

Accounting Conservatism: Growth, Ownership, Distress, and Governance Interaction

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Abstract: This study examines the relationship between accounting conservatism in Indonesian non-financial firms and growth opportunity, managerial ownership, and financial distress, addressing conflicting findings in prior research and governance differences. Good Corporate Governance is used as a moderating mechanism to understand its effect on financial reporting. Using 8,440 firm-year observations from companies listed on the Indonesia Stock Exchange from 2015 to 2024, accounting conservatism is measured by the difference between net income and operating cash flow. Panel regression models assess direct effects and the moderating role of GCG, represented by board size and independent directors. Data from Refinitiv are analyzed through regression, correlation, descriptive statistics, and interaction terms. Results indicate growth opportunity, managerial ownership, and financial distress positively affect accounting conservatism. GCG moderates these relationships: independent members reduce the effect of financial distress, while larger boards and more independent members strengthen managerial ownership impact and weaken that of growth opportunity.

Keywords: Accounting Conservatism; Growth Opportunity; Managerial Ownership; Financial Distress; Good Corporate Governance.

Abstrak: Studi ini mengkaji hubungan antara konservatisme akuntansi di perusahaan non-keuangan Indonesia dengan peluang pertumbuhan, kepemilikan manajerial, dan kesulitan keuangan, membahas temuan yang saling bertentangan dalam penelitian sebelumnya dan perbedaan tata kelola. Tata Kelola Perusahaan yang Baik digunakan sebagai mekanisme moderasi untuk memahami dampaknya terhadap pelaporan keuangan. Dengan 8.440 observasi perusahaan-tahun dari perusahaan terdaftar di Bursa Efek Indonesia 2015 hingga 2024, konservatisme akuntansi diukur dengan selisih antara laba bersih dan arus kas operasi. Model regresi panel menilai efek langsung dan peran moderasi GCG, yang diwakili oleh ukuran dewan direksi dan direktur independen. Data Refinitiv dianalisis melalui regresi, korelasi, statistik deskriptif, dan istilah interaksi. Hasil menunjukkan peluang pertumbuhan, kepemilikan manajerial, dan kesulitan keuangan berpengaruh positif terhadap konservatisme akuntansi. GCG memoderasi hubungan ini: direktur independen mengurangi dampak kesulitan keuangan, sedangkan dewan yang lebih besar dan lebih banyak anggota independen memperkuat pengaruh kepemilikan manajerial dan melemahkan dampak peluang pertumbuhan.

Kata Kunci: Konservatisme Akuntansi; Peluang Pertumbuhan; Kepemilikan Manajerial; Kesulitan Keuangan; Tata Kelola Perusahaan yang Baik.

INTRODUCTION

Relevant, reliable, and timely accounting information helps management allocate resources efficiently and reduces information asymmetry risks (Daud, 2025). According to Basu (1997), accounting conservatism is a fundamental principle that improves the accuracy of financial reporting by mandating that bad news (losses) be recognized more quickly than good news (gains). In uncertain economic contexts, like emerging markets,



this prudential principle becomes even more crucial to safeguard investors' and creditors' interests from managerial opportunistic behavior.

A fundamental accounting concept, conservatism is based on the goal of safeguarding creditors by keeping net asset book values relatively low. This caution enhances the assessment of accounting quality and keeps financial success from being overstated (Chiedu et al., 2022). Conditional accounting conservatism, according to Basu (1997), is the unbalanced acknowledgment of economic gains and losses, with losses being recognized more quickly than profits. The majority of research on conditional accounting conservatism has mostly concentrated on the effects of using conservative accounting techniques, such as how they affect market efficiency and business value (Bedeir, 2024). This strategy has, meanwhile, also drawn criticism. For almost a century, accounting conservatism has been used in financial statement preparation and presentation. The use of accounting conservatism and its removal have been the subject of numerous heated debates (Hong & My, 2024). Despite these arguments, conservatism is nevertheless necessary for sensible reporting in accrual-based systems, where methods to reduce the risk of overstatement are required due to future cash flow uncertainty.

