ACCOUNTING CONSERVATISM IN THE FACE OF ECONOMIC POLICY UNCERTAINTY IN GCC COUNTRIES

Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.*

Abstract: Economic policy uncertainty (EPU) significantly influences decision-making in corporate and financial spheres globally. The challenging economic landscape in the Gulf Cooperation Council (GCC) countries adds complexity to financial reporting. The primary objective of this study is to investigate the impact of EPU on accounting conservatism in non-financial firms listed in the GCC. It also aims to unearth whether higher levels of EPU lead to more conservative accounting practices among these firms. Furthermore, the study explores the moderating effect of corporate governance between EPU and accounting conservatism. Hence, this study particularly focuses on the unique challenges posed by the economic landscape in GCC. Utilizing data from GCC-listed non-financial firms from 2010 to 2022, the research employs the dynamic Generalized Method of Moment (GMM) estimation for robust analysis of causal relationships in panel data. This rigorous methodology permits the inspection of both the short-term and long-term impacts of EPU on accounting conservatism while accounting for potential endogeneity and dynamic effects in the data. In addition, the study integrates measures of corporate governance to explore its moderating effect on the relationship between EPU and accounting conservatism. The findings reveal that EPU has a significant positive impact on accounting conservatism. Moreover, corporate governance significantly moderates the region's association between EPU and accounting conservatism. The research underscores the need for targeted policy approaches in the GCC region to address the impact of EPU on accounting conservatism. It advocates for legal frameworks that support cautious accounting practices, enhancing financial stability and transparency, particularly during uncertain economic periods.

Key words: Economic Policy Uncertainty (EPU), Accounting Conservatism, Corporate Governance

*****Ashraf Hamad Rizik Alkhalaileh**, Dr. Putra Business School; Malaysia;
✉ email: pbs20204246@grad.putrabs.edu.my,
ORCID: 0009-0005-2802-7461
Mohamad Ali Bin Abdul Hamid, Prof., Putra Business School, Malaysia;
✉ email: ali@putrabs.edu.my,
ORCID: 0000-0009-5271-327X
Saidatunur Fauzi Bin Saidin, Dr., School of Business and Economics, Universiti Putra Malaysia,
✉ email: saidatunur@upm.edu.my,
ORCID: 0000-0002-6855-585X
Faisal Khan, Assoc. Prof., College of Business, City University Ajman, UAE
✉ email: faisal_khan702@yahoo.com,
ORCID: 0000-0002-3237-239

2024
Vol.29 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

Introduction

Recently, accounting conservatism has emerged as a widely employed accounting policy, with empirical research noting a heightened level of conservatism (Ruch and Taylor, 2015). Recognized as an important financial reporting feature, accounting conservatism effectively monitors management opportunistic behaviors, such as overvaluing future cash flows or delaying the termination of projects with negative net present value (Dai and Ngo, 2021). Basu (1997) defines accounting conservatism as the tendency to require a high degree of verification for reporting positive news and profits compared to bad news and losses.

In the developing countries' context, especially in the Gulf Cooperation Council (GCC) countries, the diminishing trend in accounting conservatism has raised concerns among firms and policymakers (Ruch and Taylor, 2015). Furthermore, the low conservatism levels inversely impact the firm's information environment, leading to earnings management, delayed disclosure of news events, and low verifiable numbers (Wu et al., 2022). This stresses the significance of accounting conservatism in navigating risks and uncertainties in the GCC (Bahmani et al., 2023). The low level of conservatism in the GCC countries erodes investors' confidence inconsistencies, obscuring long-term sustainability, overstating profitability, and increasing risk perception (Cho et al., 2020). Hence, the preservation of an appropriate level of conservatism in the GCC is vital for dependable financial reporting, as lowering its magnitude may bring inflated earnings, overstated assets, heightened earnings instability, and reduced reliability (Boulhaga et al., 2023; Rehman et al., 2022).

Firms grapple with increased uncertainty about their future economic prospects during periods of elevated Economic Policy Uncertainty (EPU) stemming from changes in tax policies, regulations, trade policies, or government spending. This prompts a shift towards a more conservative accounting approach to reflect potential risks and uncertainties (Dai and Ngo, 2021). Similarly, the EPU pertains to uncertainties in monetary and fiscal policies with anticipated variations in the future, effects on asset prices, and financial markets (Baker et al., 2016; Majeed et al., 2021). Hence, accountants must integrate economic uncertainty into their decision-making processes, advocating for more conservative accounting policies (Dai and Ngo, 2021; Al-thaqeb et al., 2022).

The GCC economies are featured with high-income status and substantial economic growth (Bradshaw et al., 2019); however, the EPU in the GCC is associated with factors such as unemployment, dependence on oil, geopolitical conflicts, environmental sustainability, and the need for the social changes (Majeed et al., 2021). The excessive EPU in GCC regions leads to the outflow of investments by investors, who might opt for stable environments (Bellavitis et al., 2021). The outflow of capital may further affect the currency value, increase the borrowing expenses by firms, and hamper the confidence of investors (Tayachi and Mehta, 2021). Ultimately, the EPU generates uncertainty in the market and makes it more complex for investors to analyse the GCC markets. Hence, the implementation of

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

more conservative and stable policies to foster the investors' confidence in the market becomes necessary (Tayachi and Mehta, 2021).

Moreover, the assurance of transparency in the GCC markets demands close monitoring and evaluation of the impact of EPU on financial reporting (Hoang et al., 2021). Hence, researchers advocate conducting research on EPU in the GCC markets, given its multifaceted effects on the business dynamics. The EPU prompts regulatory responses, compelling firms to adopt conservative accounting policies for compliance. Financial statement users, such as investors and creditors, prefer transparent and conservative financial reporting during uncertain times, driving firms to meet these expectations for credibility (Dai and Ngo, 2021). The research conducted in the context of accounting conservatism and EPU, especially in the context of GCC, demands serious attention from research scholars (Cui et al., 2023). Some initial findings indicate a weak negative linear relationship between EPU and accounting conservatism in GCC countries. However, more robust econometric instruments are essential for comprehensive insights into the effect of EPU on accounting conservatism (Dai and Ngo, 2021; Al-thaqeb and Ghanim, 2019; Cui et al., 2023).

Another influential and growing element in the GCC markets is known as corporate governance (El-Masry et al., 2016). The GCC markets have witnessed substantial economic expansion; however, it is imperative to confront various governance obstacles to establish enduring and responsible business practices (Tawfik et al., 2022). A noticeable concern within the realm of corporate governance in the GCC is the dearth of autonomous supervision and efficient board frameworks (Al-Sartawi, 2018). Many enterprises within the region are predominantly family-owned or controlled by a small cohort of individuals, causing a dearth of independent directors and a consolidation of authority (Pillai and Al-Malkawi, 2018). These circumstances may lead to conflicts of interest, deficient decision-making procedures, and inadequate mechanisms for oversight (Al-ahdal et al., 2020).

Furthermore, it is imperative to enhance corporate governance practices regarding managing risks and internal controls (Harun et al., 2020). Whenever a CEO or a large shareholder possesses substantial authority over decision-making procedures, there is an increased probability of prioritizing their interests over conservative accounting practices (Li et al., 2020). The existence of bias in the firm undermines the level of accounting conservatism. In addition, if the board of directors (BoDs) lacks independence and is mainly comprised of insiders, it can result in inadequate checks and balances in the financial reporting process (Almutairi and Quttainah, 2019). Consequently, this may foster an atmosphere wherein management is endowed with increased autonomy and adaptability in determining accounting policies and practices. In such circumstances, there is an inclination to prefer a more positive portrayal of information, resulting in decreased accounting conservatism (Hajawiyah et al., 2020). Furthermore, the lack of a proficient audit committee may also hinder the degree of accounting conservatism (Mohammed and Ahmed, 2016).

