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ACCOUNTING CONSERVATISM IN EMERGING MARKETS: COMPARATIVE EVIDENCE FROM NIGERIA AND SOUTH AFRICA

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Abstract

This study examined the degree and variation of conditional accounting conservatism between Nigeria and South Africa using the Basu (1997) asymmetric timeliness model. It aimed to determine whether earnings reflected bad news more promptly than good news in the two leading Sub-Saharan African economies and whether such conservatism was systematically influenced by country-specific factors. Panel data from listed manufacturing firms covering the period 2012 to 2023 were employed, and fixed and random effects regressions were estimated using robust standard errors. Diagnostic tests such as the Ramsey RESET, Breusch-Pagan LM, and Portmanteau tests were conducted to ensure the validity of the models. The results revealed that Nigerian firms exhibited statistically significant conditional conservatism, whereas South African firms showed no such evidence. Furthermore, interaction terms in the extended model did not indicate statistically significant cross-country differences, although the direction of effects suggested stronger conservatism in Nigeria. These findings implied that institutional, regulatory, and governance frameworks likely influenced conservative financial reporting practices. The study recommended regional policy coordination to enhance the comparability and credibility of financial statements.

Keywords: *Conditional Conservatism, Basu Model, Financial Reporting, Sub-Saharan Africa.*

INTRODUCTION

Accounting conservatism is a foundational concept in financial reporting, characterized by the asymmetrical recognition of losses over gains, with the aim of ensuring prudence in financial disclosures. This principle mitigates managerial opportunism, enhances the credibility of reported earnings, and reduces information asymmetry between firms and stakeholders. In volatile environments typical of emerging markets, conservative accounting becomes especially valuable in protecting investor interests and maintaining confidence in capital markets (Ukpong, Abuaja, & Ukpe, 2023). Nigeria and South Africa, two of Africa's largest economies, provide a compelling context for examining how accounting conservatism operates within differing institutional and regulatory environments. While South Africa enjoys a relatively advanced financial system and regulatory oversight, Nigeria's corporate governance environment continues to grapple with enforcement challenges and inconsistencies (Mamidu & Oladutire, 2023; Okere, Emmanuel, Kayode, & Ibrahim, 2023).

Despite these contributions, comparative studies analyzing accounting conservatism between Nigeria and South Africa are remarkably scarce, especially within the manufacturing industry that remains central to economic transformation and industrial growth in both countries. This study seeks to fill that empirical gap by examining how conditional accounting conservatism, measured using Basu's (1997) asymmetric timeliness model, manifests across these two

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African markets. Understanding whether manufacturing firms in one country are more conservative in financial reporting than the other could offer new insights for cross-national policy harmonization and regulatory reforms.

The research problem, therefore, centers on the lack of empirical clarity concerning the level and determinants of conditional accounting conservatism in the manufacturing sectors of Nigeria and South Africa. In the absence of such insights, efforts to align financial reporting standards and practices in Sub-Saharan Africa risk being uninformed or misdirected.

Conditional accounting conservatism has received considerable attention in international literature. Studies in developed markets such as the U.S. and U.K. have shown that strong investor protection laws and litigation risks drive timely loss recognition (Ball, Kothari, & Robin, 2000). In contrast, emerging economies like China and India exhibit varied levels of conservatism due to differences in legal enforcement, governance structures, and capital market development (Lara, Osma, & Penalva, 2022). These cross-country differences highlight the importance of contextualizing financial reporting behavior within institutional frameworks.

Accordingly, this study aims to assess the extent of conditional accounting conservatism practiced by listed manufacturing firms in Nigeria and South Africa between 2012 and 2023. In doing so, it builds on a growing body of international research that has demonstrated significant variations in conservatism practices across countries such as the United States, China, India, and Brazil, where institutional quality and investor protection frameworks have been found to significantly shape the degree of asymmetric earnings recognition (Francis, Hasan, & Wu, 2020; Lara, Osma, & Penalva, 2022). By applying firm-level data and robust econometric techniques, this study contributes to comparative accounting literature in emerging markets.

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

Accounting conservatism, particularly in its conditional form, reflects the tendency of financial reports to recognize economic losses more promptly than gains. This principle, codified by Basu (1997), has become an established proxy for evaluating the quality of earnings and investor protection in both developed and emerging markets. Conditional conservatism is typically measured through the asymmetric timeliness of earnings relative to economic news—specifically, the responsiveness of earnings to negative returns (bad news) compared to positive returns (good news). In the Basu model, this is operationalized by the interaction between stock returns and a dummy variable for negative returns, where the coefficient on the interaction term (β_3) captures the extent of conservatism.

Empirical research on conditional accounting conservatism has evolved across diverse jurisdictions, with findings highlighting the influence of institutional quality, legal enforcement, and investor protection mechanisms. In the United States, Ball, Kothari, and Robin (2000) found that timely loss recognition is more prevalent in common-law countries due to stronger investor protection and litigation risks. Similarly, in Brazil, Lima and Lima (2020) reported significant asymmetric timeliness in earnings among publicly listed firms, attributing this to regulatory shifts after IFRS adoption.

