



Tomas Bata University in Zlín
Faculty of Management and Economics

Doctoral Thesis Summary

**Influence of Concentration Ownership Structure on
Accounting Conservatism Adoption: Case of
Vietnam**

**Vliv koncentrované vlastnické struktury na uplatnění
konzervatismu v účetnictví ve Vietnamu**

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ABSTRACT

This thesis responds to previous studies' call for research on the influence of concentration ownership on accounting conservatism adoption. With regard to a transition country as Vietnam, both state and foreign ownership are common types of concentrated ownership. Therefore, this thesis focuses on exploring the effects of state and foreign ownership on accounting conservatism adoption separately also concurrently. Theoretically, the thesis is expected to extend the literature on the role of corporate governance to financial reporting quality as well as practically to provide useful knowledge of financial information quality to financial statements users, regulators and accounting standard-setters in Vietnam.

ABSTRAKT

Zaměření disertační práce reaguje na výzvu předcházejících studií k dalšímu výzkumu vlivu koncentrovaných vlastnických struktur na konzervatismus v účetnictví. V zemi s tranzitivní ekonomikou jako je Vietnam, formu koncentrovaných vlastnických struktur má státní i zahraniční vlastnictví. Disertační práce je zaměřena na zkoumání dopadů státního a zahraničního vlastnictví na uplatnění účetního konzervatismu, a to samostatně i v jejich kombinaci. Přínosem práce pro teorii je rozšíření dostupných zdrojů o téma vztahu corporate governance a kvality účetního reportingu, praktickým přínosem práce je zvýšení znalostí o kvalitě finančních informací u uživatelů finančních výkazů, regulátorů a tvůrců účetních standardů ve Vietnamu.

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1. INTRODUCTION

The background and motivation for the study begin with the international economic integration of the Vietnamese economy. Vietnam has been in the process of setting up and adjusting Vietnam accounting standards to suit international accounting standards. With the increased reforms of the Vietnamese accounting system, the quality of financial information is expected to improve. However, previous studies claim that the incentives of those who prepare financial statements dominate accounting standards as a determinant of financial reporting (Watts and Zimmerman, 1986; Ball et al., 2003). Because corporate governance relates to the system of incentives designed to prevent the conflicts of interest between stakeholders of a firm (Berk and Demarzo, 2014), there seems to be the relationship between corporate governance and financial information quality. Therefore, this study is expected to connect corporate governance mechanisms with financial information quality in the context of transition countries. Specifically, this study aims at investigating the relationship between accounting conservatism and concentration ownership in a transition country of which Vietnam is a representative.

Accounting conservatism is widely recognized as being a desirable qualitative characteristic of accounting information (Ball et al., 2013, Ruch and Taylor, 2015; Zhong and Li, 2017). Most of the studies on accounting conservatism are conducted in the Anglo-American setting (such as the US and the UK, where dispersed ownership primarily exists). Nevertheless, concentration ownership is more prevalent globally, particularly in Asian countries (Shliefier and Vishney, 1997; La Porta et al., 1999, Cullinan et al., 2012). Xie (2015) suggests that accounting conservatism in a concentration ownership setting is an interesting topic for future research. Therefore, this study responds to this call. In addition, prior researches on the relationship between concentration ownership and accounting conservatism primarily focus on China (Chen et al., 2010; Cullinan et al., 2012); therefore, more research is necessary to be conducted in other transition countries to confirm previous results. In this regard, Vietnam would be considered as a potential research subject.

The study proceeds as follows. Section 2 reviews the literature on accounting conservatism and its relationship with concentration ownership. Next, Section 3 constructs the research problem and develops research questions and the respective hypotheses. Technically, Section 4 refers to methodology explaining how to solve the research problem. Consequently, research results and discussions are found in Section 5. There are some limitations regarding the data collection and analysis processes. These limitations are detailed in Section 6. With the findings, the study makes several contributions to both theory and practice as can be seen in Section 7. The study ends in Section 8 with conclusions.

2. THEORETICAL BACKGROUND AND REVIEW OF RELATED WORKS

This section reviews the literature on accounting conservatism and its relationship with concentration ownership. The review points out that the research on accounting conservatism in a concentration ownership setting is an interesting topic. The study is conducted in Vietnam, a transition country, where, the government often takes control of the operations of state-related enterprises. The Vietnamese economy is being transferred from a centrally planned economy to a market-oriented economy in the context of international economic integration. As a result, the reforms of ownership structure in Vietnamese enterprises tend to revolve around state ownership and foreign ownership. Thus, this section centers on the impact of state and foreign ownership on accounting conservatism. Empirically, there is mixed evidence on the impact of state ownership on accounting conservatism and limited evidence on the association between foreign ownership and accounting conservatism adoption. The understanding of the literature leads to identifying the research gap.

2.1. Accounting Conservatism

Although accounting conservatism is one of the generally accepted accounting conventions, there remains a controversy over its definition and measures. This part is intended to review the alternatives and then determine the primary ones used in the study.

2.1.1. Definition of Accounting Conservatism

Accounting conservatism is a long-standing and the most influential principle in preparing financial statements (Sterling, 1970; Xie, 2015). Although accounting conservatism has influenced accounting practice and theory and has been a characteristic of accounting information for centuries (Basu, 1997; Watts, 2003a; Ball et al., 2013, Ruch and Taylor, 2015; Xie, 2015; Zhong and Li, 2017), there is no authoritative definition of accounting conservatism.

Traditionally, Bliss (1924) describes accounting conservatism as "anticipate no profit, but anticipate all losses." This interpretation has become the base for the following definitions of accounting conservatism. The Financial Accounting Standard Board (FASB) (1980) interprets accounting conservatism as the prudent recognition of uncertainties and risks facing the business so that they are adequately considered." Specifically, "if two estimates of amounts to be received or paid in the future are about equally likely, conservatism dictates using the less optimistic estimate." The International Accounting Standard Board (IASB) (1989: para. 37) defines accounting conservatism as "a degree of caution in the

exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or incomes are not overstated, and liabilities or expenses are not understated.”

However, standard-setters’ definitions are vague and difficult for research. Basu (1997) is the first person to operationalize accounting conservatism through asymmetric timeliness of earnings. He interprets accounting conservatism as denoting accountants’ inclination to require the asymmetrically greater verification for reporting “good news” than “bad news.” His research has become a seminal work and opened the way for the exploration of accounting conservatism since then (Xie, 2015).

2.1.2. Explanations of Demand for Accounting Conservatism

In capital markets research, researches of Basu (1997) and Watts (2003) paves the way for the development of the accounting conservatism literature. Basu (1997) operationalizes conservatism as the asymmetric timeliness of earnings and lays the foundations for the exploration of accounting conservatism. Following Basu (1997), Watts (2003) proposes four explanations of demand for accounting conservatism consisting of contracting, legal, tax, and regulatory needs. Just as Basu’s accounting conservatism measure, Watts’ accounting conservatism explanations have been widely used and cited in accounting conservatism research so far.

Under contract explanations, accounting conservatism arises as an efficient contracting mechanism. It requires greater verification for gains than for losses, which is less likely to overstate net asset and earnings. As a result, it can reduce the earnings distribution that not only violates contracts but also reduces the firm value. Broadly speaking, accounting conservatism can reduce moral hazard problems caused by contracting parties with asymmetric information, asymmetric payoffs, limited horizons, and limited liability.