In general, the impact of corporate governance mechanisms on the level of accounting conservatism shown by a firm can be substantial. Several factors may lead to decreased accounting conservatism, such as a dominant CEO or concentrated ownership, limited board independence, ineffective audit committees, and inadequate executive compensation arrangements (Almutairi and Quttainah, 2019). Based on the above-mentioned discussion, the current study concentrates on accounting conservatism issues in the GCC countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The investigation delves into the challenges of accounting conservatism in the GCC, considering the EPU and corporate governance (Dai and Ngo, 2021; Majeed et al., 2021; Al-thaqeb, 2022). Hence, the study suggests the following research questions to be answered at the end of this study:

1. Does EPU significantly impact accounting conservatism in the GCC stock markets?
2. Does corporate governance moderate the relationship between economic policy uncertainty and accounting conservatism within GCC stock markets?

Literature Review

This section discusses the linkages among study variables and covers the relationship between EPU and accounting conservatism and the moderating effect of corporate governance on the linkage between EPU and accounting conservatism.

Economic policy uncertainty (EPU) and accounting conservatism

Although previous research has shown a positive correlation between accounting conservatism and information asymmetry (Khan and Watts, 2009), establishing a strong causal relationship is challenging due to the endogeneity of firms' conservative accounting decisions within their information environment. Building on this context, this study aims to provide a logical justification for the positive association between EPU and accounting conservatism. Firstly, it is hypothesized that high levels of EPU lead to an increase in information asymmetry between management and external stakeholders. This information asymmetry makes it more challenging for creditors and investors to accurately assess the existence and extent of hidden adverse news within the firm. Consequently, managers may exploit these periods of uncertainty to manipulate earnings and suppress adverse news, serving their own interests. In such circumstances, accounting conservatism becomes a useful mechanism for managers to downplay adverse news and protect their self-interests.

Secondly, EPU introduces higher volatility and uncertainty in firms' earnings and cash flows. This increased variation provides managers with greater flexibility and opportunities to manage earnings to their advantage. As a result, the motivation and ability to distort earnings become more pronounced during periods of high EPU. However, it is important to consider the limitations of this relationship in the banking sector. Due to the extensive regulations imposed on banks, the benefits of EPU on profit opacity may be constrained. In times of high policy uncertainty, managers may

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

be incentivized to enhance company transparency to alleviate stakeholder concerns. This could involve the timely dissemination of information through media or financial analysts.

These contrasting viewpoints highlight the need for empirical investigation to examine the connection between EPU and bank earnings opacity. While theoretical arguments support a positive association, regulations, and managerial motivations for transparency in the banking industry introduce complexities that warrant empirical scrutiny. The study aims to provide valuable insights into the relationship between EPU, accounting conservatism, and earnings opacity in the banking sector through empirical research. The relationship between EPU and accounting conservatism can be justified by examining the impact of EPU on information asymmetry between creditors and managers. Existing literature, such as a study conducted by Dai and Ngo (2021), suggests that EPU exacerbates information asymmetry. Consequently, creditors become more cautious and take measures to mitigate managers' opportunistic behavior, as supported by research conducted by Brockman et al. (2015). To ensure accurate and readily available accounting information, creditors demand greater disclosure from firms. In particular, when firms face high financing constraints and have significant equity pledges, creditors face higher vulnerability and risk. To protect their interests, creditors are incentivized to enhance their supervision of corporate financial information, thereby promoting the adoption of accounting conservatism. This aligns with the findings of the study conducted by Cui et al. (2023) that highlight the role of creditors in strengthening the monitoring of financial information and the association with accounting conservatism. Based on the above discussion, the following hypothesis is formulated:

H1: Accounting conservatism increases in response to rising Economic Policy Uncertainty.

The moderating role of corporate governance between EPU and accounting conservatism Fama and Jensen (1983) contended that the implementation of corporate governance mechanisms could incentivize companies to embrace conservatism in their financial reporting. The synergy between a high level of conservatism and robust corporate governance is posited to elevate the quality of a firm's financial reporting (El-habashy, 2019). This study delves into the moderating influence of corporate governance on the correlation between economic policy uncertainty and accounting conservatism, seeking insights into how corporate governance might safeguard shareholder interests and alleviate agency problems. Prior research has suggested that a proficient board of directors may employ conservative accounting practices to address agency conflicts and augment the transparency of financial reporting (Yunos et al., 2014). In Al-Saidi's (2020) examination of non-financial listed firms on the Kuwaiti Stock Exchange (KSE), the study revealed that board size, board independence, and the presence of family directors had no discernible impact on accounting conservatism.

2024
Vol.29 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

Several investigations have aimed to comprehend the determinants of accounting conservatism, and among them, corporate governance emerges as a notable factor. As defined by Wahyudin and Solikhah (2017), corporate governance encompasses a system of rules that closely involves managers, directors, employees, controllers, and various stakeholders. Past research exploring the impact of sound corporate governance mechanisms, including institutional ownership, managerial ownership, and independent commissioners, has yielded inconsistent findings. Institutional ownership, scrutinized by Foroghi et al. (2013) and Alkurdi et al. (2017), consistently positively influenced accounting conservatism. However, Risdiyani and Kusmuriyanto (2015) reported a significant negative effect in their study. Examinations conducted by Kootanaee et al. (2013) and Pratanda and Kusmuriyanto (2014) propose that institutional ownership does not influence accounting conservatism. In contrast, research focused on managerial ownership, conducted by Pambudi (2017), consistently revealed significant positive effects on accounting conservatism. However, Brilianti (2013) reported significant negative effects. In their study, Risdiyani and Kusmuriyanto (2015) found no significant impact on accounting conservatism. Studies scrutinizing independent commissioners, such as those conducted by Pratanda and Kusmuriyanto (2014) and Mohammed and Ahmed (2016), consistently demonstrated significant positive effects on accounting conservatism. Conversely, Risdiyani and Kusmuriyanto (2015) reported that independent commissioners were not conclusively shown to impact accounting conservatism.

The literature indicates that uncertainty can impact corporate decisions both internally and externally. Internally, it diminishes management's risk appetite (Panousi and Papanikolaou, 2012), prompting more conservative choices. Externally, it introduces friction in financial markets and reduces capital supply in the economy. In essence, in periods of elevated Economic Policy Uncertainty (EPU), management may opt for or be compelled to adopt a more conservative approach based on financial market conditions. Therefore, uncertainty manifests varied effects on corporate and financial management actions across different facets of firms. Given the substantial and growing debt levels held by firms, the capital structure stands out as one of the crucial decisions for any corporation (Al-Thaqeb and Algharabali, 2019). The economic mechanism through which uncertainty influences accounting conservatism comes into play. Khan and Watts' (2009) framework posits that conservatism arises from contractual requirements that necessitate more rigorous verification standards for gains than losses. This approach aims to reduce the likelihood and associated costs of dysfunctional behavior by the parties involved in contracts. For instance, Ball and Shivakumar (2005) observe that U.K. public firms exhibit greater conservatism than private firms due to varying market demands for financial reporting quality.

