

Is Egyptian corporate financial reporting becoming more conservative?

Egyptian
corporate
financial
reporting

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Abstract

Purpose – The study aims to compare the level of accounting conservatism amongst the sample companies prior to the 2011 uprising and after that uprising. The study proceeds further to examine the association between accounting conservatism and the level of leverage and profitability of the sample companies covering the same period.

Design/methodology/approach – First, a review of the extant literature on accounting conservatism is undertaken. Second, the sample comprises all the non-financial companies listed on the Egyptian Exchange. Accounting conservatism is measured using the market-to-book (MTB) ratio, which is one of the most widely used proxies for determining the extent of accounting conservatism in prior literature. The two-sample *t*-test has been used to compare the level of accounting conservatism six years prior to the 2011 uprising and four years following that uprising. Univariate and multivariate analyses have been used to examine the association between some firm characteristics and the level of accounting conservatism amongst the sample companies at the two investigated periods.

Findings – The evidence implies that the sample companies are actually engaging in less-conservative accounting policies following the uprising. The results also reveal that data for the first period seems to have greater variations in the first period than in the second period, as can be seen from the values of the standard deviation. The multivariate analysis reported a significant positive relationship between only size and the level of accounting conservatism at both periods.

Research limitations/implications – This study adds Egyptian evidence with respect to the directions of accounting conservatism throughout crisis periods, as the majority of prior studies focus on countries with developed capital markets. In addition, the absence of any specific evidence concerning the direction of accounting conservatism during crisis periods will lead to naive investors misinterpreting earnings figures and not realising the actual value of their shares.

Practical implications – The results reported in this study may encourage those investors to seek out extensive, widely-sourced information regarding investee firms before deciding whether to hold or sell their holdings. Furthermore, the results presented in this paper should therefore be of interest to regulators and standard-setters charged with developing accounting standards to improve the quality of accounting information.

Originality/value – To the best of authors' knowledge, this is the first and most recent study that examines the level of accounting conservatism amongst non-financial companies in a developing country like Egypt.

Keywords Egypt, Financial reporting, Disclosure quality, Conservatism

Paper type Research paper



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1. Introduction

Throughout accounting history, conservatism or prudence concept is one of the key features of corporate information, being in existence for centuries and has been increasing in the past few years (Basu, 1997; Watts, 2003a). Starting this discussion would be more informative by outlining what we mean by accounting conservatism. Bliss (1924) asserted that conservatism is to anticipate no profits but anticipate all losses. This adage simply revolves around “accountant’s tendency to require a higher degree of verification to recognise good news as gains than to recognise bad news as losses” (Basu, 1997, p. 7). Similarly, Watts and Zimmerman (1986) contend that conservatism implies disclosing the lowest value of assets among other possible values, while reporting the highest alternative value for liabilities. The International Accounting Standards Committee (IASC) (1989), in its framework, asserted that due to uncertainties surrounding many events and circumstances, the preparation of financial statements should be done with prudence. Prudence refers to the inclusion of a degree of caution in the exercise of judgement needed in making estimates under conditions of uncertainty (e.g. assets or income are not overstated and liabilities and expenses are not understated)[1].

The main purpose of the current study is to examine whether or not the uprising that started in January 2011 in Egypt has led to an increase in the extent of accounting conservatism amongst non-financial companies listed on the Egyptian Exchange (EGX). In other words, the study aims to compare the level of accounting conservatism amongst the sample companies prior to the 2011 uprising and after that uprising. The study will proceed further to examine the association between accounting conservatism and company size, leverage, profitability and liquidity of the sample companies covering the same period.

