JOURNAL OF MANAGEMENT AND BUSINESS SOLUTIONS

Developing a Conceptual Model of Conservatism in Financial Reporting Based on Firms' Strategic Distinctions: A Thematic Analysis Approach

1. Somayeh. Asadiniya: Department of Financial Management and Accounting, SR.C, Islamic Azad University, Tehran, Iran
2. Fereydoun. Rahnama Roodposhti*: Department of Financial Management and Accounting, SR.C, Islamic Azad University, Tehran, Iran
3. Hamidreza. Vakilifard: Department of Financial Management and Accounting, SR.C, Islamic Azad University, Tehran, Iran
4. Masoud Gholamzadeh: Department of Financial Management and Accounting, SR.C, Islamic Azad University, Tehran, Iran

*corresponding author's email: Dr.Rahnama@iau.ac.ir

ABSTRACT

Conservatism in financial reporting, as an effective mechanism for enhancing the quality of financial information, reducing information asymmetry, and constraining managerial opportunistic behavior, has consistently attracted considerable attention from accounting researchers. The present study aimed to develop a conceptual model of conservatism in financial reporting based on firms' strategic distinctions. In terms of purpose, this study is applied, and methodologically, it is qualitative and based on thematic analysis. The research data were collected through semi-structured interviews with 15 academic and professional experts in accounting, auditing, financial reporting, financial management, and capital markets and were analyzed using Braun and Clarke's thematic analysis approach. In this study, 12 main themes were organized under two overarching constructs: "conservatism in financial reporting" and "strategic distinctions." The conservatism in financial reporting construct comprised seven main themes: prudent recognition of financial events, conservative measurement and valuation, application of conservative accounting practices, quality and transparency of financial information, corporate governance and control of opportunistic behavior, reduction of information asymmetry and stakeholder protection, and evaluation and measurement of conservatism. Furthermore, the strategic distinctions construct comprised five main themes: strategic and competitive orientation, innovation and development of organizational capabilities, strategic flexibility and dynamism, resource and financial structure management, and operational efficiency and market value creation. The findings indicate that firms' financial reporting behavior is not influenced solely by accounting requirements and financial factors; rather, firms' strategic characteristics may also play an important role in explaining conservative financial reporting approaches. The proposed model can contribute to the development of the accounting and strategic management literature and facilitate a better understanding of the factors affecting financial reporting quality

Keywords: accounting conservatism, financial reporting, strategic distinctions.

Introduction

Financial reporting constitutes one of the principal mechanisms through which firms communicate their economic condition, operating performance, risk exposure, and future prospects to investors, creditors, regulators, and other stakeholders. The usefulness of financial statements, however, depends not merely on the volume of information



Article history:
Received 29 July 2026
Revised 15 November 2026
Accepted 23 November 2026
Initial Publication 25 November 2026
Initial Publication 01 November 2027

How to cite this article:
Asadiniya, S., Rahnama Roodposhti, F., Vakilifard, H., & Gholamzadeh, M. (2027). Developing a Conceptual Model of Conservatism in Financial Reporting Based on Firms' Strategic Distinctions: A Thematic Analysis Approach. *Journal of Management and Business Solutions, 5*(11), 1-17. https://doi.org/10.61838/jmbs.542

© 2027 the authors. This is an open access article under the terms of the Creative Commons Attribution-NonCommercial 4.0 International (CC BY-NC 4.0) License.

disclosed but on the quality, reliability, comparability, timeliness, and comprehensibility of that information. High-quality financial information can reduce uncertainty surrounding corporate performance, improve capital allocation, support more rational investment decisions, and contribute to greater confidence in financial markets. Recent evidence further emphasizes that financial information quality should be understood as a multidimensional concept encompassing both numerical accuracy and the comprehensibility of reported information, because investors' judgments are influenced not only by the correctness of financial figures but also by the extent to which those figures can be meaningfully interpreted (1). Within this broader framework of financial reporting quality, accounting conservatism has remained one of the most extensively discussed principles and reporting practices in accounting research.

Accounting conservatism generally refers to a reporting orientation characterized by greater caution in recognizing favorable economic outcomes and relatively more timely recognition of unfavorable outcomes. It is commonly reflected in practices such as earlier recognition of probable losses, stricter verification requirements for gains, prudent valuation of assets, appropriate recognition of liabilities and obligations, and restrained use of optimistic assumptions in accounting estimates. Conservatism is therefore not limited to a single accounting technique; rather, it represents a broader reporting logic that affects recognition, measurement, disclosure, and managerial judgment. The literature has increasingly treated conservatism as an important institutional and contractual mechanism that may mitigate agency problems, restrain managerial opportunism, protect creditors, improve contracting efficiency, and reduce information asymmetry. A comprehensive review of accounting conservatism research indicates that the concept continues to occupy a central position in accounting literature because of its links with corporate governance, contracts, taxation, financing arrangements, information quality, and organizational decision-making (2).

A major theoretical justification for conservative reporting is rooted in the asymmetric information environment existing between corporate insiders and external stakeholders. Managers generally possess superior information regarding firms' economic condition, investment opportunities, risks, and future performance. This informational advantage may create incentives to delay the recognition of adverse outcomes, accelerate favorable information, manipulate accruals, or adopt optimistic assumptions in accounting estimates. Conservative reporting can restrict such behavior by imposing greater verification requirements on favorable economic information while facilitating more timely incorporation of unfavorable information into accounting numbers. From a governance perspective, this asymmetry may increase the credibility of financial statements and limit managerial discretion. Empirical research has consequently associated accounting conservatism with mechanisms designed to constrain managerial opportunism and entrenchment (3). Corporate governance and monitoring mechanisms may also shape the extent to which firms adopt conservative accounting practices, particularly where taxation, oversight, and managerial incentives interact with financial reporting decisions (4).

The role of conservatism is also particularly important in debt contracting and covenant design. Accounting numbers are frequently incorporated into contractual arrangements that regulate borrowers' financial behavior and protect lenders against deterioration in credit quality. Conservative accounting can facilitate earlier recognition of economic losses and thereby enable creditors to respond more quickly when firms approach contractual thresholds. From a signaling perspective, firms may also use conservative reporting to communicate commitment to credible financial reporting and adherence to contractual discipline. Evidence concerning performance covenants suggests that accounting conservatism can function as part of the informational and signaling architecture surrounding debt

agreements (5). Consequently, conservatism may influence not only the characteristics of reported earnings but also relationships among firms, lenders, investors, and other contractual parties.

