ACCOUNTING CONSERVATISM, CORPORATE GOVERNANCE, AND STOCK PRICE CRASH RISK: EMPIRICAL EVIDENCE FROM VIETNAM

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Abstract: ***This research investigates the correlation between accounting conservatism, corporate governance, and stock price crash risk in the emerging market economy of Vietnam. The paper researched the listed company from 2012 to 2020, and the finding indicates accounting conservatism and corporate governance significantly impact the price crash of the stocks. In addition, the role of accounting conservatism and corporate governance can complement each other on the effect of crash risk. In general, the results are compatible with the argument over whether accounting conservatism depicts negative information and corporate governance mechanism plays a role in supervising managers' behaviors to limit the managers to hoard bad news that could lead to the stock price crash.***

• Keywords: *accounting conservatism, corporate governance, price crash risk.*

JEL codes: G01; G32; G40

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1. Introduction

Vietnam's stock market has experienced substantial growth in recent years, with corporate information playing a crucial role in investors' decision-making processes. Both individual and institutional investors rely on financial disclosures to analyze firm performance and predict future stock returns. Nevertheless, information transparency remains limited, and information asymmetry continues to pose significant risks to market participants. Jin and Myers (2006) argue that asymmetric information between corporate insiders and outside stakeholders can trigger stock price crashes. Specifically, managers' intentional withholding of unfavorable information leads to the accumulation of bad news, which, once released suddenly, results in a sharp decline in stock prices (Kothari et al., 2009).

This study investigates the relationship between accounting conservatism, corporate governance mechanisms, and future stock price crash risk. Emerging markets are typically characterized by higher stock price volatility (Bekaert and Harvey, 1997), partly due to underdeveloped legal institutions and disclosure frameworks. Consequently, stock prices in such markets are more sensitive to information shocks. In the context of Vietnam, empirical evidence on how accounting conservatism and governance practices influence crash risk remains limited and requires further examination.

Accounting conservatism is expected to mitigate information asymmetry by facilitating the timely recognition of bad news in financial reporting (LaFond and Watts, 2008). A higher degree of conservatism constrains managerial opportunism in delaying the disclosure of adverse information, thereby reducing the likelihood of extreme price adjustments in the future. However, the Financial Accounting Standards Board (FASB) does not regard conservatism as a qualitative characteristic of financial information, arguing that it may compromise neutrality. As Vietnam moves forward with the adoption of International Financial Reporting Standards (IFRS), reassessing the relevance and implications of accounting conservatism for financial statement users becomes increasingly important.

From a corporate governance perspective, shareholders emphasize the prompt disclosure of negative information to safeguard their interests against managerial information hoarding (Cullinan

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et al., 2012). Empirical evidence provided by Lara et al. (2009) suggests that firms with stronger governance structures tend to adopt more conservative accounting practices. Nevertheless, cross-country differences in legal enforcement and investor protection raise questions about whether governance mechanisms can effectively enhance financial reporting quality and reduce crash risk.

Overall, this research contributes to the literature by providing empirical insights into the role of accounting conservatism and corporate governance in mitigating future stock price crash risk in Vietnam's emerging market. It also offers implications for improving financial reporting transparency and strengthening governance frameworks to support sustainable market development (Kim and Zhang, 2015).

2. Literature review

2.1. Stock price crash risk

Ak et al. (2016) define a stock price crash as a significant and sudden decline in a firm's stock price. This phenomenon is a major concern for investors because it adversely affects investment efficiency and increases portfolio risk. Li et al. (2017) further argue that stock price crash risk reflects information asymmetry risk, particularly downside risk, which is a critical consideration in portfolio management and asset valuation.

Prior literature provides two main theoretical perspectives to explain the determinants of stock price crash risk, focusing on firm-level and investor-level factors. From the corporate perspective, Jin and Myers (2006) propose that information asymmetry between corporate insiders and external stakeholders is a key driver of crash risk. Building on this view, Kothari et al. (2009) suggest that managers may strategically withhold unfavorable information to maximize private benefits. The accumulation of undisclosed bad news can eventually lead to a sudden and large-scale information release, triggering negative market reactions and causing a sharp decline in stock prices.

From the investor perspective, Hong and Stein (2003) highlight investor disagreement as another important mechanism underlying stock price crashes. Their model distinguishes between optimistic and pessimistic investors who adopt different trading strategies. In particular, pessimistic investors, such as institutional investors facing short-selling constraints, may be unable to act immediately on negative information. As a result, unfavorable information is gradually accumulated in the market. When this information becomes sufficiently substantial to alter expectations about a firm's intrinsic value, optimistic investors may rapidly revise their beliefs and initiate widespread selling. This collective sell-off intensifies downward price pressure and ultimately leads to a sudden and severe stock price decline.