Here we can distinguish between two forms of accounting conservatism: conditional conservatism and non-conditional conservatism. Conditional conservatism happens when firms recognise negative economic news in a timelier manner compared to positive ones, an example includes accounting for inventory using the lower of its market value and its cost. Conditional conservatism is also known as ex-post, news-dependent or income statement conservatism. On the other hand, non-conditional conservatism is done by regular under-recognition when reporting the value of net assets, the immediate expensing of research and development expenditures and accelerated depreciation are examples of this form of conservatism (Ruch and Taylor, 2015). This is also known as *ex ante*, news-independent or balance sheet conservatism (Beaver and Ryan, 2005; Artiach and Clarkson, 2011). Table I highlights examples of the two forms of conservatism.

Advocates of accounting conservatism claim that conservatism serves as a degree of care when uncertainty prevails, and it acts as a hindrance to management to report over-

Forms of conservatism	Common examples
Conditional conservatism	Impairment of long-lived tangible and intangible assets Immediate expensing of internally generated intangibles Inventory recorded at the lower of cost or market price Asymmetry in gain/loss contingencies
Unconditional conservatism	Accelerated depreciation Expensing R&D expenditures LIFO inventory Accumulated reserves (e.g. allowance for doubtful accounts)

Table I.
Examples of
accounting
conservatism

Source: Adapted from Ruch and Taylor (2015, p. 5)

optimistic results (Ahmed and Duellman, 2007). Moreover, LaFond and Roychowdhury (2008) argued that more separation between ownership and management creates more needs for conservatism. In the same vein, Lafond and Watts (2008) indicated that accounting conservatism could improve the reliability of the disclosed earnings, as they argue that the management will have lesser options to manipulate and report exaggerated earnings. Furthermore, accounting conservatism is an important mechanism of corporate governance practices, and its role in corporate governance is a common theme in the accounting literature (Watts, 2003b; Ahmed and Duellman, 2007). In the same context, Zhang (2008) found that conservative firms have a lower cost of debt by obtaining lower interest rates from lenders. Zhang indicated that the benefits of conservatism to lenders come from the fact that conservative firms recognise default risk, which is bad news, in a timelier manner.

Opponents of accounting conservatism argue that conservatism results in biased information and compromises the objectivity of accounting information, which consequently could affect the usefulness of that information in a negative way. In this context, Penman and Zhang (2002) found that unconditional conservatism generates what they called “hidden reserves” that could be eventually released into earnings to achieve management’s earnings targets. This implies that accounting conservatism can be used to facilitate earnings management practices. The conservatism’s asymmetric treatment of gains and losses will eventually lead to a systematic understatement in the value of net assets (Watts, 2003a). In this context, Givoly and Hayn (2000) indicated that conservative accounting policies have resulted in a regular decline in firm’s profitability. Consequently, uninformed investors who fail to realise the true value of their possessions may sell out too soon (Kim and Pevzner, 2010), resulting in a probable loss to this type of investors. This is why the IASB revised conceptual framework, which eliminates conservatism as one of the qualitative characteristics of corporate information (International Accounting Standards Board IASB, 2010). Nevertheless, Watts (2006) argued that accounting conservatism has been growing in accounts over the past decades, and it will continue to prevail in accounting practices, as accounting conservatism is a necessary mechanism to overcome uncertainties surrounding today’s business environment (Chi and Wang, 2010). With respect to the link between the level of accounting conservatism and economic crises, Francis *et al.* (2005) found that conservative firms had a better performance during the global financial crisis (GFC) compared to their counterparts with less-conservative accounts. In this regard, it has been argued that crisis periods are characterised with lower levels of earnings management, as firms during crisis will be subject to more scrutiny from interested parties, including shareholders, which in turn reduce managers’ discretion over earnings (Chia *et al.*, 2007). Furthermore, litigation risk is more likely to increase during economic crisis periods, inducing managers to report more-conservative earnings (Jenkins *et al.*, 2009). In support of this view, Huijgen and Lubberink (2005) found that companies operating in high-legal liability environment report earnings that are more conservative. Although a substantial body of literature exists on accounting conservatism, not many of these studies focus on the extent of accounting conservatism during crisis periods.

