

The Mediating and Insurance-like Effect of Accounting Conservatism in the Relationship between Reputation and Firm Value¹

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INTRODUCTION

The concept of corporate reputation has garnered significant attention from researchers and is recognized as a valuable intangible asset that influences stakeholder behavior. A good reputation attracts investors, efficient employees, and retains customers, ultimately increasing the company's value. However, reputation is vulnerable to serious damage, and a negative event can drastically reduce the company's market value. As a result, managers often turn to conservative accounting practices as a strategy to maintain and enhance their reputation while minimizing risks. Conservative accounting helps reduce information asymmetry and agency costs, potentially leading to an increase in company value. This study explores whether conservative accounting can act as an insurance-like mechanism in the relationship between corporate reputation and company value?

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MATERIALS AND METHODS

This research, which is of an applied nature, employs multivariate regression analysis to investigate the relationships between the studied variables. The methodology is post-event. Given that the study evaluates the relationships between two or more variables, it is descriptive-correlational in nature. The required information was gathered from sources such as relevant articles, the Kodal website, and Rahvard Naveen software. The collected data were then classified using Excel and analyzed using Stata and Eviews software. The statistical population of the research includes companies listed on the Tehran Stock Exchange, with data collected from 2013 to 2022. The final sample was selected from these companies based on the following criteria:

The financial year-end must be March 29 and should not have changed during the study period.

The companies must have been admitted to the Tehran Stock Exchange by the end of March 2012 and should not be financial institutions such as banks, insurance, or investment companies.

The companies must not have been delisted by 2022 and should have maintained continuous activity without a trading break exceeding 100 days.

According to these criteria, 104 companies were selected to test the hypotheses for the period from 2013 to 2022.

RESULTS AND DISCUSSION

The results of the first hypothesis indicate a positive and significant relationship between reputation and company value. In other words, companies with high reputations are also more valuable. This finding aligns with the research literature, which suggests that a company's reputation can serve as a strategic defensive tool against competitors and enhance profitability (Ingelis et al., 2006). Research indicates that reputation is a crucial element of a company's value and a key measure of its performance (Lee and Rowe, 2012). Experimental studies, such as those by Nazarian and Amiri Hamza (2023) and Tahmasebi Khorne et al. (2018), largely support the results of the first hypothesis. The results of the second hypothesis suggest a positive and significant relationship between company reputation and accounting conservatism. In other words,

companies with strong reputations tend to adopt conservative accounting methods. Research in this area shows that companies with good reputations strive to minimize risks and prevent unwanted events that could harm their reputations. According to legitimacy theory, companies are motivated to use conservative accounting to maintain and enhance their reputation. This approach helps them gain stakeholders' trust, reduce financial risks, and ultimately achieve long-term success (Francis and Wang, 2008). The findings are consistent with the research of Amirkhani et al. (2024). Finally, the results of the third hypothesis demonstrate that the accounting conservatism variable mediates the relationship between reputation and company value. Consistent with this result, Amirkhani et al. (2024) found that conservatism acts as an insurance mechanism, protecting future income from the effects of negative events. Accounting conservatism can create this insurance-like effect by reducing the risks surrounding the company and offering benefits to firms (Francis and Wang, 2008). Additionally, reputation is susceptible to damage, and a negative event can significantly reduce a company's market value (Jeong and Do, 2016; Kheradmand, 2017). This vulnerability may explain why managers consider reputation risk the most important strategic risk for companies (Deloitte, 2014), which can motivate the adoption of conservative accounting practices by company managers (Amirkhani et al., 2024). Therefore, the results of the third hypothesis align with the research and empirical literature, suggesting that accounting conservatism, driven by the incentive of maintaining a company's reputation, can create an insurance-like effect on company value.

CONCLUSION

Accounting conservatism can contribute to increasing company value. In this context, paying attention to the company's reputation and using conservative accounting methods can play a significant role in enhancing company value. Companies with a strong reputation are more likely to employ conservative accounting practices that can help increase their value. Consequently, highly reputable companies tend to have higher value and use conservative accounting methods to achieve this goal.

Keywords: Insurance-Like Effect of Accounting Conservatism, Reputation, Firm Value.

JEL Classification: M41, M42, G32, L14.

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