DIRECTORS WITH MULTIPLE DIRECTORSHIPS AND ACCOUNTING CONSERVATISM: EVIDENCE FROM BANKS IN SOUTH ASIA

Shawgat S. Kutubi *

* Asia Pacific College of Business and Law, Charles Darwin University, Northern Territory, Australia
Contact details: Asia Pacific College of Business and Law, Charles Darwin University, 21 Kitchener Drive, Darwin Waterfront, Darwin City, Northern Territory – 0800, Australia

How to cite this paper: Kutubi, S. S. (2020). Directors with multiple directorships and accounting conservatism: Evidence from banks in South Asia [Special issue]. Corporate Ownership & Control, 18(1), 393-407. http://doi.org/10.22495/cccv18i1siart13

Copyright © 2020 The Author
This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0). https://creativecommons.org/licenses/by/4.0/

ISSN Online: 1810-3057
ISSN Print: 1727-9232
Received: 07.08.2020
Accepted: 23.11.2020
JEL Classification: G21, G3, M41, N25
DOI: 10.22495/cccv18i1siart13

Abstract

This study investigates the effect of directors with multiple directorships on banks' financial reporting conservatism in South Asia (Bangladesh, India, Pakistan, and Sri Lanka). The paper applied Basu (1997) asymmetric timeliness measure of conditional conservatism for a sample of 93 banks stock listed banks of the four countries. We find that the relationship between directors with multiple directorships and accounting conservatism is an inverse 'U' shape. That is, at a low level of multiple directorships, banks follow conservatism in financial reporting (reputation effect), then at a high level of multiple directorships reporting conservatism declines (busyness effect). We also find an optimal level of multiple directorships at which directors influence the most on financial reporting conservatism. In further analysis, the study finds evidence that directors with multiple directorships (DWMDs) in banks with high insolvency risk follow accounting conservatism. The findings of this study remain robust when we modify the definition of multiple directorships and control for multiple directorships by bank chairs and insolvency risk under alternative settings.

Keywords: Accounting Conservatism, Multiple Directorships, Financial Reporting of Banks, Resource Dependence Theory, Agency Theory

Authors' individual contribution: The Author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

Declaration of conflicting interests: The Author declares that there is no conflict of interest.

1. INTRODUCTION

In this paper, we examine the influence of directors with multiple directorships (DWMDs) on the reporting conservatism of banks. The primary responsibility for monitoring financial accounting statements via their monitoring role over the bank managers resides with the board of directors. Thus, we established a relationship between busy directors with financial reporting conservatism. As the directors hold additional directorships their ability to monitor managers increases since DWMDs is considered an expert and experienced director. Hence, such directors can monitor the bank managers better in adopting conservative financial reporting. In contrast, the director's ability to monitor managers declines since they become overboarded with too many directorships, and therefore, such directors monitor will have less influence over the bank managers in adopting conservative reporting. This study is important because decisions made by DWMDs directly affect the timing of information reported in bank financial reports. The DWMDs may have the incentive to be
prudent in financial reporting or they may have less incentive to monitor the managers and therefore, banks might follow less conservative reporting.

We examine conditional conservatism, also known as timely economic loss recognition, which is an important determinant of earnings quality because it increases the usefulness of financial statements (for contracting parties, investors, debt holders, regulators, and potential investors). Specifically, there is a correlation between timely loss recognition, and investors’ demand for such timely loss recognition, suggesting that timely loss recognition is useful for investor decision-making (Dechow, Ge, & Schrand, 2010). Watts (2003a) urges that to reduce potential litigation by outside parties, especially shareholders, accounting conservatism is an efficient mechanism that could mitigate conflicts between management and various contracting parties. Specifically, accounting conservatism provides earlier monitoring and decision-useful information to directors, debtholders, and regulators, leading to timely recognition of losses rather than gains (Ahmed & Hemwan, 2015; Kutubi, Ahmed, & Khan, 2018). Therefore, timely recognition of losses is an important determinant of earnings quality, which is controlled by directors (forward-looking) from the perspective of bank financial reporting for users, research on accounting conservatism in bank financial reporting is warranted.

Further, as regulated industry banks have to follow both regulatory and accounting standards in preparing their financial report. Based on the limitations of the existing incurred loss method of loan loss provisioning, the International Accounting Standards Board (IASB) issued a new expected loss model (forward-looking) under IFRS 9 in order to consider all future cash flows including past, current, and future in calculating expected loan losses. Apart from accounting standards, banks must also follow bank capital regulation under the Basel Committee on Banking Supervision (BCBS, 2011, 2017). Under the capital regulation of Basel III, the Basel Committee supports the expected credit loss approach (forward-looking provisioning) in recognising loan losses so that banks can maintain the appropriate regulatory capital level. Hence, it is important to understand how bank directors’ decisions affect reporting conservatism with the previous incurred loss method (backward-looking) by accounting standard setters and expected loan loss provisioning policy (forward-looking) from the perspective of bank capital regulators, along with bank managers incentives to satisfy bank shareholders, depositors, and creditors.

Given that busy directors play an important role in decision-making processes which shapes the performance and risk-taking of banks (Elyasiani & Zhang, 2015; Kutubi, Ahmed, & Khan, 2018; Trinh, Elnahass, Salama, & Izzeldin, 2019), we expect DWMDs to tend towards conditional conservatism in bank financial reporting. In particular, we argue that because of their expertise and experience as directors, generally referred to as the reputation effect, DWMDs tend to promote conservatism in their decisions to meet the expectations of investors and regulators. At the same time, from the agency theory perspective, holding multiple directorships (busyness effect) taxes the time available to directors adversely affecting the quality of their interactions and board decisions (Fich & Shivdasani, 2006). We refer to this as the busyness effect. Hence, we expect the reputation effect to play a dominant role at a lower level of multiple directorships and the busyness effect to play a dominant role at a higher level of multiple directorships. This also implies an optimal level of multiple directorships that maximises the benefits associated with the reputation effect and minimises the negative effects associated with multiple directorships. We find a significant nonlinear relationship between DWMDs and accounting conservatism. Further, we examine the real activity channels through which DWMDs’ decisions are related to accounting conservatism in banks’ financial reporting.

This study takes a cross-country approach and focuses on 93 listed commercial banks located in four countries in South Asia (Bangladesh, India, Pakistan, and Sri Lanka) over the period 2009 to 2013. We also perform additional analyses because unresolved economic changes accompanying a director’s level of multiple directorships may also affect accounting conservatism. Using Basu (1997) measure of conditional conservatism, these results are robust when controlling for DWMDs’ board meeting attendance. In the context of concentrated ownership, bank chairs have strong incentives when making accounting decisions. Therefore, we further analyse the association between a chair with multiple directorships (CWMDs) and accounting decision-making. We find evidence that banks with chairs holding multiple directorships follow less conservatism in financial reporting. We then analyse the effect of high bank insolvency risk, which is related to conservative accounting (Biddle, Ma, & Song, 2011), on DWMD reporting decisions. We predict that DWMDs will be more sensitive to insolvency risk when making conditional conservatism decisions. This analysis supports this prediction – DWMDs in banks with high insolvency risk followed conservative accounting. Thus, this study examines not just whether but also why and how DWMDs affect accounting conservatism.

This is the first study on the influence that DWMDs have over bank financial reporting conservatism. It contributes to various aspects of knowledge. First, this is the only study to date that identifies and quantifies the influence of DWMDs on accounting conservatism in bank financial reporting. We associate accounting conservatism measured by Basu (1997) with multiple directorships, which represents directors’ reputation and busyness characteristics.