Conservatism is technically defined by the Financial Accounting Standards Board (FASB) as a "prudent reaction to uncertainty" that guarantees "risks inherent in business situations are adequately considered" (Shen et al., 2024). To reduce the aforementioned obstacles and problems, businesses must preserve sustainability through suitable corporate strategies and regulations. To address the aforementioned issues and improve the caliber of financial reporting, accounting conservatism can be used. Using accounting conservatism makes capital markets function more effectively since it is crucial in reducing asymmetric information (Hong & My, 2024).

Accounting conservatism remains a critical yet contentious issue in emerging markets like Indonesia, where firms are vulnerable to opportunistic conduct due to evolving corporate governance and financial reporting scrutiny. A prominent example is the case of PT Hanson International Tbk (MYRX), in which the company prematurely recognized revenue without valid sales agreements, resulting in an overstatement of financial statements amounting to Rp 613 billion in 2016. This violation led the Financial Services Authority (OJK) to impose administrative sanctions totaling Rp 5 billion on the company's CEO and raised serious concerns regarding the failure of external auditors to comply with professional auditing standards (Astuti et al., 2025; Molana et al., 2025).

This case exemplifies how aggressive accounting practices can mislead investors and undermine market credibility in the absence of adequate conservatism. Such incidents are indicative of a broader trend, as research confirms that accounting scandals are more prevalent in emerging economies due to heightened information asymmetry, laxer enforcement, and greater managerial discretion (Boata et al., 2025). Consequently, conservatism serves as an essential governance mechanism to limit opportunism, improve earnings quality, and protect stakeholders (Hajawiyah et al., 2020). However, the empirical evidence on its key determinants such as growth opportunity, managerial ownership, and financial distress reveals persistent and conflicting findings, creating ambiguity for both practice and policy. This unresolved debate, set against the backdrop of Indonesia's unique two-tier governance system and market volatility, underscores the urgent need for a comprehensive study to clarify these relationships and provide evidence-based insights for strengthening financial reporting integrity and sustaining investor confidence.

Empirical studies on the effect of growth opportunity on accounting conservatism reveal inconsistent findings, highlighting a critical area for further research. Growth



opportunity, typically measured by the market-to-book ratio, introduces significant uncertainty into a firm's operations and future prospects, which may influence managerial reporting choices (Hong & My, 2024). A strand of literature documents a **negative effect**, arguing that firms with high growth potential are incentivized to adopt less conservative, more aggressive reporting to signal strength and attract investment (Hong & My, 2024; Nuraeni & Tama, 2019). Conversely, another group of studies finds **insignificant** relationship, suggesting that growth opportunity alone does not systematically alter conservatism practices (Aurillya et al., 2021; Priyono & Suhartini, 2022). In contrast, a **positive effect** is also reported, with scholars contending that greater growth prospects compel managers to exercise heightened caution in financial reporting to mitigate the risks associated with uncertainty and heightened external scrutiny (El-Haq et al., 2019; Puspita & Srimindarti, 2023; Tamur, 2022). This lack of consensus underscores the potential influence of contextual or moderating factors.

The empirical evidence regarding the impact of managerial ownership on accounting conservatism is similarly mixed, reflecting the complex nature of insider incentives. Managerial ownership, which aligns the interests of managers with those of shareholders, is theorized to reduce agency conflicts. Some studies report a **positive effect**, positing that when managers hold substantial equity, they are more likely to act as stewards, favoring prudent and conservative reporting to protect their long-term investment and the firm's sustainable value (Chiedu et al., 2022; Hariyanto, 2020). However, opposing research finds a **negative effect**, suggesting that entrenched managers with high ownership may prioritize short-term market perceptions and personal gains, leading to less conservative, more opportunistic reporting (Hajawiyah et al., 2020). Meanwhile, several other studies find **insignificant effect**, indicating that the influence of managerial ownership may be neutralized by other governance mechanisms or contingent on specific firm contexts (Achyani et al., 2021; Rahmi & Baroroh, 2022; Yamin & Ramadhani, 2024). These contradictory results point to the need to consider governance structures as potential moderators.