Nevertheless, conservatism is neither uniform across firms nor independent of the broader reporting environment. Its level and consequences may vary according to economic conditions, institutional settings, accounting standards, governance arrangements, corporate complexity, and firm-specific characteristics. Evidence from European firms reporting under International Financial Reporting Standards indicates that macroeconomic and economic conditions can influence firms' conservative reporting behavior, suggesting that the demand for or application of conservatism may intensify or diminish across different economic environments (6). Reporting structures can also influence the extent to which conservative information is observable in accounting statements. For example, aggregation of accounting information through segment reporting may affect the manifestation and measurement of conservatism by combining economic activities with different performance characteristics (7). These findings reinforce the view that conservative reporting should be examined as a context-dependent phenomenon rather than as a purely mechanical accounting practice.

Another important dimension of this literature concerns the measurement of conservatism. Conditional conservatism is frequently operationalized through asymmetric timeliness models in which accounting earnings are expected to reflect unfavorable economic news more rapidly than favorable news. Basu-type specifications have become particularly influential, although their econometric and conceptual limitations have generated a substantial methodological literature. Research has sought to improve the stability and reliability of conservatism models by applying dynamic estimation approaches such as system generalized method of moments (8). Other studies have compared and tested alternative conditional conservatism frameworks, including Basu and Ball–Shivakumar models, to develop more reliable measurement approaches (9). Further refinements have incorporated cost behavior considerations, including cost stickiness, into conditional conservatism specifications in order to distinguish accounting asymmetry from operating cost asymmetry (10). These methodological developments indicate that conservatism is a complex construct whose empirical manifestation can be affected by operational characteristics and model specification.

The information consequences of conservatism extend beyond the timing of earnings recognition. Conservative reporting may interact with risk disclosure, uncertainty communication, financial statement comparability, and other qualitative features of reporting. Research examining recognition and disclosure decisions under uncertainty suggests that conditional conservatism and risk disclosure can be coordinated components of corporate reporting behavior (11). Similarly, financial statement comparability has been linked to both conditional and unconditional forms of accounting conservatism, indicating that the reporting choices of firms may influence not only the prudence of accounting numbers but also their comparability across firms and periods (12). These relationships support a more comprehensive interpretation of conservatism as part of a wider financial reporting system in which recognition, measurement, disclosure, transparency, and comparability interact.

At the same time, contemporary research increasingly recognizes that corporate financial reporting practices cannot be explained solely by accounting regulations, contractual pressures, or traditional financial variables. Firms differ substantially in their strategic orientations, resource allocation patterns, innovation intensity, market positioning, financing preferences, organizational capabilities, and responses to environmental uncertainty. These strategic differences can affect organizational structures, managerial incentives, operating risk, information environments, and ultimately financial reporting behavior. The growing literature on business strategy and

accounting demonstrates that strategy is not merely an operational or competitive variable but a fundamental organizational characteristic with consequences for accounting, finance, and corporate governance outcomes (13). From this perspective, financial reporting choices may partly reflect the strategic architecture of the firm.

Business strategy determines how firms compete, allocate resources, develop capabilities, respond to competitors, pursue innovation, and create value. Firms following differentiation-oriented strategies, for example, may emphasize innovation, unique products, customer value, branding, technological development, and flexibility. Such strategies can create distinctive operating structures and greater uncertainty because they often rely on intangible resources, research and development, emerging technologies, and changing customer preferences. In contrast, firms emphasizing cost efficiency may prioritize standardized processes, cost control, asset utilization, and operating discipline. Recent research on differentiation strategies shows that the effects of strategic positioning on firm performance can depend on organizational policies and environmental uncertainty, emphasizing the contingent nature of strategy–performance relationships (14). These differences suggest that strategic orientations may also generate different demands for financial reporting prudence, verification, disclosure, and conservatism.

The relationship between business strategy and financial reporting quality has therefore become an increasingly important field of inquiry. Strategy affects the nature of transactions undertaken by firms, the predictability of future cash flows, the proportion of tangible and intangible assets, the level of operating uncertainty, and the discretion available to managers in accounting estimates. Research directly examining business strategy and financial reporting quality provides evidence that strategic positioning is associated with differences in reporting outcomes, reinforcing the argument that accounting behavior should be considered in conjunction with organizational strategy (15). Likewise, firms' strategic orientations can influence the presentation and communicative characteristics of financial information. Evidence that business strategy affects annual report readability demonstrates that strategic differences can influence not only accounting numbers but also the manner in which firms communicate information to external users (16).

More specifically, prior research has begun to establish direct links between strategy and accounting conservatism. Strategic emphasis may influence the degree of prudence embedded in reporting decisions because different strategies generate different risk profiles, information needs, and managerial incentives. Empirical evidence indicates that firms' strategic emphasis is associated with differences in accounting conservatism, suggesting that strategic priorities can shape the asymmetry with which good and bad economic news are incorporated into accounting outcomes (17). Other research focusing on business strategy, ambiguity, and conservatism similarly demonstrates that firms' strategic characteristics affect the reporting response to uncertain economic information (18). These findings provide an important bridge between strategic management and accounting research by suggesting that conservatism may emerge partly as an adaptive response to the uncertainty and informational characteristics created by firms' strategic choices.

The concept of strategic deviation further extends this line of reasoning. Firms do not necessarily follow the dominant strategic pattern of their industries. Some firms deliberately diverge from industry norms in resource allocation, investment, financing, innovation, operational practices, or competitive positioning. Strategic deviation can therefore represent the extent to which a firm's strategic configuration differs from that of typical competitors. The literature reviewing business strategy and strategic deviation in accounting and finance demonstrates that deviations from dominant strategic patterns are associated with important consequences for risk, performance, governance, financial decisions, and information environments (13). Accordingly, strategic distinctions can be

conceptualized not simply as formally declared competitive strategies but as a broader set of firm-specific differences in strategic orientation, organizational capabilities, financial structure, operational efficiency, innovation, and resource deployment.

This perspective is also consistent with contingency theory, according to which no single organizational structure, managerial practice, or decision system is universally optimal. Instead, the effectiveness and appropriateness of organizational practices depend on the alignment between organizational characteristics and contextual conditions (19). Applying this logic to financial reporting suggests that the appropriate degree and form of conservatism may vary depending on the firm's strategy, risk environment, organizational capabilities, governance mechanisms, and competitive conditions. A highly innovative firm operating under substantial technological uncertainty may face reporting challenges that differ significantly from those of a mature cost-oriented firm with stable operations and predictable cash flows. Therefore, reporting behavior may represent an organizational adaptation to strategic and environmental contingencies rather than simply a standardized response to accounting regulation.

