

# Investigating the Impact of Ownership Structure and Board Characteristics on Accounting Conservatism in Financial Reports of Iraq and UAE

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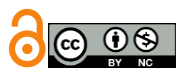
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## ABSTRACT

**Objective:** This study examines the impact of corporate governance mechanisms on accounting conservatism in companies listed on the Iraq and UAE stock exchanges.

**Methods and Materials:** The statistical sample of the study was selected systematically from companies listed on the Iraq and UAE stock exchanges during the period from 2016 to 2022. This sample includes 31 companies from the Baghdad Stock Exchange and 52 companies from the Abu Dhabi and Dubai stock exchanges. Additionally, the hypotheses of the study were tested using the panel data regression method.

**Findings:** The results of hypothesis testing indicated that the board size, board independence, managerial ownership, and institutional ownership have a positive and significant impact on accounting conservatism in companies listed on the UAE stock exchange. Moreover, the results showed that only board size has a negative and significant relationship with conservatism in the Iraq stock exchange, while the other results were similar to those of the UAE stock exchange.

**Conclusion:** The study concludes that board characteristics and ownership structure significantly influence accounting conservatism in Iraq and UAE, with notable differences observed in board size's impact across the two markets.

**Keywords:** board size, board independence, managerial ownership, institutional ownership

## 1 Introduction

One of the factors contributing to the economic development of developing countries is the ability to attract savings and direct them towards investment activities. The process of effective capital allocation plays a significant role in the promotion, advancement, and health of the economic system, which in turn leads to productivity, facilitating and enhancing market efficiency. The establishment of a stock exchange is an appropriate way to attract both investors and capital seekers within the community. The primary concern of companies listed on the stock exchange is to attract investment. On the other hand, the main concern of investors is selecting the best companies for investment and distinguishing between successful and unsuccessful companies. What can help alleviate the concerns of these two groups, achieve their goals, and further flourish the stock market is the presence and adherence to corporate governance principles. Corporate governance is a mechanism aimed at minimizing the issues arising from the separation of ownership from management, which can lead to transferring risks to investors and minimizing company efficiency (Anagnostopoulou et al., 2021; Cui et al., 2021).

Conservatism is a precautionary reaction applied in situations of uncertainty, aiming to demonstrate that inherent risk and uncertainty in the company's situation are adequately considered. Conservatism is an accounting concept that results in the reduction of reported retained earnings by recognizing income later and expenses sooner, underestimating assets, and overestimating liabilities. Basu et al. (1997) define conservatism as the requirement for a high degree of verification and proof for recognizing good news, such as profits, as opposed to recognizing bad news, such as losses. However, the main issue with corporate conservatism relates to the dissemination of incomplete information by company managers, which has garnered significant attention from investors and creditors on the stock exchanges of Iraq and the UAE in recent decades. In other words, since managers seek to satisfy shareholders and new investors, they always aim to create an information gap by underrepresenting company risk, which has become a significant issue in the stock exchanges of Iraq and the UAE. According to research, various factors can influence the choice of conservative accounting practices (Abdou et al., 2021; Thesing & Velte, 2021). In this context, the proper establishment of corporate governance mechanisms is essential for transparency, fairness, and the rights of all

stakeholders in adopting conservative accounting practices. It is inferred that companies with strong corporate governance structures use more conservative methods in financial reporting due to increased managerial oversight.

Developments in the business environment of commercial firms and financial markets over the past few decades, driven by various factors, have led to the emergence of corporate governance, which researchers and experts from various fields have examined and interpreted from their perspectives. Generally, corporate governance can be understood as the legal, cultural, and institutional arrangements that determine the direction and performance of companies (Alves, 2021; Biddle et al., 2022). The existing debates indicate that there is no consensus on a definition of corporate governance, with significant differences based on the country in question. Even in the USA or the UK, reaching a unified definition is not straightforward. The existing definitions of corporate governance span a wide spectrum (Daryaei et al., 2020). The primary distinguishing factor of these definitions is the scope or extent of corporate governance (Elnahass et al., 2022; Elnahass et al., 2024). Corporate governance is a framework of laws and practices in the relationships between companies and all their stakeholders—investors, customers, managers, employees, governments, and society—where responsibility, fairness, and transparency are ensured by the board of directors. Corporate governance includes processes that determine, measure, and pursue the company's goals in social, regulatory, and business environments (Abdou et al., 2021; Gerged et al., 2023). Overall, corporate governance is a set of processes, norms, policies, guidelines, and regulations that influence how companies are directed, managed, and controlled using internal and external mechanisms. Corporate governance also involves communications among stakeholders and the goals the company aims to achieve (Cho et al., 2020; Haider et al., 2021). Conversely, managers in companies with weak corporate governance structures lack the necessary incentives for proper reporting and are more likely to engage in opportunistic and biased behaviors (Almaqtari et al., 2021; Boshnak, 2021). One corporate governance mechanism is the board size. According to agency theory concepts, smaller boards, due to the high volume of company activities and the lower number of board members, have limited time to fulfill their supervisory and decision-making responsibilities. Therefore, larger board sizes result in better supervisory responsibilities and reduce the likelihood of management engaging in opportunistic actions, leading to more conservative financial reporting

