INVESTMENT, IFRS ADOPTION AND CONDITIONAL ACCOUNTING CONSERVATISM IN SOUTH ASIA

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INSTITUTE FOR ADVANCED STUDIES
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ABSTRACT

The purpose of this study is to examine the relationship between types of investment (foreign direct investment, foreign portfolio investment and domestic investment) and conditional accounting conservatism in South Asia. This study uses the model developed by Basu (1997), Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015) to measure conditional accounting conservatism. The sample consists of listed companies in India, Pakistan, Bangladesh and Sri Lanka during the period of 2006 to 2015. The research hypotheses of the study were tested on a panel Generalized Method of Moments (GMM) estimator. This study found that there is a high incremental conditional accounting conservatism for foreign direct investment in emerging economies, in particular South Asia. Moreover, it was found that South Asian firms are less likely to recognize economic losses for foreign portfolio investment and domestic investment unlike foreign direct investment. In addition, the result ensures that conditional accounting conservatism affects positively on each type of investment in South Asia. In addition, it was found that there is a moderating effect of International Financial Reporting Standards (IFRS) adoption on the relationship between each type of investment and conditional accounting conservatism in South Asia. In a theoretical perspective, this study makes several contributions. Firstly, it contributes to conditional accounting conservatism and foreign direct investment research by adding new evidence that there is a high incremental conditional accounting conservatism for foreign direct investment in emerging economies. Secondly, it contributes to conditional accounting conservatism research, by providing the new insight that firms in South Asia are less likely to recognize economic losses for foreign portfolio investment and domestic investment. In addition, this study contributes new evidence that conditional accounting conservatism is also a significant determinant for each type of investment in South Asia. Thirdly, the study

contributes to the IFRS research by providing new evidence that IFRS adoption moderates the relationship between each type of investment and conditional accounting conservatism in South Asia. From a policy perspective, economic decision makers such as central banks and relevant ministries will benefit from this result by attracting investment to enhance economic development. The study is crucial for the authoritative decision makers in the field of accounting, such as professional accounting bodies in South Asia to make policy decisions to improve accounting quality. In addition, the study has a methodological implication that a dummy variable for foreign direct investment shows lower incremental conditional accounting conservatism, while real data for foreign direct investment shows higher incremental conditional accounting conservatism.

Keywords: Conditional conservatism, Emerging economies, Financial reporting quality, IFRS, Information asymmetry, Investment, Signaling theory.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji hubungan antara jenis pelaburan (pelaburan langsung asing, pelaburan portfolio asing dan pelaburan domestik) dan konservatisme perakaunan bersyarat di Asia Selatan. Kajian ini menggunakan model yang dikembangkan oleh Basu (1997), Ball dan Shivakumar (2005) dan Hämäläinen dan Martikainen (2015) untuk mengukur konservatisme perakaunan bersyarat. Sampel ini terdiri daripada syarikat-syarikat tersenarai di India, Pakistan, Bangladesh dan Sri Lanka dalam tempoh 2006 hingga 2015. Hipotesis penyelidikan kajian ini telah diuji dengan panel Penganggar Kaedah Pengecilan Momen. Kajian ini mendapati bahawa terdapat konservatisme perakaunan bersyarat yang bertambah tinggi untuk pelaburan langsung asing dalam ekonomi yang sedang pesat membangun, khususnya Asia Selatan. Lebih-lebih lagi, didapati bahawa firma-firma Asia Selatan berkemungkinan kurang mengakui kerugian ekonomi bagi pelaburan portfolio asing dan pelaburan domestik, tidak seperti pelaburan langsung asing. Di samping itu, hasilnya memastikan bahawa konservatisme perakaunan bersyarat memberi kesan positif kepada setiap jenis pelaburan di Asia Selatan. Di samping itu, didapati bahawa terdapat kesan sederhana dari penggunaan Piawaian Pelaporan Kewangan Antarabangsa (IFRS) mengenai hubungan antara setiap jenis pelaburan dan konservatisme perakaunan bersyarat di Asia Selatan. Dalam perspektif teori, kajian ini membuat beberapa sumbangan. Pertama, kajian ini menyumbang kepada konservatisme perakaunan bersyarat dan penyelidikan pelaburan langsung asing dengan menambah bukti baru bahawa terdapat konservatisme perakaunan bersyarat bertingkat tinggi untuk pelaburan langsung asing dalam ekonomi sedang pesat membangun. Kedua, kajian ini menyumbang kepada penyelidikan konservatori perakaunan bersyarat, dengan memberikan wawasan baru bahawa firma-firma di Asia Selatan cenderung mengakui kerugian ekonomi bagi pelaburan portfolio asing dan pelaburan domestik. Di samping itu, kajian ini menyumbang bukti baru bahawa

konservatisme perakaunan bersyarat juga merupakan penentu penting bagi setiap jenis pelaburan di Asia Selatan. Ketiganya, kajian ini menyumbang kepada IFRS penyelidikan dengan memberikan keterangan baru bahawa IFRS *moderates* hubungan antara setiap jenis pelaburan dan konservatisme perakaunan bersyarat di Asia Selatan. Dari perspektif dasar, pembuat keputusan ekonomi seperti bank negara masing-masing dan kementerian yang berkaitan akan mendapat manfaat daripada keputusan ini untuk menarik pelaburan bagi meningkatkan pembangunan ekonomi. Dan, kajian ini lebih penting untuk pembuat keputusan yang berwibawa dalam bidang perakaunan, seperti badan perakaunan profesional di Asia Selatan untuk membuat keputusan dasar untuk meningkatkan kualiti perakaunan. Di samping itu, kajian ini mempunyai implikasi metodologi bahawa pembolehubah dummy bagi pelaburan langsung asing menunjukkan penurunan konservatisme perakaunan bersyarat yang lebih rendah, sementara data sebenar untuk pelaburan langsung asing menunjukkan peningkatan konservatism perakaunan bersyarat yang lebih tinggi.

Kata kunci: Konservatism bersyarat, Ekonomi berkembang, Kualiti pelaporan kewangan, IFRS, Asimetri maklumat, Pelaburan, Teori Isyarat.

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LIST OF SYMBOLS AND ABBREVIATIONS

ADF	:	Augment dickey fuller
AFRS	:	Australian financial reporting standards
AGAAP	:	Australian generally accepted accounting principles
AQ	:	Accounting quality
ASB	:	Accounting standard board
BFRS	:	Bangladesh financial reporting standards
BUFR	:	Business freedom
CASL	:	Institute of chartered accountants of Sri Lanka
CMDA	:	Capital market development authority
COC	:	Cost of capital: Commercial banks' lending interest rate.
CORR	:	Corruption
COSE	:	Colombo stock exchange
CSE	:	Chittagong stock exchange
D	:	Dummy variable taking a value of 1 if the prior-year change income is negative, otherwise 0
DIN	:	Domestic investment valued as ratio of gross fixed capital formation to GDP
DSE	:	Dhaka stock exchange
EMNE	:	Emerging multinational enterprises
EXC	:	Exchange rate: end of period average on US dollar
FASB	:	Financial accounting standard board
FDI	:	Foreign direct investment
FPI	:	Foreign portfolio investment
FSTAB	:	Financial stability

GAAP	:	Generally accepted accounting principles
GDP	:	Gross domestic production
GGAAP	:	German generally accepted accounting principles
GMM	:	Generalized method of moments
GROW	:	GDP per capita growth rate
IAS	:	International accounting standards
IASB	:	International accounting standard board
ICAB	:	Chartered accountants of Bangladesh
ICAN	:	Institute of Charted accountants of Nepal
ICAP	:	Institute of chartered accountants of Pakistan
IFRS	:	International financial reporting standards
INFL	:	Inflation (end of period average)
INFR	:	Investment freedom
INFRAS	:	Infrastructure: Telephone/1000 people
IPO	:	Initial public offering
LDIN	:	Domestic investment in log
LFDI	:	Foreign direct investment in log
LFPI	:	Foreign portfolio investment in log
M&A	:	Mergers and acquisition
M&A	:	Mergers and acquisition
MOFR	:	Fiscal freedom
MTKC	:	Market capitalization
NACAS	:	National advisory committee on accounting standards
NPV	:	Net present value
NZGAAP	:	New Zealand generally accepted accounting principles
OLS	:	Ordinary lease square

OPEN	:	Trade openness: Total trade over GDP
SBEs	:	Specified business enterprises
SECP.	:	Securities exchange commission of Pakistan
SIZE	:	Total assets of a company scaled by total assets of all companies.
SLFRS	:	Sri Lanka financial reporting standards
SME	:	Small and medium enterprises
UK	:	United Kingdom
ΔNI_t	:	Change in net company income

LIST OF APPENDICES

CHAPTER 1: INTRODUCTION TO THE STUDY

This chapter comprises seven sections. The first section is the introduction. The second section explains the problem statement. The third section illustrates the research motivation, research questions and research objectives of the study. The scope and the implication of the study are presented in the Sections 1.4 and 1.5 respectively. The final two sections present the chapters of this thesis and the chapter summary, respectively.

1.1 Introduction

Investment has three types, namely foreign direct investment (FDI), foreign portfolio investment and domestic investment. Investment is essential for the development of a country. For example, FDI plays a vital role in the enhancement of economic growth of emerging countries (Abdouli & Hammami, 2017). FDI is an investment made by a company or individual in one country in the business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company (Organisation for Economic Co-operation and Development (OECD), 2008). On the other hand, foreign portfolio investment involves a foreign investor buying securities such as shares or bonds in a local firm (Haddad & Harrison, 1993; Wu, Li, & Selover, 2012). Domestic investment is 'locals investing resources in their own country' (Financial Times, 2018).

Even though a country is able to attract investment, the lack of conditional accounting conservatism would adversely affect the investment of an emerging country more than a developed country (Daniel & Andres, 1999). For instance, Laura, Areendam, Sebnem, and Selin (2004) argued that FDI plays a vital role in enhancing economic growth and for that, conditional accounting conservatism is an important factor. A significant positive relationship exists between conditional accounting conservatism and FDI (Fortin, Barros,

& Cutler, 2009). Moreover, a high level of FDI leads the incentives for highly conservative financial reporting, especially when the free flow of foreign capital is limited in transitional economies (Hämäläinen & Martikainen, 2015).

Transitional economies are shifting from socialist to private ownership, and emerging economies have socialist ownerships (World Bank, 2016). Three reasons can explain the differences that exist in the relationship between FDI and conditional accounting conservatism in transitional and emerging economies. First, the rules and regulations of emerging economies differ from those of transitional countries because transitional countries have more privatization policies (Rolph & György, 1997). The governments of emerging economies exercise more influence to increase their FDI than the governments of transitional countries (Kusi, Joseph, & Peter, 2011).

Second, transitional economies have more transparent policies relating to FDI than emerging economies. For example, the political and economic environment in transitional economies is more biased toward market-based systems (Luo & Peng, 1998). Thus, transitional economies have more transparent policies to attract FDI than emerging economies (Luo & Peng, 1998). In other words, unlike emerging economies, transitional economies have market-based systems, which are increasingly sought by foreign investors (Luo & Peng, 1998), and transparency in policies, regulations, and procedures related to FDI is important for foreign investors and their investment decisions.

Third, emerging economies usually adopt the International Financial Reporting Standards (IFRS) later than transitional economies. According to the IFRS Foundation (2016), transitional countries such as Poland, Romania, and Slovakia adopted IFRS in 2002 under the European Union (EU) agreement. Other emerging economies adopted IFRS later; for example, countries such as India and Pakistan adopted IFRS in 2015 and Bangladesh adopted IFRS in 2013. Sri Lanka adopted IFRS in 2012.

Emerging countries face issues such as a lack of modern technology, an unskilled labor force, a less-developed infrastructure, and insufficient foreign resources (Dos Santos, Favero, & Distadio, 2016; Tchorek, Brzozowski, & Sliwinski, 2017; Yerrabati & Hawkes, 2016). However, these issues may be solved by attracting foreign investment, which offers several benefits, such as new technology transformation, expert human capital involvement, infrastructure development, and the enhancement of foreign reserves (Zheng, 2016).

However, the problem of information asymmetry in emerging countries could badly affect investment (Gigler, Kanodia, Sapra, & Venugopalan, 2009; Lara, Osmaa, & Penalva, 2016) due to the inadequacy of three characteristics of the information: unbiasedness, high quality and relevance, and representational faithfulness. These characteristics are important, particularly for emerging economies, for two reasons. First, the problem of information asymmetry is comparatively higher in emerging economies than in emerged economies due to weak financial institutions and accounting standards (Razin & Sadka, 2003). Second, these characteristics ensure investors' protection in emerging economies (Dos Santos et al., 2016). Conditional accounting conservatism may useful to ensure the three characteristics of information.

In general terms, conditional accounting conservatism means that the accountant can anticipate all possible losses but not the possible profits for an organization. This accounts for the propensity toward a high degree of certification to recognize good news as gains and bad news as losses (Basu, 1997). Conditional accounting conservatism could ensure some or all three of these characteristics of information, and it could reduce information asymmetry. As a result, FDI could positively affect conditional accounting conservatism (Hämäläinen & Martikainen, 2015). Yet some empirical literature (Wang, 2017) indicates

that a negative relationship exists between FDI and conditional accounting conservatism due to the lack of these three characteristics of information.

Therefore, it is important to investigate how the problem of information asymmetry could be eradicated by ensuring the three characteristics of information in order to attract investment in emerging economies. According to prior studies, IFRS adoption could ensure the unbiasedness, high quality and relevance, and representational faithfulness of financial information. Therefore, the aim of this study is to explore the relationship between investment and conditional accounting conservatism and whether the same relationship is moderated by IFRS adoption.

1.2 Problem statement

South Asia is facing a huge problem in terms of attracting investment. For example, South Asia was able to attract less than four per cent of share of the world's foreign investment (UNCTAD, 2018). Furthermore, the problem of information asymmetry is also higher in South Asia compare to other Asian regions and this ultimately affects investment badly. Many scholars have investigated microeconomic concepts with conditional accounting conservatism. For example, Begoña, Ahmed, and Martin (2013) compared conditional conservatism with corporate governance and Ling (2016) compared conditional accounting conservatism with transient institutional ownership. However, there are few prior studies that investigated macroeconomic concepts, particularly investment with conditional accounting conservatism. Furthermore, there are two other main motivations to study the effect of investment on conditional accounting conservatism. First, Hämäläinen and Martikainen (2015) investigated how FDI affects conditional accounting conservatism in transitional economies in Europe. Hämäläinen and Martikainen (2015) used a dummy variable for the FDI. But dummy variables create several issues, such as information loss, the accuracy of the statistical outcome and the

fact that the outcome could be underestimated (Alunan & Royston, 2006; Royston, Altman, & Sauerbrei, 2006). Second, there are contradictory findings on investment and conditional accounting conservatism. For instance, conditional conservatism can reduce the information asymmetries, which is a significant factor for FDI (Lara et al., 2016; Qi, Hemmer, & Zhang, 2007). However, Gigler et al. (2009) argue that conditional conservatism increases the information symmetry, which is an important attribute for the FDI. Furthermore, Fortin et al. (2009) argue that there is a significant positive relationship between FDI and conservative financial reporting (Fortin et al., 2009). Wang (2017) argues that there is a negative relationship between FDI and conditional accounting conservatism.

1.3 Research motivation, research questions and research objectives

Table 1.1 Research questions and research objectives

Research Question	Research objectives
1. What is the relationship between FDI and conditional accounting conservatism in South Asia?	i. To identify the effect of FDI on conditional accounting conservatism in South Asia. ii. To investigate the effect of conditional accounting conservatism on FDI in South Asia.
2. What is the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia?	i. To identify the effect of foreign portfolio investment on conditional accounting conservatism in South Asia. ii. To investigate the effect of conditional accounting conservatism on foreign portfolio investment in South Asia.
3. What is the relationship between domestic investment and conditional accounting conservatism in south Asia?	i. To identify the effect of domestic investment on conditional accounting conservatism in South Asia. ii. To investigate the effect of conditional accounting conservatism on domestic investment in South Asia.

Research Question	Research objectives
4. Does the relationship between investment and conditional accounting conservatism moderate by IFRS adoption in South Asia?	i. To investigate the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia. ii. To investigate the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia. iii. To investigate the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism in South Asia.

Table 1.1 presents the research questions and research objectives of this study. The study has four research questions and each research question has two research objectives, except research question four. Research question four has three research objectives, since it investigates the moderating effect of IFRS adoption in the relationship between three types of investment and conditional accounting conservatism. Research motivation for each research question is discussed as follows.

The first research question is derived on three main factors. First are the issues identified on binary variables used for FDI in the prior literature. Second is the lack of theoretical explanation on the relationship between FDI and conditional accounting conservatism in South Asia. Thirdly, there is no prior demonstration on the same relationship in South Asia. As motivated on the above-mentioned three factors, this study explores the effect of FDI on conditional accounting conservatism in South Asia in the light of signaling theory.

Moreover, according to prior empirical studies, FDI was taken as a dependent variable as well as an independent variable. Similarly, conditional accounting conservatism also

has been taken as a dependent variable as well as an independent variable. Therefore, because FDI and conditional accounting conservatism are endogenous variables, biased problems might occur. Thus, this study explores the bidirectional relationship between conditional accounting conservatism and FDI.

The second research question is motivated by identified differences between FDI and a foreign portfolio investment. For example, FDI and foreign portfolio investment can be differentiated in terms of the problem of information asymmetry. Prior literature has suggested that conditional accounting conservatism could reduce the problem of information asymmetry. However, there is no prior demonstration for the relationship between foreign portfolio investment and conditional accounting conservatism with a reduction of information asymmetry.

All types of investment are essential for a country's particular foreign investment. However, South Asia invested a much smaller portion, around four percent of the world's foreign investment. Therefore, it is vital to identify parameters for attracting foreign investment to South Asia. In this case, foreign portfolio investment was taken as a dependent variable as well as an independent variable. Similarly, conditional accounting conservatism also has been taken as a dependent variable as well as an independent variable. Thus, this study explores the bidirectional relationship between conditional accounting conservatism and foreign portfolio investment in the light of signaling theory.

The third research question is motivated by four characteristics. First, is domestic investment which is a type of investment that is equally important for the development of a country. However, comparatively few prior studies are available on domestic investment. Second, the problem of information asymmetry can also badly affect domestic investment. Third, South Asia shows a static trend on domestic investment, whereas other Asian regions shown an upward trend and it can be seen that there is a huge

difference in domestic investment in India and other South Asian countries. Fourth, there is no prior demonstration for the relationship between domestic investment and conditional accounting conservatism. On the other hand, endogenous variables exist in the model, such as domestic investment and conditional accounting conservatism. Therefore, in the light of signaling theory, this study investigates the bidirectional relationship between domestic investment and conditional accounting conservatism in South Asia.

The fourth research question is derived basically from the inconsistent arguments in the empirical literature. Inconsistent findings are available, not only in the relationship between FDI and conditional accounting conservatism but also in the relationship between foreign portfolio investment and conditional accounting conservatism, as well as in domestic investment and conditional accounting conservatism. However, this study noticed inconsistent arguments only in the prior studies in which conditional accounting conservatism/accounting quality is taken as the dependent variable.

Therefore, there is an unsolved research gap in the relationship between each type of investment and conditional accounting conservatism. However, IFRS adoption may change the characteristics of information: unbiasedness, relevance and faithful representation, and high quality. Therefore, this study is the first to investigate the moderating effect of IFRS adoption on the relationship between each type of investment and conditional accounting conservatism in South Asia with the application of signaling theory.

1.4 Scope of the study

The scope of this study is to examine the relationship between investment and conditional accounting conservatism in South Asia. The research focuses on the sample of all public listed companies other than financial and insurance companies in India,

Pakistan, Bangladesh and Sri Lanka. The accounting data of public listed companies were derived from Oriana (the Company Information Asia Pacific database) while economics data is derived from the World Bank database.

1.5 Implications

Overall, this study contributes to the body of knowledge in three ways: theory, policy and methodology.

1.5.1 Theory

Multidisciplinary research, particularly in the relationship between investment and accounting quality, is lacking in South Asia. Thus, from the theory perspective, this study contributes to accounting conservatism research, FDI research, foreign portfolio investment research, domestic investment research and IFRS research. Moreover, the study contributes to the signaling theory as it is the basic theory used for this study.

Overall, this study contributes to signaling theory research (Connelly, Certo, Ireland, & Reutzel, 2011; Liu, 1997; Richard, Ciarán, & Tony, 2009; Taj, 2016; Vasudeva, Nachum, & Say, 2018) on reducing information asymmetry among signalers (host countries) and receivers (investment) through signals (quality financial reporting). Moreover, the study contributes to conditional accounting conservatism research and FDI research (Akisik, 2014; Alam, Raza, Shahbaz, & Abbas, 2016; Ball & Shivakumar, 2005; Basu, 1997; Hämäläinen & Martikainen, 2015; Owusu, Saat, Suppiah, & Siong, 2017). Therefore, it adds new evidence that there is a high incremental conditional accounting conservatism for FDI in emerging economies, in particular, in South Asia (Hämäläinen & Martikainen, 2015).

In addition, this study contributes to foreign portfolio investment literature and accounting conservatism literature (Albulescu, 2015; Beneish, Miller, & Yohn, 2015;

Daude & Fratzscher, 2008; Wu et al., 2012). For instance, the study contributes to the accounting conservatism literature by adding a new insight that firms in South Asia are less likely to recognize economic losses for foreign portfolio investment. In addition, this study contributes to the foreign portfolio literature by adding new information that conditional accounting conservatism is also a significant determinant of foreign portfolio investment in South Asia.

Furthermore, this study contributes to the literature of conditional accounting conservatisms (Altaleb & Alokor, 2012; Ashraf & Herzer, 2014; Attarzadeh, 2016; Chaudhuri & Dwibedi, 2017; You & Solomon, 2015) and domestic investment literature (Al-Sadig, 2013; Altaleb & Alokor, 2012; Biddle & Hilary, 2006; Bushman, Piotroski, & Smith, 2011) by providing new evidence that South Asian firms are less likely to recognize economic losses for domestic investment. Furthermore, this study adds new insight to the fact that conditional accounting conservatism affects positively on domestic investment in South Asia.

Moreover, this study contributes to the IFRS research (Ahmed & Ali, 2015; Bhattacharjee & Islam, 2009; Hossain, Hasan, & Safiuddin, 2015; Othman & Kossentini, 2015; Perera & Baydoun, 2007) by adding new evidence that IFRS adoption moderates the relationship between investment and conditional accounting conservatism in South Asia. For instance, IFRS adoption moderates the relationship between FDI and conditional accounting conservatism in South Asia. Also, the relationship between foreign portfolio investment and conditional accounting conservatism is moderated by IFRS adoption in South Asia. Furthermore, IFRS adoption moderates the relationship between domestic investment and conditional accounting conservatism.

1.5.2 Policy implications

This study is crucial for the authoritative decision makers in the field of accounting, such as professional accounting bodies in South Asia to develop a solid policy to improve accounting quality. For example, the Institutes of Chartered Accountants of respective countries will benefit from this study by obtaining policy decisions to improve accounting quality. According to the IFRS Foundation (2016), India has converged with IFRS in 2015 and Pakistan has also adopted IFRS in 2015, whereas Bangladesh adopted IFRS in 2013. In addition, Sri Lanka, Nepal, Maldives and Afghanistan have also adopted IFRS, whereas Bhutan has not done so yet.

Therefore, economic decision-makers in the respective countries will consider strengthening IFRS adoption. In addition, the Securities and Exchange commissions of the respective counties would benefit from imposing new rules and regulations to ensure the quality of the financial statements of firms. Moreover, economic decision-makers such as Central Banks of the respective countries and the relevant ministries of economic development will benefit from this study, particularly in drafting policy to attract investment.

1.5.3 Methodological implications

Hämäläinen and Martikainen (2015) used dichotomous variables for FDI. However, Alunan and Royston (2006) argued that dichotomizing creates several problems in a regression. Firstly, information loss can occur, and this would reduce the accuracy of the regression. Secondly, dichotomizing hides any non-linearity between the variable and the outcome. Finally, fluctuation in the outcome could be underestimated. Similarly, Royston et al. (2006) confirmed that dichotomization will create problems rather than avoiding them.

On the other hand, real data can exhibit more characteristics and has great simulation and feasibility in distribution (Stigler, 1977). Therefore, this study uses real data for FDI which strengthens its contribution. In addition, this study ran a sensitivity testing and confirmed that FDI is a sensitive variable as a result. The result of main regression and sensitivity testing ensured that the model used in this study has an important contribution for the literature on real FDI. Therefore, this study has a methodological implication that a dummy variable for FDI shows lower incremental conditional accounting conservatism, while real data for FDI shows higher incremental conditional accounting conservatism. Lower coefficient values for the predictor variable were shown in the sensitivity test, whereas the main regression showed a higher coefficient value for the predictor variable.

1.6 Chapters of this thesis

This section outlines the seven chapters of this thesis. The first chapter is the introduction of the study. Chapter two discusses on the financial regulatory environment and types of investment in South Asia. Chapter three presents the literature review. Chapter four describes the research framework. Chapter five illustrates the research method of this study. Chapter six presents the analysis and discussion. Chapter seven shows the conclusion.

Below are synopses of the seven chapters.

Chapter one presents the introduction, the problem statement, the research motivation, the research questions and the research objectives. In addition, the scope of the study and the contributions of this study are included in this chapter. The contribution is explained on theory implications, policy implications and methodological implications. Chapter two discusses the financial regulatory environment and the types of investment in South Asia. This includes information on the IFRS adoption-status of South Asia. In addition, this chapter includes information on the types of investment in South Asia.

Chapter three presents a literature review in seven sections. The first is signaling theory and the second is signaling theory and information asymmetry. The third and fourth sections discuss the signaling model and the direction of causality between investment and conditional accounting conservatism. Section five presents about accounting quality. Following to that how conditional accounting conservatism was selected from accounting quality was discussed. Then details of types of investment and information asymmetry were discussed. Subsequent to that the details of IFRS adoption and information asymmetry were presented.

Chapter four discusses the research framework of the study. It consists of the conceptual framework and the research hypotheses of the study. Chapter five is about the research method. It comprises the selection of measure- and sample- design, data collection procedures, and the data analysis techniques of the study. Chapter six presents the analysis and discussion of the study including the result for diagnostic tests, such as panel root testing, the Granger causality test, the panel co-integration test, the auto correlation test, and the over identification moment test.

In addition to the this, descriptive statistics of all of the variables are presented. After this. the results for all of the research hypotheses (6.3 to 6.8) are presented under the subheading of correlation metrics, fixed effect model and random effect model. The result of the regression of sensitivity testing is then illustrated in 6.9, followed by discussion. The final chapter is a conclusion of the study and consists of five sections: a summary of the results, their implications, limitations of the study, future research and a chapter summary.

1.7 Chapter summary

This chapter explains the problem statement of the study and how research questions and research objectives are derived. Overall, the study has four research questions and

the first three investigate the bidirectional relationship between each type of investment and conditional accounting conservatism. The final research question then discusses the moderating effect of IFRS adoption on the same relationship. This chapter also discusses the implications of the study from theory, policy and methodological perspectives.

CHAPTER 2: FINANCIAL REGULATORY ENVIRONMENT AND TYPES OF INVESTMENT IN SOUTH ASIA.

This chapter consists of three sections. Section 2.1 presents the financial regulatory environment in South Asia. Section 2.1.1 illustrates the adoption status of IFRS in South Asia and Section 2.2 explains the details of FDI, foreign portfolio investments and domestic investment in the context of South Asia. A summary of the chapter is presented in the Section 2.3.

2.1 Financial regulatory environment in South Asia

The South Asian countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Companies Acts and professional accounting bodies, such as Institutes of Chartered Accountants largely govern the corporate financial reporting of these countries (Ali, Ahmed, & Henry, 2004). In particular, the Institutes of Chartered Accountants of the respective countries take the responsibility for the adoption of IFRS.

India, Pakistan, Bangladesh and Sri Lanka are major in terms of FDI, and show important positions in the South Asian region in terms of geographical location, population and economic potential. These four countries follow a mixed economic development policy that permits both privately and publicly owned enterprises. Also, these four countries have mature stock markets. The Companies Acts of India, Pakistan, Bangladesh and Sri Lanka set the rules and regulations in terms of company incorporation, appointing directors, appointing auditors, and the winding up of companies. The Companies Acts of India, Pakistan, Bangladesh and Sri Lanka are the Companies Act, 1956 in India, the Companies Ordinance, 1984 in Pakistan, the Companies Act, 1994 in Bangladesh (Ali et al., 2004) and in Sri Lanka, Number 7 of the Companies Act, 2007.

From an accounting point of view, professional accounting bodies such as Institutes of Chartered Accountants largely govern the corporate financial reporting of India, Pakistan Bangladesh and Sri Lanka (Ali et al., 2004). These accounting bodies allow the use of accounting standards, which are primarily issued as International Accounting Standards (IAS), since these countries were British colonies. A detailed description of the financial regulations of India, Pakistan, Bangladesh and Sri Lanka as well as of other South Asian countries is given below.

In India, the accounting standard board is a part of Institute of Chartered Accountants of India and formulates the accounting standards. The National Advisory Committee on Accounting Standards (NACAS) of the Ministry of Corporate Affairs recommends these standards to central government of India and these are then included in the Companies Act (IFRS Foundation, 2016). Moreover, the Securities and Exchange Board of India (SEBI) is responsible for primary functions, which include defending investor interests and encouraging and regulating the Indian securities markets. SEBI was established under the SEBI Act, 1992, and it is the principle regulator for the Stock Exchanges in India.

In Pakistan, there are two organizations that act as the main financial regulators. They are the Institute of Chartered Accountants of Pakistan (ICAP) and the Securities and Exchange Commission of Pakistan (SECP). ICAP is responsible for adopting and issuing recommended accounting standards and auditing standards with the notification of SECP. Furthermore, Islamic financial accounting standards also are setting by ICAP. The SECP has the authority to notify companies regarding accounting standards in Pakistan (IFRS Foundation, 2016). Moreover, the State Bank of Pakistan (SBP) also regulates the financial system in Pakistan, ensuring financial and macroeconomic stability through legal, regulatory, and supervisory frameworks.

In Bangladesh, the authoritative body for setting accounting standards is the Chartered Accountants of Bangladesh (ICAB). ICAB is responsible for issuing new accounting standards for Bangladesh, which are called Bangladesh Financial Reporting Standards (BFRS). All listed companies are registered under Chittagong Stock Exchange (CSE) and Dhaka Stock Exchange (DSE) should follow BFRS which are issued by ICAB (IFRS Foundation, 2016).

In Sri Lanka, the Institute of Chartered Accountants of Sri Lanka (CASL) plays an important role as the main accounting regulatory body. CASL is the official standard-setting body in Sri Lanka (IFRS Foundation, 2016). The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, defined Specified Business Enterprises (SBEs). SBEs should prepare their financial statements in compliance with Sri Lanka Financial Reporting Standards (SLFRS) even though the company is not listed under Colombo Stock Exchange (COSE). Therefore, according to the Sri Lanka Accounting and Auditing Standards Act, as well as the COSE rules, all public listed companies, registered under COSE are required to prepare financial statements in compliance with SLFRS, which are nearly identical to IFRS.

In Nepal, the Institute of Charted accountants of Nepal (ICAN) is responsible for setting and issuing accounting standards. ICAN has formed an independent statutory body, called the Accounting Standard Board (ASB), to formulate the process of setting and issuing of accounting standards and it was established in 2003. The companies' act of Bhutan falls under the Companies' Act 2000 and all listed companies are required to prepare and present financial statements in accordance with its GAAP system. Even though Bhutan has not incorporated IFRS into law, most companies use either Indian accounting standards or IFRS.

The Companies' Act of the Maldives is Act No. 10 of 1996. All companies, registered under this companies act, should prepare and present the financial statements in compliance with IFRS. In addition, the Capital Market Development Authority (CMDA) has issued a corporate governance code which emphasizes that all companies listed on the Maldives Stock Exchange should prepare their financial statements in accordance with IFRS. Afghanistan has three main laws to govern financial regulations: the law of banking, the corporations and limited liability companies' law, and the central bank law. All banks registered in Afghanistan are required to prepare and present their financial statements in compliance with IFRS.

2.1.1 IFRS Adoption-status in South Asia

Table 2.1 illustrates the current status of IFRS adoption in all of the South Asian countries. Data are derived from Deloitte (2017), PWC (2016), and IFRS Foundation (2016). Bhutan has not yet adopted IFRS, but all other South Asian countries have adopted and converged them. The professional accounting bodies of these four countries use accounting standards primarily issued by the International Accounting Standard Board (IASB).

India has converged its accounting standards with IFRS in 2015. In Pakistan, almost all international accounting standards were adopted in 2015, with the exception of IFRS 01 (first time adoption). In Bangladesh, all international accounting standards have been adopted, including IFRS for small and medium enterprises (SME). Bangladesh adopted both IFRS and IFRS for SME, effective from January 1, 2013 and Sri Lanka has adopted IFRS with effect January 1, 2012.

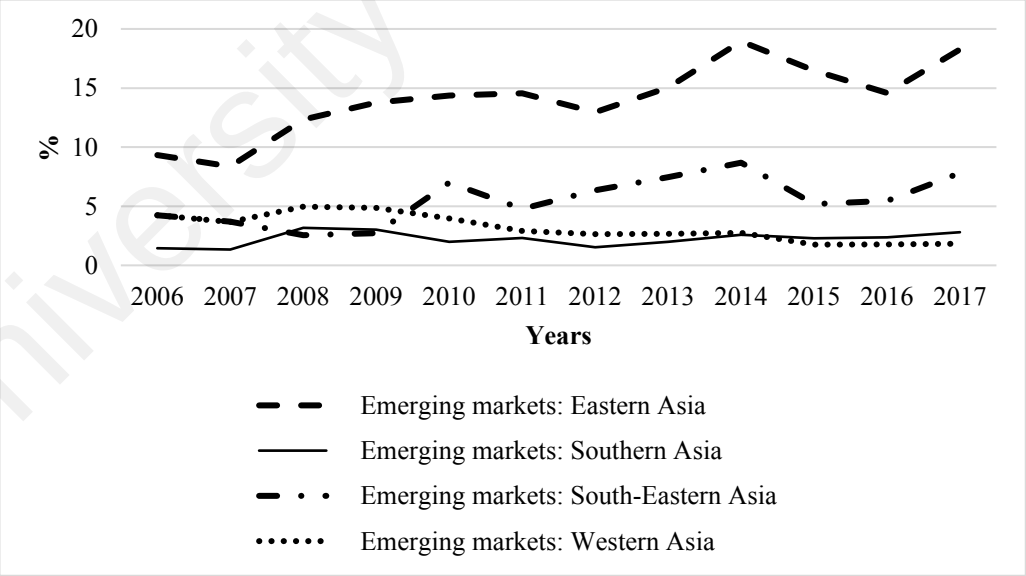
Table 2.1 Status of IFRS adoption of South Asian countries as at 1 January 2016

Country	IFRS adoption status
Afghanistan	Adopted IFRS Standards for all companies other than micro-sized companies and for all banks. Adoption date is not mentioned in the information source.
Bangladesh	Bangladesh updated IASB standards as BFRS and all BFRSs have been updated based on IFRSs 2012. As at January 2013, a version of all IFRS (and IAS) issued by the IASB had been adopted as Bangladesh financial reporting standards by the Institute of Chartered Accountants of Bangladesh.
Bhutan	Bhutan has not adopted IFRS Standards. However, in April 2012, it began a process of adopting IFRS Standards in three phases with the goal of achieving complete adoption by 2021.
India	India intended to converge with IFRS in the year 2011. However, it was postponed and the Indian Ministry of Corporate Affairs (MCA) announce that companies with a net worth of Rs. 500 Million or more have to mandatorily follow Indian Accounting Standards (Ind AS), which are largely converged with International Financial Reporting Standards (IFRSs), from April 1, 2015.
Maldives	The Maldives adopted IFRS Standards and the IFRS for SME. However, the adoption date is not mentioned in the information source.
Nepal	Several IFRS were voluntary adopted and these standards were operative for financial statements covering the periods beginning on or after July 17, 2007. All listed multinational manufacturing companies are required to prepare financial statement on IFRS with effect April 1, 2014 whereas Commercial banks, including state-owned commercial banks with effect April 1, 2015.
Pakistan	All listed companies are required to apply IFRS (as adopted locally) for the preparation of the consolidated and stand alone, separate financial statements with effect January 1, 2015.
Sri Lanka	Sri Lanka has adopted IFRS Standards and the IFRS for SME. Those standards became operative for financial statements for periods beginning on, or after January 1, 2012.

2.2 Types of investment in South Asia

There are three types of investment: FDI, foreign portfolio investment and domestic investment. FDI and foreign portfolio investment together can be called foreign investment. Figure 2.1 illustrates the percentage of foreign investment in Asia compared to world foreign investment from 2006 to 2017. Overall, none of Asian regions passed twenty percent of the world's foreign investment. In addition, it can be clearly seen that there is a downward trend in South Asia and Western Asia, while there is an upward trend in Eastern Asia and South-East Asia. In addition, Eastern Asia was able to maintain the highest share among Asian regions while lowest in South Asia. In particular, South Asia contributes less than four percent of the world's foreign investment while Eastern Asia has more than ten percent. As shown in Figure 2.1, South Asia has a lower share of the world's foreign investment.

Figure 2.1 Foreign investment in Asia as a percent of world foreign investment

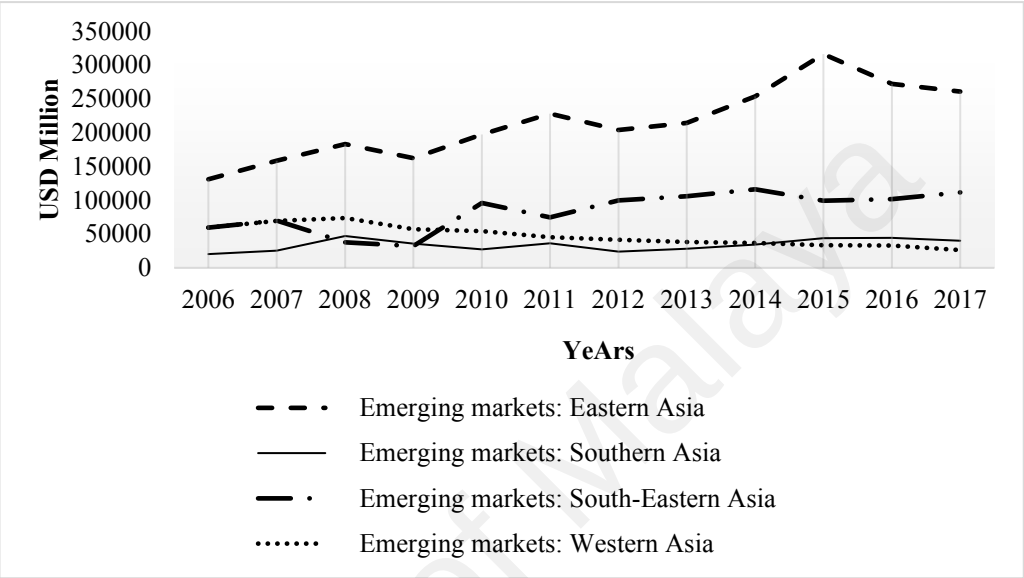


Source: United Nations conference on trade and development (UNCTAD) http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

Figure 2.2 also shows how foreign investment varied in Asia between 2006 and 2017. Foreign investment values are shown in millions of USD. Overall, as per the figure, South Asia shows the lowest foreign investment, while it is the highest foreign investment

in Eastern Asia. In addition, South Asia shows a declining trend throughout the period. Furthermore, a similar trend was also shown in the region of Western Asia. According to the figure, the highest foreign investment recorded in the year 2015 was Eastern Asia.

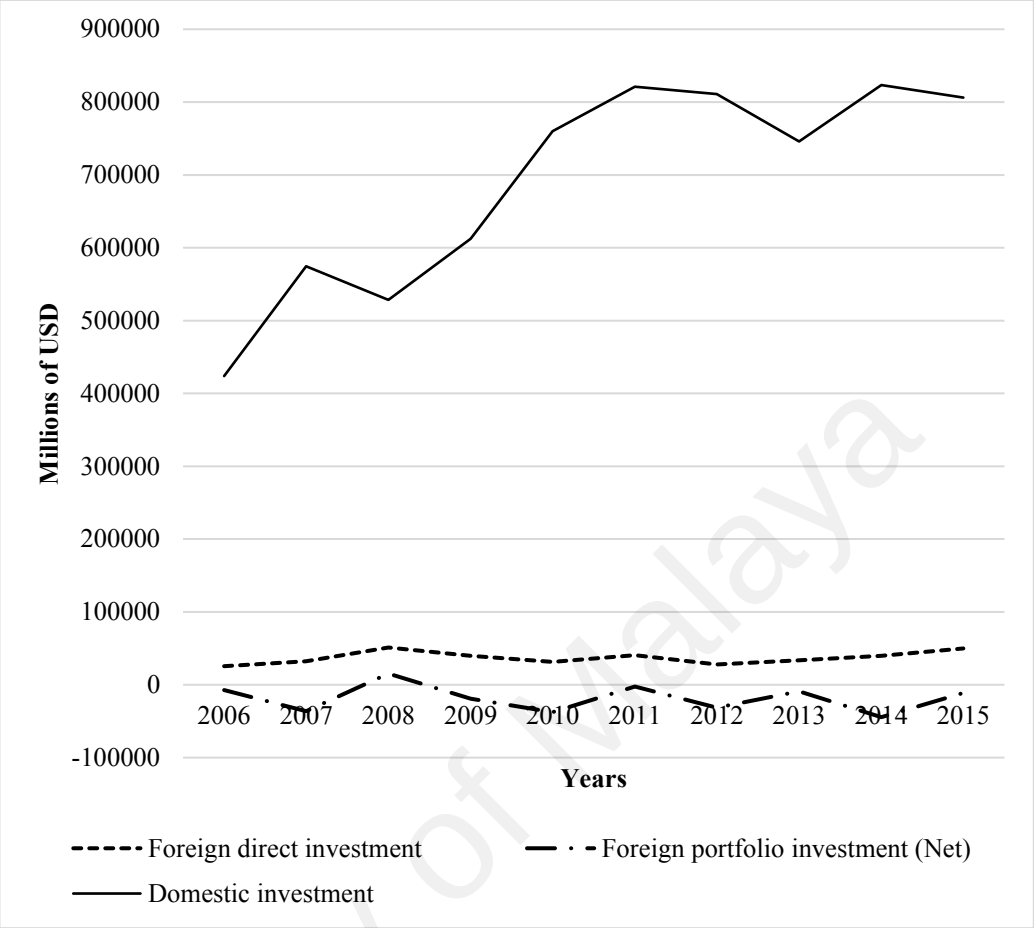
Figure 2.2 Foreign investment in Asia



Source: United Nations conference on trade and development (UNCTAD) http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

Figure 2.3 presents details about three types of investment in South Asia over the period 2006 to 2015. The data were derived from the World Bank database. Overall, it shows the lowest and highest investment in South Asia as foreign portfolio investment and domestic investment respectively. Moreover, there is an upward trend in domestic investment but a downward and fluctuating trend in foreign portfolio investment in South Asia. Furthermore, a constant pattern can be observed in FDI in South Asia. A detailed description of each type of investment in South Asia is given in the subsections that follow.