Additionally, Bushman and Piotroski (2006) demonstrate that firms operating in countries with robust legal and judicial frameworks tend to display higher conservatism levels. This is attributed to stronger regimes fostering enforceable

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

contracts, consequently increasing the demand for verifiable accounting information. Hence, this study posits that the impact of economic policy uncertainty on conservatism is more significant for firms with stronger corporate governance. As outlined earlier, corporate governance can play a moderating role in influencing how economic policy uncertainty affects the implementation of accounting conservatism. *H2: Corporate governance moderates the positive effect of Economic Policy Uncertainty on accounting conservatism.*

Research Framework

The conceptual framework presented in Figure 1 illustrates the hypothesized relationships under consideration. This study generally includes EPU as the main independent variable and accounting conservatism as the dependent variable. Likewise, this study considers corporate governance a potential moderator in the framework. According to agency theory, it elucidates the association between EPU and accounting conservatism (H1) and the moderating role of corporate governance in the relationship between EPU and accounting conservatism (H2).
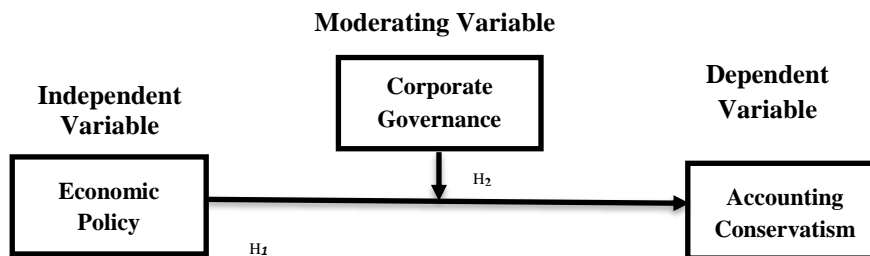

Figure 1: Research Framework

Research Methodology

This research utilizes the quantitative approach to establish the association between EPU and accounting conservatism in GCC countries. The study's main variables, including accounting conservatism (dependent variable), economic policy uncertainty (independent variables), and corporate governance (moderating variable), are presented along with their measurement and references as follows:

Accounting conservatism

Accounting conservatism, as defined by Khan and Watts (2009), is a concept that involves a higher verification requirement for recognizing positive news compared to negative news. Statistically, it is expressed in the following equation:

$$NI_t = \beta 1 + \beta 2 D_t + \beta 3 RET_t + \beta 4 D_t * RET_t + \varepsilon \qquad (1)$$

The G-Score is the measurement of the timeliness of good news, expressed as a linear function of firm-specific characteristics of market-to-book ratio, firm size, and leverage (Khan and Watts, 2009), expressed with equation:

$$G\text{-Score}_t = \beta_3 = \mu_1 + \mu_2 MV_t + \mu_3 MTB_t + \mu_4 LEV_t \tag{2}$$

Similarly, the C-Score is the measure of incremental timeliness of bad news, expressed as a linear function of the same firm-specific characteristics as G-Score.

$$C\text{-Score}_t = \beta_4 = \lambda_1 + \lambda_2 MV_t + \lambda_3 MTB_t + \lambda_4 LEV_t \tag{3}$$

The net income (NI), as calculated by Khan and Watts (2009), is the net income before extraordinary items scaled by the market value of equity at the beginning of the fiscal year, expressed as follows (by combining all three equations):

$$NI_t = \beta_1 + \beta_2 D_t + RET_t * (\mu_1 + \mu_2 MV_t + \mu_3 MTB_t + \mu_4 LEV_t) + D*RET_t *(\lambda_1 + \lambda_2 MV_t + \lambda_3 MTB_t + \lambda_4 LEV_t) + (\delta_1 MV_t + \delta_2 MTB_t + \delta_3 LEV_t + \delta_4 D * MV_t + \delta_5 D * MTB_t + \delta_6 D * LEV_t) + \varepsilon. \tag{4}$$

Annual returns (RET) are calculated by cumulating monthly returns ending with the fourth month after the fiscal year-end (Khan and Watts, 2009). The market value of equity (MV) is measured as the natural log of the market value of equity at the end of the fiscal year. Finally, the market-to-book ratio (MTB) is calculated by dividing the equity by the book at the end of the fiscal year.

Economic Policy Uncertainty (EPU)

EPU captures uncertainty from news, policy, market, and economic indicators (Al-thaqeb and Ghanim, 2019). NVIX (News-based volatility index) is the index derived from text data in the Wall Street Journal, capturing implied volatility associated with periods of stock market crashes, wars, and policy-based uncertainties (Manela and Moreira, 2017). FEARS Index (fear, uncertainty, and doubt index) measures uncertainty based on investor sentiments and fears using text data from internet searches (Da et al., 2014). Firm-level political risk measures are measures of uncertainty related to political factors affecting companies, developed from textual analysis of quarterly earnings conference call transcripts (Hassan et al., 2017). Macroeconomic uncertainty indices are developed based on econometric techniques using economic and financial market indicators (Jurado et al., 2015). The components of EPU index are the extent of newspaper coverage related to policy-related economic uncertainty. Expiration of provisions in the federal tax code. Disagreement among economic forecasters (Baker et al., 2016). Indicator in EPU index (newspaper coverage) utilizes newspaper coverage as an indicator of policy-related economic uncertainty, focusing on articles containing keywords related to economic policy and uncertainty (Al-thaqeb and Ghanim, 2019).

The indicator in EPU index (tax code provisions expiration) considers the expiration of provisions in the federal tax code as a component of economic uncertainty (Baker

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

et al., 2016). The second part, the indicator in EPU index (disagreement among forecasters), incorporates disagreement among economic forecasters as a measure of economic uncertainty (Baker et al., 2016).

Corporate governance (CG)

The CG-index developed by Harjoto et al. (2015) measures governance efficacy by examining board composition, leadership structure, characteristics, and processes. Measured through the following equation:

$$CG\text{-}Index = B\text{-}size + P\text{-}NED + P\text{-}Female + p\text{-}CEO + B\text{-}Owneship + Block\ ownership + B\text{-}age + B\text{-}tenure + B\text{-}attendance + B\text{-}meeting\ frequency \qquad (5)$$

Board composition examines board size, ratio of non-executive directors (NEDs), and proportion of women serving on the board. The sub-factors (dummies) included I-Board size (1= if board size => median, 0= otherwise); I-percentage of NEDs (1= if ratio of NEDs => median, 0= otherwise); I –percentage of women (1 => median, 0= otherwise). Board leadership structure consists of a powerful CEO, board executive ownership, and block ownership variables (Pergola and Josehp, 2011; Callen and Fang, 2013). Here, I-powerful CEO (0= if CEO is both chairman and an executive or founder, 1= otherwise). I-board executive ownership (0= if board ownership>median, 1= otherwise. I-block ownership (0= if percentage of stock owned by institutional investors>median, 1= otherwise (Adams and Ferreira, 2009; Pergola and Joseph, 2011; Callen and Fang, 2013).

Board characteristics (Harjoto et al., 2014) encompass the age and tenure of board members. I-board age (1= if board age>median, 0= otherwise). I-board tenure (1= if board tenure>median, 0= otherwise). Board process (Bennett and Iqbal, 2013) includes variables related to attendance of board meetings and frequency of audit committee meetings. I-board attendance (1= if board member attendance is>median, 0=othewise). I-frequency of audit meetings(1= if total number of audit committee meetings>median, 0= otherwise). Several control variables were found to have a significant effect on accounting conservatism within previous studies, such as firm size measured as natural log of total assets, market-to-book value ratio, firm age as the sum of the numbers since the firm is established, return on assets is the ratio of net income to total assets of the firm, leverage by taking the total liabilities divided by total assets, and cash from operations (Foroghi et al., 2013; Jan et al., 2018; Xu et al., 2023).

The research targets all publicly non-financial listed companies in the GCC countries except Bahrain. The sample includes 6,484 firm-year observations of non-financial listed companies in GCC economies from 2010 to 2022. The study excludes financial institutions because the structure of their financial statements is incompatible with other firms. The data were extracted from the Thomson Reuters Eikon database. Therefore, balanced panel data are used to examine the association between study variables. The data was obtained from several sources. The Eikon 4.0 data stream database was used to measure accounting conservatism. Meanwhile, corporate governance annual reports were used to retrieve measurements of the corporate

governance factor. For the independent variable EPU, the data was collected from the website of the EPU Index. In this study, we used panel analysis to estimate the effect of EPU on accounting conservatism within GCC countries. According to Balgati (2008), panel data provides a rich environment for the development of estimation techniques and theoretical results. In order to test the impact of EPU on accounting conservatism in GCC countries (H1), this study adopts a model inspired by the research conducted by (Foroghi et al., 2013), among many others.