practices. Moreover, larger boards are more likely to include independent directors. Based on the effective monitoring hypothesis, the presence of independent directors on the board enhances the board's power as a supervisory mechanism and reduces the likelihood of collusion between board members and management to fulfill personal interests (Almaqtari et al., 2021). According to this hypothesis, the independence of board members is a significant factor in strengthening the supervisory role of the board, which can lead to the correction of opportunistic behaviors in financial reporting (Abdou et al., 2021; Hasan et al., 2022). Pinto et al. (2020) examined the existence of social ties between CEOs and boards and their impact on accounting conservatism and the quality of internal control systems. They concluded that the more social connections there are between the CEO and the board, the less conservatism there will be in financial reporting, and the quality of the client's internal control system will also decline (Pinto et al., 2020). In such circumstances, the mechanism for monitoring and controlling the CEO's performance by the board diminishes (Boachie & Mensah, 2022). Additionally, based on agency theory concepts, in companies with high managerial ownership, due to the alignment of managers' and shareholders' interests, managers' opportunistic behaviors decrease, leading to more conservative accounting practices to preserve shareholders' rights and avoid reporting unrealized profits (Salehi et al., 2020). Javaid et al. (2023) investigated the impact of corporate governance mechanisms, including board size, board independence, separation of CEO dual roles, and the type of external audit, on Egyptian accounting. The findings indicated a relationship between board independence and accounting conservatism. Conversely, board size and the type of internal audit had an inverse relationship with accounting conservatism, and no relationship was found between the dual role of the CEO and accounting conservatism (Javaid et al., 2023). Shaw et al. (2021) examined the impact of ownership structure on company performance in Jordan. In this study, ownership structure was analyzed from the perspectives of foreign and family ownership. The results showed a significant relationship between ownership structure and company performance (Shaw et al., 2021). Institutional owners represent one of the powerful corporate governance mechanisms, as they can significantly influence management by owning a substantial portion of the company's shares, aligning management's interests with those of the shareholders. In recent years, institutional ownership has grown remarkably in the securities markets of

Europe and the United States. Nowadays, the role of institutional investors as intermediaries for transferring funds and savings to the capital market and managing resources in financial markets is becoming increasingly important (Khan et al., 2022). Empirical evidence shows that the presence of institutional investors positively correlates with the market's reaction to earnings announcements (Lobo et al., 2020).

A strong corporate governance structure leads to better oversight of management, timely production of accounting information, and quicker identification of bad news to inform the board and take necessary actions (Dai & Ngo, 2021; Nur et al., 2023). Additionally, conservatism creates a system that prevents overpayment to managers and acts as a barrier against excessive managerial optimism. Shareholding structure or ownership composition is a crucial aspect of corporate governance that can significantly impact a company's efficiency, as it influences managers' motivations (D'Augusta & DeAngelis, 2020; Guermazi & Halioui, 2020). The fundamental pillar of corporate governance is ensuring shareholders' proper governance over company management. However, specific circumstances may hinder the exercise of this governance, especially for minority shareholders. Therefore, one important aspect of corporate governance is awareness of the ownership structure and its standard ranking to formulate necessary strategies for establishing corporate governance. The conflict of interest between shareholders and management has been a major focus for researchers in recent decades. According to corporate governance research, ownership structure has been proposed as a solution to this issue. Based on agency theory, ownership structure, as part of corporate governance, is the result of efforts to minimize costs associated with the separation of control and ownership of the company (Khalilov & Osma, 2020; Krismiaji & Surifah, 2020). Thus, the ownership structure refers to the composition and components of shareholders (both individuals and entities) involved in the company's management, which can manifest in various forms, including institutional and managerial ownership, among others. It defines the distribution of rights and responsibilities among different company partners, such as the board of directors, managers, shareholders, and other stakeholders, using laws and procedures for decision-making in company affairs. This establishes a framework for setting company goals, achieving them, and monitoring performance (Hashed & Almaqtari, 2021; Khalil et al., 2020). If conservatism truly plays a role in managing agency

