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The Influence of Corporate Ownership Structure and Board Members' Skills on the Accounting Conservatism: Evidence from Non-Financial Listed Firms in Amman Stock Exchange

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Abstract

The purpose of the current study is to examine the influence of ownership structure and board members' skills in the practice of accounting conservatism of Jordanian listed firms. The data were obtained from the annual reports of 116 Jordanian listed firms for year 2011. By using the multiple regression analysis, the results show that the influence of corporate ownership structure and board skills on accounting conservatism were somewhat varied. All variables were a positive relationship with the conservatism with the exception of the board multiple directorship which has negative relationship with conservatism. Five hypotheses were developed and offered in this paper, institutional ownership and board financial expertise were supported, while family ownership, board tenure and board multiple directorships were not supported due to the higher level of P-value compared to 0.05. These results refer that corporate governance plays a vital role in enhancing the level of conservatism and reducing the agency conflict. Further, regulators bodies in Jordan should increase the effectiveness role of corporate governance in Jordanian companies in order to enhance the quality of financial reports. In addition, this study opens up avenues for more studies on accounting conservatism not only in Jordan, but also in other countries where this area of study is lacking.

Keywords: Ownership structure, Board skills, Accounting conservatism, Jordan

1. Introduction

Conservatism is defined traditionally by Bliss (1924) as accounting procedures that "anticipate no profit but at the same time anticipate all losses". Previous studies argued that there is no common definition of conservatism, despite it is well known and a very important attribute to Generally Accepted Accounting Principles (Watts, 2003a). Basu (1997) has explained the conservatism in accounting as: "the accounting tends to require a higher level of verification in order to recognize good news as earning than to recognize bad news as losses". Watts (2003a) has defined conservative accounting as the verifiability of differential required for recognizing losses versus profits. Accounting conservatism is considered one of the most intervention principles of valuation process in accounting (Iyengar & Zampelli, 2010; Watts, 2003a). This study adopts a definition of the accounting conservatism as referred by Givoly and Hayn (2000) who argued that a conservative firm picks the principles of accounting that conducive to minimize of accumulated reported earnings through slower revenue recognition, faster recognition of expense, lower valuation of corporate assets, and higher valuation of corporate liabilities, where this definition on is appropriate for the purposes of this study. The reason for using accounting conservatism in accounting practices is the existence of difficulty and uncertainty to predict certain future benefits of assets and liabilities (Kung, 2005).

Conservatism is an important attribute of financial reporting quality that is often used by participants of capital market to benchmark the firms' earnings quality (Kung et al., 2008). Furthermore, it is recognized that accounting conservatism is an effective instrument for constraining the directors' opportunistic behavior (Kung et al., 2008). Accounting conservatism reduced incentive of managers to practice earnings management. On the other hand, the major companies' collapses and related financial frauds which occurred in most countries of the world have stirred uncertainties about the credibility of the operating and financial reporting procedures of listed companies in Jordan. Accounting conservatism is a bone of attention at the global and local level. At the global level, several authors criticized the low level of conservatism as they claim it to be responsible for the demise of some large companies such as Enron and WorldCom (Biddle, Ma & Song, 2012; Lobo & Zhou, 2006).

As for local level, Hamdan (2010, 2012a) and Hamdan et al. (2012b) reported that accounting conservatism level in Jordanian firms is very low. The low level of conservatism of Jordanian listed firms was attributed amongst others to the poor of corporate governance practices (Abed et al., 2012; Hamdan, 2012a). in such level of applying conservatism may increase the possibility of manipulation in the financial reports and will be more likely to practice earning management. Al-Zoubi (2012) and Abed et al. (2012) found evidences on the existence of earning management in financial reports of Jordanian companies. In a similar vein, the World Bank and International Monetary Fund (IMF) in 2004 have evaluated the status of corporate governance in Jordan. They concluded that the corporate governance of Jordanian companies remains at a relatively late stage. All of these issues motivate researcher to conduct such study in order to test the influence of corporate ownership structure and the skill of board's members on accounting conservatism.

The structure of ownership is defined by the distribution of company's equity with regard to capital and votes but also by the identity of the owners of equity (Holderness, Clifford, Randall, Kroszner & Sheehan, 1999). Ownership structure contributes to reduce the incentive to manage earnings. In addition, it is believed that managers of corporate have opportunities to manipulate corporate reported earnings base on their own interest.