Overall, these theoretical arguments suggest that both managerial disclosure behavior and heterogeneous investor beliefs play significant roles in explaining the occurrence of stock price crash risk in financial markets.

2.2. Accounting Conservatism

The accounting system serves to present firms' financial position and performance, with income acting as a key indicator of economic value (Zhong, 2016). Within this framework, accounting conservatism has long been regarded as an important attribute of financial reporting (Sterling, 1970). Basu (1997) defines accounting conservatism as the asymmetric verification of gains and losses, whereby negative information is recognized more promptly than positive information.

In capital markets, information asymmetry between corporate insiders and external investors is considered a major driver of conservative reporting practices (LaFond and Watts, 2008). By accelerating the recognition of bad news, accounting conservatism can constrain managerial opportunism and limit the concealment or accumulation of unfavorable information. However, the Financial Accounting Standards Board (FASB) does not recognize conservatism as a qualitative characteristic of financial information, arguing that it may bias financial statements and undermine neutrality. Consistent with this view, prior studies suggest that excessive conservatism can distort accounting information and reduce the effectiveness of users' decision-making (Guay et al., 2006; Gigler et al., 2009).

2.3. Hypothesis development

Accounting conservatism is grounded in the principle that losses are recognized more promptly than gains, thereby constraining managerial incentives to conceal unfavorable information and reducing information asymmetry (LaFond and Watts, 2008). From a signaling theory perspective, conservative reporting provides stakeholders with

timely signals about potential losses, supporting investment decisions and enhancing monitoring effectiveness. Firms that consistently apply conservative accounting practices are more likely to disclose bad news in a timely manner, limiting the accumulation of undisclosed negative information. According to Jin and Myers (2006), information asymmetry arising from the separation between managers and stakeholders is a key driver of stock price crash risk. Managers may exploit this separation to hoard adverse information for private benefits. Once accumulated bad news is released suddenly and in large volumes, stock prices may decline sharply (Kothari et al., 2009). Accordingly, this study proposes that accounting conservatism mitigates such behavior and reduces the likelihood of sudden price crashes.

H1: Accounting conservatism negatively affects future stock price crash risk.

Corporate governance mechanisms such as monitoring, incentive alignment, and control systems play an essential role in ensuring the reliability of financial information provided by management (Wang et al., 2020). Agency theory suggests that the separation between ownership and control encourages managers to prioritize short-term personal benefits, including withholding unfavorable information. Empirical evidence indicates that weak governance environments are associated with declining stock prices (Johnson et al., 2000) and higher levels of information asymmetry, which undermine financial transparency (Kanagaretnam et al., 2007; Cai et al., 2009). Effective governance is therefore expected to restrict managerial opportunism, improve disclosure quality, and reduce the accumulation of bad news, thereby lowering the risk of future stock price crashes.

H2: Corporate governance negatively affects future stock price crash risk.

Prior studies document a negative association between accounting conservatism and corporate governance (Chi, 2009; Ahmed and Duellman, 2011; Cullinan et al., 2012), while Lara et al. (2009) argue that strong governance can enhance conservatism by promoting timely loss recognition. Considering their complementary roles, the combined effect of conservative reporting and effective governance is expected to strengthen monitoring and further reduce crash risk.

H3: Corporate governance positively moderates the relationship between accounting conservatism and future stock price crash risk.

3. Methodology

3.1. Research model

Based on theories and previous studies about the relationship between accounting conservatism and stock price crash risk, the author proposes hypothesis H1: accounting conservatism has a negative impact on stock price crash risk. As developed in Kim and Zhang (2015) previous research models, the model for estimating and testing hypothesis H1 is mentioned below:

$$CRASH_{i,t+1} = \alpha_0 + \alpha_1 C_SCORE_{i,t} + \sum_{q=2}^{m} \alpha_q CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3.1)$$