problems, it is expected that with increasing conflicts of interest between managers and owners, the demand for conservatism will rise. Accordingly, companies with better corporate governance structures will exhibit higher levels of conservatism, meaning the sensitivity of returns to bad news compared to good news will be higher among companies with stronger corporate governance structures (Wang et al., 2020; Zadeh et al., 2022). On the other hand, much research has been conducted on the impact of ownership structure and corporate governance mechanisms on accounting conservatism in many developed and even developing countries. However, a review of the literature indicates that there has been no significant research on this topic in the capital markets of Iraq and the UAE. Due to structural differences between the capital markets of Iraq and the UAE and those of developed countries, the findings from research conducted in other countries on this topic may be less generalizable to the capital markets of Iraq and the UAE. Moreover, a review of the literature shows that no research has been conducted on the impact of corporate governance and political connections of companies on the level of accounting conservatism in the capital markets of Iraq and the UAE. Given the above, the main question of this research

is whether the ownership structure and board characteristics affect accounting conservatism in the financial reports of Iraq and the UAE. Based on the theoretical foundations and empirical research, four main hypotheses are proposed as follows:

H1. The percentage of institutional ownership has a significant effect on accounting conservatism.

H2. Managerial ownership has a positive and significant effect on accounting conservatism.

H3. Board size has a positive and significant effect on accounting conservatism.

H4. Board independence has a positive and significant effect on accounting conservatism.

## 2 Methods and Materials

The population of this research consists of companies listed on the stock exchanges of Iraq and UAE during the years 2016 to 2022. The sampling method employed in this study is purposive sampling, wherein selected companies are chosen from a set of listed companies on the stock exchanges of Iraq and UAE, based on the constraints outlined in the following.

**Table 1**

*The number of companies in Iraq*

Companies Listed on the Iraqi Stock Exchange	Number of Companies
Total number of companies	130
Insurance and Banks	(40)
financial institutions	(31)
Non-disclosure of information	(28)
Total sample	31

**Table 2**

*The number of companies in UAE*

Companies Listed on the UAE Stock Exchange	Number of Companies
Total number of companies	115
Insurance and Banks	(20)
Insurance institutions	(5)
Non-disclosure of information	(38)
Total sample	52

The fundamental information and primary data required for hypothesis testing are obtained from the database of the Iraqi and UAE Stock Exchange. The data analysis method employed is cross-sectional and longitudinal (such as panel data). Multivariate linear regression is utilized to assess the hypotheses, while descriptive and inferential statistical

techniques are applied to analyze the collected data. To describe the data, the frequency distribution table is utilized. For inferential analysis, the F-Limer test, Hussmann test, normality test, and multiple linear regression tests are conducted to evaluate the research hypotheses

## 2.1 Research Model

Equation (1) was used to test Hypothesis 1 and 2, and Equation (2) tested Hypotheses 3 and 4 and Model 1.

$$1) CONS_{it} = \beta_0 + \beta_1(MAOW_{i,t}) + \beta_2(INSOW_{i,t}) + \beta_3(BLOOW_{i,t}) + \beta_4(FAMOW_{i,t}) + \beta_5(OWNDIS_{i,t}) + \beta_6(FSIZE_{i,t}) + \beta_7(LEV_{i,t}) + \Sigma industry_i + \Sigma Kyeart + \varepsilon$$

$$2) CONS_{it} = \beta_0 + \beta_1(BSIZE_{i,t}) + \beta_2(BIND_{i,t}) + \beta_3(CCDUAL_{i,t}) + \beta_4(BM_{i,t}) + \beta_5(FSIZE_{i,t}) + \beta_6(LEV_{i,t}) + \Sigma industry_i + \Sigma Kyeart + \varepsilon$$

