & Haron, 2016; Sultana & Mitchell Van der Zahn, 2015; Yunos, Ahmad, & Sulaiman, 2014a). It is expected that an effective audit committee with strong governance processes will adopt conservative accounting to control agency conflict and generate transparent financial reporting (Yunos, Ahmad, & Sulaiman, 2014b). It is important to consider the impact of

the audit committee as well as the other governance variables on the degree of conservatism that was applied to the accounting records (Sharma & Kaur, 2021). Alves (2021) suggest that both boards (BOD and AC) that have a greater number of non-executive members and the board meetings are held frequently causes companies to report in a more conservative manner. This contradicts the study conducted on Indonesian public firms from 2012 to 2016. It is expected that the audit committee will promote the implementation of conservative accounting policies to discourage the reporting of excessive revenue. However, this study indicated that the independence of audit committees had no effect on the adoption of accounting conservatism, but the number of meetings and the experience and expertise of audit committee members had a substantial effect (Dudi & Dini Wahjoe, 2017). Consistent with research done in Egypt and Thailand that find the audit committee expertise is positively associated with accounting conservatism (Am-ugsorn, Somsoda, Wonglakorn, & Someran, 2020; Nisreen, 2022). Kamarudin, Wan Ismail, & Samsuddin (2012) found that when a CEO has excessive control over the decisions of the board of directors by holding the post of chairman, the monitoring function of independent audit committees to ensure the accounting reported conservatively and in high quality of earnings in financial statements is rendered useless. The negative relationship that exists between non-audit services (NAS) and auditor independence is mitigated by the presence of a fully independent audit committee because agency theory says that firms have a reason to limit NAS because there is a cost to the agency when the value of an auditor's monitoring goes down (Nik Abdul Majid, Abdul Wahab, Haron, Agustia, & Nasih, 2022). There needs to be an independent audit committee that looks into how independent auditors are. Al-Rawashdeh Abdalwahab & Alkabbji (2020; Lim (2011; Nor Hanani (2011) found that audit committees have no effect on accounting conservatism or corporate performance. Based on the different findings, it is strong to include other governance variables to examine the relationship with accounting conservatism.

Role Duality/CEO Duality

The main issues in CEO duality are where the same individual becomes chairman of the board and CEO simultaneously. If the same individual is acting in both capacities while occupying different roles, there is potential for a conflict of interest to arise. Nevertheless, conflicting findings about the CEO duality were published in the literature. Having two different people serve in the role of CEO comes with both benefits and drawbacks. It will not be surprising to find that poor reporting occurs in companies where the CEOs are also the chairman of the board known as CEO duality since CEOs may act in their self-interest. This situation will make top management more powerful and thus can manage earnings to report positive profits and sustain recent performance (Oussii & Klibi, 2023). It is supported by Jensen & Meckling (1976), who modelled this situation as an agency relationship. An agency relationship is a relationship in which one or more parties (the principal(s)) appoint another party (the agent) to act and manage operations on their behalf, with the agent typically seeking to maximize their own wealth at the expense of the shareholders' value. Therefore, the principals must supervise the agent's decision to minimize potential conflicts of interest (Xu, 2016). On the other side, the stewardship theory argues that decision making by a single individual holding separate functions (CEOs duality) would result in greater quality reporting and performance because the individual maintains their duty as a manager to safeguard and maximize shareholder value (stewardship function) (Donaldson & Davis, 1991). Due to goal congruence, the alignment between managers' and shareholders' interests will be secured, and both parties as well as the business as a whole will profit from having two CEOs. In the context of decision-making, the CEO's dual role allows for direct communication and discussion with the board regarding difficulties that have arisen and other important issues in other areas.