Second, from the policy perspective, this study finds evidence that bank directors with an optimal number of directorships have the incentive to follow accounting conservatism. Hence, we find that with the existence of two types of loan loss recognition principles from bank regulators and accounting standard-setters, respectively, banks with a higher
proportion of DWMDs exercise accounting discretion to achieve both objectives. This finding is consistent with Nicoletti (2018), who argues that different parties involved in bank monitoring influence the application of accounting standards, which are typically considered by those involved in audit oversight activities (bank directors) in maintaining loan loss provisions. The remainder of this paper is structured as follows. Section 2 presents the literature review while Section 3 introduces the data, research method, and measures of conservatism used in the analyses. Sections 4 and 5 present the empirical results and discussions, and Section 6 presents the robustness test and additional tests to support the findings. Section 7 summarises and concludes the findings.

2. LITERATURE REVIEW

The two major theories supporting the role of directors who serve on the boards of multiple corporate firms (also known as busy directors) are agency theory and resource dependence theory. However, the evidence is mixed when it comes to the direction of the effect of multiple directorships on the outcomes of bank board decisions. Consistent with agency theory, Cooper and Uzun (2012) note that bank risk increases when the directors hold multiple directorships because directors become ‘overboarded’ and have less time for their duties on each individual board compromising their fiduciary responsibilities (busyness effect). In contrast, supporting the resource dependence theory, Elyasiani and Zhang (2015) show that DWMDs positively influence bank performance and reduces risk because of their knowledge, information, and experience attributable to their extensive interactions with various sectors of the economy (reputation effect). Kutubi et al. (2018) used a nonlinear model to capture the interaction between the reputation and overboarding hypothesis. They find that the reputation effect dominates the overboarding effect at lower values of busyness and vice versa at higher levels of busyness. Moreover, according to them, there is an optimal number of directorships beyond which additional directorships begin to negatively affect bank performance and risk-taking. In a recent study, Trinh et al. (2019) find that the reputational effect of DWMDs in conventional banks is associated with an increase in financial performance and a decrease in risk-taking declining. In contrast, the busyness effect of DWMDs in Islamic banks is associated with a decline in financial performance and an increase in risk-taking. It appears that existing research has consensus on the effect of DWMDs on bank performance and risk-taking. However, none of these studies examine the effect of DWMDs on banks’ financial reporting choices which directly affect bank performance, value, and board monitoring quality.

2.1. Distinctiveness in bank governance and accounting conservatism

Compared to non-financial firms, the corporate governance of banks is complex and different. Specifically, the bank board of directors are responsible towards the society, government, investors, and also to the depositors for the sound governance of their banks. How conservative financial reporting might reduce such complexity in governance are discussed below.

First, banks are less transparent to their insiders than to their outsiders since bank managers have better information about bank risk and future loan losses than bank outsider’s due to the nature of banking assets (Levine, 2004; de Andres & Valdelado, 2008). Therefore, there might be a lack of information disclosure among the bank outsiders. Conservatism in financial reporting constraints managerial opportunism and mitigates agency problems and enables efficient contracting in the presence of asymmetric information by increasing the quality of accounting information (Basu, 2005; Bai & Shivakumar, 2005; Ahmed & Duellman, 2007; García Lara, García Osma, & Pérez, 2007; Ahmad & Henry, 2012).

Second, an additional governance mechanism is created for banks since both shareholders and regulators are concerned about bank governance. Shareholders govern their banks via the board of directors and regulators regulate the banks via offering deposit insurance protection even though deposit insurance is an expensive measure for protecting the banking systems. Researcher finds evidence that bank board of director’s characteristics has a significant impact on timely loan loss recognition (Ahmed & Duellman, 2007, 2013) which influence information disclosers to bank shareholders, depositors, and regulators. Therefore, the board of directors of banks has the responsibility in ensuring timely disclosure of financial information related to bank investment projects so that investors and depositors get assurance about their investment in banks.

Third, although banks are heavily leveraged according to the existing bank governance structure, bank governance mechanisms are controlled by equity holders. Bank creditors, therefore, have no representation on the bank boards. In particular, regarding control over the governance decisions, equity holders dominate the creditors, who not being represented on boards do not really have a formal role in the governance of banks (Francis, Hasan, & Wu, 2013). Consequently, bank creditors have no opportunity to monitor bank managers. By adopting more conservatism in financial reporting firms can mitigate debtholders’ concern over opportunistic wealth expropriation by stockholders and managers (Nikolaev, 2010).

Fourth, as listed firm, banks have to satisfy their investors on the one hand, and on the other hand, as required by their economic importance, they have to follow strict banking regulations. Thus, in balancing the demands of shareholders as a value-maximizing entity while serving the public interest, banks face distinctive governance challenges (Mehran & Mollineaux, 2012; Mehran, Morrison, & Shapiro, 2011). Banks perform a dual role towards the society such that as a financial...
intermediary they offer financial services and as a business organization they offer the return on investment for their stockholders (O'Hara, 1983). Thus, in order to satisfy bank investors with a positive return, bank managers have incentives to take on risky investment which might not be acceptable by the bank regulators and depositors. In this regard, adopting a conservative reporting board of directors constrains managerial opportunism and mitigates agency problems by increasing the quality of accounting information (Brockman, Ma, & Ye, 2015; Jiang, Yao, & Feng, 2013).

2.2. Accounting conservatism in financial reporting

Accounting conservatism constrains managerial discretion and opportunism, mitigates agency problems, and enables efficient contracting in the presence of asymmetric information by increasing the quality of accounting information (Basu, 2005; Ball & Shivakumar, 2005; Ahmed & Duellman, 2007; García Lara et al., 2007; Ahmed & Henry, 2012). Conservatism, also known as timely economic loss recognition, is a determinant of earnings quality because it increases the usefulness of financial statements for contracting parties, including shareholders, debtholders, regulators, and potential investors. Thus, when directors follow conservative reporting practices, opportunities for accounting discretion decline, and earnings quality increases.

Researchers have identified two types of accounting conservatism: unconditional and conditional. Unconditional or ex-ante conservatism refers to a system of reporting whereby the understatement of accounting value occurs independently of economic events, i.e., news (Watts, 2003a). Examples of this include the immediate expenditure of research and development costs and accelerated depreciation. It is also called balance sheet conservatism since assets appear on the balance sheet below their actual value. Although unconditional conservatism results in understated net assets, it does not necessarily result in understated net income. In contrast, conditional conservatism or ex-post conservatism refers to timely loss recognition, rather than gain recognition. Basu (1997) defines conditional conservatism as “the accountant’s tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses” (p. 7). Basu (1997) adds that asymmetry in recognition leads to systematic differences between ‘bad news’ and ‘good news’ in the timeliness and persistence of earnings. Examples of conditional conservatism are the asymmetric recognition standards for contingent gains and losses and the lower of cost or market convention for accounting for inventories. In efficient markets, stock return systematically and quickly reflects all publicly available news. Therefore, returns can be used as a proxy for news to measure its impact on earnings.

According to Bushman, Hendricks, and Williams (2013), accounting conservatism increases reporting transparency and regulators’ monitoring ability with respect to banks’ risk-taking behaviours. Banks that are timelier in recognising losses are more prudent in managing lending risks. Enhanced transparency of financial reporting prevents managers from excessive risk-taking. However, such transparency may reduce the discretion of managers to use inside information, which may not be appropriate to disclose in the short-term, but will have a positive long-term effect on banks’ loan performance. According to Lim, Lee, Kausar, and Walker (2014), banks that are timelier in loss recognition exhibit more prudent and less procyclical loan pricing behaviours. Examining bank reporting quality during the global financial crisis (GFC), Bushman and Williams (2015) find that more conservative banks face fewer financial constraints than did less conservative banks. As banks’ reports follow conservative principles, such banks remain financially stable during the uncertain economic environment. In addition, the quality of banks’ financial reporting is central to implementing market discipline over the banks’ incentives to take on risky investments. Banks’ financial reporting choices reflect their financial characteristics, external economic conditions, and the existing regulations and contracts within which they operate (Acharya & Ryan, 2016). Therefore, banks that follow conservative reporting are considered transparent by their stakeholders. Akins, Dou, and Ng (2017) find that timely loss recognition increases the likelihood of uncovering problem loans, which reducing lending-based corruption.