Apart from contract explanations, there are two other explanations including litigation explanations and regulatory explanations. Under the litigation explanation, conservatism reduces the expected costs of litigation because litigation is more likely when net assets and earnings are overstated than they are understated, and the expected litigation costs of overstatement are higher than those of understatement. Under the income tax explanation, conservatism reduces the present value of tax liabilities when taxable income is influenced by reported income. In particular, the delay of revenue recognition and the acceleration of expense recognition defer tax payments. Under the regulatory explanation, standard setters and regulators are more easily criticized for the overstatement of net assets than the understatement of net assets; thus, conservatism helps regulatory bodies to reduce political costs associated with overstatement of net assets and earnings.

2.1.3. Types of Accounting Conservatism

Ball and Shivakumar (2005) contribute to the understanding of conservatism by categorizing accounting conservatism into unconditional conservatism and conditional conservatism. The primary difference between the two forms of accounting conservatism is based on whether it depends on economic news events. Conditional conservatism occurs when the accounting earnings recognition depends on economic news. In particular, the timeliness of earnings is asymmetrically greater for bad news than good news. Examples of conditional conservatism include the asymmetric treatment of loss and gain contingencies and accounting for inventory using the lower-of-cost-or-market convention and impairment accounting for assets. Unlike conditional conservatism, unconditional conservatism occurs when the accounting net assets recognition is independent of economic news. It only employs information known at the inception of the asset's life and doesn't depend on the current economic news. Examples of unconditional conservatism include accelerated depreciation method, expensing advertising costs, LIFO inventory.

Ruch and Taylor (2015) state that conditional accounting conservatism is of greater interest to accounting scholars than unconditional accounting conservatism due to their dominating concern for risks of uncertainty. The study follows up on this trend. Thus, accounting conservatism is hereafter referred to as conditional accounting conservatism.

2.1.4. Conservatism Measures

Xie (2015) classifies conservatism measures into four groups: book-to-market-based measures, accrual-based measures, cash-flow-based measures, and Basu-based measures. Overall, along with the definition of accounting conservatism, there remains a controversy over its measure. Further research on the refinement of existing measures is needed. The study focuses on testing conditional conservatism, which Basu-based measures are employed to capture. Of accounting conservatism measures, Basu-based measures have been widely used. Therefore, they are used as the primary measures in this study. In particular, the traditional Basu measure (Basu, 1997) is first adopted to produce the preliminary results, and then the extended measure (Khan and Watts, 2009) is employed to make the results more robust.

2.2. Relationship Between Concentration Ownership and Accounting Conservatism Adoption

This part is designed to present the literature review on the relationship between concentration ownership and accounting conservatism adoption. Due to the nature of the transformation of a transition economy, the study focuses on state and

foreign ownership in a concentration ownership setting. Thus, the literature on the effects of state and foreign ownership on accounting conservatism is reviewed in succession.

2.2.1. Ownership Concentration and Accounting Conservatism Adoption

Most of the studies on accounting conservatism are conducted in the Anglo-American setting (such as the US and the UK), where ownership is dispersed among small shareholders, and managers get control rights (Xie, 2015). In this way, accounting conservatism may serve as a governance mechanism to reduce information asymmetry between managers and shareholders (LaFond and Roychowdhury, 2008). However, many Asian firms have a more concentration ownership structure in which controlling shareholders come into power in the company (Shliefer and Vishney, 1997; La Porta et al., 1999, Cullinan et al., 2012). They significantly influence corporate operations and managerial decision making (Leech and Leahy, 1991; Kirilenko, 2001). La Porta et al. (1999) state that controlling shareholders with those control rights have incentives to expropriate wealth from minority shareholders. For instance, controlling shareholders influence managers to adopt aggressive accounting policies that reflect the wishes of the controlling shareholders rather than the economic substance of the business transactions. To hide this expropriating behavior, they tend to induce managers to produce more favorable financial statements by recognizing “good news” in a more timely fashion than “bad news.” Therefore, Wu (2011) finds that the share of the largest shareholder ownership has a significantly negative effect on accounting conservatism. Cullinan et al. (2012) strengthen Wu's findings (2011) and further find that this relationship is particularly strong when the largest shareholder's ownership percentage exceeds 30%. If accounting conservatism is found as a governance mechanism to mitigate information asymmetry between managers and shareholders (LaFond and Roychowdhury, 2008), it might be considered as the one in the relationship between controlling shareholders and minority shareholders. Overall, Xie (2015) suggests that the relationship between concentration ownership and accounting conservatism is an interesting topic for future research.

2.2.2. State Ownership and Accounting Conservatism Adoption

In transitional economies, the largest shareholder is often the government because many state-owned enterprises are in transition from state ownership to more private ownership. From a logical sense, state ownership could be negatively associated with accounting conservatism if state ownership is a controlling shareholding. However, there is mixed evidence on the relationship between state ownership and accounting conservatism reporting.

On the one hand, state ownership is negatively associated with accounting conservatism (Bushman and Piotrosky, 2006; Zhou and Li, 2008). The negative association between state ownership and accounting conservatism is explained in some ways. According to the expropriation hypothesis (Cullinan et al., 2012), the government, as the largest shareholder, prejudices managers to choose less conservative financial reporting to make the adverse effects on minority shareholders less apparent in the financial statements. As to the political promotion hypothesis (Megginson et al., 2014), managers, as a representative of state ownership in the boards, would be more likely to implement more aggressive accounting practices, in which good news is recognized in a timelier manner than bad news due to the need for their political promotion. Based on state-owned enterprises (SOEs)' low default risks hypothesis (Sapienza, 2004), creditors will be less concerned with downside risk for state-owned enterprises than non-state-owned enterprises (NSOEs). Under the soft budget constraint, SOEs often look to the government for ex-post financial assistance (such as access to low-interest loans, tax relief, and tariff protection) when they run into financial trouble. The government strongly tends to keep the SOEs financially sound due to the success of the corporatization or partial privatization. Besides, the government tends to select the most profitable SOEs for privatization and listing process.

On the other hand, state ownership is positively related to accounting conservatism (Bushman and Piotroski, 2006; Mohammed et al., 2017). Chen et al. (2010) suggest that the positive association between state ownership and accounting conservatism adoption could be due to the efficiency of the government's reforms designed to equalize the interests of governmentally owned and privately owned shares. Also, the goal to build the credibility of the financial market in the code-law countries would be a factor encouraging this relationship.

2.2.3. Foreign Ownership and Accounting Conservatism Adoption

When a transition economy transfers from a centrally planned economy to market-oriented economy, reforms on a concentrated ownership structure induces a part of state ownership shifting to outside ownership. This process takes place in the context of global economic integration. Therefore, foreign ownership tends to become an alternative to a reduction in state ownership. If the study examines the relationship between state ownership and accounting conservatism adoption as a representative of the association between concentration ownership and accounting conservatism adoption, the research on the impact of foreign ownership on accounting conservatism adoption could be considered as the effects of a change in concentration ownership on accounting conservatism adoption in a transition economy.

An (2015) is the first researcher who explores this relationship. Accordingly, the two conflicting hypotheses, active monitoring and transient, are used to explain the association between foreign ownership and accounting conservatism. Under the active-monitoring hypothesis, foreign investors as large institutional shareholders have strong incentives to monitor managers actively, thereby increasing the quality of financial reporting. According to the transient hypothesis, foreign investors as transient investors do not have significant incentives to oversee managers, thereby reducing the possibility of their influence on financial reporting quality. An (2015) finds the significantly positive effect of foreign ownership on accounting conservatism using data related to Korean firms.