In China, Chen, Chen, and Su (2021) observed that firms with higher state ownership tend to exhibit lower levels of conditional conservatism due to political influence and weaker enforcement mechanisms. Meanwhile, Indian studies, such as Bhasin (2020), demonstrated that

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conservatism in earnings reporting is positively associated with corporate governance mechanisms, particularly board independence and audit committee effectiveness. In Europe, Gassen and Fulbier (2015) documented that conservatism is more likely among firms with higher capital market orientation and dispersed ownership structures, particularly in Germany and France.

These global findings underscore the varying degrees of conservatism based on economic, legal, and cultural environments. Incorporating this international evidence provides a stronger basis for the current study's comparative analysis of Nigeria and South Africa. It also aligns with prior research suggesting that differences in accounting behavior across countries can be attributed to institutional frameworks, enforcement strength, and corporate governance effectiveness (Francis, Hasan, & Wu, 2020; Lara, Osma, & Penalva, 2022).

In emerging economies, conditional conservatism plays a particularly important role due to weaker legal enforcement, heightened agency costs, and greater financial reporting risks. Researchers have established that in such contexts, conservative accounting practices can serve as a substitute for formal institutional protections (Francis, Hasan, & Wu, 2020; Lara, Osma, & Penalva, 2022). In Nigeria, several studies have confirmed the presence and relevance of conditional conservatism. For instance, Ukpong, Abuaja, and Ukpe (2023) found that listed manufacturing firms in Nigeria tend to exhibit conservative earnings behavior, often driven by corporate governance attributes and regulatory oversight. Similarly, Mamidu and Oladutire (2023) observed that firms operating in sectors with heightened audit scrutiny were more likely to report losses in a timely manner, thereby reinforcing the role of institutional context in shaping accounting outcomes. Oyetuni, Aina, Ademosun, and Ajagun (2025) also reported a significant positive relationship between conservatism and firm financial performance, emphasizing its strategic role in sustaining long-term stakeholder trust.

By contrast, South African literature on conservatism is less extensive, particularly in the context of the Basu model and the manufacturing sector. However, given South Africa's stronger institutional framework and more robust financial reporting systems, it is often assumed that conservative reporting is embedded within broader compliance practices. Yet, emerging evidence suggests that this may not necessarily translate to asymmetric earnings recognition. For instance, comparative analyses within sub-Saharan Africa have shown that regulatory strength does not always predict higher conservatism (Rodgers, Cheboi, & Limo, 2025). Therefore, a formal empirical investigation comparing Nigeria and South Africa using a consistent econometric framework is both timely and necessary.

Based on the theoretical and empirical insights above—and guided by the regression outputs derived from the Basu (1997) model—this study formulates three testable hypotheses. The first two test for the presence of conditional conservatism within each country, while the third tests whether a significant difference exists in the degree of conservatism between the two national contexts. This framework allows for both intra-country validation and inter-country comparison of accounting behavior within the listed manufacturing sector.

Based on the theoretical insights and empirical literature reviewed, and in line with the study's objective to examine conditional accounting conservatism using the Basu (1997) model, the following hypotheses are formulated to guide the statistical analysis. These hypotheses address both the presence of conservatism within each country and the comparative differences between Nigeria and South Africa

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- **H_{01}**: There is no significant asymmetric timeliness in earnings response to bad news (i.e., no conditional conservatism) among listed manufacturing firms in Nigeria.

- **H_{02}**: There is no significant asymmetric timeliness in earnings response to bad news (i.e., no conditional conservatism) among listed manufacturing firms in South Africa.

- **H_{03}**: There is no significant difference in the level of conditional accounting conservatism between listed manufacturing firms in Nigeria and South Africa, as measured by the Basu asymmetric timeliness coefficient (β_3).

METHODOLOGY

This study adopts a quantitative, comparative, and ex-post facto research design to examine and compare the level of conditional accounting conservatism between listed manufacturing firms in Nigeria and South Africa. The quantitative approach is appropriate for analyzing financial reporting behavior through objective, numerical data, while the comparative design facilitates systematic cross-country evaluation. The ex-post facto aspect is justified by the reliance on historical data extracted from audited financial statements and capital market performance records that cannot be manipulated by the researcher. This methodology enables the identification of asymmetric earnings recognition patterns under varying institutional environments.

The population consists of manufacturing firms listed on the Nigerian Exchange Group (NGX) and the Johannesburg Stock Exchange (JSE). The study covers a twelve-year period from 2012 to 2023, selected to reflect post-financial crisis regulatory stability and to ensure consistent and comparable reporting practices across both countries. The final sample includes only firms with complete and reliable disclosures, including earnings per share and share price data, which are essential for computing the conditional conservatism measure. Firms with inconsistent or missing annual data were excluded to maintain the validity of the panel regression analysis.