Figure 2.3 Types of investment in South Asia – Millions of USD

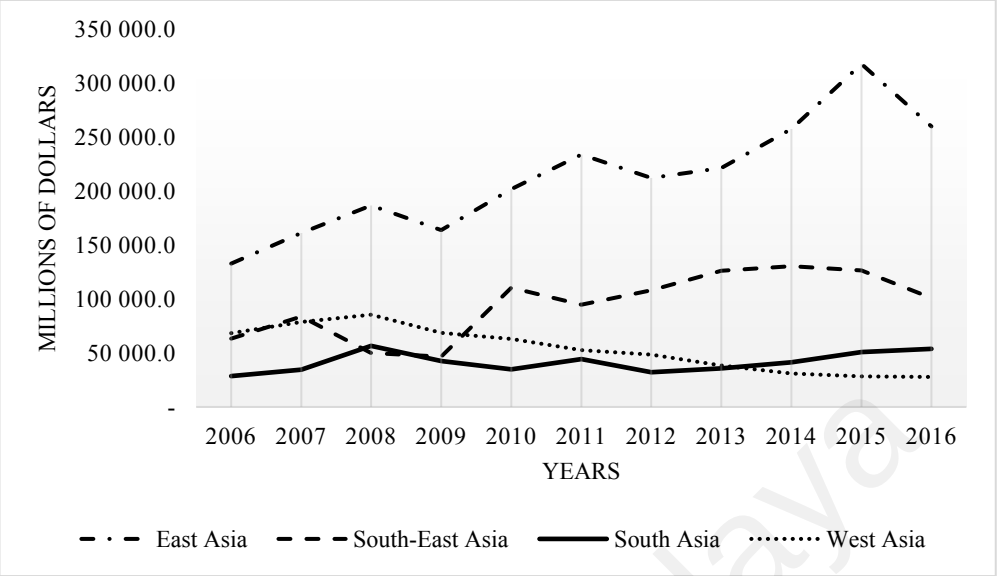


Source: World Bank database: https://data.worldbank.org/indicator

2.2.1 Foreign direct investment in South Asia

The major countries in the South Asian region in terms of highest number of listed companies and highest FDI are India, Pakistan, Bangladesh, and Sri Lanka. As a region, South Asia shows a low FDI compared to other regions of Asia (United Nations Conference on Trade and Development, 2017). Figure 2.4 illustrates the FDI (in millions of dollars) in emerging economies in Asia from 2006 to 2016 for the sub regions of East Asia, South East Asia, South Asia, and West Asia. The highest FDI occurs in East Asia while lowest is in South Asia. In addition, FDI in West Asia gradually reduced over the period.

Figure 2.4 Foreign direct investment in Asia



Source: United Nations conference on trade and development (UNCTAD) (www.unctad.org/fdistatistics).

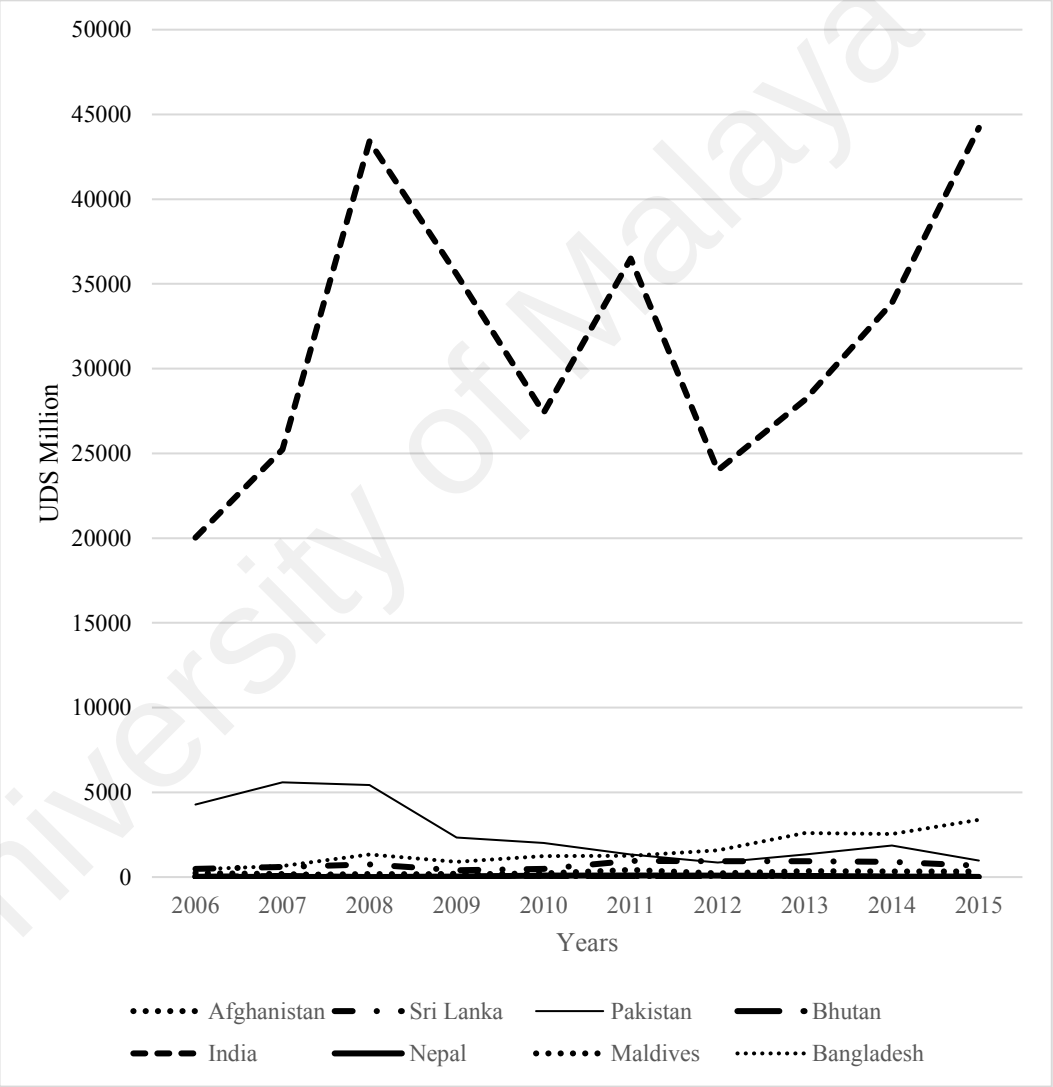
Although the South Asian region shows the lowest rate, FDI is vital for the development of the region as all eight countries in the region are still emerging. These countries face a lack of new technology and expert human capital, among other issues (Pande, 2017); consequently, attracting FDI is important. However, the FDI in Asia shows an inconsistent pattern over the period.

Figure 2.5 shows FDI during the period of 2006 to 2015 in South Asian countries. Overall, the highest FDI recorded in India in 2015, whereas the lowest was recorded in Nepal 2008. Pakistan also showed a declining trend, while Bangladesh showed a positive trend of FDI during the period. It is certainly true that India displayed a fluctuated trend in FDI during period, being the major country in South Asia in terms of FDI. The lowest FDI in India was recorded in 2006, while the highest was in 2015. FDI in India has almost doubled during this period.

In Pakistan, there was a declining trend in FDI during the period. Furthermore, FDI statistics illustrate a fluctuating pattern over the period, with the lowest and highest FDI

recorded in 2012 and 2008 respectively. A 77.08% decrement in the FDI can be seen in 2006, compared with 2015. However, the level of FDI in Bangladesh increased over this period. The lowest FDI inflow is shown in 2006 whereas the highest was recorded in 2015. Furthermore, FDI has increased approximately seven times between 2006 and 2015. In addition, Sri Lanka has also shown an upward trend in FDI over the period.

Figure 2.5 FDI in South Asia in millions of USD



Source: World Bank database: https://data.worldbank.org/indicator

Kamal, Li, Akhmat, Bashir, and Khan (2014) investigated the determinants of South Asian FDI. They emphasized that free from trade barriers, reduced corruption and building appropriate institutions are important for the FDI in South Asia. Benefits from FDI are new technology, expert human capital involvement, infrastructure development

and the enhancement of the foreign reserves. For instance, as a developing country, Sri Lanka is poor in terms of technologies for highway construction and resources (The diplomat, 2017). However, Sri Lanka constructed its first highway (Southern Express Highway) using the power of China's FDI (Road Traffic Technology, 2017).

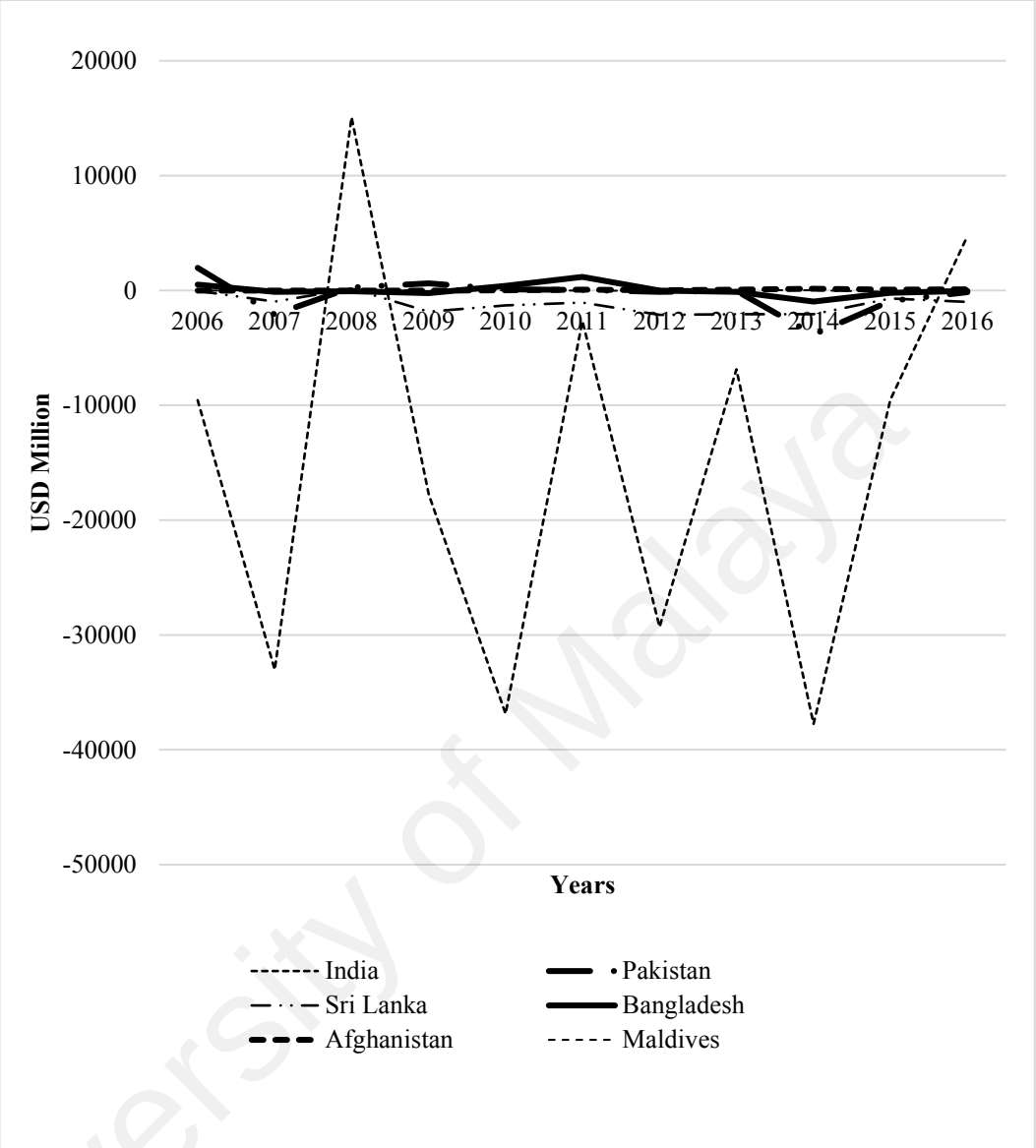
2.2.2 Foreign portfolio investment in South Asia

Very little empirical literature is available on foreign portfolio investment in South Asia. However, as a part of foreign investment, foreign portfolio investment is also important for the development of a country. Foreign portfolio investment can be made through share markets in a particular country in the form of shares or bonds. At any time, foreign portfolio investment can be purchased or sold through share markets.

Figure 2.6 illustrates net foreign portfolio investment in South Asian countries over the period of 2006 to 2016. In this figure, foreign portfolio investment data is presented for six South Asian countries, while data for two countries (Nepal and Bhutan) is absent due to unavailability of the data. Overall, a fluctuating trend can be seen in foreign portfolio investment in South Asia. India shows the highest fluctuation, whereas a steady trend is shown for the Maldives.

The net foreign portfolio investment in South Asia, Pakistan, Bangladesh, Sri Lanka, Afghanistan, and Maldives is shown to have more or less same pattern, while India shows a different pattern than other South Asian countries. India shows a positive net foreign portfolio investment in the years 2008 and 2016, while a negative value is shown for all the other years, according to the figure.

Figure 2.6 Foreign portfolio investment (Net) in South Asia –Millions of USD



Source: World Bank database: https://data.worldbank.org/indicator

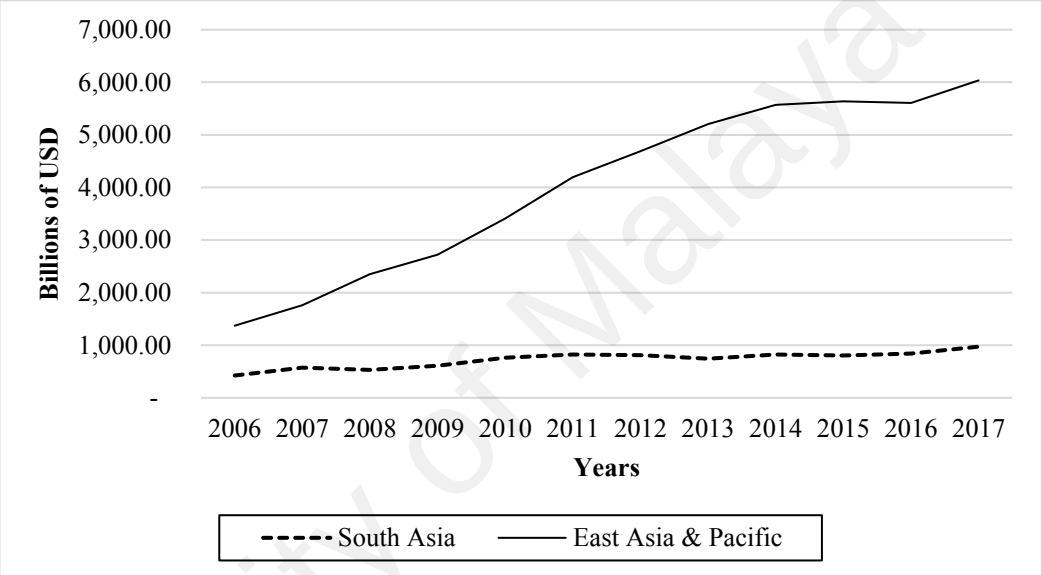
2.2.3 Domestic investment in South Asia

Less scientific studies are available on domestic investment in South Asia compared to FDI, but domestic investment is also important since South Asia ranks the lowest in foreign investment in the Asian region. In addition, in world perspective, South Asia has less than a four percent share in the world's foreign investment. Therefore, it is timely to investigate how domestic investment in South Asia can be strengthened.

Figure 2.7 presents domestic investment in Asia through 2006 to 2017. This figure also differentiates the domestic investment into two regions, namely South Asia and East

Asia. Overall, East Asia and the Pacific show an upward trend, while South Asia shows a steady trend over the period. According to this figure, domestic investment in South Asia not favorable, compared to East Asia and the Pacific. However, a slight upward trend can be seen in the domestic investment in South Asia in the latter part of the years 2015 to 2017.

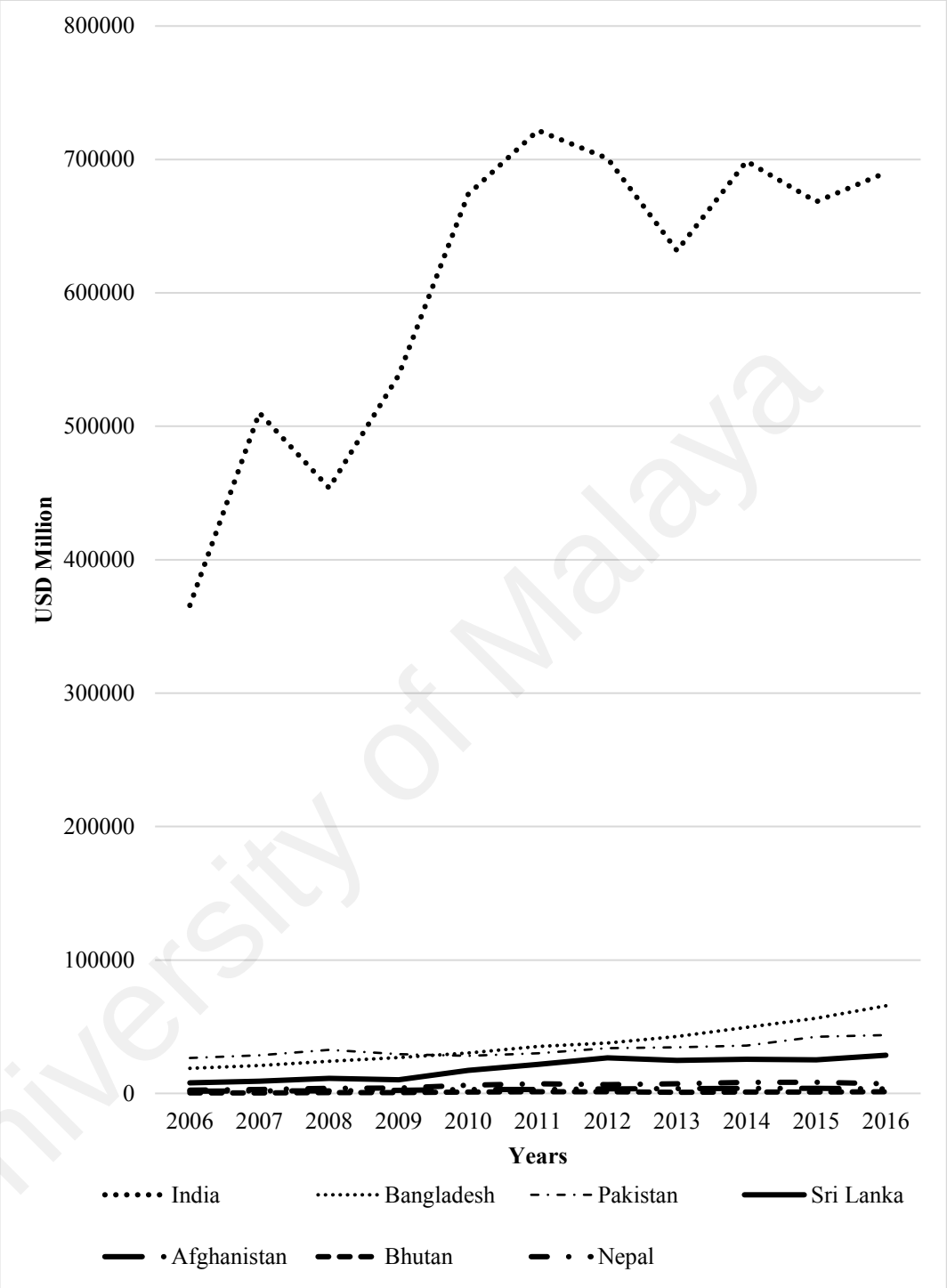
Figure 2.7 Domestic investment in Asia – in billions of USD



Source: World Bank database: https://data.worldbank.org/indicator

Figure 2.8 illustrates the domestic investment in South Asian countries over the period of 2006 to 2016. Seven South Asian countries are shown in the figure and Maldives are absent due to the unavailability of data. Overall, the highest domestic investment value is shown in India, while the lowest is in Nepal throughout the period. In addition, there were fluctuating figures in India over the period, while the other countries present a steady trend over the period. In particular, the second highest domestic investment value is in Bangladesh while next highest is in Pakistan. After Pakistan, the next highest domestic investment value is in Sri Lanka. Moreover, it can be seen that there was a slight upward trend in domestic investment after 2013 in Bangladesh, Pakistan and Sri Lanka.

Figure 2.8 Domestic investment in South Asia – Millions of USD



Source: World Bank database: https://data.worldbank.org/indicator

2.3 Chapter summary

This chapter presented information on financial regulatory environment of South Asian countries and the responsible parties and Acts for financial regulation are highlighted. A detailed explanation of the IFRS adoption-status of each South Asian

country is explained. In addition, the chapter illustrates the declining trend of investment in South Asia using graphical mode.

CHAPTER 3: LITRATURE REVIEW

This chapter consists of eight sections, illustrating prior studies on conditional accounting conservatism, types of investment, and IFRS adoption through signaling theory. Sections 3.1 to 3.3 explain the signaling theory and how this study fits with this theory. Section 3.4 describes the accounting quality. Section 3.5 illustrates conditional accounting conservatism. Section 3.6 presents types of investment and Sections 3.7 and 3.8 discuss IFRS adoption and provide a chapter summary.

3.1 Signaling theory

Signaling theory was developed by Spence (1974), and in the context of this theory, firms disclose enough information in their financial statements to deliver specific signals to stakeholders, such as employees, customers, creditors, current investors and potential investors (Agyei-Mensah, 2017). Management aims to disclose information about the good performance of the firm in the financial reporting, in order to enhance their reputation. Thus, reporting high quality financial information in the financial statements provides a good signal for the investors (Agyei-Mensah, 2017).

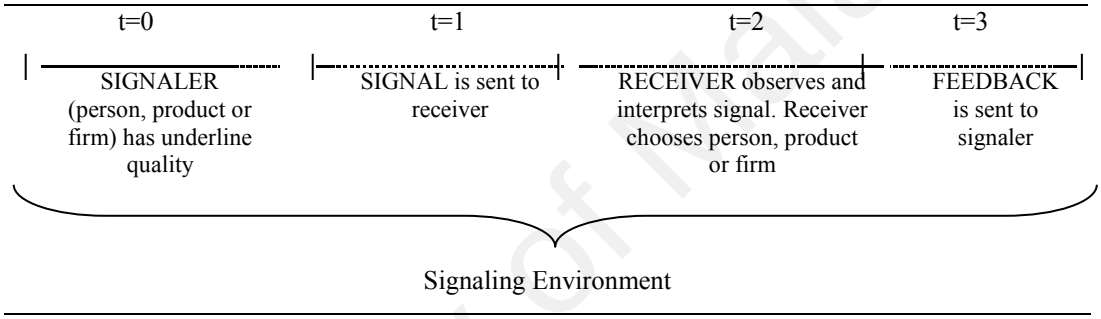
Therefore, signaling theory is useful for the parties who are dealing with information economics, particularly for those using asymmetric information (Spence, 1974). Signaling theory is used to explain the behavior of two parties who have different information (Connelly et al., 2011). Therefore, signaling theory is a very popular with management scholars, in the areas of human resources, strategic management, entrepreneurship, economics, finance and accounting (Connelly et al., 2011).

Many studies have also integrated signaling theory with management elements including entrepreneurship (investment) studies (Arthurs, Busenitz, Hoskisson, & Johnson, 2009; Bell, Moore, & Al–Shammari, 2008; Certo, Daily, & Dalton, 2001;

Michael, 2009) that illustrated foreign and domestic investment through foreign initial public offering (IPO), and domestic IPO. Furthermore, prior studies (An, Davey, & Eggleton, 2011; Chan, Chen, Chen, & Yu, 2012; Zhang & Wiersema, 2009) have integrated signaling theory with accounting quality to attract potential investors.

Thus, it is important to understand the key elements of the signaling theory. Figure 3.1 illustrates the key elements of signaling theory with the timeline, and overall, it has four elements (Connelly et al. (2011)).

Figure 3.1 The Elements of Signaling Theory



Note: t = time
Source: Connelly et al. (2011), p. 44

According to the signaling theory timeline, the four elements are the signaler, the signal, the receiver and feedback. The place where all these four elements appear is called the signaling environment. Multiple signalers, signals and receivers can sometimes be involved. For an instance, investors (FDI, foreign portfolio investors and domestic investors) may react to multiple signals sent by firms or organization or countries (Connelly et al., 2011). Therefore, understanding the meanings of these four elements is essential.

The first element is the signaler. The signaler is an insider who has access to the information which outsiders cannot access. Thus, the signaler has information about the individual product or organization, that are not available for outsiders (Connelly et al.,

2011). Insiders may gather information, both positive and negative, that may be beneficial for outsiders. Prior studies (Bell et al., 2008; Certo et al., 2001) have considered firms (companies) as signalers that promote the initial public offering among local and foreign investors. In that sense, even a government can be a signaler (Bartels, Eicher, Bachtrog, & Rezonja, 2009; Cai & Yu, 2009) for creating quality signals to attract foreign and domestic investment.

The second element is the signal. As mentioned above, insiders collect both positive as well as negative information and insiders decide which information to communicate to outsiders. However, signaling theory mainly focuses on positive signals on organizational attributes. But insiders may communicate negative signals such as the issuing of new shares of a firm with outsiders and this may reduce asymmetric information even though the insiders unintentionally spread negative signals (Connelly et al., 2011). In this sense, based on the signaling theory, some examples for positive signals are high quality financial reporting (Krishnan & Zhang, 2014; Labelle, Gargouri, & Francoeur, 2010), accounting conservatism (Richard et al., 2009), and IFRS adoption (Agyei-Mensah, 2017). Moreover, Katayama and Miyagiwa (2009) have tested signaling theory by considering FDI as a signal.

The third element of the signaling timeline is the receiver. Receivers are outsiders who are having deficiencies in information and are willing to receive information about an individual, an organization or a firm. In other words, receivers are the parties who receive the signals issued by signalers. According to the Connelly et al. (2011), the signaling process should consist of strategic insight. For example, a signaler should get benefits from the receivers through signals, which are created by the signalers. Furthermore, the receiver may have to make alternative decisions on the signal. For instance, the receiver can select one decision from alternative ideas about their saved money, such as hiring,

purchasing or investing. Prior studies have tested receivers of signaling theory as investors such as equity holders (Certo et al., 2001), or debt holders (Elliott, Prevost, & Rao, 2009). Furthermore, some studies have used different types of investment, such as FDI (Vasudeva, Nachum, & Say, 2017), foreign portfolio investment (Arthurs et al., 2009) and domestic investment (Reuer & Ragozzino, 2012) for testing signaling theory.

The final element of the signaling timeline is the feedback, which is sent to the signaler by the receiver. However, many management studies have not highlighted the importance of getting information back to signalers from receivers (Gupta, Govindarajan, & Malhotra, 1999). Feedback is more important in providing an effective signaling environment (Connelly et al., 2011). Moreover, the fundamental assumption of feedback in signaling theory is that information asymmetry works for both directions, from signaler to receiver as well as from receiver to signaler. This means that signalers wish for information about receivers, and on the other hand, receivers desire information about the signalers (Connelly et al., 2011). As a result, signalers can recognize which signals are more reliable for receivers to make decisions and signalers can get information on how the receivers are interpreting the signals. In summary, the signaling environment (a combination of all four elements) can reduce information asymmetry.

3.2 Signaling theory and information asymmetry

In the current context, information economy is an emerging concept among scholars. Information has been recognized as imperfect and thus, organizations have to pay the cost for the information (Stiglitz, 2000). Therefore, information is important in two aspects: quality and intent (Stiglitz, 2000). In the perspective of quality, information asymmetry is crucial when one party is not fully aware of the characteristics of the other party. From perspective of intent, information asymmetry is crucial when one party is more concerned about the behavior or behavioral intentions of another party and a lot of information

asymmetry research (Connelly et al., 2011; Jensen & Meckling, 1976; S. Ross, 1973) has focused on this perspective. However, understanding information asymmetry from a quality perspective is equally important for reducing information asymmetry among parties. For this, elements of signaling theory are crucial to dealing with information asymmetry on the latent and unobservable quality of information. Ultimately, it has encouraged many researchers to follow signaling theory in management research (Connelly et al., 2011).

Therefore, signaling theory is fundamentally about reducing information asymmetry (Connelly et al., 2011; Spence, 1974, 2002; Vasudeva et al., 2017). Individuals, businesses and governments use information for decision making. However, the decision-making process can be affected by information. Some information is publicly available for everyone, whereas some information is private and cannot be accessed by everyone. Therefore, information asymmetry arises when different groups of people know different things about the same subject (Stiglitz, 2002). Moreover, some people may use private information that it does not expose to others for decision making, and ultimately leading to information asymmetry (Connelly et al., 2011).

One key role of signaling theory is reducing information asymmetry (Connelly et al., 2011; Taj, 2016), and this study predicts that the problem of information asymmetry among investors and firms can be resolved by following signaling theory. Moreover, according to the signaling theory, it is very important to understand the role of the signaler as well as role of receiver. In addition, knowledge on signals, interpretation of signals by receivers as well as feedback is also important in a successful signaling environment. Therefore, how signaling theory is related to this study is discussed below.

3.3 Signaling model

Figure 3.2 illustrates the signaling model developed for this study by connecting variables of the study with the elements of signaling theory. This signaling model is developed by following Connelly et al. (2011) and Mukherjee, Makarius, and Stevens (2018). As shown in the figure, four elements exist in the signaling model. First element is the signaler. In this study, public listed companies, and governments of South Asian countries are considered as signalers (Arthurs et al., 2009; Bell et al., 2008; Katayama & Miyagiwa, 2009; Vasudeva et al., 2018).

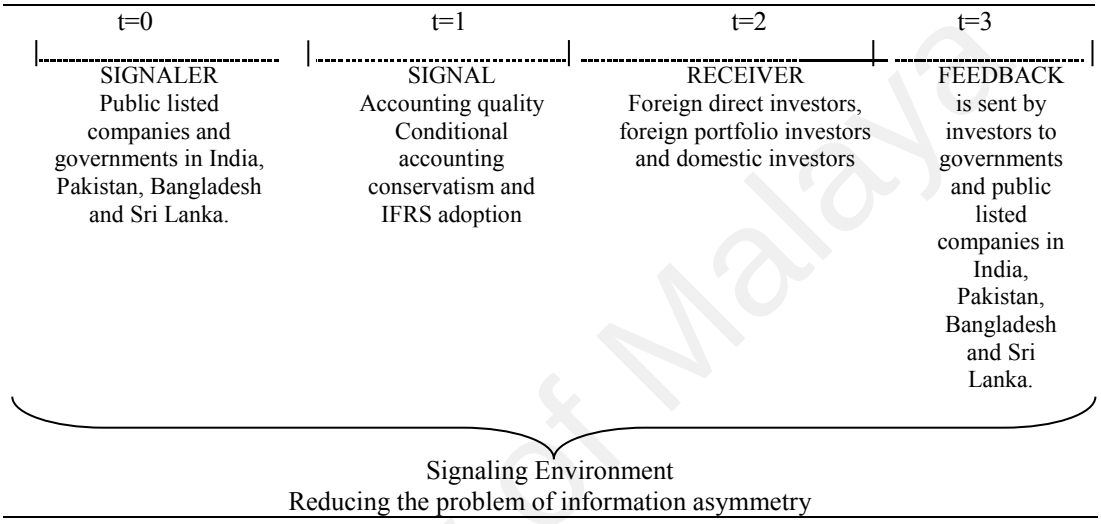
The second element of the signaling model is the signal. In this study, accounting quality, conditional accounting conservatism and IFRS adoption are recognized as signals. Conditional accounting conservatism has been used as a signal by Richard et al. (2009). Furthermore, Richard et al. (2009) revealed the relationship between debt investment and conditional accounting conservatism by explaining how the signal of conditional accounting conservatism reduces the problem of information asymmetry. Some prior studies (Agyei-Mensah, 2017; Labelle et al., 2010) have also considered IFRS adoption as a signal.

The third element is the receiver. In this study, three types of investment, FDI, foreign portfolio investment and domestic investment are considered as receivers. FDI has been used by prior studies (Akhigbe & Martin, 2000; Katayama & Miyagiwa, 2009; Liu, 1997) as a receiver in signaling theory. Some prior studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) also used signaling theory to discuss the initial public offering as a receiver. In this case, both foreign portfolio investment and domestic investment are included.

Therefore, signaling theory fits this study as described above and the governments of host countries in South Asia as well as public listed companies in South Asia act as

signalers. They enhance the investment of FDI, foreign portfolio investment and domestic investment, which are the receivers through signals such as conservative financial reporting (Quality of Financial Reporting) and IFRS adoption. Moreover, three types of investors may interpret the quality of financial reporting and as a result, signalers may get benefits such as enhanced investment.

Figure 3.2 The signaling model for this study



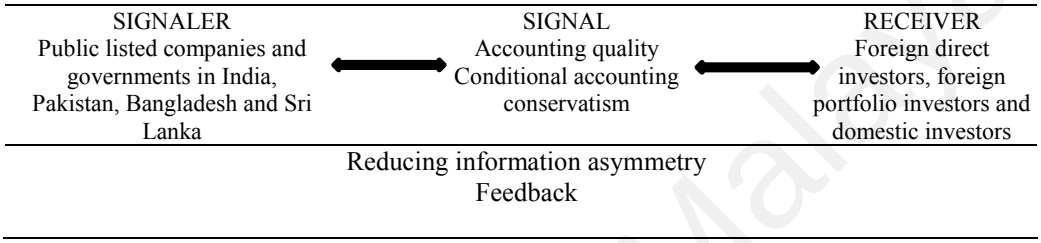
Note: t = time
Source: Author developed by following Connelly et al. (2011),

3.4 The direction of causality between investment and conditional accounting conservatism from signaling theory

The relationship between investment (FDI, foreign portfolio investment and domestic investment) and conditional accounting conservatism is examined by this study. In the light of signaling theory, prior studies (Katayama & Miyagiwa, 2009; Liu, 1997) used same item (investment) as a signal as well as a receiver. For instance, FDI has been considered as a signal (Katayama & Miyagiwa, 2009) as well as a receiver (Akhigbe & Martin, 2000). Thus, understanding, the real direction of investment and conditional accounting conservatism is timely.

Figure 3.3 discusses the directional causality between investment and conditional accounting conservatism. In the figure, both directions are mentioned, first, from investment to conditional accounting conservatism and second, from conditional accounting conservatism to investment. This means that investment is a signal for maintaining quality accounting and accounting quality is a signal for attracting investment.

Figure 3.3 Directional causality



Source: Author, developed by following signaling theory

3.5 Accounting quality

Accounting quality is a famous concept among accounting and economic scholars (Armstrong, Guay, & Weber, 2010) and it has mixed evidence in the empirical literature. Thus, many prior studies (Armstrong et al., 2010; Fama, 1970; Fama & Jensen, 1983; Richard et al., 2009; W. Ross & Jerold, 1990) have tried to establish a theory on accounting quality. However, as this study investigates the behavior of several parties (governments, firms, investors) who are facing asymmetric information, the signaling theory is used to explain the importance of accounting quality as one of signals for information seekers.

Signaling theory indicates the information imbalance between two parties. Thus, this theory is very useful to explain the behavior of two parties who have different information for making a decision (Connelly et al., 2011). The theory shows how one party who has different information communicates/signals with another party who is trying to understand the signals by interpretation skills. For example, different types of investors

have different information for their investment decisions. Therefore, conditional accounting conservatism, being a method to measure accounting quality, is useful to ensure the information imbalance between the two parties (Richard et al., 2009).

Due to information imbalance between two parties, the problem of information asymmetry arises. Information asymmetry occurs when one party has a higher quality of information than the other party when dealing with investment decisions (Brown, Hillegeist, & Lo, 2004). For instance, the problem of information asymmetry creates an inequity of power in the investment. Information asymmetries between different types of investors, such as domestic investors, foreign direct investors and foreign portfolio investors can have an adverse effect on an investment decision (Amiram, 2012).

Therefore, information asymmetries are important attributes for investment decisions (Ahearne, Griever, & Warnock, 2004). Thus, investors tend to hold local firm shares rather than foreign shares due to the information asymmetries between domestic and foreign investors. However, accounting quality can reduce the problem of information asymmetry up to some extent. Hence, conditional accounting conservatism may be useful as a method to measure accounting quality and to reduce the problem of information asymmetry among different types of investors (Din, Cheng, & Nazneen, 2017; Zhefeng & Fayez, 2015).

Thus, Ahmed and Ali (2015) argued that accounting quality is a vital concept, particularly in South Asia since it ensures a higher level of uniformity and transparency in financial reporting. According to the conceptual framework of financial reporting, the objective of financial reporting is to provide financial information to the parties who have invested their resources to the entity. Relevance and faithful representation are the fundamental qualitative characteristics of financial reporting. In addition, enhancing qualitative characteristics also raises the conceptual framework of financial reporting.

Enhancing qualitative characteristics are understandability, comparability, verifiability and timeline. Therefore, quality accounting information is vital for stakeholders for effective economic decision making.

Accounting quality can be defined as the effectiveness of financial reporting to the decision making process of investors (Hämäläinen & Martikainen, 2015). In line with the previous studies, the accounting quality has been measured by a variety of methods, such as discretionary accruals, discretionary revenue, earning management, earning smoothing, value relevance, timely loss recognition and conditional conservatism (Ding, Liu, & Wu, 2016; C. Feng, Ole-Kristian, Qingyuan, & Xin, 2011; Hämäläinen & Martikainen, 2015; Hribar, Kravet, & Wilson, 2013).

Based on the empirical literature, earning management can be defined as persistent involvement to manipulate the external financial reporting process (Chunhui, Lee, Nan, & Ling, 2011). Similarly, Kothari, Leone, and Wasley (2005) have defined earnings management as the perspective of managers' belief that the stakeholders of a business can be misinformed by disclosing accounting revenue in the financial statements as the profitability of the business. (Kothari et al., 2005). 'Earning smoothing' is a specific form of earning management (Chunhui et al., 2011).

Furthermore, discretionary accruals can be used in the test of earning management (Kothari et al., 2005). Association between accounting amounts and security market values explains the value relevance concept as a one of measurement methods of accounting quality. The investors, potential investors and creditors of a business can analyze the valuation of the securities issued by companies, which can be observed by the empirical researchers to understand how beneficial the financial information is to them (Huang, Lee, Lyu, & Zhu, 2016). The Value Relevance technique has been used by Huang et al. (2016) to measure the effect of accounting academics in the corporate

governance of a firm in the perspective of the financial reporting quality. Moreover, the timely loss recognition is a part of accounting quality, and is related to the concepts of value relevance and conservatism (Ball & Shivakumar, 2005).

Thus, the usefulness of financial statements could be improved on 'timely loss recognition' particularly in corporate governance and debt agreement (Ball & Shivakumar, 2005). The firms that have greater influence from common law were shown to have a greater level of reporting conservatism (Junjian & Semba, 2016). Junjian and Semba (2016) found that earning quality can be improved by reducing earning management in firms which are located countries where there is more influence from common law. Even though earning management, value relevance and timely loss recognition are frequently used by the researchers, accounting quality, measured in the perspective of the audit fee of a firm can be seen as a new method (Hribar et al., 2013).

3.6 Conditional accounting conservatism

In line with previous studies, accounting quality has been measured by a variety of methods, such as discretionary accrual, discretionary revenue, earning management, earning smoothing, value relevance, timely loss recognition, and conditional conservatism (Ding et al., 2016; C. Feng et al., 2011; Hämäläinen & Martikainen, 2015; Hribar et al., 2013). However, revenue models are less biased than accrual models for detecting earning quality since revenue models detect a combination of revenue and expense manipulation (Stubben, 2010). Therefore, one can argue that conditional accounting conservatism is a less biased method since it is a revenue model. Moreover, by following signaling theory, conditional accounting conservatism is an element of a signaling timeline.

One crucial accounting practice is conservatism (Francis, LaFond, Olsson, & Schipper, 2004). Conservatism has been defined as "accountants' tendency to require a

higher degree of attribute of accounting quality that has influenced verification for recognizing good news than bad news in financial statements" (Basu, 1997, p.6). In other words conservatism is earnings are more reflective of 'bad news' than 'good news' (Basu, 1997). According to Ball and Shivakumar (2005), conservatism, explained as accounting, is biased when reporting lower values in terms of shareholder equity.

In general terms, lowest value can be reported among alternative possible values for assets. On the other hand, highest value can be recorded among all possible value for the liabilities. Moreover, revenue should be recognized when it was earned rather than received, and expenses should be recognized when they are incurred, rather than when they are paid (Ball & Shivakumar, 2005). In other words, an accountant can anticipate all possible losses and does not anticipate the possible profits in an organization. This rule symbolizes the propensity of a high degree of certification to be recognized good news and bad news as gains and losses respectively (Basu, 1997).

There are different criteria when profits and losses are included in the financial statements, when they can be seen as conservatism. Asymmetric timelines of gains and losses are also called earnings conservatism or conditional conservatism. According to the empirical literature, there are four key explanations of conservatism: contracting, litigation, taxation and accounting regulation (Watts, 2003). Even though contacting and litigation have a limited effect on conservatism, taxation and accounting regulation have a significant effect (Watts, 2003).

In addition, accounting conservatism has two dimensions: conditional accounting conservatism and unconditional accounting conservatism. Firms that have quality accounting expect to be provided high quality financial information with verifiable evidence, particularly for losses, financial declines, and adverse financial transactions

(Iatridis, 2011). Thus, firms can disclose high quality accounting information when it is difficult to get verification for the information. This provides conditional conservatism.

Conditional accounting conservatism (or ex post or news-dependent) means that the book values of assets and liabilities are written under adequately adverse circumstances but not the reverse under favorable circumstances (Beaver & Ryan, 2005). For instance, according to the International Accounting Standard (IAS) 2, inventories should be recognized at the lower of cost or net realizable value. Moreover, according to IAS 16 and IAS 36, property, plant, and equipment should be measured with an adjustment for impairment loss. In addition, conditional accounting conservatism can be explained as disclosing high-quality accounting information when it is difficult to obtain the proper evidence. For instance, firms that employ high-quality accounting are expected to provide high-quality financial information with verifiable evidence, particularly for losses, financial declines, and adverse financial transactions (Iatridis, 2011).

On the other hand, if a firm provides less quality disclosure on its financial statements, it encourages unconditional conservatism. Less verifiable information is easier to manipulate. Therefore, it would reduce the wealth of both managers and shareholders of a firm. Managers would act on an opportunistic agenda if the firm has unconditional conservatism. Ball and Shivakumar (2005) have shown that private firms report lower quality earnings than public firms, since there is a lower demand for high quality information from private firms. Market demand is an important element to determine conservatism (Ball & Shivakumar, 2005). Furthermore, high quality accounting information, accompanied with more conditional conservatism shows less information asymmetry (Ball & Shivakumar, 2005).

Moreover, unconditional accounting conservatism (or ex ante or news-independent) means that the characteristics of the accounting process determined at the beginning of

assets and liabilities yield expected and unrecorded goodwill (Beaver & Ryan, 2005). For example, in property, plant, and equipment, depreciation is determined at the beginning, based on the expected useful life and the expected scrap value. Furthermore, if a firm provides lower quality disclosure on its financial statements, it encourages unconditional conservatism. Less verifiable information is easier to manipulate. Therefore, it reduces the wealth of both managers and shareholders of a firm. In addition, managers may act on their own opportunistic agendas if a firm has unconditional conservatism.

Thus, conditional accounting conservatism is a crucial measurement technique in accounting quality (Basu, 1997). It measures timely gain and loss recognition as there is a tendency for increases and decreases in income to reverse (Basu, 1997). Accounting gains are more permanent than accounting losses since accounting gains are not recognized until they are realized. Therefore, positive accounting earnings are rarely reversed. On the other hand, negative accounting earnings are reversed more frequently. High-quality accounting information is accompanied by more conditional conservatism and shows less information asymmetry (Ball & Shivakumar, 2005).