The strategic implications of conservatism can also operate in the reverse direction. Conservative financial reporting may influence managerial and strategic decisions by affecting reported profitability, financing capacity, taxation, investment evaluation, and managers' perceptions of risk. Evidence concerning conservative financial reporting, business strategies, and aggressive tax policies suggests that financial reporting conservatism can interact with strategic corporate decisions rather than functioning merely as an outcome of them (20). Similarly, diversification decisions may alter the value implications of accounting conservatism because diversified firms face more complex internal information environments, resource allocation problems, and monitoring challenges (21). Thus, the relationship between conservatism and strategy may be reciprocal, multidimensional, and embedded within broader organizational decision systems.

Despite the expansion of this literature, several conceptual gaps remain. A substantial proportion of prior studies has examined individual strategic proxies or classified firms into limited strategic categories and then tested their statistical association with specific measures of accounting conservatism. While such studies provide valuable empirical evidence, they may not fully capture the multidimensional nature of firms' strategic distinctions or the broader meaning of conservatism in financial reporting. Conservatism itself encompasses recognition, measurement, accounting methods, disclosure quality, governance, information asymmetry, stakeholder protection, and assessment mechanisms. Similarly, strategic distinctions may involve competitive orientation, resource allocation, innovation, technological capabilities, strategic flexibility, capital structure, financing, asset management, operating efficiency, market development, and value creation. Examining these dimensions separately may obscure the conceptual architecture connecting strategic characteristics to reporting behavior.

Furthermore, the existing literature has predominantly adopted quantitative designs based on predetermined accounting proxies, market indicators, or predefined strategic classifications. Although such approaches are essential for hypothesis testing, they may not adequately reveal how accounting professionals, financial managers, auditors, academics, and capital market experts conceptualize the mechanisms through which strategic differences are reflected in conservative reporting. A qualitative approach can therefore provide complementary insight by identifying concepts directly from expert experience and organizing them into a coherent conceptual structure. Such an approach is particularly important when the objective is model development rather than the estimation of a single statistical relationship.

The importance of developing a more integrated model is further reinforced by the diversity of findings concerning the determinants and consequences of accounting conservatism. Research has linked conservatism to managerial behavior and entrenchment (3), governance and oversight mechanisms (4), debt contracting (5), macroeconomic conditions (6), information aggregation (7), risk disclosure (11), financial statement comparability (12), corporate diversification (21), and firm strategy (15, 17, 18). Collectively, these findings indicate that conservatism is embedded in a complex system of organizational, economic, contractual, and strategic factors. A conceptual model that explicitly connects strategic distinctions to the dimensions of conservatism in financial reporting can therefore contribute to a more integrated understanding of financial reporting behavior.

Accordingly, greater conceptual integration is needed between the accounting conservatism literature and strategic management research. Such integration can clarify how firms' strategic and competitive orientations, innovation activities, organizational capabilities, strategic flexibility, financing structures, resource management practices, operational efficiency, and market value-creation activities may correspond with differences in prudent recognition, conservative valuation, accounting practices, disclosure quality, governance, information asymmetry, and the assessment of conservatism. This perspective can also extend prior studies by moving beyond a single strategic taxonomy or a single conservatism proxy and instead treating both constructs as multidimensional phenomena. In doing so, it can provide a foundation for subsequent quantitative validation, comparative studies, and empirical testing across industries and institutional settings.

Therefore, the aim of the present study is to develop a conceptual model of conservatism in financial reporting based on firms' strategic distinctions using a thematic analysis approach.

Methods and Materials

The present study is applied in terms of purpose and exploratory and qualitative in nature. Given the exploratory nature of the research topic and the objective of identifying the dimensions and components of conservatism in financial reporting based on strategic distinctions, thematic analysis was employed to extract and explain the conceptual model of the study. A qualitative approach was selected because explaining the relationship between firms' strategic characteristics and financial reporting behavior requires an in-depth understanding of the perspectives, experiences, and perceptions of experts in accounting, financial reporting, and financial management.

The research participants consisted of academic and professional experts in accounting, auditing, financial reporting, financial management, and capital markets. Given the exploratory nature of the study and its objective of identifying the dimensions and components of conservatism in financial reporting based on firms' strategic distinctions, participants were selected using purposive sampling. The expert selection criteria included relevant academic qualifications, academic or professional experience in accounting and financial reporting, familiarity with the concepts of accounting conservatism, relevant experience with corporate financial and managerial decisions, and adequate knowledge of organizational strategic approaches. The process of participant selection and semi-structured interviewing continued until theoretical saturation was achieved. In this study, after conducting 15 interviews, no new concept, code, or theme emerged from the data, and the conceptual thematic structure reached stability. Accordingly, data collection was terminated, and the adequacy of the research data was confirmed.

The primary data collection instrument was the semi-structured interview. The interview questions were designed based on a review of the theoretical foundations, prior research, and research objectives, while allowing supplementary questions to be posed to obtain deeper insights from the participants. Following the participants'

consent, the interviews were recorded and subsequently transcribed in full. In addition to the interview data, relevant scientific literature and studies concerning conservatism in financial reporting and strategic distinctions were reviewed to enrich the conceptual analysis of the study.

The interview data were analyzed using thematic analysis based on Braun and Clarke's approach. The analytical process consisted of six main stages: familiarization with the data, generation of initial codes, searching for themes, reviewing themes, defining and naming themes, and preparing the final report. In the first stage, the interview transcripts were read repeatedly, and concepts relevant to the research topic were identified. Initial codes were then generated, and similar codes were organized into subthemes based on their conceptual relationships. Subsequently, through reviewing and integrating the subthemes, the main themes of the study were extracted, and the conceptual relationships among them were explained. Coding and data management were performed using MAXQDA software. The final output of the thematic analysis consisted of a set of initial codes, subthemes, and main themes that constituted the conceptual framework of conservatism in financial reporting based on strategic distinctions.

Findings and Results

In the present study, semi-structured interviews were conducted with 15 experts in accounting, financial reporting, financial management, and capital markets to identify the dimensions and components of conservatism in financial reporting based on strategic distinctions. Participants were selected through purposive sampling based on criteria including academic expertise, professional experience, familiarity with the research topic, and relevant practical experience. The interview process continued until theoretical saturation was achieved, such that no new concept or theme emerged from the data after the fifteenth interview. The research experts possessed academic and professional backgrounds relevant to the research topic, and the diversity of their expertise enabled the collection of different perspectives regarding the relationship between strategic distinctions and conservatism in financial reporting.

