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# THE IMPACT OF ACCOUNTING CONSERVATISM ON ENTERPRISE INNOVATION INVESTMENT

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**Abstract:** This study explores the effect of accounting conservatism on corporate innovation investment, using the information asymmetry theory as a framework. While existing literature acknowledges the role of accounting conservatism in corporate decision-making, there is limited understanding of how it specifically impacts innovation investment, particularly in different market and regulatory environments. Current research often neglects how the impact of accounting conservatism on innovation investment varies across these contexts. Additionally, studies focusing on Uzbekistani listed companies are scarce. This study addresses these gaps by analyzing data from Uzbekistani A-share listed companies, revealing a negative relationship between accounting conservatism and corporate innovation investment.

**Key words:** Accounting, conservatism, enterprise, innovation, investment, information asymmetry theory, hierarchical regression analysis, investment decision

## Introduction.

As the global economy evolves and market competition intensifies, innovation has become a key driver of corporate growth, essential for sustaining competitive advantages. Companies must continuously improve products and services to adapt to changing market demands. Therefore, investing in innovation is not only a strategic choice but also a necessary action to stay competitive. Within this context, a company's research and development (R&D) investment serves as a vital indicator of its innovation capacity and future growth potential. However, companies face various factors when making decisions, one of which is accounting conservatism, a cautious approach reflected in financial reporting. Accounting conservatism aims to provide reliable financial information for investors but may also negatively affect innovation investment. Excessive conservatism leads companies to use conservative valuation methods in financial reporting to mitigate future uncertainties and risks, making them more cautious in financial decision-making and potentially limiting innovation investments.

While the importance of financial reporting in corporate decision-making is widely recognized, previous research has mainly focused on its impact on investors and creditors, neglecting its role in corporate innovation investment. Specifically, regarding accounting conservatism, there is no consensus on how it affects corporate innovation activities. This gap reflects the early stages of understanding how financial reporting influences R&D decisions for innovation. Moreover, there is a lack of literature addressing how accounting conservatism impacts R&D investment in various types of enterprises. In the case of Uzbekistani listed companies, unique market conditions and regulatory frameworks make understanding this relationship more complex. As Uzbekistani enterprises face increasing international competition, pressures for innovation-driven growth, and ongoing accounting regulation reforms,

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understanding how accounting conservatism shapes innovation investment decisions becomes more critical. Additionally, differences in operational strategies and market adaptability between private and state-owned enterprises may result in varying impacts of accounting conservatism on innovation investment.

In summary, current research on accounting conservatism and corporate innovation investment has several limitations. There is a lack of extensive empirical studies across different countries and industries, and many studies focus on individual variables or local factors, overlooking other influential elements. Additionally, few studies examine the mechanisms by which accounting conservatism affects innovation investment, often staying at a theoretical level. Consequently, there is limited comprehensive analysis of how accounting conservatism influences innovation investment in the specific context of listed companies. This study aims to fill this gap by empirically analyzing data from Uzbekistani A-share listed companies to explore the relationship between accounting conservatism and corporate innovation investment. The goal is to offer deeper insights for business managers and investors, providing data-driven support for more scientifically informed financial decisions and innovation strategies. This research analyzes 2354 Uzbekistani listed companies involved in scientific and technological innovation investment, examining the impact of accounting conservatism on innovation investment. By offering more accurate guidance for managers and decision-makers, the study aims to promote sound financial decision-making and innovation strategy development. The study employs empirical data analysis, using financial reports and R&D investment data from 2015 to 2022, and applies the C-Score and G-Score models to quantify accounting conservatism. Hierarchical regression analysis is used to validate the impact of accounting conservatism on innovation investment, with multiple control variables to ensure the reliability of results. The findings reveal a significant negative correlation between higher levels of accounting conservatism and corporate innovation investment. This research provides empirical data to help business managers and investors make more scientifically grounded financial decisions and develop better innovation strategies, enriching the existing literature on the relationship between accounting conservatism and corporate innovation investment.