Agency theory addresses the contractual relationships, for example, among the agent (director of the firm) and the principal (shareholders of the firm) whereby shareholders delegate responsibilities of the directors to manage their business. This theory shows that when both of the parties are expected to optimize their utility, there is a good reason to believe that the agent (directors) may engage in opportunistic behavior at the expense of the interest of shareholders (Jensen & Meckling, 1976). In other words, the relationship among shareholders and firm managers is replete with conflicting interests due to the separation of management and ownership. Al-Fayoumia and Abuzayed (2010) argued that this separation leads the managers to control the most of vital information that regarding to the corporate management and its operations. On the other hand, shareholders, who do not responsible for daily issues of the corporate, they do not have to get the similar information as corporate managers. In addition, agency theory assumes that information asymmetry and agency costs arise due to such separation also (Jensen & Meckling, 1976; Fama & Jensen, 1983). Regarding to the agency costs, a number of monitoring costs also could directly involved accounting such as the need for engagement of an external auditor (Gaffikin, 2008). Beside the cost of controlling the conflicts related to the principal/agent relationship, there are other costs incurred under this concept. In principle, several costs stemming from conflicts within the principal/agency relation arise from opportunistic behavior of firm management. The task of conservative accounting as reported by LaFond and Watts (2008) may act as a mechanism to limit the incentives of managers and their capacity to manipulate financial figures and so decrease such asymmetry and the deadweight losses that information asymmetry creates. This raises company and equity values. In short, the problems that rise due to information asymmetry among shareholders and managers imposes more use of financial reporting in communicating and contracting, and therefore attract a demand for high level of conservative reporting (Ball & Shivakumar, 2005).

Previous studies suggested that equity investors are a significant source of the conservatism practices demand as a governance device (Ball, 2001; Watts, 2003b). In addition, if a conservatism practices give governance benefits, certain that institutional investors will appreciate such benefits, accordingly, the demand for accounting conservatism will be from institutional investors. In addition, institutional investors probably have an advantage access to inside and management information (Carleton, Nelson & Weisbach, 1998). Holmstrom (1979), Ke, Petroni and Safieddine (1999) and Prendergast (2002) argued that institutional investors may depend more on direct controlling and less monitoring by financial numbers. On the other hand, prior studies reported that institutional ownership is more likely to monitor the managers' behaviors through using conservative accounting policies in financial reports (Ramalingegowda & Yu, 2012).

Family ownership is a significant structure of ownership. Burkart, Panunzi and Shleifer, (2003) reported that most companies in the world are considered family-owned businesses, which increase the agency conflicts among corporate managers and its major shareholders as documented by Shleifer and Vishny (1997), Demsetz and Lehn (1985), and Jensen and Meckling (1976). In addition, corporate managers seek to maximize their own profit and their wealth at the expense of creditor or shareholders through providing financial information that different from the essence financial transactions (Healy & Kaplan, 1985; Christie & Zimmerman, 1994; Warfield, Wild & Wild, 1995; Leuz et al., 2003). Furthermore, in order to reduce agency conflicts, earnings are used through harmonizing the benefit of corporate managers with the creditors and shareholders. In contrast, the demand of high level of quality of financial statements creates more incentives for companies to give high quality of financial statement to obtain better terms of contracting (Ball & Shivakumar, 2005; Ball et al., 2003; Ball, Kothari, & Robin, 2000). In general, family ownership may influence the request and supply of the quality of financial statements in two different points of view: the alignment and entrenchment effect, these ways will be elaborated in more detail in the following sections. The current study contributes to the knowledge of the institutional factors that generates demand for more conservatism. Especially, institutional and family ownership are important structures that control the supply and demand on the conservatism practices of firms.

Regarding to the board of directors, it's represents the highest authority of the internal regulatory authorities in the company to control and monitor the top corporate management, including CEO (Keasey & Wright 1993; Lara, Osma, & Penalva, 2007; Fama & Jensen 1983). Financial expertise, tenure and multiple directorships are serves as directors' skills. These skills are significant factors because directors with a better understanding of business operations could effectively review the financial reports (Lanfranconi & Robertson, 2002). This paper uses one additional theory that commonly used in corporate governance research this theory called resource dependence theory (Pfeffer & Salancik, 1978). This theory assumes that the organizations are making a great effort to control their environment by woo the necessary resources needed in order to survive. This notion has significant implications for the board of directors' function and its structure. This paper contributes to the previous literature by employing the resource dependence theory because board of directors may serve as a mechanism to form links with inter-organizational and with the external environment. Therefore, directors who are work in prestigious professions can be served as vital source of timely information for executives.

Corporate directors were always in need of valuable and verifiable information to control and monitor the managers' actions effectively. The financial reporting and accounting system is a rich source of such information that is beneficial in monitoring the managers as well evaluating their strategies and decisions (Watts & Zimmerman, 1986; Bushman & Smith, 2001). Therefore, focusing on studying the relationship between directors' skills in the boards and conservatism practices is interesting in the current study.