The initial model, referred to as the baseline model, can be formulated as follows:

$$CONSER_{it} = \beta_0 + \beta_1 EPU_{it} + \varepsilon_{it} \tag{6}$$

Where CONSER denotes accounting conservatism, *EPU* represents economic policy uncertainty, ε denotes the error term, the subscripts i and t are denoted to cross sections and time, and ε is the error term. The main focus of this model is β_1. To clarify the moderating effect of corporate governance in strengthening the relationship between economic policy uncertainty and accounting conservatism in the GCC market, the above equation is expanded to incorporate the interaction term created by multiplying EPU with corporate governance (i.e., EPU x CG). By incorporating this extension, the model can now be represented as follows:

$$CONSER_{it} = \beta_0 + \beta_1 EPU_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 MTB_{it} + \beta_5 CFO_{it} + \\ \beta_6 CG_{it} + \beta_7 (EPU * GOV)_{it} + \beta_8 COVID\ effect_{it} + \\ \beta_9 Country\ effect_{it} + \beta_{10} Industry\ effect_{it} + \beta_{11} Year\ effect_{it} + \varepsilon_{it} \tag{7}$$

Where, *(EPU* CG)* denotes economic policy uncertainty interacted with accounting conservatism and the main concern in this model. The marginal impact of economic policy uncertainty on accounting conservatism through the role of corporate governance is as follows:

$$\frac{\delta CONSER}{\delta EPU} = \beta_1 + \beta_7 * CG_{it} \tag{8}$$

The recommended estimation method for this study is the General Method of Moments (GMM), specifically designed for estimating dynamic panel data models. This approach was suggested by Holtz-Eakin, Newey and Rosen (1988) and later extended by Arellano and Bond (1991) difference estimator, Arellano and Bover (1995), and Blundell and Bond (1998) system GMM estimator. The inclusion of macroeconomic variables in the specified model of this study, which are known to exhibit random walk statistical generating mechanisms in economics, makes the system GMM estimator more efficient and accurate compared to the difference-GMM estimator, as it improves accuracy while reducing bias associated with the finite sample (Baltagi and Baltagi, 2008). GMM is used for parameter estimation in semi-parametric models with coefficients of finite dimensions. GMM estimators are particularly applicable in scenarios involving a large N (number of firms or

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

countries) and a small T (number of time periods), linear equations, dynamic dependent variables, non-strictly exogenous independent variables, fixed individual effects, and the presence of autocorrelation and heteroskedasticity within countries (Roodman, 2009). In the context of dynamic model specifications, GMM estimators help mitigate endogeneity issues arising from the serial correlation of country-specific effects and the regressors by employing lagged values of endogenous and predetermined variables as instruments. The validity of these instruments is assessed using the Sargan/Hansen test conducted after parameter estimation:

$$y_{it} = \;\; + \beta y_{i,-1} + \beta x'_{it} + u_{it} \tag{9}$$

$$u_{it} = \mu_i + v_{it} \tag{10}$$

Where αi represents the fixed effect, $x'it$ is 1 x K while β is K x 1. uit is the white noise random disturbance that is μi and vit representing the individual specific effect and the disturbance respectively that are also independent of each other. To address the country-specific effects, Arellano and Bond (1991) propose transforming Equation into first differences. This transformation helps eliminate the impact of country-specific effects on the analysis.

$$\Delta yit = \gamma \Delta yi, t-1 + \Delta x'it\beta + \Delta uit \tag{11}$$

In Equation (11), the presence of a lagged error term, which is a function of the lagged dependent variable ($yi, t-1$), is crucial due to the influence of previous errors on the future values of predetermined variables. This correlation structure renders the Ordinary Least Squares (OLS) estimator inconsistent, necessitating the use of an instruments matrix to address the issue, as suggested by Arellano and Bond (1991). However, the validity of this approach relies on two assumptions: (i) the absence of serial correlation in the error term and (ii) the non-strict exogeneity of the lagged explanatory variables. Under these assumptions, the optimum instruments are formed by the predetermined or strictly exogenous explanatory variables (xit and yit) and are employed based on specific moment conditions.

$$[y_{i,-1}\,(u_{it} - u_{i,t-1})] = 0 \; for \; s \geq 2; \; t = 3, \ldots, T, I = 1\ldots \;\;, N \tag{12}$$

$$[x_{i,-1}\,(u_{it} - u_{i,t-1})] = 0 \; for \; s \geq 2; \; t = 3, \ldots, T, I = 1\ldots \;\;, N \tag{13}$$

In each of the cases above, the sample moment conditions,

$$g\,(\delta) = 1 \sum z'\,\Delta u \tag{14}$$

Was employed to obtain the GMM estimator, given as:

$$\delta GMM = (X^{*'} ZWZ'X^*)^{-1} X^{*'} ZWZ'Y^* \qquad (15)$$

Where, $X^* = \{\Delta\, y_{-1}/\Delta x\}$ is a K x N (T-2) matrix of the regressors, $y^* = [\Delta y]$ is a N (T-2) x 1 vector that is observed on the dependent variable, while W is the weighting matrix, defined as:

$$W = (N \sum Z'_i \quad) \qquad (16)$$

Where, H is a T-2 square matrix with two on the main, subtracting one from the first sub-diagonals and zero on the other. Arellano and Bover (1991) also used a two-step, efficient GMM estimator, where the moment conditions weight is a function of their variance-covariance matrix calculated, using the formula below:

$$W = (N \sum Z'_i \,\Delta\hat{u}_i\, \Delta\hat{u}_i\, Z_i\,) \qquad (17)$$

Where $\Delta\hat{u}_i$, represents the residuals obtained from a consistent one-step estimator of the first-difference equation. Arellano and Bond (1991) also reiterated that using a two-step GMM that uses an optimal weighting matrix is poor in small samples because GMM weights all the moment conditions equally over the entire sample, oversizing the Wald tests for parameter restrictions. It then follows that the weak identification of the parameters by the moment conditions from the data is considerably weak. Hence, the proposal of System GMM. The sys-GMM estimator, proposed by Arellano and Bover (1995), offers an alternative to the first-differenced estimator introduced by Arellano and Bond (1991), addressing the limitations of the standard GMM estimator. Blundell and Bond (1998) highlighted that the GMM estimator of Arellano and Bond (1991) tends to be inefficient when dealing with weak instruments and dynamic models, potentially leading to bias in finite-sample scenarios. The sys-GMM estimator combines moment conditions for both the lagged and levels model, providing improved efficiency, reduced bias, and enhanced precision, particularly when dealing with persistent autoregressive processes and variables that exhibit weak correlation in first differences. The following moment conditions are utilised by the sys-GMM estimator, with the assumption that the explanatory variables are endogenous.

$$E(\Delta\varepsilon_{i,t} y_{i,t-r}) = 0;\ E(\Delta\varepsilon_{i,t} x_{i,t-r}) = 0;\ ,\ \text{Where r = 2… t-1; and t = 3… T}$$
$$E(\Delta u_{i,t} y_{i,t-r}) = 0;\ E(\Delta u_{i,t} x_{i,t-r}) = 0;\ ,\ \text{Where r = 2… t-1; and t = 3… T}$$

The sys-GMM estimator combines the T-2 in both the differences and levels model into a single one. It used the lagged levels of both the dependent and the independent variables as instruments for the difference and the level equation. The advantages of sys- GMM estimation over the first-difference estimator are evident when: (i) N is large (>30) and the periods (T) are small (<10); (ii) the regressors are endogenous and (iii) there is an unobservable individual-specific effect with other regressors, and lastly (iii) it is appropriate to use in unbalanced panels. The sys-GMM estimator has

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

two options: the one-step and the two-step estimators. However, the two-step estimator was theoretically more efficient than the one-step estimator because it uses the optimal weighting matrix, especially in small samples. A small cross-sectional sample may provide biased standard errors and parameter estimates, and a weak over-identification test may be caused by the proliferation of instruments. According to Roodman (2009), Sargan test was proposed to test the over-identifying restrictions.