**Results and methods.**

The descriptive statistics of the variables are summarized in Figure 1. Upon analyzing the data, distinct characteristics and numerical ranges are observed for each variable. Innovation investment (IR&DI) has a mean of 0.048 and a standard deviation of 0.053, indicating relatively low levels of innovation investment with minor variability. Its skewness of −0.61 suggests a slight leftward skew, and the kurtosis value of 2.34, which is close to the normal distribution's kurtosis of 3, indicates a balanced distribution shape.Accounting Conservatism (C-Score) has a mean of 0.031 and a standard deviation of 0.084, reflecting a stable level of conservatism in financial reporting. With a skewness of 0.45, the distribution shows a slight rightward skew, while the kurtosis value of 3.21 suggests a sharper peak than a normal distribution.

EGP (Enterprise Growth Potential) has a mean of 0.199 and a standard deviation of 0.522. Its skewness of 0.89 and kurtosis of 5.67 indicate an asymmetric distribution with a higher, sharper peak, suggesting that extreme values of EGP are more common and could have a significant impact on innovation investments.EML (Enterprise Management Level) has a mean

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of 21.83 and a standard deviation of 1.401. With a skewness of −0.23 and a kurtosis of 2.91, the distribution is almost symmetrical but slightly flatter than the normal distribution.MFP (Market Financial Performance) shows a mean of 20.45 and a standard deviation of 1.367. Its skewness of 0.11 suggests near symmetry, while its kurtosis of 1.68 indicates a distribution slightly flatter than normal. RE (Return on Equity) has a mean of 6.061 and a standard deviation of 15.29, with a skewness of 1.98 and kurtosis of 13.56. This strongly right-skewed distribution with significant variability points to substantial differences in profitability across companies. Time since listing (T) has a mean of 11.24 and a standard deviation of 6.978, with skewness of −1.04 and kurtosis of 5.21, showing a left-skewed distribution and a flatter shape, with fewer extreme values compared to the normal distribution. Enterprise value (V) shows a mean of 2.182 and a standard deviation of 1.342. With skewness of 0.7 and kurtosis of 3.45, the distribution is slightly right-skewed and more concentrated with some higher-value enterprises. Overall, these descriptive statistics provide insight into the statistical properties of variables related to enterprise innovation investment and accounting conservatism, essential for understanding their relationships in subsequent analyses.

Correlation Analysis

The correlation analysis between accounting conservatism and innovation investment is depicted in Figure 5. The correlation coefficient between IR&DI (innovation investment) and C-Score (accounting conservatism) is −0.364, indicating a significant negative relationship. This suggests that higher levels of accounting conservatism are associated with lower levels of innovation investment, consistent with the research hypothesis.EGP shows a weak positive correlation (0.063) with innovation investment, although this correlation is minor. EML has the strongest correlation with innovation investment (0.72), suggesting that higher management levels are strongly associated with increased innovation investment. MFP exhibits a weak negative correlation (−0.049), indicating that higher liquidity tends to be associated with lower innovation investment. RE (Return on Equity) has a correlation coefficient of 0.125, and time since listing (T) has a coefficient of 0.192, both suggesting positive, though not strong, correlations with innovation investment. Finally, enterprise value (V) has a stronger negative correlation (−0.218) with innovation investment, indicating that larger enterprise value is related to more cautious investment in innovation. In summary, these correlation coefficients provide valuable insights into the relationships between accounting conservatism, other financial variables, and corporate innovation investment.