### The Dependent Variable

CONS: Based on the existing literature, two types of conservatism are discussed: conditional and unconditional. It is expected that balance sheet items reflect asymmetric performance compared to company performance because economic losses are identified more promptly through the process of balance sheet items than profits. Therefore, Ball and Shivakumar (2006) included balance sheet items in their conditional conservatism model. Accordingly, in the current study, the extended Ball and Shivakumar (2006) model, as utilized by Zhang et al. (2019), was employed to calculate conditional conservatism. The model error term ( $\varepsilon_i$ ) represents conservatism. It should be noted that this measure is synthetic (proxy) in the current study.

$$3) TA_{i,t}/A_{i,t-1} = \alpha + \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{\Delta REV_{i,t}}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \beta_4 \frac{CF_{i,t}}{A_{i,t-1}} + \beta_5 \frac{DCF_{i,t}}{A_{i,t-1}} + \beta_6 DCF_{i,t} \frac{CF_{i,t}}{A_{i,t-1}} + \varepsilon_i$$

In the above model, TA represents total liabilities derived from the difference between operating income and operating cash flow. It also indicates total assets from the previous year. AREVE represents the change in revenue in the current year compared to the previous year. PPE stands for Net Property, Plant, and Equipment. CF represents the ratio of operating cash flow to assets. DCF is a dummy variable, where it takes the value of 1 if operating cash flow is negative, and 0 otherwise. The term "+ $\varepsilon$ " represents conservatism in financial reporting. To calculate CONS, the error term from model (3) is considered. If this term is negative, it indicates that liabilities are relatively small compared to cash flow, suggesting conservatism. Therefore,

if the residual of the model is negative, we assign the value of 1, otherwise 0.

### Independent Variable

MAOW: Management Ownership, the percentage of company shares owned by senior management or executive management.

- INSOW: Institutional Ownership, the percentage of a company's shares owned by banks, insurance companies, investment funds, holding companies, and other institutions relative to the total number of shares.

- BSIZE: Board Size, the number of members on the board of directors.

- BIND: Board Independence, the independence of the board of directors, calculated as the number of independent board members divided by the total number of board members.

### Control Variables

BLOOW: Large Investor Ownership, the ownership percentage of large investors who own 5% or more of the company's shares.

FAMOW: Family Ownership, the percentage of shares owned by a single family.

OWNDIS: Dispersed Ownership, the percentage of company shares traded in the stock market divided by the total number of company shares.

CCDUAL: Dual Board Leadership, a dummy variable defined as follows: (1) if the CEO is a member of the board of directors, otherwise 0.

BM: Board Meetings, the number of board meetings held.

FSIZE: Company Size, the natural logarithm of total assets at the end of the year.

## 3 Findings and Results

The dependent variable is accounting conservatism, indicating that accounting conservatism in Iraq has a slightly higher average compared to the UAE. Considering the independent variables of managerial ownership and institutional ownership, which are higher in the UAE compared to Iraq, we conclude that Emirati companies rely more on foreign investors and their own managers in their ownership structure, while in Iraq, larger holdings by institutional investors constitute the ownership structure. The board size in both countries is close to 7, but board independence is slightly higher in Iraq than in the UAE. Additionally, less CEO duality was observed in Iraq.



Considering the control variable, a larger share of assets in the UAE is held by creditors.

**Table 3**

*Descriptive statistics of main variables*

Variable	UAE				Iraq			
	Mean	Median	Min	Max	Mean	Median	Min	Max
MAOW	0.343	0.297	0.134	0.680	0.303	0.317	0.000	0.476
INSOW	0.245	0.250	0.000	0.445	0.387	0.398	0.000	0.790
BSIZE	6.945	7.000	4.000	10.000	7.000	7.000	4.000	9.000
BIND	0.525	0.609	0.000	1.000	0.625	0.606	0.200	0.889
BLOOW	0.191	0.181	0.000	1.000	0.621	0.601	0.209	0.885
FAMOW	0.065	0.000	0.000	0.671	0.105	0.152	0.000	0.027
OWNDIS	0.185	0.163	0.017	0.479	0.201	0.193	0.000	0.645
BM	7.000	7.000	5.000	17.000	8.947	8.000	3.000	16.000
Fsize	7.484	7.487	5.263	10.156	12.614	12.577	8.236	17.223

**Table 4**

*Descriptive statistics of qualitative variables*

Variable	Status	Iraq	UAE
		Percentage %	Percentage %
CONS	0	48.20	55.90
	1	51.80	44.10
	Total	100.00	100.00
CCDUAL	0	78.30	91.25
	1	21.70	8.75
	Total	100.00	100.00

Tables below present the correlation analysis of research variables. The results demonstrate a positive correlation

between Narcissism, MAOW, INSOW and BIND with CONS at the 99% confidence level (coefficient: 0.001).