Conservatism is an important attribute of financial reporting quality that is often used by participants of capital market to benchmark the earnings quality of firms (Kung, James & Cheng, 2008). Conservatism also makes financial reports more useful and informative. Previous studies suggest that conservatism adds more value to the financial reports, because it produces reliable accounting figures (e.g Graham, Cannice & Sayre, 2002). Furthermore, it is recognized that accounting conservatism is an effective instrument for constraining the opportunistic behavior of directors (Kung, James & Cheng, 2008). Accounting conservatism reduced incentive of managers to practice earnings management. Chen, Hemmer and Zhang (2007) showed that managers practiced earning management to fulfill expectations of investor to avoid negative effect on the share prices. Since conservatism delays the recognition of profits until they are verified and recognizes all losses in a timely manner, it reduces the effect of news on the share prices and in turn limits the managers' incentive for earnings management.

2. Literature Review and Hypotheses Development

This section consists of five main hypotheses testing the relationship between ownership structure (Institutional and family ownership) and directors' skills in the board (financial expertise, tenure and multiple directorships) and accounting conservatism. These relationships are illustrated below:

2.1 The Relation between Ownership Structure and Accounting Conservatism.

Previous studies related to accounting conservatism have focused on examining the influence of ownership concentration on accounting conservatism. The measure of accounting conservatism that used by these studies is the asymmetric timeliness of earnings that is proposed by Basu (1997) (e.g. Lara, Osma & Neophytou, 2009a; Nekounam, Sefiddashti, Goodarzi & Khademi, 2012; and Yunos, Smith & Ismail, 2010). There is limited attention in studying the influence of corporate ownership structure on accounting conservatism using different measures such as accrual-based conservatism. This study seeks to fill this literature gap by verifying the association between corporate ownership structure (institutional and family ownership) and accounting conservatism measured using accrual-based that is proposed by Givoly and Hayn (2000).

This study was based on the recommendations of previous studies that suggested the study of the relationship between the accounting conservatism and ownership structure, where these studies suggested that the use of different classification of the ownership structure includes such as institutional and family ownership will give different and valuable results (Yunos, Smith & Ismail, 2010; Yunos, et al., 2011). Institutional ownership is one of the influential groups of investors in the demand for accounting conservatism as a governance mechanism. Family ownership is also added to the analysis to reflect a significant aspect of ownership structure that reflects the cultural environment of Jordan.

Previous studies suggested that institutional investors are a significant supplier of the conservatism demand as a governance device (Ball, 2001; Watts, 2003b). Empirical studies support such assumption. For instance, LaFond and Roychowdhury (2008) reported that the higher level of conservatism accrue when the separation of control and ownership is more visible. They found that higher level of information asymmetry among corporate managers and its shareholders implies more conservatism. Ramalingegowda and Yu (2012) found that such investors are more probable to monitor the managers' behaviors through the use of conservative accounting policies in financial reports. They also showed that this positive relationship is more pronounced between companies with a higher information asymmetry. Their result is consistent with monitoring institutions which drive the demand of further conservatism practices. In Jordan, Al-Fayoumia and Abuzayed (2009) reported that most of institutional ownership consists of Social Security Corporation (SSC) and financial institutions. There is no presence of investment companies or mutual funds.

Carleton, et al. (1998) reported if a conservatism practices give governance benefits, certain that institutional investors will appreciate such benefits, accordingly, the demand for accounting conservatism will be from institutional investors. In addition, institutional investors probably have an advantage access to inside and management information. They could pay more attention on direct controlling and thus less attention by financial figures (e.g. Holmstrom 1979; Ke, Petroni & Safieddine, 1999; Prendergast, 2002). Nevertheless, it's reported that institutional investors are characterized by some studies as sophisticated and as policy-setters in capital markets (Bartov, Gul, & Tsui, 2000; Chakravarty, 2001). Hence, institutional investors demand greater level of conservatism practices. This discussion eventually leads to the following proposed hypothesis;

H1: Positive relationship is expected between institutional ownership and accounting conservatism.

Regarding to the family ownership, prior studies show that family ownership influences the supply and demand of financial reporting quality in two main standpoints. Firstly, the entrenchment effect which urges companies (financial report suppliers) to manage the earnings, it was due to that the family companies are not as efficient as their counterpart companies as they form motivations to control the major shareholders in order to requisition wealth from the minority shareholders (Shleifer & Vishny, 1997), and they often occupy higher positions on the both of top management team and board of director. Francis, Schipper and Vincent (2005) reported that the asymmetry of information limits the level of transparency of disclosures on financial reports. Thus, family owners have both the opportunity and the incentive to manipulate the earnings to their advantage. Thence, the entrenchment effect expects that firms that owned by families are related with the lower level of earnings quality and thus low level of conservatism.

