

Impact of accounting conservatism and corporate governance on stock price breakdown in firms listed on the Palestine Stock Exchange

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Mohammed Talawa
*Department of Accounting,
Higher Institute of Accounting and Business Administration (ISCAE),
University of Manouba, Manouba, Tunisia, and*

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Nemer Badwan
*Computerized of Finance and Banking Sciences Department,
Faculty of Business and Economics,
Palestine Technical University-Kadoorie (PTUK), Tulkarm, Palestinian Authority*

Abstract

Purpose – This paper uses test panel data for the biggest companies listed on the boards of directors of the Palestine Stock Exchange from 2016 to 2022 and will focus on the relationship between the corporate governance index, accounting conservatism, and the comprehensive index of corporate governance.

Design/methodology/approach – The relationship between corporate governance and accounting conservatism is experimentally investigated for its impact on the likelihood of stock price breakdown and decline among companies listed on the Palestine Stock Exchange between 2016 and 2022, using a mixed utilities approach.

Findings – The findings demonstrated the adverse correlation between corporate governance, accounting conservatism, and stock prices. Higher levels of corporate governance can effectively reduce the likelihood of future stock price increases, while conservative accounting policies can effectively prevent stock price collapses in these listed companies. Higher levels of corporate governance can greatly lessen the detrimental effect of accounting conservatism on the likelihood of future stock price breakdowns and declines. Both accounting conservatism and corporate governance have substitution effects in decreasing the danger of stock price collapse.

Research limitations/implications – The limitations of the current research are that higher levels of corporate governance can significantly reduce the harmful effect of accounting conservatism on the probability of stock price breakdown and decline in the future on the study sample used, and these results cannot be generalized to all company stocks that were excluded in this study. The last research limitation is that the sample size of this study is somewhat small, and therefore the effects of the results cannot be used on all unlisted companies, and they cannot be generalized to all of these companies except only to companies listed on the Palestine Stock Exchange.

Practical implications – Our findings have interesting managerial and policy implications. Listed firms should first strengthen external audit oversight, improve the method of disclosing accounting information, and

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improve the system architecture to raise the level of accounting conservatism. Moreover, it is imperative to enhance and improve the ownership structure of publicly traded firms, construct a robust mechanism for replacing shareholders, fortify the duties of the board of directors, proficiently fulfil the role of independent directors, and develop and refine the internal and external framework for corporate governance.

Originality/value – This study provides insights about reducing the probability of a stock market breakdown and collapse from two sides: enhancing corporate governance, improving accounting conservatism, enhancing the reliability and integrity of disclosure, and growing the number of sustainable disclosures. These suggestions can also be used as a template for Palestine's capital market's gradual and sustainable expansion.

Keywords Accounting conservatism, Corporate governance, Stock price breakdown, Board of directors, Shareholders, Palestine stock exchange

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1. Introduction

As economic globalization has progressed, the capital market has assumed a more significant position in the financial market and has emerged as the primary venue for allocating resources in the contemporary economy. Falling stock prices will jeopardize not just the sound growth and stability of the financial sector but also the progress of the overall economy. The stock market in Palestine is not as developed as other developed capital markets, and the frequent occurrence of stock price crashes has raised serious concerns in the capital market (Wang *et al.*, 2021). The stock exchange's growth process is comparatively short when compared to other developed capital markets. Within the firm, management's goal is to conceal the bad news about the firm, which is related to political advancement and agency issues. More favourable circumstances are provided for this by the asymmetry of information releases.

The stock market will see extreme volatility and a decline in value as soon as the bad news that has been building up about the firm is disclosed. Improving information openness and stock price synchrony, as well as finding the drive and capacity to restrain management's self-serving selling behaviour, are all necessary to lessen the likelihood of a stock market meltdown (Liu *et al.*, 2021; Wang *et al.*, 2021; Abu Alia *et al.*, 2022). The listed firm estimates the potential operational loss more conservatively due to accounting conservatism, and it discloses it in the present financial performance of the business. This more cautious approach to information releases can accurately forecast both the worth of businesses and the sustainability of their future profitability (García Lara *et al.*, 2009).

Consequently, we think that the strength of accounting information disclosures will effectively curb investors' reckless actions and lessen the chance of a stock market meltdown (Wang *et al.*, 2021; Abu Alia *et al.*, 2022). At the same time, a strong corporate governance framework can mitigate autonomy conflict, lessen ethical risks and negative selection, safeguard the interests of all stakeholders and investors, and limit the risk of declining stock prices using a variety of institutional structures or supervision processes. Conversely, corporate governance and accounting conservatism communicate as a significant component of accounting information releases (Salehi and Sehat, 2019). The degree of excellence of the corporate governance structure can influence the conservatism of accounting information and have a positive governance effect on the disclosures of accounting information, in addition to enhancing the firm's overall performance and containing irrational fluctuations in stock prices (Aljadba *et al.*, 2021; Wang *et al.*, 2021). Accounting conservatism may have a relatively small effect on the risk of stock price declines and collapses for companies with strong corporate governance mechanisms; however, for those companies without such mechanisms, accounting conservatism may act as a backup mechanism to guarantee the veracity of financial report information, thereby reducing the risk of stock price declines and crashes to some degree (Alia *et al.*, 2020; El Shafei *et al.*, 2022).

Accounting conservatism and corporate governance are among the most important effective means of achieving the communication function in accounting. Through them, users' needs can be satisfied for accounting information that accurately depicts the economic events that affected the company during the period of activity. Corporate management is officially authorized to prepare and present financial statements which are considered the most important source of information for external users of these lists, through which they evaluate the performance of companies and make various decisions related to them, and therefore the accuracy of the evaluation depends mainly on the fairness and integrity of the information contained in those lists and its integrity, which is based on accounting conservatism and corporate governance, and measures of accounting conservatism are considered one of the most important items contained in the published financial statements, which are an indicator of the success of the company's management in achieving the goals of the various parties in business organizations, especially shareholders.

Accounting conservatism is considered one of the most important issues inherent in financial accounting, and despite some researchers' opposition to it in terms of its negative impact on the quality of information contained in published financial reports, it has now become a basic requirement by users of financial reports, as accounting conservatism restricts accountants consider how to display data so that the lower values of assets and revenues are included, and the higher values of liabilities and expenses, and this means accelerating the recognition of expenses and postponing the recognition of revenues (Salehi *et al.*, 2020). The essence of transparency lies in accounting conservatism when preparing financial reports because it raises questions about the quality of information disclosed by companies, and this helps solve the problem of information asymmetry between the company's managers and its shareholders (Wang *et al.*, 2021).

Some recent trends have emerged in accounting thought, such as the concept of corporate governance, increasing practices of accounting conservatism, and appropriateness of information accounting by the capital market and the stock market, which affected the importance of the concept of accounting conservatism and the degree of accounting conservatism followed by companies, as well as how to measure the degree of this conservatism, and also the extent of its effectiveness in preventing the collapse of stock prices to limit manipulation of stock prices, making it able to help investors in making rational investment decisions in investing their shares in a safe investment environment (Liu *et al.*, 2021).

Institutional governance is considered one of the factors that affect the degree of accounting conservatism (Salehi *et al.*, 2017). The existence of a good and binding governance system means more intervention and supervision by shareholders and general assemblies over boards of directors and their executive bodies to limit accounting manipulations that directly affect stock prices and pose a threat to them. Therefore, it can be said that the focus of corporate governance is the behaviour of management in the company, in an attempt to reduce the level of management's commitment to manipulating stock prices, and to move away from accounting conservatism and correct governance (Mrad, 2022; Alkhalidi, 2023).

The Palestinian institutional setting, Palestine Stock Exchange and its financial market are characterized by economic stagnation and are classified among the inactive global markets due to the Israeli occupation. It is an emerging market that is small in size and characterized by limited economic activity. It would be more appropriate to study a sample of the Palestine market, to know the extent to which non-active markets apply and care about these conservative policies (Chebbi, 2023). For example, in the Palestine market, investors do not need transparent, frank and honest information on which to base their investment decisions related to stock prices and the risk of their collapse. Does the Palestine Stock Exchange seek to interest in providing this information with the required degree of transparency and integrity, and does the inactive Palestinian Stock Exchange ignore these

conservative policies in terms of putting them into practice and paying attention to users and the transparency of the information provided to them or not?