Seifzadeh, Rajaeei, & Allahbakhsh (2022) found that managers with higher degrees of managerial entrenchment such as CEO duality are more likely to generate value and gain wealth for the firm and thus are less likely to waste the firm's resources under the stronger supervisory mechanisms. The study results also indicate that entrenched managers may be less inclined to resort to fraudulent reporting, as they may be more targeted by scrutiny or perhaps less eager to jeopardize their hard-won positions. However, the duality of the CEO would impact the firm's performance and the quality of its reports if the CEO adopts duality in order to give strong leadership and make more strategic decisions by maximizing the interests of both parties. The division of tasks will increase the expense of transferring information to a separate chairman. By integrating these jobs, there will be no transfer of vital information between the CEO and the chairman, hence eliminating these expenditures (Dahya & Travlos, 2000). In addition, they discovered that the cost of the transition from dual CEOs to a separate CEO with a non-executive chairman and non-executive board members will increase.

Even though the company incurred additional expenses, the value and quality of information have increased due to the increased controls, and the non-executive chairman will provide a non-biased opinion because they are not involved in day-to- day operations, thereby contributing to the development of the organization's goals and objectives (Pettigrew, 1992). In Canada, the Toronto Stock Exchange has modified their listing standards to reflect the split roles of responsibilities between CEOs and board chairmen. It is aligned with the Bursa Malaysia Listing Requirements on the CEO duality through the best practices of the Malaysian Code of Corporate Governance to balance the power and authority between the CEO and Chairman. In this way, no one person can influence the deliberations and decisions of the board. The Chairman's responsibilities should include guiding the board in its collective oversight of management, while the CEO focuses on the company's business and day-to-day operations. The board's charter should clearly clarify this distinction (MCCG, 2021).

Chandren, Qaderi, & Ghaleb (2021) indicate that although the Chairman has great impact on operational performance, for effective stewardship, the Chairman delegated authority for resource optimization and performance management to the CEO. Abdullah (2006) found that the Malaysian boards are independent and majority of the firms separate the roles of CEO and board chairman. On the basis of accounting performance measurements, ROE and ROA, the findings imply that companies with dual-role CEOs appear to do less better than those with distinct board leadership. This indicates that the MCCG's suggestion to split the two roles is judged crucial and must be fully implemented (Mohamad, Abdullah, Mokhtar, & Kamil, 2016). Previous findings concerning the association between dual CEOs and conservative accounting practices have produced contradictory findings. Hajawiyah, Wahyudin, Kiswanto, Sakinah, & Pahala (2020) claimed that it is a phenomenon that occurs all over the world, which reduces the information asymmetry and can help make up for the conflict between the CEO and stockholders, which is the primary source for agency conflicts, Therefore, having a dual role for the CEO can help reduce the agency problem. When there is just one CEO in charge of a company, the executives in that company have more opportunities, motives, and intentions to manipulate financial results to obtain their own personal benefits, which results in less conservative accounting practices. Chi, Liu, & Wang (2009) stated that companies with CEO/chair duality are likely to be more conservative in their reports because CEO/chair duality is a weak mechanism for corporate governance. Chi et al. (2009) urges managers to adopt conservatism in order to compensate for such weaknesses in their corporate governance mechanisms. Previous research has suggested that the combined role of CEO and chair of the company has little effect on conservative accounting. According to A. S. Ahmed & Duellman (2007), K. Ahmed & Henry (2012, Yunos et al. (2014b), the duality has no effect on conservative accounting. By analyzing data from 67 Egyptian publicly traded companies over the course of one year, Nasr & Ntim (2018) came to the conclusion that the CEO and chair duality does not have an effect on the level of accounting conservatism. Consistent finding by Kootanaee (2013) for companies listed in Tehran Stock Exchange for year 2001 to 2012.