The second standpoint on the effect of family ownership on the conservative accounting is alignment effect which state that ownership concentration urges higher monitoring of controlling shareholders (Demsetz & Lehn, 1985; Shleifer & Vishyny, 1997) allow family firms to make instantaneous decisions to create loyalty among employees (Weber, Lavelle, Lowry, Zellner & Barrett, 2003) and this protects the family name. Moreover, family firms are more probable to ignore short-term interest from earnings management as they plan to pass on their business to their descendants. This point of view implies that family firms are not as vulnerable to opportunistic behavior in terms of disclosing earnings as this would likely damage family reputation, their business and wealth as well as the long-term firm performance eventually. Family firms prefer high level of earning quality and in turn, high level of conservatism as prior literature evidenced that financial earnings are of higher level of quality if the firms reported their earnings are highly conservative (Ball et al., 2000; Ball at al., 2003). Based on the discussion above, depending on the second view which is alignment effect, the second hypothesis is proposed;

H2: *Positive relationship is expected between family ownership and accounting conservatism.*

a. The Relationship between the Board Members' Skills and Accounting Conservatism

Despite a many studies in firm boards, the understanding the directors interactions' dynamics within a board is limited (Knyazeva, Knyazeva & Raheja, 2013). This study examined three important characteristics of the board of directors (i.e. financial expertise, tenure and multiple directorships) are among the main characteristics of the board. These skills are serves as directors' skills. These skills are significant factors because directors with a better understanding of business operations could effectively review the financial reports (Lanfranconi & Robertson, 2002). Knyazeva et al. (2013) documented that directors with various skills can improve the overall expertise of board and making their decisions efficiently.

Financial experience of director is one of the most important skills of board members (Knyazeva et al., 2013). Empirical previous studies showed that director expertise might affect the ability of board to monitor management and the company effectively (Anderson, Mansi & Reeb, 2004; Beasley, 1996; Monks & Minow, 1995). Recent scandals of financial reporting such as WorldCom and Enron have raised a set of questions regarding to the function of the boards of these firms and others in ensuring that financial reporting is complete and transparent. Where in the case of Enron and WorldCom, empirical studies have proved that lack of accounting and financial knowledge among the members of board of director was a contributing factor to accelerate their failure (Yunos, et al., 2011; Lanfranconi & Robertson, 2002). Consequently, the boards of director members were not able to understand the complex structures of financial planning. Therefore, to censorship the financial reporting process, the managers and directors of firms must have accounting and financial knowledge to provide high level of quality of financial reports either to make financial information more transparent or to limit manipulation.

Prior research concluded that financial expertise is one of the key significant factors of financial report quality. The results of Agrawal and Chadha (2005) on U.S. companies highlighted the importance of accounting expertise and knowledge between the outside directors. The result implies that outside directors are effective in decreasing the probability of financial restatements only if they have financial expertise. Sarkar, Sarkar and Sen (2008) and Yunos et al. (2011) found that financial expertise are attributes of strong governance, hence will lead to employ more conservatism practices in financial report to assist in their oversight role of the financial reporting process. Al-Zoubi (2012) found that the board of directors with financial expertise is negatively related to earning management in Jordanian firms. This study concerned in adding financial expertise among the members of the board of directors as novel and vital variable as mentioned previously. In addition, and as mentioned by Yunos et al. (2011) that there are very lack of studies that addressed the financial expertise among the members of board of directors where they pay more attention on the financial expertise among the members of audit committee. In short, financial expertise contributes to stronger governance; previous studies found that financial expertise contributes to practice more conservative over financial reports. The following hypothesis is presented:

H3: *The relationship between financial expertise among board of director members and accounting conservatism is in a positive direction.*

Previous studies documented that there are conflicting views on the effect of directors' tenure on their behavior. For instance, Vafeas (2003) concluded that directors who served a longer duration on the company's board would have more ability to understand the companies' businesses and ultimately they become more competent. Other studies reported that directors with longer tenure assist to protect the interests of shareholder by being independent of the influence of the administration (e.g. Cotter, Shivdasani & Zenner, 1997; Byrd & Hickman, 1992; Brickley, Coles & Terry, 1994; Vafeas, 2003). Peasnell, Pope, and Young (2005) found that outside directors with long-term engagement is associated with low level of earnings management, which means that directors are more efficient to reduce the manipulation of earnings. The expertise hypothesis suggests also that a longer tenure of director on the board related with more commitment, experience and competence, because such long-term engagement gives a director important knowledge regarding to the company and its business environment (Vafeas, 2003). Ultimately, the existence of an effective market for directors may lead to the longer period survival of directors who are most appropriate to protect shareholders (Vafeas, 2003). Kim and Yang (2014) provide evidence that longer tenure of directors positively related to the quality of financial report, and they used three different measurements for quality of financial report, Specifically, they reported that the longer period of directors' tenure negatively influence on the value of discretionary accruals. They concluded also that the companies which have directors with long tenure on its board have more persistence. In addition, directors with long tenure on boards are related with the increasing of earnings response coefficient.