2.2.4. Research Gap

The overview of the literature on the relationship between concentration ownership and accounting conservatism adoption provides several unsolved problems. First, there are many different definitions of accounting conservatism. The controversy surrounding the definition of accounting conservatism remains, and there is no authoritative definition of accounting conservatism (Xie, 2015). Second, similar to the definition problem, many scholars have attempted to measure accounting conservatism from different viewpoints. There is no general agreement on the most exact measure of accounting conservatism, although Basu-based measures (Basu, 1997; Khan and Watts, 2009) are the most widely used measures. Third, previous work has been limited to explore new explanations for accounting conservatism and the problem relating to unconditional conservatism. Fourth, the relationship between concentration ownership and accounting conservatism is called for further research in the development of its literature. In the scope of transition countries, the impact of state and foreign ownership on accounting conservatism catch researchers' attention due to the nature of their economic transformation. Accordingly, there is mixed evidence on the relationship between state ownership and accounting conservatism and limited evidence on the effects of foreign ownership on accounting conservatism.

3. RESEARCH PROBLEM AND DEVELOPMENT OF RESEARCH QUESTIONS AND HYPOTHESES

This section refers to the problem under investigation and the main organizing principle guiding the analysis of the study. It is organized into four subsections. First, the main features of the Vietnamese economy and accounting system are presented. This section shows Vietnam is being transformed from a centrally planned economy to a market-oriented economy. The Vietnamese government is conducting many reforms to encourage the economy to be deeply integrated into the international economic economy. The study focuses on reforms regarding the Vietnamese accounting system's path to converging into international accounting standards. Second, the reforms of the ownership structure to state-related enterprises indicate that the internationally oriented privatization results in the reduction of state ownership and the increase of foreign ownership, though the dominance of state ownership remains. Third, the research problem is formulated from the current state of the Vietnamese economy and accounting system along with the literature review on accounting conservatism. That is, the impact of state and foreign ownership on the accounting conservatism adoption has not been understood in depth. Dealing with the research problem aims to confirm and explain the relationship between corporate governance mechanisms and financial reporting quality in more depth. At last, the research problem is bordered by four research questions. The development of the research questions and respective hypotheses follows the process: generalizing the benefits of accounting conservatism, determining the accounting conservatism adoption in financial reporting in Vietnam, examining the impact of state and foreign ownership on the accounting conservatism adoption.

3.1. Economy and Accounting System of Vietnam

It is generally accepted that the economic environment affects the accounting system consisting of accounting perspectives, standards, principles, methods, and practices. Vietnam economy has changed from a centrally planned economy to a market-oriented economy. Therefore, changes in Vietnam accounting system are associated with the shift. Since 1986, the economic renovation has transformed gradually the Vietnamese economy from the Soviet-Union-based economy, whereby all economic activities are in the hands of the State, into a market economy integrated with the international economy. The development of the Vietnamese economy after "Doi Moi" ("innovation" in English) is divided into two periods: the 1986-1995 period represents the change from a centrally planned economy to a socialist commodity economy (Pham and Vuong, 2009; Vuong et al., 2011; Vuong, 2012; Huynh et al., 2012; Nguyen and Gong, 2012; Tran, 2018); the 1995-present period reflects the market-oriented economy (Huynh et

al., 2010; Joseph, 2011; Vuong, 2014; Nguyen and Gong, 2012; Konrad-Adenauer-Stiftung, 2016; Tran, 2018). These periods are also the ones of the reforms to the Vietnamese accounting system.

3.2. State and Foreign Ownership in Vietnam

The process of “Doi Moi” towards a market-oriented economy and the international economic integration in Vietnam has been primarily based on the equitization of state-owned enterprises and the reduction of foreign ownership limits. Before the “Doi Moi” took effect, Vietnam had followed the model of a centrally planned economy. Accordingly, the state is the only entity operating and controlling the whole economy. The Vietnamese government decided the type and quantity of the produced goods and services. It even calculated their price without following the relationship between the supply and the demand for goods and services. The government of a centrally planned economy believes that a free market cannot distribute wealth and resources effectively and equally to all citizens. So instead, the government has to take control of the whole economy to ensure the equal allocation of the economic prosperity. This model leads to the severe economic crisis during the 1980s (Pham and Vuong, 2009; Vuong et al., 2011).

Under “Doi Moi,” the government kicked off the restructuring of state-owned enterprises (SOEs). The SOEs equitization has begun since 1992. The non-essential SOEs has been wholly equitized. The Vietnamese government has divested its stakes in many SOEs gradually and turned them into the public held firms. Restructuring SOEs is still an important part of the economic reform in Vietnam (Dinh et al., 2010; VDR, 2012; Ramstetter and Phan, 2013; ADB, 2015; Yang et al., 2015; OECD and KIPF, 2016; Minor et al., 2018).

The equitization under “Doi Moi” has turned SOEs into the publicly held firms. When SOEs gets more privatized, the participation of outsider investors in the ownership structure increases more. Moreover, the equitization is in progress not only domestically but also internationally. Thus, the reduction in state ownership tends to occur parallel to the increase in foreign ownership. Foreign investments are among the most well-documented sources of the economic growth (Levine and Zervos, 1996; Boyd and Smith, 1996; Rajan and Zingales, 1998; Dachs and Peters, 2014; Gallizo et al., 2015). At a corporate level, foreign ownership helps to improve a firm’s corporate governance, managerial risk-taking activities, and firm value (Stulz, 1999; Denis and McConnell, 2003, John et al., 2008, Boubakri et al., 2013; Vo, 2016). Currently, foreign ownership is capped at 30% and 49% for commercial banks and other listed companies, respectively. To lure more foreign investment, the Vietnamese government is set to liberate the foreign ownership limits.

3.3. Threshold of Concentration Ownership

Concentration Ownership is defined as the type of ownership at which a shareholder takes control of the company. Theoretically, La Porta et al. (1999) determine the rate of 20% as a threshold where an owner becomes a controlling shareholder. They note that the rate of 10% is a significant threshold of votes, but 20% is a controlling threshold. Cullinan (2012) suggest the threshold rate of 30% as an alternative to the China case. This rate is consistent with the one under Provision 84 Chapter 10 of the China Securities Regulatory Commission (CSRC).

As stipulated in the Law of Enterprises (2014) in Vietnam, the General Meeting of Shareholders (GMS) is authorized to pass the development orientation of the company, stock issuance, a change in managerial and organizational structure, major projects, restructuring of the company, and so on. A shareholder owning 51 percent of votes of attending shareholders almost make all these contents adopted at his interest. Also, the General Meeting of Shareholders takes place if the attending shareholders own at least 51 percent of the total votes. Consequently, 51 percent of votes of 51 percent of the total votes are roughly 26%. It could be construed as a controlling threshold under the Law.

According to Cullinan (2012), the regulatory rate seems to be more suitable to become a concentration ownership threshold. Accordingly, the study selects 26% as the threshold for a Vietnam case.

3.4. Research Problem and Main Research Objective

The establishment of the research problem is based on the literature review on the relationship between concentration ownership and accounting conservatism adoption and the practical events regarding the reforms of the economy and accounting system in Vietnam in the context of the international economic integration. That is, the impact of state and foreign ownership on accounting conservatism adoption in a concentration ownership setting of a transition country has not been understood in depth. This study serves for examining the aspect of the relationship between corporate governance mechanisms and financial information quality in more depth. There are several arguments in support of this research problem as follows:

Firstly, there is currently a growing need for improving the financial reporting quality in the context of international economic integration in Vietnam. When the Vietnamese economy integrates deeply into the global market, the business market for Vietnamese firms is an intercontinental market. Consequently, the barriers to the integration are necessary to be mitigated gradually, and the financial information hurdle is too. In fact, foreign investors are having doubts about financial reporting quality in Vietnam. Therefore, reforms of Vietnamese accounting standards are being done to improve financial information quality.