3.7 Types of investment and information asymmetry

Being a multidisciplinary study, three types of investment were taken into consideration to investigate the research hypotheses of this research: FDI, foreign portfolio investment, and domestic investment. Hereafter, all three types of investment are referred to as types of investment. Furthermore, types of investment can be divided in to two groups: foreign investment and domestic investment. Again, foreign investment has two types: FDI and foreign portfolio investment.

There are more studies on FDI (Efobi, Iyoha, & Dick, 2014; Nnadi & Soobaroyen, 2015; Owusu et al., 2017) whereas few studies are available on foreign portfolio investment (Humanicki, Kelm, & Olszewski, 2017) and domestic investment (Rhodes,

2015). However, irrespective of the type, all investment is a crucial element for the development of an economy (Lewis, 2017; Peinhardt, 2016). However, the problem of information asymmetry is common for all investment, irrespective of the type. Therefore, this study follows signaling theory with problem of information asymmetry being a base concept of the theory and ultimately suggests solutions for reducing the problem of information asymmetry on types of investment (receivers) through conditional accounting conservatism and IFRS adoption as signals.

The following subsections further discuss FDI, foreign portfolio investment and domestic investment by applying the signaling theory to the problem of information asymmetry. Overall, in information, three characteristics were highlighted in this study: unbiasedness, representational faithfulness and high quality. The study argues that because of lack of these characteristics of information, the problem of information asymmetry become a huge issue among foreign and domestic investors.

3.7.1 Foreign direct investment

In a macroeconomic perspective, FDI is a kind of capital flow from a country of origin to a host country. As stated in the first sections in this chapter, the study follows signaling theory to explore each research hypotheses. According to signaling theory, FDI can be identified as both elements of the signal as well as the receiver. Ragazzi (1973) explained the term FDI as the amount of resources a resident of a country invests to acquire a company in another country that has more control over the investment. FDI can be made by a person, a corporation, or a government, which could be referred to as the resident of a country. New technology could be transferred through FDI to accelerate the overall economic growth of the investee's country, and many countries offer benefits for the investors, such as special tax incentives and subsidies to attract FDI (Carkovic & Levine, 2002).

However, it is widely agreed that FDI would no longer exist if there were perfect competition in the world. Dunning (1973) explained that ownership advantage motivates FDI since it tries to either reduce the cost or to enhance the income. Further, Dunning (1973) illustrates that when a firm operates in a different country, additional costs are incurred, for an example additional tax expenses, transportation costs, and labor costs. Thus, there are certain characteristics needed to survive in a foreign market. Dunning (1973) highlighted three types of ownership advantages. First, monopoly advantages are given through ownership of limited natural resource or patents, or trademarks to the foreign firms. Second, through new technology, ownership advantages can be derived. For instance, innovative products can be made with high quality and low cost. Third, if a foreign firm can manufacture on a large scale, this will help to reduce the unit cost of production.

The next important determinant for the FDI is the location. The host country for the FDI is determined based on location advantages. There are three main categories for specific advantages of location. The first is the economic benefits of the location, such as transportation costs, telecommunication costs, and market size. The second is political advantages. For example, government policies directly affect the FDI. The final one is social advantages, meaning that the cultural diversity and the attitude of the people in the host country towards strangers. Internalization can be made through signing agreements with the foreign companies. Through these agreements, FDI can exploit its powers on the sale of goods and services.

In addition to the above determinants, financial information quality also may be important for FDI though few prior studies exist. Thus, three characteristics of information are used for FDI. The first characteristic is that the information should be unbiased (Qi et al., 2007). The second is that the information should be of high quality.

The final characteristic is that the financial information should be relevant and representational. As a large amount of resources are invested in FDI in different countries, it is essential to have information with these characteristics. If not, the expected benefits of FDI would not be achieved. A lack of these characteristics in information provided in a country will lead to information asymmetry.

Reducing the information asymmetry is the fundamental objective of signaling theory and it is important to enhancing FDI. Information asymmetry means that when one party of an investment has information, but another party does not have the same quality of information. In particularly, emerging economies face a problem of information asymmetry and this is a common issue that influences FDI (Aqeel, Nishat, & Bilquees, 2004; Groh & Wich, 2012; Padilla-Perez & Nogueira, 2016). Furthermore, Groh and Wich (2012) argue that even though FDI has increased in emerging economies, developed economies are still enjoying more than 75% of worlds' FDI. South Asian countries have shown a slight declining/ static trend in FDI over the last decade. Thus, this study argues that conditional accounting conservatism being used as a signal could decrease information asymmetry, and this would eventually attract FDI.

3.7.1.1 FDI and conditional accounting conservatism in the context of transitional economies and emerging economies

Hämäläinen and Martikainen (2015) found that FDI is enhanced by earning quality, measured through conditional conservatism in transitional economies in Central and Eastern Europe. Transitional economies are changing from a centrally planned economies to market economies (Burawoy & Krotov, 1992). In contrast, emerging economies generally have a less developed industrial base as well as a lower human development index than other economies (Sullivan & Steven, 2003). Therefore, transitional economies can be differentiated with emerging economies on three characteristics.

First is the transparency of policies, meaning that transitional economies have a more market-based approach and generally more transparent policies than emerging economies (Moran, 1998). If a country takes steps to enhance transparency in its policies, FDI can be increased significantly (Drabek & Payne, 2002). Second, privatization is also a considerable factor for differentiating transitional economies with emerging economies. Rolph and György (1997) revealed that privatization influences labor issues in emerging economies and transitional countries. Furthermore, Rolph and György (1997) emphasized that political privatization still applies in transitional economies and it is difficult to see political privatization in emerging economies. For an instance, Uhlenbruck and De Castro (2000) investigated the effect of FDI on privatization in transitional economies. They concluded that foreign acquisitions, as a part of FDI, present critical managerial issues in transitional economies, such as not fitting with mergers. But, Bahadur (1996) argued that emerging economies have more FDI from privatization. Moreover, a comparatively large portion of FDI from privatization can be seen in emerging economies (Bahadur, 1996). In particular, Bahadur (1996) highlighted that South Asian countries show 4.03 percent of FDI from privatization as a percentage of total FDI, whereas Central and Eastern Europe show 1.27 percent. The third characteristic for differentiating transitional economies with emerging economies is IFRS adoption. According to the IFRS Foundation (2016), many European countries, as transitional economies, adopted IFRS under the EU agreement in 2002. However, particularly South Asian countries, as emerging economies, adopted IFRS after 2002 (IFRS Foundation, 2016).

As differences exist between transitional economies and emerging economies, conditional accounting conservatism affects FDI differently. For instance, Ball and Shivakumar (2005) argued that conditional accounting conservatism reduces the managerial incentive to accept investments that have a negative net present value,

particularly in transitional economies. This means that if the net present value of an investment is negative, the entire investment should be rejected. However, managers would accept the investment based on the incentives to be received.

3.7.1.2 FDI, conditional accounting conservatism and information asymmetry

According to prior empirical studies (Gigler et al., 2009; Lara et al., 2016), the problem of information asymmetries can affect FDI. Many prior studies (Ahearne et al., 2004; Amiram, 2012; Beng, Chee, Gerald, & Yen, 2017; Brown et al., 2004; Lara, Osmaa, & Penalva, 2011; Lara et al., 2016; Song, 2016; Verrecchia, 2001) highlight that conditional accounting conservatism can reduce information asymmetry which is the fundamental aim of the signaling theory. Thus, it is important to investigate how conditional accounting conservatism may lead to a reduction in the problem of information asymmetry in South Asia. In particular, emerging economies face the problem of information asymmetry (Song, 2016). This issue may more crucial in South Asia because all South Asian countries are emerging countries. Furthermore, Song (2016) argued that high conservative accounting numbers are more significant for lenders and borrowers in emerging economies because they help to reduce information asymmetry.

By following signaling theory, conditional accounting conservatism may influence a reduction in the information asymmetry among FDI in two ways. First, conditional accounting conservatism can produce unbiased information (Qi et al., 2007). In simple terms, unbiased information means delivering fair information without any favoritism. Unbiased information is essential for the decision-making process in the FDI because high conditional accounting conservatism leads to assets not being overstated and liabilities not being understated. Thus, conservative financial statements provide unbiased financial information that can help to reduce information asymmetry in FDI. As a result, investors interested in FDI may be encouraged to invest their resources. For

instance, Hämäläinen and Martikainen (2015) argued that there is a positive relationship between FDI and conditional accounting conservatism. As conservative financial reporting provides unbiased financial information, it is helpful to reduce information asymmetry in the FDI. Moreover, several South Asian pieces of literature (Hussain, Chakraborty, & Kabir, 2008; Kapil & Balwinder, 2009; Mohammad, Siddiquee, & Rahman, 2006; Shah, Zafar, & Durrani, 2009) discuss how unbiased information can effect information asymmetry in South Asia. Mohammad et al. (2006) argue that the management of public listed companies in Bangladesh does not provide unbiased financial information for their decision making. In addition, Hussain et al. (2008) revealed that the Dhaka Stock Exchange in Bangladesh is not efficient in terms of information. Stock prices of the Dhaka Stock Exchange do not reflect all security market information fully, due to biased information. In addition, Kapil and Balwinder (2009) illustrated that the Indian Stock Market is informationally inefficient since it provides biased information which leads to the problem of information asymmetry and ultimately affects FDI decisions badly.

Second, conditional accounting conservatism can provide high quality financial information for the FDI decision makers. In simple terms, high quality financial information means that information is free of measurement errors. In general, measurement error refers to an estimated difference between calculated value and the true value. There are three types of errors: gross errors, blunder errors, and measurement errors. Measurement errors are more influential for the FDI than other types of investment as most FDI decisions are made based on the financial information in the financial statements. Thus, high quality financial information could help reduce information asymmetry in the FDI. Lara et al. (2016) revealed that conditional accounting conservatism can reduce information asymmetries of firms labeled as having greater information asymmetry. Similarly, conditional accounting conservatism can reduce

information asymmetries, which are a barrier to investment (Ahearne et al., 2004). Therefore, less information asymmetry may lead to enhanced levels of FDI, because high quality financial information provides data that is free of measurement errors. Thus, it can be argued that, when the quality of financial information increases (Conditional accounting conservatism), the level of FDI may also increase. For example, Fortin et al. (2009) argued that a significant positive relationship exists between FDI and conditional accounting conservatism.

Few pieces of South Asian literature (Ali Shah, Butt, & Hassan, 2009; Farooque, Zijl, Dunstan, & Karim, 2007; Iqbal, Ahmad, Basheer, & Nadeem, 2012) highlight the relationship between high quality financial information and the problem of information asymmetry. Iqbal et al. (2012) argued that investors in Pakistan do not have same level of quality of information for decision-making purposes. In contrast, Ali Shah et al. (2009) show that public listed companies in Pakistan provide high quality financial information from their annual reports, which reduces the problem of information asymmetry in FDI. In Bangladesh, there is less developed, high quality financial performance and this increases the problem of information asymmetry in FDI (Farooque et al., 2007). Farooque et al. (2007) highlighted that the internal control system in public listed companies in Bangladesh needs to be further strengthen for better financial performance but there is no prior demonstration on how high-quality financial information would affect FDI in South Asia.

In summary, the problem of information asymmetry can affect the FDI. In the light of signaling theory, one can argue that conditional accounting conservatism can reduce information asymmetry due to unbiased information and high-quality financial information. Literature that has looked at this link in the south Asian context has emphasized that the problem of information asymmetry is higher in South Asian countries

(Ali Shah et al., 2009; Farooque et al., 2007; Hussain et al., 2008; Iqbal et al., 2012; Kapil & Balwinder, 2009; Mohammad et al., 2006). Therefore, the solution can be explored based on the signaling theory, as this has been developed to reduce information asymmetry.

3.7.1.3 Conditional accounting conservatism as a dependent variable

Some prior studies (Ball & Shivakumar, 2005; Hämäläinen & Martikainen, 2015; Kravet, 2014; Wang, 2017; Zhai & Wang, 2016) have considered accounting quality/ conditional accounting conservatism as a dependent variable with other independent variables such as investment. For instance, Ball and Shivakumar (2005) reported that with high conditional accounting conservatism with incentives for unacceptable investments at the same time, would be reduced. Therefore, the expected return on investment could be achieved with proper selection of investment. Even so, Kravet (2014) revealed that managers make less risky investments under higher accounting conservatism in transitional economies. Managers in highly conservative firms would not accept a risky investment even though the particular investment is profitable. As a result, the return on investment decreases, since managers accept the less risky investment. Thus, the overall return on investment would drop in high conditional accounting conservatism.

Hämäläinen and Martikainen (2015) revealed that that high level of FDI affects high conditional accounting conservatism in transitional economies. However, there are no prior studies on how FDI affects conditional accounting conservatism in emerging economies. Furthermore, Zhai and Wang (2016) argued that high accounting quality would enhance the investment choice. Investment choice may be foreign investment or domestic investment. Further, Zhai and Wang (2016) measured accounting quality from earning management and earning smoothing, not from timely loss recognition.

3.7.1.4 FDI as dependent variable

On the other hand, FDI is also considered as dependent variable with other independent variables, such as institutional quality and IFRS adoption by some empirical studies (Mishra & Jena, 2019; Owusu et al., 2017). Owusu et al. (2017) have investigated the importance of institutional quality for FDI and they mentioned that a country could not get more FDI on just IFRS adoption without improving the institutional quality. However, how conditional accounting conservatism, being one of methods to measure accounting quality, influences FDI, was not investigated.

Mishra and Jena (2019) also revealed the determinants of FDI, such as distance, common language, and institutional and infrastructural factors also stimulate the FDI in Asian countries. Mishra and Jena (2019) found that common language also influences the enhancement of FDI, and accounting quality could also enhance FDI. As accounting is a way of communication, high quality financial statements provide unique information for the FDI and it becomes a common language. Therefore, it is important to investigate the effect of accounting quality/ conditional accounting conservatism on FDI in South Asia, since it has not been dealt with in prior literature.

3.7.1.5 Inconsistences in FDI and conditional accounting conservatism

Even though there is very limited literature available on the effect of conditional accounting conservatism on FDI being a dependent variable, comparatively more prior studies exist on the effect of FDI on conditional accounting conservatism. However, some inconsistent arguments have appeared on the effect of FDI on conditional accounting conservatism, while there are no inconsistent arguments on the effect of conditional accounting conservatism on FDI. For instance, Hämäläinen and Martikainen (2015) argued that there is a positive effect of FDI on conditional accounting conservatism. In

contrast, Wang (2017) argued that there is a negative relationship between FDI and high conditional accounting conservatism.

According to prior empirical studies (Gigler et al., 2009; Lara et al., 2016), the problem of information asymmetries can affect FDI. However, some inconsistencies are noticed on conditional accounting conservatism and information asymmetry being the main concept of signaling theory. For example, although many prior studies (Ahearne et al., 2004; Amiram, 2012; Beng et al., 2017; Brown et al., 2004; Lara et al., 2011, 2016; Song, 2016; Verrecchia, 2001) highlight that conditional accounting conservatism can reduce information asymmetry, few studies (André, Filip, & Paugam, 2015; Gigler et al., 2009; Heflin, Hsu, & Jin, 2015; Wang, 2017) have argued that conditional accounting conservatism increases information asymmetry. Therefore, literature that looks at this link in the south Asian context is needed, particularly when the problem of information asymmetry is high in south Asian countries (Ali Shah et al., 2009; Farooque et al., 2007; Hussain et al., 2008; Iqbal et al., 2012; Kapil & Balwinder, 2009; Mohammad et al., 2006).

3.7.2 Foreign portfolio investment

Foreign portfolio investment is buying securities, such as shares or bonds, by a foreign investor in a local firm (Wu et al., 2012). Foreign portfolio investment can be made through a foreign initial public offering (IPO) as well as from a secondary market. According to the signaling theory, which was discussed in the first sections of this chapter, foreign portfolio investment can also be considered as a signal as well as a receiver. For instance, some prior studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) used signaling theory to discuss an initial public offering as a receiver and signal.

As this study focuses on all three types of investment, it is important to identify how a foreign portfolio investment differs from FDI. The differences can be illustrated on two parameters. First, Daude and Fratzscher (2008) compared FDI and a foreign portfolio investment on information asymmetries. FDI is more sensitive to information asymmetries as a source of financing than the foreign portfolio investment. Similarly, Hämäläinen and Martikainen (2015) argue that a foreign portfolio investment has less information sensitivity than FDI, and FDI has strong ownership implications.

Second, Wu et al. (2012) argue that FDI can be administered directly, unlike foreign portfolio investment, since FDI has the immediate information, while foreign portfolio investors do not have firsthand information of a firm (Wu et al., 2012). Therefore, foreign portfolio investors have to rely on the secondary information, such as annual reports. However, FDI does not rely on the information provided from the financial statements of the firm (Wu et al., 2012). Similarly, Amiram (2012) highlighted that, unlike FDI, foreign portfolio investment depends solely on accounting information.

Therefore, being a major part of foreign investment, it is also important to enhance foreign portfolio investment. For this, the transparency of financial information and the transparency of the disclosure system make financial statements more reliable and relevant to the foreign portfolio investors and reduce information asymmetry (Daude & Fratzscher, 2008; Dayanandan, Donker, Ivanof, & Karahan, 2016). Moreover, Daude and Fratzscher (2008) argue that foreign portfolio investors seek rich countries with a higher growth rate and quality institutions. However, transparency of financial information and disclosure systems are comparatively poorer in South Asia than other emerging economies (Ali et al., 2004) The majority of South Asian countries are, comparatively, not rich and they do not show an adequate economic growth rate.

Therefore, it is necessary to discuss the possible factors that could enhance the level of foreign portfolio investment in South Asia. Since differences exist between FDI and foreign portfolio investment, as discussed above, it is essential to understand this influence on the three characteristics of the level of foreign portfolio investment. The first characteristic is the unbiasedness of the information that will be used by the foreign portfolio investors. The second is the relevant and faithful representation of the information. The final characteristic is the high quality of the information. However, unlike FDI, at any time foreign portfolio investment can be sold. Therefore, foreign portfolio investors may not consider these characteristics to the extent of the level considered in FDI.

3.7.2.1 Foreign portfolio investment and conditional accounting conservatism

Signaling theory emphasizes the importance of the elements of a signaling timeline. Foreign portfolio investment and conditional accounting conservatism were discussed in the prior literature (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) by following signaling theory as signals and receivers. Signaling theory may useful to explain how the problem of information asymmetry is reduced among public listed companies in the host countries (signalers) and foreign portfolio investment (receivers) through accounting quality (signal) measured from conditional accounting conservatism.

Jain, Kuvvet, and Pagano (2017) argued that countries that face less information asymmetry could attract more foreign portfolio investment. Therefore, reducing the problem of information asymmetry is the fundamental outcome from the signaling theory, and may enhance the level of foreign portfolio investment. In addition, signaling elements may be used the other way around. For instance, foreign portfolio investment may use as a signal to attract more foreign portfolio investment through foreign IPOs. Therefore, it

is essential to investigate both directions: whether foreign portfolio investment is a determinant of conditional accounting conservatism and whether conditional accounting conservatism is a determinant of foreign portfolio investment.

Beng et al. (2017) found that there is high probability of increasing the foreign portfolio investment with the high level of conditional accounting conservatism. Even though there has been little attention paid to the relationship between foreign portfolio investment and conditional accounting conservatism, it is timely to investigate the same relationship in South Asia since foreign portfolio investment is also important for the development of the economies of South Asian countries.

3.7.2.2 Conditional accounting conservatism as dependent variable

There are few prior studies on the relationship between conditional accounting conservatism and foreign portfolio investment when compared with FDI. However, foreign portfolio investment also important for the development of a country, particularly in South Asia (Waqas, Hashmi, & Nazir, 2015). Thus, it is important to understand the direction of foreign portfolio investment and conditional accounting conservatism. There are few prior studies on the effect of foreign portfolio investment on conditional accounting conservatism. Few studies (Beng et al., 2017; Ling, 2016; Todea & Plesoianu, 2013) have taken conditional accounting conservatism (information quality) as a dependent variable with other independent variables, such as foreign portfolio investment.

Beng et al. (2017) revealed that the relationship between equity financing and conditional accounting conservatism as the dependent variable and conditional accounting conservatism was measured by following the Basu Model. They found that there is a positive effect of equity financing on conditional accounting conservatism. Furthermore, Ling (2016) investigated the association between equity investment through

institutional ownership composition and conditional accounting conservatism. He used conditional accounting conservatism as the dependent variable by following Basu (1997). Todea and Plesoianu (2013) also discussed the effect of information efficiency on foreign portfolio investment in Central and Eastern European stock markets and they found that foreign portfolio investment has a significant and positive effect on information efficiency. In this case, information efficiency also has been considered as a dependent variable while foreign portfolio investment is considered as an endogenous variable.

3.7.2.3 Foreign portfolio investment as dependent variable

Many prior studies (Amiram, 2012; Daude & Fratzscher, 2008; Garg & Dua, 2014; Goldstein & Razin, 2006; Waqas et al., 2015) have considered the foreign portfolio investment as the dependent variable with other related independent variables, such as accounting conservatism, information quality and IFRS adoption. For instance, Amiram (2012) found that foreign equity portfolio investments could be enhanced in the countries where IFRS is adopted and as a result, provides high quality financial statements, ultimately enhancing the level of foreign portfolio investment.

Garg and Dua (2014) investigated the determinants of foreign portfolio investment in India. They confirmed interest rate, country risk, currency risk, GDP, and openness as conventional determinants of foreign portfolio investment. Moreover, a country with stable macroeconomic determinants can attract more foreign portfolio investment. For example, Waqas et al. (2015) revealed that foreign portfolio investors prefer to invest in the countries where macro-economic factors are well established, such as high economic growth rate, less inflation, proper infrastructure, and transparency of information.

Therefore, it is important to investigate how conditional accounting conservatism (accounting quality) influences foreign portfolio investment as there has been no prior study on this topic. Macro-economic determinants should be stable to attract more foreign

portfolio investment. Conservative financial statements may also influence stable macro-economic determinants and ultimately enhance the level of foreign portfolio investment.

3.7.2.4 Inconsistencies in foreign portfolio investment and conditional accounting conservatism

This study found that there are some inconsistent arguments in the relationship between foreign portfolio investment and conditional accounting conservatism. These inconsistencies are seen in the studies in which conditional accounting conservatism is considered as dependent variable. For example, Beng et al. (2017) found that there is high probability of increasing the foreign portfolio investment with a high level of conditional accounting conservatism. However, Ling (2016) argued that there is a negative relationship between a higher degree of conditional accounting conservatism and foreign portfolio investment.

However, inconsistencies did not appear in the same relationship in the prior studies that considered foreign portfolio investment as dependent variable. Even though there is little attention paid to the relationship between foreign portfolio investment and conditional accounting conservatism, some inconsistencies exist. Therefore, this research gap also needs to be considered. As a result, this study investigates the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia.

3.7.3 Domestic investment

Domestic investment means that locals invest resources in their own country (Financial Times, 2018). In addition, domestic investment has been defined as "the measure of physical investment used in computing GDP in the measurement of nations' economic activities" (Wikipedia, 2018). According to the signaling theory, which was explained in the first sections of this chapter, domestic investment also can be

considered as an element of a signaling timeline. Prior studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) considered domestic investment as a receiver. On the other hand, domestic investment may act as a signal as well. For instance, the level of domestic investment may motivate firms to maintain quality financial reporting, and thus, domestic investment may be increased by reducing the problem of information asymmetry.

Prior studies (Altaleb & Alokor, 2012; Chen, Wang, & Singh, 2018; Danakol, Estrin, Reynolds, & Weitzel, 2017; Mauck & Price, 2017) investigated the determinants of domestic investment. For example, Altaleb and Alokor (2012) highlighted that GDP growth rate exports are significant determinates of domestic investments in both the short run and the long run. In addition, Altaleb and Alokor (2012) revealed that FDI and human capital are also determinants of domestic investment but only in the long run. However, Mauck and Price (2017) explained that the determinants for the domestic investment differ from the determinants of FDI and foreign portfolio investment. Some prior studies (Albulescu, 2015; Ullah, Shah, & Khan, 2014) argued that domestic investment is motivated by FDI and foreign portfolio investment and found that there is a long-run relationship between domestic investment and FDI in Pakistan (Ullah et al., 2014).

You and Solomon (2015) have stated that there is a positive relationship between FDI outflow and domestic investment in China. China is one of major countries that provide FDI for other counties in the world. Furthermore, when FDI outflow is increased, it positively affects domestic investment in China. The reason to increase domestic investment in China would be technological progress. For instance, Chen et al. (2018) found that domestic investment is the dominant contributor to technological progress in China. Ullah et al. (2014) also found that a positive relationship exists between the FDI inflow and domestic investment in Pakistan.

Ashraf and Herzer (2014) examined the effect of mergers and acquisitions (M&A) and greenfield investment on domestic investment in emerging economies. And they found mixed evidence that there is a positive effect of M&A on domestic investment while there is a negative effect on greenfield investment on domestic investment in emerging economies. Lobanova, Kracun, and Kavkler (2018) discussed the effect of cross border M&A on domestic investment in transitional economies. They also found that there is a positive effect of cross border M&A on domestic investment in transitional economies.

In the light of signaling theory, the problem of information asymmetry can also be highlighted to differentiate domestic investment from FDI and foreign portfolio investment. For example, domestic investors are more familiar with the host country than foreign investors (Ying & Yang, 2007). Therefore, information asymmetry may affect them differently for the domestic investment. Few prior studies exist that investigated on the relationship between information asymmetry and domestic investment. Thus, it is also important to find remedies for eliminating the problem of information asymmetry among domestic investors.

3.7.3.1 Domestic investment and conditional accounting conservatism

Both domestic investment and accounting quality can be seen as signals. Thus, by following the signaling theory, the bidirectional relationship between domestic investment and conditional accounting conservatism can be done. Thus, this study investigates domestic investment as a signal for accounting quality as well as the reverse, accounting quality as a signal for domestic investment.

The level of the problem of information asymmetry differs for domestic investors and foreign investors. For instance, domestic investors are more familiar with their home country's institutional infrastructure and regulatory environment than foreign investors. Prior studies (Beng et al., 2017; Biddle & Hilary, 2006) emphasized that conditional

accounting conservatism/ accounting quality could reduce the problem of information asymmetries by following the signaling theory.

Particularly, Biddle and Hilary (2006) have investigated the relationship between accounting quality and firm level capital investment. They found that higher accounting quality reduces the problem of information asymmetry and eventually enhances firm-level capital investment. In this study, accounting quality has been measured on earning aggressiveness, which is the opposite of accounting conservatism. However, there is no evidence of prior that investigates whether domestic investment is a determinant of conditional accounting conservatism.

If domestic investors require a high-quality financial report, the firms tend to provide highly conservative financial statements. As result, the problem of information asymmetry is also reduced to some extent. For an example, Biddle and Hilary (2006) revealed that high quality financial statements enhance domestic investment efficiency by reducing the problem of information asymmetry. Begoña et al. (2013) also argued that conditional accounting conservatism affects domestic investment diversification, highlighting the fact that domestic investors are more likely to diversify the investment subject to conditional accounting conservatism.

Baik, Jung, and Rhee (2010) found the least positive affect of accounting quality on domestic investment efficiency in Japan. They explained that the close relationship between bank managers and domestic investors reduces the transparency of accounting information in this country. Domestic investment efficiency has been defined as “a function of the risk, return and total cost of an investment management structure, subject to fiduciary and other constraints within which investors must operate” (Hodgson, Breban, Ford, Streatfield, & Urwin, 2000) p.1.

3.7.3.2 Conditional accounting conservatism as a dependent variable

Even though there is no exact prior demonstration of the relationship between domestic investment and conditional accounting conservatism, a few related prior studies (Baik et al., 2010; Bushman et al., 2011) have considered conditional accounting conservatism (accounting quality) as the dependent variable with other independent variables such as investment efficiency and investment behavior at firm level.

Baik et al. (2010) explored the effect of investment efficiency on accounting quality in Japan. They have found that the positive impact of investment efficiency on accounting quality is reduced for companies that have close relationship with banks. Bushman et al. (2011) investigated the relationship between firm level investment behavior and conditional accounting conservatism (timeliness of accounting recognition of economic losses). They found that conditional accounting conservatism manages unnecessary firm level investments such as negative net present value (NPV) investments.

3.7.3.3 Domestic investment as a dependent variable

Domestic investment has been considered as the dependent variable in more prior studies when compared to conditional accounting conservatism as the dependent variable. For example, these prior studies (Al-Sadig, 2013; Altaleb & Alokor, 2012; Begoña et al., 2013; Biddle & Hilary, 2006; Chan-Jane, Tawei, & Chao, 2016; Tan, Goh, & Wong, 2016) have considered domestic investment as a dependent variable with other independent variables, such as accounting quality, conditional accounting conservatism, and FDI.

For example, Biddle and Hilary (2006) revealed that high quality financial statements enhance the domestic investment efficiency by reducing the problem of information asymmetry. Similarly, Begoña et al. (2013) argued that conditional accounting conservatism affects domestic investment diversification. Furthermore, they highlighted

that domestic investors are more likely to diversify the investment subject to conditional accounting conservatism. In addition, Chan-Jane et al. (2016) argued that a positive relationship exists in the relationship between financial reporting quality and high investment behavior in the family owned firms.

3.7.3.4 Inconsistencies in domestic investment and conditional accounting conservatism

Inconsistent arguments have not been found in the relationship between conditional accounting conservatism and domestic investment, with domestic investment as the dependent variable. However, few inconsistencies have been seen in the relationship between domestic investment and conditional accounting conservatism, with conditional accounting conservatism as the dependent variable. For example, Bushman et al. (2011) found that conditional accounting conservatism influences unnecessary firm-level investments such as negative net present value (NPV) investments. In contrast, Baik et al. (2010) highlighted that the positive affect of accounting quality on domestic investment efficiency in Japan is reduced. Furthermore, they explained that in Japan, the close relationship between bank managers and domestic investors will lead to reduce the transparency of accounting information.

3.8 IFRS adoption and information asymmetry

IFRS adoption is a positive signal for the investors in the perspective of financial reporting quality through reducing information asymmetry. Thus, using the signaling theory, IFRS adoption can be identified as a signal for quality. Accounting quality is measured from conditional accounting conservatism and is a method to recognize accounting losses which involve uncertainty. Furthermore, if investment decisions are taken based on the financial statements, investors can get early signals from the losses of financial statements being conservative practices of the firm. For instance, investors take

decisions based on the financial statement of a firm, which helps to reduce the risk in investment based on the losses, and as a result, conservative practices may develop through IFRS adoption (Masoud, 2017; Sielly, Bambang, & Aulia, 2016).

Therefore, in the light of signaling theory, this study argues that IFRS adoption moderates the relationship between investment and conditional accounting conservatism. Thus, more information about IFRS adoption is mentioned below. International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB). A majority of countries in the world have adopted IFRS (IFRS Foundation, 2016). In terms of jurisdictions, 149 countries currently completed their profiles as IFRS adopted. IFRS adoption was empirically tested frequently in different perspectives in the research since as it is an emerging research keyword. As stated in Table 2.1, all South Asian countries except India and Bhutan have adopted IFRS. India has not adopted IFRS but have converged their local standards with IFRS. Bhutan has not yet adopted IFRS.

In general, an accrual basis rather than cash basis is used when financial statements are prepared. According to international accounting standard number one (IAS 1), financial statements should be prepared on an accrual basis. In some cases, management judgments are involved when the elements of the financial statements are measured. For example, IAS 08, accounting policies and changes of estimates and errors involve more management judgments when changing accounting policies and accounting estimates. Therefore, it is essential to maintain a uniformity of accounting standards in the world, eventually reducing information asymmetry. However, powerful political and economic forces influence the preparation of financial statements for the own benefits. Therefore, a set of proper rules and regulations, such as co-operate governance, also should be introduced for the interested parties, such as auditors, managers, and lawyers. Thus, IFRS

adoption could be identified as one of the standard strategies used in many emerging economies (Othman & Kossentini, 2015; Perera & Baydoun, 2007).

Ball (2006) reviewed the pros and cons of IFRS adoption. Accuracy of financial data, comprehensive and timely financial information, more internationally comparable information and more efficient capital markets are some of advantages of IFRS adoption (Ball, 2006). On the other hand, one disadvantage of IFRS adoption is that it reduces the competition among different financial reporting systems (Ball, 2006). Thus, several empirical studies have examined the relevance of IFRS in South Asian countries in more detail (Ahmed & Ali, 2015; Bhattacharjee & Islam, 2009; Chakrabarty, 2014; Hossain et al., 2015; Zaman Mir & Shiraz Rahaman, 2005).

Ahmed and Ali (2015) argued that harmonization of accounting has been improved in India, Pakistan and Bangladesh. In addition, Chakrabarty (2014) revealed that only IFRS adoption/ convergence could improve the quality of financial information in India. That improvement may happen due to the unbiased information and high-quality information in these countries, and as a result, the problem of information asymmetry may be reduced among foreign and domestic investors. For instance, under IFRS, international accounting standard 38 (intangible assets) clearly documented how intangible assets are recognized initially as well as subsequently. Intangible assets should be recognized initially at cost and their subsequently value should be measured on the cost model or revaluation model. Thus, IFRS is providing unique recommendations for the measurement of assets and liabilities and IFRS adoption may help to reduce information asymmetry by providing unbiased and quality financial information.

Bhattacharjee and Islam (2009) argued that IFRS adoption improves the financial reporting environment in Bangladesh, providing proper institutional factors. Furthermore, they illustrated that IFRS adoption alone is not enough to ensure a high-

quality financial reporting environment in Bangladesh. For that, three factors need to be considered. First, top management of companies need to ensure that financial statements are prepared in compliance with established accounting standards. Second, auditors should perform their duties independently. Third, both statutory regulators, such as a financial monitoring board, and self-regulatory organizations should be established in Bangladesh.

Hossain et al. (2015) also addressed the challenges of IFRS adoption in Bangladesh. They highlighted that knowledge shortfall and the high cost of training and education as challenges in Bangladesh. In addition, dilution of relevance and faithful representation, and a low loss recognition threshold would influence to the problem of information asymmetry in South Asia. Furthermore, Zaman Mir and Shiraz Rahaman (2005) found that institutional legitimation in Bangladesh is a significant factor for driving the decision for IFRS adoption and they further emphasized that institutional legitimation is very low in this country.

A major feature of IFRS is that it promotes the fair valuation. For example, IAS 16 - property plant and equipment, IAS 36 – asset impairment, IAS 38- intangible assets, IAS 39 – financial instruments recognition and measurement, IAS 40 – investment property, IAS 41 – agriculture, IFRS 02 – share based payment, IFRS 03 – business combination, IFRS 04 – Insurance contracts, IFRS 06 – mineral extractions and IFRS 09 – financial instruments can be mentioned. Both IASB and FASB have shown their interest in using a fair valuation technique (Ball, 2006).

IASB has issued a separate standard for fair valuation, which is IFRS 13. There is an impact on conservative financial reporting systems subsequent to IFRS adoption. For instance, according to IFRS 09 and IAS 39 (measurement of financial instruments), all financial instruments (financial assets, financial liabilities, and financial equity) should

be initially recognized at the fair value. Thus, assets can be overstated, and liabilities can be understated because a lot of subjective estimations are involved with the fair valuation. Thus, IFRS may moderate the relationship between investment and conditional accounting conservatism. In summary, IFRS adoption may influence the perspective of unbiased, high quality, relevance and representational faithfulness of information in South Asian countries and ultimately the problem of information asymmetry may reduce the fundamental purpose of signaling theory. The next chapter details how IFRS adoption can moderate the relationship between each type of investment and conditional accounting conservatism.

3.9 Chapter summary

This chapter discussed the theory which is used in this study and described the variables of the study with reference to prior studies. Signaling theory was used to explain the relationship between each type of investment and conditional accounting conservatism as well as the moderating effect of IFRS adoption in the relationship between each type of investment and conditional accounting conservatism. In addition, conditional accounting conservatism was used to measure accounting quality as a signal to attract investment by reducing information asymmetry. Details of each type of investment and how IFRS adoption may moderate the relationship between investment and conditional accounting conservatism were also presented.

CHAPTER 4: RESEARCH FRAMEWORK

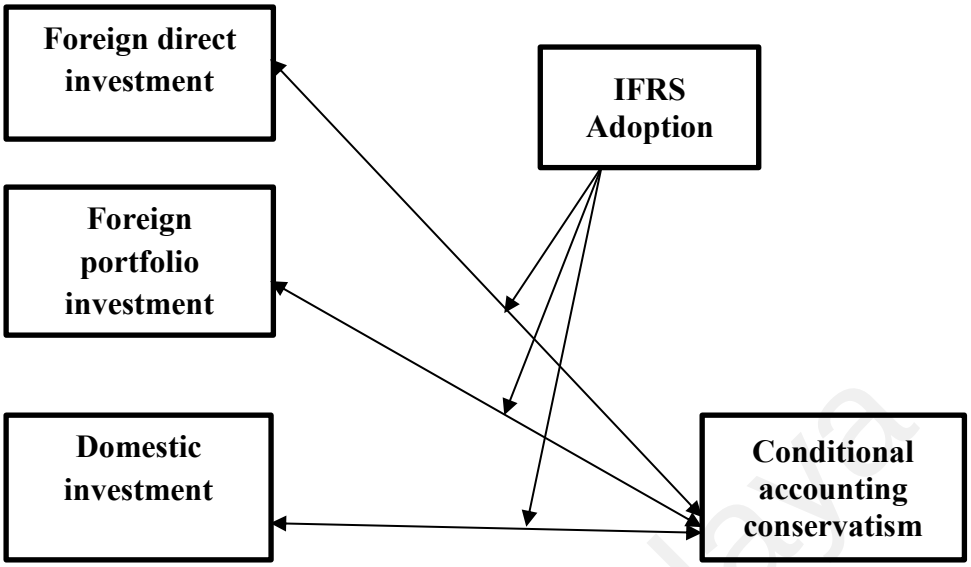
This chapter presents three sections. The first section explains the conceptual framework of this study. The second section presents the development of the research hypotheses. The final section summarizes the chapter.

4.1 Conceptual framework

The solution for the research problem can be conceptualized by the framework depicted in Figure 4.1. In the light of signaling theory, this study investigates the bidirectional relationship between each type of investment (FDI, foreign portfolio investment and domestic investment) and conditional accounting conservatism. Conditional accounting conservatism has been considered as the dependent variable as well as independent variable. Conditional accounting conservatism is measured by following Basu (1997), Hämäläinen and Martikainen (2015) and Ball and Shivakumar (2005).

In the figure, FDI, foreign portfolio investment and domestic investment are considered as dependent variables as well as independent variables. As per the signaling theory, both investment and accounting quality can act as signals. Therefore, the bidirectional relationship between each type of investment and conditional accounting conservatism is examined. IFRS adoption also identified as a signal for financial reporting quality through a reduction in information asymmetry. Moreover, in the light of the contradictory findings in the relationship between the types of investment and conditional accounting conservatism, this study examines the moderating effect of IFRS adoption in the relationship between each type of investment and conditional accounting conservatism in South Asia. This moderating effect is also examined by following signaling theory.

Figure 4.1 Conceptual framework



4.2 Research hypotheses

4.2.1 Research hypotheses for first research question

Transitional economies and emerging economies like South Asian countries can be differentiated on three characteristics. First is the transparency of policies, meaning that transitional economies have a more market-based approach and generally more transparent policies than emerging economies (Moran, 1998). The second is privatization. Rolph and György (1997) revealed that privatization influences labor issues in emerging economies and transitional countries. Third, is IFRS adoption. According to the IFRS Foundation (2016), many European countries, as transitional economies, adopted IFRS under the EU agreement in 2002. However, South Asian countries, as emerging economies, adopted IFRS after 2002 (IFRS Foundation, 2016). As differences exist between transitional economies and emerging economies, conditional accounting conservatism may affect FDI differently.

Hämäläinen and Martikainen (2015) investigated the effect of FDI on conditional accounting conservatism in transitional economies and found that there is a significant positive relationship between the same variables. However, because differences exist in

the relationship between transitional economies and emerging economies, it is timely to investigate the same relationship in the emerging context.

Prior empirical studies (Gigler et al., 2009; Lara et al., 2016) also emphasized that the problem of information asymmetries can affect FDI. However, being the fundamental objective of signaling theory, information asymmetry could be reduced through conditional accounting conservatism. For instance, prior studies (Ahearne et al., 2004; Amiram, 2012; Beng et al., 2017; Brown et al., 2004; Lara et al., 2011, 2016; Song, 2016; Verrecchia, 2001) have found that conditional accounting conservatism can reduce information asymmetry.

There is no prior research reporting the relationship between FDI and conditional accounting conservatism in South Asia, even though the problem of information asymmetry is higher in South Asian countries as they are all still in the emerging category (Song, 2016). Several South Asian academic papers (Hussain et al., 2008; Kapil & Balwinder, 2009; Mohammad et al., 2006; Shah et al., 2009) discuss how unbiased information affects information asymmetry in South Asia.

Mohammad et al. (2006) argue that the management of public listed companies in Bangladesh does not provide unbiased financial information for their decision making in FDI. In addition, Hussain et al. (2008) revealed that the Dhaka Stock Exchange in Bangladesh is not efficient in terms of information. This means that stock prices on the Dhaka Stock Exchange do not fully reflect all security market information due to this biased information. In addition, Kapil and Balwinder (2009) illustrated that the Indian Stock Market is informationally inefficient. Further, they explained that Indian Stock Exchange is inefficient since it provides biased information, which leads to the problem of information asymmetry, ultimately affecting FDI decisions badly.

According to the signaling theory, FDI has been considered as a signal (Katayama & Miyagiwa, 2009) as well as a receiver (Akhigbe & Martin, 2000). Some prior studies (Ball & Shivakumar, 2005; Hämäläinen & Martikainen, 2015; Kravet, 2014; Wang, 2017; Zhai & Wang, 2016) have considered accounting quality/ conditional accounting conservatism as a dependent variable with other independent variables such as investment. On the other hand, FDI also considered as dependent variable with other independent variable such as institutional quality and IFRS adoption by some empirical studies (Mishra & Jena, 2019; Owusu et al., 2017). Thus, understanding, the real direction of investment and conditional accounting conservatism is needed. Considering the arguments regarding FDI and conditional accounting conservatism the following hypotheses are proposed:

H1: Foreign direct investment affects conditional accounting conservatism in South Asia

H1a: Conditional accounting conservatism affects foreign direct investment in South Asia.

4.2.2 Research hypotheses for the second research question

Foreign portfolio investment can be differentiated from FDI on two factors. The first is information asymmetry. For instance, Daude and Fratzscher (2008) compared FDI and foreign portfolio investment on information asymmetries. FDI is more sensitive to information asymmetries as a source of financing than foreign portfolio investment. The second is administration. Wu et al. (2012) argue that FDI can be administered directly, unlike foreign portfolio investment, since FDI have the immediate information. But foreign portfolio investors do not have firsthand information of a firm (Wu et al., 2012).

Daude and Fratzscher (2008) argue that foreign portfolio investors seek rich countries with higher growth rate and quality institutions. However, the transparency of financial information and the disclosure systems are comparatively poor in South Asia, compared with other emerging economies (Ali et al., 2004). Comparatively, the majority of South Asian countries are not rich and do not show adequate economic growth rate. Therefore, it is necessary to discuss possible factors that could enhance the level of foreign portfolio investment in South Asia. Since differences exist between FDI and foreign portfolio investment, it is essential to see the influence of the information which will be used by the foreign portfolio investors.