**Table 5**

*Correlation analysis of research variables (UAE)*

	CONS	MAOW	INSOW	BSIZE	BIND	BLOOW	FAMOW	OWNDIS	BM	Fsize	CCDUAL
CONS	1										
MAOW	0.609***	1									
INSOW	0.663***	-0.090	1								
BSIZE	0.207***	0.279***	-0.140*	1							
BIND	0.337***	-0.032	-0.043	-0.199***	1						
BLOOW	-0.035	-0.003	0.210***	0.153**	-0.012	1					
FAMOW	-0.139	0.216***	0.019	-0.143*	0.034	-0.213***	1				
OWNDIS	0.067	0.037	0.0105	0.198*	0.041	0.042	0.041	1			
BM	0.068	-0.064	0.377***	-0.043	-0.089	0.217***	-0.027	0.043	1		
Fsize	0.024	0.015	-0.025	0.067	-0.073	0.050	0.217	0.027	0.037	1	

							***				
CCDUAL	0.109	0.133	-0.007	0.289	-0.178	0.106	-0.020	-0.032	0.065	-0.065	1
		*		***							

\*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

**Table 6**

*Correlation analysis of research variables (Iraq)*

	<b>CONS</b>	<b>MAOW</b>	<b>INSOW</b>	<b>BSIZE</b>	<b>BIND</b>	<b>BLOOW</b>	<b>FAMOW</b>	<b>OWNDIS</b>	<b>BM</b>	<b>Fsize</b>	<b>CCDUAL</b>
CONS	1										
MAOW	0.512	1									
	***										
INSOW	0.581	-0.040	1								
	***										
BSIZE	-0.238	0.239	-0.145	1							
	***	***	*								
BIND	0.409	-0.052	-0.076	-0.293	1						
	***			***							
BLOOW	-0.046	-0.007	0.310	0.167	-0.012	1					
			***	**							
FAMOW	-0.064	0.224	0.015	-0.178	0.039	-0.245	1				
		***		*		***					
OWNDIS	0.089	0.047	0.016	0.293	0.072	0.073	0.045	1			
				*							
BM	0.145	-0.078	0.315	-0.067	-0.036	0.283	-0.023	0.056	1		
			***			***					
Fsize	0.024	0.017	-0.043	0.054	-0.077	0.061	0.239	0.038	0.036	1	
							***				
CCDUAL	0.103	0.144	-0.012	0.232	-0.108	0.149	-0.024	-0.059	0.084	-0.081	1
		*		***							

\*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

All variables are stable, as illustrated by the fact that the significance level is less than 0.05 in the [Table 7](#).

**Table 7**

*The results of Levin, Lin Vecho's unit root test for the analysis of stability*

p-value	Variable
0.000	CONS
0.000	MAOW
0.000	INSOW
0.000	BSIZE
0.000	BIND
0.000	BLOOW
0.000	FAMOW
0.000	OWNDIS
0.000	BM
0.000	Fsize
0.000	CCDUAL
0.000	lev
0.000	Tenure

This study employed the Durbin and Wu–Hausman test to test endogeneity. The results of this test for research

equations are reported in tables below. Since the p-value is larger than 0.05, there is no endogeneity for all models.