Financial distress, a state posing a threat to a firm's solvency, significantly alters the information environment and stakeholder monitoring. A body of research supports a **positive effect**, asserting that distressed firms increase conservatism to credibly signal risk to creditors, facilitate timely debt covenant monitoring, and reduce litigation risk (Setiadi et al., 2023; Triwibowo et al., 2025; Wirawan, 2024). On the other hand, some studies report a **negative effect**, arguing that managers of distressed firms may resort to income-increasing methods and reduce conservatism in an attempt to mask poor performance and avoid violating debt agreements (Sari & Srimindarti, 2022; Yamin & Ramadhani, 2024). Additionally, other findings indicate an **insignificant effect**, proposing that the pressure of distress does not uniformly translate into changes in reporting conservatism across all firms (Haryadi et al., 2020; Hong & My, 2024) indicating that financial distress is not always strong enough to drive changes in conservatism practices. This inconsistency suggests that the link between distress and conservatism may be conditional on the strength of a firm's governance framework.

These inconsistencies highlight the potential moderating role of GCG, proxied by board size and proportion of independent board members, in reducing opportunistic reporting and enhancing prudence (Khlifi et al., 2024). An optimal board size promotes efficient coordination in decision-making, a company's management information will circulate and be used more quickly if the Board of Directors is composed appropriately (Tajuddin et al., 2024). In general, board independence is a crucial instrument for



improving governance and transparency, lessening information asymmetry, and promoting sustainability-related projects and reporting on them to different stakeholders (Amosh & Khatib, [2022](#)).

Empirical results on how growth opportunity, managerial ownership, and financial distress affect accounting conservatism are still conflicting and contradictory despite a great deal of research. Previous research either ignores the moderating influence of governance systems or looks at these aspects independently using small sector-specific samples. In the context of accounting conservatism, studies that concurrently incorporate these three firm-specific factors into a single model and examine the moderating effect of GCG, particularly by using independent board members and board size as dual proxies, are still uncommon. Additionally, a lot of earlier research relies on small or selective samples, which restricts generalizability.

This study expands on earlier research (Achyani et al., [2021](#); Chiedu et al., [2022](#); Priyono & Suhartini, [2022](#); Puspita & Srimindarti, [2023](#); Sari & Srimindarti, [2022](#); Setiadi et al., [2023](#); Tamur, [2022](#); Yamin & Ramadhani, [2024](#); etc.). Additionally, by choosing a moderating variable that has been comparatively understudied in related research contexts, this study advances earlier research on the use of moderating variables (Hajawiyah et al., [2020](#); Rahmi & Baroroh, [2022](#); Susilawati et al., [2025](#); Triwibowo et al., [2025](#); etc.).

To bridge these gaps, this study examines the direct effects of growth opportunity, managerial ownership, and financial distress on accounting conservatism as well as the moderating role of GCG using a full population of non-financial firms listed on the Indonesia Stock Exchange from 2015 to 2024. Using two distinct governance metrics (independent board members and board size) inside a single moderated regression framework, this study offers a more nuanced understanding of how governance structures impact financial reporting conservatism in an emerging market scenario.

This study adds to the body of literature in a number of ways. First, it expands the theoretical conversation on conservatism and governance by combining agency and signaling theories to explain the moderating mechanism of GCG. Second, it improves external validity by utilizing a thorough, population-wide dataset from Refinitiv to overcome sample limitations of earlier Indonesian investigations. Third, it offers up to date empirical data from Indonesia's two-tier system of governance, where board supervision operates differently from one-tier systems in the West. Lastly, the results provide useful information on how well governance procedures encourage responsible financial reporting for Indonesian regulators, investors, and corporate boards.