Even though there are no exact prior studies on the relationship between foreign portfolio investment on conditional accounting conservatism, a few studies (Beng et al., 2017; Ling, 2016; Todea & Plesoianu, 2013) have taken conditional accounting conservatism (information quality) as a dependent variable, and on the other hand, foreign portfolio investment as the dependent variable (Amiram, 2012; Daude & Fratzscher, 2008; Garg & Dua, 2014; Goldstein & Razin, 2006; Waqas et al., 2015). Thus, using the signaling theory, foreign portfolio investment can also be considered as a signal as well as a receiver. For an instance, some prior studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) used signaling theory to discuss initial public offering as a receiver and a signal. Therefore, it is timely to investigate the direction of foreign portfolio investment and conditional accounting conservatism. Considering the above facts, this study proposes following research hypotheses.

H2: Foreign portfolio investment affects conditional accounting conservatism in South Asia.

H2a: Conditional accounting conservatism affects foreign portfolio investment in South Asia.

4.2.3 Research hypotheses for the third research question

Mauck and Price (2017) explained that the determinants for domestic investment are different than the determinants of FDI and foreign portfolio investment. Some South Asian literature (Ullah et al., 2014) also emphasized that domestic investment is motivated on foreign investment, and there is a long-run relationship between domestic investment and FDI in Pakistan (Ullah et al., 2014).

The level of the problem of information asymmetry also differs in domestic investment and foreign investment since domestic investors are more familiar with their home country's institutional infrastructure and regulatory environment, than foreign investors. However, prior studies (Beng et al., 2017; Biddle & Hilary, 2006) emphasized that conditional accounting conservatism/ accounting quality could reduce the problem of information asymmetry.

Even though there is no exact prior work on the relationship between domestic investment and conditional accounting conservatism, a few related prior studies (Baik et al., 2010; Bushman et al., 2011) have considered conditional accounting conservatism (accounting quality) as the dependent variable with other independent variables such as investment efficiency and firm level investment behavior. For instance, Biddle and Hilary (2006) revealed that high quality financial statements enhance the domestic investment efficiency by reducing the problem of information asymmetry.

On the other hand, domestic investment also has been considered as the dependent variable (Al-Sadig, 2013; Altaleb & Alokor, 2012; Begoña et al., 2013; Biddle & Hilary, 2006; Chan-Jane et al., 2016; Tan et al., 2016) with other independent variables, such as accounting quality, conditional accounting conservatism, and FDI. For example, Begoña

et al. (2013) argued that conditional accounting conservatism affects domestic investment diversification.

Thus, using signaling theory, prior studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018) have considered domestic investment as a receiver. On the other hand, domestic investment may act as a signal as well. For example, the level of domestic investment may maintain the quality financial reporting, and thus, further domestic investment may be increased by reducing the problem of information asymmetry. Therefore, the direction of the relationship between domestic investment and conditional accounting conservatism is also important. In the light of above-mentioned arguments, this study proposes following research hypotheses.

H3: Domestic investment affects conditional accounting conservatism in South Asia.

H3a: Conditional accounting conservatism affects domestic investment in South Asia.

4.2.4 Research hypotheses for the fourth research question

Inconsistent arguments can be seen in the relationship between investment and conditional accounting conservatism, as mentioned in Chapter 3. For instance, Hämäläinen and Martikainen (2015) have investigated the effect of FDI on conditional accounting conservatism in transitional economies and found that there is a significant positive relationship between the same variables. In contrast, Wang (2017) argued that a negative relationship exists in the relationship between accounting quality and FDI. However, these inconsistencies only appeared in the literature in which conditional accounting conservatism/ accounting quality was considered as dependent variable.

Furthermore, inconsistent arguments exist in the relationship between foreign portfolio investment and conditional accounting conservatism through the concept of information

asymmetry. For an example, Beng et al. (2017) found that there is a high probability of increasing foreign portfolio investment with a high level of conditional accounting conservatism. However, Ling (2016) argued that there is a negative relationship between a higher degree of conditional accounting conservatism and foreign portfolio investment. However, inconsistencies did not appear in the same relationship in the prior studies, which considered foreign portfolio investment as a dependent variable.

Contradictory findings are available in the relationship between domestic investment and conditional accounting conservatism with the concept of information asymmetry. For example, Bushman et al. (2011) found that conditional accounting conservatism manages unnecessary firm-level investments, such as negative net present value (NPV) investments. In contrast, Baik et al. (2010) highlighted that there is a least positive affect of accounting quality on domestic investment efficiency in Japan. These inconsistencies appeared in the relationship between domestic investment and conditional accounting conservatism, which is the dependent variable. However, inconsistent arguments have not been found in the relationship between conditional accounting conservatism and domestic investment, which is the dependent variable.

As inconsistent arguments exist in the relationship between each type of investment and conditional accounting conservatism with the information asymmetry, this study predicts that IFRS adoption may moderate the same relationship. This may happen due to two reasons. The first is that through IFRS adoption, unbiased financial information can be transferred to information seekers. For instance, IFRS adoption can lead to a unique set of unbiased financial information that are essential for increasing conditional accounting conservatism (Chakrabarty, 2014). The second reason is that IFRS adoption may provide high quality financial information (Chakrabarty, 2014).

Several South Asia empirical studies have examined the relevance of IFRS (Ahmed & Ali, 2015; Bhattacharjee & Islam, 2009; Chakrabarty, 2014; Hossain et al., 2015; Zaman Mir & Shiraz Rahaman, 2005). Ahmed and Ali (2015) argued that the harmonization of accounting has been improved in India, Pakistan and Bangladesh. In addition, Chakrabarty (2014) revealed that only IFRS adoption/convergence could improve the quality of financial information in India. That improvement may happen due to the unbiased information and high-quality information in these countries, and as a result, the problem of information asymmetry may be reduced among foreign and domestic investors.

Bhattacharjee and Islam (2009) argued that IFRS adoption has improved the financial reporting environment in Bangladesh with proper institutional factors. Furthermore, they illustrated that IFRS adoption alone is not enough to ensure a high-quality financial reporting environment in Bangladesh. For that, three factors need to be considered. The first is that the top management of companies must ensure that financial statements are prepared in compliance with established accounting standards. Second, the auditors should perform their duties independently. Third, both statutory regulators such as financial monitoring board, and self-regulatory organizations should be established in Bangladesh.

Hossain et al. (2015) addressed the challenges of IFRS adoption in Bangladesh. They highlighted that knowledge shortfall and high costs for on training and education are the challenges in Bangladesh. In addition to above challenges, dilution of relevance and faithful representation and a low loss-recognition threshold would influence the problem of information asymmetry in South Asia. Furthermore, Zaman Mir and Shiraz Rahaman (2005) found that the institutional legitimation in Bangladesh is a significant factor for

driving the decision on IFRS adoption, and they further emphasized that institutional legitimation is very low in Bangladesh.

4.2.4.1 IFRS adoption as a moderation on FDI

As mentioned in the above section, signaling theory is used to explain the moderating effect of IFRS adoption in the relationship between FDI and conditional accounting conservatism. Since inconsistent arguments exist in the relationship between FDI and conditional accounting conservatism (as the dependent variable), IFRS adoption may moderate the same relationship. Thus, in this section, possible ways to moderate the relationship between FDI and conditional accounting conservatism on IFRS adoption are discussed. It may happen in two ways. First, a negative relationship between FDI and conditional accounting conservatism may change to a positive relationship as a result of the influence of IFRS adoption. This sign conversion may happen due to two reasons. The first reason is that through IFRS adoption, unbiased financial information can be transferred to information seekers. For instance, IFRS adoption leads to a unique set of unbiased financial information that is essential for increasing conditional accounting conservatism (Chakrabarty, 2014). The second reason is that IFRS adoption may provide high quality financial information (Chakrabarty, 2014). Therefore, the negative sign in the relationship between FDI and conditional accounting conservatism may change to a positive sign.

Second, the existing positive relationship between FDI and conditional accounting conservatism may change to a negative relationship through the influence of IFRS adoption by influencing the enhancement of the relevant and faithful representation of the financial statements. Thus, IFRS adoption may change the positive relationship between FDI and conditional accounting conservatism to a negative relationship. This moderation may happen as a positive signal for a quality of financial information, and

ultimately, FDI can be enhanced by reducing information asymmetry. In the light of above argument, this study proposes the following research hypothesis.

H4: IFRS adoption would moderate the relationship between FDI and conditional accounting conservatism in South Asia.

4.2.4.2 IFRS adoption as a moderation on foreign portfolio investment

Signaling theory is used to explain the moderating effect IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism, IFRS adoption is one of signals of signaling theory (Agyei-Mensah, 2017; Wee, Tarca, & Chang, 2014) and ensures that the quality of financial reporting is followed.

In the relationship between foreign portfolio investment and conditional accounting conservatism (the dependent variable) contradictory arguments also exist. For instance, Beng et al. (2017) found that there is a high probability of increasing foreign portfolio investment with the a high level of conditional accounting conservatism. Moreover, they suggest that conditional conservatism reduces information asymmetry between firms and foreign portfolio investors. In contrast, Ling (2016) argues that there is a negative relationship between a higher degree of conditional accounting conservatism and foreign portfolio investment.

These inconsistent arguments have encouraged this study to explore the moderating effect of IFRS adoption on the same relationship. This may also happen in two ways. First, the negative coefficient in the predictor variable can be changed to a positive coefficient after compiling IFRS adoption as a signal and as one of elements in the signaling theory timeline. It may also happen due to unbiasedness and quality of information increasing due to subsequent IFRS adoption. Second, a negative coefficient

for the predictor variable can be changed to a positive coefficient. This may also happen due to the fair valuation involved with IFRS adoption, and perhaps conditional accounting conservatism might be decreased. Therefore, in the light of above arguments, the following research hypothesis is proposed.

H5: IFRS adoption would moderate the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia.

4.2.4.3 IFRS adoption as a moderation on domestic investment

This section illustrates how IFRS adoption may moderate the relationship between domestic investment and conditional accounting conservatism. Signaling theory is also used to explain this moderation as IFRS adoption is a signal for financial reporting quality, and as a result, the problem of information asymmetry may be reduced. Unlike FDI and foreign portfolio investment, there is less literature available on domestic investment in respect to conditional accounting conservatism.

However, the small amount of existing little literature also discusses these relationships in inconsistent manner. However, the inconsistencies appeared only in the literature that considered conditional accounting conservatism as a dependent variable. For an example, Bushman et al. (2011) found that conditional accounting conservatism influences unnecessary firm-level investments, such as negative net present value (NPV) investments. In contrast, Baik et al. (2010) highlighted that there is a positive effect is reduced in the relationship between accounting quality and domestic investment efficiency in Japan. Therefore, this study investigates whether or not the relationship between domestic investment and conditional accounting conservatism is moderated by the adoption of IFRS.

Moderation may also happen in two ways. In the first method, a positive coefficient can be changed to a negative coefficient due to the unbiasedness and quality of the information, which strengthen after IFRS adoption. The second way is to change the negative coefficient for the predictor variable to a positive coefficient. However, this study predicts that IFRS adoption moderates the same relationship, since IFRS adoption may enhance the quality by reducing the problem of information asymmetry being the fundamental objective of signaling theory. Thus, study predicts the following research hypothesis.

H6: IFRS adoption would moderate the relationship between domestic investment and conditional accounting conservatism in South Asia.

4.3 Chapter summary

This chapter explained the conceptual framework and research hypotheses of the study. Overall, the study investigates the bidirectional relationship between investment and conditional accounting conservatism as well as the moderating effect of IFRS adoption in the same relationship. Therefore, according the conceptual framework, each type of investment acts as dependent variable as well as independent variable. On the other hand, conditional accounting conservatism is also considered as dependent as well as independent variable. Thus, IFRS adoption is considered as a moderating variable. The study has four main research hypotheses to cover the four research questions of the study. These research hypotheses are developed in the light of signaling theory.

CHAPTER 5: RESEARCH METHOD

This chapter has five sections. The selection of measures and sample designs are presented in 5.1 and 5.2 respectively. Section 5.3 explains the data collection procedures and the sample selection. The fourth section of this chapter presents data analysis techniques and the final section presents a summary of the chapter

5.1 The selection of measures

This study investigates the relationship between each type of investment (FDI, foreign portfolio investment and domestic investment) and conditional accounting conservatism, measured on the asymmetric timelines of gains and losses, and it is also called earnings conservatism or conditional accounting conservatism. Conservatism implies that the coefficient of negative changes in earnings is significantly negative, relative to the coefficient of positive changes in earnings.

Research question 1

The model which was originally developed by Basu (1997) and modified by Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). It is used in this study by incorporating country-level FDI. This research examines the effect of FDI on conditional accounting conservatism on the following model (1).

$$\Delta NI_{it} = \alpha_{0} + \alpha_{1} D_{it} + \alpha_{2} \Delta NI_{it-1} + \alpha_{3} D_{it} * \Delta NI_{it-1} + \alpha_{4} LFDI_{it} + \alpha_{5} D_{it} * LFDI_{it} + \alpha_{6}\Delta NI_{it-1} * LFDI_{it} + \alpha_{7} D_{it} * \Delta NI_{it-1} * LFDI_{it} + \alpha_{8} SIZE_{it} + \alpha_{9} BUFR_{it} + \alpha_{10} INFR_{it} + \alpha_{11} MOFR_{it} + \alpha_{12} CORR_{it} + \alpha_{13} MTKC_{it} + \varepsilon_{it}$$

The research then examines the effect of conditional accounting conservatism on FDI from the following model (1a).

$$FDIP_{it} = \alpha0 + \alpha1\ FDIP_{t-1} + \alpha2\ \Delta NI_{it} + \alpha3\ D_{it} + \alpha4\ D_{it} * FDIP_{it} + \alpha5\ IFRS_{it} + \alpha6\ GDP_{it} + \alpha7\ DIN_{it} + \alpha8\ INFRAS_{it} + \alpha9\ COC_{it} + \alpha10\ INFL_{it} + \alpha11\ EXC_{it} + \alpha12\ FSTAB_{it} + \alpha13\ OPEN_{it} + \varepsilon_{it}$$

Research question 2

Secondly, the model is modified by incorporating foreign portfolio investment in order to see the effect of foreign portfolio investment on conditional accounting conservatism, as seen in model (2).

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2\ \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 LFPI_{it} + \alpha_5 D_{it} * LFPI_{it} + \alpha_6 \Delta NI_{it-1} * LFPI_{it} + \alpha_7\ D_{it} * \Delta NI_{it-1} * LFPI_{it} + \alpha_8 SIZE_{it} + \alpha_9\ BUFR_{it} + \alpha_{10} INFR_{it} + \alpha_{11}\ MOFR_{it} + \alpha_{12}\ CORR_{it} + \alpha_{13} MTKC_{it} + \varepsilon_{it}$$

The research then examines the effect of conditional accounting conservatism on foreign portfolio investment from the following model (2a).

$$FPIP_{it} = \alpha0 + \alpha1\ FPIP_{t-1} + \alpha2\ \Delta NI_{it} + \alpha3\ D_{it} + \alpha4\ D_{it} * FPIP_{it} + \alpha5\ IFRS_{it} + \alpha6\ GDP_{it} + \alpha7\ DIN_{it} + \alpha8\ INFRAS_{it} + \alpha9\ COC_{it} + \alpha10\ INFL_{it} + \alpha11\ EXC_{it} + \alpha12\ FSTAB_{it} + \alpha13\ OPEN_{it} + \varepsilon_{it}$$

Research question 3

Thirdly, the model is modified by incorporating domestic investment in order to see the effect of domestic investment on conditional accounting conservatism, as seen in model (3).

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2\ \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 DIN_{it} + \alpha_5 D_{it} * DIN_{it} + \alpha_6 \Delta NI_{it-1} * DIN_{it} + \alpha_7\ D_{it} * \Delta NI_{it-1} * DIN_{it} + \alpha_8 SIZE_{it} + \alpha_9\ BUFR_{it} + \alpha_{10} INFR_{it} + \alpha_{11}\ MOFR_{it} + \alpha_{12}\ CORR_{it} + \alpha_{13} MTKC_{it} + \varepsilon_{it}$$

The research then examines the effect of conditional accounting conservatism on domestic investment from the following model (3a).

$$DINP_{it} = \alpha 0 + \alpha 1\ DINP_{t-1} + \alpha 2\ \Delta NI_{it} + \alpha 3\ D_{it} + \alpha 4\ D_{it} * DINP_{it} + \alpha 5\ IFRS_{it} + \alpha 6\ GDP_{it} + \alpha 7\ INFRAS_{it} + \alpha 8\ COC_{it} + \alpha 9\ INFL_{it} + \alpha 10\ EXC_{it} + \alpha 11\ FSTAB_{it} + \alpha 12\ OPEN_{it} + \varepsilon_{it}$$

Research question 4

Fourth, the model is modified by incorporating IFRS adoption in South Asia. The study examines the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia by using the following model (4).

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 LFDI_{it} + \alpha_5 D_{it} * LFDI_{it} + \alpha_6 \Delta NI_{it-1} * LFDI_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * LFDI_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * LFDI_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} + \varepsilon_{it}$$

The study then examines the moderating effect of IFRS adoption on the relationship between FPI and conditional accounting conservatism in South Asia by using the following model (5).

$$\Delta NI\ it = \alpha 0 + \alpha 1\ D\ it + \alpha 2\ \Delta NIit\text{-}1 + \alpha 3\ D\ it * \Delta NI\ it\text{-}1 + \alpha 4\ LFPI\ it + \alpha 5\ D\ it * LFPI\ it + \alpha 6\ \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 7\ D\ it * \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 8\ IFRS\ it + \alpha 9\ D\ it * IFRS\ it + \alpha 10\ \Delta NI\ it\text{-}1 * IFRS\ it + \alpha 11\ D\ it * \Delta NI\ it\text{-}1 * LFPI\ it * IFRS\ it + \alpha 12\ SIZE\ it + \alpha 13\ BUFR\ it + \alpha 14\ INFR\ it + \alpha 15\ MOFR\ it + \alpha 16\ CORR\ it + \alpha 17\ MTKC\ it + \varepsilon\ it$$

The study further examines the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism in South Asia by using the following model (6).

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 DIN_{it} + \alpha_5 D_{it} * DIN_{it} + \alpha_6 \Delta NI_{it-1} * DIN_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * DIN_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * DIN_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} + \varepsilon_{it}$$

Table 5.1 explains symbols and definitions of the variables in models in the study. In addition, the table also includes the data source for each variable mentioned in the same table.

Table 5.1 Name and definition of variables and data source

Symbol	Measures	Variable	Source
ΔNI_t	Change in net company income from fiscal year to previous fiscal year ($NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period	Dependent	Oriana Database
FDIP	Foreign direct investment per capita	Dependent	World Development Indicators Database
FPIP	Foreign portfolio investment per capita	Dependent	World Development Indicators Database
DINP	Domestic investment per capita	Dependent	World Development Indicators Database
D	Dummy variable taking a value of 1 if the prior-year change income $_{is}$ negative, otherwise 0	Independent	Oriana Database
LFDI	Foreign direct investment in log.	Independent	World Development Indicators Database
LFPI	Foreign portfolio investment in log.	Independent	World Development Indicators Database
LDIN	Domestic investment in log	Independent	World Development Indicators Database
IFRS	IFRS adoption, value as a rank (Refer table 3.2)	Independent	IFRS Foundation (2016), Deloitte (2017), PWC (2016) and ROSC published by World Bank (2017)

Symbol	Measures	Variable	Source
GDP	Real gross domestic production	Control	World Development Indicators Database
DIN	Domestic investment valued as ratio of gross fixed capital formation to GDP	Control	World Development Indicators Database
INFRAS	Infrastructure: Telephone/1000 people	Control	World Development Indicators Database
COC	Cost of capital: Commercial banks' lending interest rate.	Control	World Development Indicators Database
INFL	Inflation (end of period average)	Control	World Development Indicators Database
EXC	Exchange rate: End of period average on US dollar	Control	World Development Indicators Database
FSTAB	Financial stability: Total reserve sufficient for months of imports	Control	World Development Indicators Database
OPEN	Trade openness: Total trade over GDP	Control	World Development Indicators Database
SIZE	Total assets of a company scaled by total assets of all companies.	Control	Oriana Database
BUFR	Business freedom	Control	The Heritage Organization Database
INFR	Investment freedom	Control	The Heritage Organization Database
MOFR	Fiscal freedom	Control	The Heritage Organization Database
CORR	Corruption	Control	Transparency International Database
MTKC	Market capitalization	Control	World Development Indicators Database

5.1.1 Measuring IFRS adoption

According to prior empirical studies, IFRS adoption has been operationalized as a binary variable that is coded one if IFRS is adopted, and zero otherwise (Bryce, Ali, &

Mather, 2015; Daske, Hail, Leuz, & Verdi, 2012; Dayanandan et al., 2016; Florou & Kosi, 2015; Nnadi & Soobaroyen, 2015; Steve, Riccardi, & Wang, 2012). However, several issues emerge when using a binary variable for the IFRS adoption. For instance, although a country could not adopt IFRS fully, it may be adopted partially, and several standards can be converged with IFRS. Therefore, it can be argued that the binary variable does not reflect the real picture of this stage of IFRS adoption.

Later, the ranking system for IFRS adoption was introduced as a solution in some empirical studies, such as Judge, Li, and Pinsker (2010), Ramanna and Sletten (2014), and Othman and Kossentini (2015). Four categories were introduced by Judge et al. (2010) based on the degree of IFRS adoption by a national economy: (1) in countries that did not adopt IFRS, (2) in countries that partially adopted IFRS, (3) in countries in which some companies adopted IFRS, and (4) countries in which IFRS was largely adopted.

Similarly, Ramanna and Sletten (2014) identified three stages of IFRS adoption: (1) non-adopters, (2) IFRS convergence, voluntary IFRS adoption, and the adoption of IFRS for some listed companies, and (3) full adopters. Othman and Kossentini (2015) identified seven stages of IFRS adoption: (1) no IFRS adoption for listed companies and local GAAPs reject IFRS, (2) no IFRS adoption for listed companies and local GAAPs were based on IFRS with major changes, (3) permitted IFRS adoption for listed companies, (4) mandatory IFRS adoption for some listed companies, (5) IFRS adopted as local GAAPs for all listed companies with minor changes, (6) IFRS adopted as local GAAPs for all listed companies, and (7) IFRS adopted as published by IASB for all listed companies.

The three and four stage rankings for IFRS adoption identified by Ramanna and Sletten (2014) and Judge et al. (2010) do not comprehensively cover representation of IFRS adoption, Othman and Kossentini (2015) found that seven stages are better in terms of coverage of most stages of IFRS adoption. Consequently, in the current study, IFRS

adoption is operationalized on Othman and Kossentini (2015) ranking system. As shown in Table 5.2, IFRS adoption in South Asia from 2006 to 2015 is categorized into seven stages, from the weakest to the strongest.

Table 5.2 Ranking system for IFRS adoption

Rank	Definition
1	No IFRS adoption for listed companies and local GAAPs is reject IFRS.
2	No IFRS adoption for listed companies and local GAAPs were based on IFRS with major changes.
3	Permitted IFRS adoption for listed companies.
4	Mandatory IFRS adoption for some listed companies.
5	IFRS adopted as local GAAPs for all listed companies with minor changes.
6	IFRS adopted as local GAAPs for all listed companies.
7	IFRS adopted as published by IASB for all listed companies.

Four primary sources were used to obtain the information on IFRS adoption by each country in South Asia: the IFRS Foundation (2016),[1] Deloitte (2017),[2] PWC (2016),[3] and the report on the observance of standards and codes (ROSC) published by World Bank (2017).[4]

Appendix 1 illustrates how rankings are determined for the adoption of IFRS from 2006 to 2015 in India, Pakistan, Bangladesh, and Sri Lanka. According to all four sources of IFRS adoption, rank number (3) is given to India from 2006 to 2014 because no IFRS adoption for listed companies and local GAAPs were based on IFRS with major changes.

[1] IFRS Foundation (2016) shows information for 150 countries under the heading of use of IFRS by jurisdictions.

[2] Deloitte (2017) provides information on the usage of IFRS on five geographical categories such as the Americas, Europe, Africa, Asia and Oceania. The Americas covers 29 jurisdictions. Europe covers 39 jurisdictions. Africa and Asia cover 20 and 39 jurisdictions, respectively. Oceania covers 6 jurisdictions.

[3] PWC (2016) provides similar information on IFRS adoption for 131 jurisdictions.

[4] ROSC provides comprehensive information on accounting and auditing regulations for 186 jurisdictions.

In addition, rank number (4) is given in year 2015, because India then permitted IFRS adoption for listed companies.

Based on all four sources, Pakistan adopted IFRS for listed companies except IFRS 1, with an effect on January 1, 2015. Furthermore, in Pakistan, local GAAPs were converged with IFRS. Therefore, rank number (3) is given from year 2006 to 2014. Moreover, rank number (5) is given for the year 2015 because IFRS was adopted with minor changes as local GAAPs for all listed companies occurred and went into effect on January 1, 2015.

According to the sources of IFRS except PWC (2016), in Bangladesh all listed companies, banks, and insurance companies should comply with Bangladesh Financial Reporting Standards (BFRS). Bangladesh adopted updated IASB standards as BFRS, and all BFRS were updated based on IFRS in 2012. All listed companies were required to adopt IFRS starting January 1, 2013. Therefore, rank number (3) is given from 2006 to 2011. No IFRS adoption for listed companies and local GAAPs were based on IFRS with major changes. Furthermore, rank number (5) is given for the year 2012 due to IFRS being adopted with minor changes as local GAAPs for all listed companies. In addition, rank number (6) is given from 2013 to 2015 because Bangladesh adopted IFRS as local GAAPs for all listed companies starting in 2013.

According to all four sources, compliance with IFRS is required by all listed companies in Sri Lanka as of January 1, 2012. Thus, rank number (3) is given from 2006 to 2011 because, until 2012, Sri Lanka had not adopted IFRS as local GAAPs for all listed companies. However, rank number (6) is given from 2012 to 2015 because Sri Lanka adopted IFRS as local GAAPs for all listed companies as of January 1, 2012.

5.1.2 Control variables

The institutional infrastructure of a country is vital to attract FDI is also an important element for attracting FDI to developed and emerging countries (Arita, 2013). According to Arita (2013), FDI for emerging multinational enterprises (EMNE) can be considered as an important method of finance, comprising around 33% of total FDI in South-South.

If the institutional infrastructure is poor in a particular country, there is a possibility of receiving foreign investment in the mode of FDI rather than in other types of investment, such as foreign portfolio investment (Hämäläinen & Martikainen, 2015). The reason is that foreign direct investors can enjoy more control over their investment. However, if the institutional infrastructure and regulatory environment of a country are poor, foreign investors will not receiving quality information (Hämäläinen & Martikainen, 2015). The quality of governance and the financial development enhances the benefits of FDI in South Asia (Sajid Anwar & Cooray, 2012), since it reduce the problem of information asymmetry.

This study introduced several control variables into the model. The first control variable is company size, which is calculated based on the total assets of the company. The size of a company was used by (Ball & Shivakumar, 2005; Bryce et al., 2015; l. Feng, 2010; Marzuki & Wahab, 2018; Sasidharan & Kathuria, 2011; Zhai & Wang, 2016), as one of control variables of the model.

Economic freedom can be considered as an institutional infrastructure of a country (Hämäläinen & Martikainen, 2015). Economic freedom is an essential right of every human in the world to their own labor and property (The Heritage Foundation, 2017). It is also one of methods to measure institutional infrastructure (Hämäläinen & Martikainen, 2015). Economic freedom is fundamental to everyone, and consists of the freedom to work, a free society, and the freedom to move one place to another. Hämäläinen and

Martikainen (2015) have investigated the effect in economic freedom on the relationship between FDI and conditional accounting conservatism.

The data for economic freedom was derived from the index of the economic freedom of heritage organization. This index shelters twelve economic freedoms: property rights, government integrity (freedom from corruption), judicial effectiveness, tax burden, government spending, fiscal health, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom and financial freedom.

All types of economic freedom are classified under main four categories: the rule of law, government size, regulatory efficiency and open markets. Property rights, government integrity (freedom from corruption) and judicial effectiveness are sheltered under the rule of law. In addition, tax burden, government spending and fiscal health fall under government size. Business freedom, labor freedom and monetary freedom are sheltered under regulatory effectiveness. Trade freedom, investment freedom and financial freedom fall under open markets. Each economic freedom listed above is rated on a scale of zero to hundred. The overall score for each country is calculated by averaging the total score for all twelve economic freedoms.

In this study, the four economic freedoms were taken into consideration as control variables: business freedom, investment freedom, monetary freedom and freedom from corruption and they are representing the main categories of economic freedom. A brief explanation of business freedom, investment freedom, monetary freedom and freedom from corruption are given in the following paragraphs.

The second control variable of this study is business freedom, which has been defined as an entity's right to establish and run an enterprise without unnecessary intervention from the state (Miller, Kim, & Holmes, 2015). Troublesome regulations can be

considered as the biggest obstacle for business freedom. When states impose new regulations on the business enterprises, the cost of production increases and enterprises may face difficulties in terms of running the business. In the economies such as India's, it takes long time to get a business license due to ineffective and corrupt government officers (Miller et al., 2015). In addition, the business is finally open and government regulations may affect the normal decision-making process. Business freedom (BUFR) is measured on the efficiency of government regulation of business. Its score for each country is a number between 0 and 100, with 100 equaling the freest business environment (Aziz, 2018).

Third, investment freedom offers a free and open investment environment in a state. If a particular country has investment freedom, benefits such as company expansions, business opportunities, high productivity and job creation can be obtained. These benefits are obtained, not only for individual companies, but also for the country as a whole. Transparency and equity are the characteristics of effective investment freedom. Also, if company or country has freedom to invest, it can receive greater returns (Miller et al., 2015). Restrictions on free capital flow from one company to another company (Local) or one country to another country (international) may damage the above-mentioned benefits.

Fourth, monetary freedom means a stable currency and market determined prices. Stakeholders, such as entrepreneurs and consumers expect to get a reliable and stable medium of exchange for their transactions. The value of a country's currency fluctuates as a result of the monetary policy of its government. Therefore, the monetary policies of a government significantly influence the value of the currency of a country. However, the monetary policy of a country can also be helpful in controlling the inflation, as well as maintaining price stability. In addition, the people in the country can rely on the market

prices if there is monetary freedom and the monetary policy of a country may be helpful in preserving the nation's wealth.

Fifth, freedom from corruption can be explained as the integrity of the economic system of a country. If there is a failure in the integrity of the economic system, it can be seen as corruption. Corruption can be looked at in variety of ways, such as bribery, extortion, nepotism, cronyism, patronage, and embezzlement, (Miller et al., 2015) and corruption can pollute all parts of the economy of a country. There is a direct relationship between corruption and government involvement in economic activities of a country, in particular, unnecessary regulations imposed by the government can accelerate bribery or graft (Miller et al., 2015).

The final control variable is market capitalization. In general, market capitalization is calculated by multiplying the total number of shares by the present share price. In simple terms, market capitalization is the total market value of the current shares of a firm. Market capitalization is denoted as MTKC and has been considered as one of control variables of this study. Market capitalization (MTKC) is included as a control variable since it also refers to the market size of the host country (Gordon, Loeb, & Zhub, 2012).

5.2 Sample design

In this study, all public listed companies other than financial and insurance companies in India, Pakistan, Bangladesh and Sri Lanka are taken into consideration in order to examine the research hypotheses of the study. Table 5.3 shows the total number of public listed companies in India, Pakistan, Bangladesh and Sri Lanka. While the highest number of public listed companies is India as 5835, the lowest is 295 in Sri Lanka.

Table 5.3 Total number of public listed companies in India, Pakistan, Bangladesh and Sri Lanka

Country	Total public listed companies
India	5,835
Pakistan	578
Bangladesh	543
Sri Lanka	295
Total	**7251**

Source: *World Bank Database and websites of the stock exchanges in the respective countries.*

5.3 Data collection procedures and sample selection

Accounting data for public listed firms in India, Pakistan, Bangladesh and Sri Lanka is derived from Oriana, the Company Information Asia Pacific Database. It contains comprehensive information on companies across the Asia-Pacific region. Information for the FDI of India, Pakistan, Bangladesh and Sri Lanka is derived from the World Bank Database and data for economic freedom was derived from the heritage organization (http://www.heritage.org/index) and the transparency international Database.

The sample consists of all public listed companies other than of finance and insurance companies in India, Pakistan, Bangladesh and Sri Lanka for the period of 2006 to 2015. During this period, accounting regulations and accounting standards of the respective countries have changed. The total sample of this study is 42,228 observations, which were comprised of 35,308 observations from India, 4,030 observations from Pakistan, 860 observations from Bangladesh and 2030 observations from Sri Lanka.

Table 5.4 illustrates the proportion of the sample of public listed companies in the whole sample of the study. Whole sample consists of 7,251 listed companies and it includes 1,580 finance and insurance companies. The study removed the entire company if accounting data is not available for the required period and this was mentioned in the table as missing information. Accounting data for 1,448 public listed companies were

missing in the whole sample which was 19.96% of the total number of public listed companies. Therefore, the final sample of this study comprises 42,228 firm-year observations, which represents 58.23% of the total of public listed companies in South Asia.

Table 5.4 Sample selection from South Asia – the whole sample

Sectors	Years	Total number of companies	Total observations	% of the Total
Total	10	7,251	72,510	100.00%
Finance and Insurance	10	1,580	15,800	21.79%
Missing		1,448	14,480	19.96%
Sample		4,223	42,228	58.23%

Table 5.5 illustrates the proportion of the sample of public listed companies in India. India has 5,835 listed companies with 1,313 of them being finance and insurance companies. Accounting data for 991 public listed companies in India, which was 16.98% of the total of public listed companies, was missing. The final sample from India was 35,308 observations, comprising 60.52% of total public listed companies in India.

Table 5.5 Sample selection from India

Sectors	Years	Total number of companies	Total observations	% of the Total
Total	10	5,835	58,350	100.00%
Finance and Insurance	10	1,313	13,130	22.50%
Missing		991	9,910	16.98%
Sample		3,531	35,308	60.52%

Table 5.6 shows the total number of public listed companies and how the final sample was extracted in Pakistan. Pakistan has 578 public listed companies, of which, 96 are finance and insurance companies and thus, the proportion of finance and insurance companies 16.61%. Moreover, data for 79 public listed companies, which is 13.67% of

the total, could not be collected. Therefore, the final sample from Pakistan was 403 public listed companies or 69.72% of the total.

Table 5.6 Sample selection from Pakistan

Sectors	Years	Total number of companies	Total observations	% of the Total
Total	10	578	5,780	100.00%
Finance and Insurance	10	96	960	16.61%
Missing		79	790	13.67%
Sample		403	4,030	69.72%

Table 5.7 illustrates how the final sample was extracted from Bangladesh. Bangladesh has 543 public listed companies, of which 100 are finance and insurance companies. In terms of missing data, 65.75% of total of public listed companies or 357 could not be traced. Thus, the total sample from Bangladesh was 860 observations, which is 15.83% of total number of observations in Bangladesh.

Table 5.7 Sample selection from Bangladesh

Sectors	Years	Total number of companies	Total observations	% of the Total
Total	10	543	5,430	100.00%
Finance and Insurance	10	100	1,000	18.42%
Missing		357	3,570	65.75%
Sample		86	860	15.83%

Table 5.8 describes the final sample in Sri Lanka. Sri Lanka has 295 public listed companies including 71 finance and insurance companies, which is 24.07%. Data for 21 public listed companies, which is 7.12% of the total was missing. Therefore, the final sample from Sri Lanka is 203 public listed companies, which is 68.81% of the total.

Table 5.8 Sample selection from Sri Lanka

Sectors	Years	Total number of companies	Total observations	% of the Total
Total	10	295	2950	100.00%
Finance and Insurance	10	71	710	24.07%
Missing		21	210	7.12%
Sample		203	2030	68.81%

5.4 Data analysis techniques

As mentioned in the section on data collection procedure, accounting data was derived from the Oriana database. Data for FDI, foreign portfolio investment and domestic investment were derived from the World Bank Database. Since data is from several years, as well as from several countries, in terms of estimation, the panel GMM estimator was used. The fixed effect model and the random effect model are also used, subject to diagnostic tests. In addition, descriptive statistics are run to illustrate the nature of the collected data. Moreover, a correlation test was also run for all dependent variables, independent variables and control variables. Eviews 10 statistical software was used to analyze the panel regression.

5.5 Chapter summary

This chapter discusses the research method of the study. Basically, nine research models are presented for each research hypotheses. Moreover, IFRS adoption is measured from a seven-stage ranging system. Overall, the study used 42,228 firm year observations as the final sample from four countries in South Asia (India, Pakistan, Bangladesh and Sri Lanka) and sample years from 2006 to 2015. Accounting data and economic data were derived from the Oriana database and the world development indicators database respectively. Data was analyzed from a panel GMM estimator.

CHAPTER 6: ANALYSIS AND DISCUSSION

This chapter is comprised of ten sections. Section one explains the diagnostic testing, such as panel root testing, granger causality testing, the panel cointegration test, the auto correlation test, and the over identification moment test. Section 6.2 describes the result of the descriptive statistics. Sections 6.3 to 6.8 describe the result for all research hypotheses of the study. Section 6.9 illustrates the details of sensitivity testing. Section 6.10 presents the discussion for the study.

6.1 Diagnostic tests

This study ran several diagnostic tests to ensure the validity and accuracy of the data and the models. The first test was a panel unit root test to check whether or not the data are stationary. A detailed description is given in Section 6.1.1 on the panel unit root test for level and first difference. The second test was the Granger causality test which is developed in Section 6.1.2. The third test was a panel cointegration test, which is explained in Section 6.1.3. Following this, an autocorrelation test is illustrated in Section 6.1.4 and an over identification test is outlined in Section 6.1.5. The next test is a Hausman test, which is explained in each regression analysis.

6.1.1 Panel unit root test

Table 6.1 illustrates the results of the panel unit root test on the level of the variables of the regressions. The Panel unit root test was run using the methods of Levin, Lin & Chu t*, Breitung t-stat, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square and PP - Fisher Chi-square. This test has three circumstances: intercept, linear trend and none and the study ran all the variables through these three circumstances. The four applicable methods for the circumstance of intercept are Levin, Lin & Chu t*, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square and PP - Fisher Chi-square. All five methods of Levin, Lin & Chu t*, Breitung t-stat, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square and

PP - Fisher Chi-square are applicable for the second circumstance of the linear trend. However only three methods, Levin, Lin & Chu t*, ADF - Fisher Chi-square and PP - Fisher Chi-square are applicable in the circumstance of none.

Overall, variables (ΔNIt, D, ΔNIt-1, D * ΔNIt-1, D * LFDI, ΔNIt-1 * LFDI, D * ΔNIt-1 * LFDI, D*IFRS, ΔNIt-1 * IFRS, D * ΔNIt-1 * LFDI * IFRS, SIZE, INFR, MOFR, and CORR) have no unit root at level, based on the results of the above mentioned five methods. Therefore, these variables were stationary at level. However, variables, LFDI, IFRS, DIN and BUFR were not stationary at level, but become stationary at the first difference. A detailed description on the result of the panel unit root test at the level on each variable is given in Appendix 2 and a detailed description of the result of the panel root test at first difference on each applicable variable is shown Appendix 2.1.

Table 6.1 Panel unit root test - level

Variable	Type	Levin, Lin & Chu t*		Breitung t-stat		Im, Pesaran and Shin W-stat		ADF - Fisher Chi-square		PP - Fisher Chi-square	
		Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.
ΔNI t	Intercept	-3,158	0.00	-	-	-186.24	0.00	22,579	0.00	25,865	0.00
	Linear trends	-2,227	0.00	34.57	1.00	-83.06	0.00	18,181	0.00	25,747	0.00
	None	-114,238	0.00	-	-	-	-	34,646	0.00	35,766	0.00
D	Intercept	-120	0.00	-	-	-119.55	0.00	15,826	0.00	19,937	0.00
	Linear trends	-170	0.00	-56.63	0.00	-35.81	0.00	17,466	0.00	28,382	0.00
	None	-77	0.00	-	-	-	-	13,683	0.00	16,360	0.00
ΔNIt-1	Intercept	-2,700	0.00	-	-	-234.01	0.00	26,271	0.00	31,759	0.00
	Linear trends	-2,124	0.00	-47.25	0.00	-114.67	0.00	20,879	0.00	33,473	0.00
	None	-2,437	0.00	-	-	-	-	40,526	0.00	42,241	0.00
D *ΔNIt-1	Intercept	-9,547	0.00	-	-	-518.39	0.00	23,978	0.00	28,174	0.00
	Linear trends	-7,623	0.00	-44.96	0.00	-245.67	0.00	19,960	0.00	30,194	0.00
	None	-7,461	0.00	-	-	-	-	30,770	0.00	30,792	0.00
LFDI	Intercept	-80	0.00	-	-	-45.24	0.00	14,399	0.00	18,849	0.00
	Linear trends	-65	0.00	-57.40	0.00	-4.95	0.00	8,134	0.23	8,589	0.00
	None	45	1.00	-	-	-	-	2,183	1.00	3,979	1.00
LFPI	Intercept	-73.53	0.00	-	-	-45.89	0.00	14668.7	0.00	13026.9	0.00
	Linear trends	-139.39	0.00	24.44	1.00	-16.77	0.00	12347.5	0.00	21872.1	0.00
	None	-31.49	0.00	-	-	-	-	6204.76	1.00	7630.25	1.00
DIN	Intercept	57.51	1.00	-	-	67.6153	1.00	1244.51	1.00	1439.57	1.00
	Linear trends	-141.22	0.00	-32.01	0.00	-7.90	0.00	9988.38	0.00	9906.11	0.00

Variable	Type	Levin, Lin & Chu t*		Breitung t-stat		Im, Pesaran and Shin W-stat		ADF - Fisher Chi-square		PP - Fisher Chi-square	
		Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.
D * LFDI	Intercept	-634	0.00	-	-	-108.51	0.00	20,231	0.00	25,132	0.00
	Linear trends	-1,094	0.00	-55.94	0.00	-135.02	0.00	18,116	0.00	28,888	0.00
	None	-31	0.00	-	-	-	-	17,405	0.00	20,283	0.00
ΔNIt-1 * LFDI	Intercept	-19,211	0.00	-	-	-672.93	0.00	26,771	0.00	31,645	0.00
	Linear trends	-81,540	0.00	-37.68	0.00	-936.26	0.00	22,018	0.00	33,442	0.00
	None	-18,714	0.00	-	-	-	-	40,458	0.00	42,079	0.00
D * ΔNIt-1 * LFDI	Intercept	-84,755	0.00	-	-	-4,276.83	0.00	23,791	0.00	27,886	0.00
	Linear trends	-67,078	0.00	-31.95	0.00	-1,378.09	0.00	19,924	0.00	29,937	0.00
	None	-74,682	0.00	-	-	-	-	30,016	0.00	30,492	0.00
IFRS	Intercept	4	1.00	-	-	7.92	1.00	29	1.00	28	1.00
	Linear trends	-13	0.00	-4.55	0.00	2.23	0.99	76	1.00	56	1.00
	None	0	0.47	-	-	-	-	72	1.00	72	1.00
D * IFRS	Intercept	-118.04	0.00	-	-	-69.19	0.00	16,809	0.00	20,037	0.00
	Linear trends	-172.72	0.00	-37.12	0.00	-36.2	0.00	17,946	0.00	28,070	0.00
	None	-71.92	0.00	-	-	-	-	14,035	0.00	16,924	0.00
ΔNIt-1 * IFRS	Intercept	-18,604	0.00	-	-	635.34	0.00	27,978	0.00	32,930	0.00
	Linear trends	-76,148	0.00	-32.68	0.00	-866.31	0.00	22,809	0.00	34,511	0.00
	None	-18,062	0.00	-	-	-	-	42,115	0.00	43,686	0.00
D * ΔNIt-1 * LFDI * IFRS	Intercept	-86,076	0.00	-	-	-4,265	0.00	24,760	0.00	28,911	0.00
	Linear trends	-68,163	0.00	-24.47	0.00	-1,374	0.00	20,887	0.00	30,980	0.00

Variable	Type	Levin, Lin & Chu t*		Breitung t-stat		Im, Pesaran and Shin W-stat		ADF - Fisher Chi-square		PP - Fisher Chi-square	
		Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.
SIZE	Intercept	-10,099	0.00	-	-	-1,027.45	0.00	14,751	0.00	17,276	0.00
	Linear r trends	-46,360	0.00	40.36	1.00	-1,023.89	0.00	12,120	0.00	14,416	0.00
	None	-44	0.00	-	-	-	-	19,386	0.00	22,007	0.00
BUFR	Intercept	-3	0.00	-	-	13.90	1.00	5,048	1.00	5,023	1.00
	Linear trends	42	1.00	8.23	1.00	25.09	1.00	2,417	1.00	2,347	1.00
	None	-38	0.00	-	-	-	-	7,265	1.00	7,643	1.00
INFR	Intercept	-92	0.00	-	-	-63.11	0.00	19,012	0.00	79,045	0.00
	Linear trends	-28	0.00	35.18	1.00	10.64	1.00	5,205	1.00	41,615	0.00
	None	-82	0.00	-	-	-	-	14,354	0.00	15,085	0.00
MOFR	Intercept	-102	0.00	-	-	-31.41	0.00	11,241	0.00	26,305	0.00
	Linear trends	-44	0.00	30.90	1.00	38.91	1.00	1,466	1.00	1,595	1.00
	None	-107	0.00	-	-	-	-	19,555	0.00	19,562	0.00
CORR	Intercept	-122	0.00	-	-	-68.16	0.00	20,448	0.00	9,533	0.00
	Linear trends	-132	0.00	-87.13	0.00	-24.73	0.00	15,372	0.00	3,777	1.00
	None	71	1.00	-	-	-	-	731	1.00	897	1.00
MTKC	Intercept	-193.02	0.00	-	-	-89.13	0.00	24,065	0.00	21,458	0.00
	Linear trends	-269.16	0.00	-140.38	0.00	-71.98	0.00	28,543	0.00	50,725	0.00
	None	-96.90	0.00	-	-	-	-	16,851	0.00	7,696	1.00

6.1.2 The Granger causality test

The Panel causality test was developed by Dumitrescu and Hurlin (2012) and is known as the DH Granger causality test. Generally, cross-sectional data may have interconnected data set from one given variable to another. That is common where cross sections exist that have causal relationships (Dumitrescu & Hurlin, 2012). Generally, causality tests run on series data and cross-sectional data. However, Dumitrescu and Hurlin (2012) emphasized that the use of this test can be extended for panel data as well.