In contrast, Allen (2000) documented that the independent directors in the board who worked longer period in the board could be hostage to the insiders parties, hence made them more intimate and had interests that were consistent with the insider's parties. Despite, longer period of tenure improves their experience and knowledge over the company, but in fact they are unable to apply it in order to achieve stronger governance. In a similar vein, Allen and Cohen (1969) argued that the longer tenure of the members of top management lead to increase their refrain to change the organizational strategy because of course they understand the nature of organizational procedures and policies. In addition, Wiersema and Bantel (1992) documented that directors will be affected through long-term tenure by isolating them from external sources of information that may be important. Other studies reported that long average of directors' tenure limits the level of communication between the board members because they are likely to anticipate the viewpoints of other directors (Katz, 1982). Ali and Zhang (2012) found that CEOs in firms have more incentives to deal with overstate of earnings in the early years than in the later years of their service.

In summary, tenure considered as one of the significant personal advantages which conducive to unique patterns of cognitive process and attention for decision makers, and thus positively influence the final decision (e.g. Allen & Cohen 1969; Wiersema & Bantel 1992). On the other hand, corporate governance literature confirm that board of directors considered as a important authority in firms which has a active and vital role in endorsement of financial statements, and thus lead to protect the quality of financial report and the interests of shareholder. According to the above-mentioned arguments, the current study suggests the following hypothesis:

H4: *The relationship between board tenure and accounting conservatism is in a positive direction.*

In corporate governance literature there are two perspectives to explain the influence of multiple directorships. Previous literature provides an advice to the importance of limit the number of directorships due to the workloads they entail. Lipton and Lorsch (1992) showed that directors with multiple directorships could negatively influence the directors capable to control the management as they are exhausted and distracted by the issues of other organizations. In Fich and Shivdasani's study (2006), companies where the directors' work at three or more directorships experienced less market to book ratios as compared to companies those directors who work at fewer directorships. Despite multiple directorships improve the experience and knowledge of directors, as well they may be unable to employ their experience perfectly because they are very busy with various issues, and thus they have insufficient time with the firms. Numerous of the previous studies have raised a range of evidences on the negative influence of multiple directorships. For example, Schnake, Fredenberger and Williams (2005) found that multiple directorships lead to increase the number of legal investigations brought against the companies, while other reported that multiple directorships related with lower corporate performance (Haniffa & Hudaib, 2006; Schnake & Williams, 2008). Fich and Shivdasani (2006) shown that it's associated to the lower market to book ratio, and higher level of earnings management (Sarkar, Sarkar, & Sen, 2008). In a similar vein, Ahmed and Duellman (2007) documented that multiple directorships employs lower level of conservatism practices.

The second perspective is the quality hypothesis, which sees multiple directorships act as an indicator for high quality of director. Nevertheless, there is lack of empirical evidence to support this view. Saleh, Iskandar and Rahmat (2005) reported that directors with multiple directorships are effective in limiting earnings management only in firms with adverse unmanaged earnings. Jaafar and El-Shawa (2009) showed that multiple directorships have a positive and significant influence on firm performance in Jordan. This result supports the resource dependence hypothesis that companies benefit from appointing directors with multiple directorships, through the expertise and knowledge of board members, and the opportunities they can provide for establishing networks with other companies and the external environment. This study considers that the multiple directorships as a one of the major skills of the directors in the board, because it offers more experience and knowledge for managers. Based on such perspective, the current study offers the following hypothesis.

H5: *The relationship between multiple directorships and accounting conservatism is in a positive direction.*

3. Methodology

3.1 Sample and Data

The Jordanian listed firms are divided into three main sectors. These sectors are; financial, industrial and services sector, divided into 113, 72 and 58 firm respectively (ASE, 2013). Only two sectors (industrial and services sector) are chosen for the purposes of this study. These sectors make up of 130 firm or 53.5% of the Jordanian listed companies that contribute significantly to 73% of Jordanian GDP (Al-Akra, Ali & Marashdeh, 2009). Therefore, in order to achieve the study's objectives. We use the annual reports for a sample of Jordanian listed firms at the end of year 2011. The final sample that involved to the analyses process is (116) companies at a rate of 89.23% of the original population.

Financial sector was excluded from the sample of the study because it has different regulations and practices issued by the Central Bank of Jordan and the Insurance Commission. These regulations are different from other sectors' regulations. In addition, Hamdan (2012) reported that the financial reports of financial sector are the most conservative amongst Jordanian firms. Accordingly, the industrial and services sectors are suitable for the purposes of this study. The variables that are employed in the current study were confined to the ownership structure along with board skills, where these variables are considered the essence of monitoring techniques; these variables are vital factors that contribute to determine the level of conservatism. As for accounting conservatism, the current study focused on one measure of accounting conservatism namely accrual-based (ACCR) introduced by Givoly and Hayn (2000) because this measurement is more accurate measure of conservatism according to Hui, Matsunaga and Morse (2009).