2.3. DWMDs and accounting conservatism

Research on non-financial firms mostly finds that DWMDs have a significant positive effect on corporate governance and financial performance (Ferris, Jagannathan, & Pritchard, 2003; Fich & Shivdasani, 2006); network benefit (Ahn, Jiraporn, & Kim, 2010; Engelberg, Gao, & Parrsons, 2012; Khwaja, Mian, & Qamar, 2011); firm value (Gray & Nowland, 2013); firm monitoring (Falato, Kadyrzhanova, & Le, 2014); and strategic advising (Brown et al. 2019). In general, most of the existing studies have found that decisions made by DWMDs have a significant positive influence on firms’ financial performance. In the context of non-financial firms in emerging markets, where controlling owners dominate the board, busy independent directors have a positive impact on networking with the external environment since directors bring a wealth of knowledge and experiences to the boardroom (Sarkar & Sarkar, 2009). In addition, with network centrality, independent directors can reduce the tunnelling behaviour of controlling owners (Chen, Wang, & Lin, 2014). In contrast, Lee and Lee (2014) examine the role of busy directors in firm valuation and conclude that busy directors experience and network connections benefit the firms to create value; however, when firms have controlling owners, busy independent directors fail to monitor controlling owners and the benefit of having such busy independent directors declines. Hence, it is important to look at the role of busy directors of firms with concentrated ownership in adopting a conservative accounting policy.

Previous research also finds an endogenous relationship between corporate governance and the quality of reported earnings (Bushman, Chen, Engel, & Smith, 2004). According to these arguments, corporate governance attributes have an association with earnings quality since the board has the incentive to manage earnings for opportunistic
reasons or to increase information to investors. Chiu, Teoh, and Tian (2013) even find that shared directors (interlocking directors) transmit earnings management practices from one firm to another firm. If firms appoint such directors, then such appointment confirms firms’ incentives to manage earnings from the experience of network-connected directors. For the public limited firms, the researcher finds that demand for conservatism is high for public equity firms due to their greater litigation risks and agency costs (Ball & Shivakumar, 2005; Givoly, Hayn, & Katz, 2010). For banks, as Nichols et al. (2009) also argue, due to various risks related to investment losses and capital adequacy regulations, public banks recognise more timely earnings decreases and less timely earnings increases than private banks. According to these arguments, public limited banks with effective corporate governance practices have incentives to follow conservative reporting.

The proponents of the resource-dependent theory (RDT) argue that resource-constrained firms gain access to external resources in various ways, including via merger/vertical integration, joint ventures, boards of directors, political action, and executive succession (Hillman et al., 2009). Therefore, as the bank board of directors holds additional directorships they are considered as resource-linked directors who can bring their knowledge, expertise, and experiences of their attachments with multiple boards. As a board member, directors with multiple directors monitor and advise bank managers on financial investment, borrowing, and also financial reporting decisions so that the information asymmetry between the bank managers and stakeholders declines.

In the context of South Asia, the reputation effects of DWMDs have an incentive to be conservative in financial reporting for several reasons. First, DWMDs may follow conservative reporting in an attempt to offset income smoothing by bank managers and such income smoothing increases financial information transparent to the investors. Second, conservative financial reporting reduces information asymmetry between contracting parties. From their expertise and prior directorship in both public and private firms, DWMDs acknowledge the demand for conservative reporting from both investors and bank regulators. Third, conservative reporting provides a timely disclosure of financial information. Since the emerging markets face a relatively highly volatile macroeconomic environment, timely disclosure of financial information helps bank managers and investors to take appropriate decisions with the timely information related to banks’ investment and loan quality. Forth, most of the banks in South Asia are characterised by concentrated ownership. DWMDs have the expertise and expertise of monitoring and advising firms with such a form of ownership. Therefore, they would prefer to follow conservative reporting so that the information asymmetry between the controlling owners and minority shareholders declines.

Therefore, in the context of concentrated ownership and with respect to reputational incentives, DWMDs are expected to follow conservative reporting through the timely recognition of losses than gains in financial statements to reassure their investors.

In contrast, from the agency theory perspective, bank directors become over-boarded as they hold more than an optimal number of directorships. Due to their over-boarded responsibilities, DWMDs will be less committed to monitoring or advising in board decision-making processes. Hence, board busyness will have a negative impact on accounting conservatism.

In the context of South Asia, DWMDs may have the incentive to manage earnings and for that, they might follow less conservative reporting. First, in reporting persistent earnings, the decision to make timely recognition of gains than timely loss recognition will reduce conservatism in financial reporting. Second, in concentrated ownership structures in such economies directors hold additional directorships as part of their relations with controlling owners (Ararat, Orbay, & Yutoglu, 2010). In such a governance regime, the board of directors has fewer incentives to follow earnings conservatism, as concentrated ownership increases, firms engage in less external contracting because of a relatively small proportion of capital being provided by minority shareholders (Bona-Sanchez, Perez-Aleman, & Santana-Martin, 2011; LaFond, 2005; Watts, 2003a, 2003b). Again, the directors are in a position to perform these tasks at a higher level of multiple directorships than at a lower level, where the busyness effect dominates the reputation effect.

The resource dependence role of busy directors is theoretically distinct from the agency role of such directors. However, directors with multiple directorships may perform both roles simultaneously (Johnson, Daily, & Ellstrand, 1996). The theoretical view used in this research thus incorporates the perspectives of both resource dependence theory and agency theory. The idea of integrating these two theories was promoted by Zona, Gomez-Mejia, and Withers (2018), who argue that integrating agency and resource dependence theories provides a higher-order explanation of firm performance and helps advance both theories. For instance, while resource dependence theory focuses on appointing busy directors as a way of connecting with external resources, it excludes the problem of having over-boarded directors on the board. In contrast, without recognising directors as a way to have access to external resources, agency theory argues that having busy directors will impaired board monitoring leads to heightened CEO power and entrenchment (Fich & Shivdasani, 2006). In this sense, a theory based on the integrative approach to the research of busy directors will provide a better framework for analysing how busy directors could influence bank performance, risk-taking, and accounting conservatism.

From the above discussion, in the context of South Asia, we expect a nonlinear relationship between the DWMDs and financial reporting conservatism. Thus, from the above argument, we formulate the hypotheses as follows:

Hypothesis 1 (H1): Banks in South Asia practice earnings conservatism in financial reporting.

Hypothesis 2 (H2): There is a nonlinear relationship between DWMDs and conservatism in financial reporting.

3 In addition, in a weak governance regime, inside directors along with their management-friendly IDs may take decisions for the benefit of controlling owners, which might create agency costs for bank depositors and regulators.
3. RESEARCH METHODOLOGY

3.1. Dependent variable

We measure conditional conservatism which is based on Basu (1997) asymmetric timeliness measure. Basu (1997), has developed a measure of conservatism through the differential verifiability required for the recognition of accounting gains versus losses. Hence, based on reverse regression model between earnings and returns, Basu (1997) argues that under conservatism, accounting earnings incorporate publicly available ‘bad news’ (as losses) more quickly than it does with ‘good news’ (as gains) leading to asymmetric timeliness in news recognition.

Bank financial information and data on stock prices are obtained from the BankScope and DataStream databases, respectively. BankScope offers bank-specific financial information along with annual reports for each bank, while DataStream provides monthly stock price information and other market data.

3.2. Experimental variables

In line with similar research, the average number of directorships held by each board member is used as the standard measure of DWMDs (Ferris et al., 2003; Jiraporn, Davidson, DaDalt, & Ning, 2009; Sarkar & Sarkar, 2009). The second measure is the percentage of directors holding three or more directorships (Andres, Bongard, & Lehmann, 2013; Elyasiani & Zhang, 2015). To collect information related to governance variables financial statements are downloaded from individual bank websites. Detailed information on bank directors is manually collected from annual reports. We have taken several steps to classify DWMDs. First, we gather the names of bank directors, chief executive officers, and controlling owners from banks’ annual financial statements. Second, these individuals’ biographies are collected from the bank annual reports, to determine whether they held directorships in other firms. Third, to find missing information relating to directors, a further search is conducted on the bank and other business websites (e.g., Bloomberg, Yahoo, and Google). Finally, the resulting sample is merged with the BankScope and DataStream databases to obtain bank accounting information. Because of the missing governance and financial variables, the final sample with a minimum of three consecutive years’ data over the period of 2009-2013 comprises 454 bank-year observations for 93 banks. The sample represents 92% of the total listed commercial banks in the four countries. Table 1 provides information on population, sample, and director distribution for each country in the sample.