Multiple Directorships

This section will focus on multiple directorships, whereas the preceding section examined dual CEOs. This phrase refers to directors who hold multiple directorships and is typically used to describe interlocking directorships (A. Khan & Baker, 2024; Ramsawak, Buertey, Maheshwari, Dang, & Thanh Phan, 2024; Watkins-Fassler, Rodríguez-Ariza, Fernández-Pérez, & Briano-Turrent, 2024). Multiple directorships will be utilized as a measure of the directors' reputation in order to monitor the managers. This circumstance may have a positive correlation with accounting conservatism. Since directors with multiple directorships typically have a great deal of abilities, expertise, and are more professional in fulfilling their duties (Fayad, Khatib, Abbas, Ghaleb, & Mousa, 2024), they typically receive offers to serve as a director in other organizations concurrently. By utilizing their experience, they will make correct selections and closely supervise the managers to prevent inaccurate reporting and earnings manipulation. Haniffa & Cooke (2002) discovered that Malaysian companies typically have multiple non-executive director directorships (NED). When NEDs hold several directorships, they enhance their expertise and experience, while simultaneously benefiting the firms because they may effectively contribute to improving the quality of financial reporting and corporate performance. Kiel & Nicholson (2006) believe that boards should include diverse directors to ensure that their knowledge combination (pool of skills, talent, and experience) is advantageous for running the business, as opposed to individual directors who can only operate in their limited area of competence. Multiple directorships are indicative of busy directors who are not necessarily unable to control and handle all their

responsibilities but they are they busy for a good reason and typically contribute to quality reporting, firm performance, and serve as a source of information and communication (Harymawan, Nasih, Rahayu, Kamarudin, & Wan Ismail, 2022; H. L. James, Wang, & Xie, 2018; Kiel & Nicholson, 2006).

However, Beasley (1996) argued that directors will have less time to focus on their own companies when they have directorships in other firms, particularly when those other firms are having challenges that require the directors' advice and greater attention. Consequently, they discovered that fraud will increase when directors are occupied with other directorships. The primary issue with multiple directorships is directors' lack of time to fulfil their responsibilities (Lipton & Lorsch, 1992). Boards become distracted when outside directors serve on several boards because they cannot focus on their responsibilities. Multiple directorships will have an impact on the effectiveness of board monitoring (Core, Holthausen, & Larcker, 1999; Fich & Shivdasani, 2012) and, consequently, on the quality of reporting and conservatism with which the management reports the account. Multiple directorships create a conflict of interest when directors attempt to maximize their personal interests at the shareholders' expense (R. Haniffa & Cooke, 2002; Loderer & Peyer, 2002; Ruigrok, Peck, & Tacheva, 2006). Ruigrok et al. (2006) found that the outside directors will utilize their position to influence the board's decision if they have influence and personal reputation. Accounting conservatism and reporting quality will be low if the outside directors who must act independently in order to do their jobs are unwilling to act in the best interest of shareholders and the company as a whole. Due to this issue, Bursa Malaysia Listing Requirements restrict the number of directorships for listed firms to a maximum of ten for public listed firms and fifteen for private limited firms. Basu (1997) asymmetric timeliness measure of conditional conservatism was applied to a sample of 93 stock listed banks from the four countries studied (Bangladesh, India, Pakistan, and Sri Lanka). Directors with numerous directorships have an inverse 'U'-shaped association with accounting conservatism, according to Kutubi (2020). That is to say, banks tend to present their financial information in a conservative manner when there are fewer multiple directorships (the reputation effect), but as the number of multiple directorships increases, the amount of conservative reporting decreases (busyness effect). Multiple directorships have a positive effect on financial reporting conservatism, but there is a perfect balance for the number of directors who can have the most impact. The study found evidence that directors with multiple directorships in banks with high bankruptcy risk adhere to accounting conservatism in subsequent examination. When there are more busy directors on boards, there is a stronger tendency toward unconditional conservatism and a smaller tendency toward conditional conservatism (Le, Vafaei, Ahmed, & Kutubi, 2022).