Vietnam has been in the process of setting up and adjusting Vietnam accounting standards to suit International Accounting Standards (IAS). With the increased reforms of Vietnamese accounting system, to the extent that the quality of financial information is expected to be assured gradually. Additionally, accounting conservatism has been a desirable qualitative characteristic of financial information (Ball et al., 1968; Dechow et al., 2010, Cullinan et al., 2012; Ruch and Taylor, 2015). Thus, this study tests the financial reporting quality of Vietnamese financial statements through investigating the adoption of accounting conservatism. Secondly, previous studies claim that the incentives rather than accounting standards of those who prepare financial statements are as a determinant of financial reporting (Watts and Zimmerman, 1986; Ball et al., 2003). Corporate governance relates to the system of incentives designed to prevent the conflicts of interest between stakeholders in a firm (Berk and Demarzo, 2014). As a matter of fact, corporate governance is generally accepted to be a vital factor impacting accounting conservatism (García Lara et al., 2007; Ruch and Taylor, 2015).

Thirdly, most of the studies on conservatism are conducted in the Anglo-American setting (such as the US and the UK, where dispersed ownership primarily exists. Nevertheless, concentration ownership is more prevalent globally, particularly in Asian countries (Shliefer and Vishney, 1997; La Porta et al., 1999, Cullinan et al., 2012). In the development of research on the relationship between corporate governance and accounting conservatism, Xie (2015) calls for the research on accounting conservatism in a concentration ownership setting, and this study responds to the call.

Fourthly, state ownership is a common type of concentration ownership in transition countries which have instituted economic reforms from a centrally planned toward a market economy; therefore recent researches focus on the effects of state ownership on accounting conservatism and find mixed evidence. Also, most studies on this relationship are only conducted in China (Chen et al., 2010; Cullinan et al., 2012). It is necessary to do more research for other transition countries to shed more light on this relationship. In this regard, Vietnam is a potential candidate for the research subject.

Finally, there is currently a tendency of decreasing state ownership and increasing foreign ownership in the ownership structure of state-owned firms in transition countries due to the privatization. Transferring the ownership of firms to foreigners who possessed better managerial capacities and technology is believed to be an effective way of the privatization, which likely changes the incentives of financial statement preparers in financial reporting. An (2015) contributes to the understanding of the relationship between ownership structures and accounting conservatism as he is the first researcher to examine the association between foreign ownership and accounting conservatism using Korean firms' data. There has still been no research on this relationship in

transition countries as well as the simultaneous effects of state ownership and foreign ownership on accounting conservatism so far. For that reason, investigating the effects of state ownership and foreign ownership on accounting conservatism in Vietnam is expected to fill the gap. In that, this study is not only expected to supplement new empirical evidence on the separate effects of state ownership and foreign ownership, but also provide empirical evidence on their concurrent effects on accounting conservatism.

3.5. Research Questions, Objectives, and Hypotheses Development

As mentioned above, the research problem is that the impact of state and foreign ownership on the accounting conservatism adoption in a concentration ownership setting of a transition country has not been understood in depth. To resolve it, the problem statement is divided into many parts on which research questions are based. The research problem is associated with “conservatism accounting adoption,” “the impact of state and foreign ownership,” and “concentration ownership” in Vietnam. Therefore, the first question would be related to the benefits of the accounting conservatism adoption since it could be considered as a starting point of the validity of the study. The study is conducted in Vietnam. Thus, the existence of accounting conservatism in Vietnamese financial reporting needs to be questioned and answered before the study goes to investigate the association between ownership structure and accounting conservatism. Specifically, the primary questions are associated with the impact of state and foreign ownership on accounting conservatism adoption in Vietnam. Answering these questions would generally provide empirical evidence on the relationship between concentration ownership and accounting conservatism adoption. In sum, the research problem will be addressed with four key questions.

Question 1: What are the benefits of accounting conservatism to financial statements users?

This question has to be answered at first because it identifies those who likely benefit from the potential results of this study. According to Ruch and Taylor (2015), there are three primary users of financial statements consisting of equity market users, debt market users, and corporate governance users. Thus, Question 1 can be divided into three following questions.

Question 1a: *What are the benefits of accounting conservatism to equity market users?*

Question 1b: *What are the benefits of accounting conservatism to debt market users?*

Question 1c: *What are the benefits of accounting conservatism to corporate governance users?*

Objective 1: *Determining the benefits of accounting conservatism to financial statement users.*

Question 2: Do Vietnamese firms adopt accounting conservatism in financial reporting?

Objective 2: *Testing the financial information quality of the Vietnamese financial statements.*

H1: *The timeliness of earnings is asymmetrically greater for “bad news” than for “good news.”*

H2: *Earnings changes would be less persistent for “bad news” than “good news.”*

Question 3: Does financial statement disclosure impact the adoption of accounting conservatism in Vietnamese financial statements?

Objective 3: *Understanding the role of financial information disclosure in improving the quality of financial information. This knowledge, in turn, results in a reasonable data collection to research on accounting conservatism in code-law countries.*

H3: *There is a difference in the level of accounting conservatism between the intra-audited financial statement disclosure period and the prior-audited financial statement disclosure period in Vietnam.*

Question 4: How do state and foreign ownership impact accounting conservatism adoption in Vietnam?

The question of these relationships are divided into the following sub-questions:

Question 4a: How does state ownership impact accounting conservatism adoption in Vietnam?

Objective 4a: *Supplementing additional empirical evidence on the relationship between state ownership and financial information quality.*

H4: *Accounting conservatism is negatively associated with the share of state ownership in Vietnam.*

H5: *Accounting conservatism is adopted in the financial reporting of state-controlled enterprises.*

H6: *State-controlled enterprises have lower levels of accounting conservatism adoption than non-state-controlled enterprises.*

Question 4b: *How does foreign ownership impact accounting conservatism in Vietnam?*

Objective 4b: *Providing new empirical evidence on the relationship between foreign ownership and financial information quality.*

H7: *Accounting conservatism is positively associated with the share of foreign ownership in Vietnam.*

Question 4c: *How does the interaction between foreign ownership and state ownership impact the accounting conservatism adoption in Vietnam?*

Objective 4c: *Providing new empirical evidence on the association between the mixed ownership structure and financial information quality.*

H8: *The presence of foreign ownership reduces the influence of state ownership on accounting conservatism.*

4. METHODOLOGY

This study uses a combination of quantitative and qualitative research methodology to investigate the relationship between concentration ownership and accounting conservatism adoption in a transition country through a Vietnam case. The investigation of this relationship, in turn, primarily is based on testing hypotheses on the impact of state and foreign ownership on the accounting conservatism adoption. Thus, the use of quantitative research methodology outweighs that of qualitative research methodology in this study. Apart from testing the hypotheses, research results, especially unexpected ones or ones on which there has been no general agreement, need a deep explanation under qualitative methodology. It could be a non-numerical inquiry into the effects of state and foreign ownership on accounting conservatism adoption.

The process begins with reviewing and selecting research methods. The study uses two quantitative research methods and two qualitative research methods. They are correlational research, causal-comparative research, reviews of the literature and expert consultation method, respectively. The first two methods are employed to investigate the association between concentration ownership and accounting conservatism adoption. The expert consultation method is used to explore the hidden reasons for the relationships. Also, the benefits of accounting conservatism to financial statement users are generalized by reviews of the literature. Next, based on the chosen research methods, suitable techniques are used to retrieve data. They include an analysis of existing materials and interviews. After compiling data, they are processed by cleaning. Also, data are grouped into variables, and then these variables are coded to prepare for the model construction. Last, models are built up to test the formulated hypotheses.