Table 1. Country-wise listed commercial banks and multiple directorships in South Asia

|                | Total banks | Bangladesh | India | Pakistan | Sri Lanka | Total |
|----------------|-------------|------------|-------|----------|-----------|-------|
| Available sample| 29          | 30         | 21    | 9        | 101       |
| Number of directors| 2083       | 2037       | 700   | 394      | 5214      |
| More than one directorships | 80.6% | 54.64% | 85.43% | 90.36% | 71.86% |

Following previous research, we include both board-specific and bank-specific control variables. The board-related variables are board independence, board size, board meeting attendance, controlling ownership, and audit quality. We did not include the female board members and the Chairman-CEO duality as control variables for this research since both the variables are less represented on the board of our sample banks. Specifically, regarding gender diversity in a board, banks of South Asia are still dominated by male board members. In addition, Ghosh (2017) examined the impact of women directors on bank performance and find evidence that the value addition to banks from the induction of women on their boards of directors is not compelling. Regarding Chairman-CEO duality, only the banks of India are allowed to have Chairman-CEO duality while the banks of other three countries are not allowed by their respective regulatory authorities to have Chairman-CEO duality in their bank board (Hoque, Islam, & Ahmed, 2013). Bank specific control variables include bank size (log of assets), price-to-book value ratio, and leverage. To capture country-specific variability, we also control for GDP growth rate. Next, all control variables are interacted with the Basu’s (1997) coefficients (D, RET, and D*RET) (LaFond & Roychowdhury, 2008; Ahmed & Duellman, 2013). In all models (Models 1, 2 and 3 in Table 6) country dummies are included to encapsulate any unobservable country-specific effects. India is omitted from the model because it has the largest sample among the four countries. Next, year dummies are included to capture time-specific effects and to deal with the problem of heteroscedasticity in the error term. A detailed definition of variables is outlined in Appendix.

3.3. Regression model

Equation (1) is used to calculate the relationship between DWMDs and earnings conservatism. Following Basu’s (1997) model, a modified model has been developed.
\[ EAR = \alpha + \beta_1(D) + \beta_2(RET) + \beta_3(D \times RET) + \beta_4(DWMD) + \beta_5(RET \times DWMD) + \beta_6(D \times DWMD) + \beta_7(D \times RET \times DWMD) + \beta_8((DWMD)^2) + \beta_9(RET \times (DWMD)^2) + \beta_{10}(D \times (DWMD)^2) + \beta_{11}(D \times RET \times (DWMD)^2) + \beta_{12}(RET \times (DWMD)^2) + \beta_{13}(D \times Control \ variables) + \beta_{14}(D \times RET \times Control \ variables) + \beta_{15}\sum_{i=1}^{4} Control \ dummy + \beta_{16}\sum_{t=1}^{2009-2013} Year \ dummy + \epsilon \]  

\( EAR \) is a dependent variable which is the asymmetric timeliness coefficient that measures accounting conservatism. \( RET, D, \) and \( D \times RET \) are Basu’s (1997) coefficients which measure asymmetric timeliness in loss recognition. Here subscripts \( i \) denotes individual banks \((i = 1, 2, 3 \ldots 93)\), \( t \) time period \((2009, 2010, \ldots, 2013)\), \( \beta_1 \) to \( \beta_{16} \) are parameters to be estimated and \( \epsilon \) is the idiosyncratic error term. According to Basu (1997), a larger Basu’s coefficient \( \beta_1 \) indicates a higher degree of conditional conservatism. Coefficient \( \beta_2 \) is expected to be positive and measure the incremental response of earnings to bad news over the response to the good news.

### 3.4. Estimation method

The primary estimation method for \( t \) is the generalised least square random effects technique with robust standard-errors to correct for heteroscedasticity. A well-specified random effects model can be used to achieve anything that a fixed-effects model achieves (Bell & Jones, 2015).

### 4. RESEARCH RESULTS

Table 2 presents the descriptive statistics and Table 3 presents the Pearson pair-wise correlations between variables. The board structure data for the total sample shows that the average number of directorship held by DWMDs is 4.06 (four directorships). The prevalence of independent directors holding three or more directorships in the sample is 36%. The average board size is 11.48 directors. Across the total board size, 33% of directors are independent directors (IDs)\(^5\) and 67% are inside directors. These percentages are similar to those for non-financial firms in other emerging markets in which, concentrated ownership is high (Choi, Park, and Yoo (2007)). The average board meeting attendance is 83%. The average of controlling ownership is approximately 51%. Panel B shows descriptive statistics for \( EAR, RET, D \). The mean \( EAR \) is 12% and the mean \( RET \) is 13.23%. The variable, \( D \) (mean value of \( D \) equals 0.5220) indicates that approximately 52% of the sample exhibits a negative \( RET \) over the 5-years period. Finally, in Panel C descriptive statistics related to control variables are included. The mean price to book ratio of the stock price is 2.44. The average leverage is about 82%. The average GDP growth rate is 5% during the study period. Table 4 summarizes comparative information on board size, board independence, and regulatory restriction on maximum board memberships in South Asia. And finally, Table 5 summarizes comparative information on ownership holdings by controlling owners in the South Asia.

---

\(^5\) The board of director’s information were collected from the respective banks annual reports where the number of independent directors on the board and information about their directorships in other companies were disclosed as part of corporate governance information disclosure regulations in respective countries. The definition of independent directors is almost the same in sample countries. For example, according to the clause 1.2 (ii) of corporate governance guidelines 2012 issued by the Securities and Exchange Commissions of Bangladesh, an independent director is an individual who either does not hold any share in the company or holds less than one percent share of the total paid-up shares of the company. Similarly, according the clause 49 of listing agreement of BSE limited (Indian stock exchange) in India, an independent director is a non-executive director who does not have any pecuniary relationship with the company, its promoters, senior management or affiliate companies, is not related to promoters or the senior management, and/or has not been an executive with the company in the three preceding financial years. Please see Table 4 for more information about regulatory requirement of the proportion of independent directors in sample countries.
Table 2. Descriptive statistics

| Panel A: Governance variables | Obs. | Mean  | SD   | Min  | Median | Max  |
|-------------------------------|------|-------|------|------|--------|------|
| Average multiple directorships| 454  | 0.402 | 0.253| 0.311| 0.348  | 1.369|
| ID with multiple directorships | 454  | 0.275 | 0.088| 0.000| 0.217  | 0.590|
| Insiders with multiple directorships | 454 | 0.427 | 0.277| 0.000| 0.344  | 1.385|
| Median multiple directorships | 454  | 0.000 | 0.184| 0.000| 0.250  | 1.100|
| Directors with 3 or more directorships (%) | 454 | 0.036 | 0.153| 0.000| 0.033  | 1.000|
| BS  | 454  | 11.48 | 3.444| 6.000| 11.000 | 22.000|
| IDs (%) | 454 | 0.033 | 0.203| 0.000| 0.037  | 0.092|
| Insiders (%) | 454 | 0.067 | 0.203| 0.000| 0.063  | 0.100|
| Meeting Attendance (%) | 454  | 0.885 | 0.090| 0.500| 0.886  | 1.000|
| No of meetings | 454  | 13.000| 0.621| 0.040| 13.000 | 30.000|
| Ownership | 454  | 0.351 | 0.213| 0.003| 0.351  | 0.599|