**Table 8***Results of Durbin–Wu–Hausman test (UAE)*

Equation	Test	$\chi^2$	p-value	Result
1	Durbin	$\chi^2 = 1.700$	0.487	H0 is rejected (there is no endogeneity)
	Wu-Hausman	F=0.892	0.549	H0 is not rejected (there is no endogeneity)
2	Durbin	$\chi^2 = 1.822$	0.339	H0 is rejected (there is no endogeneity)
	Wu-Hausman	F=0.961	0.471	H0 is not rejected (there is no endogeneity)

**Table 9***Results of Durbin–Wu–Hausman test (Iraq)*

Equation	Test	$\chi^2$	p-value	Result
1	Durbin	$\chi^2 = 1.764$	0.423	H0 is rejected (there is no endogeneity)
	Wu-Hausman	F=0.921	0.512	H0 is not rejected (there is no endogeneity)
2	Durbin	$\chi^2 = 1.724$	0.463	H0 is rejected (there is no endogeneity)
	Wu-Hausman	F=0.906	0.525	H0 is not rejected (there is no endogeneity)

Since the dependent variable is binary (zero or one), logistic regression has been used. Therefore, there is no need

to examine the Levene's test, the Hosmer-Lemeshow test, and the Durbin-Watson statistic for the research model.

**Table 10***The results of the first model*

Variable (CONS)	GLS Regression					GLS Regression				
	Equation (UAE):					Equation (Iraq):				
	Coef	Std. Err	Statistic t	Prob	VIF	Coef	Std. Err	Statistic t	Prob	
MAOW	39.985***	0.007	4.528	0.000	1.183	30.066***	0.006	3.838	0.000	
INSOW	15.216***	0.029	3.750	0.000	1.121	5.204***	0.013	2.285	0.023	
BLOOW	9.556*	0.005	1.856	0.069	1.367	6.776*	0.008	1.756	0.071	
FAMOW	6.534	0.412	1.054	0.298	1.083	3.664	0.002	0.542	0.587	
OWNDIS	-1.683	0.050	-0.829	0.405	1.137	-7.797	0.034	-1.349	0.165	
FSIZE	-0.513	0.003	-0.680	0.495	1.231	-0.103	0.023	-0.265	0.786	
LEV	-2.586	0.039	-0.755	0.454	1.069	-2.616	0.015	-0.515	0.594	
_cons	0.400	1.180	0.340	0.735	----	0.811	2.055	0.390	0.694	
LR Statistic	596.35(0.000)					301.606(0.000)				
Macfadan R <sup>2</sup>	0.937					0.865				

As Table 10 shows and based on the VIF values, it is evident that the independent variables are not collinear. Because every VIF value is less than 5. the results of fitting the research model are presented.

**Hypothesis 1:** The results of the model fitting for the study are presented. It is observed that managerial ownership (independent variable) with a coefficient of 39.98 and a significance level of 0.000 has a positive and significant relationship with conservatism in the UAE. Therefore, the

first hypothesis of the study is accepted in the UAE with 99% confidence.

**Hypothesis 2:** The results of the model fitting for the study are presented. It is observed that institutional ownership (independent variable) with a coefficient of 15.21 and a significance level of 0.00 has a positive and significant relationship with conservatism in the UAE. Therefore, the second hypothesis of the study is accepted in the UAE with 95% confidence.



**Table 11***The results of the second model*

Variable ( <i>CONS</i> )	GLS Regression					FGLS Regression				
	Equation (UAE):					Equation (Iraq):				
	Coef	Std. Err	Statistic t	Prob	VIF	Coef	Std. Err	Statistic t	Prob	
<i>BSIZE</i>	0.502***	0.007	2.009	0.041	2.345	-0.545***	0.006	-3.512	0.001	
<i>BIND</i>	7.806	0.055	0.721	0.471	2.123	11.436***	0.108	6.851	0.000	
<i>BM</i>	0.834***	0.024	5.508	0.000	2.367	0.124***	0.012	3.188	0.000	
<i>CCDUAL</i>	-0.682	0.412	0.749	0.452	1.034	0.232	0.087	0.479	0.634	
<i>FSIZE</i>	-0.576	0.052	-1.574	0.115	1.145	0.089	0.039	0.756	0.445	
<i>LEV</i>	2.514	0.003	1.203	0.221	1.234	-0.906***	0.012	-2.583	0.008	
<i>_cons</i>	-0.018	0.225	-0.080	0.935	----	-0.899	0.328	-2.741	0.006	
LR Statistic	262.084(0.000)					96.024(0.000)				
Macfadan R <sup>2</sup>	0.765					0.797				

\*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

As Table 11 shows and based on the VIF values, it is evident that the independent variables are not collinear. Because every VIF value is less than 5.