Many studies have shown that the best way to deal with the risk of a collapse in stock prices is accounting conservatism and corporate governance, as companies that resort to accounting conservatism and governance seek to show their financial statements and reports more accurately and objectively, thus providing high-quality accounting information, and thus working to stimulate the stock market and it limits the causes of stock price collapses, because there is a direct impact on the quality of accounting information, as investors rely on it to make most of their investment decisions (Salehi *et al.*, 2017; Quan and Xiao, 2016; Liu *et al.*, 2021). This policy varies according to the strength of the market and its economic activity. Active and developed markets have many users who need information with a high level of transparency and make their decisions based on the information that companies disclose. Financial statements provide accurate information to users to help them make the best decision in their investments.

Therefore, corporate governance and accounting conservatism practices came to control and provide accurate information. Governance makes companies submit financial reports with high credibility and reliability, and prevents manipulation of their numbers. The presence of a high level of governance means more intervention and supervision by shareholders and the General Assembly over the boards of directors and their executive bodies to limit manipulations and to find out whether the markets that work to provide transparent information to their users seek to implement high accounting conservatism, so the management's practices in accounting conservatism in them are at a low level (Iwasaki *et al.*, 2018). It is limited, and the higher level of governance has a clear role in strengthening between accounting conservatism and ideal governance. The research problem is to know the level of accounting conservatism and governance for companies listed on the Palestine Stock Exchange, to know the risks that threaten the collapse of stock prices for companies listed on the Palestine Stock Exchange, and to identify the impact of accounting conservatism and governance on the collapse of stock prices in companies listed on the Palestine Stock Exchange. Finally, identifies the impact of accounting conservatism on the collapse and decline of stock prices in light of the presence of corporate governance in companies listed on the Palestine Stock Exchange.

The scientific importance of this study can be clarified from the few studies that discuss the relationship between accounting conservatism and governance on the collapse and decline of stock prices in companies listed on the Palestine Stock Exchange. The previous two variables have become controversial topics recently, and it is hoped that the current study will benefit researchers, given that it was applied to an emerging local market such as the Palestine Stock Exchange, which is an economically different market, and that it adds the governance variable to compare the effect of accounting conservatism and the effect of governance, and this is what was not It is dealt with in previous studies in the same context and on a market such as the Palestine Stock Exchange, which has different characteristics and qualities from others, and this is what distinguishes this study from other studies.

The real practical importance of the study lies in providing new indicators and insights into the level of accounting conservatism and its relationship with governance in accounting policies in the Palestine Stock Exchange using different methodologies and the relationship of all of this with the collapse and decline of stock prices of companies listed on the Palestine Stock Exchange, which serves investors in the Palestinian market. Obtaining transparent and accurate information and disclosures in light of a good control environment, which thus leads to them making wise investment decisions, reducing the risks that threaten the decline and collapse of the stock prices of these listed companies.

The main aim of this study is to examine the relationship between corporate governance and accounting conservatism and the likelihood of declining stock prices using regression

and correlation analysis on a sample of fifty-two companies listed on the Palestine Stock Exchange between 2016 and 2022. Based on this, the risk of declining stock prices is used to examine the relationship between corporate governance and accounting conservatism. To determine whether accounting conservatism and corporate governance can have a positive interaction, this article will empirically test the relationship between accounting conservatism, corporate governance, and stock price declines and crashes. It will also examine the substitution or complementary relationship between these two concepts in the process of limiting the risk of stock price crashes. By analysing the degree of accounting conservatism and the effectiveness of corporate governance structure, it will be possible to identify and release the firm's risk signals, improve the ability of stock prices to resist falling and offer useful recommendations and policy implications for the sound development of Palestine's capital and stock markets.

The study's findings are summed up as follows: implementing solid accounting practices can effectively stop stock prices from dropping and collapsing; accounting conservatism is strongly adversely connected with future stock price falling risks. Higher levels of corporate governance can effectively lessen the chance of future stock price drops and crashes. There is a large negative correlation between corporate governance and the risks of future stock prices plummeting. Corporate governance can reduce the negative association between accounting conservatism and stock price declines and crashes, hence mitigating the danger of stock price falls. This is known as the replacement impact of accounting conservatism and corporate governance. This study makes many policy recommendations to reduce the probability of a stock price decline: improving corporate governance, honing accounting conservatism, enhancing disclosure's purity and reliability, and increasing the number of sustainable disclosures. These suggestions can also be used as a template for Palestine's capital market's gradual and sustainable expansion.

The results of the experiment show a strong inverse relationship between accounting conservatism and the probability of a future stock market crash. This shows that a stock market catastrophe may be effectively avoided by putting solid accounting processes into place. Furthermore, corporate governance and the probability of a future stock market collapse are strongly correlated negatively, suggesting that improved corporate governance can reduce the chances of future market crashes. Moreover, corporate governance can lessen the correlation that exists between accounting conservatism and stock market meltdowns, hence lowering the likelihood of a meltdown. This is referred to as the corporate governance and accounting conservatism replacement impact.

This study enriches the literature with new contributions, namely that listed firms have a low level of accounting conservatism, but the decline in their stock prices has a negative statistical significance, and there is an indirect relationship between accounting conservatism and governance with the decline in stock prices in these listed companies. Accounting conservatism and governance also have a positive impact on the profits of listed companies. The study found a negative impact of accounting conservatism on the decline in stock prices in the Palestinian market. The study found a significant impact of accounting conservatism on risk management related to stock prices in listed Palestinian companies with a high level of governance. The Palestine Stock Exchange has a high degree of stock price risk associated with a low level of accounting conservatism and governance. Accounting conservatism and governance do not statistically significantly correlate with the danger of the Palestine Stock Exchange's stock values collapsing or declining. Furthermore, for listed Palestinian firms with bad governance, accounting conservatism has no statistically significant impact on the likelihood of a collapse and a decline in stock price. It was shown that there is no statistically significant correlation between accounting conservatism and the likelihood of a collapse and stock price decrease for Palestinian firms with low levels of corporate governance.

This investigation adds to two lines of study since many studies have looked at CEO motivations, management styles, corporate governance, corporate tax evasion, and other factors that affect the likelihood of a stock market catastrophe. The majority of current research focuses on lowering these risks by increasing information disclosure quality, comparability of financial statement information, and information openness. Previous research has examined the impact of corporate governance factors such as ownership structure, accounting transparency, board structure and operations, and managerial incentives on the probability of a stock market crisis. We contribute and add to the body of literature by investigating the function of corporate governance and accounting conservatism in the Palestinian context for firms listed on the Palestine Stock Exchange, a novel arrangement in the context of corporate regulation in Palestine, and by presenting data that shows governance accounting conservatism increases the risk of stock collapse.

The remainder of this paper is structured as follows. Following [section 1](#) introduction, [section 2](#) reviews the related literature and develops the research hypotheses. [Section 3](#) details the data and methodology employed in this research. The empirical research results and discussion are presented in [section 4](#). [Section 5](#) concludes the concluding remarks and the policy implications. Finally, [section 6](#) presents limitations and future research avenues.

2. Literature review and hypotheses development

2.1 Literature review and theoretical framework

2.1.1 Accounting conservatism. Accounting conservatism, defined by GAAB U.S., is a kind of limitation that controls the process of selecting an accounting policy. It's also regarded as one of the fundamental accounting concepts that leads to the measurement and recognition of prospective losses as well as the non-measurability and recognition of future gains. The book value approach to the value model was used as a guide. Since the ratio of book value to market value (BTM) has been identified in several studies as one indicator of accounting conservatism, the book-to-market technique is used to gauge the degree of conservatism in accounting. Because the ratio of book value to market value is employed, this method is referred to as the "net assets measure." [Hamdan \(2011a, b\)](#) has shown that a decline in the ratio of book value to market value to less than the proper one over time implies that an entity's stock value may be determined by comparing its book value with its market value. The business recognizes earnings and greater asset values through the application of conservative accounting principles. The goal of accounting conservatism is to make a corporation appear less valuable than it is by lowering the book value relative to market value.

Even if accounting conservatism is generally a human disposition, historical extrapolation shows that accounting applications have been affected by this idea throughout the previous five centuries. Numerous research studies attests to the fact that conservative accounting methods existed in reality before the 20th century. It was created during the start of the 14 centuries ([Callen et al., 2016](#)). But at that time, there were no defences or explanations offered for the accounting conservatism practices. During that time, the focus of academic inquiry was confined to detailing the practical implementation and stressing the reservation practice. From the middle of the previous century till the present, there has been a revived and increased interest in research on conservatism and its connection to various accounting concerns. One of the studies that most likely had the biggest impact on scholars' renewed interest in accounting conservatism was [Basu and Palazzo's \(2008\)](#) investigation. The Basu model has been used in several studies to gauge accounting conservatism.