The evidence reported in the present study implies that the sample companies are actually engaging in less-conservative accounting policies following the uprising. The results also reveal that data for the first period seem to have greater variations in the first period than in the second period, as can be seen from the values of the standard deviation. The multivariate analysis reported a significant positive relationship between only size and the level of accounting conservatism at both periods.

This study contributes to the growing literature of accounting conservatism in several ways. First, we add Egyptian evidence with respect to the directions of accounting

conservatism throughout crisis periods, as the majority of prior studies focus on countries with developed capital markets. Second, the absence of any specific evidence concerning the direction of accounting conservatism during crisis periods, will lead to naïve investors misinterpreting earnings figures and not realising the actual value of their shares, and ending up selling them too soon. This pattern may reflect the fact that private investors in emerging markets are prone to naivety, which could eventually lead to undertaking unwise decisions. Therefore, the results reported in this study may encourage those investors to seek out extensive, widely-sourced information regarding investee firms before deciding whether to hold or sell their holdings. Third, the current study provides up-to-date evidence concerning the status of accounting conservatism in the Egyptian business environment. Finally, the results presented in this paper should therefore be of interest to regulators and standard-setters charged with developing accounting standards to improve the quality of accounting information.

Egypt was targeted for the present study as an emerging economy with a major influence on other nations in the Middle East and North African (MENA) region and because of its traditionally strong historical relationships with the world's richest nations (Ahmed, 2013). In addition, Egypt recently confronted many challenges, before, during and following the January 2011 uprising. The uprising is sought to have a disastrous impact on the economy in general and the EGX in particular; the interruption to commercial activities and general civil unrest led to a prolonged closure of the EGX (The Egyptian Exchange, 2012). By the end of 2011, the market had lost E£194bn of its market capitalisation, as seen from Table II; in January 2011 alone, the market lost 21 per cent of its value.

The remainder of this paper is structured as follows: Section 2 reviews the extant literature in the area, while details about the research methodology and data collection process are presented in Section 3. The results are reported in Section 4. Finally, Section 5 concludes the paper by summarising the findings and identifying future avenues to explore.

2. Review of the literature and hypothesis development

A sizeable amount of studies have been undertaken in accounting conservatism in countries with developed capital markets being exclusively the empirical cite, while there is paucity of such studies in developing countries, including Egypt. Ahmed and Duellman (2007) examined the association between accounting conservatism and board of director

Year	No. of listed companies	No. of traded companies	Market capitalisation	
			(in E£billion)	Market Cap as % of GDP
2005	744	441	456	74
2006	595	407	534	72
2007	435	337	768	86
2008	373	322	474	46
2009	306	289	500	48
2010	212	211	488	40
2011	213	204	294	21
2012	213	204	376	24
2013	212	206	427	24
2014	214	206	500	25

Table II.
Key indicators for the
Egyptian Exchange

Note: The table shows the number of listed companies and market capitalisation, for the Egyptian Exchange over the time period 2005 to 2014

