



Contrast of Perspectives: The Role of Corporate Governance Structures on Conservative Behavior of Philippine Publicly Listed Firms

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Abstract: Recent debates and controversies have led to a paradigm shift towards the role of reliable financial reporting in corporate governance. Despite empirical research on the association of corporate governance and accounting conservatism conducted in other countries, these studies remain inconclusive due to conflicting results and the lack of a solid theoretical foundation. To our knowledge, we are the first to explore the relationship between corporate governance and conservative financial reporting in the Philippine setting. With the removal of conservatism from the conceptual framework of accounting standards in favor of neutrality and faithful presentation, we depart from the conventional knowledge that conservatism leads to high-quality accounting information. We extend the implications of extant literature by presenting economic theories (traditional agency and stewardship theory) to rationalize the two competing hypotheses, the substitutive and complementary relationship respectively. Through a panel data regression analysis of secondary firm-level data on Philippine publicly-listed corporations from 2002 to 2011, excluding financial institutions and infrequently traded firms, we find that corporate governance and accounting conservatism are viewed as substitutes rather than complements. Weak corporate governance causes higher demand for conservatism as a means of curbing managerial opportunism. This further corroborates the traditional agency theory as an overriding principle that drives management decisions. Moreover, firms affiliated with corporate family groups are found to be generally less conservative with lower verification requirements placed on accounting information. With such findings, we assert that significant caution must be placed on the overuse of accounting conservatism due to its unsustainability as a substitute for established corporate governance mechanisms based on its potentially negative impact on financial reporting.

Key Words: Corporate governance; Conservatism; Agency; Stewardship