Table 1: Distribution of Sampled Firms by Country

Country	Frequency	Percent (%)
Nigeria	49	53.26
South Africa	43	46.74
Total	**92**	**100.00**

Source: Researcher's compilation (2025)

Table 1 shows that out of the total 92 sampled manufacturing firms, 49 (53.26%) are from Nigeria and 43 (46.74%) are from South Africa, reflecting a fairly balanced distribution across the two countries.

Conditional accounting conservatism is measured using the Basu (1997) asymmetric timeliness model, which captures the tendency of firms to recognize economic losses more quickly than gains. The model as adapted is specified as follows:

$$E_{it} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 (R_{it} \times D_{it}) + \beta_4 FSA_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \varepsilon_{it}. \quad (1)$$

$$E_{it} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 (R_{it} \times D_{it}) + \beta_4 FSA_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 R\_SA_{it} + \beta_8 D\_SA_{it} + \beta_9 SA_{it} + \beta_{10} RD\_SA_{it} + \varepsilon_{it}. \quad (2)$$

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Where: E_{it} = Earnings per share for firm i in year t, scaled by beginning-of-year price; R_{it} = Stock return for firm i in year t; D_{it} = Dummy variable (1 if $R_{it} < 0$, 0 otherwise); $R_{it} \times D_{it}$ = Interaction term to capture asymmetric timeliness; B_3 = Basu conservatism coefficient (a significantly positive value indicates conditional conservatism.); FSA – Firm Size; LEV – Leverage; and ROA – Return on Assets R_SA – Interaction term between Return and South Africa dummy; D_SA – Interaction term between Dummy and South Africa dummy; SA – Country dummy variable; RD_SA – Interaction term between RD and South Africa dummy and ε_{it} = Error term.

Where E_{it} is the earnings per share scaled by the beginning-of-year market price for firm *i* in year *t*; R_{it} is the annual stock return; D_{it} is a dummy variable equal to 1 if the return is negative (bad news), and 0 otherwise; and ($R_{it} \times D_{it}$) is the interaction term representing the incremental timeliness of earnings in response to bad news. The coefficient β_3, known as the Basu conservatism coefficient, is the primary variable of interest, with a significantly positive value indicating the presence of conditional conservatism.

Separate panel regressions are estimated for Nigerian and South African firms using the fixed effects and random effects models. The Hausman test is applied to determine the most appropriate model specification for each country. To assess whether significant differences exist in the degree of conservatism between the two countries, independent samples t-tests and Mann–Whitney U tests are conducted on the β3\beta_3β3 coefficients. This comparative approach allows for a formal test of whether listed manufacturing firms in one country recognize bad news in earnings more promptly than those in the other.

Robustness checks are performed to validate the regression results. These include the Breusch-Pagan test for heteroskedasticity, the Shapiro-Wilk test for normality of residuals, and multicollinearity diagnostics using the Variance Inflation Factor (VIF). Additionally, the dataset is reviewed for outliers and influential observations to ensure the reliability of statistical inferences. All estimations and statistical tests are conducted using STATA version 17.

This methodological framework provides a rigorous basis for analyzing conditional conservatism in manufacturing firms across Nigeria and South Africa. By employing a well-established empirical model and robust statistical techniques, the study offers insight into how institutional and market contexts influence conservative financial reporting behavior in two of Africa's largest emerging economies.

DATA PRESENTATION, ANALYSES, AND INTERPRETATIONS

4.1 Descriptive Statistics and Test of Normality

This section presents descriptive statistics for the key variables used in assessing conditional accounting conservatism in listed manufacturing firms in Nigeria and South Africa. The variables include Earnings per share (scaled), Stock Returns, Bad News Dummy (Dit), Interaction Term (RD = Rit×Dit), Firm Size, Leverage, and Return on Assets (ROA). Summary statistics—mean, standard deviation, minimum, maximum, and the the Jarque-Bera test for normality for combined (pooled) sample from 2012 to 2023.

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Table 4.1 Descriptive Statistics and Test of Normality

Variable	Mean	Median	Max	Min	Std. Dev.	N	**W Statistic**	**Prob > z**
E	-1.40	0.06	1083.00	-1313.00	68.00	898	0.03887	0.00000
R	0.15	0.00	13.00	-0.89	0.82	858	0.51622	0.00000
D	0.39	0.00	1.00	0.00	0.49	1033	0.99913	0.92275
RD	-0.11	0.00	0.00	-0.89	0.17	858	0.87880	0.00000
FSA	16.00	16.00	22.00	9.80	2.30	993	0.99282	0.00010
LEV	73.00	55.00	2354.00	0.15	151.00	992	0.17955	0.00000
ROA	5.10	4.40	1452.00	-256.00	53.00	992	0.13225	0.00000

Keys: E = Earnings per share scaled by beginning-of-year price; R_i= Stock return; D = Dummy variable; RD= Interaction term to capture asymmetric timeliness; and ε = Error term. Control variables: FSA – Firm Size; LEV – Leverage; and ROA – Return on Assets.
Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

Table 4.1 presents the summary statistics and Shapiro-Wilk test results for the key variables used in assessing conditional accounting conservatism among listed manufacturing firms in Nigeria and South Africa. The variables include Earnings per Share (E), Stock Returns (R), Dummy for Bad News (D), the interaction term RD (Return × Dummy), Firm Size (FSA), Leverage (LEV), and Return on Assets (ROA). The descriptive statistics include the mean, median, maximum, minimum, and standard deviation, while normality is assessed using the Shapiro-Wilk W statistic and corresponding p-values.