[Al-Rashidi \(2013\)](#) conducted a sample of all firms listed between 2005 and 2008 on the Bahrain Stock Exchange, totalling fifty companies. The study's findings showed that there is a reasonable amount of accounting conservatism and that companies. Conversely, small-

sized businesses do not employ accounting conservatism, nor do large-sized businesses. Hamdan (2012a, b) sought to ascertain the degree of variation across firms and assess the degree of accounting conservatism while drafting financial reports released by public joint-stock companies listed on the Amman Stock Exchange.

Investigation into the variables influencing the degree of accounting conservatism in such firms, as well as the Jordanian public's contribution to the degree of conservatism, debt level, and kind of activity. The investigation measured accounting conservatism for a sample of 114 Jordanian enterprises throughout 2002–2006 using the Basu model. Several additional investigations have employed the BTM scale to gauge accounting conservatism. Hamdan (2012a, b) measured both the level of profits on the Bahrain Stock Exchange from 2005 to 2008 and established an acceptable threshold for accounting conservatism.

Li and Xu (2018) examined the link between actual profit management and conditional accounting conservatism in a sample of Chinese businesses. The study's findings indicated that the two practices have an antagonistic relationship. Caskey and Laux (2017) created a model for assessing how much institutional governance in the board of directors affects American firms' financial reporting alternatives and managers' motivations to avoid falsifying accounting reports.

Accounting conservatism is desired because it enables the Board of Directors to decide which investments are best for the firm, assuming that all other aspects of the model stay stable. An efficient control environment lessens managers' ability to manipulate, which increases the advantages of implementing accounting conservatism in businesses and lowers costs, even though it encourages managers to manipulate the accounting system to the point where it may mislead the board of directors and distort decisions.

Hamdan (2011a, b) examined the degree of conservatism in the accounting practices of Jordanian public shareholding industrial firms, as well as the contribution of accounting conservatism to the enhancement of financial report quality and the development of novel indicators concerning the degree of conservatism in accounting practices. Hamdan (2011a, b) used a different methodology and the Basu model to calculate the market value of 225 companies for two years to assess the degree of accounting conservatism and the factors influencing it in the Kuwaiti financial market (2009–2008).

2.1.2 Corporate governance. While assessing the degree of accounting conservatism used by businesses listed on the Kuwait Stock Exchange to prepare their financial reports, the outcomes of the two methods were comparable. Shwikar (2014) looked at the connection between accounting conservatism and profit quality. It also sought to quantify how accounting conservatism affected the features of profit quality and assess how corporate governance affected the application of accounting conservatism.

According to Mohammed (2011), one of the most crucial accounting rules that significantly affects the appropriateness and accuracy of the accounting data included in the financial statements is accounting conservatism. Additionally, it embodies the overarching objective of the study, which is to examine how accounting conservatism affects financial statements and confirm the accuracy and applicability of the data they provide to support the rational decision-making of stock market investors.

Callen *et al.* (2014) ascertain how accounting conservatism and corporate governance relate to one another. The correlation between the level of accounting conservatism used in financial report preparation both before and after the United States of America's capital market regulations were issued to safeguard investors and the use of corporate governance practices and guidelines to address takeover threats that corporations face. Awad (2010) sought to determine how much accounting conservatism in Egyptian accounting standards affected the level of financial reports for businesses listed on the Egyptian Stock Exchange. The study employed the c-score model to quantify accounting conservatism. The investigation made clear that one of the most crucial traits in accounting

conservatism, accounting data, particularly profit-related accounting data. The study provided clarification on the definition and nature of accounting conservatism, the definition and nature of the proper value of accounting information, and the connection between the two. With the outcomes attained furthermore, prior research indicates that, when considering the governance component, accounting conservatism has an impact on profits management techniques.

Caskey and Laux (2017) came to many conclusions, the most significant of which being that robust institutional governance and good supervision promote conservative accounting procedures against manipulation, and boost the effectiveness of corporate investments. Hamdan (2012a, b) revealed a decline in the degree of accounting conservatism in the financial reports that Jordanian businesses released, as small businesses tend to have more cautious accounting practices than larger ones.

According to Shwikar's (2014) research, the greater the accounting conservatism, the more errors there are in estimating the relationship between current profits and profits from the previous period. This decreases the predictive power of accounting profits and, ultimately, lowers the quality of accounting profits. Towards addition to the quality of accruals and the reduction in the quality of accounting profits, accounting conservatism often has a negative influence on the effectiveness of accumulations in attaining operational cash flows and, consequently, the fall or collapse of stock values.

According to Mohammed's (2011) findings, there is a greater level of accounting conservatism in private-sector joint-stock companies than in those connected to the public business sector. Accounting conservatism also serves to safeguard the interests of related parties and enhances the integrity and transparency of financial statements. The study also came to the conclusion that the financial statements level of accounting conservatism rose with the adoption of governance mechanisms, owing to variations in the financial monitoring bodies.

According to Callen *et al.* (2014), the implementation of rules and regulations governing governance to safeguard investors results in a significant and robust increase in conditional accounting conservatism. The study also discovered that some attributes, such as operating in a less competitive industrial environment, are associated with establishments that enhance their readiness to implement accounting conservative principles in relationship of financial statements. It is made up of managers who are excellent at what they do and aren't controlled by institutional ownership or the structure of the business.

2.1.3 Stock prices breakdown. Using the difference in volatility between rising and falling stock prices and the negative deviation degree of weekly stock return aftermarket adjustment. Kim *et al.* (2011) calculated the risk of a stock price crash and defined the dummy variable of a stock price crash. Kim *et al.* (2014) discovered that corporate social responsibility plays a bigger impact when governance mechanisms like the board of directors or institutional investors are inadequate. According to Yang *et al.* (2018), there was a degree of bubble in the stock prices of businesses with high goodwill, which raised the possibility of a stock market crash. High-quality audits and wealthy investors may effectively play the role of corporate governance to increase the openness of cash flow information and lower the danger of a cash flow manipulation-related stock market crash, according to Zhou and Lai (2016) and Liu *et al.* (2021). According to Kim and Zhang (2016), accounting robustness can lessen the chance that a company's stock price will drop in a future period. Accounting conservatism may enhance the quality of the information environment and facilitate the transmission of enterprise-specific information to external employees and workers, as demonstrated by Hu *et al.* (2014) and Iwasaki *et al.* (2018).

The relationship between accounting conservatism and the information environment was examined by Wang *et al.* (2020), and Kieschnick and Shi (2021). Wang (2015) discovered that to reduce the danger of a stock price breakdown, accounting conservatism and market for

goods rivalry complement one another. The transmission channel of “Corporate Responsibility Information Disclosure and Accounting Conservatism - Stock Price Fall Threat” in China’s capital market was examined and tested by [Quan and Xiao \(2016\)](#) and [Liu et al. \(2021\)](#). Long-term institutional investors show a strong negative link with stock price collapses, but short-term institutional shareholders show the reverse impact ([An and Zhang, 2013](#)). According to research by [Wang et al. \(2015\)](#), the likelihood of a stock market crash is much reduced as the most significant investors ownership percentage rises. This is because there is a supervision impact and “fewer burrowing effects” at play.

[Wang and Zhang \(2015\)](#) confirmed that big shareholders’ tunnelling positively affects the likelihood of a stock price drop from the principal-agent viewpoint. According to [Chen et al. \(2020\)](#), internal auditing is a crucial element of corporate governance that may successfully mitigate the positive association between big shareholders’ concerns and the likelihood of a stock price drop. ([Liang and Zeng, 2016](#)) looked at corporate governance mechanisms to determine how independent audits affected stock price fall likelihood. ([Zhang and Qiu, 2017](#)) discovered that the corporation offers a better degree of accounting conservatism when managerial ownership is minimal. [Zhang and Qiu \(2017\)](#) showed that there is a replacement link, which is more substantial in non-state-owned firms, between accounting conservatism and corporate governance, which can serve to control the impression management behaviour reports.

According to [Wang et al. \(2019\)](#), accounting conservatism can lessen the impact of the gender’s fault zone on actual earnings administration and hinder listed businesses’ real earnings management practices. [Wang et al. \(2021\)](#) discovered that there is a negative correlation between the cost of equity capital and corporate governance and that accounting conservatism lessens the contribution of corporate governance to this reduction. It was determined by looking at how independent the chairman of the board of directors is from executive management.

