

Accounting Conservatism in Greater China: The Influence of Institutions and Incentives

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ABSTRACT

Purpose

The aim of the research is to use variations in measured accounting conservatism to gain a deeper understanding about the reporting incentives created by a country's institutional structure.

Design/methodology/approach

Geographic proximity, cultural affinity and integrated economic relations provide Greater China with a unique setting for studying cross-country differences in institutional characteristics which affect the demand for accounting conservatism. Ball and Shivakumar (2005) contend that the economic role of conditional conservatism is an important attribute of financial reporting quality because it improves the efficiency of contracting, reduces information asymmetry and improves corporate governance.

Findings

The empirical results indicate that Hong Kong is the most conservative economy, followed by Taiwan and China, implying that the legal/judicial system, regulatory environment and political economy of different countries are the pivotal forces which drive accounting conservatism. Overall, the evidence suggests that a country's institutional structures interact strongly with reporting incentives in determining accounting conservatism.

Originality/value

This research examines cross-country differences in financial reporting quality by contrasting the influence of country-specific institutional factors on financial reporting incentives for conservative accounting practices. It is expected that this research will have important policy implication.

Keywords: Conditional Accounting conservatism, Financial reporting quality, Greater China.

Category: Research paper