**Hypothesis 3:** The results of the model fitting for the study are presented. It is observed that board size (independent variable) with a coefficient of 0.50 and a significance level of 0.000 has a positive and significant relationship with conservatism in the UAE. Therefore, the third hypothesis of the study is accepted in the UAE with 99% confidence.

**Hypothesis 4:** The results of the model fitting for the study are presented. It is observed that board independence (independent variable) with a coefficient of 7.80 and a significance level of 0.00 has a positive and significant relationship with conservatism in the UAE. Therefore, the fourth hypothesis of the study is accepted in the UAE with 99% confidence.

#### 4 Discussion and Conclusion

The research results indicate that there is a positive and significant impact of institutional owners on conditional conservatism. These findings are consistent with the previous studies (Khan et al., 2022; Lobo et al., 2020). Institutional owners have strong incentives to monitor financial reporting. Financial statements, especially the income statement, are important sources of information about the company. Empirical evidence shows that the presence of institutional investors positively correlates with the market's reaction to earnings announcements. As a result, earnings provide useful information for securities pricing and are considered an important source of information for institutions. Earnings conservatism prevents managers from

engaging in opportunistic behaviors and excessive optimism in profit reporting, thus more conservative earnings are perceived as higher quality. From this perspective, institutional investors play an active role in improving financial reports because they seek to monitor and regulate managers to ensure that they work towards maximizing the company's value. The results also showed that managerial ownership has a positive and significant impact on conditional conservatism. These findings are consistent with the prior studies (Javaid et al., 2023; Salehi et al., 2020). As the responsible party for preparing financial statements, managers, who have full awareness of the company's financial situation and a higher level of knowledge than the users of financial statements, potentially strive to present a favorable image of the business entity. Conservatism can be effective in improving the quality of the information provided by management. Agency theory demonstrates that managers try to hide bad news about the company and report good news quickly to increase their benefits. This can negatively affect the quality of the reports provided. However, conservatism may improve the quality of the reports by mitigating the negative effects of these efforts. The hypothesis testing indicated that board size has a positive and significant impact on accounting conservatism in companies listed on the UAE stock exchange. However, the results showed a negative and significant impact of board size on accounting conservatism in companies listed on the Iraq stock exchange. These findings are not consistent with the prior studies (Almutairi & Quttainah, 2020; Hasan et al., 2022). One of the main reasons for this discrepancy could be the uniformity in the number of board members in most companies listed on the Iraq stock exchange. Moreover, the

results showed that board independence is a crucial factor in enhancing the supervisory role of board members, which can lead to the correction of opportunistic behaviors by management and an increase in the level of conservatism in financial reporting. The research findings support the concepts of the effective oversight hypothesis and indicate that in both the Iraq and UAE stock exchanges, board independence has a positive and significant impact on accounting conservatism. These results are consistent with the prior findings (Boachie & Mensah, 2022; Pinto et al., 2020).

Given the results of the hypothesis testing and the role of corporate governance mechanisms in adopting conservative financial reporting practices, the following recommendations are proposed:

1. For the Iraq and UAE Stock Exchanges and Regulatory Authorities:

Develop appropriate policies aimed at enhancing the level of corporate governance in the capital markets. This should include guidelines that promote board independence and managerial ownership, as these factors positively influence the level of accounting conservatism.

2. For Investors in the Stock Markets:

When making investment decisions, consider the level of board independence and ownership structure as crucial factors affecting the quality of financial reporting in companies.

Provide pathways to help investors access information regarding the level of conservatism and institutional ownership of companies. One practical suggestion is to establish and expand institutions that analyze companies' financial statements and provide information, including rankings on conservatism and institutional ownership. This would facilitate better investment decisions and optimal resource allocation.

3. For Standard-Setting Authorities:

Considering that adherence to accounting conservatism principles significantly resolves agency issues and reduces conflicts between managers and owners, it is recommended that comprehensive disclosure regulations regarding managerial ownership structures and adherence to conservatism principles be developed.

Establish standards that mandate detailed disclosures about the extent and level of managerial ownership and the application of conservatism in financial reporting. This will ensure transparency and improve the quality of information available to investors, thereby fostering trust and informed decision-making.

These recommendations aim to improve the overall quality of financial reporting and governance in companies, enhancing market efficiency and investor confidence.

### Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

### Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

### Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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### Declaration of Interest

The authors report no conflict of interest.

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### Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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