Appendix 3 illustrates the result of Granger causality test on each model of this study. The first model illustrates the relationship between FDI and conditional accounting conservatism. The null hypotheses are that LFDI does not have a Granger Cause ΔNIt and ΔNIt does not have a Granger Cause LFDI. Since the P value is higher than 0.05, the null hypotheses cannot be rejected. Therefore, in the first model, the independent variable, LFDI is not a Granger Cause ΔNIt, dependent variable. Similarly, ΔNIt is also not a Granger Cause LFDI.

The second model explores the relationship between foreign portfolio investment and conditional accounting conservatism. In this case, an insignificant P value can be seen for the F-statistic in the Granger causality test. Thus, LFPI is not a Granger Cause ΔNIt and LFPI is also not a Granger Cause on ΔNIt. The third model illustrates the effect of domestic investment on conditional accounting conservatism. According to the results of this test, it can be emphasized that DIN is not a Granger Cause on ΔNIt. On the other hand, since a significant P value exists, the null hypothesis of ΔNIt does not Granger Cause DIN, can be rejected. The final research question has three sub-research objectives. The first is the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism. For this model, three variables were tested on Granger causality: ΔNIt, LFDI and IFRS. For this model, there are six null hypotheses:

LFDI is not a Granger Cause ΔNIt, ΔNIt is not a Granger Cause LFDI, IFRS is not a Granger Cause ΔNIt, ΔNIt is not a Granger Cause IFRS, IFRS is not a Granger Cause LFDI, and LFDI is not a Granger Cause IFRS. According to the result the first four null hypotheses cannot be rejected but with the last two, a null hypothesis was rejected.

The second one is the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism. The model which was used for this research hypothesis was also tested with the Granger causality test on three variables: ΔNIt, LFPI and IFRS. In this case, six null hypotheses are also available and four (LFPI does not Granger Cause ΔNIt, ΔNIt does not Granger Cause LFPI, IFRS does not Granger Cause ΔNIt, ΔNIt does not Granger Cause IFRS), cannot be rejected, while two (IFRS does not Granger Cause LFPI and LFPI does not Granger Cause IFRS) can be rejected.

The third one is the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism. In this case, there are also three variables for this test: ΔNIt, DIN and IFRS. The first four null hypotheses: DIN does not Granger Cause ΔNIt, ΔNIt does not Granger Cause DIN, IFRS does not Granger Cause ΔNIt, and ΔNIt does not Granger Cause IFRS. All of these null hypotheses cannot be rejected since they have insignificant P value. On the other hand, two null hypotheses, which are IFRS does not Granger Cause DIN and DIN does not Granger Cause IFRS, can be rejected since they have a significant P value.

6.1.3 Panel cointegration test

The meaning of cointegration is that a statistical property of a multivariate process requires that all components have same order of integration (Flôres & Szafarz, 1996). In the co-integration test, the null hypothesis is “no co-integration”. However, many

empirical studies have failed to rejected the null hypothesis, even though theory strongly suggests cointegration (Persyn & Westerlund, 2008). The Panel cointegration test is only valid in the circumstance where the data series is known to be non-stationary. Thus, the precondition for this test is the data should be at a non-stationary level and these data become stationary at the first difference.

According to the panel unit root test for this study, only four variables (LFDI, DIN, IFRS, BUFR) were non-stationary at level, and they became stationary at the first difference. All other variables were stationary at level. The details on panel unit root test are mentioned in the Section 6.1.1. However, the panel co-integration test was run for all of the models of this study to ensure the long- run association among the variables. Eviews provides three methods to compute panel cointegration test: the Pedroni test, the Kao test and the Fisher test.

The Pedroni and Kao tests are based on the Engle and Granger (1987) two-step cointegration tests. The Fisher test is a combined Johansen test. The Kao test follows the same basic approach as the Pedroni tests, but specifies cross-section specific intercepts and homogeneous coefficients on the first-stage regressors (Eviews user guid-cointegration, 2018). Therefore, this study used the Kao test to run the cointegration test for all models.

Table 6.2 presents the result of cointegration test for all of the models in this study. Overall, the study has nine models and all models show significant P value for the Augmented Dickey Fuller (ADF) test, derived from the Kao residual panel cointegration test. The first model, which estimates the effect of FDI on conditional accounting conservatism, shows an -18.271statistic value with significant P value for ADF. In addition, the second model, which illustrates the effect of foreign portfolio investment on conditional accounting conservatism, recorded an -18.638 statistic value and also shows

a significant P value. The next model illustrates the effect of domestic investment on conditional accounting conservatism. This model also presents significant a P value of 22.915 for the static value.

The fourth research question of this study deals with the moderating effect of IFRS adoption on the relationship between types of investment and conditional accounting conservatism. Since there are three types of investment: FDI, foreign portfolio investment and domestic investment, this study ran a panel cointegration test for each model for each type of investment. The co-integration test for Model 4 shows a statistic value of -18.777, with a significant P value. Moreover, the statistic value for the model of 5 was -19.657 with significant P value, whereas Model 6 showed 14.415 with a significant P value.

Variables for FDI, foreign portfolio investment and domestic investment are endogenous in nature. Therefore, this study investigates the effect of conditional accounting conservatism on the types of investment by shifting the right-hand variables (types of investment) to left side. The panel cointegration test was also run for these three models. The model for the FDI as a dependent variable (1a) is shown as a -154.064 value with significant P value. Furthermore, the model for the foreign portfolio investment as a dependent variable (2a) recorded a -114.003 value with significant P value. The next model with domestic investment as a dependent variable also shows -176.537 with significant P value.

In summary, all models show significant P values for the ADF test in the Kao panel co-integration. Therefore, the null hypothesis of "no co-integration" can be rejected for all models of this study and variables in the models have cointegration, meaning that the variables have a long-run association. The econometric theories strongly suggest co-integration among the variables (Persyn & Westerlund, 2008). Thus, the results obtained

from panel cointegration test for this study were compiled with econometrics theories (Persyn & Westerlund, 2008).

Table 6.2 Result of the panel cointegration test

Model	Test	Statistic	Probability
Model 1 - FDI and CAC	ADF	-18.271	0.000
Model 2 - FPI and CAC	ADF	-18.638	0.000
Model 3 - DIN and CAC	ADF	22.915	0.000
Model 4 - Moderating IFRS on FDI and CAC	ADF	-18.777	0.000
Model 5 - Moderating IFRS on FPI and CAC	ADF	-19.657	0.000
Model 6 - Moderating IFRS on DIN and CAC	ADF	14.415	0.000
Model 1a- FDI as dependent variable	ADF	-154.064	0.000
Model 2a- FDI as dependent variable	ADF	-114.003	0.000
Model 3a- DIN as dependent variable	ADF	-176.537	0.000

6.1.4 Autocorrelation test

The Durbin-Watson statistic is used to test for autocorrelation using E-views and the test results vary between 0 and 4. If the value is between 0 and 2, this indicates that a positive autocorrelation in the model. On the other hand, if the value is between 2 and 4, this indicates a negative autocorrelation. If the result is close to 2, this provides enough confidence that no autocorrelation exists in the model. However, empirical literature (SAP Documentation, 2018; Savin & White, 1977) has suggested an acceptable rage of 1.5 to 2.5 in the Durbin-Watson test to measure the autocorrelation.

Table 6.3 presents the test summary of the Durbin Watson value, which was derived from panel GMM on both the fixed effect model as well as the random effect model. The following table presents Durbin Watson values for all of the models of this study. Overall, the Durbin Watson values for all models show acceptable values, ensuring the result of the study on autocorrelation. The Durbin Watson values for the fixed effect and random effect for the first model were 1.700 and 1.640 respectively. Since the values were in the acceptable range, there is no autocorrelation in the model. In the second model, there is also no autocorrelation since it shows 1.710 and 1.640 for the fixed effect and random

effect models. The third model also displayed 1.700 and 1.640 for the fixed effect and random effect models respectively so autocorrelation does not exist in this model as well.

Model 4 shows 1.710 and 1.640 for the Durbin Watson for fixed effect and random effect models respectively. Therefore, one can argue that no autocorrelation in this model. In addition, the Durbin Watson values for Model 5 were 1.700 and 1.640 for the fixed effect and random effect models while Model 6 shows 1.710 and 1.650. Thus, no autocorrelation exists in these models. The model with FDI as the dependent variable (1a) shows 2.220 and 1.930 for the Durbin Watson test under both fixed effect and random effects, whereas model 2a, illustrating that foreign portfolio investment is the dependent variable, also shows 2.477 and 2.508 Durbin Watson values under both fixed effect and random effects. In addition, the model in which domestic investment is the dependent variable (3a) also shows 1.460 and 1.535 for the Durbin Watson test under both fixed effect and random effect models.

Table 6.3 Durbin-Watson test result for all of the models of the study

Model	Method	Durbin-Watson value
Model 1 - FDI and CAC	Fixed effect	1.700
	Random effect	1.640
Model 2 - FPI and CAC	Fixed effect	1.710
	Random effect	1.640
Model 3 - DIN and CAC	Fixed effect	1.700
	Random effect	1.640
Model 4 - Moderating IFRS on FDI and CAC	Fixed effect	1.710
	Random effect	1.640
Model 5 - Moderating IFRS on FPI and CAC	Fixed effect	1.700
	Random effect	1.640
Model 6 - Moderating IFRS on DIN and CAC	Fixed effect	1.710
	Random effect	1.650
Model 1a - FDI as dependent variable	Fixed effect	2.220
	Random effect	1.930
Model 2a - FPI as dependent variable	Fixed effect	2.477
	Random effect	2.508
Model 3a - DIN as dependent variable	Fixed effect	1.460
	Random effect	1.535

6.1.5 Over identification moment test (Sagan test/ J-statistic test)

The J-statistic test can be used as a test of over identification movement conditions. If there are more instruments than parameters, the value of the optimized objective function

will be greater than zero. On the other hand, if there are same number of instruments and the parameters in the model, the value of the optimized objective function is zero. In fact, the value of the objective function can be measured from J-statistic (Baum, Schaffer, & Stillman, 2003).

Cross Validated (2018) emphasized that zero value for the J-statistic indicates that the model is quite good. On the other hand, if the p value of the J-statistic is 0, the model is ridiculously bad. Furthermore, Eviews user forum (2018) illustrated that generally, the P value does not appear for the J-statist in the panel data in Eviews. In addition, the J-statistic value in panel GMM equals the result of Sargan test (Eviews user forum, 2018).

Table 6.4 presents the result of the J-statistic derived from panel GMM under both the fixed effect model and the random effect model. Overall, the J-statistic value for the all models in the study is zero. In detail, the first model shows the zero value for the J-statistic in both the fixed effect model and random effect model indicating that this model is ridiculously good. In addition, the second and third models also show zero for the J-statistic. The fourth, fifth and sixth model also show zero for the J-statistic value, which leads to an exploration of the moderating effect of IFRS adoption in the relationship between the types of investment and conditional accounting conservatism.

The three models are modified by changing the types of investment from the right hand to the left side variables in the model in order to enhance the contribution of this study. These three models (1a, 2a and 3a) also displayed zero for the J-statistic. Therefore, it can be emphasized that all models of this study were good in terms of over identification movement conditions.

Table 6.4 J-statistic test results for all models in the study

Model	Method	J-Statistic
Model 1 - FDI and CAC	Fixed effect	0.000
	Random effect	0.000
Model 2 - FPI and CAC	Fixed effect	0.000
	Random effect	0.000
Model 3 - DIN and CAC	Fixed effect	0.000
	Random effect	0.000
Model 4 - Moderating IFRS on FDI and CAC	Fixed effect	0.000
	Random effect	0.000
Model 5 - Moderating IFRS on FPI and CAC	Fixed effect	0.000
	Random effect	0.000
Model 6 - Moderating IFRS on DIN and CAC	Fixed effect	0.000
	Random effect	0.000
Model 1a - FDI as dependent variable	Fixed effect	0.000
	Random effect	0.000
Model 2a - FDI as dependent variable	Fixed effect	0.000
	Random effect	0.000
Model 3a - DIN as dependent variable	Fixed effect	0.000
	Random effect	0.000

6.2 Descriptive statistics

6.2.1 Dependent variable

Table 6.5 shows a summary of the statistics of mean, median, minimum, maximum, and standard deviations of the sample of 42,228 firm-year observations during the period of 2006 to 2015. Descriptive statistics for ΔNI t for the whole sample and for the individual countries of India, Pakistan, Bangladesh, and Sri Lanka are presented. Overall, the mean value of the dependent variable of income change varies from 17.193 to 0.615, with the highest in India and the lowest in Pakistan. The highest median value is 0.067 in Bangladesh, while the lowest median value is 0.024 in India. The percentage of negative changes of income, scaled by total assets at the beginning of the year fluctuates, between 30 per cent and 42.28 per cent, with the lowest being in Bangladesh and the highest occurring in Pakistan.

In the whole sample, 42,228 firm-year observations make up the sample. The minimum and maximum values in the whole sample are -50,732 and 138,778 respectively. Moreover, mean value of the whole sample is 14.599, while the median value is 0.026. Thus, 41.02 percent of South Asian firms recognize negative income

changes. Details of the descriptive statistics for dependent variable for India, Pakistan, Bangladesh and Sri Lanka are presented in the Appendix 4.

Table 6.5 Descriptive Statistics – Dependent variable

Country	N	Mean	Median	Maximum	Minimum	Std. Dev.	ΔNI t<0
Whole Sample	42,228	14.599	0.026	138778	-50,732	1104.822	41.02%
India	35,308	17.193	0.024	138778	-50,732	1207.910	41.49%
Pakistan	4,030	0.615	0.027	399.939	-2,110	38.758	42.28%
Bangladesh	860	0.991	0.067	125.049	-91	10.174	30%
Sri Lanka	2,030	3.006	0.034	4625.233	-9	102.953	34.82%

6.2.2 Other variables

Table 6.6 illustrates the descriptive statistics for all of the variables in the regression except the dependent variable, as was explained in the above section. It consists of all of the independent variables and control variables of the regression for the whole sample, and for India, Pakistan, Bangladesh and Sri Lanka. The details for mean, median, minimum, maximum and standard deviation are presented in the table. Overall, the minimum and maximum numbers varied from -50,732 to 131,740. The whole sample consists of 42,228 firm-year observations, which include 35,310 firm-year observations from India, 4,030 firm-year observations from Pakistan, 860 firm-year observations from Bangladesh and 2030 firm-year observations from Sri Lanka. A detailed description of the statistics on each independent variable and the control variables are included in Appendix 5.

Table 6.6 Descriptive statistics for all variables

Variable	Country	N	Mean	Median	Maximum	Minimum	Std. Dev.
D	Whole sample	42,228	0.392	0.000	1.000	0.000	0.488
	India	35308	0.399	0.000	1.000	0.000	0.489
	Pakistan	4030	0.378	0.000	1.000	0.000	0.485
	Bangladesh	860	0.276	0.000	1.000	0.000	0.447
	Sri Lanka	2,030	0.348	0.000	1.000	0.000	0.476
ΔNI_{t-1}	Whole sample	42,228	5.094	0.037	131737	-50,732	807.948
	India	35,308	5.949	0.033	131737	-50,732	883.554
	Pakistan	4,030	1.061	0.053	365.756	-569	19.985
	Bangladesh	860	0.412	0.088	124.856	-91	7.435
	Sri Lanka	2,030	0.214	0.035	195.177	-9	5.193
D * ΔNI_{t-1}	Whole sample	42,228	-7	0.000	0.000	-50,732	364.985
	India	35,308	-8	0.000	0.000	-50,732	399.120
	Pakistan	4,030	-1	0.000	0.000	-569	12.406
	Bangladesh	860	0	0.000	0.000	-91	4.239
	Sri Lanka	2,030	0	0.000	0.000	-9	0.338
LFDI	Whole sample	42,228	10.271	10.449	10.645	8.606	0.520
	India	35,308	10.489	10.449	10.645	10.301	0.107
	Pakistan	4,030	9.323	9.288	9.747	8.933	0.281
	Bangladesh	860	9.129	9.112	9.528	8.659	0.260
	Sri Lanka	2,030	8.833	8.854	8.980	8.606	0.133
D * LFDI	Whole sample	42,228	4.042	0.000	10.645	0.000	5.036
	India	35,308	4.194	0.000	10.645	0.000	5.140
	Pakistan	4,030	3.515	0.000	9.747	0.000	4.506
	Bangladesh	860	2.538	0.000	9.528	0.000	4.107
	Sri Lanka	2,030	3.079	0.000	8.980	0.000	4.214
ΔNI_{t-1} * LFDI	Whole sample	42,228	53.765	0.376	1387169	-527,708	8506.574
	India	35,308	62.990	0.353	1387169	-527,708	9302.675
	Pakistan	4,030	9.736	0.475	3308.607	-5,188	183.586
	Bangladesh	860	3.816	0.804	1135.034	-859	68.711
	Sri Lanka	2,030	1.877	0.316	1732.458	-79	45.790
D * ΔNI_{t-1} * LFDI	Whole sample	42,228	-69	0.000	0.000	-527,708	3822.553
	India	35,308	-81	0.000	0.000	-527,708	4180.102

Variable	Country	N	Mean	Median	Maximum	Minimum	Std. Dev.
	Pakistan	4,030	-6	0.000	0.000	-5,188	115.176
	Bangladesh	860	-3	0.000	0.000	-859	39.289
	Sri Lanka	2,030	-1	0.000	0.000	-79	3.002
IFRS	Whole sample	42,228	2.219	2.000	6.000	2.000	0.738
	India	35,308	2.099	2.000	3.000	2.000	0.299
	Pakistan	4,030	2.300	2.000	5.000	2.000	0.900
	Bangladesh	860	3.500	2.000	6.000	2.000	1.858
	Sri Lanka	2,030	3.600	2.000	6.000	2.000	1.960
D * IFRS	Whole sample	42,228	0.870	0.000	6.000	0.000	1.171
	India	35,308	0.842	0.000	3.000	0.000	1.051
	Pakistan	4,030	0.866	0.000	5.000	0.000	1.235
	Bangladesh	860	1.040	0.000	6.000	0.000	1.955
	Sri Lanka	2,030	1.289	0.000	6.000	0.000	2.115
ΔNI_{t-1} * IFRS	Whole sample	42,228	12.683	0.082	263474.0	-101,464	1719.099
	India	35,308	14.668	0.070	263474.0	-101,464	1879.891
	Pakistan	4,030	3.444	0.120	1828.780	-1,137	61.635
	Bangladesh	860	1.615	0.218	376.110	-548	31.821
	Sri Lanka	2,030	1.187	0.118	1171.063	-53	31.053
D * ΔNI_{t-1} * LFDI * IFRS	Whole sample	42,228	-145	0.000	0.000	-1055416	7758.809
	India	35,308	-171	0.000	0.000	-1055416	8484.488
	Pakistan	4,030	-13	0.000	0.000	-10,377	233.094
	Bangladesh	860	-13	0.000	0.000	-5,153	187.034
	Sri Lanka	2,030	-3	0.000	0.000	-474	12.824
SIZE	Whole sample	42,228	0.000	2.49E-05	0.057	0.000	0.0014
	India	35,308	0.000	2.33E-05	0.057	0.000	0.001
	Pakistan	4,030	0.000	3.54E-05	0.004	2.71E-08	0.000
	Bangladesh	860	0.000	4.31E-05	0.001	5.07E-07	0.000
	Sri Lanka	2,030	6.86E-05	2.21E-05	0.001	3.78E-08	0.000
BUFR	Whole sample	42,228	47.696	43.300	78.000	35.500	11.997
	India	35,308	43.270	37.700	54.400	35.500	7.036
	Pakistan	4,030	70.540	70.850	72.500	65.600	1.878
	Bangladesh	860	63.060	62.550	70.800	56.500	4.630
	Sri Lanka	2,030	72.830	72.200	78.000	68.200	2.924
INFR	Whole sample	42,228	37.102	35.000	55.000	15.000	6.078
	India	35,308	37.000	35.000	50.000	30.000	5.099

Variable	Country	N	Mean	Median	Maximum	Minimum	Std. Dev.
	Pakistan	4,030	41.000	40.000	50.000	30.000	6.634
	Bangladesh	860	41.000	45.000	55.000	20.000	13.936
	Sri Lanka	2,030	29.500	30.000	40.000	15.000	7.230
MOFR	Whole sample	42,228	68.621	67.500	77.600	56.800	4.752
	India	35,308	68.600	67.500	77.600	62.900	4.854
	Pakistan	4,030	70.020	70.300	77.200	63.600	3.687
	Bangladesh	860	68.150	67.600	74.900	65.400	2.511
	Sri Lanka	2,030	66.410	68.100	72.500	56.800	4.618
CORR	Whole sample	42,228	31.404	33.000	37.000	15.000	3.810
	India	35,308	32.449	33.000	36.000	28.000	2.433
	Pakistan	4,030	23.570	23.500	28.000	21.000	2.021
	Bangladesh	860	21.830	22.150	27.000	15.000	3.775
	Sri Lanka	2,030	32.840	32.000	37.000	31.000	1.786
MTKC	Whole sample	42,228	72.572	71.040	150.020	4.240	33.257
	India	35,308	81.960	76.080	150.020	52.300	27.766
	Pakistan	4,030	25.919	24.765	43.020	16.25	8.797
	Bangladesh	860	16.229	17.075	28.490	4.240	6.919
	Sri Lanka	2,030	25.769	26.330	34.400	11.350	5.953

6.3 The effect of foreign direct investment on conditional accounting conservatism (H1)

This section explains the effect of FDI on conditional accounting conservatism in South Asia and includes four sub-sections. First, are the correlation metrics for all variables in the regression. The second and third are the results obtained from the fixed effect model and the random effect model respectively. The fourth section explains the result for H1a.

6.3.1 Correlation metrics

Appendix 6 presents the correlation metrics for the variables in the regression for H1 in whole sample: India, Pakistan, Bangladesh and Sri Lanka. Overall, three relationships show a 0.900 positive correlation in all of the regressions of the whole sample, India, Pakistan, Bangladesh and Sri Lanka. The first relationship was between D and D * LFDI. The second shows the relationship between ΔNIt-1 and ΔNIt-1 * LFDI and the third, the relationship between D * ΔNIt-1 and D * ΔNIt-1 * LFDI. However, Piaw (2013) found that a correlation between 0.800 to 0.950 can be considered as a highly reliable value between two variables. In addition, such a high positive correlation may happen as the result of the nature of the model, which was originally developed by Basu (1997).

Altogether, there are fourteen variables, comprised of one dependent variable, seven independent variables and six control variables. In the whole sample, correlation of the variables varied from -0.780 to 0.900, and the highest negative correlation was between LFDI and BUFR. The highest positive correlation, which was 0.900 appeared in two relationships, first, ΔNIt-1 and ΔNIt-1 * LFDI, and second, D * ΔNIt-1 and D * ΔNIt-1 * LFDI. And the second highest positive correlation was shown as 0.898 in the relationship between D and D * LFDI. The correlation between ΔNIt-1 and LFDI was

0.003. Further details on the correlation for individual countries are discussed in the Appendix 6.1.

6.3.2 The fixed effect model

Table 6.7 explains the results of the regressions of whole sample: India, Pakistan, Bangladesh and Sri Lanka. A Panel GMM estimator under a fixed effect model was used to measure the effect of FDI on conditional accounting conservatism in South Asia. As hypothesized, FDI affects conditional accounting conservatism in South Asia, and can be measured on the variable of D * ΔNIt-1 * LFDI, which represents the coefficient of α7. This study predicts a negative sign for the coefficient of α7, which measures the incremental conditional conservatism. Incremental conditional conservatism shows the timely loss-recognition of firms.

The whole sample displays a negative coefficient of -2.06, which is statistically significant. Furthermore, the result explains that countries that have a high level of FDI have a high quality of financial reporting. Therefore, foreign direct investors can take effective economic decisions. This finding is consistent with the result of Hämäläinen and Martikainen (2015) under the heading of FDI affecting conditional accounting conservatism in the transitional economies of Europe. In addition, this regression displayed 12 percent and 2 percent for the R^2 value and the adjusted R^2 value respectively. Generally, low R^2 values can be seen in the similar studies, such as Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). Moreover, none of the control variables: SIZE, BUFR, INFR, MOFR, CORR and MTKC are statistically significant. The Durbin-Watson statistics is 1.70 and the J-statistic value is 0.00.

As was expected in this study, the predictor coefficient is statistically significant in the whole sample, based on the result derived from the fixed effect model. Therefore, research hypothesis 1, “Foreign direct investment affects conditional accounting

conservatism in South Asia" can be accepted. More details on this are presented in the discussion section. Since this study uses panel regression, data was also analyzed using the random effect model, presented in the next subsection. A detailed explanation of the result for individual countries is included in Appendix 6.2.

Table 6.7 Result of regression for first research hypothesis (H1) on the fixed effect model

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	238.34	1.02	0.31	1,521.2	1.10	0.27	-0.04	0.00	1.00	21.48	0.67	0.51	-15.68	-0.04	0.97
ΔNIt-1 (α_2)	7.36	4.52	0.00	7.87	4.34	0.00	-19.14	-11.19	0.00	-9.08	-3.26	0.00	-7.83	-0.18	0.86
D * ΔNIt-1(α_3)	21.25	9.19	0.00	21.30	8.31	0.00	16.59	6.31	0.00	11.91	2.03	0.04	-3,354	-4.02	0.00
LFDI (α_4)	76.20	1.23	0.22	273.32	2.31	0.02	2.82	0.36	0.72	9.12	2.21	0.03	-21.07	-0.74	0.46
D * LFDI (α_5)	-24.42	-1.08	0.28	-146.14	-1.11	0.27	0.18	0.04	0.97	-2.48	-0.71	0.48	1.81	0.04	0.97
ΔNIt-1 * LFDI (α_6)	-0.70	-4.55	0.00	-0.75	-4.37	0.00	2.02	10.78	0.00	0.92	3.06	0.00	0.86	0.17	0.86
D * ΔNIt-1 * LFDI (α_7)	**-2.06**	**-9.37**	**0.00**	**-2.07**	**-8.48**	**0.00**	**-1.76**	**-6.17**	**0.00**	**-1.21**	**-1.91**	**0.06**	**375.97**	**4.00**	**0.00**
SIZE(α_8)	15,686	1.10	0.27	15,716	1.00	0.32	22,249	3.79	0.00	6,602	1.60	0.11	188,715	4.46	0.00
BUFR(α_9)	1.22	0.59	0.56	4.11	1.61	0.11	-0.26	-0.30	0.77	0.13	0.81	0.42	-0.83	-0.69	0.49
INFR(α_{10})	-1.50	-0.78	0.44	11.98	2.77	0.01	0.00	-0.01	0.99	-0.09	-1.58	0.12	0.58	0.88	0.38
MOFR(α_{11})	-1.53	-0.29	0.77	-22.22	-2.75	0.01	-0.43	-1.51	0.13	0.49	1.83	0.07	-2.14	-1.80	0.07
CORR(α_{12})	-4.51	-0.69	0.49	-1.25	-0.22	0.83	-0.18	-0.29	0.77	-0.04	-0.14	0.89	2.28	1.45	0.15
MTKC(α_{13})	-0.04	-0.06	0.95	1.86	2.87	0.00	-0.10	-0.43	0.67	0.12	1.28	0.20	-0.44	-0.95	0.34
C	-521.93	-0.66	0.51	-2,061	-1.71	0.09	26.35	0.49	0.62	-120.59	-2.56	0.01	296.02	0.84	0.40
R^2	0.12			0.12			0.18			0.18			0.12		
Adj- R^2	0.02			0.02			0.08			0.08			0.02		
Durbin-Watson	1.70			1.70			1.56			1.91			1.25		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42,228			35,308			4,030			860			2,030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) is scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative. Otherwise, it is 0. LFDI is the logarithm value of real foreign direct investment. Control variable SIZE is a control variable which values the total assets of a company scaled by total asset assets of all companies. BUFR is a control variable which is real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable which real value of freedom of corruption. MTKC is a control variable which real value of market capitalization.

$\Delta NI\ it = \alpha 0 + \alpha 1\ D\ it + \alpha 2\ \Delta NIit\text{-}1 + \alpha 3\ D\ it * \Delta NI\ it\text{-}1 + \alpha 4\ LFDI\ it + \alpha 5\ D\ it * LFDI\ it + \alpha 6 \Delta NI\ it\text{-}1 * LFDI\ it + \alpha 7\ D\ it * \Delta NI\ it\text{-}1 * LFDI\ it + \alpha 8\ SIZE\ it + \alpha 9\ BUFR\ it + \alpha 10\ INFR\ it + \alpha 11\ MOFR\ it + \alpha 12\ CORR\ it + \alpha 13\ MTKC\ it + \varepsilon\ it$

6.3.3 The random effect model

The result of the regressions of the whole sample, India, Pakistan, Bangladesh and Sri Lanka under random effect model are presented in Table 6.8. The results were obtained from the random effect model of panel GMM estimator. As stated in the methodology section, the predictor variable in this hypothesis is D* ΔNIt-1 * LFDI. It represents the coefficient of α7, which measures conditional accounting conservatism.

In terms of the whole sample, the coefficient of α7 is -2.69, which is statistically significant. This means that FDI would affect conditional accounting conservatism, measured through incremental conditional conservatism. The R^2 value for this regression is 2 percent and the adjusted R^2 value for this regression is also 2 percent. The Durbin Watson statistic was 1.64 and the J-statistic value was 0.00. This result is consistent with the result of the study conducted by Hämäläinen and Martikainen (2015). In addition, none of control variables was statistically significant. Incremental conditional accounting conservatism has been improved by 23 percent (2.69-2.06/2.69*100) when the random effect model is compared with the fixed effect model.

The Hausman test was run in order to determine the most appropriate model: the fixed effect model or the random effect model. The result of the Hausman test is presented in Appendix 6.4 and 6.5. According to the Hausman test, the null hypothesis in the random effect model is appropriate. The alternative hypothesis is the fixed effect model is appropriate. The Chi-square statistic was 0.000, with an insignificant P value. In addition, the Chi-square degree of freedom was thirteen. Thus, based on the result of the Hausman test, the null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than the fixed effect model for this regression. The cross-section random effects test results are presented in Appendix

6.5 and according to the result, the predictor variable shows a -0.69 coefficient value with a statistically significant P value.

As anticipated, the significant P value can be seen for the predictor variable in the whole sample. Therefore, H1, "foreign direct investment affects conditional accounting conservatism in South Asia" can be accepted, based on the result obtained from the random effect model. The results obtained from the random effect model for the individual countries are presented in Appendix 6.3.

Table 6.8 Result of regression for first research hypothesis (H1) on the random effect model

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	159.24	0.72	0.47	1552.57	1.18	0.24	2.49	0.06	0.96	13.88	0.45	0.65	-33.66	-0.09	0.93
ΔNIt-1 (α_2)	4.48	2.82	0.00	5.03	2.83	0.00	-18.42	-11.52	0.00	-7.75	-2.95	0.00	-5.36	-0.13	0.90
D * ΔNIt-1(α_3)	27.78	12.41	0.00	27.83	11.20	0.00	15.11	6.10	0.00	7.14	1.31	0.19	-3141.51	-3.97	0.00
LFDI (α_4)	25.43	1.12	0.26	259.26	2.21	0.03	2.01	0.26	0.80	9.12	2.22	0.03	-24.88	-0.88	0.38
D * LFDI (α_5)	-15.97	-0.75	0.45	-148.63	-1.18	0.24	-0.11	-0.02	0.98	-1.62	-0.49	0.63	4.05	0.10	0.92
ΔNIt-1 * LFDI (α_6)	-0.42	-2.78	0.01	-0.47	-2.80	0.01	1.95	11.14	0.00	0.80	2.80	0.01	0.60	0.13	0.90
D* ΔNIt-1 * LFDI (α_7)	**-2.69**	**-12.62**	**0.00**	**-2.69**	**-11.39**	**0.00**	**-1.61**	**-5.99**	**0.00**	**-0.73**	**-1.24**	**0.21**	**352.29**	**3.96**	**0.00**
SIZE(α_8)	-178.59	-0.05	0.96	-109.56	-0.03	0.98	2451.86	1.23	0.22	-427.70	-0.22	0.82	32029.71	1.75	0.08
BUFR(α_9)	0.99	1.03	0.30	3.83	1.50	0.13	-0.15	-0.17	0.86	0.09	0.57	0.57	-1.08	-0.89	0.37
INFR(α_{10})	0.93	0.63	0.53	11.48	2.65	0.01	0.02	0.14	0.89	-0.09	-1.54	0.12	0.56	0.85	0.40
MOFR(α_{11})	-4.34	-1.56	0.12	-20.97	-2.60	0.01	-0.32	-1.14	0.26	0.49	1.83	0.07	-2.06	-1.73	0.08
CORR(α_{12})	1.12	0.50	0.62	-0.80	-0.14	0.89	-0.29	-0.47	0.64	-0.05	-0.16	0.87	3.59	2.33	0.02
MTKC(α_{13})	0.13	0.43	0.67	1.78	2.74	0.01	-0.07	-0.33	0.74	0.08	0.85	0.40	-0.61	-1.32	0.19
C	-76.07	-0.32	0.75	-1974.82	-1.66	0.10	22.39	0.42	0.67	-116.89	-2.49	0.01	314.13	0.90	0.37
R^2	0.02			0.02			0.09			0.08			0.02		
Adj- R^2	0.02			0.02			0.09			0.06			0.01		
Durbin-Watson	1.64			1.64			1.44			1.77			1.13		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. LFDI is logarithm value of real foreign direct investment; Control variables: SIZE is a control variable which valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable which is real value of business freedom. INFR is a control variable which is real value of investment freedom. MOFR is a control variable which is real value of monetary freedom. CORR is a control variable which real value of freedom of corruption. MTKC is a control variable which real value of market capitalization.

$\Delta NI\ it = \alpha0 + \alpha1\ D\ it + \alpha2\ \Delta NIit\text{-}1 + \alpha3\ D\ it * \Delta NI\ it\text{-}1 + \alpha4\ LFDI\ it + \alpha5\ D\ it * LFDI\ it + \alpha6\Delta NI\ it\text{-}1 * LFDI\ it + \alpha7\ D\ it * \Delta NI\ it\text{-}1 * LFDI\ it + \alpha8\ SIZE\ it + \alpha9\ BUFR\ it + \alpha10\ INFR\ it + \alpha11\ MOFR\ it + \alpha12\ CORR\ it + \alpha13\ MTKC\ it + Ɛ\ it$

6.3.4 The effect of conditional accounting conservatism on foreign direct investment (H1a)

This study investigated the bidirectional relationship between FDI and conditional accounting conservatism and this section presents the result of the analysis of the research hypothesis, H1a. This section consists of descriptive statistics, correlation metrics and the result of the main regression on pooled OLS, the fixed effect model, the random effect model, difference GMM and system GMM.

6.3.4.1 Descriptive statistics for H1a

Appendix 7 presents the descriptive statistics of all of the variables in the regression of FDI as the dependent variable. Overall, this regression is comprised of thirteen explanatory variables and each variable has 42,228 firm-year observations. The dependent variable is FDIP, which stands for foreign direct investment per capita. The mean (median) of FDIP is 1.983 (2.002) and mean and median of ΔNIt (the change of income from the fiscal year to the previous fiscal year, scaled by total assets at the beginning of the year) are 14.599 and 0.026 respectively. D is a dummy variable, which measures one if the previous year's change of income is negative. Otherwise, it is zero. The mean and the median of D are 0.392 and 0.000, respectively.

In addition, the mean and median of D * FDIP, which is the predictor variable of this regression are 0.751 and 0.000 respectively. Moreover, this variable measure incremental timelines of loss recognition. The numbers of this variable vary in the range of 0.000 to 3.668 and the standard variation of this variable is 1.025.

6.3.4.2 Correlation metrics (H1a)

Appendix 8 presents the correlation metrics for the variables in the regression of the whole sample, determining the effect of conditional accounting conservatism on FDI in South Asia. FDIP is foreign direct investment per capita, the dependent variable. ΔNI t

stands for change of income from the fiscal year to previous fiscal year, scaled by total assets at the beginning of the year and is a control variable. D is a control variable that measures one if the previous year's change of income is negative. Otherwise, it is zero. D*FDIP is the variable which explains the incremental timely loss recognition for FDI.

Overall, the correlation of the variables was varied in the range of 0.912 to -0.744. The highest positive correlation was 0.912 in the relationship between D and D*FDIP. On the other hand, the highest negative correlation of -0.744 was in the relationship between GDP and EXC. The second highest positive correlation was recorded as 0.491 in the relationship between INFRAS and EXC. In addition, the second highest negative correlation was -0.727 in the relationship between DIN and EXC.

6.3.4.3 Result for the main regression (H1a)

Table 6.9 illustrates the results of the regression for exploring the effect of conditional accounting conservatism on FDI in South Asia. The data was analyzed on all of the recommended methods of the panel GMM estimator which are pooled OLS, the fixed effect model, the random effect model, the difference GMM and the system GMM. This regression consists of 42, 228 firm-year observations, covering the four South Asian countries: India, Pakistan, Bangladesh and Sri Lanka. The study predicts that a positive sign for the coefficient of α4, which represents incremental timely loss recognition for FDI by following Begoña et al. (2013).

Overall, α4 was statistically significant with a positive sign as predicted from all alternative analysis methods in panel GMM. Furthermore, more or less similar coefficient values could be seen for the predictor variable in the all of the methods in panel GMM. In pooled OLS, the coefficient for the predicted variable of α4 was 0.494 with a significant P value. Furthermore, both the R^2 value and the adjusted R^2 value were 70.10 percent. In addition, Durbin-Watson statistics and J-statistic value were 1.930 and 0.000 respectively.

The coefficient for α4 was derived from the fixed effect model and the random effect model and were 0.322 and 0.494 respectively, and both coefficients are statistically significant. The R^2 for this regression under both the fixed effect model and the random effect model are 84.6 percent and 70.1 percent respectively, and similarly, the adjusted R^2 for this regression under same methods are 82.9 percent and 70.1 percent respectively. In addition, the Durbin Watson statistic for both methods is 2.220 and 1.930, respectively. The J-statistic value is 0.00 for both methods. The Hausman test was run in order to determine the most appropriate model: the fixed effect model or the random effect model. According to the Hausman test, the random effect model is more appropriate for this regression.

In addition, the same regression was analyzed on the difference GMM and the system GMM. The coefficient for the predictor variable on both methods is 0.225 and 0.322, respectively and both coefficients also are statistically significant. Moreover, the J-statistic is 0.000 in both methods, and the J-statistic shows the over identification test. According to the result, research hypothesis (H1a), "*Conditional accounting conservatism affects foreign direct investment in South Asia"* can be accepted. A detailed explanation of the result of this research hypothesis is presented in the discussion section.

Table 6.9 Result of the regression for the research hypothesis (H1a) in the whole sample

	POLS			FEM			REM			Difference GMM			System GMM		
	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.
FDIPt-1	0.429	112.664	0.000	0.415	138.377	0.000	0.429	149.015	0.000	0.272	90.837	0.000	0.415	138.377	0.000
ΔNI_t	0.000	1.049	0.294	0.000	-0.172	0.863	0.000	1.387	0.165	0.000	-0.239	0.811	0.000	-0.172	0.863
D	-0.993	-88.743	0.000	-0.630	-68.668	0.000	-0.993	-117.376	0.000	-0.432	-49.092	0.000	-0.630	-68.668	0.000
D * FDIP	**0.494**	**91.601**	**0.000**	**0.322**	**72.979**	**0.000**	**0.494**	**121.156**	**0.000**	**0.225**	**53.373**	**0.000**	**0.322**	**72.979**	**0.000**
IFRS	0.417	76.260	0.000	0.667	150.428	0.000	0.417	100.865	0.000	0.403	83.262	0.000	0.667	150.428	0.000
GDP	0.356	21.962	0.000	-1.404	-20.137	0.000	0.356	29.048	0.000	-3.483	-54.279	0.000	-1.404	-20.137	0.000
DIN	-0.064	-55.720	0.000	-0.105	-112.311	0.000	-0.064	-73.698	0.000	-0.158	-143.077	0.000	-0.105	-112.311	0.000
INFRAS	-0.025	-78.335	0.000	-0.011	-26.888	0.000	-0.025	-103.609	0.000	0.007	17.697	0.000	-0.011	-26.888	0.000
COC	0.000	-0.189	0.850	0.126	75.381	0.000	0.000	-0.250	0.803	0.205	118.178	0.000	0.126	75.381	0.000
INFL	-0.078	-69.791	0.000	-0.075	-83.612	0.000	-0.078	-92.309	0.000	-0.042	-51.836	0.000	-0.075	-83.612	0.000
EXC	-0.016	-39.694	0.000	-0.071	-154.564	0.000	-0.016	-52.501	0.000	-0.089	-159.683	0.000	-0.071	-154.564	0.000
FSTAB	-0.087	-25.780	0.000	-0.346	-112.481	0.000	-0.087	-34.098	0.000	-0.322	-92.644	0.000	-0.346	-112.481	0.000
OPEN	0.053	71.664	0.000	-0.045	-53.674	0.000	0.053	94.786	0.000	-0.058	-61.289	0.000	-0.045	-53.674	0.000
C	-1.082	-5.515	0.000	28.307	35.411	0.000	-1.082	-7.294	0.000						
R2	0.701			0.846			0.701								
Adj- R2	0.701			0.829			0.701								
Durbin-Watson	1.930			2.220			1.930								
J-statistic	0.000			0.000			0.000			0.000			0.000		
No. of obs.	42,228			42,228			42,228			42,228			42,228		

Note:
FDIP is foreign direct investment per capita, $\Delta NI\ t$; change of income from fiscal year to previous fiscal year scaled by total assets at the beginning of the year. D: measures 1 if previous year change of income is negative, otherwise 0. IFRS is rank on IFRS adoption valued as 1 to 7, GDP: real gross domestic production, DIN; domestic investment, INFRAS; infrastructure, COC; cost of capital, INFL; inflation, EXC; exchange rate, FSTAB; financial stability, OPEN; trade openness.