Source: The Egyptian Exchange

characteristics. The sample consists of 306 firms out of the S&P 500 over the years 1999-2001. The evidence showed that the percentage of inside directors is negatively related to conservatism, while a positive association was reported with respect to the percentage of outside directors' shareholdings. [Bauwhede \(2007\)](#) investigated the link between credit ratings and the extent of accounting conservatism for a sample of US firms. The study found that high-credit ratings were achieved by firms belonging to industries characterised with higher levels of conservatism. Another study in the USA, undertaken by [Wittenberg-Moerman \(2008\)](#), reported that timely recognition of losses (i.e. conditional conservatism) has an adverse impact on the bid-ask spread. This implies that accounting conservatism could reduce the information asymmetry problem[2]. [Ramalingegowda and Yu \(2012\)](#) sought to examine the link between the level of institutional ownership and conservatism for a sample of 16,911 firm-years over 1995-2006. The sample includes all US public companies with institutional ownership. The results indicated that firms with high-institutional ownership are associated with more-conservative financial reporting practices. In China, looking at the impact of IFRS on accounting conservatism for a sample of 9,863 firm-year observations from China stock market during 2003-2010, [Wu and Roberts \(2014\)](#) reported that the sample firms exhibit less-conservative accounting for the period following the introduction of Chinese Accounting Standards (CAS) which converged with IFRS compared to the pre-CAS period[3]. [García Lara et al. \(2014\)](#) examined the consequences of accounting conservatism for a sample of US firms. The study revealed a negative association between the extent of conservatism amongst the sample companies and bid-ask spread as well as the volatility of stock returns. Investigating the association between the extent of accounting conservatism and the acquisition payment method for a sample of more than 7,500 US merger and acquisition deals across the period 1980-2002, [Chai and Zhao \(2014\)](#) found an insignificant negative association between accounting conservatism and the proportion of cash used in the acquisition payment. In the UK, [Conway \(2014\)](#) examined the impact of the removal of prudence concept from the revised 2010 conceptual framework for the FTSE100 over the period 2006-2013. The study used the market-to-book (MTB) ratio method and Basu asymmetric timeliness model ([Basu, 1997](#)). The study provided evidence that the removal of prudence has resulted in a reduction in the levels of accounting conservatism amongst the sample companies. [Wang et al. \(2014\)](#) sought to determine the factors that shape accounting conservatism for private firms in China. In particular, the study investigates whether the information demand of debt holders, state ownership and regional marketisation levels affects the accounting conservatism for a sample of 215,388 firm-year observations covering the period 2001-2006. The study found that private firms with more newly borrowed long-term debts adopted more-conservative accounting. The results also showed that the accounting information provided by private firms in less-developed regions is more conservative than their counterparts in more developed ones. [Al-Amri et al. \(2015\)](#) sought to examine the association between accounting conservatism and cash holdings for a sample of 442 firms, representing six Gulf Cooperation Council (GCC) countries from 2003-2012. The study reported a positive relationship accounting conservatism and the amount of cash holdings for GCC firms. [Panayiotis et al. \(2015\)](#) investigated the impact of accounting conservatism on the credit crash risk amongst a sample of US banks over the period 1995-2010. The study found that conservatism in earnings has significantly limited the future credit crash risks of the analysed banks. In the Middle Eastern and North African (MENA) region, [Khalifa and Ben Othman \(2015\)](#) examined the effect of accounting conservatism and the cost of equity capital using a sample of firms from 13 MENA countries during the period 2004-2007. The results revealed a negative association between accounting conservatism and the cost of equity capital. More recently, [Balakrishnan et al. \(2016\)](#) examined the effect of

accounting conservatism on corporate investment during the financial crisis for a sample of US firms. The study revealed that companies with less-conservative financial reporting faced a sharper decline in investment activity following the crisis. In addition, the paper reported that more-conservative companies experienced lesser drops in both debt-raising activity and stock performance. Although the extant literature on accounting conservatism concerning its direction or the factors that shape it, is inconclusive, theoretical reasoning indicates that accounting conservatism, which is considered a proxy of high-quality financial reporting (Wu and Roberts, 2014), may be favourable in crisis periods, as it reduces crash risk[4]. Therefore, the study hypothesises that:

H1. Non-financial companies listed on the EGX are engaging in more-conservative financial reporting practices following the January 2011 uprising.

Table III provides a description of the examined variables.

3. Methodology and data collection

This study investigates whether or not non-financial companies listed on the EGX reacted to the January 2011 uprising by adopting more-conservative accounting policies. The sample comprises all the non-financial companies listed on the EGX. After deleting firms with missing data, our final sample includes 115 firms listed on the EGX. We use the Thomson Reuters DataStream database to obtain the data for the investigated variables over the period 2005-2014. As with the prior studies in this area, the outliers of all variables are winsorised to the 5 and 95 percentiles (Francis *et al.*, 2005). Accounting conservatism is measured using the market-to-book ratio, which is one of the most widely used proxies for determining the extent of accounting conservatism in prior literature (Beaver and Ryan, 2005; Ahmed *et al.*, 2002; Givoly and Hayn, 2000; Roychowdhury and Watts, 2007, Conway, 2014). As mentioned above, applying conservative accounting policies tend to decrease a firm's book value compared to its market value. Consequently, higher MTB ratios signal a higher level of accounting conservatism and vice versa.