To identify the dimensions and components of conservatism in financial reporting based on strategic distinctions, research data were collected through semi-structured interviews with 15 experts in accounting, financial reporting, financial management, and capital markets. Participants were selected through purposive sampling based on criteria such as academic expertise, professional experience, and familiarity with the research topic. The interview process continued until theoretical saturation was achieved; after the fifteenth interview, no new code or concept capable of generating an additional theme was extracted. Following complete transcription of the interviews, the resulting data were examined using thematic analysis. In the first stage, the interview transcripts were read repeatedly, and concepts related to the research topic were identified. The extracted concepts were then recorded as initial codes and, following review and refinement, were organized to form subthemes and main themes.

Examples of the initial codes extracted from the expert interviews included "timely recognition of probable losses," "recognition of necessary provisions for future losses," "avoidance of recognizing unrealized gains," "enhancement of the reliability of financial information," "reduction of information asymmetry," "control of managerial opportunistic behavior," "differentiated allocation of corporate resources," "deviation from the dominant industry pattern," "investment in research and development," "flexibility in strategic decisions," and "creation of sustainable competitive advantage." The qualitative data analysis process resulted in the extraction of 123 initial codes.

Following an examination of conceptual relationships and the integration of similar items, these codes formed the basis for developing the subthemes and, ultimately, the main themes of the study.

After the extraction of the initial codes, similar concepts were categorized according to their semantic and substantive relationships and organized into subthemes. This process involved repeated review of the codes with the aim of establishing conceptual coherence within the data. Ultimately, the 123 initial codes derived from the expert interviews were classified into 22 subthemes, including 12 themes related to conservatism in financial reporting and 10 themes related to strategic distinctions. Table 1 presents the extracted subthemes.

Table 1. Subthemes Extracted from the Analysis of Expert Interviews

No.	Subtheme	Number of Initial Codes	Examples of Related Initial Codes
1	Prudent recognition of losses	9	Timely recognition of probable losses; prompt recognition of asset impairment; immediate reflection of unfavorable news in earnings; recognition of necessary provisions for future losses
2	Prudent recognition of revenues and profits	7	Avoidance of premature profit recognition; emphasis on definitive realization of revenue; caution in recognizing uncertain revenues; restriction of unrealized gain recognition
3	Asymmetric response to good and bad news	5	Greater sensitivity to negative news; caution in responding to positive news; differential response to good and bad news; reduction of the effect of managerial optimism on earnings
4	Conservative valuation of assets	6	Prudent asset valuation; avoidance of asset overvaluation; recognition of asset impairment provisions; consideration of asset recoverability
5	Recognition and measurement of liabilities and obligations	6	Comprehensive recognition of corporate obligations; recognition of contingent liabilities; estimation of future costs; consideration of off-balance-sheet obligations
6	Application of conservative accounting practices	6	Selection of prudent accounting practices; use of conservative estimates; adherence to the prudence principle; restriction of optimistic judgments in estimates
7	Quality of financial information	6	Enhancement of the reliability of financial information; reduction of ambiguity in financial statements; reduction of financial reporting errors; realistic representation of the company's financial position
8	Transparency and information disclosure	5	Appropriate disclosure of financial information; increased transparency of financial statements; comprehensibility of financial reports; improvement in the quality of risk disclosure
9	Control of managerial opportunistic behavior	5	Restriction of earnings management; control of managerial opportunistic behavior; prevention of income smoothing; reduction of accrual manipulation
10	Reduction of information asymmetry and strengthening of market trust	5	Reduction of information asymmetry; increased equal access to information; reduction of the information gap between managers and investors; increased creditor confidence
11	Corporate governance, auditing, and professional requirements	13	Strengthening board oversight; effectiveness of the audit committee; strengthening internal controls; independence of the external auditor; compliance with accounting standards; compliance with stock exchange requirements
12	Assessment of conservatism	6	Use of accounting-information-based measures; use of market-value-based measures; consideration of earnings quality; consideration of cash flows in performance analysis
13	Resource allocation and prioritization	6	Differentiated allocation of corporate resources; differences in resource prioritization; concentration of resources on key activities; autonomy in strategic decision-making
14	Deviation from the dominant industry pattern	4	Differences in competitive behavior relative to competitors; deviation from the industry average in financial decisions; deviation from the industry average in operating decisions; acceptance of a different level of strategic risk
15	Innovation in products, services, and processes	4	Continuous investment in research and development; development of new products; innovation in service delivery; innovation in operational processes
16	Development of technological capabilities	3	Utilization of emerging technologies; strengthening organizational technological capabilities; adoption of technological changes within the industry
17	Competitive strategies	4	Product-market differentiation strategy; cost leadership strategy; focus on a specific market segment; creation of sustainable competitive advantage

18	Strategic flexibility	3	Flexibility in strategic decisions; foresight in designing corporate strategy; adaptability of strategy in response to environmental changes
19	Capital structure and financing management	6	Management of financial leverage; diversification of financing methods; differentiated debt-equity mix; dependence on external financing sources; financing risk management
20	Asset and investment management	5	Investment in fixed assets; development of operational infrastructure; optimization of asset composition; inventory management based on corporate strategy; enhancement of asset productivity
21	Cost management and operational efficiency	4	Control of operating costs; reduction of unnecessary costs; improvement of process efficiency; flexibility of the cost structure
22	Market development and value creation	5	Development of new markets; strengthening the corporate brand; development of marketing communications; customer orientation in strategic decisions; increasing market share and creating long-term value

The examination of the subthemes indicated that the 123 initial codes were organized into 22 subthemes. These themes explained the intermediate dimensions associated with conservatism in financial reporting and strategic distinctions, of which 12 subthemes were related to conservatism and 10 were associated with strategic distinctions. These findings formed the basis for extracting the main themes of the study.

At the final stage of thematic analysis, the extracted subthemes were reviewed and integrated based on conceptual coherence and semantic relationships and were subsequently organized into main themes. As a result of this stage, 12 main themes were extracted from the 22 subthemes, including 7 themes related to conservatism in financial reporting and 5 themes related to strategic distinctions. The main themes constitute the conceptual framework of the research findings and explain the key dimensions of the phenomenon under investigation. Table 2 presents the main themes and their relationships with the corresponding subthemes.