$FDIP_{it} = \alpha0 + \alpha1\ FDIP_{t-1} + \alpha2\ \Delta NI_{it} + \alpha3\ D_{it} + \alpha4\ D_{it} * FDIP_{it} + \alpha5\ IFRS_{it} + \alpha6\ GDP_{it} + \alpha7\ DIN_{it} + \alpha8\ INFRAS_{it} + \alpha9\ COC_{it} + \alpha10\ INFL_{it} + \alpha11\ EXC_{it} + \alpha12\ FSTAB_{it} + \alpha13\ OPEN_{it} + \varepsilon\ it$

6.4 The effect of foreign portfolio investment on conditional accounting conservatism (H2)

This section presents the result for (H2), the effect of foreign portfolio investment on conditional accounting conservatism in South Asia. The section consists of four subsections. The first describes the correlation among the variables of the model. The second explains the result derived from the fixed effect model and the third presents the results obtained from the random effect model. The fourth subsection illustrates the result for H2a.

6.4.1 Correlation metrics

Appendix 9 illustrates the correlation metrics for the variables in the regression for the second research hypothesis (H2) of this study in whole sample, India, Pakistan, Bangladesh and Sri Lanka. Overall, three relationships show a 0.900 positive correlation in all the regressions of the whole sample, India, Pakistan, Bangladesh and Sri Lanka. The first relationship is between D and D * LFPI. The second relationship is the relationship between ΔNIt-1 and ΔNIt-1 * LFPI. The third relationship is D * ΔNIt-1 and D * ΔNIt-1 * LFPI. However, Piaw (2013) show that correlation from 0.800 to 0.950 is considered as a highly reliable value between two variables. In addition, such a high positive correlation may occur due to the nature of the model of this study, which was originally developed by Basu (1997).

In detail, in the whole sample, correlation varied from -0.673 to 0.900, and the highest negative correlation is shown in LFPI to BUFR. The highest positive correlation, which is 0.900, displayed in three relationships which were mentioned in the previous paragraph. In addition, the second highest positive correlation is 0.729 in the relationship between LFPI and MTKC. The second highest negative correlation is -0.546, in the relationship

between BUFR and CORR. Further details on correlation for individual counties are presented in Appendix 9.1.

6.4.2 The fixed effect model

Table 6.10 presents the results of the second research hypothesis (H2) for whole sample, India, Pakistan, Bangladesh and Sri Lanka. This table illustrates the results obtained from the Panel GMM method using the fixed effect model and measures the effect of foreign portfolio investment on conditional accounting conservatism in South Asia. The predictor variable for this regression is D * ΔNIt-1 * LFPI, which represents the coefficient of α7. A negative sign for the coefficient of α7 indicates an incremental conditional conservatism. This means that there is high demand for the conservative financial statements for foreign portfolio investment.

In the whole sample, the coefficient value for the predictor variable is 0.57, which is statistically significant. Furthermore, the R^2 value and the adjusted R^2 value for this regression is twelve percent and two percent, respectively. Generally, low R^2 values can be seen in the similar studies, such as Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). None of the control variables, SIZE, BUFR, INFR, MOFR, CORR and MTKC, are statistically significant. The Durbin-Watson statistic is 1.71 and the J-statistic value is 0.00.

As this study predicted, the coefficient value for the predictor variable in the whole sample is statistically significant. However, a positive sign can be seen, even though a negative sign is predicted. However, the research hypothesis (H2), "foreign portfolio investment affects conditional accounting conservatism in South Asia" can be accepted based on the result derived from the fixed effect model, meaning that South Asian firms are less likely to recognize economic losses for foreign portfolio investment, unlike FDI. More details on the results for individual countries are presented in Appendix 9.2.

Table 6.10 The result of regression of second research hypothesis (H2) on the fixed effect model

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob	Coef.	t-Stat.	Prob	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-92.62	-0.60	0.55	-467.89	-1.26	0.21	-0.42	-0.02	0.98	-10.46	-0.42	0.67	136.61	0.90	0.37
ΔNIt-1 (α_2)	-2.31	-8.61	0.00	-2.31	-7.87	0.00	4.68	7.59	0.00	-12.00	-5.34	0.00	-2.92	-0.21	0.84
D * ΔNIt-1(α_3)	-6.27	-10.87	0.00	-6.33	-10.02	0.00	-6.12	-5.88	0.00	14.34	4.92	0.00	-1,964.42	-5.88	0.00
LFPI (α_4)	-27.79	-0.92	0.36	-82.35	-3.03	0.00	2.96	1.36	0.17	-0.74	-0.22	0.83	-4.11	-0.33	0.75
D * LFPI (α_5)	7.99	0.51	0.61	44.58	1.21	0.23	0.26	0.11	0.91	1.14	0.38	0.71	-15.59	-0.86	0.39
ΔNIt-1 * LFPI (α_6)	0.23	8.41	0.00	0.23	7.69	0.00	-0.64	-8.76	0.00	1.45	5.10	0.00	0.32	0.19	0.85
D * ΔNIt-1 * LFPI (α_7)	**0.57**	**10.19**	**0.00**	**0.58**	**9.40**	**0.00**	**0.80**	**6.45**	**0.00**	**-1.71**	**-4.71**	**0.00**	**231.22**	**5.83**	**0.00**
SIZE(α_8)	16,633	1.17	0.24	15,756	1.01	0.31	24,134	4.09	0.00	7,405	1.82	0.07	171,152	4.07	0.00
BUFR(α_9)	0.71	0.33	0.74	4.85	1.92	0.06	0.42	0.60	0.55	0.03	0.17	0.86	-0.02	-0.03	0.98
INFR(α_{10})	-0.76	-0.40	0.69	5.61	1.26	0.21	0.00	0.01	0.99	-0.08	-1.38	0.17	-0.37	-0.57	0.57
MOFR(α_{11})	-3.70	-0.77	0.44	-18.05	-2.26	0.02	-0.40	-1.32	0.19	0.27	0.91	0.37	-0.74	-0.75	0.45
CORR(α_{12})	-1.23	-0.19	0.85	-3.63	-0.63	0.53	0.02	0.03	0.98	0.53	3.27	0.00	0.47	0.24	0.81
MTKC(α_{13})	-0.02	-0.04	0.97	1.42	2.38	0.02	-0.05	-0.32	0.75	0.07	0.44	0.66	0.02	0.05	0.96
C	575.60	1.36	0.17	1,672.08	3.07	0.00	-27.46	-0.44	0.66	-22.93	-0.53	0.60	69.65	0.36	0.72
R^2	0.12			0.12			0.17			0.20			0.14		
Adj- R^2	0.02			0.02			0.07			0.09			0.04		
Durbin-Watson	1.71			1.71			1.53			1.81			1.25		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42,228			35,308			4,030			860			2,030		

Notes:

Dependent variable: ΔNI_t, is the change in income from fiscal year to the previous fiscal year (defined $NI_t - NI_{t-1}$), scaled by the total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative Otherwise it is 0. LFPI is the logarithm value of real foreign portfolio investment; Control variables: SIZE is a control variable, which is the valued total assets of a company, scaled by the total assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is the real value of market capitalization.

$\Delta NI\ it = \alpha 0 + \alpha 1\ D\ it + \alpha 2\ \Delta NIit\text{-}1 + \alpha 3\ D\ it * \Delta NI\ it\text{-}1 + \alpha 4\ LFPI\ it + \alpha 5\ D\ it * LFPI\ it + \alpha 6 \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 7\ D\ it * \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 8\ SIZE\ it + \alpha 9\ BUFR\ it + \alpha 10\ INFR\ it + \alpha 11\ MOFR\ it + \alpha 12\ CORR\ it + \alpha 13\ MTKC\ it + \varepsilon\ it$

6.4.3 The random effect model

The results for the second research hypothesis under random effect model for whole sample, India, Pakistan, Bangladesh and Sri Lanka are presented in Table 6.11. The predictor variable for these hypotheses is D* ΔNIt-1 * LFPI, which represents the coefficient of α7. In terms of the whole sample, the coefficient of α7 was 0.69, which is statistically significant. This means that South Asian firms are less likely to recognize economic losses for foreign portfolio investment. The R^2 value for this regression is two percent and the adjusted R^2 value for this regression is also two percent. In addition, the Durbin Watson statistic is 1.64 and the J-statistic value is 0.00. All of the control variables are statistically not significant.

For this hypothesis, the Hausman test was also run in order to determine the most appropriate model, the fixed effect model or the random effect model. According to the Hausman test, the null hypothesis is random effect model is appropriate. An alternative hypothesis is that fixed effect model is appropriate. The Chi-square statistic is 0.000, with insignificant P value. In addition, the Chi-square degree of freedom is thirteen. Thus, based on the result of the Hausman test, the null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than the fixed effect model for this regression of the whole sample.

According to the result obtained from random effect model, H2 - "foreign portfolio investment affects conditional accounting conservatism in South Asia" can be accepted since predictor variable is statistically significant. An explanation of the result of the random effect model for individual countries is presented in appendix 9.3. Furthermore, a detailed explanation of the Hausman test and the cross-section random effects test is also given in Appendices 9.4 and 9.5.

Table 6.11 The results of regression for the second research hypothesis (H2) on the random effect model

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-95.14	-0.66	0.51	-543.17	-1.53	0.13	3.82	0.20	0.84	-14.30	-0.60	0.55	93.27	0.65	0.52
ΔNIt-1 (α_2)	-1.68	-6.50	0.00	-1.70	-6.01	0.00	4.14	7.09	0.00	-10.27	-4.82	0.00	-2.05	-0.15	0.88
D * ΔNIt-1(α_3)	-7.52	-13.79	0.00	-7.55	-12.64	0.00	-5.79	-5.95	0.00	10.36	3.91	0.00	-1984.11	-6.27	0.00
LFPI (α_4)	-36.09	-2.33	0.02	-80.82	-3.01	0.00	3.58	1.67	0.10	-0.44	-0.13	0.90	-7.57	-0.60	0.55
D * LFPI (α_5)	9.18	0.63	0.53	52.62	1.50	0.13	-0.29	-0.13	0.90	1.64	0.56	0.58	-10.25	-0.60	0.55
ΔNIt-1 * LFPI (α_6)	0.17	6.73	0.00	0.18	6.22	0.00	-0.57	-8.16	0.00	1.25	4.64	0.00	0.25	0.15	0.88
D* ΔNIt-1 * LFPI (α_7)	**0.69**	**12.98**	**0.00**	**0.70**	**11.91**	**0.00**	**0.75**	**6.46**	**0.00**	**-1.26**	**-3.81**	**0.00**	**233.78**	**6.23**	**0.00**
SIZE(α_8)	-3.62	0.00	1.00	-157.40	-0.04	0.97	2410.24	1.20	0.23	-280.65	-0.15	0.88	27246.58	1.50	0.13
BUFR(α_9)	-0.76	-0.84	0.40	4.50	1.78	0.08	0.55	0.79	0.43	-0.02	-0.13	0.90	-0.26	-0.27	0.79
INFR(α_{10})	0.59	0.40	0.69	5.55	1.24	0.21	0.06	0.33	0.74	-0.07	-1.28	0.20	-0.41	-0.64	0.52
MOFR(α_{11})	-1.92	-0.69	0.49	-16.95	-2.12	0.03	-0.38	-1.23	0.22	0.28	0.92	0.36	-0.66	-0.67	0.50
CORR(α_{12})	3.08	1.56	0.12	-2.88	-0.50	0.62	-0.07	-0.11	0.92	0.52	3.23	0.00	1.50	0.78	0.43
MTKC(α_{13})	0.41	1.28	0.20	1.36	2.28	0.02	-0.06	-0.41	0.68	0.03	0.20	0.84	-0.13	-0.31	0.75
C	387.35	1.96	0.05	1579.94	2.92	0.00	-41.09	-0.66	0.51	-21.24	-0.49	0.63	91.61	0.48	0.63
R^2	0.02			0.02			0.08			0.09			0.03		
Adj- R^2	0.02			0.02			0.08			0.07			0.03		
Durbin-Watson	1.64			1.64			1.42			1.70			1.13		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, is the change in income from a fiscal year to the previous fiscal year (defined $NI_t - NI_{t-1}$), scaled by the total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative Otherwise it is 0. LFPI is the logarithm value of the real foreign portfolio investment; Control variables: SIZE is a control variable, which is the valued total assets of a company, scaled by total asset assets of all companies. BUFR is a control variable, which is real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is the real value of market capitalization.

$\Delta NI\ it = \alpha 0 + \alpha 1\ D\ it + \alpha 2\ \Delta NIit\text{-}1 + \alpha 3\ D\ it * \Delta NI\ it\text{-}1 + \alpha 4\ LFPI\ it + \alpha 5\ D\ it * LFPI\ it + \alpha 6 \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 7\ D\ it * \Delta NI\ it\text{-}1 * LFPI\ it + \alpha 8\ SIZE\ it + \alpha 9\ BUFR\ it + \alpha 10\ INFR\ it + \alpha 11\ MOFR\ it + \alpha 12\ CORR\ it + \alpha 13\ MTKC\ it + \varepsilon\ it$

6.4.4 The effect of conditional accounting conservatism on foreign portfolio investment (H2a)

This section illustrates the result for the research hypothesis of H2a. The section comprises, first, descriptive statistics for all of the variables in the regression. Second, it gives the correlation metrics for all variables in the regression and third, it gives the results obtained for this regression under pooled OLS, the fixed effect model, the random effect model, the difference GMM and system GMM in the panel GMM estimator.

6.4.4.1 Descriptive statistics for H2a

Appendix 10 shows the descriptive statistics for all variables in the regression of foreign portfolio investment as the dependent variable. Overall, this regression has 42,228 firm-year observations for all the variables. The dependent variable in this regression is FPIP, foreign portfolio investment per capita. Both the mean and the median values of the dependent variable are 0.010. In addition, the numbers of the dependent variable vary in the range of 0.000 to 0.027. The standard variance of the dependent variable is 0.007.

In this regression, the predictor variable is D*FPIP, which measures the incremental timely loss recognition for the foreign portfolio investment in South Asia. The mean value for this explanatory variable is 0.004 and the median value is 0.000. The maximum number for this variable is 0.027 while minimum number is 0.000. Furthermore, the standard deviation for this variable is 0.006.

6.4.4.2 Correlation metrics for H2a

Appendix 11 illustrates the correlation metrics for the variables in the regression for determining the effect of conditional accounting conservatism on foreign portfolio investment in South Asia. Altogether, there are fourteen variables: one dependent variable, one explanatory variable and balance control variables. The dependent variable is FPIP: foreign portfolio investment per capita. ΔNI t stands for the change of income

from a fiscal year to a previous fiscal year, scaled by total assets at the beginning of the year and is the control variable. D is a control variable, which measures one if the previous year change of income is negative. Otherwise, it is zero.

Overall, the correlation of the variables fluctuates between -0.744 and 0.744. The highest positive correlation is 0.744 in the relationship between D and D*FPIP. In addition, the highest negative correlation shown in the relationship is between GDP and EXC. The second highest positive correlation was recorded as 0.743 in the relationship between DIN and FSTAB. The second highest negative correlation was -0.727 in the relationship between DIN and EXC.

6.4.4.3 Result of the main regression for H2a

Table 6.12 illustrates the results of the regressions which explore the effect of conditional accounting conservatism on foreign portfolio investment in South Asia. The result was obtained from pooled OLS, the fixed effect model, the random effect model, the difference GMM, and system GMM, which are provided by the panel GMM estimator. This regression also consists of 42, 228 firm-year observations in the four South Asian countries: India, Pakistan, Bangladesh and Sri Lanka. In this regression, the study also predicts a positive sign for the coefficient of α4, which measures incremental timely loss recognition for foreign portfolio investment.

Overall, it can be seen that there is a positive sign for the coefficient of α4 with significant P value for all methods in panel GMM estimator. In particular, the pooled OLS, the coefficient for the predicted variable of α4, which is 0.313 and it is statistically significant. Both the R^2 value and the adjusted R^2 value are 75.2 percent. The Durbin-Watson statistic is 2.508 and the J-statistic value is 0.00. In the fixed effect model, the coefficient for the predictor variable is 0.169, with a statistically significant P value. The

R^2 value is 88.9 percent, and the adjusted R^2 value is 87.7 percent. In addition, the Durbin-Watson value and the J-statistic values are 2.477 and 0.000, respectively.

In the random effect model, the coefficient for α4 is 0.313, which was also statistically significant. The both R^2 value and the adjusted R^2 value for this regression are 75.2 per cent. The Durbin Watson statistic is 2.508 and the J-statistic value is 0.00. For this regression, the Hausman test was also run in order to determine the most appropriate model between the fixed effect model and the random effect model. According to the Hausman test, the random effect model is also more appropriate for this regression.

This regression also analyzed from difference GMM and the system GMM. Unique coefficients and significance can be seen when comparing the above mentioned methods. In detail, 0.116 coefficient, with significant P value is shown in difference GMM, whereas the 0.170 coefficient with significant P value shows under system GMM. In addition, the J-statistic value for both of the above methods is 0.000. In summary, based on the results derived from all the alternative methods in the panel GMM estimator, H2a, "conditional accounting conservatism affects foreign portfolio investment in South Asia" is confirmed. A detailed discussion on this research hypothesis is presented in the discussion section.

Table 6.12 The result for the main regression of foreign portfolio investment as a dependent variable (H2a)

	POLS			FEM			REM			Difference GMM			System GMM		
	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.
FPIPt-1	0.018	5.922	0.000	-0.047	-20.827	0.000	0.018	8.418	0.000	-0.092	-29.320	0.000	-0.047	-20.825	0.000
ΔNI_t	0.000	-1.634	0.102	0.000	-0.336	0.737	0.000	-2.323	0.020	0.000	-0.175	0.861	0.000	-0.336	0.737
D	-0.003	-52.332	0.000	-0.001	-29.972	0.000	-0.003	-74.387	0.000	-0.001	-19.973	0.000	-0.001	-29.973	0.000
D * FPIP	**0.313**	**64.087**	**0.000**	**0.169**	**45.954**	**0.000**	**0.313**	**91.096**	**0.000**	**0.116**	**25.810**	**0.000**	**0.170**	**45.955**	**0.000**
IFRS	-0.003	-52.766	0.000	-0.004	-111.176	0.000	-0.003	-75.003	0.000	-0.003	-65.057	0.000	-0.004	-111.175	0.000
GDP	-0.003	-21.222	0.000	0.100	158.955	0.000	-0.003	-30.165	0.000	0.113	155.698	0.000	0.100	158.950	0.000
DIN	0.000	8.435	0.000	0.000	36.782	0.000	0.000	11.990	0.000	0.000	30.043	0.000	0.000	36.783	0.000
INFRAS	0.000	-30.009	0.000	-0.001	-167.734	0.000	0.000	-42.656	0.000	-0.001	-170.967	0.000	-0.001	-167.730	0.000
COC	-0.001	-37.563	0.000	-0.002	-115.437	0.000	-0.001	-53.393	0.000	-0.002	-119.785	0.000	-0.002	-115.436	0.000
INFL	0.001	83.293	0.000	0.001	145.587	0.000	0.001	118.396	0.000	0.001	124.367	0.000	0.001	145.584	0.000
EXC	0.000	36.246	0.000	0.000	55.357	0.000	0.000	51.522	0.000	0.000	62.136	0.000	0.000	55.359	0.000
FSTAB	0.003	93.190	0.000	0.004	152.794	0.000	0.003	132.464	0.000	0.004	122.087	0.000	0.004	152.796	0.000
OPEN	0.000	19.585	0.000	0.001	93.241	0.000	0.000	27.839	0.000	0.001	88.521	0.000	0.001	93.243	0.000
C	0.023	12.803	0.000	-1.225	-169.640	0.000	0.023	18.199	0.000						
R2	0.752			0.889			0.752								
Adj- R2	0.752			0.877			0.752								
Durbin-Watson	2.508			2.477			2.508								
J-statistic	0.000			0.000			0.000			0.000			0.000		
No. of obs.	42,228			42,228			42,228			42,228			42,228		

Note:

FPIP is foreign portfolio investment per capita, ΔNI t is change of income from a fiscal year to a previous fiscal year, scaled by total assets at the beginning of the year. D: measures 1 if the previous year change of income is negative. Otherwise it is 0. IFRS is ranked on IFRS adoption and valued as 1 to 7. GDP: real gross domestic production, DIN; domestic investment, INFRAS; infrastructure, COC; cost of capital, INFL; inflation, EXC; exchange rate, FSTAB; financial stability, OPEN; trade openness.

$FPIP_{it} = \alpha0 + \alpha1\ FPIP_{t-1} + \alpha2\ \Delta NI_{it} + \alpha3\ D_{it} + \alpha4\ D_{it} * FPIP_{it} + \alpha5\ IFRS_{it} + \alpha6\ GDP_{it} + \alpha7\ DIN_{it} + \alpha8\ INFRAS_{it} + \alpha9\ COC_{it} + \alpha10\ INFL_{it} + \alpha11\ EXC_{it} + \alpha12\ FSTAB_{it} + \alpha13\ OPEN_{it} + Ɛ\ it$

6.5 The effect of domestic investment on conditional accounting conservatism (H3)

This section presents the result for the effect of domestic investment on conditional accounting conservatism in South Asia and has four subsections. The first subsection describes the correlation among the variables of the model. The second illustrates the result derived from the fixed effect model of panel GMM. The third subsection presents the result obtained from the random effect model of panel GMM. The final subsection explains the result for H3a.

6.5.1 Correlation metrics

Appendix 12 presents the correlation metrics for the variables of the regressions of third research hypothesis (H3) in whole sample, India, Pakistan, Bangladesh and Sri Lanka. In the whole sample, the correlation of the variables varied from -0.546 to 0.900, and the highest negative correlation in the relationship between BUFR and CORR. The highest positive correlation is 0.900, displayed in three relationships (D and D * DIN, ΔNIt-1 and ΔNIt-1 * DIN, and D * ΔNIt-1 and D * ΔNIt-1 * DIN).

However, Piaw (2013) illustrated that correlation from 0.800 to 0.950 is considered as a highly reliable value between two variables. In addition, such a high positive correlation may happen due to the nature of the model of this study, which was originally developed by Basu (1997). The second highest positive correlation is 0.712 in the relationship between DIN and MTKC. The second highest negative correlation is -0.496 in the relationship between INFR and CORR. Details on the correlation for individual countries are given in Appendix 12.1.

6.5.2 The fixed effect model

Table 6.13 explains the results of the regressions for the third research hypothesis (H3) of the whole sample, India, Pakistan, Bangladesh and Sri Lanka. H3 examines the effect

of domestic investment on conditional accounting conservatism in South Asia. This table presents the results which were obtained from the Panel GMM method under the fixed effect model. The predictor variable is D * ΔNIt-1 * DIN which represents the coefficient of α7.

In the whole sample, the coefficient value for the predictor variable is 0.18 which is statistically significant. In addition, this regression is thirteen percent and three percent for the R^2 value and the adjusted R^2 value, respectively. Generally, low R^2 values can be seen in similar studies, such as Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). Moreover, all of the control variables, SIZE, BUFR, INFR, MOFR, CORR and MTKC, are statistically not significant. The Durbin-Watson statistic is 1.70 and the J-statistic value is 0.00.

Based on the result derived on the fixed effect model for the whole sample, it can be confirmed that "domestic investment affects conditional accounting conservatism in South Asia". However, a positive sign was shown for the predictor coefficient, meaning that South Asian firms are less likely to recognize economic losses for domestic investment, unlike FDI. A detailed explanation of the result obtained from the fixed effect model for the individual countries is included in Appendix 12.2.

Table 6.13 The result of regression of the third research hypothesis (H3) on the fixed effect model

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-42.80	-0.73	0.46	-386.62	-2.22	0.03	2.49	0.21	0.84	13.17	0.65	0.52	23.84	0.56	0.57
ΔNIt-1 (α_2)	1.69	9.26	0.00	1.70	8.49	0.00	-0.23	-0.47	0.64	-6.04	-4.58	0.00	-1.74	-0.28	0.78
D * ΔNIt-1(α_3)	-7.29	-27.50	0.00	-7.35	-25.26	0.00	-0.41	-0.63	0.53	9.26	2.18	0.03	-47.82	-0.68	0.50
DIN (α_4)	-2.79	-0.45	0.65	-16.04	-4.27	0.00	-1.75	-1.71	0.09	4.71	3.99	0.00	2.00	1.21	0.22
D * DIN (α_5)	0.81	0.50	0.62	9.73	2.13	0.03	-0.07	-0.09	0.93	-0.52	-0.71	0.48	-0.72	-0.52	0.60
ΔNIt-1 * DIN (α_6)	-0.05	-9.52	0.00	-0.05	-8.73	0.00	-0.03	-0.98	0.33	0.20	4.16	0.00	0.04	0.23	0.82
D * ΔNIt-1 * DIN (α_7)	**0.18**	**25.63**	**0.00**	**0.18**	**23.55**	**0.00**	**0.06**	**1.57**	**0.12**	**-0.31**	**-2.04**	**0.04**	**1.16**	**0.51**	**0.61**
SIZE(α_8)	14,785	1.04	0.30	13,485	0.87	0.39	22,925	3.84	0.00	5,798	1.43	0.15	185,716	4.36	0.00
BUFR(α_9)	0.98	0.48	0.63	-0.74	-0.27	0.79	0.75	1.11	0.27	-0.16	-0.99	0.32	-1.07	-0.58	0.56
INFR(α_{10})	-0.79	-0.41	0.68	1.78	0.40	0.69	-0.08	-0.56	0.58	-0.21	-3.15	0.00	0.41	0.60	0.55
MOFR(α_{11})	-1.27	-0.22	0.83	1.71	0.19	0.85	0.24	0.60	0.55	0.03	0.11	0.91	-1.98	-1.34	0.18
CORR(α_{12})	-1.70	-0.26	0.79	10.12	1.92	0.06	-0.16	-0.27	0.79	-0.60	-1.88	0.06	4.62	2.08	0.04
MTKC(α_{13})	-0.07	-0.10	0.92	0.75	1.26	0.21	0.17	1.14	0.25	0.33	3.04	0.00	-0.72	-1.09	0.28
C	241.20	0.72	0.47	89.15	0.21	0.83	-40.07	-0.68	0.50	-102.93	-3.41	0.00	-9.02	-0.06	0.95
R^2	0.13			0.13			0.15			0.21			0.11		
Adj- R^2	0.03			0.03			0.05			0.10			0.01		
Durbin-Watson	1.70			1.70			1.57			1.85			1.24		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42,228			35,308			4,030			860			2,030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. DIN is real value for domestic investment; Control variables: SIZE is a control variable, which valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which the real value of market capitalization.

$\Delta NI\ it = \alpha 0 + \alpha 1\ D\ it + \alpha 2\ \Delta NIit\text{-}1 + \alpha 3\ D\ it * \Delta NI\ it\text{-}1 + \alpha 4\ DIN\ it + \alpha 5\ D\ it * DIN\ it + \alpha 6 \Delta NI\ it\text{-}1 * DIN\ it + \alpha 7\ D\ it * \Delta NI\ it\text{-}1 * DIN\ it + \alpha 8\ SIZE\ it + \alpha 9\ BUFR\ it + \alpha 10\ INFR\ it + \alpha 11\ MOFR\ it + \alpha 12\ CORR\ it + \alpha 13\ MTKC\ it + \varepsilon\ it$

6.5.3 The random effect model

Table 6.14 presents the result of the regressions for the third research hypothesis (H3) under the random effect model for the whole sample, India, Pakistan, Bangladesh and Sri Lanka. In this case, the panel GMM estimator was also used to test the same research hypothesis. Like the other regressions, the predictor variable was D* ΔNIt-1 * DIN, representing a coefficient of α7. For the whole sample, the coefficient of α7 is 0.21, which is statistically significant. The R^2 value for this regression is four percent and the adjusted R^2 value is also four percent. The Durbin Watson statistic is 1.64 and the J-statistic value is 0.00. Furthermore, all of the control variables, SIZE, BUFR, INFR, MOFR, CORR, and MTKC are statistically not significant.

In this regression, the Hausman test was also run in order to determine the most appropriate model from fixed effect model and the random effect model. A detailed description of the result of the Hausman test is presented in appendices 12.4 and 12.5. According to the Hausman test, the null hypothesis in the random effect model is appropriate. In the regression of whole sample, the Chi-square statistic is 0.000 with insignificant P value. In addition, the Chi-square degree of freedom is thirteen. Thus, based on the result of the Hausman test, null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than the fixed effect model for this regression.

As this study predicted, the coefficient for the predictor variable is statistically significant in whole sample. Therefore, H3 can also be accepted, based on the result derived from random effect model. A detailed explanation of the result obtained from the random effect model for individual countries is given in Appendix 12.3.

Table 6.14 The result of regression of the third research hypothesis (H3) on the random effect model.

Variables	All Countries			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-49.69	-0.90	0.37	-382.09	-2.32	0.02	2.56	0.22	0.82	11.45	0.59	0.56	15.13	0.37	0.71
ΔNIt-1 (α_2)	2.35	13.75	0.00	2.36	12.59	0.00	-0.53	-1.17	0.24	-5.15	-4.15	0.00	-0.94	-0.16	0.87
D * ΔNIt-1(α_3)	-8.39	-32.72	0.00	-8.44	-30.02	0.00	-0.26	-0.44	0.66	4.58	1.17	0.24	-67.70	-1.00	0.32
DIN (α_4)	-5.13	-2.91	0.00	-15.31	-4.15	0.00	-1.93	-1.90	0.06	4.69	3.98	0.00	2.22	1.36	0.17
D * DIN (α_5)	1.14	0.74	0.46	9.75	2.26	0.02	-0.09	-0.13	0.90	-0.45	-0.64	0.52	-0.37	-0.28	0.78
ΔNIt-1 * DIN (α_6)	-0.07	-13.41	0.00	-0.07	-12.29	0.00	-0.01	-0.18	0.86	0.17	3.83	0.00	0.03	0.15	0.88
D* ΔNIt-1 * DIN (α_7)	**0.21**	**30.67**	**0.00**	**0.21**	**28.14**	**0.00**	**0.05**	**1.24**	**0.21**	**-0.15**	**-1.10**	**0.27**	**1.85**	**0.85**	**0.40**
SIZE(α_8)	-261.45	-0.07	0.94	-243.56	-0.06	0.95	2260.99	1.11	0.27	-562.28	-0.30	0.76	30831.66	1.69	0.09
BUFR(α_9)	-1.01	-1.16	0.24	-0.90	-0.32	0.75	0.84	1.25	0.21	-0.20	-1.22	0.22	-1.59	-0.87	0.39
INFR(α_{10})	0.10	0.07	0.95	1.61	0.36	0.72	-0.05	-0.34	0.73	-0.20	-3.08	0.00	0.47	0.68	0.50
MOFR(α_{11})	1.26	0.42	0.68	2.21	0.24	0.81	0.38	0.95	0.34	0.02	0.10	0.92	-2.15	-1.47	0.14
CORR(α_{12})	6.82	2.78	0.01	10.03	1.90	0.06	-0.28	-0.46	0.65	-0.59	-1.86	0.06	6.22	2.84	0.00
MTKC(α_{13})	0.31	1.02	0.31	0.69	1.15	0.25	0.18	1.21	0.23	0.29	2.66	0.01	-0.97	-1.48	0.14
C	-81.49	-0.50	0.62	48.84	0.12	0.91	-49.53	-0.84	0.40	-98.99	-3.28	0.00	-3.72	-0.03	0.98
R^2	0.04			0.04			0.07			0.10			0.01		
Adj- R^2	0.04			0.04			0.06			0.09			0.00		
Durbin-Watson	1.64			1.64			1.45			1.72			1.12		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. DIN is real value domestic investment; Control variables: SIZE is a control variable, which is the valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is the real value of market capitalization.

$\Delta NI\ it = \alpha0 + \alpha1\ D\ it + \alpha2\ \Delta NIit\text{-}1 + \alpha3\ D\ it * \Delta NI\ it\text{-}1 + \alpha4\ DIN\ it + \alpha5\ D\ it * DIN\ it + \alpha6\Delta NI\ it\text{-}1 * DIN\ it + \alpha7\ D\ it * \Delta NI\ it\text{-}1 * DIN\ it + \alpha8\ SIZE\ it + \alpha9\ BUFR\ it + \alpha10\ INFR\ it + \alpha11\ MOFR\ it + \alpha12\ CORR\ it + \alpha13\ MTKC\ it + \varepsilon\ it$

6.5.4 The effect of conditional accounting conservatism on domestic investment (H3a)

This study also investigates the bidirectional relationship between domestic investment and conditional accounting conservatism. This section presents the result for the regression that measures the effect of conditional accounting conservatism on domestic investment in South Asia. The result consists of three sections, first, descriptive statistics for all variables in the regression, second, the correlation metrics for all the variables in the regression and finally, an analysis of the result for the regression derived from pooled OLS, the fixed effect model, the random effect model, and the difference GMM and the system GMM.

6.5.4.1 Descriptive statistics for H3a

Appendix 13 presents the descriptive statistics for all the variables in the regression, exploring the effect of conditional accounting conservatism on domestic investment in South Asia. Overall, this regression also consists of 42,228 firm-year observations. The dependent variable of this regression is DINP, domestic investment per capita. The mean and median numbers of the dependent variable are 0.353 and 0.383 respectively. In addition, the numbers of the dependent variable vary from 0.141 to 0.424 and the standard deviation of the same variable is 0.072. The explanatory variable from this regression is D*DINP, which measures incremental timely loss recognition for domestic investment in South Asia. The mean of this variable is 0.138, and the median is 0.000. Furthermore, the minimum number for this variable is 0.000 and the maximum number is 0.424. The standard deviation of this variable is 0.177.

6.5.4.2 Correlation metrics for H3a

Appendix 14 shows the correlation metrics for the variables in the regression, which examine the effect of conditional accounting conservatism on domestic investment in South Asia. This metrics also consist of a total of fourteen variables: one dependent variable, one independent variable and the rest are control variables. The dependent variable is DINP, domestic investment per capita. ΔNI t stands for change of income from one fiscal year to a previous fiscal year, scaled by total assets at the beginning of the year. This is a control variable. D is a control variable and measures one if the previous year's change of income is negative. Otherwise, it is zero. The explanatory variable of this regression is D*DINP. The control variables are GDP: real gross domestic production, INFRAS (infrastructure), COC (cost of capital), INFL (inflation), EXC (exchange rate), FSTAB (financial stability), and OPEN (trade openness).

Overall, the correlation of the variables varies in the range of -0.744 to 0.968. The highest positive correlation is in the relationship between D and D*DINP. The highest negative correlation is in the relationship between GDP and EXC. The second highest positive correlation is 0.731 in the relationship between DINP and FSTAB. The second highest negative correlation is -0.721 in the relationship between DINP and EXC.

6.5.4.3 The result of the main regression for H3a

Table 6.15 illustrates the results of the regression, exploring the effect of conditional accounting conservatism on domestic investment in South Asia. The result of this regression is also derived from pooled OLS, the fixed effect model, the random effect model, the difference GMM and the system GMM of panel GMM estimator. The study predicts a positive sign for the coefficient of α4, which measures incremental timely loss recognition for domestic investment. Overall, α4 shows a positive coefficient with

statistically significant P value under all five alternative methods of the panel GMM estimator.

In the pooled OLS method, the coefficient for the predicted variable of α4 is 0.103 and it is statistically significant. In addition, both R^2 value and adjusted R^2 value are 93.9 percent and the Durbin-Watson statistic is 1.535. The J-statistic value is 0.000. For the fixed effect model, the coefficient for the α4 is 0.100 with a significant P value. The R^2 value is 94.3 percent and the adjusted R^2 value is 93.6 per cent. In addition, the Durbin-Watson value and the J-statistic are 1.460 and 0.000, respectively. Furthermore, similar figures can be seen in the result obtained from random effect model when compared to pooled OLS method. However, according to the Hausman test, the random effect model is more appropriate than fixed effect model for this regression.

This regression was further analyzed on the difference GMM and the system GMM, and a unique coefficient and significance resulted from these two methods, compared to above three methods. In detail, the difference GMM method shows the coefficient for α4 as 0.038, which is statistically significant. In addition, the 0.100 coefficient shows a significant P value for the predicted variable as does the system GMM. The J-statistic value for both difference and system GMM were 0.000.

In conclusion, as predicted, a positive sign with significant P value can be seen for the predictor variable when exploring the effect of conditional accounting conservatism on domestic investment with the alternative methods in the panel GMM estimator. Therefore, the research hypothesis (H3a), "conditional accounting conservatism affects domestic investment in South Asia" can be accepted. More discussion is presented on this regard in the discussion section.

Table 6.15 The result for the main regression for H3a

	POLS			FEM			REM			Difference GMM			System GMM		
	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.
DINPt-1	0.006	4.872	0.000	0.005	3.194	0.001	0.006	4.777	0.000	-0.103	-76.185	0.000	0.005	3.194	0.001
ΔNI_t	0.000	-2.454	0.014	0.000	-3.013	0.003	0.000	-2.407	0.016	0.000	-1.997	0.046	0.000	-3.013	0.003
D	-0.036	-40.644	0.000	-0.034	-35.990	0.000	-0.036	-39.859	0.000	-0.011	-13.959	0.000	-0.034	-35.990	0.000
D * DINP	**0.103**	**42.159**	**0.000**	**0.100**	**38.131**	**0.000**	**0.103**	**41.344**	**0.000**	**0.038**	**18.028**	**0.000**	**0.100**	**38.131**	**0.000**
IFRS	0.011	47.008	0.000	0.010	39.844	0.000	0.011	46.100	0.000	-0.002	-10.253	0.000	0.010	39.844	0.000
GDP	-0.032	-49.257	0.000	0.038	7.759	0.000	-0.032	-48.305	0.000	0.245	66.395	0.000	0.038	7.759	0.000
INFRAS	0.000	2.257	0.024	0.000	-13.716	0.000	0.000	2.213	0.027	0.000	-9.735	0.000	0.000	-13.716	0.000
COC	-0.008	-96.894	0.000	-0.007	-67.999	0.000	-0.008	-95.022	0.000	0.001	16.751	0.000	-0.007	-67.998	0.000
INFL	0.001	21.777	0.000	0.001	30.987	0.000	0.001	21.356	0.000	0.002	45.239	0.000	0.001	30.987	0.000
EXC	-0.001	-58.941	0.000	-0.002	-60.818	0.000	-0.001	-57.802	0.000	-0.002	-94.070	0.000	-0.002	-60.818	0.000
FSTAB	0.021	226.962	0.000	0.015	88.370	0.000	0.021	222.577	0.000	0.014	92.077	0.000	0.015	88.370	0.000
OPEN	0.006	352.445	0.000	0.004	74.139	0.000	0.006	345.635	0.000	0.003	60.123	0.000	0.004	74.139	0.000
C	0.420	52.606	0.000	-0.245	-4.300	0.000	0.420	51.589	0.000						
R2	0.939			0.943			0.939								
Adj- R2	0.939			0.936			0.939								
Durbin-Watson	1.535			1.460			1.535								
J-statistic	0.000			0.000			0.000			0.000			0.000		
No. of obs.	42,228			42,228			42,228			42,228			42,228		

Note:

DINP is the domestic investment per capita, ΔNI t; is the change of income from a fiscal year to the previous fiscal year scaled by the total assets at the beginning of the year. D: measures 1 if previous year change of income is negative Otherwise it is 0. IFRS is the rank on IFRS adoption, valued as 1 to 7, GDP: real gross domestic production, INFRAS; infrastructure, COC; cost of capital, INFL; inflation, EXC; exchange rate, FSTAB; financial stability, OPEN; trade openness.

$DINP_{it} = \alpha0 + \alpha1\ DINP_{t-1} + \alpha2\ \Delta NI_{it} + \alpha3\ D_{it} + \alpha4\ D_{it} * DINP_{it} + \alpha5\ IFRS_{it} + \alpha6\ GDP_{it} + \alpha7\ INFRAS_{it} + \alpha8\ COC_{it} + \alpha9\ INFL_{it} + \alpha10\ EXC_{it} + \alpha11\ FSTAB_{it} + \alpha12\ OPEN_{it} + \text{Ɛ}\ it$

6.6 The moderating effect of IFRS adoption on the relationship between foreign direct investment and conditional accounting conservatism (H4).

This section illustrates the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia and consists of three subsections. The first subsection describes the correlation among the variables of the model. The second subsection illustrates the result derived from the fixed effect model of panel GMM. The third subsection presents the result obtained from the random effect model of panel GMM.

6.6.1 Correlation metrics

Appendix 15 illustrates the correlation metrics for the variables in the regression for H4 in the whole sample, India, Pakistan, Bangladesh and Sri Lanka. To begin, the correlation of whole sample fluctuated in the range of -0.67 to 0.90 and the highest negative co-relation was in LFDI to BUFR, while highest positive co-relation is in the nine relationships listed in above. The second highest positive correlation is shown as 0.58 in the relationship between LFDI and CORR and the second highest negative correlation is -0.55 in the relationship between BUFR and CORR. A detailed explanation for correlations in individual countries is presented in Appendix 15.1.

6.6.2 The fixed effect model

Table 6.16 illustrates the results of the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in the whole sample and in the individual countries. The panel GMM estimator was used to analyze the data. The coefficient of $\alpha 11$ (D * ΔNIt-1 * LFDI * IFRS) measures the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism. It has been hypothesized that there is a moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia. In the

whole sample, the coefficient of α11 was -0.12 and was statistically significant. The R^2 value of this regression is twelve percent, while the adjusted R^2 of the regression is two percent. Small R^2 values can be seen for similar regressions in studies by, for example, Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015).

The Durbin-Watson value is 1.71 and the J statistic value is 0.00. The whole sample consisted of 42,228 firm-year observations. All of the control variables, SIZE, BUFR, INFR, MOFR, CORR and MTKC, are statistically not significant in the regression of whole sample under the fixed effect model. Thus, the relationship between FDI and conditional accounting conservatism was moderated by IFRS adoption in South Asia, as this study hypothesized. Thus, research hypothesis 4 (H4), "IFRS adoption would moderate the relationship between FDI and conditional accounting conservatism in South Asia" can be accepted. Details on the results for the individual countries are presented in the Appendix 15.2.