To measure the direction of accounting conservatism amongst the sample companies, we compare the level of accounting conservatism six years before the January 2011 uprising (2005, 2006, 2007, 2008, 2009 and 2010) with four years following that uprising (2011, 2012, 2013 and 2014).

Table III.
Description of the
investigated
variables

Variable	Description
<i>MTB</i>	Market-to-book ratio [(market price high + market price low/2)/book value per share]
<i>LOGTASSETS</i>	Natural logarithm of firm's total assets (sum of total current assets, long-term receivables, investment in unconsolidated subsidiaries, other investments, net-property plant and equipment and other assets)
<i>LOGMCAP</i>	Natural logarithm of firm's market capitalisation (Market price year end × common shares outstanding)
<i>ROA</i>	Assets (ROA) = [(net income before preferred dividends + (interest expense on debt-interest capitalized) × (1 - tax rate)] / average of last year's and current year's total assets × 100)
<i>Leverage</i>	(Short-term debt and current portion of long-term debt + long-term debt)/total assets × 100
<i>Liquidity</i>	Current assets total/Current liabilities total

4. Empirical tests and results

4.1 Descriptive statistics

Table IV below provides summary statistics regarding accounting conservatism (MTB ratio) and firm characteristics for non-financial companies listed on the EGX. For the purpose of the current investigation, the sample period is divided into two periods: the first period covers six years before the January 2011 uprising, while the second period covers four years following the uprising, as mentioned above. The mean value of MTB before the uprising was 2.97, compared with only 1.70 following the uprising, implying that the sample companies are becoming less conservative. In the period following the uprising, the typical firm in the sample had a return of assets of 11.24 per cent compared with only 6.92 per cent. With respect to the amount of debt and solvency of the sample, Table IV shows that in the first period the mean values for leverage and liquidity are 15.23 per cent and 2.20 per cent, respectively, compared with 14.43 per cent and 3.05, respectively, in the second period. Comparing the amount of leverage in the two periods reveals little difference; this was not the case for liquidity.

4.2 Findings

Figure 1 depicts the direction of accounting conservatism amongst the sample companies across the investigated period. The figure shows that the MTB ratio is increasing prior to the 2011 uprising until it reached its peak (the mean value was 4.16) in the year ending 2008, which marks the occurrence of the GFC; since then it started sliding and reached the lowest point at the end of 2013 (the mean value was 1.54).

To further examine whether or not the accounting conservatism amongst companies listed on the EGX is increasing following the January 2011 uprising, the study runs the two-sample *t*-test. As mentioned above, the sample period is divided into two sub-periods: the first period represents the period before the uprising which comprises the years 2005-2010; and the second period represents the period following the uprising, including the years from 2011-2014. The study used the two-sample *t*-test to compare the mean value of the MTB ratio in the first period with its counterparts in the second period. Table V reports the results of the two-sample *t*-test. The results show that the mean value of MTB ratio before the uprising is 2.97 compared to only 1.70 in the period following the uprising, as can be seen from Table V below. This evidence implies that the sample companies are actually engaging in less-conservative accounting policies following the uprising. The results also reveal that data for the first period seem to have greater variations than in the second period, as can be seen from the values of the standard deviation (3.54 vs 1.27). The *p*-value (0.000) of the two-