4.1. Methods

To resolve the research problem, the study mainly uses four research methods consisting of reviews of the literature, correlational research, causal-comparative research, and expert consultation. Reviews of the literature are used to find the benefits of accounting conservatism to financial statement users. The separate findings of the benefits are gathered and generalized from papers which are published in the prominent peer-reviewed accounting journals. Next, answering the possibility of the adoption of accounting conservatism is need to examine the correlation between accounting earnings and stock returns. Likewise, the investigation of the impact of state and foreign ownership on accounting conservatism is associated with the relationship between ownership structure variables and accounting conservatism variables. Accordingly, the correlation research is employed to correlate pairs of related variables. Correlational results are presented by the scatterplot or correlation coefficients.

Additionally, the correlation analysis is only the first step to assist in constructing models testing the relationships, which is the primary concern of the study. They could be the effects of stock returns on accounting earnings or the impact of state and foreign ownership on accounting conservatism. In this case, the causal-comparative research serves to draw conclusions about these relationships. Regression analysis is often used to present the obtained outcomes.

After the results are obtained from testing the hypotheses, the study employs the expert consultation method to provide potential explanations for unexpected results or ones on which there been no general agreement.

4.2. Data Collection and Processing

Based on accounting conservatism measures, research questions and hypotheses, data serving for the study are related to stock prices, the financial reporting, the ownership structure of Vietnamese firms, and opinions of experts on the tested results. The analysis of existing materials and interview are two primary techniques used to collect data.

The data are processed with three steps as follows:

In the very first step, the sampling is done from Vietnamese firms, whose conservatism accounting adoption in financial reporting is tested in the study. Initially, all listed companies are selected as a subset of Vietnamese firms. Next, the data set is cleaned by excluding missing observations and outliers. The final sample consists of 2,583 firm-year observations over the period from 2005 to 2015.

In the last step, statistical techniques are chosen to analyze the data. There are three groups of techniques employed in this study: descriptive statistics, correlation, and regression. Descriptive statistics are used to summarize a sample and quantitatively describe features of the information collection. The description of a data set focuses on central tendency and variability. Measures of central tendency are mean and median. Those of variability or dispersion include standard deviation and quantile. Correlation analysis is employed to statistically evaluate the strength and direction of relationships among key variables mentioned. The study uses the Pearson r correlation, the most widely used correlation statistic. Also, a correlation matrix is used to show correlation coefficients among sets of the variables. Furthermore, regression analysis is used to explore the causal relationship between concentration ownership and accounting conservatism adoption. The study employs pooled-WLS cross-sectional regression to investigate the relationship between concentration ownership and accounting conservatism.

4.3. Model Construction

There are a variety of models for investigating accounting conservatism adoption in a concentration ownership setting. Of these models, Basu's model has been generally accepted to measure accounting conservatism. Therefore, this study will use the original Basu's model as the main due to its popularity and its extended model for checking the robustness of the results. The addition of control variables consisting of financial leverage, firm size, and market-to-book value ratio is generally accepted as the update of the original Basu model (Watt and Zimmerman, 1978; Roychowdhury and Watts, 2007; Ahmed and Duellman, 2007; Khan and Watts, 2009; Xie, 2015, Zhong and Li, 2017).

Before constructing the models, related variables need to be coded. There are three groups of variables including accounting conservatism variables, ownership structure variables, and control variables. The coding is stated as follows:

Variables of accounting conservatism

E_{it} is accounting earnings of firm i for fiscal year t . This variable is divided by the beginning-of-fiscal-year stock price. ΔE_{it} is a change in accounting earnings of firm i for fiscal year t over fiscal year t . R_{it} is the buy-and-hold annual stock return of firm i for fiscal year t . D_{it} is a dummy variable, equaling one for negative returns, zero otherwise.

Variables of ownership structure

$STATE_{it}$, $FOREIGN_{it}$ represent state and foreign ownership, respectively. SCE_{it} is a dummy variable, equaling one for state-controlled enterprises, zero otherwise.

Control variables

FL_{it} indicates the financial leverage of firm i for fiscal year t . This variable is constructed by dividing the sum of long-term and short-term debt by the total assets. $SIZE_{it}$ represents the size of firm i for fiscal year t . The variable is defined as the natural logarithm of total assets. MTB_{it} is the market-to-book ratio of firm i for fiscal year t .

4.3.1. Models for Testing Accounting Conservatism Adoption

The model to test accounting conservatism adoption is an equation in which accounting earnings as the dependent are affected by a change in stock returns and dummy variables which are the independent variables.

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \beta_0 R_{it} + \varepsilon_{it} \quad (4.1)$$

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \varepsilon_{it} \quad (4.2)$$

In equation 4.2, the slope coefficients, β_0 and $(\beta_0 + \beta_1)$, measure the sensitivity of earnings to positive stock returns and negative stock returns, respectively. In which, the interactive slope coefficient (β_1) measures the difference in the sensitivity of earnings to negative stock returns and positive stock returns. They are expected to be positive, which indicates that the timeliness of earnings is asymmetrically greater for losses than for gains.

Also, accounting conservatism adoption can be tested using the extended model (Khan and Watts, 2009) as follows:

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 FL_{it} + \beta_3 FL_{it} D_{it} + \beta_4 FL_{it} R_{it} \\ & + \beta_5 FL_{it} R_{it} D_{it} + \beta_6 SIZE_{it} + \beta_7 SIZE_{it} D_{it} + \beta_8 SIZE_{it} R_{it} \\ & + \beta_9 SIZE_{it} R_{it} D_{it} + \beta_{10} MTB_{it} + \beta_{11} MTB_{it} D_{it} + \beta_{12} MTB_{it} R_{it} \\ & + \beta_{13} MTB_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.3) \end{aligned}$$

Under Basu's interpretation of accounting conservatism, the asymmetric timeliness and the asymmetric persistence of earnings tend to occur simultaneously as accounting conservatism exists. Thus, to test accounting conservatism adoption, we can run the regression of a change in accounting earnings on its lagged variables.

$$\frac{\Delta E_{it}}{P_{it-1}} = \alpha_0 + \beta_0 \frac{\Delta E_{it-1}}{P_{it-2}} + \varepsilon_{it} \quad (4.4)$$

$$\frac{\Delta E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 \frac{\Delta E_{it-1}}{P_{it-2}} + \beta_1 \frac{\Delta E_{it-1}}{P_{it-2}} D_{it} + \varepsilon_{it} \quad (4.5)$$

In equation 4.5, the slope coefficients on prior earnings change, β_0 and $(\beta_0 + \beta_1)$, measure the reversal of "good news" earnings changes and "bad news" earnings changes, respectively. The earnings changes reverse completely in the following period if the slope coefficients equal minus one. The slope coefficient (β_1) indicates the difference in the reversal of earnings changes between "bad news" and "good news". These coefficients are predicted to be negative, which shows that earnings changes would be less persistent for "bad news" than "good news".

4.3.2. Models for Testing the Impact of Financial Information Disclosure on Accounting Conservatism Adoption

Since the financial information disclosure only affects the value of stock returns, which is a proxy of “economic news,” the model of the impact of financial information disclosure on accounting conservatism is the one used to test the accounting conservatism adoption mentioned above.