2.2 Hypotheses development

The advantages of contractual conservatism are highlighted in earlier research on company governance and accounting conservatism. As a governance tool, conditional conservatism helps debt and equity investors and raises the company’s worth. [Kim and Pevzner \(2010\)](#) discover that stronger present conditional conservatism is connected with a reduced risk of unfavourable news in the future and highlight the informational benefits of conditional conservatism for shareholders.

Verifiable information is referred to as “hard information” in this context. More verifiable information may be provided as a result of conservative accounting and corporate governance as these practices demand a greater level of verifiability of earnings than losses ([Chaney, 2007](#); [Chaney et al., 2011](#); [Haw et al., 2014](#)). Second, hard data establishes a baseline that enables reliable information to be produced from alternative “soft” sources (such management projections and voluntary disclosures). Investors may assess the validity of competing information sources by contrasting projections from various sources with the concrete figures that are finally realized. Outside investors will then be aware of the genuine worth of the issuing company as well as the information asymmetry that exists between issuers and underwriters and between knowledgeable and ignorant investors. As a result, there might be less knowledge asymmetry between issuers and possible investors, and there can be less dedication to the fundamentals and governance requirements. As a result, these theories serve as a starting point for the discussion that comes before establishing the hypotheses under the previously discussed theories.

The firms will receive an increasing amount of bad news as a result of the manager’s asymmetric disclosure behaviour. The stock values will be significantly influenced if the

negative news is announced. According to [Alia et al. \(2020\)](#), [Wang et al. \(2021\)](#), [Vishnani and Bhatia \(2023\)](#), the fundamental tenet of accounting conservatism is that proof of “good news” must meet stronger verification standards than validation of “bad news.” More resilient businesses can quickly incorporate negative news into their excess and are more adept at identifying when good news is overstated or bad news is buried ([Sultana, 2015](#); [Faysal et al., 2021](#)).

As a result, the management will be exposed and removed from office promptly for making false voluntary disclosures, preventing negative news from building up within the firm before being released to the public and lowering the danger of future share price declines and company failure ([Al Taweel, 2021](#); [Alwehwhah et al., 2022](#)). The Palestinian market environment is considered an inactive emerging market, with a weak regulatory environment, and does not enjoy a sufficient degree of development to allow it to be able to attract local savings, attract foreign ones, and direct them towards effective investment in Palestine. This means that this market is still unable to achieve the goals for which it was created. Corporate governance and accounting conservatism in public shareholding companies listed on the Palestine Stock Exchange contribute to revealing the extent of the efficiency of the emerging Palestinian market, as some previous studies have indicated that some financial reports are more conservative in the Palestinian market than the efficiency of the financial market, so the researchers are trying through this study determine the impact of accounting conservatism and corporate governance on the decline and collapse of stock prices and their risks in companies listed on the Palestine Stock Exchange, and then explain the relationship between accounting conservatism and corporate governance with the risk of falling stock prices.

Many studies at the international level have studied the impact of accounting conservatism and corporate governance on the risk of a collapse in stock prices in financial markets, but there is no study that has previously studied the impact of that conservatism and governance on the risk of a collapse in stock prices in the Palestinian context, so the study was based on building theory ([García Lara et al., 2009](#); [Haw et al., 2014](#)).

Supporting the study of emerging markets in terms of accounting conservatism and corporate governance and their impact on the risk of a collapse in stock prices. Given that the Palestinian market lacks such studies, we have prepared this study and built hypotheses based on previous studies in order to identify the impact of accounting conservatism and corporate governance on the risk of a stock collapse. In the Palestine Financial Market, and based on the above, researchers suggest that accounting conservatism and corporate governance will have an important role in reducing the risk of a collapse in stock prices among companies listed on the Palestine Stock Exchange, by influencing managers' motivations towards not investing in projects with a negative net present value. Early abandonment of projects with poor financial performance, which reduces and limits the problem of too much investment, and accounting conservatism and corporate governance, by reducing information asymmetry, makes companies reach better sources of financing at a lower cost, which reduces the problem of underinvestment, and thus dependence. On this theory we can develop our study hypotheses as described below. There are many studies that have studied the lack of application of accounting conservatism and sound corporate governance policies, and these studies have reached negative results as a result of not applying these standards for accounting conservatism and sound governance. This study was based on previous theories in this context, and the hypotheses of our current research were developed based on what is consistent with the environment of the Palestinian financial market and those listed companies operating on the stock exchange ([García Lara et al., 2009](#)). Based on previous studies and their discussion, the theory can be derived that leads to the development of the following hypotheses, which is that listed companies in Palestine do not apply governance policy properly, which leads to a decline in stock prices, and that these

companies also do not practice accounting conservatism policies as they should, which it negatively affects stock prices and leads to the collapse and decline of their market value.

The study also assumes that there is no significant relationship between accounting conservatism practices and the risk of a collapse in stock prices in listed Palestinian companies. The current theory supports these hypotheses, and in order to test the hypotheses and the reliability of the hypotheses used to support these hypotheses, we formulated and tested the study hypotheses in order to achieve the study objectives.

The Palestinian business environment is an environment that seeks to enhance the strong supervisory role in its financial market. Palestinian companies seek to enjoy a high level of conservatism, effective corporate governance, and a higher level of stock prices. However, the Palestinian financial market is considered an inactive market and an emerging market with a weak regulatory environment, and does not enjoy a degree of Sufficient development that allows it to be able to attract local savings, attract foreign ones, and direct them towards optimal investment in Palestine, which means that the Palestinian market is still unable to achieve the goals for which it was established, and has limited resources and insufficient management, and thus based on this supporting theory, the following research hypotheses can be formulated to achieve objectives and reveal the clear impact of accounting conservatism and corporate governance on the decline and collapse of stock prices in Palestinian listed companies. Therefore, the research hypotheses can be formulated as follows:

H1. Firms listed on the Palestine Market do not practice accounting conservatism policies properly and an in accepted manner, which are related to the decline or collapse of stock prices.

Corporate governance oversees and verifies the financial data supplied by the firm's internal leadership through several management and supervisory procedures (Andreou *et al.*, 2016). To curb management's self-interested behaviour and lessen the imbalance of information, an appropriate and successful system of governance can be established within the firm (Jarrar, 2016; Wang *et al.*, 2021; Nasir *et al.*, 2023). This will lessen the likelihood of future declines in stock prices and the risk of a crash, as well as opportunities for greed stemming from the agency relationship between big shareholders and small shareholders and financial interference (Fang and Jin, 2013; Yang *et al.*, 2015; Zhang and Fang, 2018; Sharma and Kaur, 2021). Consequently, the following additional hypothesis is put out in this article:

H2. Firms listed on the Palestine Stock Exchange do not properly implement corporate governance policy, which is related to the decline or collapse of stock prices.

The role that corporate governance and accounting conservatism have in limiting the likelihood of a stock market meltdown is examined (Ruch and Taylor, 2015). The relationship between corporate governance and accounting conservatism and the probability of a stock market crisis might theoretically take the form of a replacement or complimentary impact (Aljadba *et al.*, 2021). Accounting conservatism prevents management's self-interest and lessens the rise in agency expenses brought on by insufficient contracts. Consequently, accounting conservatism policies will be utilized actively by businesses with excellent corporate governance processes (De Sousa and Rêgo, 2019; Vishnani and Bhatia, 2019; Chen, 2021; Wang *et al.*, 2021; Mrad, 2022). Thus, the third hypothesis is put out in this article:

H3. There is no statistically significant relationship at the level of significance ($\leq 0.05\%$) for accounting conservatism regarding the risk of collapse and fall in stock prices for firms listed on the Palestine Stock Exchange.

The study thus contends that there may be complementary impacts across corporate governance and accounting conservatism on the risk of the stock prices falling and collapsing and that high-level corporate governance could improve the governance impact caused by

accounting conservatism on the risk of stock prices falling and malfunction threats (Caskey and Laux, 2017; Honarbakhsh, 2022). The impact of accounting conservatism on the risk of stock prices falling and breakdown, nevertheless, is comparatively small because of strong corporate governance mechanisms (Almutairi and Quttainah, 2019; Aljadba *et al.*, 2021; Mrad, 2022; Salehi and Azimi, 2022; Alkhalidi, 2023).