The GMM method also requires a certain number of moment conditions to be specified for the model, which depict the functions of the model parameters as well as the data, such that their expected value is zero at the correct parameters' values. It is evident that when there are too many moment conditions, bias may occur while increasing efficiency. Using a subset of the moment conditions is advisable to take advantage of the trade-off between the decrease in bias and efficiency loss (Baltagi and Baltagi, 2008). Hence, the Sargan-Hansen test will be performed to investigate over-identification restrictions. Sargan's test and Hansen's J-test were developed by Hansen (1982) to test for the validity of the inclusion of the instruments of the lagged explanatory variables in the regression model. The non-serial correlation of the error term is critical to the reliability of the GMM estimator. The Sargan and Hansen J-test attempts to address the problems proposed by Arellano and Bond (1991) by validating the instruments and testing for serial correlation of the residuals to ensure that the dynamic GMM provides consistent parameter estimates. The null hypothesis is that all the instruments in the regression model are valid, meaning they relate to the errors of the first difference equation. If the probability is more than 0.05, then we fail to reject the null hypothesis and proceed to validate the model.

Furthermore, the study employed the test statistics AR(1) to test serial correlation in the first-order differenced residuals and AR(2) for the serial correlation among the second-differenced residuals. Under the null hypothesis, the test statistic asymptotically follows a normal distribution, X^2, with k representing the number of instruments after subtracting the number of parameters in the model. The AR (1) is expected to have a negative Z-value and significance, whereas the AR (2) is expected to be insignificant. In other words, in the first-order serial correlation, the test should reject the null but not reject it in the second-order serial correlation. Hence, the use of the system GMM model has proven to be free of asymptotic bias and has complete proficiency in stabilizing ordinary asymptotics.

Research Results and Discussion

To accomplish the research objectives and evaluate hypotheses, this study employs two sets of panel data regression models. In the first regression model, the primary focus is on assessing how EPU influences accounting conservatism within firms. This model explicitly investigates the direct effects of EPU on accounting conservatism (CONSRTSM). The second model was conducted to examine the moderating role of corporate governance (CG-Index) in the impact of EPU on conservatism. These regression models encompass various control variables like

2024
Vol.29 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

firm age (FAGE), financial leverage (FL), market to book value (MTB), return on assets (ROA), firm size (SIZE), and free cash flows (CFO) to mitigate the risk of omitted variable biases. Considering the violation of various regression assumptions and importantly, due to the presence of endogeneity issues, this study has employed dynamic panel data analysis using GMM estimation technique. Addressing the potential endogeneity bias when analyzing corporate governance and accounting-related issues is essential. To tackle this challenge, this study uses the GMM technique, introduced by Arellano and Bond in 1991. GMM is a dynamic panel data estimation approach that offers several advantages over other estimation methods. Firstly, it effectively addresses the influence of time-invariant data on predicted coefficients. Secondly, in contrast to the two-stage least squares (2SLS) technique, which handles endogeneity but involves the complex task of selecting appropriate instruments, GMM simplifies this by typically using lags of original explanatory variables as instruments.

Moreover, one significant benefit of GMM lies in its ability to address both sources of endogeneity: unobservable heterogeneity and dynamic endogeneity. In our specific case, unobservable shocks that affect the extent of firm performance might also impact ownership factors. GMM fully accounts for unobservable heterogeneity, simultaneity, and the relationship between ownership factors and firm performance. It allows explanatory variables (ownership factors) to be influenced by past and present observations but not future observations, thus providing accurate and appropriate estimates.

This study specifically prefers the system GMM estimation technique to address specific issues based on various tests conducted in each model. For instance, the study applies the AR(1) and AR(2) tests to check the first-order and second-order serial correlations. According to Arellano and Bond (1991), Sys GMM is applicable when there is a first-order serial correlation in data and the absence of a second-order correlation. It means that GMM validity depends on the significance of AR(1) and the insignificance of AR(2). Then, the Wooldridge, White/Koenker, and Wu-Hausman tests are also conducted to assess the superiority of the sys GMM to other estimation techniques. A Wooldridge test exists to detect autocorrelation in panel data. The test is employed to identify first-order autocorrelation in the errors of a panel data model. After taking the first difference, the test relies on the residuals obtained from the Regression of the dependent variable on its lagged values. An essential assumption in Regression is that the Error Term's variance remains constant across all observations. If the error exhibits a consistent variance, it is called homoscedasticity. Otherwise, it is referred to as heteroskedasticity. When heteroskedasticity errors occur, the variance is not constant; the traditional estimate methods become inefficient. Residuals are commonly plotted to evaluate the assumption of homoscedasticity. The White test, introduced by Halbert White in 1980, presents a test that strongly resembles the one developed by Breusch-Pagan. The White test for Heteroskedasticity is a versatile method that does not depend on the normality assumption and is straightforward to apply. White's test can detect

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

specification bias due to its broad applicability. White's and Breusch-Pagan's tests utilize the residuals of the fitted model as their foundation.

Moreover, the study also examined instruments and their validity. Specifically, Hansen J-test and Wald test are applied to examine the validity of the instruments and joint significance. Hansen J-test statistics evaluate the validation of the instruments, and it should be in the range of tell-tale sign "0.25" to "1.00" (Roodman, 2009). At the same time, Wald test examines whether the estimated coefficients of the regressors are jointly significant and differ from zero or not. In the following sub-sections, this study presents the results of these panel regression models estimated to investigate various research hypotheses.

Economic policy uncertainty and accounting conservatism (Hypothesis 1)

Hence, in the first model, this study investigates its first hypothesis relating to the direct impact of EPU on accounting conservatism. The GMM estimates are reported in Table 1 below. The study finds that AR(1) is significant, with p-values less than 1 percent for this model, whereas AR(2) is insignificant. Therefore, the study concludes that Sys GMM is appropriate for this study. The results also indicate the significance of the Wooldridge, White/Koenker, and Wu-Hausman tests, showing that sys GMM is superior to other estimation techniques. As per the study's findings, the number of instruments is lesser than the number of groups. The study has "66" instruments and "2482" groups for the whole sample. Therefore, the study also meets the condition of instruments that must be less than groups. Moreover, the study estimates the J-test p-value "0.432" in the tell-tale sign range. Therefore, the study concludes that the set of instruments is valid for this model. Finally, the study applies the "Wald test" of joint significance to check whether the estimated coefficients of the regressors are jointly significant, differ from zero or not. This test's significance level is less than 1%, and it shows that the regressors are jointly not equal to zero with z-statistics 16005.39. Therefore, the study concludes that the estimated coefficients of regressors together differ significantly from zero.

In Table 1, the researcher finds a positive and statistically significant effect of CONSRTSM (-1) on the dependent variable CONSRTSM (-1). The coefficient estimate of CONSRTSM (-1) is 0.802, implying that last year's conservatism explains 80.2% of the conservatism of the current year. Thus, firms involved in accounting conservatism are more likely to be involved in the current year. The relation also shows dynamism. As far as the findings of the main variable are concerned, EPU (policy uncertainty) has a positive and statistically significant impact on accounting conservatism (β=0.299 and p<.05). Hence, this study accepts its first hypothesis supporting that EPU has a significant and positive direct effect on accounting conservatism. The positive association between EPU and CONSRTSM shows that firms facing higher policy uncertainty are more involved in conservatism. Several economic decisions are determined based on anticipated results. The positive association between EPU and accounting conservatism is rationalized by analyzing the influence of EPU on the information imbalance between creditors and managers. This aligns with previous scholarly works, like the research by Dai and Ngo (2021).

They indicate that EPU amplifies the presence of information asymmetry. Consequently, creditors use a more careful approach and implement strategies to reduce managers' self-serving actions, as evidenced by the findings of Brockman et al. (2015). Specifically, when companies encounter substantial limitations on obtaining funds and have substantial commitments to use their assets as collateral, lenders are exposed to greater susceptibility and danger. Creditors are motivated to increase their oversight of business financial information to safeguard their interests, encouraging the use of accounting conservatism. These findings are consistent with the results of research conducted by DeJong et al. (2020), and Cui et al. (2023), which emphasize the importance of creditors in enhancing the oversight of financial information and its connection to accounting conservatism. Implementing a conservative accounting system can effectively alleviate the agency problem that emerges between the manager and shareholders of a corporation due to knowledge asymmetry (Lee, 2015). Therefore, the conservative accounting structure is beneficial in mitigating agency difficulties and enhancing corporate performance by minimizing the risk of cash devaluation in enterprises associated with decision-making issues such as overinvestment (Louis et al., 2012). Specifically, the findings show that companies that adopt a conservative approach are less prone to engaging in excessive investment due to their prompt acknowledgment of losses, which limits the availability of discretionary cash flow for managers (Louis et al., 2012). When the cash flow is higher, the managers are more interested in following accounting conservatism in the GCC economies. Hence, hypothesis 1 is supported in the context of GCC economies.