Board Metric

Several studies have adopted the assumption that a company's complexity is often determined by its size and book value of total assets (Bradbury, Mak, & Tan, 2006; R. M. Haniffa & Cooke, 2002). This can impact Board Metrics which is the depth of specialization needed, the number of committees to be formed, and the board itself (mix of talents and expertise). Large firms have more complex structures and operations that requires larger board size to give better monitoring and oversight. Larger board size with variety specialization of board members can deal with specific issues relating to accounting and managing risks in more effective and efficient way. The potential to raise additional funds at the lowest possible cost is one of the advantages of a large company, which also necessitates the presence of large boards to maintain effective supervision (Denis, Denis, & Sarin, 1999; Westhead & Howorth, 2006). It is also supported by the findings of (Kapopoulos & Lazaretou, 2007), who contend that huge companies will have stronger capital resources and a higher market value. The increased complexity and size of businesses will call for bigger boards with non-executive directors to synergize in their skills, experience, and knowledge for business efficiency. The appointment of non-executive directors will lead to good supervision by outsiders and management will be disciplined and monitored efficiently (Hashmi, Gulzar, Ghafoor, & Naz, 2020). Therefore, this phenomenon will improve the quality of reporting for companies, since the diversity of board members will provide a wider range of experience than a single type of director. Moreover, the large firms could be in a better position to attract qualified and diverse board of directors, thus improving the board’s efficiency and its governance structures. Thus, it is possible to conclude that as a firm becomes larger and more complicated, the requirements for its governance structures, such as the board of directors, are higher in terms of oversight, strategy, and compliance. This relationship highlights the need to approach Board Metric as an indication of the suitability of the board’s configuration for its governance responsibilities in the light of the firm’s size and structural complexity.

According to the findings of Beasley, Carcello, Hermanson, & Lapides (2000), fraudulent organizations operating in the technology, healthcare, and financial services industries have less internal audit assistance and are accompanied by weak corporate governance measures. Over this, larger companies are more likely than smaller companies to build and maintain internal control systems that are more sophisticated and effective. This, in turn, reduces the possibility of less conservative accounting practices being employed by larger companies. Large companies are typically well established and will be more motivated to provide better disclosure by complying to the rules made by the regulators because, in comparison to small companies, they are able to afford such expenses. This is because large companies are able to finance such expenses so they are able to provide better disclosure (Chen & Jaggi, 2000). In general, they have a tendency to hire people who are highly skilled and knowledgeable in a variety of fields, and since this is typically the case, they will be in a position to successfully run the company and give quality reporting as a result (Depoers, 2000). In addition to this, large companies are more likely to publish more complete information in order to demonstrate good compliance to the authorities and investors, which will, in most cases, have a favorable impact on the share price of the large company's stock (Wallace, Naser, & Mora, 1994). Research by (Roespinoedji, Sinaga, Qureshi, & Haider, 2020) consisting of large companies registered for 13 years found that the level of accounting conservatism is influenced favorably, to a certain extent, by the size of the firm. The findings indicate that the likelihood of a company using conservative accounting principles increases in proportion to the total assets and profits of the company. This is because managers are more likely to choose accounting procedures and methods that report lower or more conservative earnings. The findings of this study are in line with those found in previous research work carried out by (El-Bannany, 2017; Rahayu, & Indra Gunawan, 2018; Yunos, Smith, & Ismail, 2010).

However some research show a conflict finding where there is no relationship between firm size and accounting conservatism (Affianti & Supriyati, 2017; Behrghani et al., 2013; Teymouri & Sadeghi, 2020). Different schools of thought have come to the conclusion that larger companies are more likely to have higher reporting problems. This is due to the fact that larger board sizes make it more difficult for members to communicate with one another and thus, the communication and coordination difficulties can become greater shares in larger boards and so reduce effectiveness. (Chaudhary, 2022; Kamarudin, Mohamad Ariff, Azmi, & Mohd Suffian, 2024). As a result, coordination will be problematic and less effective (M C Jensen, 1993). In Malaysia the higher ownership concentration is not a unique issue in this country. Because larger companies typically have higher ownership concentration, this scenario presents an opportunity for lower accounting conservatism and earnings manipulation activities to take place. However, the Bursa Malaysia Listing Requirements have stipulated that all publicly listed companies (which are typically considered to be large firms due to their market capitalization) must have a majority of non-executive directors on their boards. In the event that these conditions are not met, the companies in question will be removed from the listing.