This suggests that there may be a relationship between corporate governance and accounting conservatism, meaning that the interaction across the two may have a different outcome on the risk of crashes in stock prices and falls (García Lara *et al.*, 2009; El-habashy, 2019; Qi *et al.*, 2019; Wang *et al.*, 2021; Aziz and Sofa, 2023). Consequently, this article presents the fourth hypothesis:

H4. There is no statistically significant effect at the level ($\alpha \leq 0.05\%$) of corporate governance (independence of the board of directors) on the relationship of accounting conservatism with the risk of decline and collapse of stock prices in firms listed on the Palestine Stock Exchange.

Based on the above discussion of the previous literature, and to achieve the objectives of the study, the authors developed and proposed the following study model:

The study model above Figure 1 was built to represent the assumed relationship between accounting conservatism as an independent variable, and the risks of decline and collapse of stock prices as a dependent variable. To control the relationship between them, the control variable corporate governance was used, which would control the relationship between the independent and dependent variables and explain it in a way that is closer to the truth.

3. Data sources and methods

3.1 Data source and sample

The research community consists of all industrial, service, and investment companies listed on the Palestine Stock Exchange. The number of companies listed on the Palestine Stock Exchange reached 52 companies, and all companies that belong to the financial sector in the market. The research sample is a comprehensive sample of companies whose data was available and did not stop trading during the research period, and for which all necessary data were completed to estimate the study variables for the period 2016–2022. The study sample was 52 Palestinian companies over a period of 7 over observations. We excluded some companies from the market for which data were not available, or those that stopped trading, merged with other companies, or were newly listed. Table 1 shows the research population and its sample.

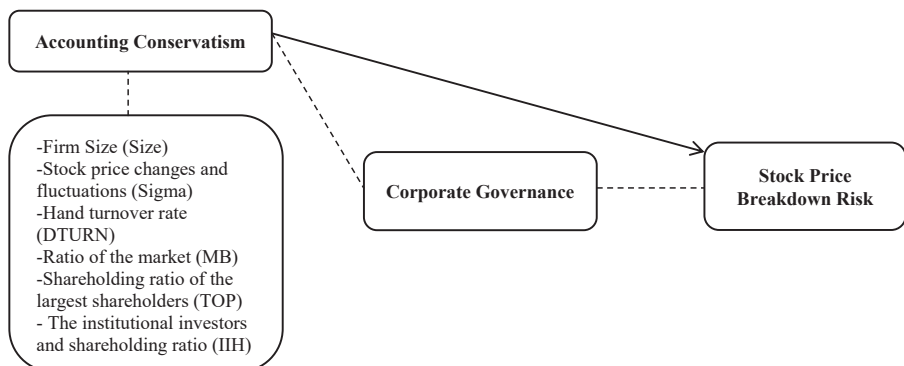


Figure 1.
Theoretical
Framework and
Research model

Source(s): Figure by authors

The firms included as examples in this article are those that were listed between 2016 and 2022 on the Palestine Stock Exchange. Since there is a chance that stock values will drop and collapse in the future, the data selection procedure in empirical analysis lags by one period. This paper's statistics on corporate governance and the dangers of plunging and collapsing stock prices come from the Palestine Stock Exchange database, while the information on accounting reservations comes from the database of businesses that are listed there (Badwan and Awad, 2023). Listed financial firms, first- and second-tier corporations, publicly traded firms without data, and listed companies with fewer than 40 weeks of annual trading weeks were all eliminated from the primary sample, leaving a final total of 226 A-share samples. Past scholars' experience indicates that Winsorize is employed to end continuous variables at 1% to stop aberrations from influencing the experimental outcomes.

3.2 Measurement of variables

3.2.1 Interpreted variables. This study employs the ups and downs volatility ratio (DUVOL) as an indirect variable to estimate the likelihood of a stock price fall, according to a study by Wang et al. (2021) and other experts. The following is the precise calculating procedure: Before determining the precise return $W_{i,t}$, t of stock i in the t week, we must first reduce the impact of market forces on distinct stock returns. This may be done by using the remaining term of the model (1), which is $W_{i,t} = \ln(1 + \varepsilon_{i,t})$. The particular weekly rate of return serves as the basis for the calculation of the pertinent stock market collapse indicators of risk.

$$R_{i,t} = \alpha_i + \beta_1 R_{m,t-2} + \beta_2 R_{m,t-1} + \beta_3 R_{m,t} + \beta_4 R_{m,t+1} + \beta_5 R_{m,t+2} + \varepsilon_{i,t} \quad (1)$$

Regarding these, $R_{i,t}$ is the weighted average return rate of the market's circulating market value in the t week, and $R_{m,t}$ is the return rate of stock i in the t week without taking cash dividends into account. Since $\varepsilon_{i,t}$ is residual, market returns cannot account for changes in stock prices. A larger absolute value indicates a larger difference between stock i and market returns if $\varepsilon_{i,t}$ is smaller than 0. Then, using $W_{i,t}$ as a basis, we create an index called DUVOL, which is the ratio of earnings variation to earnings fluctuations, to gauge the danger of collapse. The following is the calculating procedure: Initially, every week of the firm I in a given year is split into two groups based on whether the weekly-specific yield $W_{i,t}$ is more than the year-over-year average of the weekly-specific yield W_i , which was noted as a decline or n_{down} . Secondly, the firm's i week-specific rate of return $W_{i,t}$ was higher than the year-average rate of return n_{up} , which was documented. It can represent the unequal fluctuations in stock performance W_i in that year. The following is the calculating formula:

$$DUVOL = \log \left\{ \left[n_{up} - 1 \sum_{down} W_{i,t}^2 \right] / \left[n_{down} - 1 \sum_{up} W_{i,t}^2 \right] \right\} \quad (2)$$

The divergence of the yield to the left increases with increasing DUVOL value, indicating a higher chance of the firm collapsing.

Sector	Total	Palestine stock exchange PEX	
			Percentage %
Listed	52		100
Unlisted	4		7.7
Total sample	48		92.3

Source(s): Table by authors based on Palestine Stock Exchange - PEX (www.pex.ps)

Table 1.
Study sample

3.2.2 *Explanatory variables.* 3.2.2.1 Accounting conservatism. The determinant of accounting resilience in this work is the enhanced C – Score model, which relies on the earnings-stock return model developed by academics like Khan *et al.* (2019). Sana’a (2016), Vishnani and Bhatia (2023), Alia *et al.* (2020), Fuada (2021), Salehi and Azimi (2022), Badwan and Awad (2023) verified that this approach may be applied in Palestine. Moreover, they used a similar approach to investigate the stock returns of firms listed on the Palestine Stock Exchange. The precise method of computation is as follows: According to study findings (Khan *et al.*, 2019; Al-Halabi *et al.*, 2019; Al Taweel, 2021; Alwehwah *et al.*, 2022), the regression model of BASU is expanded upon, and it is believed that the asset size (Size), the price-to-book ratio (MB), and the asset-liability ratio (LEV) can indicate the rate of accounting revenue needed confirming the positive findings (G – Score) (Lafond and Roychowdhury, 2008). The linear function of the three may also be used to indicate the speed of verifying negative news (C – Score), as seen below:

$$G = \mu_0 + \mu_1 Size_{i,t} + \mu_2 MB_{i,t} + \mu_3 LEV_{i,t} \quad (3)$$

$$C = \lambda_0 + \lambda_1 Size_{i,t} + \lambda_2 MB_{i,t} + \lambda_3 LEV_{i,t} \quad (4)$$

Between these is $Size_{i,t}$, which represents the firm’s size as determined by the logarithmic mean of its total assets in the $t - year$. The market-to-book ratio $MB_{i,t}$ is the ratio of the firm’s book value i to its value in the market $t - year$, and the debt level $LEV_{i,t}$ is the ratio of the debt load of the business to equity market price $t - year$. In the following BASU model (5), G – Score is used in place of β_2 and C – Score is used in place of β_3 .

$$\frac{EPS_{i,t}}{P_{i,t-1}} = \beta_0 + \beta_1 D_{i,t} + \beta_2 R_{i,t} + \beta_3 D_{i,t} \times R_{i,t} + \varepsilon_{i,t} \quad (5)$$

From these, $P_{i,t-1}$ is the firm’s closing cost at the end of year $t - 1$; $R_{i,t}$ is the market-adjusted return on stock percentage for the firm i in year t ; $D_{i,t}$ is a dumb variable; and $EPS_{i,t}$ represents the profits per share in the firm i in year t , excluding recurring losses and gains. $D_{i,t}$ takes 1 when $R_{i,t} < 0$, $D_{i,t}$ and $D_{i,t}$ takes 0 in this case. It is possible to derive formula (5) by replacing formula (3) (4) into it (6).

$$\begin{aligned} \frac{EPS_{i,t}}{P_{i,t-1}} = & \beta_0 + \beta_1 D_{i,t} + R_{i,t} \mu_0 + \mu_1 Size_{i,t} + \mu_2 MB_{i,t} + \mu_3 LEV_{i,t} + D_{i,t} \times R_{i,t} \lambda_0 + \lambda_1 Size_{i,t} \\ & + \lambda_2 MB_{i,t} + \lambda_3 LEV_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (6)$$

To get an annual accounting conservatism index, regress formula (6) by annual the cross-section and insert the coefficients ($\lambda_0, \lambda_1, \lambda_2, \lambda_3$) derived from annual regression into formula (4).