THEORETICAL REVIEW

Agency Theory. Jensen & Meckling ([1976](#)), in their seminal work "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," introduced agency theory. An agency relationship is a contract wherein one or more individuals (principals) employ another individual (agent) to do particular activities on their behalf, necessitating the delegation of decision-making authority. Because both parties are utility maximizers, agents may not always behave in the best interests of the principals, which can lead to agency problems and costs. These expenses include principal monitoring fees, agent bonding costs, and residual losses from misaligned interests. These conflicts are frequently made worse by the division of ownership and control in firms, where managers may prioritize their own goals over increasing shareholder wealth. Principals can put in place



monitoring tools, such as effective reporting systems, remuneration incentives, and governance structures, to lessen such problems.

Building on this foundation, Eisenhardt (1989) emphasized that the principal agent relationship is inherently characterized by goal conflict and information asymmetry, with managers typically possessing more operational knowledge than owners. Given the rational and self-interested nature of both parties, this asymmetry can lead to opportunistic behavior, such as manipulative reporting to present favorable performance and meet principals' expectations. To counteract this, independent third-party oversight is crucial. The involvement of external auditors, for instance, enhances the credibility and reliability of financial statements prepared by management, thereby bolstering accountability and stakeholder trust (Purba, 2023).

Signaling Theory. According to signaling theory, which was first put forth by Spence (1973) and Ross (1997), the sender (information owner) can reduce information asymmetry by providing signals in the form of information reflecting the company's condition that benefits creditors or investors (Susanto et al., 2022). Communication between internal firm stakeholders typically represented by finance managers and external stakeholders such as investors, stock investors, or the general public is facilitated by signaling theory (Elwisam et al., 2024). Information asymmetry between business management and parties interested in that information is demonstrated by signaling theory. Signals from businesses are one technique to lessen information asymmetry.

The information provided by companies serves as an indicator of the company's credibility and quality. Signals can be financial or non-financial information that suggests a company is better than others. There are two categories of signals, namely, good signals which indicate a healthy and prospective company condition, and bad signals which indicate potential risks or declining performance (Yamin & Ramadhani, 2024). Signals must be observable and credible, so that consumers can clearly identify and assess the company's sustainability. In the context of this research, signal theory is used as a basis to explain how various company decisions and characteristics can be interpreted as signals that reflect the company's internal conditions to external parties.

Hypothesis Development

The Effect of Growth Opportunity on Accounting Conservatism. Growth opportunity reflects a firm's potential to invest in profitable projects and generate future profits (Hong & My, 2024). From a signaling perspective, firms with high growth opportunity tend to disclose information that highlights strong future prospects in order to attract external financing and maintain investor confidence (Susilawati et al., 2025). However, such conditions may encourage managers to adopt more aggressive financial reporting practices, which can reduce the level of accounting conservatism. In contrast, firms with lower growth opportunity are more likely to apply cautious reporting practices to avoid overstating financial performance and future expectations.

In addition, an Agency Theory suggests that growth opportunity may intensify conflicts of interest between managers and shareholders. Managers in high growth firms may have incentives to overstate assets or earnings to signal firm potential and justify investment decisions, thereby weakening conservative accounting practices. Empirical evidence supports this view, indicating that growth opportunity is associated with lower accounting conservatism (Hong & My, 2024; Nuraeni & Tama, 2019).

Therefore, based on recent theoretical perspectives and empirical findings, it is expected that growth opportunity has a negative effect on accounting conservatism.



H1: Growth opportunity exerts a negative effect on the level of accounting conservatism.

The Effect of Managerial Ownership on Accounting Conservatism. The degree to which managers own equity interests in the company is reflected in managerial ownership. Stronger managerial involvement in the long-term performance and risk management of the company is indicated by higher managerial ownership. When managers own a greater proportion of company shares, they tend to place more emphasis on preserving firm value and credibility rather than pursuing short term earnings, which encourages more prudent financial reporting practices (Hariyanto, [2020](#)).

