The Relationship between Peers' Weak Performance and Conditional Conservatism: The Moderating Role of Corporate Governance, Information Asymmetry, and Managerial Ability

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Abstract

The purpose of this study is to examine the relationship between peers' weak performance and conditional conservatism, with a focus on moderating roles of corporate governance, information asymmetry, and managerial ability. Conditional conservatism refers to the timely recognition of bad news relative to good news in earnings. Based on the peer effect literature, the performance of similar firms within the same industry (peers) can influence the decisions and financial reporting characteristics of the focal firm. Accordingly, weak peer performance is expected to affect firms' conservative reporting behaviors by increasing investors' sensitivity to negative news. Weak corporate governance, high information asymmetry, and managerial ability can further shape how managers respond to weak peer performance. The sample consists of 137 firms listed on the Tehran Stock Exchange over the period 2012–2023. The hypotheses were tested using panel data