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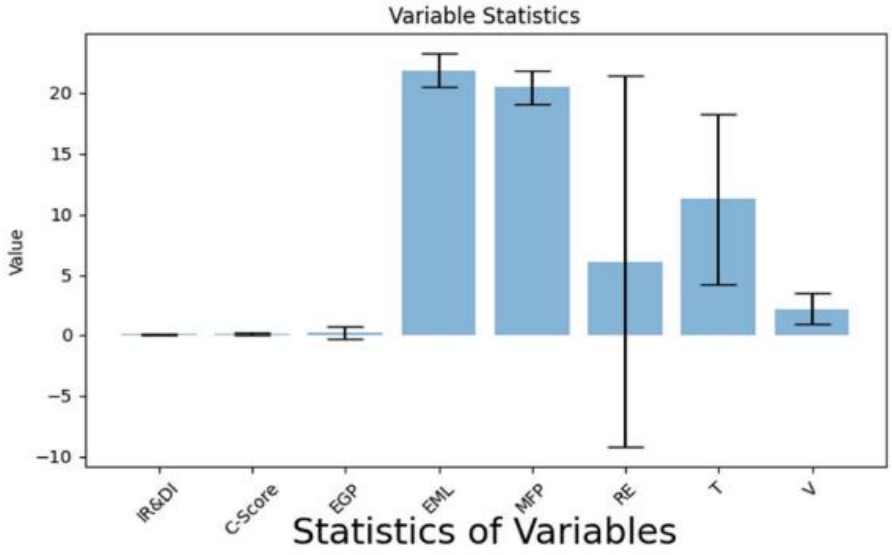


| | Variables | Mean | Standard deviation | Minimum value | Maximum value | Skewness | Kurtosis |
|---|---|---|---|---|---|---|---|
| 0 | IR&DI | 0.048 | 0.053 | 0.0 | 1.52 | -0.61 | 2.34 |
| 1 | C-Score | 0.031 | 0.084 | -0.197 | 0.317 | 0.45 | 3.21 |
| 2 | EGP | 0.199 | 0.522 | -0.577 | 3.396 | 0.89 | 5.67 |
| 3 | EML | 21.83 | 1.401 | 17.27 | 28.49 | -0.23 | 2.91 |
| 4 | MFP | 20.45 | 1.367 | 15.53 | 25.64 | 0.11 | 1.68 |
| 5 | RE | 6.061 | 15.29 | -97.93 | 32.47 | 1.98 | 13.56 |
| 6 | T | 11.24 | 6.978 | 1.0 | 26.0 | -1.04 | 5.21 |
| 7 | V | 2.182 | 1.342 | 0.909 | 8.69 | 0.7 | 3.45 |

Figure 1. Descriptive statistical results of variables.

The regression analysis results depicting the relationship between accounting conservatism and innovation investment are shown in Figure 2. The regression coefficient for C-Score (accounting conservatism) is −0.465, with a standard error (SE) of 2.93. This indicates that, when holding other variables constant, a one-unit decrease in C-Score corresponds to a reduction of 0.465 units in innovation investment.The regression coefficient for EGP (Enterprise Growth Potential) is −0.043, with an SE of 2.55. This suggests that while other variables remain constant, a decline in EGP has a weak association with a decrease in innovation investment. The regression coefficient for EML (Enterprise Management Level) is 0.758, with an SE of 20.36. These results show that an increase in EML is positively correlated with a rise in innovation investment, suggesting that higher management levels lead to more innovation-focused investment.The correlation analysis further reveals that the coefficient between IR&DI (innovation investment) and C-Score is −0.364, indicating a significant negative relationship. This supports the hypothesis that higher levels of accounting conservatism are linked to lower levels of innovation investment.