Table 2. Main Themes and Subthemes of the Study

No.	Construct	Main Theme	Related Subthemes
1	Conservatism in financial reporting	Prudent recognition of financial events	Prudent recognition of losses; prudent recognition of revenues and profits; asymmetric response to good and bad news
2	Conservatism in financial reporting	Conservative measurement and valuation	Conservative valuation of assets; recognition and measurement of liabilities and obligations
3	Conservatism in financial reporting	Application of conservative accounting practices	Application of conservative accounting practices
4	Conservatism in financial reporting	Quality and transparency of financial information	Quality of financial information; transparency and information disclosure
5	Conservatism in financial reporting	Corporate governance and control of opportunistic behavior	Control of managerial opportunistic behavior; corporate governance, auditing, and professional requirements
6	Conservatism in financial reporting	Reduction of information asymmetry and stakeholder protection	Reduction of information asymmetry
7	Conservatism in financial reporting	Evaluation and measurement of conservatism	Assessment of conservatism
8	Strategic distinctions	Strategic and competitive orientation	Resource allocation and prioritization; deviation from the dominant industry pattern; competitive strategies
9	Strategic distinctions	Innovation and development of organizational capabilities	Innovation in products, services, and processes; development of technological capabilities
10	Strategic distinctions	Strategic flexibility and dynamism	Strategic flexibility
11	Strategic distinctions	Resource and financial structure management	Capital structure and financing management; asset and investment management
12	Strategic distinctions	Operational efficiency and market value creation	Cost management and operational efficiency; market development and value creation

The examination of the main themes indicated that the data obtained from the expert interviews could be organized into 12 main themes. While demonstrating conceptual coherence, these themes covered all major dimensions of the two research constructs and provided a comprehensive representation of the relationship

between conservatism in financial reporting and strategic distinctions. The extracted main themes formed the conceptual framework of the research findings and served as the basis for developing the conceptual model of the study.

Following the extraction of the main themes, the relationships among the initial codes, subthemes, and main themes were examined to explain the conceptual structure of the research findings. The thematic network illustrates the process through which concepts emerged from the raw interview data and developed into the final themes, demonstrating conceptual coherence across the different levels of analysis. Based on the thematic analysis results, seven main themes were identified for conservatism in financial reporting and five main themes for strategic distinctions, collectively constituting the thematic network of the study.

Based on the results of the thematic analysis, the final conceptual model of the study was developed. This model represents the integration of findings derived from the analysis of qualitative data and coherently illustrates the relationships between the main research constructs and the dimensions extracted from the experts' perspectives. In this model, the main themes extracted from the interview analysis were considered dimensions of the research constructs, and a conceptual framework linking the constructs and their extracted dimensions was developed. The conceptual model demonstrates that the concept of "strategic distinctions" is explained through five main dimensions: strategic and competitive orientation, innovation and development of organizational capabilities, strategic flexibility and dynamism, resource and financial structure management, and operational efficiency and market value creation. Likewise, the concept of "conservatism in financial reporting" is explained through seven main dimensions: prudent recognition of financial events, conservative measurement and valuation, application of conservative accounting practices, quality and transparency of financial information, corporate governance and control of opportunistic behavior, reduction of information asymmetry and stakeholder protection, and evaluation and measurement of conservatism.

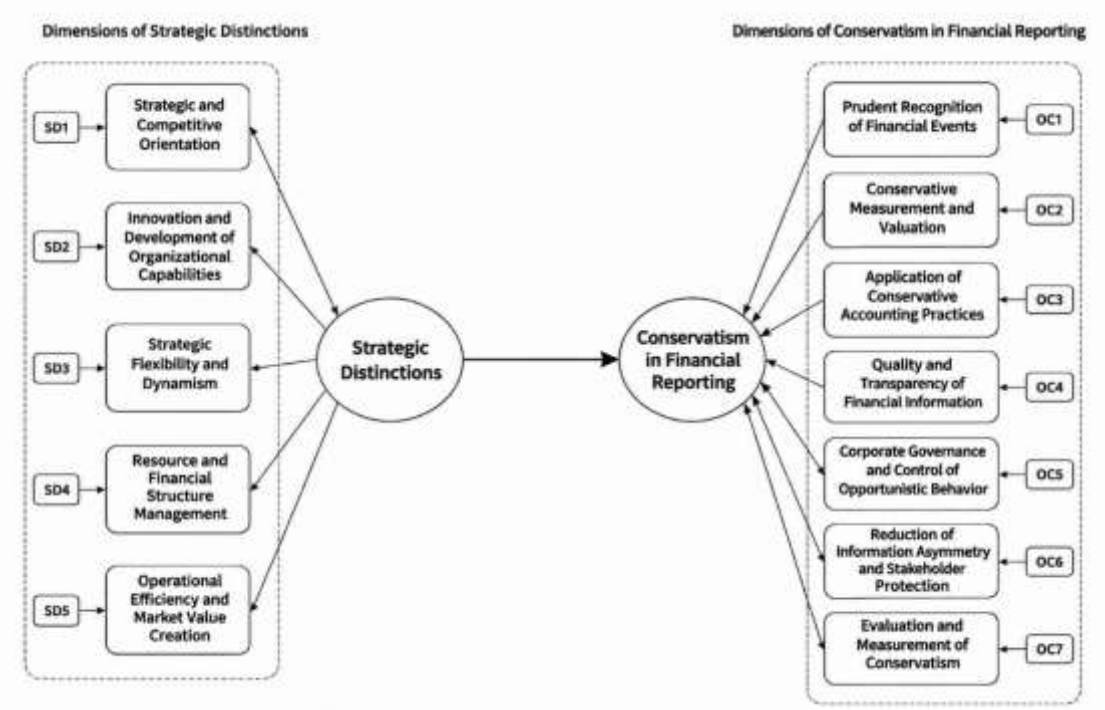


Figure 1. Final Conceptual Model of the Study

Discussion and Conclusion

The present study aimed to develop a conceptual model of conservatism in financial reporting based on firms' strategic distinctions using a thematic analysis approach. Analysis of the expert interviews resulted in the identification of 123 initial codes, which were organized into 22 subthemes and subsequently consolidated into 12 main themes. These main themes were structured under two overarching constructs: conservatism in financial reporting and strategic distinctions. Conservatism in financial reporting comprised seven main dimensions, including prudent recognition of financial events, conservative measurement and valuation, application of conservative accounting practices, quality and transparency of financial information, corporate governance and control of opportunistic behavior, reduction of information asymmetry and stakeholder protection, and evaluation and measurement of conservatism. Strategic distinctions comprised five main dimensions, including strategic and competitive orientation, innovation and development of organizational capabilities, strategic flexibility and dynamism, resource and financial structure management, and operational efficiency and market value creation. The findings therefore suggest that conservatism in financial reporting is not merely an accounting response to formal standards and financial constraints, but is also connected to the broader strategic configuration of the firm.