While, $CRASH_{i,t+1}$ is the index of company i stock price crash risk in year t+1; $C_CSORE_{i,t}$ is the company i conservatism degree in year t; $CONTROLS_{i,t}$ is company i control variables in t year. In model (3.1), the author proposes that accounting conservatism has a negative impact on future stock price crash risk. In other words, coefficient α_1 is expected to have a negative sign in the model (3.1). In addition, corporate governance can limit the behavior of managers, and the author proposes the hypothesis H2: corporate governance has a negative relationship with the risk of stock price crash. As developed in Wu and Fang (2020) previous research models, the model for estimating and testing hypothesis H1 is mentioned below:

$$CRASH_{i,t+1} = \alpha_0 + \alpha_1 CG_INDEX_{i,t} + \sum_{q=2}^{m} \alpha_q CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3.2)$$

While, $CRASH_{i,t+1}$ is the index of company i stock price crash risk in year t+1; $CG_INDEX_{i,t}$ is the composite index evaluating the effectiveness of the corporate governance of company i in year t; $CONTROLS_{i,t}$ is company i control variables in year t. Similarity to model (3.1), when implementing model regression (3.2), based on the author's arguments about the negative impact of corporate governance on future stock price crash risk, thereby coefficient α_1 is expected to have a negative sign in the model (3.2). Finally, with hypothesis 3, corporate governance increases the correlation between accounting conservatism and future stock price crash risk, so the author uses the model of hypothesis 1 and the addition of a control variable (corporate governance) to test the simultaneous impact of both factors. To be specific, the author believes the expected coefficient α_3 have a negative sign in the model (3.3). In other words, the additional impact of corporate governance on accounting conservatism leads to the crash risk. The stock price will fall more sharply than in the

previous two models. The model to estimate and test hypothesis 3 is mentioned below:

$$CRASH_{i,t+1} = \alpha_0 + \alpha_1 C_{CSORE\ i,t} + \alpha_2 CG_{INDEX\ i,t} + \alpha_3 C_CSORE_{i,t} * CG_{INDEX\ i,t} + \sum_{q=2}^{m} \alpha_q CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3.3)$$

While, $CRASH_{i,t+1}$ is the index of company i stock price crash risk in year t+1; $C_CSORE_{i,t}$ is the company i conservatism degree in year t; $CG_INDEX_{i,t}$ is the composite index evaluating the effectiveness of the corporate governance of company i in year t; $CONTROLS_{i,t}$ is the control variables for company i in year t include SIZE (company size), LEV (financial leverage), ROA (ratio of profit divided by total assets), TOP (highest ownership ratio of the business), DTURN (difference of the mean index of stock turnover), STD (standard deviation of weekly interests for a year).

3.2. Measurement

3.2.1. Dependent variable- stock price crash risk

Most of the stock price crash risk studies implement two measures of Chen et al. (2001) are NCSKEW and DUVOL. Specifically, Chen et al. (2001) used the first regression model as follows:

$$r_{i,\tau} = \alpha_i + \beta_{1i} r_{m,\tau-2} + \beta_{2i} r_{m,\tau-1} + \beta_{3i} r_{m,\tau} + \beta_{4i} r_{m,\tau+1} + \beta_{5i} r_{m,\tau+2} + \varepsilon_{i,\tau} \quad (3.4)$$

While, $r_{i,\tau}$ is the company i stock return in week τ and $r_{m,\tau}$ is the return on the weighted market index for the week. Then take the natural logarithm of the residue arithmetic from equation (3.4) plus 1 as follows $W_{i,t} = \ln(1+\varepsilon_{i,t})$, with $W_{i,t}$ is the typical return weekly rate of company i. If ε_(i,t)is less than 0, and the absolute value gets larger, it indicates a larger deviation between stock i and the market return.

First, the author will use the NCSKEW measure (also known as the negative standard deviation of the profit distribution) proposed by Chen et al. (2001). To be specific, formula (3.5) is mentioned as follows:

$$NCSKEW = -\frac{\left[n(n-1)^{\frac{3}{2}} \sum W_{i,\tau}^3\right]}{\left[(n-1)(n-2)(\sum W_{i,\tau}^2)^{\frac{3}{2}}\right]} \quad (3.5)$$

While n is the number of trading weeks in the year of company i's stock, in terms of significance, if the NCSKEW index is large, the stock of company i has a higher risk of price crash. The second measure is based on the separation of two groups: a "falling" week when returns are below the annual average and a "rising" week when returns are above the yearly average. Specifically, formula (3.6) is mentioned as follows:

$$DUVOL = \log\left[\frac{(n_u - 1)\sum_{DOWN} W_{i,\tau}^2}{(n_d - 1)\sum_{UP} W_{i,\tau}^2}\right] \quad (3.6)$$

While, nd is the number of weeks where the weekly return is lower than the average return of year t, and nu is the number of weeks where the weekly return is higher than the average return of year t. In terms of significance, if the DUVOL index is large, corporate i stock has a higher risk of price crash.