Panel B: Accounting conservatism

| Variables                  | Obs. | Mean  | SD   | Min  | Median | Max  |
|---------------------------|------|-------|------|------|--------|------|
| EAR (Earnings Yield)      | 454  | 0.130 | 0.090| 0.000| 0.111  | 1.000|
| Return (RET)              | 454  | -0.113| 0.194| -0.400| -0.003 | 0.344|
| Indicator for negative return (D) | 454 | 0.052 | 0.500| 0.000| 0.019  | 1.000|
| Ownership                 | 454  | 0.370 | 0.269| 0.050| 0.193  | 1.000|
| P/B ratio                 | 454  | 0.072 | 0.118| 0.015| -0.193 | -0.019|
| Leverage                  | 454  | -0.009| 0.050| -0.031| -0.019 | -0.019|
| Ln. Assets                | 454  | -0.373| 0.269| -0.050| -0.035 | -0.041|

Panel C: Control variables

| Variables                  | Obs. | Mean  | SD   | Min  | Median | Max  |
|---------------------------|------|-------|------|------|--------|------|
| Price to book ratio       | 454  | 0.244 | 0.691| -0.434| 0.018  | 0.190|
| Leverage                  | 454  | 0.082 | 0.700| -0.579| 0.090  | 0.977|
| Bank size (Assets in million) | 454 | 13.40 | 0.155| 11.000| 13.000 | 19.000|

Table 3. Pearson (bottom) and Spearman (top)

| Variables | Busy | EAR | D | RET | Ownership | P/B ratio | Leverage | Ln. Assets |
|-----------|------|-----|---|-----|-----------|-----------|----------|------------|
| BUSY      | 1.00 |     |   |     |           |           |          |            |
| EAR       | -0.177* | 1.00 | | | | | | |
| D         | -0.081* | -0.241* | 1.00 | | | | | |
| RET       | 0.069 | 0.050 | -0.241* | 1.00 | | | | |
| Ds        | -0.284* | 0.065 | -0.073 | 0.012 | 1.00 | | | |
| Ownership | -0.252* | 0.214* | 0.011 | -0.077 | -0.047 | 1.00 | | |
| P/B ratio | 0.072 | -0.118* | -0.051 | 0.013 | -0.193* | -0.184* | 1.00 | |
| Leverage  | 0.009 | 0.050 | -0.031 | -0.019 | -0.146* | 0.109* | 0.003 | 1.00 |
| Ln Assets | -0.373* | 0.269* | -0.050 | -0.035 | 0.368* | 0.168* | -0.202* | -0.041* |

Note: This table presents the Pearson pair-wise sample correlations between variables. *, **, *** indicate statistically significant at 1%, 5%, and 10%, respectively. With regard to our key variables of interest, the correlations between directors’ busyness and accounting conservatism variables are positive. However, the correlation between the ownership and directors’ busyness is negative and significant.

Table 4. Comparative information on bank board composition in countries of South Asia

| Board composition | Bangladesh | India | Pakistan | Sri Lanka |
|-------------------|------------|-------|----------|-----------|
| Board size        | 5 to 20 members | 5 to 15 members | 5 to 10 members | 5 to 13 members |
| Board independence | 1/10 of the size of the board | 1/3 of the size of the board | No proportion indicated | 1/4 of the size of the board |
| Regulatory restrictions on maximum board membership | 6 boards | 7 boards | 7 boards | 20 boards |

Table 5. Ownership holdings by controlling owners

| South Asian countries | Family/business groups | Per (%) | Institutions | Per (%) | Government* | Per (%) | Total | Per (%) |
|-----------------------|------------------------|---------|--------------|---------|-------------|---------|-------|---------|
| Bangladesh            | 26                     | 90%     | 2            | 7%      | 1           | 3%      | 29    | 31%     |
| India                 | 5                      | 13%     | 9            | 24%     | 24          | 63%     | 38    | 41%     |
| Pakistan              | 6                      | 33%     | 9            | 50%     | 3           | 17%     | 18    | 19%     |
| Sri Lanka             | 0                      | 0%      | 8            | 100%    | 0           | 0%      | 8     | 9%      |
| Total                 | 37                     | 40%     | 28           | 50%     | 30%         | 30%     | 93    | 100%    |

Note: * Government-owned banks include banks owned by local governments as well as by the central government.

Source: Compiled on the basis of annual reports of banks in four sample countries.

5. DISCUSSION OF THE RESULTS

In Table 6, we report the regression results on the association between DWMDs and earnings conservatism. The main parameters of interest in Model 1, $\beta_2$ and $\beta_3$, are statistically significant at the 1% level. The coefficient for the bad news term ($RET$) in Model 1 is much smaller (-0.400) than for the bad news term ($D^RET$): $\beta_2 + \beta_3 = -0.400 + 0.862 = 0.462$. Consistent with the expectation that bad news is reflected in earnings in a timely manner results from Model 1 indicates that the sensitivity of earnings to bad news is $(\beta_2 + \beta_3) = (-0.400 + 0.862)/(0.400) = -1.155$ times greater than that of good news. The intercept (constant) reflecting the incorporation of the bad news of prior periods into the current earnings period is positive and significant (Beekes, Pope, & Young, 2004). Thus, Model 1 confirms $H_1$ that banks in South Asia follow conditional conservatism.

As shown in Table 6, Model 2 focuses on the coefficient of the interaction of DWMDs with Basu’s (1997) ‘good news’ and ‘bad news’ variables. The coefficient on $\beta_3$, the three-way interaction term $D^*WMD^*RET$, is positive but not significant.

To check the nonlinear relationship between DWMDs...
and earnings conservatism, DWMD² is introduced into Model 3. The coefficient on β₁ is positive and significant. In Model 3, β₁₁, the three-way interaction term DWMD²*D*RET, is negative and significant. This implies that having DWMDs on board is having an inverted U-shaped relationship with earnings conservatism, as stated in H2. At a low level of multiple directorships, the reputation effect dominates the busyness effect of DWMDs; thus, such directors have a positive influence on earnings conservatism at a low level of multiple directorships.

At a high level of multiple directorships, the busyness effect dominates the reputation effect, implying that banks follow less conservatism in reported earnings. This finding is consistent with previous research of Kutubi et al. (2018) where they find that at the high level of multiple directorships, bank risk-taking increases. The overall effect may still be positive, but beyond an optimal level of multiple directorships, the busyness effect starts reducing the reputation effect of expert directors.

Table 6. DWMDs and earnings conservatism

| Panel A: Coefficient estimates | EAR (1) | EAR (2) | EAR (3) |
|--------------------------------|---------|---------|---------|
| D                              | 0.062   | -0.041  | -0.062  |
|                                | (0.639) | (0.384) | (0.536) |
| RET                            | -0.409* | -0.396  | -0.319  |
|                                | (-1.713)| (-1.066)| (-0.866)|
| D*RET                          | 0.862***| 0.699*  | 0.565   |
|                                | (3.526) | (1.917) | (1.550) |
| DWMDs                          | ------  | -0.001  | 0.000   |
|                                |         | (-0.310)| (0.019) |
| DWMDs*D                       | ------  | 0.001   | 0.008   |
|                                |         | (0.274) | (0.378) |
| DWMDs*RET                     | ------  | -0.007  | -0.059  |
|                                |         | (-0.599)| (-1.540)|
| DWMDs*D*RET                   | ------  | 0.008   | 0.090** |
|                                |         | (0.625) | (2.039) |
| DWMDs²                        | ------  | ------   | -0.000  |
|                                |         |         | (-0.052)|
| DWMDs³*D                      | ------  | ------   | -0.001  |
|                                |         |         | (-0.365)|
| DWMDs³*RET                    | ------  | ------   | 0.005   |
|                                |         |         | (1.442) |
| DWMDs³*D*RET                  | ------  | ------   | -0.008**|
|                                |         |         | (-2.062)|
| Control variables             | included| included| included|
| Year dummies                  | included| included| included|
| Country dummies               | included| included| included|
| Constants                     | -0.040  | 0.112   | 0.094   |
|                                | (-0.310)| (0.809) | (0.667) |
| Panel B: Model fit            |         |         |         |
| Within R²                     | 0.318   | 0.135   | 0.144   |
| Between R²                    | 0.268   | 0.440   | 0.446   |
| Overall R²                    | 0.303   | 0.377   | 0.585   |
| No of bank year observation   | 54      | 454     | 454     |
| Number of countries           | 4       | 4       | 4       |