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 R'_{it} + \beta_1 R'_{it} D_{it} + \varepsilon_{it} \quad (4.6)$$

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R'_{it} + \beta_1 R'_{it} D_{it} + \beta_2 FL_{it} + \beta_3 FL_{it} D_{it} + \beta_4 FL_{it} R'_{it} \\ & + \beta_5 FL_{it} R'_{it} D_{it} + \beta_6 SIZE_{it} + \beta_7 SIZE_{it} D_{it} + \beta_8 SIZE_{it} R'_{it} \\ & + \beta_9 SIZE_{it} R'_{it} D_{it} + \beta_{10} MTB_{it} + \beta_{11} MTB_{it} D_{it} + \beta_{12} MTB_{it} R'_{it} \\ & + \beta_{13} MTB_{it} R'_{it} D_{it} + \varepsilon_{it} \quad (4.7) \end{aligned}$$

Equation 4.6 is the original model of accounting conservatism. It is updated by adding control variables as Equation 4.7. Both the models are the same as the ones used to test accounting conservatism adoption. However, there is a minor change in the calculation of stock returns to reflect the influence of financial information disclosure. In the original models, fiscal returns three months after the fiscal year-end are used to capture “economic news.” Instead, stock returns (R'_{it}) in these models are measured at the end of fiscal year, on average three months before financial statement disclosure (called returns in the prior-audited financial statement disclosure period). Accordingly, “economic news” reflected in accounting earnings before financial statement disclosure is not affected by auditors, while the returns computation ending three months after fiscal year are proxies for economic news purified by auditors (returns in intra-financial statement disclosure period). The primary coefficient of interest is β_1 , which is expected to be insignificant. This means that there is no the adoption of conservatism in the prior-audited financial statement disclosure period.

4.3.3. Models for Testing the Impact of State Ownership on Accounting Conservatism Adoption

The models of the impact of state ownership on accounting conservatism are based on the models of accounting conservatism. The variable $STATE_{it}$ is included in both the original and extended Basu models as follows:

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 STATE_{it} + \beta_3 STATE_{it} D_{it} + \beta_4 STATE_{it} R_{it} + \beta_5 STATE_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.8)$$

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 STATE_{it} + \beta_3 STATE_{it} D_{it} \\ & + \beta_4 STATE_{it} R_{it} + \beta_5 STATE_{it} R_{it} D_{it} + \beta_6 FL_{it} + \beta_7 FL_{it} D_{it} \\ & + \beta_8 FL_{it} R_{it} + \beta_9 FL_{it} R_{it} D_{it} + \beta_{10} SIZE_{it} + \beta_{11} SIZE_{it} D_{it} \\ & + \beta_{12} SIZE_{it} R_{it} + \beta_{13} SIZE_{it} R_{it} D_{it} + \beta_{14} MTB_{it} + \beta_{15} MTB_{it} D_{it} \\ & + \beta_{16} MTB_{it} R_{it} + \beta_{17} MTB_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.9) \end{aligned}$$

The coefficient of interest is β_5 , which measure the impact of state ownership on accounting conservatism adoption. Hopefully, the negative relationship between state ownership and accounting conservatism is found in Vietnam.

In addition, the impact of state ownership on accounting conservatism in a concentration ownership setting is demonstrated with the difference in levels of accounting conservatism between state-controlled enterprises and non-state-controlled enterprises. Similar to equation 4.8 and equation 4.9, variable SCE_{it} is included in both the original and extended Basu models as follows:

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 SCE_{it} + \beta_3 SCE_{it} D_{it} + \beta_4 SCE_{it} R_{it} + \beta_5 SCE_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.10)$$

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 SCE_{it} + \beta_3 SCE_{it} D_{it} + \beta_4 SCE_{it} R_{it} \\ & + \beta_5 SCE_{it} R_{it} D_{it} + \beta_6 FL_{it} + \beta_7 FL_{it} D_{it} + \beta_8 FL_{it} R_{it} \\ & + \beta_9 FL_{it} R_{it} D_{it} + \beta_{10} SIZE_{it} + \beta_{11} SIZE_{it} D_{it} + \beta_{12} SIZE_{it} R_{it} \\ & + \beta_{13} SIZE_{it} R_{it} D_{it} + \beta_{14} MTB_{it} + \beta_{15} MTB_{it} D_{it} + \beta_{16} MTB_{it} R_{it} \\ & + \beta_{17} MTB_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.11) \end{aligned}$$

In this case, the coefficient of interest is β_5 , which measure the difference in levels of accounting conservatism adoption between state-controlled enterprises and non-state-controlled enterprises. Consistent with Chen et al. (2010), the coefficient is expected to be significantly negative, which indicates state-controlled enterprises have lower levels of accounting conservatism adoption than non-state-controlled enterprises.

4.3.4. Models for Testing the Impact of Foreign Ownership on Accounting Conservatism Adoption

Like the way of constructing the model testing the impact of state ownership on accounting conservatism, $FOREIGN_{it}$ is added to both the original and extended Basu model of accounting conservatism to test the impact of foreign ownership on the accounting conservatism adoption.

$$\frac{E_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 FOREIGN_{it} + \beta_3 FOREIGN_{it} D_{it} + \beta_4 FOREIGN_{it} R_{it} + \beta_5 FOREIGN_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.12)$$

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 FOREIGN_{it} + \beta_3 FOREIGN_{it} D_{it} \\ & + \beta_4 FOREIGN_{it} R_{it} + \beta_5 FOREIGN_{it} R_{it} D_{it} + \beta_6 FL_{it} + \beta_7 FL_{it} D_{it} \\ & + \beta_8 FL_{it} R_{it} + \beta_9 FL_{it} R_{it} D_{it} + \beta_{10} SIZE_{it} + \beta_{11} SIZE_{it} D_{it} \\ & + \beta_{12} SIZE_{it} R_{it} + \beta_{13} SIZE_{it} R_{it} D_{it} + \beta_{14} MTB_{it} + \beta_{15} MTB_{it} D_{it} \\ & + \beta_{16} MTB_{it} R_{it} + \beta_{17} MTB_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.13) \end{aligned}$$

According to the only study on the impact of foreign ownership on accounting conservatism of An (2015), coefficient β_5 is expected to be significantly positive.

4.3.5. Model for Testing the Impact of the Interaction between Foreign Ownership and State Ownership on Accounting Conservatism Adoption

In this study, the effect of the interaction between foreign ownership and state ownership on accounting conservatism adoption is interpreted as the impact of foreign ownership on the association between state ownership and accounting conservatism adoption. In this way, the product of $STATE_{it} \times FOREIGN_{it}$, representing the interaction between foreign and state ownership, is added to Basu-based models of accounting conservatism.

$$\begin{aligned} \frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 STATE_{it} + \beta_3 STATE_{it} D_{it} \\ & + \beta_4 STATE_{it} R_{it} + \beta_5 STATE_{it} R_{it} D_{it} + \beta_6 STATE_{it} \times FOREIGN_{it} \\ & + \beta_7 STATE_{it} \times FOREIGN_{it} D_{it} + \beta_8 STATE_{it} \times FOREIGN_{it} R_{it} \\ & + \beta_9 STATE_{it} \times FOREIGN_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.14) \end{aligned}$$

$$\begin{aligned}
\frac{E_{it}}{P_{it-1}} = & \alpha_0 + \alpha_1 D_{it} + \beta_0 R_{it} + \beta_1 R_{it} D_{it} + \beta_2 STATE_{it} + \beta_3 STATE_{it} D_{it} \\
& + \beta_4 STATE_{it} R_{it} + \beta_5 STATE_{it} R_{it} D_{it} + \beta_6 STATE_{it} \times FOREIGN_{it} \\
& + \beta_7 STATE_{it} \times FOREIGN_{it} D_{it} + \beta_8 STATE_{it} \times FOREIGN_{it} R_{it} \\
& + \beta_9 STATE_{it} \times FOREIGN_{it} R_{it} D_{it} + \beta_{10} FL_{it} + \beta_{11} FL_{it} D_{it} \\
& + \beta_{12} FL_{it} R_{it} + \beta_{13} FL_{it} R_{it} D_{it} + \beta_{14} SIZE_{it} + \beta_{15} SIZE_{it} D_{it} \\
& + \beta_{16} SIZE_{it} R_{it} + \beta_{17} SIZE_{it} R_{it} D_{it} + \beta_{18} MTB_{it} + \beta_{19} MTB_{it} D_{it} \\
& + \beta_{20} MTB_{it} R_{it} + \beta_{21} MTB_{it} R_{it} D_{it} + \varepsilon_{it} \quad (4.15)
\end{aligned}$$

Coefficients β_5 and β_9 are two variables of interest. The coefficients are predicted to be statistically different from each other. This dispersion indicates the presence of foreign ownership in state-related ownership structure tends to change the impact of state ownership on accounting conservatism.