3.2.2. Explanatory variable

Accounting conservatism

According to the research results of Khan and Watt (2009), it is developed based on the linear regression equation of accounting earnings on stock returns to measure conservatism, precisely equation (3.7) is mentioned below:

$$\frac{EPS_{i,t}}{P_{i,t-1}} = \alpha_0 + \alpha_1 DR_{i,t} + \beta_0 R_{it} + \beta_1 R_{it} \times DR_{it} + \varepsilon_{it} \quad (3.7)$$

While EPSi, t represents earnings per share excluding company i's regular profit and loss in year t; is the closing price of company i at the end of year t-1; represents the total return on the 52-week stock of company i in year t; DRi, t is a dummy variable when Ri, t <0, then Ri, t take 1, otherwise, Ri, t take 0. Developed on the Basu (1997) model, the measure of Khan and Watt (2009) measures the firm size, market to book ratio, and leverage. To be specific, equations (3.8) and (3.9) are mentioned as follows:

$$G_SCORE = \beta_0 = \mu_1 + \mu_2 Size_{i,t} + \mu_3 MTB_{i,t} + \mu_4 Lev_{i,t} \quad (3.8)$$

$$C_SCORE = \beta_1 = \lambda_1 + \lambda_2 Size_{i,t} + \lambda_3 MTB_{i,t} + \lambda_4 Lev_{i,t} \quad (3.9)$$

While, G_SCORE is the sensitivity of earnings to positive stock returns; C_SCORE is a measure of accounting conservatism; Size is the size of company i year t; MTB is the ratio of market value to book value of company i year t; Lev represents the financial leverage of company i year t. Substituting equation (3.8) and (3.9) into equation (3.7), the final equation of the measure of Khan and Watt (2009) is mentioned as follows:

$$\frac{EPS_{it}}{P_{it-1}} = \alpha_0 + \alpha_1 DR_{it} + (\mu_1 + \mu_2 Size_i + \mu_3 MTB_i + \mu_4 Lev_i)R_{it} + (\lambda_1 + \lambda_2 Size_i + \lambda_3 MTB_i + \lambda_4 Lev_i)R_{it} \times DR_{it} + (\delta_1 Size_i + \delta_2 MTB_i + \delta_3 Lev_i + \delta_4 Size_i \times DR_{it} + \delta_5 MTB_i \times DR_{it} + \delta_6 Lev_i \times DR_{it}) + \varepsilon_{it} \quad (3.10)$$

Then, apply regression on equation (3.10) to get the coefficients. The next step is based on these coefficients. The author takes numbers into equation

(3.9) to obtain a measured rate for the accounting conservatism of enterprises.

Composite index evaluating the effectiveness of the corporate governance

Previous studies have used measures for each aspect of corporate governance (Andreou, 2016; Yeung, 2018; Wu and Fang, 2020). However, in this study, the author uses a composite index evaluating the effectiveness of particular corporate governance so that the overall impact on stock price crash risk can be captured**.** Specifically, in the aspect of ownership structure, the author uses three factors: state ownership (STATE), institutional ownership (IIH), and the highest ownership rate (TOP). In the aspect of board characteristics, the author uses three significant factors: board size (BSIZE), percentage of independent members (IND), and the duality of the chairman and director (CEO). Then, the author applies principal component analysis (PCA) of the factors STATE, IIH, TOP, BSIZE, IND, CEO to build a composite index for the variable CG_INDEX.

3.3. Research data

The study uses data from listed companies on the Ho Chi Minh Stock Exchange (HOSE) and Hanoi (HNX) from 2012 to 2020 to ensure accurate and complete information. Although the impact of the Covid-19 epidemic caused the economic recession, the stock market in 2020 grew with a record number of individual investors. On the other hand, the study will be up-to-date and relevant to the current situation. In addition, the reason for choosing 2012 is that the year before 2012, the world financial crisis affected Vietnam in the period 2008-2011, and Vietnam's stock market was young and still in the stage of development. The data source is provided from FiinPro software developed by Stoxplus company, and the author collects the information published on Vietstock to measure corporate governance. After entirely collecting data samples, the author will remove data samples containing businesses with negative equity and trading weeks less than 26. In addition, the author also removes outliers in variables NCSKEW, DUVOL, SIZE, STD at 1% to conduct regression to reduce too high or too small volatility in the regression dataset.