Ownership Concentration

According to AL-Duais, Malek, Abdul Hamid, & Almasawa (2022) and Karajeh (2020), a significant portion of the publicly traded companies in Malaysia are owned by a single individual, family, or state. This phenomenon is referred to as "ownership concentration." Because of this circumstance, the owner who has a close control with the substantial shareholders will be able to gain more benefits by using their power in terms of voting rights and cash flow right (this is known as the entrenchment effect), and as a result, the risk of expropriation from minority shareholders will increase (Fan & Wong, 2005; R. Haniffa & Hudaib, 2006). Based on the research done by (Yunos et al., 2010) among Malaysian listed companies found that only 3.24% of distributions have dispersed ownership, whereas 96.76% had concentrated ownership. 52.33% of the companies with concentrated ownership are dominated by insiders, 24.79% by outsiders, and 17.28% by both insiders and outsiders. The annual distributions reveal that the percentage of enterprises with concentrated ownership remains close to 90%. This study demonstrates that both internal and external major shareholders promote a decline in conservatism. Corporate share ownership, according to Fan & Wong (2005), is a situation of property right arrangements in which the owner has the right to deploy corporate assets (control or voting right), the right to earn income (cash flow right), and the right to transfer the share, control, and cash flow rights to another party for their own personal interests, regardless of the rights of minority shareholders. They tend to report accounting information for their own benefit and alter accounting data. As a result, the stated earnings lack credibility and are uninformative to external investors. This issue impairs the corporate

governance of Malaysian firms and worsens the quality of financial reporting. There is typically just a minimal amount of physical separation between those who own capital and those who manage it in areas where families have a higher propensity to have considerable equity holdings (K. Ahmed & Nicholls, 1994). Therefore in this situation, the public information is not really important for them since they have direct access to internal information (Adhikari & Tondkar, 1992). In Malaysia, many listed companies have significant family ownership, with family members often appointed to the board in both executive and non-executive roles (R. M. Haniffa & Cooke, 2002; Karim, Naeem, & Ismail, 2023; Liew & Devi, 2021). This allows them to leverage their positions to advance their financial and personal interests, such as engaging in earnings manipulation, often to the detriment of minority shareholders. When ownership is concentrated, the owners will have dominating influence over the company; as a consequence, the controlling owner will be able to decide how the profits will be distributed, which may harm the minority shareholders of their rights to profit sharing (Fan & Wong, 2005). According to Mohd Ghazali (2020) and Tam & Tan (2007), the corporate governance in Malaysia has to be addressed in order to curb the dominance of major shareholders and protect the interests of minority shareholders and also the government ownership. As a consequence of this, the Finance Committee on Corporate Governance and the Bursa Malaysia have made the recommendation that the board of directors of every publicly listed company in Malaysia should have an equal number of executive and non-executive directors, with at least one-third of the board consisting of independent non-executive directors. As was discussed in the part before this, it is expected that the independent directors will speak up for the rights of the shareholders and prevent poor reporting. The rationale behind this recommendation is that independent directors are not involved in the day-to-day operations of the firm, and therefore, they do not have any vested interests in the transactions that the business engages in.

The company that is run by a family obtains a couple of benefits as a result of this structure. It was argued by (H. S. James, 1999) that family firms have longer investment horizons, and in most cases, they will run the business based on the goals of the companies. They are also less likely to make a short-sighted decision due to the stronger family ties, loyalty, and trust that they have in their family firms, which can increase the firm's stability (Westhead & Howorth, 2006). It is corroborated by the findings of (Anderson & Reeb, 2003), who stated that family firms have better monitoring and control due to the history and tradition to maintain their family business and to ensure the going concern of the companies. Therefore, the results of certain studies suggest that there is no connection between high levels of concentrated ownership and a conservative accounting (Alkurdi, Al-Nimer, & Dabaghia, 2017; Nassar & Al Twerqi, 2021; Zuhri & Mulyany, 2020). Besides that, they also have a large undiversified equity positions and control. This situation might lead the family firms to maintain their business for long term development. The level of IFRS compliance was found to be significantly affected by three corporate governance mechanisms: board independence, ownership concentration, and the quality of the external auditor (Abdelqader, Nimer, & Darwish, 2021).