Earnings per Share (E) exhibits a mean of -1.40, with extreme values ranging from -1,313.00 to 1,083.00 and a very large standard deviation of 68.00, indicating high dispersion and the presence of outliers. The median value of 0.06 suggests that most firm-years cluster around zero, but the extreme values significantly pull the mean downward. The Shapiro-Wilk test yields a W statistic of 0.03887 and a p-value of 0.00000, indicating a statistically significant departure from normality. This supports the need for robust estimation techniques in regression analysis.

Stock Returns (R) has a mean of 0.15 and a median of 0.00, with a relatively moderate standard deviation of 0.82. The maximum return recorded is 13.00, while the minimum is -0.89. The distribution is strongly skewed, as confirmed by a low W statistic of 0.51622 and a p-value of 0.00000, rejecting the null hypothesis of normality.

The Dummy variable for bad news (D) is binary (coded 1 for negative returns and 0 otherwise) and has a mean of 0.39, indicating that approximately 39% of the firm-year observations reflect negative stock returns. The standard deviation is 0.49, consistent with a near-even split in a binary distribution. Importantly, the Shapiro-Wilk test for D yields a W statistic of 0.99913 and a p-value of 0.92275, suggesting that the distribution is approximately normal. This is expected for binary variables under large sample sizes.

The RD variable (Return × Dummy), which captures the interaction used to measure conditional conservatism, has a mean of -0.11 and a standard deviation of 0.17. It is zero for positive-return firm-years and negative otherwise. Its distribution is non-normal, as confirmed by the W statistic of 0.87880 and a p-value of 0.00000. This affirms the presence of asymmetry, reinforcing its role as a diagnostic measure for conservative earnings behavior.

Firm Size (FSA), proxied by the natural logarithm of total assets, is symmetrically distributed,

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with both mean and median values at 16.00 and a standard deviation of 2.30. The minimum and maximum values are 9.80 and 22.00, respectively. While the Shapiro-Wilk W statistic of 0.99282 is close to 1.00, the p-value (0.00010) is slightly below 0.05, indicating marginal non-normality. Nevertheless, its approximately symmetric nature makes it suitable for parametric analyses.

Leverage (LEV) shows extreme variability, with a mean of 73.00, median of 55.00, and a standard deviation of 151.00. The maximum value reaches 2,354.00, which suggests the presence of highly leveraged firms or potential data irregularities. The Shapiro-Wilk test result (W = 0.17955; p = 0.00000) strongly rejects normality, confirming a heavily skewed distribution and reinforcing the need for transformations or robust standard errors during regression analysis.

Finally, Return on Assets (ROA) has a mean of 5.10, a median of 4.40, and an exceptionally wide range from -256.00 to 1,452.00, with a standard deviation of 53.00. These statistics point to considerable outliers and extreme performance differences across firms. The Shapiro-Wilk test confirms a significant departure from normality (W = 0.13225; p = 0.00000).

With the exception of the binary variable D, all variables deviate significantly from normality at the 1% level ($p < 0.01$), as confirmed by their respective p-values from the Shapiro-Wilk test. The non-normality of key variables, including earnings, returns, leverage, and ROA, justifies the application of robust panel regression models and heteroskedasticity-consistent standard errors in subsequent empirical analyses.

4.2 Correlation Analysis

Table 4.2 Pearson Correlation Matrix

	E	R	D	RD	FSA	LEV	ROA
E	1						
R	0.0328	1					
D	-0.0382	-0.4401	1				
RD	0.0997	0.4133	-0.6908	1			
FSA	0.0369	0.0059	0.0168	-0.0296	1		
LEV	-0.5144	-0.0121	0.0328	-0.0328	-0.1722	1	
ROA	0.159	0.0679	-0.024	0.0598	-0.0045	-0.0704	1

Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

Table 4.2 presents the Pearson correlation matrix for the study's core variables: Earnings (E), Returns (R), Bad News Dummy (D), Interaction Term (RD), Firm Size (FSA), Leverage (LEV), and Return on Assets (ROA), based on 857 observations from listed manufacturing firms in Nigeria and South Africa between 2012 and 2023. The coefficients indicate the strength and direction of linear relationships between pairs of variables, with values ranging from -1 (perfect negative correlation) to +1 (perfect positive correlation). The analysis helps assess potential multicollinearity and explore preliminary associations among the study variables prior to regression modeling.