4.4. Conceptual Framework

After completing the theoretical investigation, the conceptual framework of investigating accounting conservatism in a concentration ownership setting is made to direct the procedure for conducting this study. Specifically, the procedure can be divided into second stages. The first stage focuses on investigating the benefits of accounting conservatism to financial statement users. The results of this stage will show the importance of the financial information quality to financial statement users. The second stage explores the impact of state and foreign ownership on accounting conservatism adoption in a concentration ownership setting. There are three steps to test this relationship. First, the study examines the impact of state ownership on accounting conservatism adoption. Next is the association between foreign ownership on accounting conservatism adoption. Last, the interaction between foreign ownership and state ownership is investigated in relation to accounting conservatism adoption. The results of this stage provide empirical evidence on the relationship between concentration ownership and accounting conservatism, completing the objective of the study which is to investigate the impact of concentration ownership on financial information quality.

5. FINDINGS AND DISCUSSIONS

This section demonstrates the outcomes of the study. It is constructed into six subsections. The first is the benefits of the accounting conservatism adoption to financial statement users reviewed from prior studies. Second, the study provides empirical evidence on the adoption of accounting conservatism in Vietnamese financial statements via two characteristics of accounting conservatism consisting of asymmetric news recognition timeliness and asymmetric persistence of earnings changes. Third, the study shows the statistically significant relationship between the financial reporting disclosure and the accounting conservatism adoption. The remaining sections are the results of the impact of state and foreign ownership on the accounting conservatism adoption.

5.1. Benefits of Accounting Conservatism Adoption

Based on reviewing previous studies, the study produces a summary of the benefits of accounting conservatism adoption to each financial statement users as as Figure 5.1.

To equity market users	To debt market users	To corporate governance users
<ul style="list-style-type: none">• Reduce the effects of information asymmetry (Lafond and Watts, 2008; Hui et al, 2009; Francis et al., 2013; Kim et al., 2013, Kim and Zhang, 2016; Goh et al., 2017)	<ul style="list-style-type: none">• Have better assessments of borrowers' financial capacity, thereby lowering interest rate to lenders (Watts, 2003a; Ahmed et., 2002; Zhang, 2008)• Mitigate information asymmetry in the debt market (García Lara et al., 2016 and others)	<ul style="list-style-type: none">• Increase the efficiency of compensation management (O'Connell, 2006; Iyengar and Zampelli, 2010; Iwasaki et al., 2018)• Induce the beneficial effects on investment decisions (Ahmed and Duellman, 2007; Francis and Martin; 2010; Long et al. 2012; Pan, 2017)

Figure 5.1: Benefits of Accounting Conservatism Adoption
Source: Own construction

5.2. Adoption of Accounting conservatism

Using Basu models, the results show that there exist asymmetric timeliness in news recognition and asymmetric persistence of earnings changes in the financial reporting of Vietnamese enterprises. These characteristics indicate that the financial statements of the Vietnamese firm ensure the accounting conservatism adoption.

To see the impact of the international economic integration on accounting conservatism adoption, the study examines accounting conservatism over time. The result indicates that accounting conservatism is not adopted at the first phase of the international economic integration and during the financial crash period (commonly referred to as the 2008-2009 period). However, it is likely that the quality of financial reporting based on accounting conservatism adoption in Vietnam has a sign of an improvement after the financial crisis. Ball et al. (2003) theorize that market forces and political forces can influence financial reporting practice.

5.3. Impact of Financial Information Disclosure on Accounting Conservatism Adoption

The impact of financial information disclosure on accounting conservatism adoption is tested through the effects of the difference in the stock returns calculation between the end of the fiscal year and three months after the fiscal year.

This study finds that asymmetric news recognition timeliness is statistically significant in the period of audited financial statement disclosure, whereas the reverse is for the period before the financial statement disclosure. Furthermore, this result gives an implication on data collection. Especially, stock returns, a proxy for economic news, should be collected during the financial information disclosure. This data collection increases the reliability of testing the accounting conservatism adoption, especially in code-law countries.

5.4. Impact of State Ownership on Accounting Conservatism Adoption

The study tests the impact of state ownership on accounting conservatism by including $STATE_{it}$ in both the original (1997) and extended (2009) Basu models as equation 4.7 and equation 4.8. The results are supportive of H4, which posits that accounting conservatism adoption reduces as the percentage of state ownership increases. Overall, the relationship between state ownership and accounting conservatism in Vietnam is consistent with the one in the US

(Bushman and Piotroski, 2006) and in China before the adoption of the ownership structure reforms (Zhou and Li, 2008).

Also, the Vietnamese state-controlled enterprises still adopt accounting conservatism in financial reporting. The experts suggest that this possibility is due to the efficiency of the government's reforms to the Vietnamese accounting system. Besides, state-controlled enterprises in the sample are those whose stocks are listed on Vietnamese stock exchanges. They must abide by rules and regulations on the listing requirements. The reform of the credibility of financial markets may encourage the adoption of accounting conservatism (Chen et al., 2010). However, as mentioned above, accounting conservatism adoption reduces as state ownership increases. Thus, reforms designed to decline state ownership in state-controlled enterprises should continue to go on a right track as it should.

Moreover, the result indicates that state-controlled enterprises have lower levels of accounting conservatism adoption than non-state-controlled enterprises. The finding is inconsistent with the one of Cullinan et al. (2012). Accordingly, they find that there is no difference in accounting conservatism adoption between state-controlled and non-state-controlled enterprises due to the 2005 securities reforms in China, which were intended to align the interests of the state with the ones of private shareholders. The Vietnamese experts suggest that the ownership structure reforms in Vietnam may not be enough to lead to the finding found in the study of Cullinan et al. (2012).

5.5. Impact of Foreign Ownership on Accounting Conservatism Adoption

Like the way of testing the relationship between accounting conservatism adoption, the addition of $FOREIGN_{it}$ to both the original (1997) and extended (2009) Basu models creates equation 4.12 and equation 4.13 used to test the impact of foreign ownership on accounting conservatism. The study finds the foreign ownership is negatively associated with accounting conservatism. The result is inconsistent with the ones of An (2015). According to the experts' opinions, the transient hypothesis would explain for this finding. However, the experts argue that the percentage of foreign ownership in Vietnam has yet to reach concentration ownership but is not determined as a rate of minority ownership. Thus, the active-monitoring hypothesis matches concentrated foreign ownership, but the transient hypothesis does not need to work with minor foreign ownership.

Furthermore, there would exist a percentage of foreign ownership as a threshold which changes foreign investors' incentive to monitor managers, thereby changing the relationship between foreign ownership and accounting conservatism adoption.