3.2 Variables and Measurements

Institutional ownership: it is measured as a percentage, natural number of company shares owned by institutional investors, such as insurance companies or banks. According to Al-Najjar (2010), institutional ownership is measured by dividing the natural logarithm of shares that are held by the institutions to the gross number of firm's shares.

Family ownership: this study uses family ownership to reflect a significant aspect of ownership structure that explains the cultural environment of Jordan. According to Alkhawaldeh (2012), this variable was calculated as the percentage of shares held by families to gross number of firm's shares.

Board financial expertise is measured by dividing the total number of board members with financial expertise on the total number of the board of director members (Bedard, Chtourou & Courteau, 2004; Saleh, Iskandar & Rahmat, 2007). Financial expertise is the experience or qualifications in finance or accounting, including the directors who are the members of accounting or auditing bodies.

Board tenure: according to the previous studies, board tenure was computed in this study by dividing the gross number of service years for all independent members on the corporate board on the gross number of independent members on the board (Rahman & Ali, 2006).

Board multiple directorships: it's measured using dummy variable equal 1 if the board's members individually hold two or more directorships and 0 otherwise. Some of previous studies have used such measure (e.g. Saleh, Iskandar & Rahmat, 2005; Ferris, Jagannathan & Pritchard, 2003; Fich & Shivdasani, 2006).

Conservatism measure**:** The accrual ACCR equals income minus (extraordinary items and discontinued operations), plus depreciation expenses and minus (operating cash flows) deflated by total assets. The value of accrual is multiplied by -1 and referred to as ACCR. The conjecture underlying this measure is that conservative reporting will lead to persistently negative accruals (Billings, Morton, & Stanford-Harris, 2002; Givoly & Hayn, 2000; Duellman, 2006).

The following regression model tests the influence of ownership structure and board skills on accrual measure of conservatism.

$$ACCR\ it = \beta 0 + \beta 1 INSTit + \beta 2\ FAM\ it + \beta 4\ BFIX\ it + \beta 5\ BTEN\ it + \beta 6$$

$$BMULT\ it + \varepsilon\ it.$$

Where

ACCR	Accrual-Based measure of accounting conservatism = [(income + depreciation expenses – operating cash flows)] ÷ Total assets.
	ACCR = (Accruals / 3 years) X (-1).

INST	Institutional ownership measured as ratio, "by dividing the total number of shares owned by the institutions to the gross number of firm's shares.
FAM	Family ownership is measured as the percentage of shares owned by families to total number of firm's shares.
BFIX	Board financial expertise measured by dividing the total number of board members with financial expertise on the total number of the board of director members
BTEN	Board tenure was computed by dividing the gross number of service years for all independent members on the corporate board on the gross number of independent members on the board
BMULT	Board multiple directorships calculated as a dummy variable equal 1 if the board's members individually hold two or more directorships and 0 otherwise.

4. Results

4.1 Descriptive Analysis

Table 1 illustrates the descriptive analysis for 116 firms that met the necessary data for years of 2011. The average value of the ACCR is -.021. This value is lower than the average values of accrual conservatism at 0.010 which reported by Krishnan and Visvanathan (2008) and Ahmed and Duellman (2007) in U.S firms. The negative value refers that Jordanian listed firms employ a lower level of conservatism. Different organizational structures and institutional factors have driven the discrepancy on the level of conservatism.

The descriptive statistics reported that the average value of institutional ownership (INST) was 82.3%. This value was compared with the results in other countries. For example, Ramalingegowda and Yu (2012) who examined U.S firms reported a mean institutional ownership of 60.9% while Alfaraih, Alanezi and Almujamed (2012) who examine Kuwaiti firms found an average of 55%. The agency theory reported that the higher the percentage of institutional investors or greater concentrated ownership, the greater the monitoring function of these investors, and thus the greater the opportunity for better financial performance (Alkhawaldeh, 2012). On the other hand, the average of family ownership (FAM) in the current study is 27.7%. This result is higher than result of Chen and Hsu's (2009) who found that 21.92% as an average of family owners in Taiwanese firms. Such finding means that family firms seek carefully to monitor the opportunistic activities of managers, thereby are efficient in their business and investment (Chen & Hsu, 2009).