Variables	Before the uprising					After the uprising				
	Mean	SD	Minimum	Median	Maximum	Mean	SD	Minimum	Median	Maximum
MTB	2.97	3.54	0.28	1.91	42.99	1.70	1.27	0.21	1.28	8.52
LOGTASSETS	6.43	6.91	3.75	5.70	7.75	6.56	6.98	4.55	5.86	7.78
LOGMCAP	6.48	6.93	4.08	5.59	7.80	6.35	6.77	4.32	5.61	7.72
ROA	11.24	11.10	-34.63	10.30	45.22	6.92	8.97	-20.87	5.95	36.50
Leverage	15.23	17.92	0.00	7.78	79.94	14.43	17.18	0.00	7.18	65.10
Liquidity	2.20	2.16	0.30	1.64	16.41	3.05	6.09	0.21	1.57	47.30

Notes: This table provides summary statistical information regarding the sample companies before and after the January 2011 uprising. The table shows the mean, standard deviation (SD), minimum (Min), median and the maximum (Max) values for different variables included in the current analysis

Table IV.
Descriptive statistics
for the sample
companies[5]

sample *t*-test indicates that the research hypothesis (*H1*), which assumes that accounting conservatism is increasing following the January 2011 uprising, cannot be supported. Although the current evidence is not in line with the extant literature in this area which expects companies to adopt more-conservative policies during crisis periods, it can be linked to the idea that the first period includes in its data sets the years 2007 and 2008, which witness the GFC that hit most of the world. The mean values of MTB ratio for these two years are 3.43 and 4.92, representing the highest values among the data set included in the analysis. These relatively high values for the MTB ratio in both years may trigger the overall mean in the first period compared to its counterpart in the second period. Another explanation of these results could be the fact that, as mentioned before, following the January 2011 uprising companies listed on the EGX encountered many challenges with the market losing more than 21 per cent of its value in just one month. Consequently, companies may try to alleviate this problem by engaging in less stringent and conservative accounting policies, allowing them to signal a good financial performance. In other words, throughout the period following the uprising, non-financial companies listed on the EGX may choose to adopt accounting policies that lead to overstatement of assets and gains and understatement of liabilities and losses, eventually higher but less-conservative earnings. Another reason could be linked to the removal of the prudence or conservatism from the IASB revised 2010 Conceptual Framework, as the Egyptian Accounting Standards are mostly converged with accounting standards issued by the IASB. Therefore, non-financial companies listed on the EGX may apply less-conservative accounting policies following the removal of the prudence concept. In support of this reason, [Wu and Roberts \(2014\)](#) found that Chinese firms adopted

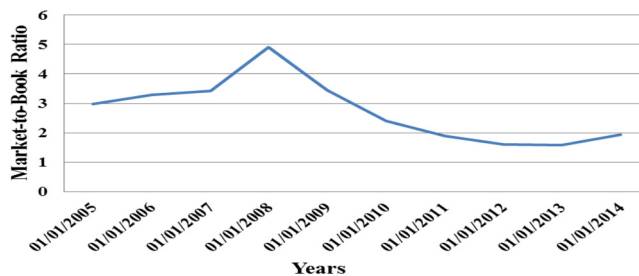


Figure 1.
The direction of accounting conservatism over the period 2005-2014

Note: The figure depicts the status of the MTB ratio during the period from 2005 to 2014

Two-sample <i>t</i> -test	Before the uprising (2005-2010)	After the uprising (2011-2014)
Mean	2.97	1.70
SD	3.54	1.27
SE Mean	0.33	0.12
<i>t</i> -value		3.60
<i>p</i> -value		0.000***

Table V.
Two-sample *t*-test for comparing the two investigated periods

Notes: The table shows the results of the two-sample *t*-test which determine whether the market-to-book (MTB) ratio is increasing following the January 2011 uprising; ***indicates significance at the 1(%) level (i.e. ****p*-value < 0.1). See [Table III](#) for variable definitions

less-conservative accounting policies following the adoption of Chinese Accounting Standards, which itself are converged with the new version of IFRS.