5.6. Impact of the Interaction between Foreign Ownership and State Ownership on Accounting Conservatism Adoption

The study tests the impact of the interaction between foreign ownership and state ownership on accounting conservatism adoption based on equation 4.14 and equation 4.15. The results indicate that foreign ownership could reduce the influence of state ownership on accounting conservatism as the percentage rate of foreign shareholders goes to the influential threshold. The experts suggest that the presence of foreign shareholders, especially foreign blockholders, genders a confrontational manner to the state government, which in turn leads to precautionary managerial operations including financial reporting.

In addition, similar to the role of foreign blockholders in the relationship between foreign ownership and accounting conservatism, foreign blockholders could decline the negative association between state ownership and accounting conservatism but cannot change this relationship completely. According to the experts' opinions, foreign investors' stake is not enough to counterbalance the state's controllable power. Moreover, most foreign investors are momentum investors (Batten and Vo, 2014; Batten and Vo, 2015). They do not have a strong incentive to monitor managers actively. Otherwise, they are sensitive to the volatility of the market and tend to take short positions subject to "bad news." Meanwhile, the Vietnamese state-related enterprises have a need to attract foreign investment under the government's reforms. Thus, the state may tend to prejudice managers to prepare the appearance of financial statements to satisfy foreign investors. These arguments lead to a trivial impact of foreign ownership on the relationship between state ownership and accounting conservatism adoption, especially in case foreign ownership has yet to reach a controllable threshold.

This implication is made clear through the results of testing the impact of foreign ownership on accounting conservatism in state-controlled enterprises. The results indicate that foreign ownership does not influence the adoption of accounting conservatism of state-controlled firms. Otherwise, the state shareholder decides whether or not the firm adopts accounting conservatism as the controlling power is in the hands of the state shareholder. As shown in descriptive statistics, foreign ownership in state-controlled enterprises is much lower than the one in non-state-controlled enterprises. Therefore, the voice of foreign shareholders in the decision-making process of the firm is weak, and they would have fewer incentives and opportunities to monitor managerial behavior actively, potentially influencing the adoption of accounting conservatism. Expressed another way, the influence of foreign ownership on accounting conservatism adoption is crowded out completely by the controlling power of the state shareholder in state-controlled enterprises.

6. LIMITATIONS

The findings mentioned above show the extent to which the study has answered all research questions. It provides empirical evidence on the impact of concentration ownership on accounting conservatism adoption in Vietnam, a typical transition economy. However, in any study of this nature, there are several limitations in the data collection and analysis processes.

Referring to the data, the research period ranges from 2005 to 2015. However, the distribution of the number of observations each year has no equal. Especially, the Vietnamese publicly held companies have listed their stocks on the Vietnamese stock exchanges increasingly, which leads to the widening gap in data between the pre- and post-financial-crisis period. This deters the tests from making a comparison of different periods' accounting conservatism adoption. Additionally, data regarding the controlling share of foreign shareholders are limited. Therefore, the study cannot test the impact of foreign ownership on accounting conservatism in a setting where foreign ownership reaches concentration ownership. It also prevents the study from putting state and foreign ownership on an equal footing to further investigate the effects of the interaction between state and foreign ownership on accounting conservatism adoption.

With regard to analysis processes, there remain some unsolved issues. First, the study only focuses on the benefits of accounting conservatism adoption and completely neglect the cost of accounting conservatism. Second, the study reviews a classification of accounting conservatism but centers on the general accounting conservatism. The models used in this study are based on conditional accounting conservatism. Unconditional accounting conservatism is totally omitted as it was explained in section 2.1.3 "Types of Accounting Conservatism." Third, the primary measures employed to test the accounting conservatism adoption are Basu-based measures. There are other groups of measures such as accrual-based measures, cash-flow-based measures, and book-to-market-based measures. However, they are not used to make the research results more robust. The controversy surrounding accounting conservatism measures remains to be another research problem of accounting conservatism. To keep the main objective of the study on the right track, the study only uses the original Basu measure (1997) to test the relationships and then confirm the results with the extended measure (Khan and Watts, 2009).

Last, the study examines only the state and foreign shareholders and in explaining the impact of state and foreign ownership on accounting conservatism adoption. The study does not attempt to assess whether the specific policies of the ownership structure reform in Vietnam may affect accounting conservatism adoption. This study would provide an explanation for the results of the study inconsistent with the findings of Cullinan et al. (2012).

7. CONTRIBUTION

This study extends the literature with the exploration of the role of corporate governance to financial reporting quality in transition countries in several ways.

Firstly, this study reviews the recognized benefits of accounting conservatism and then classifies them according to financial statement users' perspective. These results confirm the role of accounting conservatism adoption in financial reporting, which lay the foundations for the necessity of the whole study.

Secondly, the study extends the literature on the relationship between corporate governance and accounting conservatism. Specifically, the study supports the notion of Watts and Zimmerman (1986) that auditor and manager incentives influence choice among accounting standards with the findings that although Vietnamese accounting standards are different from international accounting standards, the market effects induce managers to adopt accounting conservatism. The financial information disclosure is one of those effects. Moreover, the findings of the impact of financial statement disclosure likely provide some recommendations on data collection in code-law countries.

In response to Xie's call (2015) for exploring the relationship between concentration ownership and financial information quality, the study not only provides additional evidence on the relationship between state ownership and accounting conservatism but also reconciles previous seemingly conflicting findings. In addition, following closely An's research (2015) on the relationship between foreign ownership and financial information quality, the study provides new empirical evidence on this relationship and the association between foreign and state ownership on financial information quality both separately and concurrently in a concentration ownership setting.

Practically, the expected research results provide useful information on the financial information quality in Vietnam. Additionally, this research is expected to provide a helpful reference for regulators and accounting standard-setters involved in making regulation changes in corporate governance and financial information quality. Last but not least, the results could provide beneficial information for the decisions of financial statement users.

8. CONCLUSION

This study is expected to extend the literature with the exploration of the role of corporate governance in accounting information quality. Due to the nature of a transition economy, the study on the impact of state and foreign ownership on accounting conservatism adoption is the one on the adoption of accounting conservatism in a concentration ownership setting.

Using data from a sample of listed companies in Vietnam for the period from 2005 to 2015, this study examines the effects of state and foreign ownership on accounting conservatism using both the basic and extended Basu model. The findings show that accounting conservatism is negatively associated with both foreign and state ownership. However, the interaction between state and foreign ownership significantly impact accounting conservatism adoption. Specifically, the presence of foreign ownership could reduce the negative influence of state ownership on accounting conservatism as foreign ownership reaches to the influential rate. The study expands on previous ones (Bushman and Piotroski, 2006; Zhou and Li, 2008; Cullinan et al., 2012; An, 2015; Mohammed et al., 2017). The study gives more insights into the association between state ownership and accounting conservatism. State ownership is found to have a negative impact on accounting conservatism even within the reform period. This result is inconsistent with the findings in China (Zhou and Li, 2008; Cullinan et al., 2012), which raises the potential interest of the relationship between the efficiency of reforms and accounting conservatism adoption, the impact of components of reforms on the adoption of accounting conservatism, or the impact of factors regarding the international economic integration and the convergence to global accounting standards on accounting conservatism adoption. They would be interesting topics in transition countries such as Vietnam.

In addition, the transient hypothesis of the negative impact of foreign ownership on accounting conservatism has been confirmed. However, there has still been limited research on the relationship between foreign ownership and accounting conservatism. More research should be conducted to make the possible explanations of its hypotheses clear up. Furthermore, the study provides empirical evidence on the association between mixed ownership and accounting conservatism, which is the topic with many rooms to explore. The interaction between state ownership and foreign ownership is only part of a mixed ownership structure. Further research could be conducted on the impact of the mixed ownership structure on accounting conservatism adoption. The last but not least, the study practically provides useful references for the reforms in Vietnam.

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