4. Results and discussions

4.1. Descriptive Statistics

The research sample comprises 3,414 firm–year observations from 482 companies listed on the HOSE and HNX exchanges. Table 4.1 presents descriptive statistics, including the number of observations, mean, standard deviation, and the minimum and maximum values of the dependent, independent, and control variables.

Stock price crash risk is measured by the variables **NCSKEW** and **DUVOL**, following Chen et al. (2001). The sample shows average values of 0.44 and 0.48, respectively. These figures are higher than those reported in prior studies conducted in developed and emerging markets, such as Kim and Zhang (2015) in the U.S. and Fu (2018) in China, where the corresponding measures are negative. Similarly, Wu et al. (2020) document lower crash risk levels in Taiwan. The results suggest that the Vietnamese stock market is relatively more sensitive to information shocks. Notably, the mean NCSKEW value is comparable to the cross-country evidence reported by Jin and Myers (2006).

In addition, the maximum values of NCSKEW and DUVOL reach 5.47 and 3.10, indicating that some listed firms face a substantially high risk of stock price crashes. The wide range of the measures, with minimum values of -2.80 and -1.49, also reflects considerable volatility and unpredictability in the market. This pattern may be attributed to limited transparency in corporate information disclosure, which weakens investor confidence and increases exposure to future downside risks.

Table 4.1. Descriptive statistics for variables in the model

Variable	Sample	Mean	Standard deviation	Smallest value	Highest value
Dependent variable					
NCSKEW	3.414	0,4402	1,2397	-2,8010	5,4655
DUVOL	3.414	0,4799	0,9126	-1,4862	3,0995
Explanatory variable					
C_SCORE	3.414	-0,0153	0,1686	-0,3153	3,1895
CG_INDEX	3.414	0,1354	0,9702	-1,0538	3,2763
Control variable					
SIZE	3.414	27,4407	1,4273	23,9808	31,6209
LEV	3.414	4,3225	6,5944	0,0033	93,5221
ROA	3.414	0,0544	0,0757	-0,8529	0,6102
TOP	3.414	0,2342	0,2784	0,0000	0,9976
DTURN	3.414	0,0161	0,9252	-8,1504	8,2905
STD	3.414	0,0007	0,0074	-0,0267	0,0243

Source: Author's calculations

Note: NCSKEW is the negative standard deviation of the profit distribution and DUVOL are a measure of stock price crash risk according to the model of Chen et al. (2001), C_SCORE is accounting conservatism measured by the model of Khan and Watt (2009), and CG_index is a measure of corporate governance by using the principal component analysis method of factors including board size, percentage of independent members, and CEO duality, the percentage of State and institutional ownership and the most significant percentage of shareholders' ownership, the control variable SIZE is the natural logarithm of the total assets of the enterprise, LEV is the financial leverage measured by total debt long-term and short-term liabilities divided by total assets, ROA is the ratio of the net return on assets, TOP is the largest percentage of shareholder ownership, DTURN is the difference between the current and previous year's stock turnover, STD is the standard deviation of the stock's return in the year.

When considering the correlation between the variables mentioned in table 4.3, the positive correlation of two measures of price crash risk, NCSKEW, and DUVOL, is 0.813. This means that the two measures of stock price crash risk used by the author in this paper can complement each other in testing the relationship between conservatism, corporate governance, and stock price crash risk. Using two stock price crash risk scales will strengthen the author's argument about the research questions. The main explanatory variables in the author's model, C_SCORE variable, the negative correlation coefficient between the two risk measures NCSKEW and DUVOL with the explanatory variable C_SCORE is -0.162 and -0.165, respectively. This has provided preliminary evidence for the author on the hypothesis that accounting conservatism reduces the risk of future stock price crashes.

Table 4.3: Correlation matrix

Biến	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) $NCSKEW_{t+1}$	1.000									
(2) $DUVOL_{t+1}$	0.813	1.000								
(3) C_SCORE_t	-0.162	-0.165	1.000							
(4) CG_INDEX_t	-0.032	0.0003	-0.125	1.000						
(5) $SIZE_t$	0.072	-0.120	-0.068	0.080	1.000					
(6) LEV_t	-0.049	-0.013	0.201	-0.001	0.144	1.000				
(7) ROA_t	0.141	0.063	-0.436	0.072	-0.047	-0.322	1.000			
(8) TOP_t	0.011	0.023	-0.147	0.434	0.119	-0.071	0.102	1,000		
(9) $DTURN_t$	0.025	0.028	-0.090	0.002	0.041	-0.045	-0.001	-0.011	1,000	
(10) STD_t	0.101	0.108	-0.231	-0.007	-0.079	-0.131	0.162	-0.047	0.184	1,000