3.2.2.2 Corporate governance. The influence of corporate governance on the likelihood of a stock price breakdown is addressed, but the general state of corporate governance is not determined (Hassan *et al.*, 2016; Jarrar, 2016; Nasir *et al.*, 2023). Instead, studies have shown that the connections between corporate governance and the likelihood of stock prices falling and collapsing focuses mainly on a single variable, such as the concentration of ownership, the independence of the board of directors, the type of oversight exercised by the shareholder, and the efficiency of internal management, etc. (Zaid *et al.*, 2019; Abdelkarim and Zuriqi, 2020; Hu *et al.*, 2020; Sharma and Kaur, 2021).

According to the total degree of corporate governance, an improved approach to investigate its influence on the likelihood of stock price crash is to choose the corporate governance assessment index system and create the corporate governance composite index (Woodcraft and Islaih, 2004; Berglund, 2020). This study synthesizes six corporate

governance factors encompassing three dimensions: TOP, STATE, CEO, IHH, OF, and BBS. It does this by drawing on the research methodologies of (Fang and Jin, 2013; Xu *et al.*, 2014; Yang *et al.*, 2015; Zhang and Fang, 2018; Badwan and Awad, 2023). To gauge the degree of corporate governance of listed firms, PCA, or principal component analysis, is used to create the corporate governance index or Index. Table 2 displays the variables' descriptions (Caskey and Laux, 2015).

3.2.3 Model design. The following model for analysis is constructed according to the theoretical analysis above, relying on domestic and international research outcomes, and integrating with the study's hypotheses put forward in this article (Fuada, 2021; Liu *et al.*, 2021; Wang *et al.*, 2021; Badwan and Awad, 2023). To confirm hypothesis 1, this study creates regression model 1 and examines the relationship between accounting conservatism and stock price decline and the likelihood of crashes, i.e. how accounting conservatism can successfully limit the likelihood of a stock price crash.

$$DUVOL_{i,t+1} = \alpha_0 + \alpha_1 C - Score_{i,t} + \alpha_2 CONTROLS_{i,t} + \varepsilon_{i,t} \quad (7)$$

In addition to these, C – Score stands for accounting conservatism, DUVOL for stock price breakdown risk, and CONTROLS for control variables. Table 2 above defines the particular variables. To investigate hypothesis 2, analyse the link between corporate governance and stock price breakdown risks, that is if corporate governance can successfully reduce the risk of the stock price breakdown, and create a regression following model.

$$DUVOL_{i,t+1} = \alpha_0 + \alpha_1 Index_{i,t} + \alpha_2 CONTROLS_{i,t} + \varepsilon_{i,t} \quad (8)$$

	Name of variables	Symbol of variables	Definition of variables
The explained variable	Stock prices breakdown risks	DUVOL	It has been calculated based on model (2) and (3)
The explanatory variables	Accounting conservatism	C – Score	It has been calculated based on model (3) and (4)
	Corporate governance	Index	The analysis of principal component of six indicators for corporate governance
The control variables	Firms size	Size	Natural logarithm of the total assets of listed firms
	Stock prices changes and fluctuation	Sigma	Standard deviation of the unique income and returns of the stock <i>i</i> in the current year
	Hand turnover rate	DTURN	Stock <i>i</i> turnover rate for the current year – turnover rate of the previous year/turnover rate for the current year
	The ratio of market	MB	The value of market/value of book for equity of shareholders
	The shareholding ratio of the largest shareholders	TOP	The number of shares which held by the largest shareholder/ the total number of shares
	The institutional investors and shareholding ratio	IHH	The institutional investors which holdings shares/the total number of all shares

Source(s): Table by authors

Table 2.
Summary of variables

The full index of corporate governance is called *Index*, and its coefficient, α_1 , is predicted to be significantly negative, meaning that the risk of the price of stocks breakdown decreases as corporate governance levels increase. Additional configurations align with the prior model (Wang *et al.*, 2021). The following regression model is developed to test hypothesis 3 and investigate the link between accounting conservatism and corporate governance in the manner of determining the risk of the stock price breakdown.

$$DUVOL_{i,t+1} = \alpha_0 + \alpha_1 C - Score_{i,t} + \alpha_2 C - Score \times Index_{i,t} + \alpha_3 Index_{i,t} + \alpha_4 CONTROLS_{i,t} + \varepsilon_{i,t} \tag{9}$$

Formula (9), which focuses on the symbol and significance of the coefficient α_2 , sets the interaction elements of accounting conservatism and corporate governance to evaluate how they interact to affect price breakdown risks.

3.3 Panel data models

Three primary panel data models exist: There are three types of utility models: (1) Fixed; (2) Random; and (3) Mixed. This study determines if the mixed cross-sectional model or fixed utility model is more appropriate by using the F test and LR test methodologies to conduct an initial assessment of the model form and by examining the F and LR test findings.

The LR test and the F test are useful techniques for choosing a model structure. Its purpose is to evaluate the test findings and decide between a fixed utility model and a mixed cross-section model. The fixed utilities model is thought to be more efficient than the hybrid cross-section model, contrary to the original idea that the hybrid cross-section model is more successful. The predicted outcomes of the fixed utility model must serve as the basis for calculating the F test and LR test statistics for the mixed section model. As a result, it consists of two steps: estimating the fixed utility model and determining the associated probability and test statistics in the second phase. The test findings are displayed in above Table 3.

The test findings show that the LR test and F statistic’s adjoint likelihoods, which are both larger than 0.1, are 0.4975 and 0.8062, respectively. The idea that the fixed utility model is less efficient than the mixed cross-section model cannot be rejected. Consequently, the present study must construct an integrated cross-sectional approach. More complex designs, which are frequently employed in a variety of sectors to investigate issues, including international finance, labour economics, tax policy, and economic expansion, may be established and verified via a combined cross-sectional approach.

4. Empirical findings and discussion

4.1 Pearson correlation matrix

This study evaluates the relationship between the variables before the model regression because it is believed that the internal relationships between the variables would affect the model’s efficacy.

The redundant fixed effects tests			
Text cross – section fixed effects			
Effects text	Statistic	Degree of Freedom	Probability
Cross – section F	0.769302	816.6283	0.8062
Cross – section χ^2	789.793046	815.2961	0.4975

Table 3.
LR and F test findings

Source: Authors’ calculations

	DUVOL	C – Score	Index	Size	MB	DTURN	Sigma	IIIH	TOP
DUVOL	1.000								
C – Score	-0.043*	1.000							
Index	-0.062**	0.071**	1.000						
Size	-0.173**	-0.512**	0.389**	1.000					
MB	0.113**	0.522**	-0.091**	-0.382**	1.000				
DTURN	0.056**	0.116**	-0.236**	-0.198**	0.203**	1.000			
Sigma	0.037**	0.142**	0.070**	-0.081**	0.342**	0.641**	1.000		
IIIH	-0.028	-0.186**	0.733**	0.325**	-0.067**	-0.418**	-0.052**	1.000	
TOP	-0.083**	-0.197**	0.621**	0.261**	-0.109**	-0.211**	-0.063**	0.467**	1.000

Note(s): A two-tailed *t*-test value of ** denotes a significant correlation at the threshold of 0.01%, while a two-tailed *t*-test score of * shows a significant correlation at the 0.05% threshold

Source(s): Table by authors

Table 4.
Pearson correlation
matrix

Table 4 shows that there is a significant negative correlation at the 5% level between accounting conservatism and the likelihood of a stock price crash likelihood (-0.043); similarly, there currently is a significant negative relationship at the 1% level across stock price break threat and the corporate governance index as a whole (-0.062); these results are consistent with Hypothesis 1 and Hypothesis 2, respectively. Among the control parameters, the largest shareholder's ownership proportion has a negative relationship with stock price threat and is significant at the 1% level of responsibility.