Among the control factors, CFO has a positive and statistically significant impact on accounting conservatism ($\beta=0.090$ and $p<.05$). Operating cash flow is a crucial metric for assessing the financial performance of a company's primary business operations, as it quantifies the cash generated by these activities. Studies by Ahmed et al. (2002) and (Foroghi et al., 2013) indicate that financially successful companies are more likely to embrace conservative accounting practices. The conservative principle dictates that expenses and liabilities should be recognized promptly in situations with uncertainty regarding the result. However, it only allows for the recognition of revenues and assets when there is a high assurance that cash will be received. Therefore, the increased value of the firm's cash flow is associated with applying the results of the accounting conservatism principle (Louis et al., 2012). Asymmetric timing, also called a conservative earnings impact, describes the practice. Likewise, firm age has a positive and statistically significant impact on accounting conservatism in the GCC context ($\beta=0.197$ and $p<.10$). The level of maturity is mostly determined by the nature of activities within an organization. This means that regardless of size, an organization can be considered immature if its internal practices are more reactive and crisis-driven than proactive and plan-driven. A mature firm is an established corporation that has gained a strong foothold in its field, offering a renowned product and enjoying a devoted customer base. In these firms, managers often have certain policies. They take the initiative to build trust and

confidence. Thus, mature firms are more likely to follow accounting conservatism. Mature firms generally encounter consistent competition and demonstrate gradual and constant expansion. Established corporations also tend to distribute dividends and can enhance their earnings by implementing cost reductions and efficiency enhancements. These firms also have a fever probability of information asymmetry and agency conflicts.

Next, FL has a positive and significant impact on accounting conservatism (β=0.173 and p<.05). FL involves using debt as a source of capital, which often introduces financial risk. To mitigate this risk, companies may adopt conservative accounting practices. Recognizing losses promptly aligns with the prudence principle and can help companies avoid overestimating their financial position. This conservative approach acts as a risk management strategy in the presence of financial leverage.

In contrast, the thesis finds a negative impact of the market value of firms on accounting conservatism (β=-0.177 and p<.01). The fair market value has the potential to augment the asset worth of the company, as stated on its balance sheet. The rise is attributed to the appreciation of assets in response to prevailing economic market conditions. Therefore, management does not prefer accounting conservatism in firms with higher market value. Enhancements to assets contribute to the overall rise in a company's total economic value generated by its commercial activities. In these firms, managers do not take causation measures to prepare accounts. In addition, high market value ensures lower information asymmetry. This might be one of the explanations for a negative association between the market value of accounting conservatism.

The findings indicate a strong and statistically significant association between ROA and accounting conservatism (β=0.188 and p<.01). The prevailing concept of conservatism pertains to a discernible methodology in discerning gains and losses. This unique meeting stems from the divergent assessment of gains and losses (Khan and Watts, 2009). Implementing accounting conservatism, simplified monitoring, and improved management helps reduce the manager's tendency towards excessive optimism in financial performance. Managers and shareholders anticipate that more accounting conservatism will lead to a rise in shareholder wealth. This can be achieved by investing in projects that have a high level of profitability. This leads to increased investment in low-risk projects and higher cash holdings, ultimately boosting the optimal utilization of cash for future profitability. These views strongly support the positive association between ROA and accounting conservatism.

Lastly, the size effect negatively affects accounting conservatism (β=-0.148 and p<.01). Managers in larger firms have discretions over cash flows. In addition, shareholders' expectations are always on the higher side. So, management faces extra pressure to generate more profit. This stresses management's need to invest in risky projects with uncertain cash flows. The management is less likely to adopt accounting conservatism when the future profitability and cash flows from operations are doubtful. So, the current thesis findings also align with the view that

2024
Vol.29 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

management is less likely to adopt accounting conservatism in larger firms. Further, COVID-19, industry, and year effects are also included to control estimation biases.

Table 1. EPU and Accounting Conservatism Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTRSM (-1)	0.802***	0.129	6.202	0.000
EPU	0.299**	0.138	2.174	0.055
Mean Dependent Var.	-0.17426			
S.E. of Regression	78.0144			
J-statistic	91.47012			
Instrumental rank	66			
AR (1) p-value	0.00 (-10.04)			
AR (2) p-value	0.432 (0.555)			
Hansen p-value	0 (0.60)			
Wald Chi-Square	0.00 (1605.39)			
Wooldridge p-value	0.00 (989.10)			
Wu-Hausman p-value	0.00 (21.522)			
White/Koenker p-value	0.00 (202.116)			
*p<.10,** p<.05 and *** p<.01				

Moderation analysis

In this section, this study looks into the potential moderating impact of corporate governance on the influence of EPU on accounting conservatism. While the previous regression outcomes play a crucial role in clarifying the direct effects of these factors on performance indicators, the upcoming regression model aims to examine how corporate governance may moderate and enhance the direct association between EPU and CONSRTSM. To explore the moderating influence of CG-Index, a new interaction variable is created by multiplying the moderating variable with the independent variable. Hence, an interaction variable is generated as the product of EPU and CG-Index. Then, this study employs a distinct regression model to investigate the fifth hypothesized relationship relevant to the moderation analysis, with the results presented in the next sub-section below.

Moderating role of corporate governance

Hence, in the last model, the moderating role of corporate governance is empirically tested. The researcher constructed corporate governance index. The Governance Index evaluates governance effectiveness by examining internal mechanisms and board characteristics. Criteria include board composition, leadership structure, characteristics, and processes. Variable selection is based on prior research outlined in the literature review. Indicator variables, taking the value of 1 above/below the median, are used to form index variables. The orientation of indicators relies on past studies predicting positive/negative correlations with company risk. Board Composition assesses board size, non-executive directors (NEDs), and women on the board. A larger board size, higher NED proportion, and more women are associated with reduced firm risk. Variables I-Board Size, I-Percentage of NEDs,

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

and I-Percentage of Women are assigned 1 if meeting or exceeding the median, 0 otherwise. Board Leadership Structure comprises Powerful CEO, Board Executive Ownership, and Block Ownership. I-Powerful CEO is 1 if the CEO is chairman/executive or founder, or 0. I-Board Executive Ownership is 1; if ownership is below the median, it is 0. I-Block Ownership is 1 if institutional ownership is below the median; otherwise, it is 0. Board Characteristics include board age and tenure. I-Board Age and I-Board Tenure are 1 if exceeding the median, else 0, as higher age and tenure correlate with reduced company risk. Board Process includes board attendance and audit committee meeting frequency. I-Board Attendance is 1; if attendance is above the median, else 0. I-Frequency of Audit Meetings is 1 if meetings are above the median, or 0, based on a negative correlation with firm risk identified by Bennett (2013). The Governance Index, ranging from 0 to 10, aggregates these factors across categories using 10 indicator variables with values of 0 or 1.

$$
\begin{aligned}
CG - Index_{i,t} = {} & B - size_{i,t} + P - NED_{i,t} + P - Female_{i,t} + p - CEO_{i,t} + B - Owneship_{i,t} \\
& + Block\ ownership_{i,t} + B - age_{i,t} + B - tenure_{i,t} + B - attendance_{i,t} \\
& + B - meeting\ frequency_{i,t}
\end{aligned}
$$

The results are reported in Table 2 below. The interaction term between EPU and CG is our variable of concern. The direct effect of CG on accounting conservatism is negative and statistically significant (β=-0.231 and p<.01). This implies that better corporate governance leads to reduced accounting conservatism in the GCC context. Further, the interaction term EPU*CG is also negative and statistically significant (β=-0.188 and p<.05). Corporate governance is critical for establishing investor trust and unleashing shareholder wealth. It offers services to businesses. This study defines corporate governance, discusses its benefits, and explains why private equity investors prefer companies that practice excellent governance. Thus, hypothesis 2 is strongly supported. Control factors and diagnostics test results are not explained to avoid repetitiveness.