Source: Author's calculations

Note: Dependent variable NCSKEW and DUVOL are a measure of stock price crash risk according to model of Chen et al. (2001), explanatory variable C_SCORE is accounting conservatism measured by model of Khan and Watt (2009) and CG_index is a measure of corporate governance by using the principal component analysis method of factors including board size, percentage of independent members, and CEO duality , the percentage of State and institutional ownership and the largest percentage of shareholders' ownership, the control variable SIZE is the natural logarithm of the total assets of the enterprise, LEV is the financial leverage measured by total debt long-term and short-term liabilities divided by total assets, ROA is the ratio of net return on assets, TOP is the largest percentage of shareholder ownership, DTURN is the difference between the current and previous year's stock turnover, STD is the standard deviation of the stock's return in the year.

Similar to C_SCORE, the CG_INDEX, explaining the corporate governance, also gives a negative correlation coefficient with the NCSKEW stock price crash risk is -0.032. Thereby, the author' proposed theories are satisfactory. It is reasonable to assume that corporate governance reduces the risk of a stock price crashes in the future. Besides, the correlation matrix of the two main variables has similar results to previous studies such as Kim and Zhang (2015) or Wang et al. (2020). On the other hand, the correlation coefficient between the two variables C_SCORE and CG_INDEX has a negative correlation of -0.125. This means that corporate governance negatively impacts accounting conservatism, leading to the relationship between accounting conservatism and stock price crash risk may be reduced when considering more effects of the corporate governance mechanism.

4.2. Findings

4.2.1. The correlation between accounting conservatism and stock price crash risk

Regression results in Table 4.4 indicate a significantly negative relationship between **C_SCORE** and both measures of stock price crash risk (**NCSKEW** and **DUVOL**) at the 1% significance level under OLS and FGLS estimations. This finding supports **Hypothesis 1**, confirming that accounting conservatism reduces future crash risk. The result remains robust across alternative crash risk proxies and is consistent with prior evidence from the U.S. (Kim and Zhang, 2015) and China (Wang et al., 2020), suggesting that conservatism plays a similar risk-mitigating role in the Vietnamese market despite differences in market development.

Theoretically, stock price crash risk arises from information asymmetry caused by the separation between managers and shareholders, which allows managers to conceal adverse information (Jin and Myers, 2006). Accounting conservatism, defined as the more timely recognition of losses than gains (Basu, 1997), constrains such opportunistic behavior by accelerating the disclosure of bad news. As a result, the accumulation of undisclosed negative information and the likelihood of sudden, large-scale disclosure that triggers price crashes is reduced.

Empirical estimates further show that accounting conservatism can predict a decline in future crash risk of approximately 5.8–9.3%. This highlights its role as an early warning signal for investors, reflecting more transparent reporting and limiting managerial incentives to hoard unfavorable information.

Table 4.4: Regression results on the relationship between conservatism and stock price crash risk

Variable	$DUVOL_{t+1}$		$NCSKEW_{t+1}$	
	OLS	FGLS	OLS	FGLS
C_SCORE_t	-1,152*** *(-7,87)*	-1,169*** *(-9,67)*	-0,894*** *(-4,67)*	-0,818*** *(-6,26)*
$SIZE_t$	-0,106*** *(-6,34)*	-0,092*** *(-7,75)*	0,090*** *(4,11)*	0,054*** *(3,55)*
LEV_t	0,011*** *(3,02)*	0,003 *(1,22)*	-0,000 *(-0,02)*	-0,002 *(-0,46)*
ROA_t	-0,076 *(-0,24)*	-0,092 *(-0,36)*	1,857*** *(4,47)*	1,110*** *(3,71)*
TOP_t	-0,090 *(-0,95)*	-0,068 *(-0,98)*	-0,145 *(-1,17)*	-0,193** *(-2,29)*
$DTURN_t$	0,019 *(0,79)*	-0,002 (-0,10)	0,014 *(0,46)*	0,005 *(0,26)*
STD_t	9,716*** *(3,10)*	11,292*** *(5,18)*	13,540*** *(3,30)*	9,132*** *(3,23)*