Despite having a negative correlation, the institutional shareholder ownership ratio is not very important when it comes to the probability of a crash in stock prices. At 1%, there is a considerable positive correlation between the price-to-book ratio, turnover rate, stock price volatility, and stock price collapse risk. To summarize, the study's two hypotheses, supported by the univariate testing findings, are supported by the considerably negative values of accounting conservatism, corporate governance aggregate index, and the price of stocks breakdown likelihood. To give more reliable empirical evidence for the present investigation, the multiple regression analysis must include controlling variables since there is no way to control the impact of other factors. Additionally, the table shows that there is no significant multicollinearity among the variables chosen for this article, despite the majority of the Pearson correlation coefficients among the research's variables having absolute values that are within the range of 0.5%.

4.2 Analysis of regression for stock price breakdown and accounting conservatism

This study uses multiple regression analysis designs to examine the association between accounting conservatism and stock market breakdown risk to confirm Hypothesis 1. It does this by adding control factors to Model 1. The findings of the regression analysis are displayed in Table 4, where the variables that explain the results are the accounting robustness index (C-Score) and the stock market breakdown index of risk (DUVOL), with the other parameters serving as the control factors.

Table 5 illustrates the negative correlation at a significant level of 5% between accounting conservatism C – Score and the threat of stock price breakdown suggesting that the firm's adoption of sound accounting practices has a governance influence that limits the likelihood

Explained variable				
DUVOL				
Variables	<i>T – Statistic</i>	Coefficient	Standard Error	Probability
Constant	6.87	1.3889	0.1742	0.000
C – Score	-3.11	-0.1748	0.0523	0.021
Size	-8.81	-0.897	0.0072	0.000
DTURN	3.25	0.01248	0.0031	0.000
MB	5.14	0.0175	0.0028	0.000
Sigma	-3.18	-1.6320	-2.91	0.015
TOP	-3.78	-0.2745	0.0531	0.001
III	3.94	0.2316	0.0479	0.000
<i>Test of model significance</i>				
P – value			0.000	
F – value			23.81	
<i>Test of goodness fit</i>				
<i>R</i> ²			0.0326	
Adjusted <i>R</i> ²			0.0315	

Table 5.
The impact of risk of a stock prices breakdown caused by accounting conservatism

Source(s): Table by authors

of a stock price decline. When paired with the findings of the correlation analysis mentioned above, it supports the first hypothesis put forward in this work and is in line with the opinions of academics (Hu *et al.*, 2020). Table 5 further demonstrates that the control variables used for this study satisfied Model 1's significance test. Regarding them, at the 1% level, the company's size and fluctuations in revenue have a substantial negative correlation with DUVOL. The reason for this could be that as the firm grows in size, its operational mechanism becomes more flawless, leading to a relatively stable price for the stock.

The largest shareholders in the form TOP shareholding ratio and revenues exhibit a significant negative correlation with DUVOL at 1%, suggesting that major investors effectively oversee the firm, preventing the leadership's self-serving actions, which lowers the possibility of a stock market crash; Given that the risk of a stock's price breakdown is decreasing, previous volatility in stock prices will provide a heads-up to capital market shareholders, lowering the likelihood that a stock price break down will occur in the future; fluctuations in income and shares prices fluctuation SIGMA are significantly unfavourable associated with DUVOL at the 5% level; The ratio of prices to books and MB and revenue swings are substantially positively connected.

The ratio of market to book value shows the firm's potential for development. The likelihood of a stock market crash rises when growth improves and is frequently caused by specific unknown hazards. Institutional shareholder shareholding percentage IIIH and changes in income have a strong positive correlation with DUVOL at 1% level, suggesting that naive, speculation, and cognitive hazards presented by large shareholders in Palestine are raising the risk of a stock price breakdown. The turnover percentage of DTURN has a significant positive correlation with DUVOL at 1% level, suggesting that the shareholder trading in arbitrage has exacerbated the volatility of the stock market. Additionally, Model 1's F value is substantial at the 1% level, suggesting that the model fits data well generally.

4.3 Analysis of regression for stock price breakdown and corporate governance

This study uses mixed regression analysis approaches to examine the association between corporate governance level and the price of shares breakdown ratio to prove Hypothesis 2.

Explained variable				
DUVOL				
Variables	<i>T</i> – Statistic	Coefficient	Standard Error	Probability
Constant	5.93	1.0765	0.1706	0.000
Index	-4.08	-0.2806	0.0567	0.001
Size	-8.63	-0.759	0.0075	0.000
DTURN	3.36	0.0138	0.0035	0.000
MB	4.85	0.0142	0.0022	0.000
Sigma	-2.64	-1.3226	0.4726	0.037
TOP	-1.79	-0.0985	0.0678	0.206
IIIH	4.86	0.4097	0.0691	0.000
<i>Test of model significance</i>				
P – value			0.000	
F – value			24.35	
<i>Test of goodness fit</i>				
R^2			0.0342	
Adjusted R^2			0.0328	

Source(s): Table by authors

Table 6.
The impact of risk of a
stock prices
breakdown caused by
corporate governance

Table 6 presents the findings of the regression evaluation. The explained parameter is the stock price breakdown risk Index, or DUVOL; the variable that explains the findings is the corporate governance level broad indication, or Index; the remaining variables are the control factors. The correlation coefficient between the corporate governance level Index and the stock prices breakdown risk, as shown in Table 6, is -0.2806 , indicating that the relationship is negative at a significant level of 1%. This finding supports hypothesis 2 in this study and is consistent with the opinions of Jensen and other academics. It also suggests that firms with strong corporate governance levels may successfully reduce the risk of future stock market breakdown (Leventis *et al.*, 2013). Additionally, Table 6 shows that the majority of the control variables included in this study met Model 2's significant test. Within these, there is a considerable negative correlation between DUVOL and Size of the firm, Sigma of the stock fluctuation in prices, and fluctuations of revenues at the 1 and 5% levels, correspondingly. According to hypothesis 1, which is not specified, the market-to-book ratio MB, turnover rate DTURN, and share-holding ratio IHH of institutional shareholders are considerably positively connected with the volatility of revenues at 1% level when contrasted with DUVOL.

The largest investors' ownership ratio failed the significance check despite having a negative correlation with the likelihood of a stock market meltdown. The control variable outcomes from regression are in keeping with the present condition of the Palestinian capital market, which is still in its early stages of development and has not yet reached maturity, as well as the findings of previous studies. The key components' regression findings are assumed to be reliable to a certain degree. Additionally, Model 2's F value is substantial at the 1% level, suggesting that the model fits data well generally.

4.4 Analysis of regression of interaction between stock price breakdown, accounting conservatism and corporate governance

The findings of the regression for Model 3 are displayed in Table 7. Model 3 extends Model 1 by including the accounting conservatism, the corporate governance aggregate index, and the C – Index of the index. The primary indicator of the interaction between corporate governance and accounting conservatism and the probability of a stock market crisis is the

Explained variable				
DUVOL				
Variables	<i>T – Statistic</i>	Coefficient	Standard Error	Probability
Constant	5.86	1.0765	0.1706	0.000
C – Score	-4.65	-0.6027	0.1083	0.000
C – Index	2.79	0.4801	0.1312	0.001
Index	-3.91	-0.3062	0.0582	0.000
Size	-7.74	-0.0807	0.0069	0.000
DTURN	3.21	0.0132	0.0028	0.000
MB	5.49	0.0156	0.0026	0.000
Sigma	-2.93	-1.4031	0.4591	0.021
TOP	-1.86	-0.0998	0.0663	0.212
IHH	4.78	0.4025	0.0684	0.000
<i>Test of model significance</i>				
			P – value	0.000
			F – value	21.43
<i>Test of goodness fit</i>				
			R^2	0.0381
			Adjusted R^2	0.0362

Table 7. The impact of risk of a stock prices breakdown caused by accounting conservatism and corporate governance

Source(s): Table by authors

coefficient of the C – Index. The findings demonstrate that the C – Score and Index Pearson correlation coefficients are -0.6027 and -0.3062 , respectively, which at the 1% level are significantly less correlated and are compatible with the prior [hypotheses 1 and 2](#), supporting the validity of the earlier investigation. Accounting conservatism and the corporate governance aggregate index, or C – Index, have a 0.4801 correlation coefficient that is significantly positive at the 1% level.