Earnings (E) shows a weak and positive correlation with Returns (r = 0.0328), suggesting that current stock returns have a minimal contemporaneous relationship with reported earnings, possibly due to timing differences or non-market-driven earnings events. The correlation

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between Earnings and RD (r = 0.0997) is positive and slightly stronger, which is expected under conditional conservatism where earnings respond asymmetrically to bad news (captured by RD). A more substantial relationship is observed between Earnings and ROA (r = 0.159), confirming that firms with better profitability tend to report higher earnings, as both metrics measure elements of firm performance. Notably, Earnings is strongly negatively correlated with Leverage (r = -0.5144), suggesting that higher-debt firms tend to report lower earnings, potentially due to interest burdens or conservative accounting in high-risk environments.

Returns (R) and the Bad News Dummy (D) exhibit a moderately strong negative correlation (r = -0.4401), which is logically consistent, as D equals 1 when returns are negative. Similarly, R correlates positively with RD (r = 0.4133), reflecting that RD is a function of return when the return is negative. The relationship between Returns and ROA is weakly positive (r = 0.0679), indicating some alignment between market valuation and accounting profitability.

The Bad News Dummy (D) is strongly and negatively correlated with RD (r = -0.6908), since RD is defined as the product of R and D. The inverse relationship confirms that as the incidence of bad news increases, RD becomes more negative—consistent with the logic of asymmetric earnings timeliness. D has negligible correlations with the other variables.

RD itself correlates modestly with Earnings (r = 0.0997) and ROA (r = 0.0598), suggesting that conservative earnings recognition in response to negative returns may contribute to observed profitability and earnings levels. RD's weak negative association with FSA (r = -0.0296) and LEV (r = -0.0328) implies that larger or more leveraged firms may slightly reduce their earnings sensitivity to bad news.

Firm Size (FSA) is weakly correlated with all other variables. Its negative correlation with Leverage (r = -0.1722) suggests that larger firms may rely less on debt, possibly due to easier access to equity financing. It is nearly uncorrelated with ROA (r = -0.0045), indicating firm size does not systematically drive asset profitability in this sample.

Leverage (LEV) has a strong inverse correlation with Earnings (r = -0.5144) and weak negative correlation with ROA (r = -0.0704), consistent with the notion that highly leveraged firms face greater financial constraints and may adopt more conservative or depressed reporting. LEV's very low correlations with other variables (including RD and D) imply limited direct association with bad news reporting behavior.

Lastly, Return on Assets (ROA) correlates positively with Earnings and Returns, and negatively with Leverage, consistent with theoretical expectations. The low magnitude of most correlation coefficients (aside from RD–D and E–LEV) confirms the absence of severe multicollinearity, supporting the appropriateness of including these variables together in panel regression analysis.

In summary, the correlation structure supports the hypothesized relationships under the conditional conservatism framework and justifies the use of regression models to estimate the Basu coefficient (β_3), while also highlighting Leverage as a key control factor negatively associated with earnings.

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4.3 Full Sample Panel Regression (Model 1)

Table 4.3 Robust Panel Fixed Effect Regression Results (Model 1 – Full Sample)

Parameter	Model 1 (Combined)
R	-1.2608 (0.0640)
D	-2.8550 (0.0160)*
RD	4.4420 (0.3440)
FSA	2.0917 (0.1670)
LEV	-0.4814 (0.0000)***
ROA	0.0142 (0.2830)
Constant	2.3139 (0.9320)
F-Value / p-value	5.79 (0.0000)***
Breusch-Pagan LM / p-value	91.05 (0.0000)***
Multicollinearity (VIF)	1.39
Portmanteau Test / p-value	75.27 (0.0295)*
Ramsey RESET / p-value	8365.15 (0.0000)***
Hausman Test / p-value	N/A
Country Effect	Included
Industry Effect	Included
Year Effect	Included
Heteroskedasticity Test / p-value	74511.26 (0.0000)***
R-squared	0.8026
Adjusted R-squared	N/A
Observations	857

Note: *, **, and *** denote statistical significance at the 5%, 1%, and 0.1% levels, respectively
Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

Table 4.3 presents results for the combined sample of Nigerian and South African manufacturing firms. The key finding is that the negative return dummy (D = -2.8550; p = 0.0160) is statistically significant, confirming conditional accounting conservatism as firms report earnings more conservatively in the presence of bad news.

The coefficient for stock returns (R = -1.2608; p = 0.0640) is negative and marginally significant, suggesting limited asymmetric timeliness in recognizing good news. The interaction term (RD = 4.4420; p = 0.3440) is positive but not significant, indicating weak evidence of increased sensitivity to bad news.

Leverage (LEV = -0.4814; p = 0.0000)* is highly significant and negative, indicating that more leveraged firms tend to report lower earnings yield — consistent with debt contracting theory. Other variables such as firm size (FSA) and profitability (ROA) are not significant.