Table 2. Moderating Role of Corporate Governance

Variable	Coefficient	Std. Error	t-Statistic
CONSRTSM(-1)	0.758***	0.112	6.761
EPU	0.299**	0.149	2.006
CG	-0.231***	0.051	-4.542
Moderating Effect			
EPU*CG	-0.188**	0.068	-2.762
Control Variables Effect			
CFO	0.0888**	0.0389	2.2483
FAGE	0.1062*	0.1143	1.7096
FL	0.171**	0.082	2.085
MV	-0.1759***	0.0388	-4.5612
ROA	0.1869***	0.0447	4.1617
SIZE	-0.1471***	0.0417	-3.5206
Year effect	Yes		
COVID-19 effect	Yes		
Industry effect	Yes		
Mean dependent var	-0.16105		
S.E. of Regression	72.10203		
J-statistic	84.538		
Instrument rank	68		
AR (1) p-value	0.000 (-10.04)		
AR (2) p-value	0.432 (0.555)		
Hansen p-value	0.(0.601)		
Wald chi square	0.00 (1605.39)		
Wooldridge p-value	0.00(828.72)		
Wu-Hausman P-value	0.00(21.522)		
White/Koenker P-value	0.00(202.116)		
*p<.10,** p<.05 and *** p<.01			

Implications of the Study Findings

The findings of this study hold both theoretical and practical implications, as discussed below: theoretically, this study contributes to accounting theory by empirically establishing a significant positive impact of EPU on accounting conservatism in GCC markets. These findings extend the theoretical framework by elucidating how economic factors affect firm's accounting choices, emphasizing the significance of considering broader macroeconomic conditions in accounting theories. Furthermore, the exploration of corporate governance as an important moderator in this relationship advances corporate governance theory. The study advocates that strong governance structures act as a safeguard, buffering the effect of uncertainty on accounting policies. This highlights corporate governance's dynamic and adaptive nature in responding to uncertain economic situations.

On the practical side, this study offers insights for businesses operating in the GCC markets, advocating for strategic financial management during uncertain economic situations. They can consider adjusting accounting practices to enhance transparency

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

and align managerial interests with other stakeholders, fostering financial stability. Moreover, the significance of corporate governance as a moderator suggests investing in strengthening governance structures. Finally, the study provides foundations to enhance financial reporting quality in the GCC context by investigating specific mechanisms through which the EPU and corporate governance interact. To sum up, the study bridges theoretical and practical domains, providing valuable insights into the interplay between EPU, corporate governance, and accounting conservatism in the GCC markets. These implications range from enriching academic discussion to offering actionable strategies for the business to navigate economic uncertainties effectively, fostering financial stability and transparency in the GCC regions.

Conclusion

The main focus of this study is to analyse the impact of economic policy uncertainty on accounting conservatism in GCC economies. Additionally, this research aims to explore mechanisms that can contribute to improving accounting practices in uncertain times. Furthermore, a crucial objective of this study is to examine the potential moderating role of corporate governance in the relationship between economic policy uncertainty and accounting conservatism. By addressing these objectives, the study provides valuable insights into the interconnections among various factors within the specific context of the GCC region. This study uses a sample of 6,484 firm-year observations of non-financial listed companies in GCC economies from 2010 to 2022. The collected data was analysed using the System Generalized Method of Moments. The results revealed a significant and positive effect of economic policy uncertainty on accounting conservatism in the GCC economies. Moreover, the findings also revealed the significant moderating role of corporate governance, indicating that strong governance can significantly reduce the impact of economic policy uncertainty on accounting conservatism. These findings provide valuable insights into the dynamics and complexities of the factors influencing accounting conservatism in the GCC economies. In general, the study highlights the significance of economic policy uncertainty and corporate governance in shaping accounting conservatism within the GCC context. The insights from this study enrich discussions on economic factors, financial decisions, and accounting practices unique to the GCC economies, offering a foundation for future research in accounting and finance theory. Specifically, the findings emphasize accounting conservatism as a risk management tool mitigating information asymmetry and agency conflicts. During periods of economic uncertainty, firms may strategically adopt conservative accounting to enhance transparency and align managerial interests with shareholders. This study also emphasizes the importance of robust governance mechanisms in enhancing financial reporting quality. Investigating the specific mechanisms through which economic policy uncertainty and corporate governance interact can contribute to a nuanced understanding of financial decision-making in the GCC context. In summary, this study advocates for strategic financial

2024
Vol.29 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

management, governance enhancement, and continued research to navigate economic uncertainties effectively in the GCC, fostering financial stability and transparency.

References

Adams, R. B., and Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of financial economics, 94*(2), 291-309.

Ahmed, A. S., Billings, B. K., Morton, R. M., and Stanford-Harris, M. (2002). The role of accounting conservatism in mitigating bondholder-shareholder conflicts over dividend policy and in reducing debt costs. *Accounting Review, 77*(4), 867–890.

Al-ahdal, W. M., Alsamhi, M. H., Tabash, M. I., and Farhan, N. H. S. (2020). The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance, 51*(1), 101083.

Almutairi, A. R., and Quttainah, M. A. (2019). Corporate governance and accounting conservatism in Islamic banks. *Thunderbird International Business Review, 61*(5), 745-764.

Al-Saidi, M. (2020). Investigating the impact of board of directors on accounting conservatism in Kuwait. *International Business Research, 13*(9), 46.

Al-Sartawi, A. M. and Abdalmuttaleb, A. M. (2018). Corporate governance and intellectual capital: Evidence from Gulf Cooperation Council countries. *Academy of Accounting and Financial Studies Journal, 22*(1).

Al-Thaqeb, S. A., and Algharabali, B. G. (2019). Economic policy uncertainty: A literature review. *The Journal of Economic Asymmetries, 20*, e00133.

Al-thaqeb, S. A., and Ghanim, B. (2019). Economic policy uncertainty : A literature review. *The Journal of Economic Asymmetries, 20*, e00133.

Al-Thaqeb, S. A., Algharabali, B. G., and Alabdulghafour, K. T. (2022). The pandemic and economic policy uncertainty. *International Journal of Finance and Economics, 27*(3), 2784-2794.

Arellano, M., and Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *The review of economic studies, 58*(2), 277-297.

Arellano, M., and Bover, O. (1995). A*nother look at the instrumental variable estimation of error-components models. Journal of Econometrics, 68*(1), 29-51.

Bahmani, N., Bhatnagar, A., and Gauri, D. (2023). Firms ' responses to a black swan macro-crisis : Should they be socially responsible or fiscally conservative ? *Journal of Business Research, 161*(1), 113783.

Baker, S. R., Bloom, N., and Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics, 131*(4), 1593–1636.

Ball, R., and Shivakumar, L. (2005). Earnings quality in UK private firms: comparative loss recognition timeliness. *Journal of accounting and economics, 39*(1), 83-128.

Baltagi, B. H., and Baltagi, B. H. (2008). Econometric analysis of panel data (Vol. 4). Chichester: Wiley.

Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings1. *Journal of accounting and economics, 24*(1), 3-37.

Bellavitis, C., Fisch, C., and McNaughton, R. B. (2021). COVID-19 and the global venture capital landscape. *Small Business Economics,* 1-25.

POLISH JOURNAL OF MANAGEMENT STUDIES
Alkhalaileh A.H.R., Hamid M.A.B.A., Saidin S.F.B., Khan F.

2024
Vol.29 No.2

Bennett, M. S., and Iqbal, Z. (2013). How socially responsible investing can help bridge the gap between Islamic and conventional financial markets. *International Journal of Islamic and Middle Eastern Finance and Management, 6*(3), 211-225.