Table 6.16 The result of the regression for fourth research hypothesis (H4) on the fixed effect model

Variables	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_{1})	361.69	1.35	0.18	1407.23	0.90	0.37	14.09	0.27	0.78	24.11	0.38	0.70	-516.50	-0.88	0.38
ΔNIt-1 (α_{2})	0.62	0.22	0.82	1.47	0.45	0.65	-4.56	-2.25	0.02	13.85	2.14	0.03	-5.25	-0.11	0.91
D * ΔNIt-1(α_{3})	22.16	6.93	0.00	21.77	5.86	0.00	1.75	0.62	0.54	-38.50	-1.76	0.08	-3746.08	-3.81	0.00
LFDI (α_{4})	77.52	1.24	0.21	2.15	0.02	0.99	7.02	0.90	0.37	3.53	0.52	0.61	-24.04	-0.83	0.41
D * LFDI (α_{5})	-33.10	-1.35	0.18	-120.97	-0.78	0.43	-1.31	-0.25	0.81	-2.85	-0.40	0.69	56.64	0.88	0.38
ΔNIt-1 * LFDI (α_{6})	-0.04	-0.14	0.89	-0.12	-0.38	0.70	0.57	2.63	0.01	-1.68	-2.30	0.02	1.01	0.20	0.84
D* ΔNIt-1 * LFDI (α_{7})	-1.91	-6.11	0.00	-1.87	-5.16	0.00	-0.31	-1.01	0.31	4.47	1.83	0.07	418.52	3.82	0.00
IFRS(α_{8})	-9.41	-0.47	0.64	164.48	3.84	0.00	-5.73	-1.17	0.24	0.90	1.08	0.28	4.31	0.84	0.40
D * IFRS(α_{9})	-16.40	-0.96	0.34	-73.93	-1.40	0.16	-0.03	-0.02	0.99	0.15	0.17	0.87	4.03	0.93	0.35
ΔNIt-1 * IFRS(α_{10})	-0.13	-3.14	0.00	-0.12	-2.50	0.01	-0.40	-12.74	0.00	0.30	3.91	0.00	-0.66	-0.36	0.72
D * ΔNIt-1 * LFDI * IFRS (α_{11})	**-0.12**	**-11.21**	**0.00**	**-0.12**	**-10.24**	**0.00**	**0.06**	**2.13**	**0.03**	**-0.06**	**-2.80**	**0.01**	**0.30**	**0.52**	**0.60**
SIZE(α_{12})	15625	1.10	0.27	14889	0.95	0.34	23939	4.17	0.00	7496	1.83	0.07	185593	4.37	0.00
BUFR(α_{13})	1.44	0.68	0.50	-0.24	-0.09	0.93	-2.05	-1.36	0.17	0.04	0.21	0.83	-2.86	-1.11	0.27
INFR(α_{14})	-0.59	-0.27	0.79	-5.77	-0.88	0.38	0.25	0.96	0.33	-0.15	-2.04	0.04	0.00	-0.01	1.00
MOFR(α_{15})	0.97	0.16	0.87	1.82	0.18	0.86	0.02	0.05	0.96	0.51	1.93	0.05	-1.92	-1.57	0.12
CORR(α_{16})	-3.19	-0.47	0.64	-9.23	-1.52	0.13	1.48	1.15	0.25	0.05	0.18	0.86	-0.01	0.00	1.00
MTKC (α_{16})	-0.06	-0.10	0.92	-0.49	-0.54	0.59	-0.15	-0.66	0.51	0.28	1.88	0.06	-0.55	-1.17	0.24
C	-769.80	-0.90	0.37	87.58	0.07	0.95	47.12	0.75	0.46	-71.04	-1.05	0.29	535.24	1.27	0.20
R^2	0.12			0.12			0.21			0.20			0.13		
Adj- R^2	0.02			0.02			0.12			0.10			0.02		
Durbin-Watson	1.71			1.70			1.51			1.79			1.25		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_{t}, is the change in income from a fiscal year to the previous fiscal year (defined $NI_{t} - NI_{t-1}$), scaled by the total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative. Otherwise it is 0. LFDI is the logarithm of foreign direct investment; IFRS denotes adoption of IFRS, valued on a ranking system, which was explained in Table 4. Control variables: SIZE is a control variable, which is the valued total assets of a company scaled, by the total assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_{0} + \alpha_{1} D_{it} + \alpha_{2} \Delta NI_{it-1} + \alpha_{3} D_{it} * \Delta NI_{it-1} + \alpha_{4} LFDI_{it} + \alpha_{5} D_{it} * LFDI_{it} + \alpha_{6} \Delta NI_{it-1} * LFDI_{it} + \alpha_{7} D_{it} * \Delta NI_{it-1} * LFDI_{it} + \alpha_{8} IFRS_{it} + \alpha_{9} D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * LFDI_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.6.3 The random effect model

Table 6.17 displays the results of the regression for H4, analyzed on the random effect model to measure the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism. The panel GMM estimator was used to analyze the data. This result covers whole sample and the individual countries. The coefficient of α11 on D * ΔNIt-1 * LFDIs *, IFRS measures the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism.

The coefficient of α11 in the regression of the whole sample as the predictor for the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism, is -0.12 and is statistically significant. Both R^2 and adjusted R^2 of the regressions is three percent and the Durbin Watson value is 1.64. The J-Statistic value is 0.00. All of the control variables: SIZE, BUFR, INFR, MOFR, CORR and MTKC are statistically not significant in the regression of the whole sample.

The Hausman test was run to determine the most appropriate model from the fixed effect model and the random effect model. Appendices 15.4 and 15.5 illustrate the result of the Hausman test for this research hypothesis. According to the Hausman test, the null hypothesis is 'random effect model is appropriate'. The alternative hypothesis is 'fixed effect model is appropriate'. The Chi-square statistic is 0.00, with insignificant P value. In addition, the Chi-square degree of freedom is seventeen. Thus, based on the result of the Hausman test, the null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than the fixed effect model for this regression.

In summary, as predicted, research hypothesis 4 (H4), "IFRS adoption would moderate the relationship between FDI and conditional accounting conservatism in South Asia" can be accepted for the whole sample of this study. More details are provided in the

discussion section. Details on the result obtained from random effect model for individual countries are discussed in Appendix 15.3.

Table 6.17 The result of the regression for fourth research hypothesis (H4) on the random effect model

	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
Variables	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	279.56	1.10	0.27	1203.80	0.80	0.42	14.09	0.29	0.77	8.31	0.14	0.89	-699.41	-1.26	0.21
ΔNIt-1 (α_2)	-0.65	-0.26	0.80	-0.16	-0.05	0.96	-4.87	-2.58	0.01	12.81	2.10	0.04	-5.93	-0.14	0.89
D * ΔNIt-1(α_3)	27.17	8.91	0.00	27.24	7.71	0.00	2.23	0.85	0.40	-18.65	-0.90	0.37	-3593.93	-3.87	0.00
LFDI (α_4)	49.72	1.95	0.05	-8.83	-0.06	0.95	5.63	0.72	0.47	3.70	0.54	0.59	-29.48	-1.03	0.30
D * LFDI (α_5)	-24.75	-1.07	0.28	-98.78	-0.67	0.50	-1.33	-0.26	0.80	-0.99	-0.14	0.89	76.76	1.25	0.21
ΔNIt-1 * LFDI (α_6)	0.09	0.35	0.72	0.04	0.14	0.89	0.60	2.99	0.00	-1.54	-2.24	0.03	0.82	0.17	0.86
D* ΔNIt-1 * LFDI (α_7)	-2.39	-8.02	0.00	-2.40	-6.96	0.00	-0.36	-1.26	0.21	2.18	0.94	0.35	401.77	3.88	0.00
IFRS(α_8)	26.82	2.21	0.03	164.34	3.87	0.00	-5.62	-1.15	0.25	0.90	1.08	0.28	4.68	0.92	0.36
D * IFRS(α_9)	-14.67	-0.90	0.37	-84.97	-1.69	0.09	-0.08	-0.06	0.96	-0.07	-0.09	0.93	5.73	1.40	0.16
ΔNIt-1 * IFRS(α_{10})	-0.10	-2.64	0.01	-0.09	-2.24	0.03	-0.37	-12.76	0.00	0.27	3.71	0.00	-0.22	-0.13	0.90
D * ΔNIt-1 * LFDI * IFRS (α_{11})	**-0.12**	**-11.64**	**0.00**	**-0.12**	**-10.46**	**0.00**	**0.05**	**2.14**	**0.03**	**-0.03**	**-1.66**	**0.10**	**0.29**	**0.52**	**0.60**
SIZE(α_{12})	-153	-0.04	0.97	-45.10	-0.01	0.99	2616	1.34	0.18	-300	-0.16	0.87	31622	1.72	0.09
BUFR(α_{13})	0.47	0.48	0.63	-0.45	-0.16	0.87	-1.87	-1.24	0.21	-0.01	-0.05	0.96	-3.42	-1.33	0.18
INFR(α_{14})	-1.05	-0.61	0.54	-5.63	-0.86	0.39	0.27	1.05	0.30	-0.14	-1.86	0.06	-0.16	-0.20	0.84
MOFR(α_{15})	-2.67	-0.93	0.35	2.38	0.23	0.82	0.12	0.32	0.75	0.48	1.84	0.07	-1.74	-1.43	0.15
CORR(α_{16})	-2.51	-0.90	0.37	-8.47	-1.39	0.16	1.35	1.05	0.30	0.02	0.06	0.95	0.92	0.31	0.76
MTKC (α_{16})	0.02	0.05	0.96	-0.50	-0.55	0.58	-0.12	-0.51	0.61	0.21	1.45	0.15	-0.74	-1.57	0.12
C	-278.58	-1.09	0.28	145.09	0.11	0.91	44.31	0.70	0.48	-66.10	-0.98	0.33	600.02	1.44	0.15
R^2	0.03			0.03			0.13			0.09			0.02		
Adj- R^2	0.03			0.03			0.13			0.08			0.01		
Durbin-Watson	1.64			1.64			1.40			1.68			1.13		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. LFDI is logarithm of foreign direct investment; IFRS denotes adoption of IFRS valued on a ranking system which was explained in table 4. Control variables: SIZE is a control variable, which valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 LFDI_{it} + \alpha_5 D_{it} * LFDI_{it} + \alpha_6 \Delta NI_{it-1} * LFDI_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * LFDI_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * LFDI_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.7 The moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism (H5).

This section presents the result for the moderating effect of IFRS adoption in the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia. The section consists of three subsections. The first subsection describes the correlation among the variables of the model. The second subsection illustrates the result derived from the fixed effect model of panel GMM. The third subsection presents the result obtained from the random effect model of panel GMM.

6.7.1 Correlation metrics (H5)

Appendix 16 presents the correlation metrics for the variables in the model for the fifth research hypothesis (the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism) for the whole sample, India, Pakistan, Bangladesh and Sri Lanka. In the whole sample, the correlation fluctuates in the range of -0.67 to 0.90 and the highest negative correlation is in LFPI to BUFR. The second highest positive correlation is 0.66 in the relationship between INFR and MOFR. In addition, the second highest negative correlation is -0.55 in the relationship between BUFR and CORR. Further information on the correlations for the individual countries is presented in Appendix 16.1.

6.7.2 The fixed effect model (H5)

Table 6.18 shows the results of the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism. This table presents the result of the whole sample and the individual countries. The coefficient of $\alpha 11$ in the regression (D * ΔNIt-1 * LFPI * IFRS) measures the moderating effect of IFRS adoption on the relationship between foreign portfolio

investment and conditional accounting conservatism. These regressions were tested from the fixed effect model in the panel GMM estimator.

In respect of the whole sample, the coefficient of α11 is -0.20 which is statistically significant. The R^2 value of this regression is twelve percent, while the adjusted R^2 of the regression is two percent. Small R^2 values can be seen for similar regressions in other studies by, for example, Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). The Durbin-Watson value is 1.70 and the J statistic value is 0.00. The whole sample consisted of 42,228 firm-year observations. All of the control variables, SIZE, BUFR, INFR, MOFR, CORR, and MTKC are statistically not significant in the regression of the whole sample. Thus, Hypothesis 5 (H5), "IFRS adoption would moderate the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia" can be accepted. A description of the result for the individual countries is presented in the Appendix 16.2.

Table 6.18 The result of the regression for the fifth research hypothesis (H5) on the fixed effect model

Variables	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_{1})	-23.78	-0.11	0.91	-41.98	-0.06	0.96	-6.13	-0.31	0.76	-16.06	-0.55	0.58	50.38	0.23	0.82
ΔNIt-1 (α_{2})	-10.91	-10.00	0.00	-11.02	-9.18	0.00	2.24	3.58	0.00	-10.09	-3.01	0.00	0.40	0.02	0.98
D * ΔNIt-1(α_{3})	3.32	3.22	0.00	3.35	2.96	0.00	-2.09	-1.98	0.05	16.34	1.45	0.15	-2692.34	-6.19	0.00
LFPI (α_{4})	-36.86	-2.04	0.04	13.39	0.33	0.74	2.07	0.97	0.33	-12.57	-2.65	0.01	-4.72	-0.36	0.72
D * LFPI (α_{5})	5.04	0.30	0.77	25.33	0.44	0.66	0.97	0.40	0.69	1.94	0.51	0.61	-6.41	-0.26	0.79
ΔNIt-1 * LFPI (α_{6})	0.90	10.35	0.00	0.91	9.50	0.00	-0.05	-0.63	0.53	1.18	2.63	0.01	0.32	0.19	0.85
D* ΔNIt-1 * LFPI (α_{7})	0.24	3.00	0.00	0.24	2.70	0.01	0.00	0.01	0.99	-2.01	-1.26	0.21	307.45	6.24	0.00
IFRS(α_{8})	33.40	1.93	0.05	182.76	3.23	0.00	-7.82	-1.08	0.28	3.36	3.67	0.00	6.77	1.01	0.31
D * IFRS(α_{9})	-12.09	-0.53	0.60	-73.92	-1.06	0.29	0.00	0.00	1.00	-0.27	-0.35	0.73	1.32	0.25	0.80
ΔNIt-1 * IFRS(α_{10})	0.60	8.08	0.00	0.61	7.40	0.00	-0.65	-13.97	0.00	0.04	0.54	0.59	-0.55	-0.23	0.82
D * ΔNIt-1 * LFPI * IFRS (α_{11})	**-0.20**	**-13.53**	**0.00**	**-0.20**	**-12.34**	**0.00**	**0.08**	**2.03**	**0.04**	**0.01**	**0.31**	**0.76**	**2.18**	**2.44**	**0.01**
SIZE(α_{12})	16382	1.15	0.25	14969	0.96	0.34	23893	4.16	0.00	7078	1.74	0.08	170794	4.06	0.00
BUFR(α_{13})	0.30	0.23	0.82	-1.35	-0.44	0.66	-0.89	-0.68	0.49	0.29	1.44	0.15	-1.83	-0.73	0.47
INFR(α_{14})	-1.67	-0.95	0.34	-5.91	-1.06	0.29	0.29	1.11	0.27	-0.23	-3.09	0.00	-0.66	-0.88	0.38
MOFR(α_{15})	-2.20	-0.69	0.49	4.58	0.44	0.66	-0.07	-0.17	0.87	0.08	0.27	0.79	-1.15	-1.14	0.25
CORR(α_{16})	-3.03	-0.78	0.43	-8.73	-1.45	0.15	1.69	1.30	0.19	-0.30	-1.09	0.28	-1.97	-0.62	0.54
MTKC (α_{16})	0.12	0.36	0.72	-0.79	-0.89	0.37	-0.05	-0.32	0.75	0.08	0.54	0.59	-0.09	-0.21	0.83
C	553.56	1.88	0.06	-375.85	-0.46	0.65	22.12	0.28	0.78	80.75	1.54	0.12	296.50	0.96	0.34
R^2	0.12			0.12			0.21			0.21			0.14		
Adj- R^2	0.02			0.02			0.12			0.10			0.04		
Durbin-Watson	1.70			1.70			1.50			1.82			1.25		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. LFPI is logarithm of foreign portfolio investment; IFRS denotes adoption of IFRS valued on a ranking system, which was explained in Table 4. Control variables: SIZE is a control variable, which valued total assets of a company scaled by the total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_{0+} \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 LFPI_{it} + \alpha_5 D_{it} * LFPI_{it} + \alpha_6 \Delta NI_{it-1} * LFPI_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * LFPI_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * LFPI_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.7.3 The random effect model

Table 6.19 presents the results of the regression analyzed on the random effect model of the panel GMM estimator to measure the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism. The result covers the regressions of the whole sample and the individual countries. The predictor coefficient of this regression is α11, D * ΔNIt-1 * LFPI * IFRS, which measures the moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism.

The coefficient of α11 in the regression of whole sample is -0.19, which is statistically significant. Both R^2 and adjusted R^2 of the regressions are two percent. The Durbin Watson value is 1.64 and the J-Statistic value is 0.00. 42,228 firm-year observations are included in the regression of the whole sample. All six control variables, SIZE, BUFR, INFR, MOFR, CORR, and MTKC are statistically not significant in the same regression.

The Hausman test was also run to determine the most appropriate model from the fixed effect model and the random effect model. Appendices 16.4 and 16.5 illustrate the result of the Hausman test. According to this test, the null hypothesis in the random effect model is appropriate. The alternative hypothesis, the fixed effect model, is appropriate. The Chi-square statistic is 0.00, with insignificant P value. In addition, the Chi-square degree of freedom is seventeen. Thus, based on the result of the Hausman test, the null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than fixed effect model for the regression of the whole sample.

As this study hypothesized, research Hypothesis 5 (H5), "IFRS adoption would moderate the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia" can also be accepted as the result derived from

the random effect model. More details on the result obtained from the random effect model for the individual countries are presented in Appendix 16.3.

Table 6.19 The result of the regression of fifth research Hypothesis (H5) on the random effect model

Variables	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-30.32	-0.15	0.88	-51.91	-0.07	0.94	-1.29	-0.07	0.95	-22.45	-0.79	0.43	-83.43	-0.39	0.69
ΔNIt-1 (α_2)	-9.61	-9.41	0.00	-9.71	-8.63	0.00	1.74	2.93	0.00	-8.47	-2.68	0.01	0.42	0.02	0.98
D * ΔNIt-1(α_3)	1.61	1.63	0.10	1.64	1.51	0.13	-1.47	-1.48	0.14	10.84	1.01	0.31	-2764	-6.74	0.00
LFPI (α_4)	-27.05	-1.59	0.11	16.86	0.42	0.68	2.70	1.29	0.20	-12.06	-2.55	0.01	-9.87	-0.77	0.44
D * LFPI (α_5)	6.89	0.42	0.67	28.33	0.52	0.60	0.37	0.16	0.87	2.81	0.76	0.45	8.12	0.35	0.73
ΔNIt-1 * LFPI (α_6)	0.79	9.75	0.00	0.80	8.95	0.00	0.01	0.13	0.90	1.00	2.35	0.02	0.27	0.17	0.87
D* ΔNIt-1 * LFPI (α_7)	0.36	4.71	0.00	0.36	4.25	0.00	-0.07	-0.42	0.67	-1.35	-0.89	0.38	315.18	6.79	0.00
IFRS(α_8)	19.50	1.25	0.21	185.09	3.29	0.00	-7.65	-1.06	0.29	3.30	3.62	0.00	7.08	1.07	0.29
D * IFRS(α_9)	-13.40	-0.62	0.54	-78.46	-1.18	0.24	-0.03	-0.02	0.99	-0.38	-0.52	0.60	4.23	0.85	0.39
ΔNIt-1 * IFRS(α_{10})	0.56	8.02	0.00	0.56	7.33	0.00	-0.63	-14.56	0.00	0.04	0.56	0.57	-0.45	-0.20	0.84
D * ΔNIt-1 * LFPI * IFRS (α_{11})	**-0.19**	**-13.37**	**0.00**	**-0.19**	**-12.17**	**0.00**	**0.08**	**2.10**	**0.04**	**0.01**	**0.16**	**0.87**	**2.39**	**2.82**	**0.00**
SIZE(α_{12})	50.90	0.01	0.99	-26.30	-0.01	0.99	2572.21	1.31	0.19	-379	-0.20	0.84	28636	1.57	0.12
BUFR(α_{13})	-1.16	-1.23	0.22	-1.69	-0.54	0.59	-0.73	-0.56	0.58	0.22	1.11	0.27	-2.44	-0.98	0.33
INFR(α_{14})	-0.35	-0.21	0.83	-5.95	-1.07	0.29	0.34	1.30	0.20	-0.22	-2.93	0.00	-0.75	-1.01	0.31
MOFR(α_{15})	-0.81	-0.28	0.78	5.65	0.55	0.58	-0.05	-0.13	0.90	0.08	0.28	0.78	-1.15	-1.15	0.25
CORR(α_{16})	1.33	0.56	0.58	-7.97	-1.32	0.19	1.58	1.22	0.22	-0.29	-1.05	0.29	-1.12	-0.35	0.72
MTKC (α_{16})	0.24	0.74	0.46	-0.85	-0.96	0.34	-0.06	-0.40	0.69	0.04	0.28	0.78	-0.30	-0.69	0.49
C	280.87	1.30	0.19	-494.30	-0.60	0.55	7.72	0.10	0.92	81.37	1.56	0.12	373.06	1.21	0.23
R^2	0.02			0.02			0.13			0.10			0.04		
Adj- R^2	0.02			0.02			0.13			0.08			0.03		
Durbin-Watson	1.64			1.64			1.40			1.71			1.13		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42228			35308			4030			860			2030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. LFPI is logarithm of foreign portfolio investment; IFRS denotes adoption of IFRS valued on a ranking system, which was explained in Table 4. Control variables: SIZE is a control variable, which valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 LFPI_{it} + \alpha_5 D_{it} * LFPI_{it} + \alpha_6 \Delta NI_{it-1} * LFPI_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * LFPI_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * LFPI_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.8 The moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism (H6).

This section discusses the result of sixth research hypothesis, investigating the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism. This section also comprises three subsections. First, the correlation metrics for all of the variables in the model are presented. Second, the result derived from panel GMM fixed effect model is explained. The third subsection presents the result obtained from the panel GMM random effect model.

6.8.1 Correlation metrics

Appendix 17 illustrates the correlation metrics for the variables in the regression for the sixth research hypothesis in whole sample and individual countries. The correlation fluctuated in the range of -0.55 to 0.90 and the highest negative correlation was in BUFR to CORR. In addition, the second highest positive correlation is 0.66 in the relationship between INFR and MOFR. The second highest negative correlation is -0.50 in the relationship between INFR and CORR. A detailed explanation of the correlations for the individual countries is presented in Appendix 17.1.

6.8.2 The fixed effect model

Table 6.20 illustrates the results for the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism in the whole sample and in the individual countries. These results were obtained from the fixed effect model of the panel GMM estimator. The coefficient of α11 (D * ΔNIt-1 * DIN * IFRS) measures the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism.

The coefficient of α11 in the regression of whole sample is -0.02 and it is statistically significant. The R^2 value of this regression is thirteen percent, while the adjusted R^2 of

the regression is four percent. Small R^2 values can be seen for similar regressions in other studies, for example, Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). The Durbin-Watson value is 1.71 and the J statistic value is 0.00. The whole sample consists of 42,228 firm-year observations. All of the control variables, SIZE, BUFR, INFR, MOFR, CORR and MTKC are statistically not significant in the regression of whole sample under fixed effect model. As this study predicted, H6, "IFRS adoption would moderate the relationship between domestic investment and conditional accounting conservatism in South Asia" can also be accepted based on the result obtained from the fixed effect model. Further information on the result for the individual countries is presented in Appendix 17.2.

Table 6.20 The result of the regression of the sixth research hypothesis H6 on the fixed effect model

Variables	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-12.93	-0.13	0.89	-201.23	-0.60	0.55	1.33	0.09	0.93	39.18	0.76	0.45	33.07	0.75	0.45
ΔNIt-1 (α_2)	3.76	14.31	0.00	3.79	13.17	0.00	1.87	3.84	0.00	-9.34	-1.26	0.21	5.36	0.35	0.73
D * ΔNIt-1(α_3)	-7.65	-26.26	0.00	-7.71	-24.14	0.00	-0.78	-1.24	0.21	-0.50	-0.02	0.98	-445.53	-3.59	0.00
DIN (α_4)	-8.53	-3.33	0.00	-7.98	-1.08	0.28	-1.73	-1.33	0.19	5.98	3.00	0.00	2.25	1.19	0.23
D * DIN (α_5)	0.70	0.43	0.67	8.38	1.52	0.13	0.00	0.01	1.00	-1.65	-0.78	0.44	-1.68	-0.93	0.35
ΔNIt-1 * DIN (α_6)	-0.08	-13.66	0.00	-0.08	-12.56	0.00	0.00	-0.03	0.98	0.34	1.09	0.28	0.05	0.26	0.79
D* ΔNIt-1 * DIN (α_7)	0.25	23.70	0.00	0.25	21.75	0.00	-0.11	-1.35	0.18	0.05	0.06	0.95	19.45	3.58	0.00
IFRS(α_8)	23.30	1.36	0.17	102.15	1.37	0.17	1.45	0.15	0.88	-0.91	-0.79	0.43	2.92	0.37	0.71
D * IFRS(α_9)	-9.29	-0.45	0.65	-43.85	-0.81	0.42	0.17	0.08	0.94	1.08	0.66	0.51	5.71	1.08	0.28
ΔNIt-1 * IFRS(α_{10})	-0.30	-11.17	0.00	-0.30	-10.32	0.00	-0.66	-16.56	0.00	-0.13	-0.45	0.65	-1.22	-0.50	0.62
D * ΔNIt-1 * DIN * IFRS (α_{11})	**-0.02**	**-5.44**	**0.00**	**-0.02**	**-4.92**	**0.00**	**0.05**	**2.23**	**0.03**	**0.00**	**-0.19**	**0.85**	**-1.14**	**-3.38**	**0.00**
SIZE(α_{12})	15059	1.06	0.29	13699	0.88	0.38	23649	4.11	0.00	5738.64	1.40	0.16	168293	3.96	0.00
BUFR(α_{13})	0.13	0.10	0.92	-1.00	-0.36	0.72	0.66	0.35	0.73	-0.19	-1.08	0.28	-2.83	-1.10	0.27
INFR(α_{14})	-1.08	-0.61	0.54	-3.11	-0.50	0.61	-0.10	-0.31	0.76	-0.21	-3.13	0.00	-0.39	-0.41	0.68
MOFR(α_{15})	1.13	0.35	0.73	3.05	0.33	0.74	0.36	0.91	0.36	-0.08	-0.23	0.81	-0.93	-0.57	0.57
CORR(α_{16})	2.83	0.70	0.49	-1.87	-0.16	0.87	0.03	0.02	0.99	-0.65	-1.97	0.05	1.75	0.38	0.71
MTKC (α_{16})	0.31	0.91	0.36	-0.05	-0.05	0.96	0.18	1.06	0.29	0.31	2.47	0.01	-0.56	-0.81	0.42
C	89.86	0.42	0.67	21.25	0.05	0.96	-51.49	-0.48	0.63	-123.28	-3.33	0.00	143.71	0.54	0.59
R^2	0.13			0.13			0.21			0.21			0.13		
Adj- R^2	0.04			0.04			0.12			0.10			0.02		
Durbin-Watson	1.71			1.71			1.51			1.85			1.24		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42,228			35,308			4,030			860			2,030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. DIN is domestic investment; IFRS denotes adoption of IFRS valued on a ranking system which was explained in Table 4. Control variables: SIZE is a control variable, which is valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 DIN_{it} + \alpha_5 D_{it} * DIN_{it} + \alpha_6 \Delta NI_{it-1} * DIN_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * DIN_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * DIN_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.8.3 The random effect model

Table 6.21 displays the results of the regression analyzed on the random effect model to measure the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism. These results were obtained from the random effect model of the panel GMM estimator. This result covers the whole sample and the individual countries. The coefficient of α11 on D * ΔNIt-1 * DIN * IFRS measures the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism.

In detail, the coefficient of α_{11} in the regression of the whole sample as the predictor for the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism is -0.02, with a statistically significant P value. Both R^2 and adjusted R^2 of the regressions is four percent. The Durbin Watson value is 1.65 and the J-Statistic value is 0.00. Furthermore, all of the control variables, SIZE, BUFR, INFR, MOFR, CORR, and MTKC are statistically not significant in the regression of the whole sample.

For these regressions, the Hausman test was also run to determine the most appropriate model from the fixed effect model and the random effect model. A detailed result of the Hausman test is given in Appendices 17.4 and 17.5. According to the Hausman test, the null hypothesis in the random effect model is appropriate as is the alternative hypothesis in the fixed effect model. In the whole sample, the Chi-square statistic is 0.00, with insignificant P value. In addition, the Chi-square degree of freedom is seventeen. Thus, based on the result of the Hausman test, the null hypothesis cannot be rejected since it shows an insignificant P value. Therefore, the random effect model is more appropriate than fixed effect model for the regression of whole sample. Therefore, H6, *"IFRS adoption would moderate the relationship between domestic investment and conditional*

accounting conservatism in South Asia" can be accepted. More details on the result for the individual countries are presented in Appendix 17.3.

Table 6.21 The result of the regression of sixth research hypothesis H6 on the random effect model

	Whole sample			India			Pakistan			Bangladesh			Sri Lanka		
Variables	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.	Coef.	t-Stat.	Prob.
D (α_1)	-7.77	-0.08	0.93	-129.66	-0.41	0.68	3.29	0.24	0.81	37.95	0.77	0.44	20.52	0.49	0.63
ΔNIt-1 (α_2)	4.27	17.86	0.00	4.31	16.45	0.00	1.48	3.26	0.00	-7.95	-1.12	0.26	2.72	0.19	0.85
D * ΔNIt-1(α_3)	-8.82	-31.36	0.00	-8.90	-28.83	0.00	-0.38	-0.67	0.50	9.01	0.47	0.64	-497.39	-4.19	0.00
DIN (α_4)	-4.74	-2.67	0.01	-6.38	-0.87	0.38	-2.03	-1.56	0.12	5.94	3.00	0.00	2.43	1.30	0.20
D * DIN (α_5)	0.97	0.63	0.53	7.63	1.46	0.15	-0.09	-0.14	0.89	-1.56	-0.77	0.44	-1.16	-0.67	0.50
ΔNIt-1 * DIN (α_6)	-0.10	-17.23	0.00	-0.10	-15.85	0.00	0.02	0.78	0.43	0.29	0.98	0.33	0.03	0.14	0.88
D* ΔNIt-1 * DIN (α_7)	0.28	27.36	0.00	0.28	25.09	0.00	-0.13	-1.71	0.09	-0.33	-0.45	0.65	21.83	4.20	0.00
IFRS(α_8)	24.21	1.70	0.09	112.83	1.52	0.13	2.95	0.30	0.76	-0.85	-0.75	0.46	2.92	0.37	0.71
D * IFRS(α_9)	-11.95	-0.61	0.54	-55.97	-1.08	0.28	-0.02	-0.01	0.99	0.91	0.58	0.56	5.44	1.09	0.28
ΔNIt-1 * IFRS(α_{10})	-0.29	-11.47	0.00	-0.29	-10.64	0.00	-0.63	-16.80	0.00	-0.11	-0.41	0.68	-0.60	-0.26	0.79
D * ΔNIt-1 * DIN * IFRS (α_{11})	**-0.02**	**-5.69**	**0.00**	**-0.02**	**-5.11**	**0.00**	**0.05**	**2.25**	**0.02**	**0.00**	**0.35**	**0.73**	**-1.26**	**-3.93**	**0.00**
SIZE(α_{12})	-256.83	-0.07	0.94	-246.11	-0.06	0.95	2544.62	1.30	0.19	-639.09	-0.34	0.73	25223	1.38	0.17
BUFR(α_{13})	-1.68	-1.75	0.08	-1.17	-0.42	0.67	1.03	0.55	0.58	-0.25	-1.40	0.16	-3.41	-1.33	0.18
INFR(α_{14})	-1.09	-0.67	0.50	-3.63	-0.59	0.56	-0.10	-0.33	0.74	-0.20	-2.97	0.00	-0.37	-0.38	0.70
MOFR(α_{15})	2.59	0.83	0.40	3.69	0.40	0.69	0.48	1.21	0.23	-0.11	-0.33	0.74	-1.03	-0.63	0.53
CORR(α_{16})	4.92	1.79	0.07	-2.74	-0.23	0.82	-0.33	-0.20	0.84	-0.66	-2.01	0.05	3.08	0.67	0.50
MTKC (α_{16})	0.24	0.79	0.43	-0.17	-0.19	0.85	0.20	1.20	0.23	0.26	2.06	0.04	-0.77	-1.13	0.26
C	-121.76	-0.73	0.46	-50.56	-0.11	0.91	-75.09	-0.71	0.48	-115.53	-3.14	0.00	157.63	0.59	0.56
R^2	0.04			0.04			0.13			0.10			0.02		
Adj- R^2	0.04			0.04			0.13			0.08			0.01		
Durbin-Watson	1.65			1.65			1.40			1.72			1.12		
J-statistic	0.00			0.00			0.00			0.00			0.00		
No. of obs.	42,228			35,308			4,030			860			2,030		

Notes:

Dependent variable: ΔNI_t, change in income from fiscal year to previous fiscal year (defined $NI_t - NI_{t-1}$) scaled by total assets at the beginning of the period. Independent variables: D is a dummy variable taking a value of 1 if the prior-year change ΔNI_{t-1} is negative, otherwise 0. DIN is domestic investment; IFRS denotes adoption of IFRS valued on a ranking system, which was explained in Table 4. Control variables: SIZE is a control variable, which valued total assets of a company scaled by total asset assets of all companies. BUFR is a control variable, which is the real value of business freedom. INFR is a control variable, which is the real value of investment freedom. MOFR is a control variable, which is the real value of monetary freedom. CORR is a control variable, which is the real value of freedom of corruption. MTKC is a control variable, which is market capitalization.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 \Delta NI_{it-1} + \alpha_3 D_{it} * \Delta NI_{it-1} + \alpha_4 DIN_{it} + \alpha_5 D_{it} * DIN_{it} + \alpha_6 \Delta NI_{it-1} * DIN_{it} + \alpha_7 D_{it} * \Delta NI_{it-1} * DIN_{it} + \alpha_8 IFRS_{it} + \alpha_9 D_{it} * IFRS_{it} + \alpha_{10} \Delta NI_{it-1} * IFRS_{it} + \alpha_{11} D_{it} * \Delta NI_{it-1} * DIN_{it} * IFRS_{it} + \alpha_{12} SIZE_{it} + \alpha_{13} BUFR_{it} + \alpha_{14} INFR_{it} + \alpha_{15} MOFR_{it} + \alpha_{16} CORR_{it} + \alpha_{17} MTKC_{it} \varepsilon_{it}$$

6.9 Sensitivity testing

Since there is a degree of arbitrariness in choosing the proxies for the independent variables of the regressions, a sensitivity test was run by changing the mode of an independent variable in order to ensure the robustness of the result. In summary, for the H1, the logarithm of foreign direct investment (LFDI) was changed to a dummy variable which measures one if the country-level FDI is higher than the country-level median, FDI Otherwise it is zero. Overall, it can be clearly seen that coefficient of the predictor variable for H1 was drastically reduced. More details on the sensitivity testing for H1 are mentioned in Appendices 18 and 19, under both the fixed effect model and the random effect model.

Also, for the H2, a sensitivity test was run to ensure the robustness of the result by changing the mode of the independent variable, LFPI, to a dummy variable (DFPI), which measures one if the foreign portfolio investment is higher than the country-level median foreign portfolio investment. Otherwise, it is zero. More detail on sensitivity testing for H2 is included in Appendices 20 and 21. Furthermore, a sensitivity test was also run for the H3 by changing the independent variable of DIN to a dummy variable which measures one if the country-level domestic investment higher than country level median domestic investment. Otherwise, it is zero. Further detail on the sensitivity testing for H3 is mentioned in Appendices 22 and 23.

In addition, sensitivity testing was conducted for H4 in order to ensure the robustness of the result. The LFDI variable was replaced with foreign direct investment per capita[2] (FDIP). More detail on the sensitivity testing for H4 is given in Appendices 24 and 25. Similarly, sensitivity testing was run for the H5 by replacing the independent variable,

[2] This study replaced LFDI variable with FDIP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)hg

LFPI with foreign portfolio investment per capita[3] (FDIP). More information on this is included in Appendices 26 and 27. For the final hypothesis (H6), a sensitivity test was also conducted to ensure the robustness of the result. For this, the DIN variable was replaced with domestic investment per capita[4] (DINP). More discussion on this sensitivity testing is included in Appendices 28 and 29.

6.10 Discussion

The aim of this study is to explore the relationship between investment and conditional accounting conservatism in South Asia and this study focused on four research questions using the signaling theory (Connelly et al., 2011; Richard et al., 2009). The panel GMM estimator was used to analyze the data (Doytch, 2015; Tan et al., 2016). Doytch (2015) used the panel GMM estimator to analyze fifteen economies during the period 1980–2011 on FDI in South Asia and South-East Asia. Several diagnostic tests, such as panel unit root test, the cointegration test, the Granger causality test, the autocorrelation test and the over identification test were also run to ensure the validity and reliability of the data and the models of this study.

For example, according to the panel unit root test, many variables of the regression of this study were stationary at level, and non-stationary variables became stationary at first difference (Tan et al., 2016). In addition, the test of the 'over identification moment condition' confirmed that all models are valid since there is no over identification of moment conditions (Eviews user forum, 2018). Furthermore, the autocorrelation for the model was tested from the Durbin-Watson value. If the Durbin-Watson value falls in the

[3] This study replaced LFPI variable with FPIP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)

[4] This study replaced DIN variable with DINP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)

range of 1.5 to 2.5, the model is free of the problem of autocorrelation (Gujarati, 2009). The Durbin-Watson value for the all models of this study is in the acceptable range. Thus, it can be concluded that the models of this study do not face the problem of autocorrelation.

This study tested six research hypotheses and the first three research questions focused on investigating the bidirectional relationship between types of investment and conditional accounting conservatism. The six main research hypotheses were tested on the fixed effect model and the random effect model of the panel GMM estimator (Baum et al., 2003; Danakol et al., 2017; Tan et al., 2016). Overall, all of the research hypotheses can be accepted in accordance with the result of the study. A detail discussion on each research hypotheses is presented below.

6.10.1 First research hypothesis (H1)

The first research hypothesis of this study was *"foreign direct investment affects conditional accounting conservatism in South Asia"*. As per the result obtained from fixed effect model, the coefficient for the predictor variable is -2.06 which is statistically significant. In addition, a similar result can be observed from the result from the random effect model. The coefficient value for the predictor variable is -2.69, which is also statistically significant. Both results were obtained from fixed effect model and random effect model and are consistent with prior literature such as Hämäläinen and Martikainen (2015), Kravet (2014) and Ball and Shivakumar (2005).

The Hausman test suggests that the random effect model is more appropriate than the fixed effect model for the regression of the first research hypothesis. The result of the Hausman test is consistent with the Hausman test result of the study conducted by Elaoud and Jarboui (2017). The meaning of the negative sign of this result is that a negative income change exists in South Asian public listed companies. Hämäläinen and

Martikainen (2015) have called this negative sign an increment of conditional accounting conservatism. Therefore, this study also shows incremental conditional accounting conservatism on FDI in South Asia.

Furthermore, the cross-sectional random effect test also confirms that there is an incremental conditional accounting conservatism on FDI by showing a statistically significant coefficient of -2.08 for the predictor variable. Therefore, the first hypothesis (H1) which is, "*foreign direct investment affects conditional accounting conservatism in South Asia.*" can be accepted. Moreover, this result is consistent with signaling theory research (Liu, 1997; Reuer & Ragozzino, 2012) and FDI is a signal for high quality financial statements.

Even though this result was consistent with the study conducted by Hämäläinen and Martikainen (2015), the result of both studies can be differentiated based on two factors. First, the study conducted by Hämäläinen and Martikainen (2015) showed conditional accounting conservatism in transitional economies in Europe, while the present study showed conditional accounting conservatism in emerging countries in South Asia. Furthermore, Hämäläinen and Martikainen (2015) have found a significantly negative coefficient of -0.500 for an environment where there is low investment freedom, while failing to show incremental conditional accounting conservatism in an environment where there is high investment freedom. In the present study, the incremental conditional accounting conservatism has a coefficient of -2.06 and it is statistically significant. Thus, the findings of the first research hypothesis shows a higher coefficient than Hämäläinen and Martikainen (2015).

Second, Hämäläinen and Martikainen (2015) used dichotomous variables for FDI, while this study uses logarithms of FDI. According to the earlier literature (Alunan & Royston, 2006; Royston et al., 2006), dichotomous variables create problems such as

massive data loss. Alunan and Royston (2006) argued that dichotomizing creates several problems in a regression. Firstly, information loss can happen, which reduces the accuracy of the regression. Secondly, dichotomizing hides any non-linearity between the variable and the outcome. Finally, fluctuation in the outcome can be underestimated. Similarly, Royston et al. (2006) confirmed that dichotomization creates problems rather than avoiding them. Real data can exhibit more characteristics and has good simulation and feasibility in distribution (Stigler, 1977). Therefore, this study used real data for FDI as a logarithm. Thus, it may helpful in strengthening the contribution of this this study.

In addition, as there is a degree of arbitrariness in choosing the proxies for the independent variables of the regression. A sensitivity test was run by changing the mode of an independent variable in order to ensure the robustness of the result. In the main regression, the logarithm of foreign direct investment (LFDI) was used as an independent variable. However, in the sensitivity testing, the LFDI variable was changed to a dummy variable which measures one if the country-level FDI is higher than country-level median. Otherwise FDI is zero.

Lower coefficient values for the predictor variable are shown in the sensitivity testing, unlike the result of the main regression of the study. The main regression shows a higher coefficient value for the predictor variable. Therefore, the model used in the first research hypothesis has an important contribution for the literature and this was confirmed with the sensitivity testing. The result of the study is more sensitive for the FDI variable and it confirmed that more incremental conditional accounting conservatism can be seen by using real FDI than dummy FDI.

6.10.1.1 FDI as the dependent variable (H1a)

Since endogenous variables exist in the main model, this study investigated the effect of conditional accounting conservatism on FDI in South Asia. For this purpose, this study

hypothesized (H1a) as "conditional accounting conservatism affects foreign direct investment in South Asia". In this regression, the dependent variable is FDIP, while the explanatory variable is D* FDIP. Other variables in the regressions are control variables from the empirical literature (Aqeel et al., 2004; Kamal et al., 2014; Pradhan, 2004; Villaverde & Maza, 2015; Zahir & Masood, 2003).

Even though little literature (Gordon et al., 2012; Lungu, Caraiani, & Dascalu, 2017; Nnadi & Soobaroyen, 2015) exists on the relationship between IFRS adoption and FDI, there is no prior demonstration of the relationship between conditional accounting conservatism and FDI. Because conditional accounting conservatism is one of methods to measure accounting quality, this study explores the effect of conditional accounting conservatism on FDI.

The regression for this hypothesis analyzes five alternative methods in the panel GMM estimator, which are pooled OLS, the fixed effect model, the random effect model, the difference GMM and the system GMM. In addition, the model is validated with diagnostic testing such as the over identification test and the autocorrelation test. This study predicts a positive sign for α4 (D ∗ FDIP), measuring incremental timely loss recognition for FDI. As the coefficient of α4, all of the alternative methods mentioned above are statistically significant, and the research hypothesis (H1a) *"conditional accounting conservatism affects foreign direct investment in South Asia*" can be accepted.

Even though there is no prior demonstration of the same relationship, this result is the consistent as that in the study conducted by Gordon et al. (2012). They found that there is a positive relationship between FDI and financial reporting standards in emerging economies. However, financial reporting standards have not been positive on FDI in developed countries (Gordon et al., 2012). Furthermore, Gordon et al. (2012) explained

that emerging economies are more focused on high quality financial reporting, since it is then easier to obtain foreign aid from the World Bank.

In addition, the result of this hypothesis shows similarities with result of the study by Lungu et al. (2017). Lungu et al. (2017) revealed that emerging economies in Europe which have adopted high quality financial reporting standards are more likely to benefit from FDI than the non-adopters. The result of this study fills the knowledge gap on the same relationship in the context of South Asia where all countries are emerging. Moreover, this result is consistent with signaling theory research (Akhigbe & Martin, 2000; Katayama & Miyagiwa, 2009) in the perspective that high quality financial reporting is also a signal for FDI.