In respect of financial expertise among the members of board of directors, an average 21.9%

of the board of director members had financial expertise (BFIX). The zero minimum value for the BFIX indicated that there were companies which did not have financial expertise on their boards. The average tenure of independent directors on the board (BTEN) was almost 7.691 years; the longest period was almost 14.4 years. The average number of directors who have multiple directorships (BMULT) was 63.8%. This ratio is higher than the result of Jaafar and El-Shawa (2009) who reported that the average multiple directorships in Jordanian listed firms was 46.03%. Multiple directorships are an attribute of strong governance. Additionally, the directors with multiple directorships would improve the directors' knowledge and thus will lead to more demand of conservatism.

Table 1. Descriptive statistics for variables

Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ACCR	116	-.299	.450	-.021	.2112
INST	116	.670	.930	.823	.0594
FAM	116	.000	.440	.277	.1303
BFIX	116	.000	.440	.219	.1147
BTEN	116	2.050	14.400	7.691	3.324
BMULT	116	.000	1.000	.638	.4827

4.2 Correlation Analysis

Table 2 shows the matrix of Pearson correlation for the relationship between dependent and independent variables. As described in Table 2, the correlations among the dependent variables ACCR and INST is significantly correlated (+0.299) as expected, suggesting that the demand for accounting conservatism was from institutional investors. In addition, family ownership positively but not significantly correlated with accounting conservatism. Board financial expertise has a positive and significant associated with accruals at 5% level of significant. On the other hand, family ownership, board tenure and board multiple directorships are not significantly correlated with accruals conservatism at both level of significant.

The Multicollinearity test was conducted to check the high correlation coefficient between all independent variables if they exist; Table 2 shows that the correlation coefficients among independent variables are low which indicating no Multicollinearity issue in this study.

Table 2. Pearson correlation coefficients among variables

	ACCR	INST	FAM	BFIX	BTEN	BMULT
ACCR	1					
INST	.299**	1				
FAM	.139	.021	1			
BFIX	.215*	.097	-.023	1		
BTEN	.049	.112	.147	-.055	1	
BMULT	.035	.075	.061	.033	.079	1

4.3 Multivariate Analysis

The purpose of the current paper is to examine the relationship between institutional ownership, family ownership, financial expertise among board of director's members, board tenure and multiple directorships on the accounting conservatism among Jordanian listed firms. In attempting to fulfill the objectives of the study, hypotheses were developed and offered in previous sections. Table 3 shows the results of multiple regression analysis between variable abovementioned.

Table 3 provides the ordinary least squares regression result. The ANOVA test illustrate that the research model is relevant, where (F) value was (3.675) at .004 significance level. Both of R square and Adjusted R square values were (0.143) and (0.104) respectively, which indicate that we can use such model to examine the suggested relationship between independent and dependent variables.

As seen from Table 3, the institutional ownership (INST) has a positive direction as predicted and it is significant at 5 % (t = 3.091, P = .003). The evidence shows that the institutional ownership contributes positively to the accruals. This result is consistent with the result of Ramalingegowda and Yu (2012) who reported that institutional ownership is more likely to monitor the managers' behaviors through using proper accounting policies in financial reports. On the other hand, Klai and Omri (2011) reported that institutional ownership has a positive relationship with the financial disclosure quality. This refers that the institutional ownership enhance the level of financial report quality and control the actions of management in terms of providing users with reliable financial information that assists them in their important decision making. According to the abovementioned result, hypothesis H1 is accepted.

This study expects a positive relationship between family ownership and accounting conservatism. As shown in Table 3, the family ownership (FAM) has a positive direction as predicted, but contrary to our expectation, this relationship is not significant (t= 1.527, P=.130). The direction of this relationship is supported by the alignment effect, which states that family owners are more probable to abandon the benefits in the short term which arising from managing the earnings because they are seeking to bequeath their own business to their coming generations. Accordingly, that means that family owners do not tend to practice opportunistic behavior in managing the earnings, and the long-term performance of firm. In summary, this insignificant relationship is inconsistent with our expectations, and thus, hypothesis H2 is not supported.

This study assumes a positive relationship between financial expertise and accrual conservatism. Table 3 shows that the relationship between board financial expertise and accrual conservatism is positive and significant (t = 2.153, P = .034). This result is consistent with our expectation, and this relationship indicates to the importance of accounting and financial knowledge for directors on the board in order to control manipulation and thus insure transparent financial information. This finding is supported by prior studies which reported that financial expertise enhance the financial reports quality (Abbott et al., 2004; Agrawal & Chadha, 2005; Bedard et al., 2004). The bottom line, based on the results of this study and in line with the results of previous studies, hypothesis H3 is accepted.

This study predicts a positive relationship between directors' tenure and accounting conservatism. Table 3 shows that the length tenure (BTEN) has a positive direction but not significant with accrual conservatism (t =.098, P =.992). This direction of relationship is supported by Anderson and Bizjak (2003) who concluded that longer tenure of the board members associated positively with more experience, competence and commitment, because it generates a director with important expertise and knowledge about the company and its business environment. On the other hand, this study is unable to support hypothesis 4 due to the higher level of P-value of family ownership (0.922) compared to 0.05 (a = 0.05). Thus, hypothesis H4 is not supported.