Note: The dependent variable EAR is earnings per share scaled by the lagged price per share (inverse of P/E ratio or earnings yield). Independent variable RET is the compound return over the 12-month period ending in 3 months after the fiscal year-end, and D is a dummy equal to one if the return is negative and zero if otherwise. Under conservatism, Basu’s (1997) coefficient, that is, β₁ is positive and measures the incremental response of earnings to bad news over the response to the good news. The main independent variable of interest is the three-way interaction term DWMDs*D*RET. If DWMDs’ impact on earnings conservatism is positive, then a positive significant coefficient of β₁ is expected. For a non-linear relationship, it is expected that β₁ will be positive and β₁₁ will be negative. As a control for governance and bank-specific differences board independence, controlling ownership, audit quality, bank size, price to book ratio (growth opportunity), and leverage are included. Superscripts ***, **, * represent the significance level at 1%, 5% and 10% respectively. Robust z-statistics are in parentheses.

As directors hold additional directorships, they become overboarded and thus have less time to focus on earnings conservatism in financial reporting. From β₂/2 + β₁₁ = 6, the optimal number of directorships that maximises the benefits of having DWMDs on a board is six. Figure 1 shows the quadratic relationship between DWMDs and earnings conservatism. In Model 1, 2, and 3, we introduce various bank-specific and governance-related control variables. Basu’s (1997) asymmetric timeliness variables (D, RET, and D*RET) interact with DWMD variables and firm-specific controls. For brevity, Table 6 presents only the coefficients for the interactions between DWMDs and asymmetric timeliness variables (D, RET, and D*RET).

In sum, the result in Table 6 shows that there is a nonlinear relationship between DWMDs and financial reporting conservatism using Basu’s (1997) model. These results support the hypothesis that there is an inverted U-shaped relationship between DWMDs and conservatism in financial reporting, implying that the reputation effect dominates the busyness effect at lower levels of multiple directorships, and vice versa at a higher level of multiple directorships.
Figure 1. DWMDs and earnings conservatism relationship

6. ROBUSTNESS CHECK

To check the robustness of the results in this study, we conduct several alternative analyses related to DWMDs and accounting conservatism. First, we run the model using an alternative definition of multiple directorships in which, we define DWMDs as a percentage of directors holding three or more directorships. With this alternative measure of multiple directorships, we find an inverted U-shaped relationship between DWMDs and accounting conservatism (not reported), which is consistent with the results reported in Table 6. Second, we categorise DWMDs as inside and outside directors (independent directors) and then examine their association with the earnings conservatism. We find a consistent inverted U-shaped relationship between both inside and outside DWMDs and earnings conservatism. This finding confirms the result in Table 6 that DWMDs have a significant nonlinear association with earning conservatism.

6.1. CWMDs and accounting conservatism

In further analysis, we examine whether the appointment of a board chair with multiple directorships (CWMDs) has any effect on accounting conservatism. Prior research finds that in a controlling shareholding environment, the chair of the board normally has a strong decision-making role over the selection of independent directors, and other board members and also sets the agenda for board meetings and other discussions (Yeh & Woidtke, 2005). Hence, we conjecture that banks that are characterised by board CWMDs will be less conservative because the chair of the board can influence the decision-making of board members.

Table 7. CWMDs and accounting conservatism

| Panel A: Coefficient estimates | EAR |
|-------------------------------|-----|
| D                             | -0.153 (-1.448) |
| RET                           | -0.789*** (-3.119) |
| D*RET                         | 1.127*** (4.285) |
| CWMDs                         | -0.005*** (-3.166) |
| CWMDs*D                       | 0.005*** (2.852) |
| CWMDs*RET                     | 0.009*** (3.002) |
| CWMDs*D*RET                   | -0.009*** (-2.923) |
| Control variables              | included |
| Country dummies               | included |
| Year dummies                  | included |
| Constants                      | 0.229 (1.827) |

| Panel B: Model fit | EAR |
|-------------------|-----|
| Within R²         | 0.347 |
| Between R²        | 0.441 |
| Overall R²        | 0.384 |
| No of observations| 452 |
| No of banks       | 93  |
| No of countries   | 4   |

Note: This table presents results for regression analysis relating to the impact of CWMDs on bank accounting conservatism. The dependent variable is Earnings, whereas independent variables are the interaction term between CWMDs with Basu's (1997) coefficients. The main independent variable of interest is the interaction variable CWMDs*D*RET. As control variables, we include all variables from the earnings conservatism baseline models. Subscripts ***,**,* represents significance level at 1%, 5% and 10% respectively. Robust Z-statistics are in parentheses.

Table 7 shows that the interaction term CWMDs*D*RET is negative and significant. This is consistent with the idea that board CWMDs are less conservative in financial reporting. It also confirms that once a bank appoints a CWMDs to its board they are less likely to meet the market demand for conservative reporting. According to the reputation hypothesis holding additional directorships by the chairman of the board can be considered as the board is led by a director with various knowledge, information, and experience attributable to their extensive interactions with various sectors of the economy and therefore, such directors will...
positively influence bank performance and reduces risk (Elyasiani & Zhang, 2015; Trinh et al., 2019). Thus, the demand for conservative reporting may declines.

6.2. DWMDs and accounting conservatism: The moderating effect of insolvency risk

Biddle et al. (2011) find that conservatism in financial reporting through the timely recognition of losses than gains helps reduce bankruptcy risk because it, defers cash expenditure for performance-based compensations, taxation, dividends, and other expenses. In addition, prior research also finds that accounting conservatism reduces cash outflow by mitigating capital overinvestment, reducing risk-shifting, promoting precautionary savings, and lowering agency costs (García Lara, García Osma, & Penalva, 2009; Louis, Sun, & Urscan, 2012; Callen, Chen, Dou, & Xin, 2010). LaFond and Watts (2008) contend that accounting conservatism reduces insolvency risk indirectly by reducing information asymmetry and uncertainty of the firm. Finally, Christy et al. (2013) find evidence that DWMDs in large well-established firms can generate positive net benefits in the form of lower equity risk. According to Christy et al. (2013), large companies have incentives to access the political system and their networks, to gain influence and obtain information to reduce unfavourable regulations, prices, rates, and uncertainties.

DWMDs with expertise and experience in their roles as directors are expected to be risk-averse because they know the benefits of conservative reporting in reducing insolvency risk. Following the reputation effect of DWMDs, we hypothesise that DWMDs, because of their experience and expertise are concerned about insolvency risk and are conservative in financial reporting decisions. In contrast, the busyness effect suggests, that if DWMDs are over-boarded and less concerned about insolvency risk, we should observe less conservative reporting. In the context of banks in South Asia, timely recognition of losses than gain directly affects bank earnings; therefore, DWMDs of insolvent banks may be conservative in financial reporting. Thus, we expect DWMDs to report more conservative accounting when faced with higher default risk.

To examine the moderating effect of insolvency risk, we first calculate insolvency risk based on the Z-score as the [(Return of assets + equity to assets) divided by the standard deviation of ROA] (Lepetit, Nys, Rous, & Tarazi, 2008). We then construct a dummy variable Insolvency risk, which equals 1 if a bank’s Z-score is below the mean Z-score value (lower Z-score means higher insolvency risk), and 0 otherwise (each countries bank, for each year). The variable of interest is the interaction between DWMDs*Insolvency risk*D*RET and we expect a positive sign of DWMDs*Insolvency risk*D*RET if DWMDs follow earnings conservatism.