This demonstrates that accounting reliability has an adverse influence on future share price break hazards and that accounting conservatism has greater inhibitory effects on stock price breakdown risk in firms with lower corporate governance than in those who have better corporate governance. Overall, the intersecting risk of a drop in stock prices is substituted by accounting conservatism and corporate governance. As a substitute governance procedure, corporate governance can compensate for the lack of consistency when accounting conservatism is unable to adequately reduce the stock market's collapse risk of listed businesses, hence verifying [hypothesis 4](#). So, is there a different impact with this interaction? When we combine this with the earlier theoretical study, we can observe that effective corporate governance may lessen aberrant volatility in the price of shares, enhance the quality of accounting data public disclosure, and ease agency interactions. A sensible and efficient system of corporate governance may contribute positively to the development and enhancement of company culture by acting as a soft restriction system and reducing the likelihood of a stock market meltdown.

Consequently, the negative relationship between accounting conservatism and the likelihood of a stock market crisis is mitigated by corporate governance. The regression findings of Model 2 do not identify additional control factors that are comparable. Furthermore, Model 3's F value is significant at the 1% level, suggesting that the model fits data well generally.

4.5 Robustness test

We performed a robustness test on this investigation using the methodology of the prior robustness check to improve the trustworthiness of the study outcomes. Since the primary

Explained variable NCSKEW Variables	T – Statistic	Coefficient	Standard Error	Probability
Constant	3.41	1.0039	0.1918	0.000
C – Score	-4.83	-0.9741	0.1827	0.000
C – Index	3.39	0.9875	0.1794	0.000
Index	-5.25	-0.5016	0.0807	0.000
Size	-5.47	-0.0795	0.0097	0.000
DTURN	1.65	0.0106	0.0041	0.023
MB	3.54	0.0179	0.0046	0.000
Sigma	-2.98	-1.9631	0.6711	0.011
TOP	-1.35	-0.1261	0.1012	0.298
IIH	4.86	0.5603	0.1024	0.000
<i>Test of model significance</i>				
P – value			0.000	
F – value			15.63	
<i>Test of goodness fit</i>				
R ²			0.0287	
Adjusted R ²			0.0262	

Source(s): Table by authors

Table 8.
The findings of
robustness check

variable in this article is the break risk of stock prices, the interpretation component for the DUVOL, or variability ratio of income, that evaluates the fall risk of stock prices, is the negative return skew coefficient NCSKEW. Table 8 displays the findings of the regression. The C – Score for accounting conservatism and the corporate governance Index as a whole have correlation values of -0.9741 and -0.5016 , which means that both are significant at the 1% level. The significance analysis was successful at the 1% level, and the cross-multiplication C – Index has a Pearson correlation value of 0.9875. This is in line with the prior study findings in this work, which demonstrate the robustness of the study's findings in this article.

5. Conclusion and policy implications

This study examines the effects of corporate governance and accounting conservatism on the risk of a collapse and breakdown of the stock market using panel data from 226 A-share-listed firms that were listed on the Palestine Stock Exchange between 2016 and 2022. Based on this investigation, the study examines the potential interaction between these two factors and the likelihood of a market decline. The investigation's study findings demonstrate a substantial negative correlation between accounting conservatism and the likelihood of a stock market meltdown in the future. This suggests that implementing excellent accounting practices can successfully avert a stock market meltdown.

Furthermore, there is a strong negative correlation between the likelihood of future stock market breakdown and corporate governance, meaning that stronger corporate governance can lessen the chance of future market collapses. Furthermore, corporate governance can reduce the negative association between accounting conservatism and stock price crashes, hence mitigating the probability of a stock market breakdown. This is known as the replacement impact of accounting conservatism and corporate governance.

The level of risk of a decline and collapse in stock prices in the Palestine Stock Exchange is high, while the level of accounting conservatism and governance is low. There is no statistically significant relationship between accounting conservatism and governance with the risk of the collapse and decline of stock prices in the Palestine Stock Exchange. Also, there is no statistically significant effect of accounting conservatism on the probability of the risk of collapse and fall in stock prices in listed Palestinian companies that have a low level of governance. As for Palestinian companies that do not have a high level of corporate governance, it was found that there is no statistically significant effect of accounting conservatism on the probability of the risk of collapse and decline in stock prices.

The following policy implications are summed up in light of this article's results. To increase the degree of accounting conservatism, listed firms ought to first reinforce outside auditor oversight, enhance the method for disclosing accounting data and information, and further enhance the system development. It is imperative to enhance and improve the ownership structure of publicly traded firms, construct a robust mechanism for replacing shareholders, fortify the duties of the board of managers and directors, proficiently fulfil the role of independent managers and directors, and develop and refine both the inside and outside corporate governance framework. By implementing strong mechanisms for accounting information disclosures and good corporate governance, we can mitigate the danger of stock prices falling for publicly traded businesses and promote stable and well-organized capital markets.

This study also provides some actionable implications for decision-makers and practitioners in the Palestine Stock Exchange, which is that the Securities Commission in the Palestine Stock Exchange requires companies listed on it to implement conservative disclosure policies and mandatory governance for all companies. Working to educate traders in the financial markets in general, and investors in the Palestine Stock Exchange, of the

importance of practicing accounting conservatism for companies, and applying governance laws as a necessity because their financial statements must be characterized by credibility in all the disclosures they make, and enjoy the presence of information with a high level of transparency and credibility. They have great confidence, which contributes to influencing their investment decision-making with high efficiency.

The Board of Directors plays an effective role in influencing accounting conservatism and implementing effective governance policy for these companies, which has a direct impact on the risk of collapse and decline in the stock prices of these companies. Working to provide a high-quality auditing environment that increases accounting conservatism and implements a strict governance policy that limits undesirable practices such as earnings management and exposes company shares to the risk of decline or collapse.

Based on our results, which indicate a low level of accounting conservatism in Palestinian companies included in their lists and financial reports, the researchers recommend the necessity of activating the supervisory role played by the Authority supervising the financial market with the aim of activating of disclosure process and obligating companies to increase obligation of conservatism within reasonable levels of it would increase the reliability of the information presented and available to users of all financial statements related to stock prices and returns. External auditors must clearly express their opinions on the level of conservatism of the companies being audited, as their opinions show the adequacy of the level of conservatism within the published financial statements and reports, and the positive impact this has on increasing the quality of the financial reports of these companies.

The management of the Palestinian financial market, in cooperation with the relevant professional and governmental bodies, must hold more specialized technical workshops and seminars with the aim of directing the managements of Palestinian listed companies to the necessity of adhering to the acceptable level of conservatism within the published financial statements and reports.

Setting limits on the percentage of administrative ownership in listed companies to achieve convergence of interests between management and shareholders, and contribute to restricting the utilitarian behaviour of management in choosing accounting policies and reducing the effect of increasing the percentage of ownership in increasing the degree of accounting conservatism and the difference of interests between management and shareholders, and thus increasing agency costs.

6. Limitations and future research avenues

The limitations of the current research are that higher levels of corporate governance can significantly reduce the harmful effect of accounting conservatism on the probability of stock price breakdown and decline in the future on the study sample used, and these results cannot be generalized to all company stocks that were excluded in this study. Both accounting conservatism and corporate governance have alternative effects in reducing the risk of a stock price collapse. The last research limitation is that the sample size of this study is somewhat small, and therefore the effects of the results cannot be used on all unlisted companies, and they cannot be generalized to all of these companies except only to companies listed on the Palestine Stock Exchange.

As for future research directions, the study suggests new research directions by using other variables from the financial market such as the age of the company, the market value of the company, financial constraints, financing restrictions, the size of the board of directors in these companies, and gender diversification in the board of directors.

Future studies can be suggested on the extent to which public joint stock companies listed on the Palestine Stock Exchange apply corporate governance rules and the impact of this on

their financial evaluation using economic value added. In addition to the impact of the degree of accounting disclosure in public joint-stock companies listed on the Palestine Stock Exchange based on corporate governance rules on the economic value added.

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Corresponding author

Nemer Badwan can be contacted at: nemerbadwan.economics.finance@gmail.com, nemer.badwan@ptuk.edu.ps

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