Variable	$DUVOL_{t+1}$		$NCSKEW_{t+1}$	
	OLS	FGLS	OLS	FGLS
Intercept factor	2,914*** *(6,52)*	2,550*** *(7,90)*	-2,413*** *(-4,13)*	-1,470*** *(-3,57)*
Sample	2.796	2.796	2.796	2.796
Business number	482	482	482	482
R^2	0,093		0,058	
Year and industry control	Yes	Yes	Yes	Yes

Source: Author's calculations

*Note: NCSKEW and DUVOL is the risk of stock price crash according to the model of Chen et al. (2001), the C_SCORE variable is the index of accounting conservatism measured by the model of Khan and Watt (2009), SIZE variable is the natural logarithm of total assets of the business, LEV is financial leverage measured by total long-term debt and short-term debt divided by total assets, ROA is the ratio of net profit on assets, TOP is the largest percentage of shareholder ownership, DTURN is the difference between the current and previous year's stock turnover, STD is the standard deviation of the stock's expected return. The symbols ***, **, * represent the 1%, 5%, and 10% statistical significance for the p-value.*

4.2.2. The correlation between corporate governance and stock price crash risk

Regression results in Table 4.5 show a negative relationship between corporate governance and future stock price crash risk. The coefficient of the governance variable is statistically significant at the 1% level when crash risk is measured by **NCSKEW** (ranging from -0.077 to -0.065), providing empirical support for **Hypothesis 2**.

These findings suggest that effective corporate governance can mitigate crash risk by strengthening monitoring mechanisms at both internal and external levels, including oversight by the board of directors, institutional investors, and regulatory authorities. Since this study employs a composite governance index capturing both internal and external governance practices at the firm level, direct comparison with prior empirical evidence remains limited.

Table 4.5: Regression results on the relationship between corporate governance and stock price crash risk

Variables	$DUVOL_{t+1}$		$NCSKEW_{t+1}$	
	OLS	FGLS	OLS	FGLS
CG_INDEX_t	0,001 *(0,05)*	-0,017 *(-0,87)*	-0,077** *(-2,44)*	-0,065*** *(-3,00)*
$SIZE_t$	-0,087*** *(-5,19)*	-0,068*** *(-5,08)*	0,108*** *(4,99)*	0,075*** *(4,81)*
LEV_t	0,008** *(2,37)*	0,000 *(0,03)*	-0,002 *(-0,40)*	-0,006 *(-1,62)*
ROA_t	0,736** *(2,42)*	0,775*** *(2,99)*	2,523*** *(6,40)*	1,668*** *(5,60)*
TOP_t	-0,001 *(-0,01)*	0,050 *(0,63)*	0,034 *(0,26)*	0,039 *(0,44)*
$DTURN_t$	0,036 *(1,53)*	0,006 *(0,37)*	0,029 *(0,95)*	0,014 *(0,84)*
STD_t	14,394*** *(4,62)*	19,700*** *(9,20)*	17,295*** *(4,28)*	14,864*** *(5,72)*
Intercept factor	2,344*** *(5,24)*	1,850*** *(5,17)*	-2,962*** *(-5,10)*	-2,056*** *(4,91)*
Sample	2.796	2.796	2.796	2.796
Business number	482	482	482	482
R^2	0,073		0,052	
Year and industry control	Yes	Yes	Yes	Yes

Source: Author's calculations

*Note: NCSKEW and DUVOL is the risk of stock price crash according to the model of Chen et al. (2001), the C_SCORE variable is the index of accounting conservatism measured by the model of Khan and Watt (2009), SIZE variable is the natural logarithm of total assets of the business, LEV is financial leverage measured by total long-term debt and short-term debt divided by total assets, ROA is the ratio of net profit on assets, TOP is the largest percentage of shareholder ownership, DTURN is the difference between the current and previous year's stock turnover, STD is the standard deviation of the stock's expected return. The symbols ***, **, * represent the 1%, 5%, and 10% statistical significance for the p-value.*

Prior studies provide mixed evidence on the relationship between corporate governance and stock price crash risk. Andreou (2016) shows that institutional investors can reduce future crash risk by effectively monitoring managerial behavior, whereas Callen and Fang (2013) find no consistent association between board characteristics and crash risk. Despite differences in legal environments and firm characteristics across countries, the findings of this study remain broadly consistent with the Vietnamese context.

Overall, the results suggest that effective corporate governance strengthens managerial oversight, limits the concealment of adverse information, and reduces the accumulation of bad news. By constraining managerial opportunism, governance mechanisms help lower the likelihood of sudden large disclosures that may trigger future stock price crashes.