After this analysis, the study goes further to examine the impact of firm-specific characteristics on the extent of accounting conservatism amongst non-financial companies listed on the EGX. These characteristics include company size, leverage, profitability and liquidity. The following subsections provide the results of the univariate and multivariate analyses.

4.3 Univariate analysis

Table VI below reports the results of the Pearson's correlations between the variable included in the current analysis at the two investigated periods. The findings indicate that size has a positive, but not significant, relationship with the extent of accounting conservatism amongst the sample companies in the period prior to the uprising. A similar sign is reported in the periods that followed the uprising; in fact even statistical significance resulted (p -value = 0.251^{**}). This evidence can be linked to the fact that large companies are subject to strict governmental scrutiny; therefore, these companies are expected to apply more-conservative accounting policies. The results also show a negative, but again insignificant, association between and MTB ratio in the first period, while the sign turned to be positive, but not significant, in the second period. This implies that the sample companies with higher percentage of leverage report more-conservative earnings. Furthermore, the findings reveal a positive association between profitability in both periods, but it is only the second period where a statistical significance happens (p -value = 0.264^{***}). With respect to liquidity, Table VI shows that there are a positive association between liquidity and MTB ratio in the first period, compared to a negative one in the second period, but in both cases statistical significance never resulted.

4.4 Multivariate analysis

The results of the univariate analysis suggested a significant relationship between two out of the four variables tested, but this only occurred in the period following the uprising, as can be seen from Table V above. A multivariate linear regression analysis was therefore undertaken to examine the relationships in terms of causality. The regression equation used is as follows:

$$MTB = \beta_0 + \beta_1 Size + \beta_2 Leverage + \beta_3 Profitability + \beta_4 Liquidity + \varepsilon_1$$

The results of the regression analysis are presented in Table VI. Regression diagnostics were run to test for multicollinearity amongst the independent variables. As can be seen from Table VI, the figures for the tolerance and variance inflation factor did not reveal any multicollinearity problems. Table VII indicates that most of the results obtained in the univariate analysis were supported by the regression analysis. The only difference is that, size is significant explanatory variable in the two periods, not only in the second period, as reported by the univariate analysis.

5. Conclusion and avenues for future research

The present study aims to fill the void in the accounting literature by investigating the status of accounting conservatism amongst non-financial companies listed on the EGX covering the period from 2005 to 2014. To examine the whether or not the sample companies engaged in more-conservative accounting policies following the January 2011 uprising, the period was divided into two sub-periods; the first period covers the years 2005 to 2010, while

Table VI.
Pearson correlation
between MTB, size,
leverage, profitability
and liquidity

Variables	Before the uprising (2005-2010)					After the uprising (2011-2014)				
	MTB	Size	Leverage	Profitability	Liquidity	MTB	Size	Leverage	Profitability	Liquidity
<i>MTB</i>	1.000					1.000				
<i>Size</i>	0.177	1.000				0.251**	1.000			
<i>Leverage</i>	0.059	0.264**	1.000			0.033	0.368**	1.000		
<i>Profitability</i>	0.419	0.004	-0.164	1.000		0.727	0.004	-0.321**	1.000	
<i>Liquidity</i>	0.060	0.189*	0.079	0.093	1.000	0.264**	0.014	0.000	-0.045	1.000
	0.527	0.043	-0.301**	0.322		0.004	0.879	-0.204*	0.636	
	0.023	-0.134	0.001			-0.036	-0.075	0.028		
	0.804	0.155				0.699	0.423			

Notes: The table reports the correlations between ESG and other variables investigated in the present study; ** = correlation is significant at the 0.01 confidence level (2-tailed); * = correlation is significant at the 0.05 confidence level (2-tailed); For variable description, see [Table III](#)