The first major finding concerned the multidimensional nature of conservatism in financial reporting. The participants did not conceptualize conservatism solely in terms of asymmetric earnings recognition but rather as a broader system of recognition, measurement, disclosure, governance, and monitoring. The themes of prudent recognition of losses, cautious recognition of revenues and profits, and asymmetric response to favorable and unfavorable news correspond closely with the conventional concept of conditional conservatism. This result is consistent with previous studies that have treated asymmetric timeliness in recognizing economic gains and losses as a central element of conservatism (8, 9). The finding also accords with attempts to refine conditional conservatism models by considering other operational features that can affect observed accounting asymmetry, such as cost stickiness (10). Accordingly, the present results support the view that conservative recognition is a central but not exclusive component of the broader construct of financial reporting conservatism.

The identification of conservative measurement and valuation as a distinct dimension further demonstrates that conservatism extends beyond the timing of earnings recognition. Participants emphasized prudent asset valuation, avoidance of asset overstatement, recognition of impairment, complete recognition of obligations, and consideration of contingent liabilities. This interpretation is consistent with the broader literature on accounting conservatism, which treats conservatism as a set of reporting choices that impose stricter verification requirements on favorable outcomes and greater caution in asset and income measurement (2). Such practices can reduce the risk that managers overstate financial position or delay the recognition of unfavorable economic conditions. The findings therefore reinforce the importance of viewing conservatism as a measurement philosophy that affects both assets and liabilities and that is embedded in the overall financial reporting system.

Another important result was the identification of the application of conservative accounting practices as an independent main theme. The experts referred to cautious accounting policy selection, conservative estimates, adherence to the prudence principle, and restriction of overly optimistic managerial judgments. This result emphasizes the role of managerial discretion in the implementation of conservatism. Although accounting standards provide a formal framework, many financial reporting decisions involve estimation and judgment, especially in areas such as impairment, provisions, expected losses, and asset valuation. The manner in which managers exercise this

discretion may therefore determine the practical manifestation of conservatism. This interpretation is consistent with evidence that managerial incentives and entrenchment can influence conservative reporting behavior (3). It is also aligned with research suggesting that oversight and governance arrangements can moderate the relationship between managerial policies and accounting conservatism (4).

The findings further revealed that quality and transparency of financial information constitute an important component of conservatism in financial reporting. Experts associated conservative reporting with greater reliability, lower ambiguity, reduced reporting error, improved disclosure, more understandable reports, and higher-quality risk disclosure. This result suggests that conservatism is perceived not merely as a technical recognition mechanism but as a contributor to the broader qualitative characteristics of financial reporting. This interpretation is consistent with research emphasizing that financial information quality depends on both numerical accuracy and comprehensibility (1). It is also in line with evidence that conservatism and risk disclosure may represent coordinated elements of corporate reporting under uncertainty (11). The present findings therefore support a broader conceptualization in which conservative recognition and measurement contribute to the credibility and transparency of reported financial information.

The relationship between conservatism and financial statement comparability can also help explain this finding. When firms adopt disciplined and consistent conservative reporting practices, accounting information may become more comparable across reporting periods and across firms, particularly when discretionary recognition is constrained. Previous research has documented a relationship between financial statement comparability and both conditional and unconditional conservatism (12). This supports the interpretation that conservatism may contribute to financial reporting quality not only through prudence but also through increased consistency and comparability of accounting information. Moreover, because aggregated reporting structures can affect the visibility of conservative reporting outcomes, the way information is presented and organized may influence how conservatism is perceived by users (7). Thus, the themes of information quality, transparency, and disclosure identified in this study are consistent with a broader information-environment perspective on conservatism.

Corporate governance and control of opportunistic behavior constituted another major dimension identified in the thematic analysis. Participants explicitly connected conservatism with limiting earnings management, reducing accrual manipulation, strengthening board supervision, improving audit committee effectiveness, enhancing internal controls, and supporting auditor independence. This result is consistent with the contracting and governance explanations of accounting conservatism. Conservative reporting can constrain managerial opportunism by requiring more timely recognition of adverse outcomes and by limiting the ability of managers to inflate current performance. Prior research has shown that managerial entrenchment is associated with accounting conservatism, confirming that conservatism is closely related to managerial incentives and governance structures (3). The present findings also align with evidence that governance and monitoring mechanisms influence the relationship between corporate policies and conservative accounting behavior (4). Consequently, conservatism appears to operate partly as an internal and external monitoring mechanism that enhances reporting discipline.

The contractual role of conservatism provides further support for this interpretation. The identification of stakeholder protection and information asymmetry reduction as a separate theme indicates that participants perceived conservatism as a mechanism for protecting investors, creditors, and other external users. This is consistent with the argument that conservative reporting can facilitate earlier signaling of deterioration in firm performance and reduce informational advantages held by managers. Research on accounting conservatism and

performance covenants demonstrates that conservatism can function as a signaling mechanism within debt-contracting relationships (5). The more timely recognition of adverse outcomes can improve creditor monitoring and reduce the risk that managers postpone unfavorable information. Accordingly, the present findings support the view that conservatism can reduce the information gap between insiders and external stakeholders and thereby strengthen trust in financial reporting.

The identification of strategic and competitive orientation as the first dimension of strategic distinctions is particularly important for understanding the central contribution of this study. This dimension included resource allocation, deviation from dominant industry patterns, and competitive strategies. The result indicates that experts regarded firms' strategic position relative to competitors as relevant to the interpretation of conservative reporting behavior. This finding is consistent with the growing literature showing that strategic deviation has consequences for accounting, finance, and corporate governance outcomes (13). Firms that differ substantially from the dominant strategic profile of their industries may face greater uncertainty, different risk structures, and distinct information demands, all of which can influence the incentives for conservative reporting.

The finding is also supported by research on differentiation strategy. Firms pursuing differentiated competitive positions may allocate resources toward innovation, branding, market development, and specialized capabilities, while accepting greater uncertainty in future returns. The effectiveness of differentiation strategies has itself been shown to depend on environmental uncertainty and related organizational policies (14). Such strategic differences can create heterogeneous information environments and may increase the importance of prudent financial reporting. The present study therefore suggests that accounting conservatism should be interpreted partly in relation to firms' strategic positioning and not only in terms of accounting rules or financial characteristics.