4.2.2. The correlation between accounting conservatism, corporate governance, and stock price crash risk

Table 4.6 reports the joint regression results of accounting conservatism and corporate governance on stock price crash risk. The interaction term **C_SCORE × CG_INDEX** is negative and statistically significant at the 5% level when crash risk is measured by **DUVOL** under the FGLS estimation. This finding supports **Hypothesis 3**, indicating that corporate governance strengthens the effect of accounting conservatism in reducing future crash risk.

The results suggest that both accounting conservatism and governance mechanisms play complementary roles rather than acting independently. Their combined effect enhances monitoring and improves the timely disclosure of adverse information, thereby limiting the accumulation of bad news that may trigger sudden price declines. In this context, corporate governance functions as an additional signaling and control mechanism facilitating prompt recognition of losses through discretionary reporting practices (Lara et al., 2009) which reinforces the risk-mitigating role of conservative accounting.

Overall, stronger governance structures amplify the effectiveness of accounting conservatism in

lowering stock price crash risk, highlighting the importance of integrating financial reporting quality with internal and external monitoring mechanisms.

Bảng 4.6: The regression results on the relationship between accounting conservatism, corporate governance, and stock price crash risk

Variable	$DUVOL_{t+1}$		$NCSKEW_{t+1}$	
	OLS	FGLS	OLS	FGLS
C_SCORE_t	-1,264*** (-7,63)	-1,284*** (-9,87)	-1,003*** (-4,63)	-0,979*** (-6,58)
CG_INDEX_t	-0,019 (-0,74)	-0,044** (-2,32)	-0,092*** (-2,84)	-0,084*** (-3,68)
C_SCORE_t*CG_INDEX_t	-0,258 (-1,41)	-0,296** (-2,19)	-0,185 (-0,77)	-0,225 (-1,45)
$SIZE_t$	-0,105*** (-6,29)	-0,091*** (-7,59)	0,094*** (4,28)	0,052*** (3,12)
LEV_t	0,011*** (3,15)	0,004 (1,49)	0,000 (0,07)	-0,002 (-0,67)
ROA_t	-0,130 (-0,41)	-0,107 (-0,42)	1,834*** (4,39)	0,974*** (3,11)
TOP_t	-0,077 (-0,77)	-0,019 (-0,25)	-0,027 (-0,20)	-0,036 (-0,38)
$DTURN_t$	0,019 (0,79)	-0,000 (-0,01)	0,015 (0,49)	-0,002 (-0,12)
STD_t	9,667*** (3,08)	11,291*** (5,14)	13,515*** (3,30)	13,416*** (4,85)
Intercept factor	-2,517*** (-4,30)	-1,404*** (-3,12)	2,900*** (6,47)	2,522*** (7,74)
Sample	2.796	2.796	2.796	2.796
Business number	482	482	482	482
R^2	0,094		0,060	
Year and industry control	Yes	Yes	Yes	Yes

Source: Author's calculations

*Note: NCSKEW and DUVOL is the risk of stock price crash according to the model of Chen et al. (2001), the C_SCORE variable is the index of accounting conservatism measured by the model of Khan and Watt (2009), SIZE variable is the natural logarithm of total assets of the business, LEV is financial leverage measured by total long-term debt and short-term debt divided by total assets, ROA is the ratio of net profit. on assets, TOP is the largest percentage of shareholder ownership, DTURN is the difference between the current and previous year's stock turnover, STD is the standard deviation of the stock's expected return. The symbols ***, **, * represent the 1%, 5%, and 10% statistical significance for the p-value.*

Conclusions

This study examines the relationship between accounting conservatism, corporate governance, and stock price crash risk using data from listed firms over the period 2012–2020. The empirical findings indicate that both accounting conservatism and effective governance mechanisms are negatively associated with future crash risk in an emerging market context. Their combined application significantly reduces the likelihood of price crashes, as conservative reporting facilitates the timely recognition of losses, while corporate governance strengthens managerial oversight and limits the concealment of adverse information.

Based on these results, the study recommends that business owners and shareholders enhance compliance with accounting regulations and strengthen internal monitoring mechanisms. Investors should also assess the timeliness of loss recognition and the transparency of financial disclosures before making investment decisions. From a policy perspective, securities regulators should promote stricter requirements for transparent corporate disclosure, and the Ministry of Finance may consider the role of accounting conservatism in the ongoing development of accounting standards.

Despite its contributions, the study is subject to methodological limitations. Future research can extend this line of inquiry by employing alternative approaches and exploring additional determinants of stock price crash risk in Vietnam's emerging market.

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