Variables	Before the uprising (2005-2010)			After the uprising (2011-2014)		
	MTB	Tolerance	VIF	MTB	Tolerance	VIF
<i>Constant</i>	3.587*** 4.165			1.262*** 5.483		
<i>Size</i>	0.000*** 4.402	0.176	5.680	0.000*** 3.587	0.248	4.027
<i>Leverage</i>	-0.030 -1.301	0.823	1.215	0.008 1.010	0.767	1.303
<i>Profitability</i>	-0.044 -1.004	0.851	1.174	0.036** 2.252	0.814	1.228
<i>Liquidity</i>	0.019 0.094	0.903	1.108	-0.002 -0.080	0.941	1.062
<i>No</i>		115			115	
<i>Adjusted R²</i>		0.120			0.150	
<i>F value</i>		4.104			5.000	

Table VII.
The regression
analysis

Notes: The table shows the results of the regression analysis. For variable description, see Table III; *** p -value < 0.01, ** p -value < 0.05

the second period covers the years 2011-2014. The study adopted the MTB ratio, which is considered an authentic and one of the most commonly used measures of accounting conservatism. To determine whether there are statistical differences in the MTB ratio between the two investigated periods, the study used the two-sample t -test. The study further examined the relationship between MTB and company size, leverage, profitability and liquidity running both the univariate and multivariate analyses.

The descriptive statistics show that the extent of accounting conservatism in the period prior to the uprising was nearly two times its counterpart in the period that follows the uprising, and this could be linked to the fact that the first period witnessed the occurrence of the GFC, which is characterised with higher levels of accounting conservatism. The results from the two-sample t -test did not support the research hypothesis; contrary to expectation, the results revealed that the sample companies adopted more-conservative accounting policies in the period before the uprising. These results could be linked to the fact the year 2008, which witnessed the GFC, where companies have higher MTB ratio, were among the time series included in the first period, so the high value of MTB ratio may trigger the overall mean of MTB in the first period. Furthermore, taking into account the disruption of business activities following the uprising and in a move to enhance their weakened financial performance, companies listed on the EGX may have adopted less-conservative accounting policies, resulting in higher earnings. Moreover, the removal of the conservatism concept from the revised 2010 conceptual framework of the IASB may have an impact in this regard. The results of the multivariate analysis indicated that only size that proves to be significantly positively associated with the extent of accounting conservatism amongst the sample companies in both periods, while profitability is only significant in the second period.

Given the paucity of studies that investigate accounting conservatism in developing countries, including Egypt, the current study contributes to the work undertaken in this area

where most of the literature has been undertaken in developed countries. The evidence reported in the current paper helps in determining the extent of accounting conservatism in Egypt and providing more understanding of how this area of research is moving forward. The current study provides the most up-to-date evidence and uses the most commonly utilised proxies in the literature for determining accounting conservatism, resulting in robust evidence that can be replicated elsewhere in the developing world. The results reported in the present study should be of interest to corporate users who should know the reality behind the reported earnings of their investee firms. It should also be of interest to regulators and standards-setters charged with developing refined accounting standards.

Taking into account the fact that the current study is explanatory in nature, as it just focuses on determining and comparing the extent of accounting conservatism across two periods, the first expansion could examine the factors that might impact accounting conservatism of the sample companies. Acknowledging the GFC, a second expansion could examine the impact of this crisis on extent of accounting conservatism for the sample companies. A third expansion could focus on the impact of the removal of the prudence concept from the revised 2010 conceptual framework of the IASB on the level of accounting conservatism.

Notes

1. The terms prudence and conservatism will be used interchangeably in the current study.
2. Information asymmetry occurs when management or insiders possess information that is relevant in assessing future firm performance which is not available to outsiders especially investors and creditors (Ruch and Taylor, 2015).
3. The convergence came into effect on January 1, 2007.
4. In this context, Panayiotis *et al.* (2015, p. 3) asserted that “conservatism with its lower degree of verification to recognise bad news than to good news should offset manager’s tendency to hide bad news, and thus conservatism should reduce crash risk”.
5. At the end of January 2015, the Egyptian Pound (E£) equalled about 0.1316 US dollars and about 0.085 pounds Sterling (Central Bank of Egypt, 2015).

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Further reading

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