The second strategic dimension, innovation and development of organizational capabilities, reinforces this conclusion. Experts emphasized research and development, new product development, technological capabilities, and adoption of new technologies. Innovative firms often face greater uncertainty because the economic benefits of research, technology, and intangible capabilities are difficult to predict and measure. Such conditions can increase estimation risk and managerial discretion in financial reporting. Previous research has shown that business strategy is associated with financial reporting quality, confirming that strategic characteristics can shape reporting outcomes (15). Likewise, evidence that strategic emphasis affects accounting conservatism suggests that differences in strategic priorities influence firms' reporting choices (17). The present findings extend this literature by identifying innovation and capability development as specific strategic dimensions through which these effects may operate.

Strategic flexibility and dynamism also emerged as a distinct theme. Participants emphasized the ability to modify strategic decisions, anticipate environmental developments, and adapt strategies in response to changing conditions. This finding is theoretically consistent with contingency theory, which argues that organizational practices should be aligned with environmental and organizational conditions rather than assumed to be universally optimal (19). From this perspective, the degree and form of financial reporting conservatism may depend on the strategic and environmental context of the firm. Firms operating in more dynamic conditions may require reporting approaches that more rapidly incorporate downside risks and uncertain outcomes. This interpretation is also consistent with evidence showing that economic conditions affect accounting conservatism (6). Therefore, conservatism may function as an adaptive reporting response to strategic and environmental uncertainty.

The relationship between strategy, ambiguity, and conservative reporting provides further empirical support. Previous research has shown that business strategy influences the relationship between ambiguity and accounting conservatism (18). When firms operate under strategies characterized by higher uncertainty or less predictable outcomes, the informational role of conservative reporting may become more important. The present finding concerning strategic flexibility and dynamism is therefore consistent with the notion that firms' reporting practices respond to strategic uncertainty. Moreover, strategic characteristics have also been shown to affect annual report readability, demonstrating that strategy can shape both accounting outcomes and communication practices (16). This reinforces the broader conclusion that strategy is embedded in the firm's reporting environment.

Resource and financial structure management constituted another major strategic distinction. Participants referred to financial leverage, financing diversity, debt-equity composition, external financing dependence, asset allocation, fixed-asset investment, and asset productivity. This result suggests that the way firms configure and manage financial resources may influence their incentives for conservative reporting. Firms with greater reliance on external capital may face stronger demands for credible reporting, particularly from creditors and investors. This is consistent with the contractual perspective on conservatism and with evidence regarding its role in performance covenants (5). It is also compatible with findings that diversification and organizational complexity are associated with the value implications of accounting conservatism (21). Accordingly, strategic differences in financing and resource structure can alter both the demand for and consequences of conservative reporting.

The final strategic dimension, operational efficiency and market value creation, included cost management, process productivity, market development, brand strengthening, customer orientation, and long-term value creation. This result indicates that strategic distinctions are reflected not only in competitive positioning but also in operating structures and value-creation mechanisms. Because operating characteristics influence earnings generation, cost behavior, and asset utilization, they may also affect the measurement of conservatism. The relevance of operating characteristics is supported by research showing that cost stickiness can influence conditional conservatism models and should be incorporated into their interpretation (10). The finding also aligns with evidence that conservative reporting can interact with broader corporate strategies, including tax and business strategies (20). Thus, financial reporting conservatism appears to be connected to the way firms create, preserve, and communicate economic value.

Taken together, the findings provide support for an integrated conceptual model in which strategic distinctions constitute an organizational context associated with different manifestations of conservatism in financial reporting. This interpretation is consistent with review evidence showing that business strategy and strategic deviation influence a wide range of accounting and governance outcomes (13). It is also aligned with recent research demonstrating relationships between strategic emphasis and conservatism (17), business strategy and financial reporting quality (15), strategy and ambiguity in conservative reporting (18), and diversification and the value consequences of conservatism (21). The present study extends this literature by organizing the relationship into a multidimensional conceptual structure rather than reducing strategy or conservatism to a single indicator.

An additional contribution concerns the evaluation and measurement of conservatism. Experts identified accounting-based measures, market-based measures, earnings quality, and cash-flow information as relevant to the assessment of conservative reporting. This confirms the methodological complexity of the construct. Previous research has proposed different models for measuring conditional conservatism and has highlighted the need to improve their stability and explanatory power (8, 9). The broader review literature also demonstrates that multiple

conceptualizations and measurement approaches coexist in accounting conservatism research (2). The present findings therefore imply that future empirical validation of the proposed model should use multiple indicators rather than relying exclusively on a single conservatism proxy.

Overall, the conceptual model developed in this study indicates that conservatism in financial reporting is embedded in a broader organizational system involving strategy, governance, reporting quality, information asymmetry, resource allocation, and value creation. The findings support the idea that strategic characteristics shape the context in which financial reporting decisions are made, while conservative reporting can simultaneously influence the credibility and usefulness of information available for strategic and financial decision-making. The relationship is therefore likely to be interactive rather than purely unidirectional. This interpretation is consistent with evidence showing that conservative financial reporting is associated with corporate strategies and tax policies (20) and with research demonstrating that strategic configurations influence accounting outcomes (13). The model developed in this study provides a conceptual foundation for understanding these interdependencies and for future empirical examination of the mechanisms linking strategic distinctions and financial reporting conservatism.

The present study is subject to several limitations. First, the findings were derived from a qualitative design based on semi-structured interviews with 15 experts, and therefore the identified themes represent expert interpretations rather than statistically generalizable relationships. Second, although theoretical saturation was achieved, the composition of the expert group may have influenced the relative emphasis placed on particular accounting, governance, or strategic dimensions. Third, the proposed model was developed conceptually and was not subjected to quantitative validation in this stage of the research. Fourth, strategic distinctions and financial reporting conservatism are both dynamic constructs that may change across industries, organizational life-cycle stages, ownership structures, regulatory environments, and economic conditions. Finally, because the data were based on expert perceptions, the findings may be affected by professional experience, disciplinary orientation, and subjective judgment.