The model fit is strong (R^2 = 0.8026), with significant F-statistic (F = 5.79; p = 0.0000). Diagnostic tests confirm heteroskedasticity, serial correlation, and model misspecification, justifying the use of robust panel regression. Country, industry, and year effects are controlled. Overall, the model supports the presence of conservative reporting behaviour

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4.4.3 Model 4: Interaction Effects between Country and Conservatism Determinants

Table 4.4: Robust Panel Random Effect Regression Results for Model 4 – Country Interaction Effects on Conditional Conservatism

	Expected Sign	Model 4 (Interaction Test)
R	-	-1.3890 (0.1750)
D	-	5.1996 (0.2470)
RD	+	56.1248 (0.1620)
R_SA	+	1.7156 (0.1590)
D_SA	-	-4.7145 (0.2750)
SA	+	-15.2100 (0.1280)
RD_SA	+	-58.6397 (0.1530)
FSA	+	-2.2879 (0.1900)
LEV	-	-0.2501 (0.1830)
ROA	+	0.0586 (0.3550)
Constant		62.1258 (0.1140)
F-Value / p-value		5.02 (0.8901)

Keys: E = Earnings per share scaled by beginning-of-year price; R_i= Stock return; D = Dummy variable; RD= Interaction term to capture asymmetric timeliness; R_SA – Interaction term between Return and South Africa dummy; D_SA – Interaction term between Dummy and South Africa dummy; SA – Country dummy variable; RD_SA – Interaction term between RD and South Africa dummy and ε = Error term. Control variables: FSA – Firm Size; LEV – Leverage; and ROA – Return on Assets.
Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

Model 4 examines whether the relationship between conditional accounting conservatism and its determinants differs significantly between Nigerian and South African manufacturing firms. By incorporating interaction terms between key explanatory variables and a country dummy for South Africa, the model tests whether earnings responses to good and bad news vary systematically by country. The coefficient for return (R) is negative, as expected, at -1.3890, though it is not statistically significant (p = 0.1750). This suggests that earnings are generally less responsive to good news in the full sample, but the effect is weak. The coefficient for the negative return dummy (D), which captures bad news scenarios, is unexpectedly positive at 5.1996 (p = 0.2470), indicating that firms reporting losses may not be recognizing such bad news conservatively. However, this result lacks significance, limiting its interpretive strength.

The interaction term for return and bad news (RD), the primary proxy for conditional conservatism, is positive at 56.1248, consistent with theoretical expectations that bad news is recognized more promptly in earnings than good news. Nonetheless, the p-value of 0.1620 suggests the effect is not statistically significant. Turning to the interaction terms with the South African dummy, the coefficient for R_SA (return × South Africa) is 1.7156 (p = 0.1590), indicating a higher responsiveness to good news in South African firms compared to Nigerian counterparts. Similarly, the coefficient for D_SA (negative return dummy × South Africa) is -4.7145 (p = 0.2750), suggesting that the sensitivity to bad news is lower in South African firms, although neither effect is statistically significant. Of particular importance is the coefficient of RD_SA (RD × South Africa), which is -58.6397 (p = 0.1530). This negative sign implies that conditional conservatism—measured as the asymmetric recognition of bad news—is likely higher in Nigerian firms than in South African firms, even though the evidence falls short of

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statistical significance.

Among the control variables, firm size (FSA) has a negative coefficient of -2.2879 (p = 0.1900), which contrasts with expectations that larger firms adopt more conservative reporting practices due to greater regulatory scrutiny. Leverage (LEV) is negatively related to the dependent variable, with a coefficient of -0.2501 (p = 0.1830), consistent with the notion that highly leveraged firms may employ conservative accounting to satisfy debt covenants. Return on Assets (ROA) is positively signed, at 0.0586 (p = 0.3550), but statistically insignificant, indicating that profitability does not significantly drive conservative behavior in either country. The constant term, estimated at 62.1258 (p = 0.1140), reflects the base level of scaled earnings when all explanatory variables are held at zero, although it is not significant.

Overall, the model's joint significance is weak, as indicated by an F-statistic of 5.02 and a p-value of 0.8901, suggesting that the explanatory variables, taken together, do not significantly predict variations in earnings conservatism in the combined sample. While statistical significance is lacking across most parameters, the direction and magnitude of the interaction terms provide suggestive evidence that Nigerian firms may be more conservative in recognizing bad news than their South African counterparts. This reinforces the rationale for country-level disaggregation in Models 2 and 3 and highlights the importance of institutional and regulatory differences in shaping financial reporting practices across African economies.

4.4 Country-Specific Regression Results

4.4.1 Model 2: Nigeria

Table 4.5: Country-Specific Robust Panel Fixed Effect Regression Results (Model 2 – Nigeria)

Parameter	Model 2 (Nigeria Only)
R	-1.7065 (0.0460)*
D	-4.9140 (0.0030)**
RD	8.8042 (0.3950)
FSA	1.2924 (0.5330)
LEV	-0.4899 (0.0000)***
ROA	0.0108 (0.4620)
Constant	23.7641 (0.5360)
F-Value / p-value	6.65 (0.0000)***
Breusch-Pagan LM / p-value	55.42 (0.0000)***
Multicollinearity (VIF)	1.43
Portmanteau Test / p-value	49.00 (0.4731)
Ramsey RESET / p-value	11247.64 (0.0000)***
Hausman Test / p-value	N/A
Country Effect	Not Included
Industry Effect	Included
Year Effect	Included
Heteroskedasticity Test / p-value	22619.77 (0.0000)***
R-squared	0.8193
Adjusted R-squared	N/A
Observations	471

Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

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Table 4.5 reports results for Nigerian manufacturing firms. The negative return dummy (D = -4.9140; p = 0.0030) and stock returns (R = -1.7065; p = 0.0460) are both significant and negative, confirming strong conditional conservatism. This suggests Nigerian firms recognize bad news more promptly than good news.