Table 8. DWMDs and accounting conservatism: The moderating effect of insolvency risk

| Panel A: Coefficient estimates | EAR |
|-------------------------------|-----|
| D                             | -0.001*** |
| RET                           | -0.494** |
| D*RET                         | 0.061** |
| DWMDs                         | -0.011* |
| DWMDs*D             | 0.003 |
| DWMDs*RET        | 0.012 |
| DWMDs*D*RET  | -0.031** |
| Insolvency risk        | -0.064*** |
| Insolvency risk*D           | 0.004 |
| Insolvency risk*RET         | 0.193* |
| Insolvency risk*D*RET       | -0.335*** |
| DWMDs*Insolvency risk       | 0.019** |
| DWMDs*Insolvency risk*D     | -0.008 |
| DWMDs*Insolvency risk*RET   | -0.032 |
| DWMDs*Insolvency risk*D*RET | 0.055** |
| Control variables          | included |
| Country dummies           | included |
| Year dummies               | included |
| Constants                  | 0.1544 |
| Panel B: Model fit         | EAR |
| Within R²                  | 0.3219 |
| Between R²                 | 0.5064 |
| Overall R²                 | 0.4134 |
| No of observations         | 454 |
| No of banks                | 93 |
| No of countries            | 15 |

Note: This table presents regression results on how insolvency risks affect the relation between DWMDs’ decisions and accounting conservatism. The dependent variable is Earnings and the independent variables in model 1 are the three-way interaction term of DWMDs*Insolvency risk* Basu’s (1997) coefficients. As control variables, we include all variables from the earnings model. Subscripts ***, **, * represents significance level at 1%, 5% and 10% respectively. Robust Z-statistics are in parentheses.

Table 8 reports the results for when insolvency Risk*D*RET and DWMDs*Insolvency risk*D*RET are added to the baseline regressions. We find that the coefficients for DWMDs*Insolvency risk*D*RET is positive and significant. This result indicates that DWMDs are more conservative when faced with high insolvency risk and also confirms that with their reputational capital, DWMDs of high insolvent banks value market investors’ demand for earnings conservatism.

7. CONCLUSION

This study examined the influence of DWMDs on the accounting conservatism of banks in South Asia. By integrating the concept of resource dependency theory and agency theory, we employed a quadratic model and found that DWMDs have a non-linear impact on the accounting conservatism of banks. At a high level of multiple directorships, DWMDs do not follow accounting conservatism in financial
reporting (busyness effect). In contrast, at a low level of multiple directorships, DWMDs are conservatism in financial reporting (reputation effect). We found an optimal level of multiple directorships at which directors have a significant positive influence on earnings conservatism. This is a unique finding in bank financial reporting literature, confirming that banks with DWMDs follow earnings conservatism. This study also confirms that banks use accounting discretion that is allowed by accounting standards to prepare financial reports and disclose information according to the demands of bank regulators and accounting standard-setters. Specifically, this study has implications for the newly implemented expected credit loss model under IFRS 9 and suggests that directors with multiple directorships in emerging markets might influence the application of new accounting standards.

This study contributes both to the academic and policy levels by considering DWMD’s impact on accounting conservatism. However, due to the specific motivations and objectives, some areas are kept unexplored by this study. For example, the findings of this study may not be generalized to non-financial industries because incentives of busy directors may be different in such industries according to what contracting parties and existing industry regulations demand. Furthermore, the level of and examples of director’s busyness that is observed in the sample banks may be constrained by several factors such as availability of expert directors in an economy, market competition, complexity of the business of each bank, and so on. Although in this study governance-related control variables are considered, there are still several industry-specific factors that may affect the level of the busyness of directors. Therefore, considering other control variables, the level of busyness that is identified may not be optimal for other economic environments.

