



# The impact of Enterprise Digital Transformation on Accounting Conservatism

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**Abstract.** Accounting conservatism has exerted a significant impact on financial reporting and accounting practices for an extended period. Through the utilization of modern information technology for digital transformation, enterprises can propel the digitization of accounting, consequently enhancing the quality of accounting reports and promoting accounting conservatism. This article delves into the pertinent data of all A-share listed companies from 2016 to 2020. It examines the moderating effect of corporate transparency and tests the influence of digital transformation on corporate accounting conservatism. Research findings indicate that the digital transformation of enterprises can substantially elevate the level of accounting conservatism. In comparison to companies with higher corporate transparency, those with lower transparency can amplify accounting conservatism through digital transformation. This implies that corporate transparency plays a counteractive role in the impact of digital transformation on accounting conservatism. Ultimately, this study augments the existing research on accounting conservatism and enterprise digital transformation. Moreover, it offers valuable insights for listed companies seeking to harness modern information technology for optimizing internal governance.

**Keywords:** Enterprise digital transformation; Accounting conservatism; Corporate transparency; Regulatory effect

## 1 Introduction

The digital transformation of enterprises opens up a new avenue for internal governance. As we enter the era of the digital economy, accounting is also contemplating a shift towards digitalization. Financial accounting is undergoing constant digitization to align with the digital economy and the internet environment. This ongoing digitization enhances and advances accounting processes, leading to a more effective enhancement of the quality of company information disclosure. It facilitates the provision of more accurate information for anticipated users of financial statements and better serves the requirements of stakeholders.

Accounting conservatism primarily stems from contractual obligations and regulatory requirements. It mandates that asset income and cost expenses are recognized

without error when reporting income and costs. Basu defines accounting conservatism as the identification of losses, with Billy's approach emphasizing swift recognition. Watts asserts that accounting conservatism serves as a crucial corporate governance mechanism. This practice contributes to elevated financial reporting quality, safeguards investor interests, and mitigates information asymmetry between financial statement users and companies. In the context of evolving auditing standards, can disclosing an enterprise's digital transformation foster accounting conservatism? Furthermore, does the impact of digital transformation on accounting conservatism differ across varying levels of corporate transparency? This article aims to delve into these inquiries.

At present, there exists limited extensive research on the global impact of digital transformation on accounting conservatism. Additionally, there are currently no scholars investigating how digital transformation affects accounting conservatism within various transparency environments, considering the regulatory implications of corporate transparency. Therefore, this article employs data from all A-share listed companies spanning 2016 to 2020 to empirically examine the influence of corporate digital transformation on accounting conservatism. A comprehensive analysis was conducted to determine whether the digital transformation of enterprises has varying effects on accounting conservatism across different levels of transparency environments. The findings of this study contribute to the body of knowledge on accounting conservatism and enterprise digital transformation. Moreover, the article offers valuable insights and recommendations for listed companies seeking to optimize internal governance through the utilization of modern information technology

## 2 Literature review

### 2.1 Research on Enterprise Digital Transformation

This article summarizes previous research literature on digital transformation in enterprises and finds that existing research mainly focuses on two aspects: transformation motivations and transformation paths.

In terms of transformation drivers, Li (2022) believes that the current digital trend in China has brought new vitality to the market, and enterprises have also deeply integrated advanced information technology with themselves<sup>1</sup>. Xu (2022) believes that the digital economy era is the current trend, so digital transformation is inevitable for enterprises to keep up with the pace of the times<sup>2</sup>. Wang (2022) believes that in terms of internal governance, digital transformation of enterprises is also important, and the use of modern information technology is conducive to the optimization of internal governance<sup>3</sup>. Tu (2022)'s research found that digital transformation of enterprises can enhance their competitiveness, and the introduction of new technologies can not only improve output, but also enhance employee satisfaction<sup>4</sup>.

In terms of transformation path, An (2022) believes that for enterprises to undergo digital transformation, it is necessary to start from the level of enterprise strategy and then develop into production, operation, finance and other links<sup>5</sup>. Ding (2022) believes that digital transformation of enterprises requires everyone in the enterprise to have a

digital mindset, integrating digital and every part of the enterprise with information technology<sup>6</sup>.

## 2.2 Research on accounting conservatism

This article summarizes previous research literature on accounting conservatism and finds that existing research on accounting conservatism mainly focuses on how it arises and the influencing factors.

In terms of causes, Zhai (2022) and others will find that cautious accounting earnings are more evident in situations where the company's tax burden is severe<sup>7</sup>. In terms of regulation, Chen (2022) found that the robustness of company accounting earnings significantly improved before and after the reform of accounting standards<sup>8</sup>. In terms of litigation, Basu found that the response of accounting earnings to loss expenses is more timely than the response of income gains; Watts found that accounting conservatism can reduce expected litigation costs.

The existing research mainly focuses on the influencing factors of accounting conservatism from the perspectives of corporate governance and auditing. In terms of corporate governance, Sun (2022) found that a higher proportion of independent directors usually implies stronger accounting conservatism<sup>9</sup>; Xie (2022) found that an excessively high shareholding ratio of institutional investors can lead to a decrease in the company's accounting conservatism<sup>10</sup>; Ye (2021) et al. found that moderate executive compensation incentives can significantly improve accounting conservatism<sup>11</sup>.

