
Accounting conservatism and corporate governance: evidence from the Indian banking sector

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Abstract: This study examines the relationship between accounting conservatism and corporate governance in the Indian banking sector. Trust in banking system of a country requires presence of efficient corporate governance mechanism. Conservative accounting practices supplement corporate governance effectiveness as they are supposed to curtail opportunistic behaviour of managers, counters agency problems and promotes efficient contracting mechanisms. This study hypothesised that better governed banks shall be more conservative than the others. For the purpose of this study, Basu (1997) model is used for measuring conservatism and Sarkar et al. (2012) rankings as corporate governance measure. The results of this study confirm that better governed banks follow more conservative accounting practices.

Keywords: accounting conservatism; corporate governance; asymmetry; banking; India.

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Biographical notes: Sushma Vishnani is a Professor in Finance and Accounting and qualified Chartered Accountant having 20 years of extensive experience in statutory, internal, tax, revenue and concurrent audits of corporate, banks, state level corporations, project financing and management consultancy. She has published research papers on brand valuation, value relevance of financial reporting, quality of financial reporting, accounting conservatism, asset pricing and working capital management in reputed journals, including ABDC list of journals.

Meena Bhatia is an Associate Professor of Finance and Accounting at the BIMTECH, India. Her research interests are in the area of intellectual capital disclosures, voluntary disclosures, financial reporting, value relevance and accounting conservatism. She has a PhD in Finance, FCMA, CFA and MBA in Finance.