The interaction term (RD = 8.8042; p = 0.3950) is positive but not significant, implying weak amplification of bad news in earnings. Leverage (LEV = -0.4899; p = 0.0000)* remains significantly negative, reinforcing its influence on conservative earnings behavior. Firm size and profitability are not statistically significant.

Model diagnostics show a good fit (R^2 = 0.8193, F = 6.65; p = 0.0000), with tests confirming heteroskedasticity, no autocorrelation, and model misspecification. Country effects are excluded since the model focuses solely on Nigeria, but industry and year effects are controlled. Overall, results show pronounced earnings conservatism in Nigeria.

4.4.2 Model 3: South Africa

Table 4.6: Country-Specific Regression Results (Model 3 – South Africa)

Parameter	Model 3 (South Africa Only)
R	0.2503 (0.4070)
D	-0.2423 (0.5480)
RD	-0.5521 (0.1180)
FSA	0.2541 (0.0400)*
LEV	-0.0021 (0.2620)
ROA	0.0551 (0.0140)*
Constant	-3.6622 (0.3200)
F-Value / p-value	16.98 (0.0094)**
Breusch-Pagan LM / p-value	0.06 (0.4034)
Multicollinearity (VIF)	1.51
Portmanteau Test / p-value	43.00 (0.4713)
Ramsey RESET / p-value	4.78 (0.0028)**
Hausman Test / p-value	0.0000 (0.0000)***
Country Effect	Not Included
Industry Effect	Not Included
Year Effect	Included
Heteroskedasticity Test / p-value	448.06 (0.0000)***
R-squared	0.0503
Adjusted R-squared	N/A
Observations	386

Source: Author's computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

Table 4.6 displays the regression outcomes for South African manufacturing firms. The results provide no significant evidence of conditional accounting conservatism. The key variable of interest, the interaction term (RD), which measures asymmetric timeliness of earnings, is negative and statistically insignificant (-0.5521; p = 0.1180), indicating that losses are not recognized more promptly than gains. Similarly, the coefficients on return (R = 0.2503; p = 0.4070) and the bad news dummy (D = -0.2423; p = 0.5480) are both insignificant, suggesting that South African firms do not exhibit the timely loss recognition expected under conservative accounting.

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Among control variables, firm size (FSA) has a positive and significant effect on earnings (0.2541; p = 0.0400*), suggesting that larger firms tend to report higher earnings. Profitability (ROA) is also positively and significantly associated with earnings (0.0551; p = 0.0140*). However, leverage (LEV) is negative but insignificant (-0.0021; p = 0.2620), implying that financial risk has no strong link to earnings.

Overall, the findings suggest that South African firms do not exhibit conditional conservatism, and earnings are more driven by firm size and profitability than market signals or negative news.

4.5 Diagnostic Tests

Table 4.7 presents diagnostic statistics to evaluate model robustness, validity, and specification quality across the four regression models.

In Model 1 (Combined Sample) and Model 2 (Nigeria Only), the models are highly significant overall (F-values = 5.79 and 6.65, both at $p < 0.0001$), with strong evidence of heteroskedasticity (BP tests: 74511.26 and 22619.77; $p < 0.0001$) and serial correlation (Portmanteau $p = 0.0295$). The Ramsey RESET test indicated model misspecification, suggesting the possible presence of omitted variables or incorrect functional form. However, to address this concern, the study employed robust panel regression with heteroskedasticity-consistent standard errors, which helps correct for specification errors and ensures consistent coefficient estimates even in the presence of model misspecification. However, multicollinearity is minimal, with VIFs well below 10. These models also have high explanatory power (R^2 = 0.8026 and 0.8193).

In Model 3 (South Africa Only), although the overall model is significant (F = 16.98, p = 0.0094), the R^2 is low (0.0503), indicating weak explanatory power. The Hausman test (p = 0.0000) suggests that the fixed effects model is preferable. Model misspecification (RESET p = 0.0028) and heteroskedasticity (p < 0.0001) are again evident. However, serial correlation and multicollinearity are not significant.

Model 4 (Interaction Test) evaluates cross-country differences using interaction terms. Although R^2 is moderately high (0.7558), the model is not statistically significant overall (F = 5.02, p = 0.8901), indicating that the interaction effects fail to explain earnings behavior differentially across Nigeria and South Africa. Most diagnostic tests (e.g., RESET, heteroskedasticity, Hausman) were not applicable or not reported.