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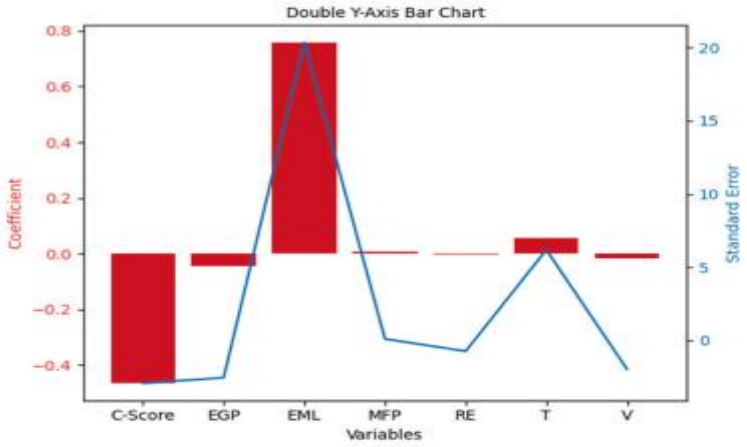


**Figure 2. Regression analysis results of accounting conservatism and innovation investment.**

The findings of this study reveal a significant negative correlation between accounting conservatism and corporate innovation investment, which aligns with the conclusions of several scholars. For instance, Nur et al. (2023) emphasized that accounting conservatism often leads companies to adopt cautious operational strategies in uncertain environments, which can affect long-term capital investments and expenditures on research and development. Similarly, Zhang (2023) found that in environments with high information asymmetry, firms may increase accounting conservatism to reduce the uncertainty faced by external investors, which can constrain investments in innovative projects.

This study further investigates the mechanism through which accounting conservatism affects corporate innovation investment, using the lens of information asymmetry theory. The difference in information between internal managers and external stakeholders can result in an excessive focus on short-term losses in public disclosures due to heightened conservatism. This approach could divert attention from long-term research and technological innovation investments, thus reducing incentives for sustained innovation and development. This observation aligns with the findings of Ma et al. (2020), who argued that while accounting conservatism helps address agency problems, it may also inhibit corporate risk-taking, especially for initiatives like innovation that involve uncertainty and long return periods.

Additionally, Biddle et al. (2022) support these findings by pointing out that overly conservative accounting practices in mergers and acquisitions (M&A) can protect firms from risky transactions but may also cause them to miss potential growth opportunities. Together, these insights highlight that while accounting conservatism provides short-term benefits by mitigating the adverse effects of information asymmetry, its long-term consequences may limit a firm's ability to innovate, ultimately affecting its sustained competitiveness. Therefore, firms are encouraged to find a balance between immediate financial security and long-term growth needs when formulating accounting policies, ensuring they foster continuous technological progress and organizational development.

**Conclusion.**

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This study empirically examines the relationship between accounting conservatism and corporate innovation investment among Uzbeks A-share listed companies, using information asymmetry theory as its theoretical framework. The research reveals a significant negative correlation between accounting conservatism and innovation investment, which is confirmed through multilevel regression analyses. These results not only enhance the theoretical understanding of how accounting conservatism impacts corporate decision-making but also provide practical insights for real-world applications.

Firstly, the study highlights the inhibitory effect of accounting conservatism on corporate innovation investment, offering a new perspective for managers when designing financial and innovation strategies. It emphasizes the need to balance financial caution with the encouragement of innovation, warning against overly conservative accounting policies that may limit a firm's innovation potential.

Secondly, the findings have implications for policymakers, suggesting that the impact of accounting conservatism on corporate innovation behavior should be considered when creating accounting standards and innovation-focused policies. Policymakers are encouraged to foster moderate accounting practices and introduce incentives that promote innovation within firms.

Finally, this study points to future research opportunities, such as a deeper investigation into the mechanisms that govern the relationship between accounting conservatism and innovation investment. Additionally, exploring how variations in market conditions and regulatory environments influence this relationship across different contexts is suggested.

In conclusion, this study makes significant contributions to both theoretical advancements and practical applications regarding the relationship between accounting conservatism and corporate innovation investment. It stresses the importance of balanced financial strategies in promoting innovation-driven growth within firms, thereby supporting broader economic development goals. For corporate managers, this study underscores the need to balance short-term financial conservatism with long-term innovation capacity, urging them to be mindful of the effects of accounting policies in order to avoid stifling innovation potential through excessive conservatism.

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