REFERENCE

1. Acharya, V. V., & Ryan, S. C. (2016). Banks’ financial reporting and financial system stability. Journal of Accounting Research, 54(2), 277-340. https://doi.org/10.1111/1475-679X.12114
2. Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. Journal of Accounting and Economics, 43(2-3), 411-437. https://doi.org/10.1016/j.jacceco.2007.01.005
3. Ahmed, A. S., & Duddell, S. (2013). Managerial overconfidence and accounting conservatism. Journal of Accounting Research, 51(1), 1-30. https://doi.org/10.1111/j.1467-679X.2012.00467.x
4. Ahmed, K., & Henry, D. (2012). Accounting conservatism and voluntary corporate governance mechanisms by Australian firms. Accounting & Finance, 52(3), 631-662. https://doi.org/10.1111/j.1467-229X.2011.00410.x
5. Ahn, S., Jiraporn, P., & Kim, Y. S. (2010). Multiple directorships and acquirer returns. Journal of Banking & Finance, 34(9), 2011-2026. https://doi.org/10.1016/j.jbankfin.2010.01.009
6. Akins, B., Dou, Y., & Ng, J. (2017). Corruption in bank lending: The role of timely loan loss provisioning. Journal of Accounting Research, 63(2-3), 454-478. https://doi.org/10.1111/jacceco.2016.08.003
7. Ali, M. J., & Ahmed, K. (2007). The legal and institutional framework for corporate financial reporting practices in South Asia. Research in Accounting Regulation, 19, 175-205. https://doi.org/10.1016/S1052-0457(06)19009-8
8. Andres, C., Bongard, I., & Lehmann, M. (2013). Is busy really busy? Board governance revisited. Journal of Business Finance & Accounting, 40(9-10), 1221-1246. https://doi.org/10.1111/jbfa.12051
9. Ararat, M., Orbay, H., & Yurtoglu, B. B. (2010). The effects of board independence in controlled firms: Evidence from Turkey. https://doi.org/10.2139/ssrn.1663403
10. Ball, R., Kothari, S. P., & Robin, A. (2000). The effect of international institutional factors on properties of accounting earnings. Journal of Accounting and Economics, 29(1), 1-51. https://doi.org/10.1016/S0165-4101(00)00012-4
11. Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. Journal of Accounting and Economics, 40(1), 83-128. https://doi.org/10.1016/j.jacceco.2004.04.001
12. Barth, M. E., & Landsman, W. R. (2010). How did financial reporting contribute to the financial crisis? European Accounting Review, 19(3), 399-423. https://doi.org/10.1080/09638180.2010.498619
13. Basel Committee on Banking Supervision (BCBS). (2011). Basel III: A global regulatory framework for more resilient banks and banking systems. Retrieved from https://www.bis.org/publ/bcbs189.pdf
14. Basel Committee on Banking Supervision (BCBS). (2017). Regulatory treatment of accounting provisions – Interim approach and transitional arrangements. Retrieved from https://www.bis.org/bcbs/publ/d386.pdf
15. Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. Journal of Accounting and Economics, 24(1), 3-37. https://doi.org/10.1016/S0165-4101(97)00014-1
16. Basu, S. (2005). Discussion of “Conditional and unconditional conservatism: Concepts and modeling”. Review of Accounting Studies, 10(2-3), 311-321. https://doi.org/10.1007/s11142-005-1533-5
17. Beekes, W., Pope, P., & Young, S. (2004). The link between earnings timeliness, earnings conservatism and board composition: Evidence from the UK. Corporate Governance: An International Review, 12(1), 47-59. https://doi.org/10.1111/j.1467-6863.2004.00342.x
18. Bell, A., & Jones, K. (2015). Explaining fixed effects: Random effects modeling of time-series cross-sectional and panel data. Political Science Research and Methods, 3(1), 133-153. https://doi.org/10.1017/psrm.2014.7
19. Biddle, G., Ma, M., & Song, F. (2011). Accounting conservatism and bankruptcy risk. https://doi.org/10.2139/ssrn.1621272
20. Bona-Sanchez, C., Perez-Aleman, J., & Santana-Martin, D. (2011). Ultimate ownership and earnings conservatism. European Accounting Review, 20(1), 57-80. https://doi.org/10.1080/09638180903384676
21. Brockman, P., Ma, T., & Ye, J. (2015). CEO compensation risk and timely loss recognition. Journal of Business Finance & Accounting, 42(1-2), 204-236. https://doi.org/10.1111/jba.12100
22. Brown, A. B., Dai, J., & Zur, E. (2019). Too busy or well-connected? Evidence from a shock to multiple directorships. The Accounting Review, 94(4), 83-104. https://doi.org/10.2308/acr-52165
23. Bushman, R. M., Chen, Q., Engel, E., & Smith, A. (2004). Financial accounting information, organizational complexity and corporate governance systems. Journal of Accounting and Economics, 37(2), 167-201. https://doi.org/10.1016/j.jacceco.2003.09.005
24. Bushman, R. M. Hendricks, B., & Williams, C. (2013). Perceived bank competition: Operational decision-making and bank stability (Working paper). Retrieved from https://pdfs.semanticscholar.org/4ef3/6541b709d98d7e50a626f8bc1486bba75a.pdf?ga_2=2.21161589.17041534.1605725419-21119974.30.1606411922
25. Bushman, R. M., & Piotroski, J. D. (2006). Financial reporting incentives for conservative accounting: The influence of legal and institutional institutions. Journal of Accounting and Economics, 42(1-2), 107-148. https://doi.org/10.1016/j.jacceco.2005.10.005
26. Bushman, R. M., & Williams, C. D. (2015). Delayed expected loss recognition and the risk profile of banks. Journal of Accounting Research, 53(3), 511-553. https://doi.org/10.1111/1475-6793.12079
27. Chen, F., Dey, S. K., & Xin, B. (2010). Information asymmetry and the debt contracting demand for accounting conservatism (Working Paper, University of Toronto). Retrieved from https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.456.7897&rep=rep1&type=pdf
28. Carney, M., Gedajlovic, E. R., Heugens, P. P. M. A. R., Van Essen, M., & Van Oosterhout, J. H. (2011). Business group performance, group affiliation, performance, context, and strategy: A meta-analysis. Academy of Management Journal, 54(3), 437-460. https://doi.org/10.5465/amj.2011.61967812
29. Chen, Y., Wang, Y., & Lin, L. (2014). Independent directors’ board networks and controlling shareholders’ tunneling behavior. China Journal of Accounting Research, 7(2), 101-118. https://doi.org/10.1016/j.jacar.2013.09.002
30. Chiu, P.-C., Teoh, S. H., & Tian, F. (2013). Board interlocks and earnings management contagion. The Accounting Review, 88(3), 915-944. https://doi.org/10.2308/accr-50369
31. Choi, J. J., Park, S. W., & Yoo, S. S. (2007). The value of outside directors: Evidence from corporate governance reform in Korea. Journal of Financial and Quantitative Analysis, 42(4), 941-962. https://doi.org/10.1017/S00221090070003458
32. Christy, J. A., Matolcsy, Z. P., Wright, A., & Wyatt, A. (2013). Do board characteristics influence the shareholders’ assessment of risk for small and large firms? Abacus, 49(2), 161-196. https://doi.org/10.1111/abac.12005
33. Claessens, S., Fan, J. P. H., & Lang, L. H. P. (2006). The benefits and costs of group affiliation: evidence from East Asia. Emerging Markets Review, 7(1), 1-26. https://doi.org/10.1016/j.ememar.2005.08.001
34. Cooper, E., & Uzun, H. (2012). Directors with a full plate: the impact of busy directors on bank risk. Managerial Finance, 38(6), 571-586. https://doi.org/10.1108/0307435121226238
35. de Andres, P., & Valletela, E. (2008). Corporate governance in banking: The role of the board of directors. Journal of Banking & Finance, 32(12), 2570-2580. https://doi.org/10.1016/j.jbankfin.2008.05.008
36. Denchow, P., Ge, W., & Schroedl, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequencess. Journal of Accounting and Economics, 50(2-3), 344-401. https://doi.org/10.1016/j.jacceco.2010.09.001
37. Dugan, C. J. (2009). Loan loss provisioning and pro-cyclicality (Speech to the Institute of International Bankers, March 2, 2009. Office of the Comptroller of the Currency, Washington, D.C., US). Retrieved from https://www.occ.gov/news-iss-issues/speeches/2009/pub-speech-2009-16.pdf
38. Emery, A., & Perera, S. (2014). The role of accounting in corporate governance in a developing country: institutional political economy perspective. International Journal of Accounting, Auditing and Performance Evaluation, 10(2), 109-122. https://doi.org/10.1504/IJAAPE.2014.060207
39. Elayasi, E., & Zhang, L. (2015). Bank holding company performance, risk and “busy” board of directors. Journal of Banking & Finance, 60, 239-251. https://doi.org/10.1016/j.jbankfin.2015.03.022
40. Engelberg, J., Gao, P., & Parsons, C. A. (2012). Friends with money: Journal of Financial Economics, 103(1), 169-188. https://doi.org/10.1016/j.jfineco.2011.08.003
41. Falato, A., Kadyrzhanova, D., & Del, U. (2014). Distracted directors: Does board busyness hurt shareholder value? Journal of Financial Economics, 113(3), 404-426. https://doi.org/10.1016/j.jfineco.2014.05.005
42. Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. Journal of Law and Economics, 26(2), 301-333. https://doi.org/10.1086/467037
43. Ferris, S. P., Jagannathan, M., & Pritchard, A. C. (2003). Too busy to mind the business? Monitoring by directors with multiple board appointments. The Journal of Finance, 58(3), 1087-1111. https://doi.org/10.1111/j.1540-6261.2003.00559
44. Fich, E. M., & Shivdasani, A. (2006). Are busy boards effective monitors? The Journal of Finance, 61(2), 689-724. https://doi.org/10.1111/j.1540-6261.2006.00852.x
45. Francis, B., Hasan, I., Park, J. C., Wu, Q. (2015). Gender differences in financial reporting decision making: Evidence from accounting conservatism. Contemporary Accounting Research, 32(3), 1285-1318. https://doi.org/10.1111/1911-3846.12098
46. Francis, B., Hasan, I., & Wu, Q. (2013). The benefits of conservative accounting to shareholders: Evidence from the financial crisis. Accounting Horizons, 27(2), 319-346. https://doi.org/10.2308/ach-50431
47. Garcia Lara, J. M., Garcia Osma, B., & Penalva, F. (2007). Board of directors’ characteristics and conditional accounting conservatism: Spanish evidence. European Accounting Review, 16(4), 727-735. https://doi.org/10.1080/096381810701706922
APPENDIX

Table A.1. Description and definition of variables

| Variables                                | Description                                                                 |
|------------------------------------------|-----------------------------------------------------------------------------|
| **Governance variables**                 | An average number of directorship held by the directors in a year.  
| DWMDs                                    | Percentage of directors who hold 3 or more directorships.                    |
| **Accounting conservatism variables**    | Earnings per share of the firm for a year divided by the closing market price of last year  
| EAR or $\frac{E}{P_{t-1}}$               | ($\text{EAR} = \frac{\text{EPS}}{P_{t-1}}$).                              |
| RET                                      | It is the compound return over the 12-month period ending at the 3 months after a fiscal year-end.  
| D                                        | It is a dummy equal to one if the return is negative and zero otherwise.  |
| **Control variables (Board specific control variables)** | The number of directors in the bank’s board.  
| Board size                               | The percentage of total directors who are independent.  
| Board independence                       | The ownership percentage held by the largest shareholder.  
| Meeting attendance                       | The average percentage of meeting attendance by each board member.          |
| **Control variables (Bank specific control variables)** | Banks with Big 4 audit firms equals one otherwise zero.  
| Audit quality                            | Ratio of Tier I capital to total capital.                                  |
| Capital adequacy                         | Ratio of debt to total assets.                                              |
| Bank size                                | Natural logarithm of total assets in thousands of USD.                      |
| **Macroeconomic control variables**      | The annual growth rate of real GDP of a country.                           |
| GDP                                      | Annual inflation rate of a country.                                         |