## 3 Research Assumptions

The digital transformation of enterprises effectively addresses the issue of information asymmetry within the capital market. This transformation encourages the digitization of financial accounting, thereby enhancing the authenticity, completeness, real-time nature, and effectiveness of financial reports. It significantly elevates the transparency of enterprises and the comprehensibility of disclosed information, making financial reports more accessible to investors. Research by Louis Phillippe et al. indicates that the digital transformation of enterprises amplifies investors' engagement with the disclosed information, leading to increased attention on the company's financial reports. Consequently, the risks highlighted in the financial reports of listed companies become visible to investors, capturing their interest. To avert undue focus on financial risks, listed companies strive to minimize such risks, potentially giving rise to heightened accounting conservatism. Furthermore, enterprise digital transformation not only augments accounting quality, but also acts as a barrier against accounting errors and omissions. Additionally, digital transformation has the potential to enhance internal governance within enterprises, contributing to a certain elevation in the company's accounting conservatism.

Based on the above analysis, the following assumptions are proposed:

H1: Digital transformation of enterprises can significantly improve accounting conservatism.

## 4 Method

### 4.1 Sample selection and data sources

This article selects Chinese A-share listed companies from 2016 to 2020 as the research object and processes the data as follows: (1) excluding ST and PT companies; (2) Excluding financial and insurance companies; (3) Remove samples with missing data; (4) To eliminate the impact of outliers, tail reduction was performed on all continuous variables in the sample interval at the upper and lower ends of 1%.

The financial data of listed companies is taken from CSMAR Guotai An and Wind databases. Enterprise digital data is obtained through Python crawlers and PDF text analysis.

### 4.2 Research Model

In order to examine whether the digital transformation of the reporting enterprise has an impact on the accounting conservatism of the company, this article constructs a model as follows:

$$Cscore_{i,t} = \beta_0 + \beta_1 Digital_{i,t} + \sum_j \beta_j Control_{j,i,t} + \varepsilon_{i,t}$$

Among them, Cscore is an indicator to measure the accounting robustness of Company 'i' in the t-th period, and KAM is the frequency of digitization related vocabulary in Company i's MD&A annual report in the t-th period. After the Hausman test, this article uses a fixed effects model to conduct multiple regression analysis on each variable.

## 5 Results

### 5.1 Multiple regression

Table 1 shows the results of multiple linear regression analysis for the entire sample, and column (1) shows the regression results of digital transformation of enterprises on corporate accounting conservatism under a fixed effects model. The results show that digital transformation of enterprises has a positive impact on corporate accounting conservatism and is significant at the 1% level. Column (2) shows the regression results after adding control variables. The results indicate that adding control variables in multiple linear regression still significantly affects the regression coefficient of digital transformation of enterprises at the 1% level. The previous hypothesis 1 has been validated.

**Table 1.** Multiple regression

Variable	(1) Cscore	(2) Cscore	(3) Cscore2	(4) Cscore
Digital	0.030*** (24.59)	0.021*** (13.47)	0.011*** (23.52)	0.022*** (13.43) (-3.17)
Constant	0.030*** (31.51)	0.254*** (6.91)	0.008 (0.55)	0.248*** (6.75)
Controls	Yes	Yes	Yes	Yes
Observations	4,076	4,073	4,073	4,073
R-squared	0.084	0.19	0.166	0.192

## 5.2 Robustness testing

This article employs a variable replacement method to assess the robustness of benchmark regression outcomes. The benchmark regression model employed to gauge accounting robustness extends from the model established by Kahn and Waters in Basu. In the robustness examination, the article substitutes the method for measuring accounting robustness, adopting the model outlined by Basu. This involves assessing a company's accounting conservatism by evaluating the promptness with which it acknowledges positive and negative news through its accounting earnings. Upon substituting the dependent variable measurement, a multiple regression analysis was re-conducted, with the results presented in column (3) of Table 1. The outcomes demonstrate that even after altering the accounting conservatism measurement approach, the positive influence of enterprise digital transformation on accounting conservatism remains statistically significant at the 1% level. This consistency reaffirms the robustness of the conclusion.

## 6 Research conclusions and policy implications

This article employs data from A-share listed companies spanning 2016 to 2020 to empirically examine the impact of corporate digital transformation on accounting conservatism. The research findings reveal that the digital transformation of enterprises can significantly enhance the degree of accounting conservatism. Moreover, subsequent robustness testing confirms the reliability of the obtained conclusions. Through the analysis of the moderating influence of corporate transparency, the research identifies that in comparison to companies with higher levels of corporate transparency, those with lower transparency can effectively enhance accounting conservatism through the adoption of digital transformation.

Based on the research results, this article draws inspiration:

(1) Digitalization requires the recognition and understanding of all personnel within the enterprise, especially middle and senior management, to utilize modern information

technology for the purpose of conducting enterprise-wide digital transformation. An enterprise's grasp of digitalization, along with comprehension of digital technologies and methods, constitutes the essential foundation for contemplating business transformation through digitalization.

(2) The digital transformation of enterprises must commence from the company's strategic standpoint, acknowledging that technology serves as the primary driver of productivity. The utilization of information technology to achieve business innovation and resource integration is pivotal. Initiating from the strategic perspective facilitates the harmonization of every facet, including production, operations, sales, and digitization. This comprehensive approach aims to achieve profound integration between IT technology and business.

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