Future research should quantitatively validate the proposed conceptual model using large firm-level samples and appropriate measurement models. Researchers may develop scales for the identified dimensions of strategic distinctions and examine their relationships with multiple accounting- and market-based measures of conservatism. Comparative studies across industries could determine whether the strength and form of these relationships differ between technology-intensive, manufacturing, financial, service, and resource-based firms. Longitudinal designs could examine whether changes in strategic orientation precede changes in conservative reporting practices or whether the relationship is reciprocal. Future studies could also investigate moderating and mediating mechanisms such as corporate governance quality, ownership concentration, audit quality, environmental uncertainty, financial distress, competition intensity, managerial incentives, and organizational life-cycle stage. Cross-country studies would additionally help determine whether institutional, legal, and regulatory environments influence the applicability of the proposed model.

From a practical perspective, managers and boards of directors should recognize that financial reporting policies should be evaluated in conjunction with the firm’s strategic configuration rather than as isolated accounting decisions. Firms pursuing innovation, differentiation, aggressive market expansion, or substantial strategic deviation should strengthen internal controls, risk assessment, estimation procedures, and disclosure practices to ensure that greater strategic uncertainty does not reduce reporting reliability. Audit committees and external auditors can use the identified strategic dimensions as contextual indicators when assessing areas susceptible to optimistic

judgment, impairment risk, aggressive revenue recognition, or inadequate provisioning. Investors and creditors may also benefit from evaluating strategic characteristics alongside conventional accounting indicators when interpreting the degree of conservatism embedded in financial statements. Regulators and standard-setters should further consider that firms with different strategic and operational structures may exhibit different reporting risks, and supervisory mechanisms may therefore be more effective when they incorporate firm-specific strategic characteristics into financial reporting assessments.

Acknowledgments

We would like to express our appreciation and gratitude to all those who helped us carrying out this study.

Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adheried in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

Funding

This research was carried out independently with personal funding and without the financial support of any governmental or private institution or organization.

References

1. Mogîldea D, Carp M. Financial Information Quality Between Numerical Accuracy and Comprehensibility: Effects on Investment Decisions in the Context of the Bucharest Stock Exchange. International Journal of Financial Studies. 2026;14(2):34. doi: 10.3390/ijfs14020034.
2. Agarwal B, Dubey RK, Avabruth S. Exploring accounting conservatism: a comprehensive review and current landscape. Journal of Accounting Literature. 2025:1-31. doi: 10.1108/JAL-08-2024-0203.
3. Salehi M, Ghanbari E, Orfizadeh S. The relationship between managerial entrenchment and accounting conservatism. Journal of Facilities Management. 2021;19(5):612-31. doi: 10.1108/JFM-11-2020-0087.
4. Molaei H, Keyhani M, Salimzadeh MM, Karimzadeh M. Tax Strategies and Accounting Conservatism: The Moderating Role of Corporate Governance and Oversight Mechanisms. 25th International Conference on Research in Management, Economics and Development2025.
5. Callen JL, Chen F, Dou Y, Xin B. Accounting conservatism and performance covenants: a signaling approach. Contemporary Accounting Research. 2016;33(3):961-88. doi: 10.1111/1911-3846.12208.
6. Cerqueira A, Pereira C. The effect of economic conditions on accounting conservatism under IFRS in Europe. Review of Economic Perspectives. 2020;20(2):137-69. doi: 10.2478/revecp-2020-0007.

7. Bens DA, Monahan SJ, Steele LB. The effect of aggregation of accounting information via segment reporting on accounting conservatism. European Accounting Review. 2018;27(2):237-62. doi: 10.1080/09638180.2016.1260488.
8. Fallah Nejad F, Fakhari H, Zerouki S. A Stable Model of Basu's Conservatism Using the System GMM Method. Empirical Studies in Accounting. 2018;15(57):95-122.
9. Honarbakhsh S, Ranjbar MH, Amiri A, Khodadadi D. A Measurement Model for Conditional Accounting Conservatism through Testing the Basu and Ball–Shivakumar Models. Financial Accounting Knowledge. 2020;7(3):111-43.
10. Khodadadi V, Nik Kar J, Malek Khodaei E. Adjusting the Conditional Conservatism Model by Incorporating Cost Stickiness Theory. Financial Accounting Research. 2017;9(2):45-70.
11. Derakhshan M, Safarzadeh MH, Asadi GH, Rad A. Coordination of Recognition and Disclosure Decisions in Uncertainty Reporting: The Relationship between Conditional Conservatism and Risk Disclosure. Financial Accounting Research. 2022;14(3):85-118.
12. Salehi M, Ghasemi Sarnish T, Rababah A. The relationship between financial statement comparability and accounting conditional and unconditional conservatism. Asian Journal of Accounting Research. 2025;10(3):222-41. doi: 10.1108/AJAR-04-2024-0155.
13. Habib A, Ranasinghe D, Perera A. Business strategy and strategic deviation in accounting, finance, and corporate governance: A review of the empirical literature. Accounting & Finance. 2024;64(1):129-59. doi: 10.1111/acfi.13131.
14. Arslan O, Can E. The effects of differentiation strategies on firm performance: the role of sustainable procurement policies in environmental uncertainty. Journal of Strategy and Management. 2025. doi: 10.1108/JSMA-01-2025-0001.
15. Janakiraman S, Lee CC, Surysekar K, Tian T. On business strategy and financial reporting quality. Journal of Forensic Accounting Research. 2025;10(1):73-101. doi: 10.2308/JFAR-2024-008.
16. Lim EK, Chalmers K, Hanlon D. The influence of business strategy on annual report readability. Journal of Accounting and Public Policy. 2018;37(1):65-81. doi: 10.1016/j.jaccpubpol.2018.01.003.
17. Noh M, Park J, Yoo S. Strategic emphasis and accounting conservatism. Managerial Finance. 2023;49(3):443-69. doi: 10.1108/MF-04-2022-0183.
18. Hsieh CC, Ma Z, Novoselov KE. Accounting conservatism, business strategy, and ambiguity. Accounting, Organizations and Society. 2019;74:41-55. doi: 10.1016/j.aos.2018.08.001.
19. Omazić MA, Labaš D, Uroić P. Contingency theory. Encyclopedia of Sustainable Management2023. p. 1-9.
20. Mohammadi H, Azizi S. The Effect of Conservative Financial Reporting on Business Strategies and Aggressive Tax Policy. Journal of Applied Research in Financial Reporting. 2024;13(1).
21. Wu CYH, Tsao SM, Lin CH. Accounting conservatism, corporate diversification and firm value. Review of Quantitative Finance and Accounting. 2025;64(1):371-415. doi: 10.1007/s11156-024-01308-x.