Navigating Crisis: Corporate Governance and Its Impact on Accounting Conservatism

During crises, addressing the mechanisms and consequences of corporate governance reporting is critical. According to de Villiers & Dimes (2021), there are various factors that explain corporate governance reporting and they include the International Codes and the mandatory sections which include the Sarbanes-Oxley Act. In such circumstances, as in the case of the COVID-19 pandemic, these disclosures are useful in mitigating information asymmetry and enhancing stakeholders' confidence. This is in line with García Lara, García Osma, & Penalva (2016) that highlighted the importance of sound governance structure in enhancing conservative accounting standards especially during the downturn situation such as the current COVID-19 pandemic. The research showed that companies with robust corporate governance systems lead to better accounting conservatism. This relationship is especially important in periods of crisis as it makes financial reporting more conservative, thus providing more accurate and conservative disclosures which in turn shall improve stakeholders confidence and reduce on risks of financial statement fraud. Another key determinant of the use of conservative accounting practices is board monitoring. In the study by Gao & Wagenhofer (2021) it was also underlined that during the crisis periods, for instance, COVID-19, board monitoring becomes even more critical. It assists in controlling risk with respect to financial reporting by making certain that those organizations that are involved in the preparation of the statement apply conservative measures to minimize the impact of risks. There has been much research done on the relationship between corporate governance and corporate financial misconduct, especially after the passage of the Sarbanes Oxley Act. In Velte (2023), the

author analyses how improved governance structures can help to manage and prevent possible financial fraud and improve financial disclosures. The implications of the study are that when there is economic trouble or distress, good corporate management can help in preventing malpractices in financial reporting.

METHODOLOGY

Sample of the study

The effect of the COVID-19 pandemic and the revisions to the Malaysian Code on Corporate Governance (MCCG) 2017 on the performance and earnings quality of companies listed on Bursa Malaysia Main Board is analysed. The methodology is comprised of several key components, which ensure a systematic and rigorous analysis. The research design is quantitative since it is appropriate to use for analyzing the numerical data collected from financial statements and market information. This approach allows for a detailed analysis of linkages between accounting conservatism and firm performance during the pandemic, clarifying the interaction of these variables under crisis conditions. All companies listed on Bursa Malaysia's Main Board constitute the population for this study. The sample of firms is chosen to ensure a thorough analysis by focusing on firms that published their annual reports for their fiscal year 2020 on the Bursa Malaysia website. Since the year 2020 is a crucial time with the beginning of the COVID-19 pandemic, starting with the first Movement Control Order (MCO) in March 2020 and followed by the continuous implementation of MCCG 2017. The effects of the pandemic and regulatory change on corporate performance and accounting appear in this selection. Two primary sources of data collection were used. Exhaustive financial and non-financial information that is necessary to evaluate corporate governance mechanisms was obtained from the annual reports of sampled companies, which were downloaded from the Bursa Malaysia website, in the first place. Second, financial data especially for the calculation of accounting conservatism as a proxy of earning quality was collected from Refinitiv DataStream, which provides trusted data for standardized metrics and market data. There was a number of steps in data analysis to achieve robust and useful insights. Established proxies from prior literature were used to measure accounting conservatism, focusing on the timeliness of losses recognition relative to gains. This study uses Khan and Watts (2009) model for accounting conservatism. The statistical basis is provided by the application of regression analysis and hypothesis testing to explore the relationships between corporate governance, accounting conservatism and control variables. This explains why the focus period chosen is 2020, as previous research underscores the pivotal role of accounting conservatism in periods when there is heightened uncertainty. The periods during which conservatism becomes relevant are just such periods when conservatism provides investors with reliable information about a firm's past and future performance (Cui, Kent, Kim, & Li, 2021). Against such a backdrop of severe economic and operational challenges imposed by the COVID-19 pandemic, it seemed to be an ideal setting to test how uncertainty affects corporate accounting practices and decision-making.