Blundell, R., and Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of Econometrics, 87*(1), 115-143.

Boulhaga, M., Elbardan, H., and Elmassri, M. (2023). The effect of internal control and corporate social responsibility on conditional accounting conservatism: Evidence from France*. Journal of Corporate Accounting and Finance, 34*(2), 228-241.

Bradshaw, M., Graaf, T. Van De, and Connolly, R. (2019). Preparing for the new oil order ? Saudi Arabia and Russia. *Energy Strategy Reviews, 26*(1), 100374.

Brilianti, D. P. (2013). Faktor-faktor yang mempengaruhi penerapan Konservatisme Akuntansi Perusahaan. *Accounting Analysis Journal, 2*(3).

Brockman, P., Ma, T., and Ye, J. (2015). CEO compensation risk and timely loss recognition. *Journal of Business Finance and Accounting, 42*(1–2), 204–236.

Bushman, R. M., and Piotroski, J. D. (2006). Financial reporting incentives for conservative accounting: The influence of legal and political institutions. *Journal of accounting and economics, 42*(1-2), 107-148.

Callen, J. L., and Fang, X. (2013). Institutional investor stability and crash risk: Monitoring versus short-termism? *Journal of Banking and Finance, 37*(8), 3047-3063.

Cho, S. Y., Kang, P. K., Lee, C., and Park, C. (2020). Financial reporting conservatism and voluntary CSR disclosure. *Accounting Horizons, 34*(2), 63-82.

Cui, X., Ma, T., Xie, X., and Goodell, J. W. (2023). Uncertainty of uncertainty and accounting conservatism. *Finance Research Letters, 52*(October 2022), 103525.

Da, Z., Engelberg, J., and Gao, P. (2015). The sum of all FEARS investor sentiment and asset prices. *The Review of Financial Studies, 28*(1), 1-32.

Dai, L., and Ngo, P. (2021). Political Uncertainty and Accounting Conservatism. *European Accounting Review, 30*(2), 277–307.

El-habashy, H. A. (2019). The effect of corporate governance attributes on accounting conservatism in Egypt. *Academy of Accounting and Financial Studies Journal, 23*(3), 1–18.

El-Masry, A. A., Abdelfattah, T., and Elbahar, E. (2016). Corporate governance and risk management in GCC banks. *Corporate Ownership and Control, 13*(3), 8–16.

Fama, E. F., and Jensen, M. C. (1983). Agency problems and residual claims. *The Journal of Law and Economics, 26*(2), 327–349.

Foroghi, D., Amiri, H., and Fallah, Z. N. (2013). Corporate Governance and Conservatism. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 3*(4), 61–71.

Hajawiyah, A., Wahyudin, A., and Pahala, I. (2020). The effect of good corporate governance mechanisms on accounting conservatism with leverage as a moderating variable.*Cogent Business and Management, 7*(1).

Harjoto, M., Laksmana, I., and Lee, R. (2015). Board diversity and corporate social responsibility. *Journal of Business Ethics, 132*, 641-660.

Harun, M. S., Hussainey, K., Mohd Kharuddin, K. A., and Farooque, O. A. (2020). CSR disclosure, corporate governance and firm value: a study on GCC Islamic banks. *International Journal of Accounting and Information Management, 28*(4), 607-638.

Hassan, T. A., Hollander, S., van Lent, L., and Tahoun, A. (2017). Firm-level political risk. *Working paper, Boston University*.

Hoang, D., Phan, B., Njindan, B., Sunila, S., and Affandi, Y. (2021). Economic policy uncertainty and financial stability – Is there a relation? *Economic Modelling, 94*(September 2019), 1018–1029.

Jan, S. U., Khan, H., and Khan, F. (2018). Return Volatility and Macroeconomic Factors: A Comparison of US and Pakistani Firms. *Journal of Business and Economic Review, 10*(2), 1-28.

Jurado, K., Ludvigson, S. C., and Ng, S. (2015). Measuring uncertainty. *American Economic Review, 105*(3), 1177-1216.

Khan, M., and Watts, R. L. (2009). Estimation and empirical properties of a firm-year measure of accounting conservatism. *Journal of Accounting and Economics, 48*(2-3), 132-150.

Lee, R. (2015). Board Diversity and Corporate Social Responsibility. *Journal of Business Ethics*, 641–660.

Li, H., Terjesen, S., and Umans, T. (2020). Corporate governance in entrepreneurial firms: a systematic review and research agenda. *Small Business Economics, 54*(1), 43-74.

Louis, H., Sun, A. X., and Urcan, O. (2012). Value of cash holdings and accounting conservatism. *Contemporary Accounting Research, 29*(4), 1249-1271.

Majeed, A., Wang, L., Zhang, X., and Kirikkaleli, D. (2021). Modeling the dynamic links among natural resources, economic globalization, disaggregated energy consumption, and environmental quality: Fresh evidence from GCC economies. *Resources Policy, 73*(April), 102204.

Manela, A., and Moreira, A. (2017). News implied volatility and disaster concerns. *Journal of Financial Economics, 123*(1), 137–162.

Panousi, V., and Papanikolaou, D. (2012). Investment, idiosyncratic risk, and ownership. *The Journal of Finance, 67*(3), 1113-1148.

Pergola, T. M., and Joseph, G. W. (2011). Corporate governance and board equity ownership. 11(2), 200–213.

Rehman, S.K., Khan, F., Hemdan, D., A., Khan, H., (2022). Accounting conservatism and firms' performance: evidence from Malaysian listed firms, *American Journal of Finance and Accounting*, 7(1), 1-21.

KONSERWATYZM RACHUNKOWOŚCI W OBLICZU NIEPEWNOŚCI POLITYKI GOSPODARCZEJ W KRAJACH GCC

Streszczenie: Niepewność polityki gospodarczej (NPG) znacząco wpływa na podejmowanie decyzji w sferze korporacyjnej i finansowej na całym świecie. Trudny krajobraz gospodarczy w krajach Rady Współpracy Zatoki Perskiej (GCC) zwiększa złożoność sprawozdawczości finansowej. Głównym celem niniejszego badania jest zbadanie wpływu NPG na konserwatyzm rachunkowości w firmach niefinansowych notowanych w GCC. Badanie ma również na celu ustalenie, czy wyższe poziomy NPG prowadzą do bardziej konserwatywnych praktyk księgowych wśród tych firm. Ponadto, badanie bada moderujący wpływ ładu korporacyjnego pomiędzy NPG a konserwatyzmem rachunkowości. W związku z tym niniejsze badanie koncentruje się w szczególności na wyjątkowych wyzwaniach związanych z krajobrazem gospodarczym w GCC. Wykorzystując dane z notowanych na giełdzie GCC firm niefinansowych z lat 2010-2022, badanie wykorzystuje dynamiczną estymację uogólnioną metodą momentów (GMM) do solidnej analizy związków przyczynowych w danych panelowych. Ta rygorystyczna metodologia pozwala na kontrolę zarówno krótko-, jak i długoterminowego wpływu NPG na konserwatyzm rachunkowości, przy jednoczesnym uwzględnieniu potencjalnej endogeniczności i efektów dynamicznych w danych. Ponadto badanie obejmuje miary ładu korporacyjnego w celu zbadania jego moderującego wpływu na związek między NPG a konserwatyzmem rachunkowości. Wyniki pokazują, że NPG ma znaczący pozytywny wpływ na konserwatyzm rachunkowości. Co więcej, ład korporacyjny znacząco moderuje związek między NPG a konserwatyzmem rachunkowości w regionie. Badania podkreślają potrzebę ukierunkowanego podejścia politycznego w regionie GCC w celu uwzględnienia wpływu NPG na konserwatyzm rachunkowości. Opowiada się za ramami prawnymi, które wspierają ostrożne praktyki księgowe, zwiększając stabilność finansową i przejrzystość, szczególnie w niepewnych okresach gospodarczych.

Słowa kluczowe: Niepewność polityki gospodarczej, konserwatyzm rachunkowości, ład korporacyjny