This paper predicts positive relationship between directors with multiple directorships and accounting conservatism. The result as shown in Table 3 indicates that the relationship between multiple directorships and accruals is negative and not significant (t = -.013, P=.990). This result is confirmed by the finding of Lipton and Lorsch (1992) who concluded that directors with multiple directorships could negatively affect their capable for controlling and monitoring the management as they are exhausted and preoccupied by the issues of other organizations. Our result is also consistent with the busyness hypothesis as provided by Lipton and Lorsch (1992). They argued that busyness hypothesis implies that managers with multiple directorships are busy to participate in other committees and attended too many committee meetings. However, this result is the opposite of our expectations; this relationship is negative and not statistically significant. Therefore, hypothesis H5 is not supported.

Table 3. OLS Regression Result

	Relevant Hypotheses	Expected Signs	Beta	t	Sig.
INST	H1	+	.277	3.091	.003
FAM	H2	+	.136	1.527	.130
BFIX	H3	+	.191	2.153	.034
BTEN	H4	+	.009	.098	.922
BMULT	H5	+	-.001	-.013	.990
R2					0.143
Adjusted R2					0.104
F-value					3.675
F- Significance					0.004
N					116

ACCR= Accrual-Based measure of accounting conservatism = [(income + depreciation expenses – operating cash flows)] ÷ Total assets. ACCR = (Accruals / 3 years) X (-1).; INST= Institutional ownership measured as ratio, "by dividing the total number of shares owned by the institutions to the gross number of firm's shares.; FAM= Family ownership is measured as the percentage of shares owned by families to total number of firm's shares; BFIX= Board financial expertise measured by dividing the total number of board members with financial expertise on the total number of the board of director members; BTEN= Board tenure was computed by dividing the gross number of service years for all independent members on the corporate board on the gross number of independent members on the board; BMULT= Board multiple directorships calculated as a dummy variable equal 1 if the board's members individually hold two or more directorships and 0 otherwise.

4.4 Robustness Tests

We conduct a number of additional robustness tests to confirm the credibility of the initial results. Binary variable was used as an alternative measure. In this section, we re-examined institutional ownership (OWINST) and board tenure (BTEN) using alternative measurements.

This study repeats the regression analysis where institutional ownership was measured as a dummy variable, equal one if the percentage is higher than the mean and 0 otherwise. We obtain results similar to those reported in the initial test except that board financial expertise became insignificant due to the higher level of P-value of financial expertise (0.081) compared to 0.05 (a = 0.05).

The relationship between board tenure and accounting conservatism was analyzed by using alternative measurement for board tenure labeled Dum_Bten. This study repeated the regression model with dummy variable equal 1 if board tenure is higher than the mean of board tenure of the sample and 0 otherwise. We obtain results similar to those reported in the initial test. In bottom line, the results that obtained from employing the robustness tests are similar to the results that reported in the initial evidences which confirm the credibility of our results.

5. Conclusions

Our analyses showed that institutional ownership and board financial expertise have a positive and significant relationship with conservatism, while the relationship between family ownership, board tenure and board multiple directorships and accounting conservatism are not statistically significant. Accordingly, the results of the current study support hypotheses 1 and 3 but incapable to support hypotheses 2, 4 and 5. In general, our results are compatible with the idea that accounting conservatism assists directors in decreasing the agency costs of companies.

This paper contributes to the limited studies by examining the influence of endogeneity of ownership structure using new classification to examine the direct influence of institutional and family ownership with accounting conservatism measured by accrual based, where previous studies have focused on the influence of ownership concentration on the accounting conservatism. This new classification is suggested by previous studies (e.g. Yunos, 2011; Yunos et al., 2010; Yunos et al., 2011). Our results may assist the Jordanian policy makers and regulators to introduction new requirements that improve the level of conservatism practices among Jordanian firms. On the other hand, Results from the current study could help the corporate management in creating more awareness regarding to the importance of accounting conservatism in improving the credibility and quality the accounting information of firms.

We take this opportunity to assist the future studies by offering some suggestions. It is possible that other governance factors not included in this study also contributed to the practices of accounting conservatism. For instance, foreign ownership, managerial ownership, board meeting, board independence, auditor independence and debt contracts may have a direct influence on the conservatism practices. On the other hand, this study only covers a one year 2011; we suggest extending the study to include a longer period 3 or more years to provide more accurate results. In addition, the results from this study cannot be generalized due to exclude the financial sector from the sample, therefore, we suggest for future research by adding financial sector to offer generalizable results.

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