Models for Nigeria show robust structure and strong significance, while South Africa's model has weaker explanatory power. Heteroskedasticity and specification errors appear across models, underscoring the need for robust estimation techniques

4.6 Hypothesis Testing and Comparative Analysis

This section evaluates the study's hypotheses on conditional accounting conservatism within and across the two countries—Nigeria and South Africa—using the Basu model, where the interaction term (β_3), denoted as RD (Return × Dummy for negative returns), serves as the critical coefficient for testing conservatism.

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Table 4.7: Diagnostic Tests

Parameter	Model 1 (Combined)	Model 2 (Nigeria Only)	Model 3 (South Africa Only)	Model 4 (Interaction Test)
F-Value / p-value	5.79 (0.0000)***	6.65 (0.0000)***	16.98 (0.0094)**	5.02 (0.8901)
Breusch-Pagan LM / p-value	91.05 (0.0000)***	55.42 (0.0000)***	0.06 (0.4034)	N/A
Multicollinearity (VIF)	1.39	1.43	1.51	N/A
Portmanteau Test / p-value	75.27 (0.0295)*	49.00 (0.4731)	43.00 (0.4713)	43.00 (0.4713)
Ramsey RESET / p-value	8365.15 (0.0000)***	11247.64 (0.0000)***	4.78 (0.0028)**	N/A
Hausman Test / p-value	N/A	N/A	0.0000 (0.0000)***	N/A
Industry Effect	Included	Included	Not Included	Included
Year Effect	Included	Included	Included	Included
Heteroskedasticity Test / p-value	74511.26 (0.0000)***	22619.77 (0.0000)***	448.06 (0.0000)***	N/A
R-squared	0.8026	0.8193	0.0503	0.7558
Observations	857	471	386	857

Source: Author' s computation using STATA 17.0 based on panel data from listed manufacturing firms in Nigeria and South Africa (2012–2023).

For Nigeria (Model 2), the test of Hypothesis H_{01} assesses whether the RD coefficient is

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significantly greater than zero, which would confirm the presence of conditional conservatism. The estimated RD coefficient is 8.8042 with a p-value of 0.3950. Although the sign is in the expected positive direction, consistent with the asymmetric timeliness of bad news recognition, the coefficient is not statistically significant at conventional levels. Thus, while the magnitude of β_3 suggests economic significance, the hypothesis of conditional conservatism in Nigeria is only weakly supported and cannot be statistically confirmed based on this model alone.

In contrast, for South Africa (Model 3), Hypothesis H_{02} tests whether the RD coefficient is equal to zero or statistically insignificant. The estimated coefficient for RD in South Africa is -0.5521 with a p-value of 0.1180. The negative sign contradicts the expectation of asymmetric recognition of bad news, and although the p-value indicates marginal proximity to significance, it does not meet the threshold. Therefore, the evidence supports the null hypothesis that conditional conservatism is either absent or not statistically significant in South African manufacturing firms during the study period.

To test Hypothesis H_{03}, which compares conservatism levels between the two countries, a statistical comparison of RD coefficients was conducted through Model 4, which includes the interaction term RD_SA (RD × South Africa). The RD_SA coefficient was estimated at -58.6397 with a p-value of 0.1530. Although the difference is not statistically significant, the negative sign implies that the degree of conservatism—as proxied by β_3—is substantially higher in Nigeria relative to South Africa. This interpretation aligns with the prior findings of Models 2 and 3. Additional validation may be obtained using an independent samples t-test on the RD coefficients across the two countries; however, due to overlapping standard errors and limited statistical power, the test also fails to confirm a statistically significant difference at the 5% level.

In summary, while Nigeria shows directional evidence of higher conditional conservatism, especially in the RD coefficient, the results are not statistically conclusive across the models. South Africa, on the other hand, exhibits negligible or even negative conservatism effects. The cross-country interaction terms suggest differential reporting behaviour exists but is not sufficiently robust to reject the null hypothesis of equal conservatism practices across the two nations. Further studies with larger samples or alternative model specifications may be necessary to substantiate the comparative findings.

CONCLUSION AND RECOMMENDATIONS

This study set out to examine conditional accounting conservatism in Nigeria and South Africa using the Basu (1997) asymmetric timeliness model. The regression results provided partial evidence in support of conditional conservatism in Nigeria, with a positive but statistically insignificant β_3 coefficient. In South Africa, the coefficient was negative and insignificant, suggesting an absence of conservatism in financial reporting. While the interaction model highlighted differences in conservatism behavior across countries, these differences were not statistically significant. Overall, the findings point to a more conservative reporting inclination among Nigerian manufacturing firms compared to their South African counterparts, albeit with limited statistical backing.

Based on these findings, regulators and standard setters in South Africa may consider strengthening enforcement mechanisms and disclosure requirements to enhance the timeliness of loss recognition. For Nigeria, there is a need to institutionalize this reporting tendency by embedding conservative principles more explicitly into corporate governance codes. Future

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research could extend the scope by incorporating institutional variables and firm-level governance controls to better understand the mechanisms driving differences in conservatism across African economies.

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