6.10.2 Second research hypothesis (H2)

The second research hypothesis is *"foreign portfolio investment affects conditional accounting conservatism in South Asia*". The data for this research hypothesis was also analyzed from the panel GMM under the fixed effect model and the random effect model. Overall, a similar result can be seen for the predictor variable for both the fixed effect and the random effect models. Relevant diagnostic tests for panel GMM were also run for the data and the model for this research hypothesis. These tests were the panel unit root test, the Granger causality test, the panel co-integration test, the over identification moment condition test, and the autocorrelation test. As a result of these tests, it can be confirmed that the data and the model for this research hypothesis were reliable and valid. In addition, the Hausman test was run to select the most appropriate method from the fixed effect model and the random effect model. Furthermore, sensitivity analysis was conducted for this research hypothesis to ensure the robustness of the result.

There is no prior demonstration to see the relationship between foreign portfolio investment and conditional accounting conservatism, even though both aspects are

equally important for the economy of a country. Therefore, from this study new evidence on this relationship was explored. As per the result obtained from fixed effect model in the whole sample, the coefficient for the predictor variable is 0.57 which is statistically significant. In addition, the coefficient for the predictor variable obtained from random effect model is 0.69, which is also statistically significant. Furthermore, the Hausman test suggested that the random effect model is more appropriate than fixed effect model for the regression of this research hypothesis and this result is consistent with the result of the Hausman test of the study conducted by Elaoud and Jarboui (2017).

In addition, the coefficient for α3 (D * ΔNIt-1) is -6.27 with significant P value. This means that the public listed companies in South Asia are likely to recognize economic losses in a timely fashion. As this hypothesis investigates how timely loss recognition changes when foreign portfolio investment is included in the model, and a positive sign can be seen for the predictor variable of D * ΔNI_{t-1} * LFPI. This means that public listed companies are less likely to recognize economic losses in a timely fashion in foreign portfolio investments.

Since the coefficient of the predictor variable is statistically significant, the second hypothesis (H2) of this study, which is "*foreign portfolio investment affects conditional accounting conservatism in South Asia"* can be accepted. This result is consistent with prior studies (Ling, 2016) in which he argues that the level of transient institutional ownership (equity investment) increases when companies show lower conditional accounting conservatism. Furthermore, this finding is consistent with signaling theory research (Arthurs et al., 2009; Certo et al., 2001; Vasudeva et al., 2018). Foreign portfolio investment is a signal and conditional accounting conservatism is a receiver.

For this regression, a sensitivity test was also run to ensure the robustness of the result by changing the mode of the independent variable, the LFPI variable to a dummy variable

which measures one if the country level foreign portfolio investment is higher than the country level median FDI. Otherwise, it is zero. The results of sensitivity test confirmed that the coefficients and significance of the predator variable are consistent with result of main regression. In addition, none of control variables are statistically significant in the sensitivity test.

Few reasons can be found on why firms in South Asia are less likely to recognized economic losses for foreign portfolio investment, unlike FDI. One reason is that foreign portfolio investors may prefer to take decisions on their investment on the ratio analysis. (Agarwal, 1997) In addition, their foreign portfolio investment decisions may be dominated by investment advisors in stock exchanges. The second reason is that foreign portfolio investment is short term, compared to FDI. At any time, foreign portfolio investment can be sold in the share market, unlike FDI (Pal, 1998).

6.10.2.1 Foreign portfolio investment as the dependent variable (H2a)

In foreign portfolio investment, foreign investors buy securities (shares and bonds) through stock exchanges. Foreign portfolio investment can be sold at any time in the stock exchange, unlike FDI. Due to these unique features in foreign portfolio investment, this study also investigated the effect of conditional accounting conservatism on foreign portfolio investment in South Asia. This study hypothesized that "*conditional accounting conservatism affects foreign portfolio investment in South Asia*" (H2a).

The regression for this hypothesis was also analyzed from five alternative methods in the panel GMM estimator. These methods are pooled OLS, the fixed effect model, the random effect model, the difference GMM, and the system GMM. Before executing the regression, the model and data were validated by running several tests such as a panel unit root test, an over identification test, and an autocorrelation test. Overall, these tests confirm that the data and the model are reliable and valid.

From this regression, a positive sign for α4 (D ∗ FPIP) was expected. The coefficient of α4 in all methods mentioned above is statistically significant with a positive sign. Therefore, the research hypothesis (H2a) *"conditional accounting conservatism affects foreign portfolio investment in South Asia"* can be accepted. This means that conditional accounting conservatism is a determinant for foreign portfolio investment in South Asia. In other words, there is incremental timely loss recognition for foreign portfolio investment in South Asia.

The result for this hypothesis is in agreement with prior studies (Amiram, 2012; Daude & Fratzscher, 2008; Garg & Dua, 2014; Goldstein & Razin, 2006; Waqas et al., 2015) and a study conducted by Beng et al. (2017), which explored the importance of high quality financial reporting for foreign portfolio investment as a dependent variable. For instance, Amiram (2012) found that foreign equity portfolio investments can be enhanced in the countries where IFRS is adopted and as a result, provide high quality financial statements and utimately enhance the level of foreign portfolio investment. In addition, this result is consistant with prior signaling theory studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018), which discussed foreign portfolio investment and conditional accounting conservatism as examples of the elements of the signaling theory timeline.

6.10.3 Third research hypothesis (H3)

The third research hypothesis of this study is *"domestic investment affects conditional accounting conservatism in South Asia".* Like other research hypotheses, data for this hypothesis was also analyzed from the panel GMM estimator under both the fixed effect model and the random effect model. In addition, diagnostic tests such as the panel unit root test, the Granger causality test, the panel co-integration test, the over identification moment condition test and the autocorrelation test were also conducted. Based on these

diagnostic tests, it can be confirmed that the data and the model for this hypothesis are also reliable and valid.

In respect to the fixed effect model, the coefficient for the predictor variable is 0.18, which is statistically significant. In addition, with respect to the random effect models, the coefficient for the predictor variable is 0.21, which is also statistically significant. The Hausman test indicates that the random effect model is more appropriate for the regression than the fixed effect model. The meaning of the negative sign of this coefficient is that firms are likely to recognize economic losses. However, the result shows a positive sign for the predictor coefficient.

In this regression, there is a degree of arbitrariness in choosing the proxies for the independent variables, and a sensitivity test was run by changing the mode of an independent variable in order to ensure the robustness of the result. In the main regression, domestic investment (DIN) was used as an independent variable. However, in the sensitivity testing, the DIN variable was changed to a dummy variable which measured one if the country's level domestic investment was higher than country level median domestic investment. Otherwise, it was zero.

The sensitivity test confirmed that the coefficients and the significance of the predictor variable are the same as the main regression. The coefficient for the predictor variable in the sensitivity test is 0.73 with a significant P value (fixed effect model). For the random effect model, the coefficient is 0.87 with significant P value. In addition, control variables of the regression do not change the result of the sensitivity test. None of control variables were statistically significant in both regressions of sensitivity test as well as in the main regression.

Since the predictor coefficient is statistically significant, the third research hypothesis (H3) of this study, which is "*domestic investment affects conditional accounting conservatism in South Asia"* can be accepted. This means that firms in South Asia are less likely to recognize economic losses for domestic investment. This finding is consistent with the empirical study (Baik et al., 2010) in which accounting quality was taken as the dependent variable with other dependent variables, such as domestic investment.

For example, Baik et al. (2010) found that the positive affect of accounting quality on domestic investment efficiency is reduced. Furthermore, they explained that the close relationship between bank managers and domestic investors will lead to reduce the transparency of accounting information in Japan. Moreover, this result is consistent with signaling theory studies (Arthurs et al., 2009; Certo et al., 2001; Gupta et al., 1999; Reuer & Ragozzino, 2012; Vasudeva et al., 2018), which discuss initial public offerings that cover domestic investment as a signal for conditional accounting conservatism.

6.10.3.1 Domestic investment as the dependent variable (H3a)

Like the other two types of investment, domestic investment was also taken into consideration as a dependent variable in this study. The study hypothesized that conditional accounting conservatism affects domestic investment in South Asia (H3a). The dependent variable for this regression is domestic investment per capita (DINP). Moreover, this regression has an explanatory variable of D $*$ DINP. Other variables in the regressions are control variables from the empirical literature (Al-Sadig, 2013; Aqeel et al., 2004; Kamal et al., 2014; Pradhan, 2004; Villaverde & Maza, 2015; Zahir & Masood, 2003).

This finding is more useful for domestic investors since there are no prior studies that investigate the effect of conditional accounting conservatism on domestic investment.

Some studies (Al-Sadig, 2013) argue that domestic investments are stimulated from other types of investment, particularly FDI. In contrast, empirical literature (Adams, 2009; S. Anwar & Sun, 2015; Sun, Lee, & Hong, 2017) has found that domestic investment is demotivated on FDI. Therefore, it is necessary to find new determinants for domestic investment.

The regression for this hypothesis was also analyzed in five alternative methods of the panel GMM estimator: pooled OLS, fixed effect model, random effect model, difference GMM and system GMM. This model was also validated from diagnostic tests: the over identification test and the autocorrelation test. Like the other two types of investment, this regression also predicts a positive sign for α4 (D ∗ DINP). The coefficient for the α4 was derived from all of the methods mentioned above and shows a positive sign with a statistically significant P value. Thus, the research hypothesis (H3a) *"Conditional accounting conservatism affects domestic investment in South Asia"* can be accepted.

This finding is consistent with prior studies (Al-Sadig, 2013; Altaleb & Alokor, 2012; Begoña et al., 2013; Biddle & Hilary, 2006; Chan-Jane et al., 2016; Tan et al., 2016) which have considered domestic investment as a dependent variable with other independent variables such as accounting quality, conditional accounting conservatism, and FDI. For example, Biddle and Hilary (2006) found that high quality financial statements enhance domestic investment efficiency by reducing the problem of information asymmetry. In addition, Begoña et al. (2013) argued that conditional accounting conservatism affects domestic investment diversification. Furthermore, they highlighted that domestic investors are more likely to diversify the investment subject to conditional accounting conservatism. This finding is also consistent with signaling theory research (Arthurs et al., 2009; Richard et al., 2009), which claims that accounting quality is a signal for domestic investment.

6.10.4 The fourth research hypothesis (H4)

Inconsistent arguments exist in the literature on information asymmetry and conditional accounting conservatism. For instance, the problem of information asymmetry is high in South Asia, which is an emerging economy (Song, 2016) and it affects the level of FDI. But, prior literature (Ahearne et al., 2004; Amiram, 2012; Beng et al., 2017; Brown et al., 2004; Lara et al., 2011, 2016; Song, 2016; Verrecchia, 2001) argued that the problem of information asymmetry could be reduced from high conditional accounting conservatism and eventually it effects the level of FDI positively. On the other hand, some studies (André et al., 2015; Gigler et al., 2009; Heflin et al., 2015; Wang, 2017) argued that conditional accounting conservatism increases information asymmetry.

It can be observed that there are contradictory arguments in the relationship between FDI and conditional accounting conservatism. However, these inconsistencies are seen in the literature which considers conditional accounting conservatism as a dependent variable. For example, Wang (2017) found a negative relationship between FDI and conditional accounting conservatism. On the other hand, Hämäläinen and Martikainen (2015) wrote that there is a positive relationship between FDI and conditional accounting conservatism.

Therefore, this study investigated the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia. Data for this research hypothesis was also analyzed with the panel GMM estimator and the data was tested on both the fixed effect model and the random effect model. Overall, based on the result obtained from these models, there is a moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism in South Asia.

The validity of the model was tested with three tests; the panel unit root test, the over identification test and the test of autocorrelation. In the panel unit root test, all variables of the regression except LFID, IFRS and BUFR were stationary at level, whereas the variables LFID, IFRS and BUFR became stationary at the first difference. From the over identification test, it was confirmed that the model does not have the problem of over identification moment conditions. In Eviews, the J-statistic value is the same as in the Sargan testing. Thus, the J-statistic value of the regressions of this hypothesis is 0.00. This means that the model is valid since there is no over identification of moment conditions. Generally, the P value does not appear for the J-statistic in panel regressions (Eviews user forum, 2018).

The Durbin-Watson statistic value of this regression is 1.71 which is in the acceptable range (SAP Documentation, 2018). If the Durbin-Watson statistic value equals 2.00, it can be concluded that model does not face the problem of autocorrelation. Since the Durbin-Watson value falls in the acceptable range, it can be concluded that the regression has no autocorrelation problem.

The result obtained from the fixed effect model in the regression of the whole sample confirms that IFRS adoption moderates the relationship between FDI and conditional accounting conservatism in South Asia. The coefficient for the predictor variable α11 is -0.12 and it is statistically significant. In the same regression, the LFDI variable is insignificant with a coefficient of 77.52. However, the IFRS variable changed the same relationship from an insignificant level to a significant level. In addition, the result obtained from random effect model also confirmed the same result by reporting a coefficient of -0.12 for the predictor variable. This coefficient is also statistically significant. The Hausman test confirmed that the random effect model is appropriate for

this regression as well. Elaoud and Jarboui (2017) also reported that the random effect model is more appropriate for their panel data regression.

The R^2 value and the adjusted R^2 value of this regression under both methods of the fixed effect model and the random effect model are twelve percent and two percent respectively. It can also be highlighted that none of control variables in the regression for South Asia influence the result. Since the result of both models of fixed effect and random effect show a significant P value for the predictor variable, research hypothesis two (H4): "*IFRS adoption would moderate the relationship between FDI and conditional accounting conservatism in South Asia"* can be accepted.

Even though, there is no prior work on the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism, a few papers (Barth, Landsman, & Lang, 2008; Chunhui et al., 2011; Jeanjean & Stolowy, 2008; Umoren & Enang, 2015) show favorable arguments for the improvement of conditional accounting conservatism subsequent to IFRS adoption. In addition, this study highlighted three main characteristics of information which are useful for FDI: information should be unbiased, relevant and faithfully represented, and in a high-quality form. The result of this study confirmed that IFRS adoption changes these three characteristics in information, particularly in South Asia.

The same as the result of this hypothesis, Bandyopadhyay, Chen, and Wolfe (2017) also argued that highly conservative firms have more predictive ability on fair valuation of IFRS, and eventually this affects investment favorably. In addition, Turki, Wali, and Boujelbene (2017) support our result by highlighting that the problem of information asymmetry among investors has been reduced subsequent to IFRS adoption. Furthermore, they highlighted that forecasting value is also enhanced after IFRS adoption.

Sensitivity testing was also run to ensure the robustness of the result. In the sensitivity testing, the LFDI variable was replaced with foreign direct investment per capita[5] (FDIP). Sensitivity testing was done for both models. From the fixed effect model, the coefficient value for the predictor variable in the whole sample is -0.77, whereas, in the random effect model the coefficient value is -0.84 and both coefficients are statistically significant.

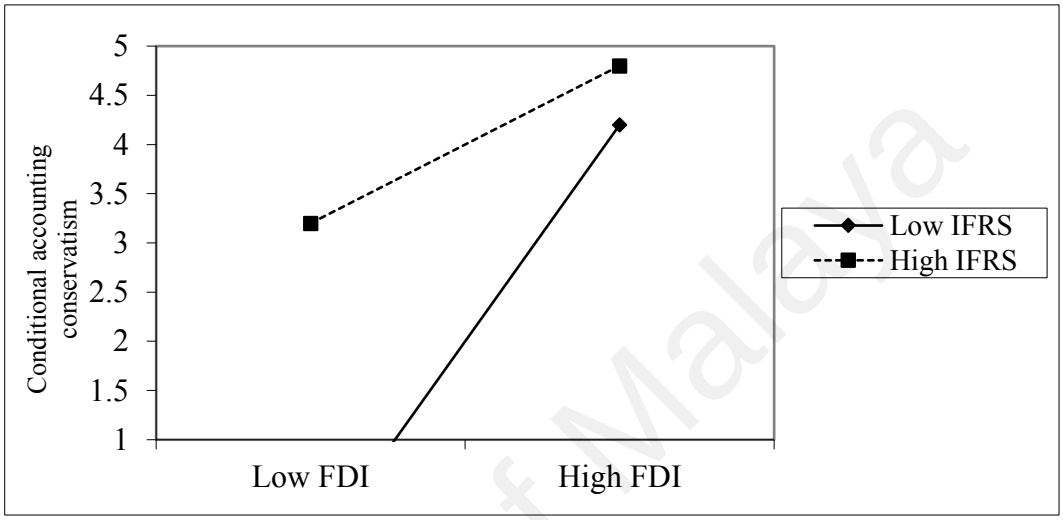
When comparing the main regression with the regression of sensitivity testing analyzed from fixed effect model, the following characteristics can be highlighted. Even though both coefficient values are statistically significant, the coefficient value was changed from -0.12 (main regression) to -0.77 (sensitivity testing). In addition, the R^2 value and adjusted R^2 value remained unchanged in the regression of sensitivity testing (twelve percent and two percent). Furthermore, the Durbin-Watson statistic value also remains unchanged in the regression of sensitivity testing (1.71). Moreover, the coefficients obtained from the random effect model changed from -0.12 (main regression) to -0.84 (regression of sensitivity testing). Furthermore, the R^2 value and adjusted R^2 value were increased by 50 per cent ((3% - 2%)/ 2% * 100) in the regression of sensitivity testing of random effect model. The Durbin-Watson statistic also changed slightly in the regression of sensitivity testing: (1.65) on the main regression and (1.64) on the random effect model.

Figure 6.1 illustrates the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism. The coefficient value for the interaction effect of IFRS adoption x FDI shows a negative sign with a significant P value. This means that firms located in an environment where there is strong IFRS adoption with high FDI are likely to have high conditional accounting conservatism. This result is

[5] This study replaced LFDI variable with FDIP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)

consistent with prior signaling theory studies (Agyei-Mensah, 2017; Labelle et al., 2010) in which IFRS adoption was considered as a signal for increasing high quality financial reporting and ultimately, it improves the level of FDI.

Figure 6.1 The interaction effect of IFRS adoption on FDI and conditional accounting conservatism



6.10.5 Fifth research hypothesis (H5)

Foreign portfolio investment is also an important type of investment for the development of a country. Because there are inconsistent arguments available on the relationship between foreign portfolio investment and conditional accounting conservatism, this study investigates whether IFRS adoption moderates the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia. Data for this regression was also analyzed on a panel GMM estimator under both the fixed effect model and the random effect model. Overall, based on the results obtained, there was a moderating effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia.

The validity and the reliability of this model also were tested using the relevant tests: the panel unit root test, a test of autocorrelation, the Granger causality test and a panel cointegration test. According to the diagnostic test results, it can be confirmed that the

data and the model were reliable and valid. The Durbin-Watson statistic value for fixed effect and random effect models for this regression were 1.700 and 1.640 respectively. Since the Durbin-Watson value falls in the acceptable range (SAP Documentation, 2018), it can be concluded that the regression has no autocorrelation problem.

The result obtained from the fixed effect model in the regression of whole sample confirmed that IFRS adoption moderates the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia. The coefficient for the predictor variable α11 was -0.20 and it was also statistically significant. In the same regression, α7 (D * ΔNIt-1 * LFPI), the coefficient was 0.24 with a significant P value. However, the IFRS variable changed the sign from positive to negative in the predictive variable of α11 (D * ΔNIt-1 * LFPI * IFRS). In addition, the result obtained from the random effect model also confirmed the same result, showing a coefficient of -0.19 for the predictor variable α11 with a significant P value. The Hausman test confirmed that random effect model is also appropriate for this regression. Elaoud and Jarboui (2017) also reported that the random effect model is more appropriate for their panel data regression.

The R^2 value and adjusted R^2 values in this regression under the fixed effect model were twelve percent and two percent respectively. It can be highlighted that none of control variables in the regression for South Asia influence the result. In addition, sensitivity testing was run to ensure the robustness of the result. In this testing, the LFPI variable was replaced with foreign portfolio investment per capita[6] (FPIP). More or less similar results can be seen from the sensitivity testing. For example, the significance of

[6] This study replaced LFPI variable with FPIP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)

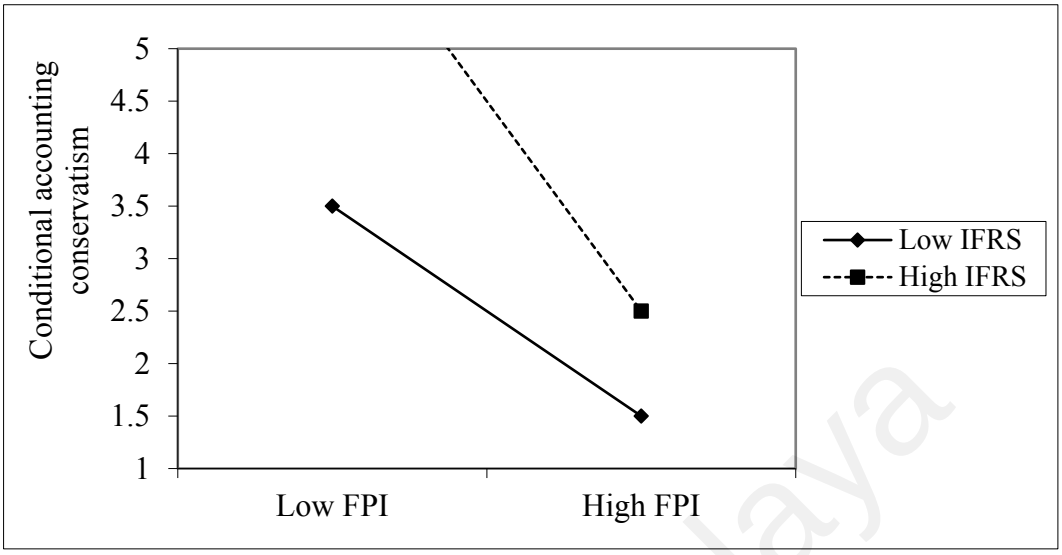
the predictor variable and the influence from the control variables remain unchanged in the sensitivity test.

Therefore, as the result derived from panel GMM fixed effect and random effect models shows significant P value for the predictor variable, the research hypothesis H5: "*IFRS adoption would moderate the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia"* can be accepted. This result is consistent with prior studies (Masoud, 2017; Sielly et al., 2016) and particularly with some South Asian literature (Ahmed & Ali, 2015; Bhattacharjee & Islam, 2009; Chakrabarty, 2014; Hossain et al., 2015; Zaman Mir & Shiraz Rahaman, 2005).

This moderation happens, due to main three characteristics of the information: the information should be unbiased, relevant and faithfully represented, and in a high-quality form. Prior literature (Barth et al., 2008; Chunhui et al., 2011; Jeanjean & Stolowy, 2008; Umoren & Enang, 2015) has proven that IFRS adoption positively influences the quality of information by ensuring these three characteristics. Moreover, this moderation may happen since the problem of information asymmetry can be reduced subsequent to IFRS adoption (Bandyopadhyay et al., 2017; Turki et al., 2017).

Figure 6.2 illustrates the moderating (Interaction) effect of IFRS adoption on the relationship between foreign portfolio investment and conditional accounting conservatism. The coefficient value shows a negative sign with significant P value. This means that firms located in an environment where there is strong IFRS adoption with high foreign portfolio investment are likely to have high conditional accounting conservatism. IFRS is also an element of the signaling theory timeline (Agyei-Mensah, 2017; Labelle et al., 2010), and a signal for increasing high quality financial reporting for high level foreign portfolio investment.

Figure 6.2 The interaction effect of IFRS adoption on foreign portfolio investment and conditional accounting conservatism



6.10.6 The sixth research hypothesis (H6)

Domestic investment is equally important for the development of a country (Biddle & Hilary, 2006; Lin, Wang, & Pan, 2016). However, a few inconsistencies appeared in the relationship between domestic investment and conditional accounting conservatism as a dependent variable. For example, Bushman et al. (2011) found that conditional accounting conservatism manages unnecessary firm-level investments, such as negative net present value (NPV) investments. In contrast, Baik et al. (2010) highlighted that the positive affect of accounting quality on domestic investment efficiency in Japan is reduced. However, inconsistent arguments are not seen in the relationship between conditional accounting conservatism and domestic investment as the dependent variable.

Therefore, this study investigates the moderating effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism in South Asia. Data for this research hypothesis was analyzed by the panel GMM estimator under fixed effect model and random effect model. Overall, a moderating effect of IFRS adoption exists in the relationship between domestic investment and conditional accounting conservatism in South Asia.

The model and the data used for this hypothesis were tested using diagnostic tests to ensure validity and reliability: the panel unit root test, the over identification test, the autocorrelation test, the Granger causality test, and the panel cointegration test. As the result of these tests, the data and the model are reliable and valid. The Durbin-Watson statistic value for this regression on the fixed effect model and the random effect model were 1.71 and 1.65 respectively. If Durbin-Watson statistic value equals two, it can be concluded that model does not face the problem of autocorrelation. Since the Durbin-Watson value falls in the acceptable range (SAP Documentation, 2018)., it can be concluded that the regression has no autocorrelation problem.

For this hypothesis, sensitivity testing was also run to ensure the robustness of the result. In the sensitivity testing, the DIN variable was replaced with domestic investment per capita[7] (DINP). Sensitivity testing was also done on both models. It can be seen that the coefficient value is -1.26 in the fixed effect model and -1.17 in the random effect model for the predictor variable in the whole sample, with a significant P value. In addition, none of control variables were statistically significant in the sensitivity test. Therefore, the significance of the predictor variable and influences from control variables in sensitivity test are more or less the same as in the main regression.

The coefficient for the predictor variable α11 obtained from both the fixed effect and the random effect models was -0.02 with statistically significant P values. The Hausman test confirmed that the random effect model is appropriate for this regression, as was also found by Elaoud and Jarboui (2017). Since the result of both models show significant P value for the predictor variable, the research hypothesis H6, "*IFRS adoption would moderate the relationship between domestic investment and conditional accounting*

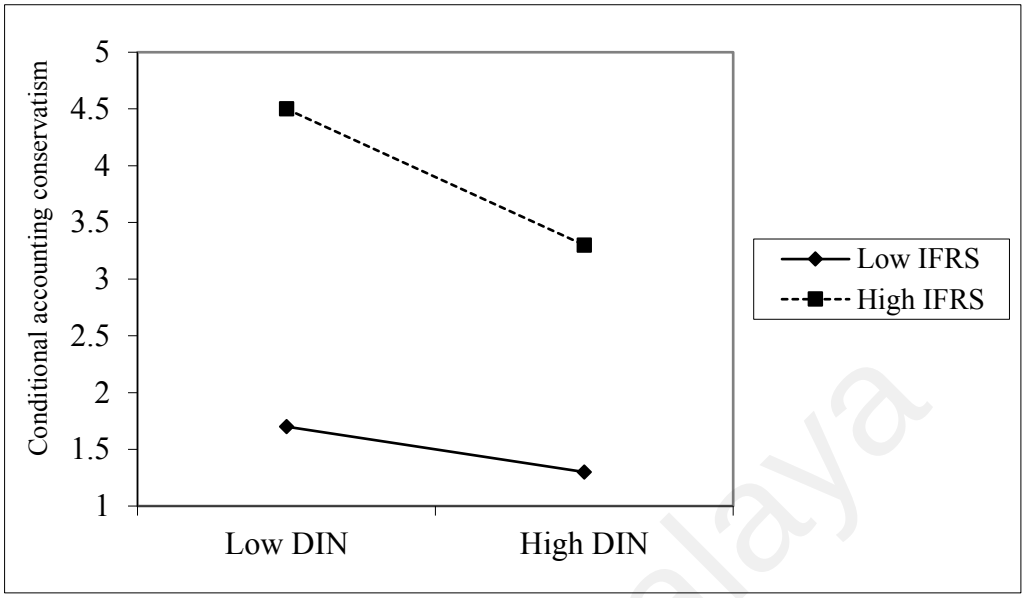
[7] This study replaced DIN variable with DINP for the sensitivity testing by following the article by (Ball & Shivakumar, 2005)

conservatism in South Asia" can be accepted. This result is consistent with prior IFRS studies (Masoud, 2017; Sielly et al., 2016).

This study argues that through IFRS adoption, three characteristics of information which are unbiased, relevant and faithfully represented, and high-quality form would be ensured. In addition, the problem of information asymmetry among investors would reduce subsequent to IFRS adoption. This result also provides evidence that IFRS adoption moderates the relationship between domestic investment and conditional accounting conservatism in South Asia by following prior literature (Hessayri & Saihi, 2018; Turki et al., 2017).

Figure 6.3 illustrates the interaction effect of IFRS adoption on the relationship between domestic investment and conditional accounting conservatism. The coefficient value for the interaction effect of IFRS adoption on the same relationship shows a negative sign with significant P value. This means that firms that are located in an environment where there is strong IFRS adoption with high domestic investment are likely to have high conditional accounting conservatism. Moreover, IFRS adoption moderates the relationship between domestic investment and conditional accounting conservatism and IFRS adoption is also identified as a signal in the signaling theory timeline (Agyei-Mensah, 2017; Labelle et al., 2010) for a high level of domestic investment.

Figure 6.3 The interaction effect of IFRS adoption on domestic investment and conditional accounting conservatism



6.11 Chapter summary

This chapter discussed the analysis and discussion of the study. Overall, six research hypotheses were analyzed to answer all four research questions. The first three research questions investigated the bidirectional relationship between investment and conditional accounting conservatism. The final research question answered the moderating effect of IFRS adoption in the relationship between the type of investment and conditional accounting conservatism in South Asia. Moreover, results of diagnostic testing such as the panel unit root test, the Granger causality test, the panel cointegration test, the autocorrelation test and the over identification test was presented. In addition, descriptive statistics and correlation metrics were illustrated. Each hypothesis was tested on the fixed effect model and the random effect model of the panel GMM estimator. Sensitivity testing was also conducted to ensure the robustness of the result.

CHAPTER 7: CONCLUSION

This chapter has of five sections. The first section presents a summary of the result of this study. Following this, the implications of the study are discussed. Section 7.3 illustrates the limitations of the study and sections 7.4 and 7.5 present future research and a chapter summary, respectively.

7.1 Summary of the results

This study investigated four research questions. First, what is the relationship between FDI and conditional accounting conservatism in South Asia? (H1 and H1a). Second, what is the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia (H2 and H2a)? Third, what is the relationship between domestic investment and conditional accounting conservatism in South Asia (H3 and H3a)? The final research question is "does the relationship between investment and conditional accounting conservatism moderate IFRS adoption in (H4, H5 and H6) South Asia?

Conditional accounting conservatism is examined using the model developed by Basu (1997) and modified by Ball and Shivakumar (2005) and Hämäläinen and Martikainen (2015). The study then follows the signaling theory with asymmetric information. All regressions are analyzed on the panel GMM estimator. Overall, the study predicted six main research hypotheses and first three research hypotheses had sub research hypotheses, and the bidirectional relationship between investment and conditional accounting conservatism is also examined.

In summary, the result of each research hypotheses of this study is presented as follows. The result for the first research hypothesis (H1) confirmed that FDI affects conditional accounting conservatism in South Asia, meaning that South Asian firms are

likely to recognize economic losses for FDI. In addition, the answer for the H1a also confirmed that conditional accounting conservatism effects FDI in South Asia. The result for the second research hypothesis (H2) confirmed that South Asian firms are less likely to recognize economic losses for foreign portfolio investment. On the other hand, the result for H2a confirmed that conditional accounting conservatism is a significant determinant of foreign portfolio investment in South Asia.

The third research hypothesis (H3) confirmed that South Asian firms are less likely to recognize economic losses for domestic investment. On the other hand, the result for H3a ensures that conditional accounting conservatism affects positively on domestic investment in South Asia. Furthermore, the study found that IFRS adoption moderates the relationship of FDI and conditional accounting conservatism in South Asia (H4). In addition, the study revealed that the relationship between foreign portfolio investment and conditional accounting conservatism is moderated by IFRS adoption in South Asia (H5). Moreover, the result for the H6 also confirmed that IFRS adoption moderates the relationship between domestic investment and conditional accounting conservatism in South Asia. Therefore, this study has three types of implication.

7.2 Implications

As stated above, this study has three types of implication. The first implication is on theory, the second implication is on policy and final implication is methodological. Overall, the study contributes to signaling theory research with the answers for each research question. The details on each implication are presented in following sections.

7.2.1 Theory implication

Overall, this study contributes to signaling theory research (Connelly et al., 2011; Liu, 1997; Richard et al., 2009; Taj, 2016; Vasudeva et al., 2018) as well as to accounting conservatism research (Basu, 1997; Din et al., 2017; Richard et al., 2009). The answer to

the first research question contributes to multidisciplinary studies in the area of FDI and accounting quality (Akisik, 2014; Alam et al., 2016; Ball & Shivakumar, 2005; Basu, 1997; Hämäläinen & Martikainen, 2015; Owusu et al., 2017).

In detail, in the first research question, this study presents new evidence of higher incremental conditional accounting conservatism for FDI in emerging economies than in transitional economies. This may occur due to the differences highlighted in this study, such as socialist ownership, transparent policies, and IFRS adoption. For instance, Hämäläinen and Martikainen (2015) reported a significantly negative coefficient of -0.500 for the predictor variable, which reflects incremental conditional accounting conservatism, while the present study shows a -2.06 coefficient for the predictor variable. This means that emerging economies expect highly conservative financial statements compared to transitional economies for FDI. Thus, this study contributes to the accounting quality research (Zhai & Wang, 2016). This study also contributes to the FDI literature (Mishra & Jena, 2019; Owusu et al., 2017), by adding new evidence that conditional accounting conservatism is also a statistically significant determinant of FDI in South Asia.

The second research question of this study also provides new evidence for the foreign portfolio investment and conditional accounting conservatism literature (Albulescu, 2015; Beneish et al., 2015; Daude & Fratzscher, 2008; Wu et al., 2012). The results confirm that South Asian firms are less likely to recognize economic losses for foreign portfolio investment. However, from an FDI perspective, firms are likely to recognize economic losses. By following the study conducted by Daude and Fratzscher (2008), this study also confirmed that foreign portfolio investment is less sensitive for the problem of information asymmetry compare to FDI. The study confirmed that conditional accounting conservatism is a significant determinant of foreign portfolio investment in South Asia.

Therefore, the result contributes to foreign portfolio investment literature (Amiram, 2012; Garg & Dua, 2014; Goldstein & Razin, 2006).

In third research question, the findings add new evidence to the domestic investment and conditional accounting conservatism literature (Altaleb & Alokor, 2012; Ashraf & Herzer, 2014; Attarzadeh, 2016; Chaudhuri & Dwibedi, 2017; You & Solomon, 2015). The result for H3 confirmed that the firms are less likely to recognize economic losses for domestic investment in South Asia. On the other hand, the findings for the H3a also add new evidence that conditional accounting conservatism is a statistically significant determinant of domestic investment in South Asia. Therefore, this finding also contributes to the domestic investment literature (Al-Sadig, 2013; Altaleb & Alokor, 2012; Biddle & Hilary, 2006; Bushman et al., 2011).

From the result of fourth research question, this study contributes to IFRS literature (Ahmed & Ali, 2015; Bertin & Moya, 2013; Bhattacharjee & Islam, 2009; Christensen, Lee, Walker, & Zeng, 2015; Hossain et al., 2015; Othman & Kossentini, 2015; Palea, 2013; Perera & Baydoun, 2007) by adding new evidence that IFRS adoption moderates the relationship between the types of investment and conditional accounting conservatism in South Asia. In detail, the relationship between FDI and conditional accounting conservatism is moderated by IFRS adoption. In addition, IFRS adoption moderates the relationship between foreign portfolio investment and conditional accounting conservatism in South Asia. Moreover, the relationship between domestic investment and conditional accounting conservatisms is also moderated by IFRS adoption.

IFRS adoption may occur due to the changes in the three main characteristics of information that are useful for investment: information should be unbiased, relevant and faithfully represented, and in a high-quality form. When these three characteristics of

information are lacking, information asymmetry may occur. However, IFRS adoption changes these three characteristics of information, particularly in emerging economies.

7.2.2 Policy implication

This study found new evidence on the relationship between types of investment and conditional accounting conservatism. In addition, new evidence on the moderating effect of IFRS adoption on the relationship between types of investment and conditional accounting conservatism were also explored. Therefore, the study contributes to policy in different perspectives. For an example, since this study is of a multidisciplinary nature, accounting perspectives as well as an economic perspective exist.

In the accounting perspective, the study talked about accounting quality through conditional accounting conservatism. In detail, the research investigated how types of investment influence conditional accounting conservatism in South Asia. Therefore, overall, the results of this study will be useful to policy makers in authoritative accounting bodies in emerging economies. Particularly, the Institutes of Chartered Accountants of the respective countries can be encouraged to take the required policy decisions to protect accounting quality and ultimately this will reduce the problem of information asymmetry among investors.

Not only institutes, but also securities and exchange commissions in the respective countries will benefit from the result by maintaining highly conservative financial reporting, which attracts FDI in emerging economies. In addition, this study found that IFRS adoption moderates the relationship between types of investment and conditional accounting conservatism. Thus, IFRS adoption is an essential policy decision, particularly for emerging economies. The highlights of the current status of IFRS adoption in South Asia is given below.

The government of India consented to converge their local accounting standards with IFRS starting in 2006 (Deloitte, 2017; PWC, 2016), and voluntary IFRS adoption went into effect in 2015 (Deloitte, 2017). The main reason for the convergence and adoption of IFRS in India was to ensure the quality of financial information (IFRS Foundation, 2016). According to Deloitte (2017), Pakistan adopted IFRS in 2015. Pakistan expected a single set of unbiased high quality standards as a result of IFRS adoption and eventually, the attraction of FDI (Asad, 2006). Similarly, Bangladesh adopted IFRS in 2013 (Deloitte, 2017) to improve the quality of financial statements by ensuring the relevant and faithful representation of financial information (Hossain et al., 2015). Sri Lanka adopted IFRS in 2012. Bhutan has not yet adopted IFRS.

The result of moderating effect of IFRS adoption emphasizes that IFRS adoption enhances the three characteristics of information: unbiasedness, relevant and faithful representation, and high quality. Eventually, it influences the types of investment in a favorable manner. This result will be helpful in strengthening the confidence of accounting authoritative bodies to adopt new IFRS issued by IASB, for example, IFRS 9 (Financial instruments recognition and measurement), IFRS 16 (Leasing), and IFRS 17 (Insurance contracts). Moreover, non-adopters of IFRS could be motivated to adopt IFRS.

From an economic perspective, this study offers some policy implications, particularly for emerging economies. For example, in order to reduce the information asymmetry in types of investment, it is important to adopt IFRS, which ensures the unbiasedness, relevant and faithful representation, and a high quality of information. Thus, economic decision makers such as central banks of the respective countries and will benefit by suggesting IFRS adoption, which is also a significant factor for the all three types of investment. Ultimately, the level of investment can be improved for the betterment of a country.

The ministries of economic development in the respective countries will also benefit from this result of this study. For example, currently most of the countries are instructed to comply with IFRS, but only for public listed entities. However, compared to all of the companies in a country, the public listed companies are limited. In other words, there are more small and medium entities than public listed entities. Therefore, economic development ministries could take policy level decisions in parliament proposing new acts to make IFRS compilation compulsory for the preparation of financial statements. As a result, the types of investment could be enhanced.

7.2.3 Methodological implication

This study found that a dummy variable for FDI and real data for FDI have a significantly different impact on incremental conditional accounting conservatism. This is evidence that the FDI variable is a sensitive variable for the result. For example, when LFDI changes to DFDI, the coefficient of the predictor variable drops drastically. Even though this decreased dramatically in the sensitivity testing regression, it is higher than the coefficient value for the predictor variable found by Hämäläinen and Martikainen (2015) for transitional economies.

Therefore, this study has the methodological implication that a dummy variable for FDI shows lower incremental conditional accounting conservatism, while real data for FDI shows higher incremental conditional accounting conservatism. In detail, this study conducted sensitivity testing for the FDI variable, which was considered a dummy variable with the value of one if the country-level FDI is greater than the median country-level FDI. Lower coefficient values for the predictor variable were shown in the sensitivity test, in contrast to the result of the main regression of the study. The main regression showed a higher coefficient value for the predictor variable.

Just as in the methodological finding of this study, prior literature (Alunan & Royston, 2006; Royston et al., 2006) also highlighted a few drawbacks for the dummy variables. For instance, Alunan and Royston (2006) argued that with information loss, dichotomizing hides any non-linearity in the relation between the variable and the outcome, and a reader might underestimate the variation in the outcome. Moreover, dichotomization creates problems rather than avoiding them, since massive amounts of information could be lost (Royston et al., 2006). Furthermore, converting continuous data into dummy/dichotomous variables can be unnecessary for statistical analysis (Royston et al., 2006).

7.3 Limitations of the study

This study has its challenges and limitations which might have a direct and an indirect effect on the overall analysis and findings of the study. The challenges and limitations that have been identified are listed below.

i. To retrieve the firm level accounting information of India, Pakistan, Bangladesh and Sri Lanka this study relies on the accounting data obtained from the Oriana database. Therefore, the accuracy of the result will depend on the retrieved accounting data.
ii. Some firm-level information is not available in the database which reduces the number of observations of the study.
iii. Conditional accounting conservatism is selected as the method of measuring accounting quality although there are various methods such as earning management, value relevance, and earning smoothness available to measure accounting quality.
iv. The results may not be generalized for the entire population in the world as this study focused exclusively on South Asian countries.

7.4 Future research

As per the result for the H2 and H3, South Asian firms are less likely to recognize economic losses for foreign portfolio investment and domestic investment. Therefore, there is a less demand for highly conservative financial statements for foreign portfolio investors and domestic investors. Thus, it is essential to study ratio analysis and domination from stock brokering firms for the investment in future research.

In addition, how the institutional infrastructure of a country influences the types of investment and conditional accounting conservatism will be investigated in future studies. Several institutional infrastructures were considered in this study as control variables. However, these variables can be considered as independent variables. For an example, 'free from corruption' as an institutional infrastructure, can be tested as an independent variable.

7.5 Chapter summary

This chapter presents the conclusion of the study. Overall, this study contributed to signaling theory research, conditional accounting conservatism research, FDI research, foreign portfolio research, domestic investment research and IFRS adoption research. Moreover, the study contributes to the accounting policies and economic policies. Furthermore, the study provides new evidence on the methodological perspective. Limitations of the study as well as future research information are also provided in this chapter.

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LIST OF PUBLICATIONS AND PAPERS PRESENTED

List of Publications

1. Manawadu, I., Azmi, A. C. and Aslam, M. (2018), "Moderating effect of IFRS adoption on FDI and conditional accounting conservatism in South Asia", *Journal of Accounting in Emerging Economies*, Vol. 9 No. 1. Indexed in SCOPUS
2. Manawadu, I., Azmi, A. C. and Aslam, M. (2018), "Foreign direct investment and conditional accounting conservatism in South Asia", *Asian Journal of Accounting Perspectives* Vol. 11 No. 1, pp. 28-46. Index in MyJournal.
3. Manawadu, I., Azmi, C., & Aslam, M. (2017). Moderating effect of IFRS adoption on accounting quality and FDIs in India *Research Process International Journal of the Social Research Foundation, 1*(1), 16-25.

List of papers presented

1. Interdisciplinary international conference on development, environment and social welfare: Issues and Challenges, held on 16th and 17 May 2017, Bangkok Thailand. Supporting documents were attached in the appendix.
2. Manawadu, I., Azmi, A. C. and Aslam, M. (2018), "Types of investment and conditional accounting conservatism in Sri Lanka", 5th International Conference on Multidisciplinary Approaches University of Sri Jayewardanepura, Colombo, Sri Lanka.