Dependent variable

The accounting conservatism as dependent variable is measured based on Khan & Watts (2009) model. Khan and Watts (2009) build upon Basu's (1997) reverse regression model by introducing the C_Score, a firm-year conservatism measure those accounts for differences between firms and across time. Their model assesses the timeliness of recognizing good news and the additional timeliness of recognizing bad news in financial reports, incorporating firm-specific factors such as Size, Market-to-Book ratio (MTB), and Leverage (LEV).

Independent variables and control variables

The independent variables used in this study reflect the relevant governance variables that give major influenced on accounting conservatism. The measurement of governance variables is consistent with previous literatures. Selected governance variables are board of directors' independence, audit committee independence, CEO duality, multiple directorships, ownership concentration and board metric. This study aims to improve the analysis on how the corporate governance affect accounting conservatism by incorporate several control variables i.e. industry classification, leverage, MTB, size, leverage and return on asset.

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FINDINGS AND DISCUSSION

The analysis of corporate governance elements and their relationship with accounting conservatism for the year 2020 reveal significant insights into how various factors influence the financial reporting practices of firms. The regression model is as below:

$$AC_i = \beta_0 + \beta_1 BODInd_i + \beta_2 ACInd_i + \beta_3 CEOD_i + \beta_4 MD_i + \beta_5 OC_i + \beta_6 BM_i + \beta_7 IC_i + \beta_8 Size_i + \beta_9 MTB_i + \beta_{10} Lev_i + \beta_{11} ROA_i + \varepsilon_i$$

Where;

AC = Accounting Conservatism

BODInd = BOD Independence

ACInd = Audit Committee Independence

CEOD = CEO Duality

MD = Multiple Directorships

OC = Ownership Concentration

BM = Board Metric

IC = Industry classification

Size = Firm Size

MTB = Market-to-book-ratio

Lev = Leverage

ROA = Return on Asset

The constant term in the regression model is statistically significant ($t = -10.627$, $p < 0.001$) this indicate that the intercept of the line of regression is significantly different from zero, when all other variables are controlled hence implying that the overall level of Accounting Conservatism is statistically different from zero. This offers a solid foundation for the analysis of the impact of the independent variables as well as the control variables. The first corporate governance variables which is BOD Independence shows a positive and insignificant relationship with Accounting Conservatism ($t = 1.393$ and $p = 0.164$). This indicate that as often promoted for better monitoring, independent directors may not exert much influence on conservative accounting practices in this case. Similar like the audit committee independence (AC Independence) does not have a significant impact towards the level of accounting conservatism with the $t = -0.202$ and $p = 0.840$ values obtained. Also, accounting conservatism is not significantly affected by CEO Duality that refers to the dual task of the position of CEO and the Chairperson of the board ($t = 1.426$, $p = 0.\ 54$). Thus, this study proves that CEO duality has no impact on the uses of less conservative accounting even if there can be a conflict of interest in the CEO's multiple roles. Another variable examined is Multiple Directorships ($t = 0.763$, $p = 0.446$) which also indicates that the hypothesis is non-significant, proving that companies do not aggressively in implementing conservative accounting practices due to directors that hold several directorships. Accounting Conservatism moreover, does not have a significant correlation with Ownership Concentration as it was found to be insignificant ($t = 1.377$ $p = 0.169$). Among all governance variables, only Board Metric shows a positive and statistically significant coefficient ($coeff = 0.215$, $t = 2.778$, $p = 0.006$). The larger and more complex businesses will demand larger boards with non-executive director participation to combine their talents, knowledge, and expertise for effective business performance. The inclusion of non-executive directors will encourage good supervision by outsiders, and management will be monitored and disciplined efficiently.

Therefore, this phenomenon will improve the quality of reporting for companies, since the diversity of board members will provide a wider range of experience than a single type of director.

Among the control variables, Firm Size (t = 11.374, p < 0.001) is highly significant and positively associated with Accounting Conservatism. Larger firms, with their extensive stakeholder base and heightened regulatory scrutiny, are more likely to adopt conservative accounting practices. This aligns with the notion that larger companies face greater public and investor scrutiny, prompting more conservative financial reporting. Return on Assets (ROA) also shows a strong positive association with Accounting Conservatism (t = 3.896, p < 0.001). Firms with higher profitability may adopt conservative accounting to smoothen earnings and reduce volatility, thereby maintaining investor confidence and ensuring stable growth perceptions. Market-to- Book Ratio (MTB) presents a marginally significant negative relationship (t = -1.938, p = 0.053). This suggests that firms with higher market valuations relative to their book values might engage in less conservative accounting practices, possibly reflecting aggressive growth strategies or optimistic future expectations. On the other hand, variables such as Industry Classification (t = -0.623, p = 0.533) and Leverage (LEV) (t = -0.184, p = 0.854) do not show significant effects on Accounting Conservatism. These findings indicate that industry-specific factors and leverage levels do not play a major role in determining the conservatism of accounting practices in the analyzed sample.

Table 1: Regression Result Corporate Governance and Accounting Conservatism

	t	Sig.(p)
(Constant)	-10.627	0.000
BODIndependence	1.393	0.164
ACIndependence	-0.202	0.840
CEO Duality	1.426	0.154
Multiple Directorships	0.763	0.446
OwnershipConcentration	1.377	0.169
Board Metric	2.778	0.006
Industry Classification	-0.623	0.533
Size	11.374	0.000
MTB	-1.938	0.053
LEV	-0.184	0.854
ROA	3.896	0.000

a Dependent Variable: AccountingConservatism

CONCLUSION

The regression results for year 2020 regarding the corporate governance mechanism and their association with accounting conservatism offered useful insights into how firms altered their reporting practices during the great COVID-19 crisis. The obtained constant term is highly significant which means that the level of accounting conservatism is statistically different from zero. From this it can be inferred that companies, being prudent by nature, adopted stricter financial reporting practices in the year of crisis. This study also demonstrates that it is the opposite of the normal expectation where effective corporate governance leads to prudence in accounting practices, certain governance factors did not have a significant impact. The research did not find any strong relationship between Board Independence (BOD Independence), Audit Committee Independence (AC Independence), and CEO Duality and accounting conservatism. This suggests that standard governance structures had a lesser impact on accounting conservatism in the year 2020 which is known as an abnormal period due to major crises. Consequently, certain corporate governance mechanisms were unable to keep up with the standard regulations and practices like board meetings, on-site examinations, verifying physical documentation and internal control functions have all been impacted (Alshhadat & Al-Hajaya, 2023). The crisis may have diminished the traditional efficacy of the governance frameworks, as organizations shifted their focus to manage the situation for short-term survival like boosting their business strategies, design survival and growth strategies rather than the enhancement of the governance systems (Guttena, Atmaja, & Wu, 2024; Islam & Fatema, 2023). Notably, only one governance mechanisms which is Board metric, had a significant and positive impact on accounting conservatism. These results suggest that the organizations which often have more extensive governance frameworks and diverse expertise were more prepared to employ the

accounting conservatism during the crisis. It may be due to the diversified experience and talents in the companies that could have a better monitoring and a disciplined management in reporting their financial performance during the impact of COVID-19. In conclusion, it can be stated that the standard governance features did not affect the level of accounting conservatism during the COVID-19 crisis significantly, with the exception of the Board metric factor. Large and more profitable organizations were even more likely to engage in the use of conservative accounting policies, and this shows a rationality of risk taking and the desire to sustain organizations during uncertainty periods or major crisis.

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