Managerial ownership aligns managers' interests with shareholders, reducing agency conflicts and promoting cautious reporting (Jensen & Meckling, [1976](#)). Managers with higher ownership are more involved in long-term sustainability, applying conservative principles to protect company value and credibility (Hajawiyah et al., [2020](#)). Based on the Agency Theory and prior empirical findings in research Chiedu et al. ([2022](#)) and Hariyanto ([2020](#)), it can be expected that managerial ownership has a positive effect on accounting conservatism.

H2: Managerial ownership exerts a positive effect on the level of accounting conservatism.

The Effect of Financial Distress on Accounting Conservatism. Financial distress is a condition in which a company faces potential bankruptcy or difficulty meeting financial obligations, driving the need for credible signals to investors and creditors (Triwibowo et al., [2025](#)). Accounting conservatism plays a crucial role in monitoring debt covenant violations, enabling creditors to act quickly (Nguyen et al., [2020](#)). Agency theory (Jensen & Meckling, [1976](#)) suggests that distress exacerbates agency conflicts through opportunistic managerial behavior, thus conservatism is necessary to align interests and reduce agency costs through transparent loss recognition. Signaling Theory (Ross, [1997](#); Spence, [1973](#)) suggests that firms experiencing financial distress need to send credible negative signals to reduce information asymmetry. Accounting conservatism functions as such a signal by transparently acknowledging negative economic conditions, which enhances reporting credibility and lowers litigation risk. Larger companies or those with high levels of oversight exhibit greater conservatism due to litigation risk, loan quality, and high leverage (Wirawan, [2024](#)). Based on theory and empirical evidence (Setiadi et al., [2023](#); Triwibowo et al., [2025](#); Wirawan, [2024](#)), financial distress has a positive effect on accounting conservatism.

H3: Financial Distress exerts a positive effect on the level of accounting conservatism.

The Role of Good Corporate Governance as a Moderator in the Relationship between Growth Opportunity, Managerial Ownership, and Financial Distress on Accounting Conservatism. Any company, regardless of location, always desires to operate healthily and efficiently. To achieve this, a company must adhere to the principles of good corporate management, including implementing good governance (Sudarmanto et al., [2021](#)). Corporate governance is generally divided into two types: one-tier systems and two-tier systems. A one-tier system positions the board of directors as carrying out both management and oversight functions within a company, while a two-tier system separates the management function of the company, which is carried out by the board of directors,



from the oversight function, which is carried out by the board of commissioners (Krisna & Wijaya, [2022](#)).

A larger number of members contribute to oversight activities, which enhances the board's ability to perform efficient monitoring and advisory functions. Additionally, a broader board allows for more information exchange and takes into account a greater variety of viewpoints and experiences (Treepongkaruna et al., [2024](#)).

High proportion of independent board members enhances objectivity and reduces managerial influence, thereby serving as a complementary mechanism to ownership structures. Lower-level executives and staff may be unsure of how authority and control are distributed as a result of the independent board leadership structure. Delays in top-level decision-making could result from the split of authority, which would eventually hurt shareholders (Lawrence et al., [2025](#)). However, agency theory (Jensen & Meckling, [1976](#)) contends that, particularly in companies with significant information asymmetry and little operational complexity, an independent board leadership structure can enhance the monitoring efficacy of boards and company performance. Although independent board members are expected to give managerial supervision and to supplement the knowledge and viewpoint available for management choices, these outsiders need to know how the company operates in order to advise management (Smith et al., [2019](#)).

From the perspective of Agency Theory (Jensen & Meckling, [1976](#)), GCG mitigates conflicts between managers and shareholders by improving monitoring and aligning interests, while Signaling Theory (Spence, [1973](#)) suggests that strong governance sends credible signals to external stakeholders, increasing investor confidence and reducing information asymmetry (Elwisam et al., [2024](#)). This internal alignment also complements Signaling Theory by making governance practices credible signals to external stakeholders, thereby reducing adverse selection and building investor confidence (Elwisam et al., [2024](#); Spence, [1973](#)).

GCG is thought to modify the association between the independent factors and accounting conservatism in the context of this study.

Good Corporate Governance Moderates the Effect of Growth Opportunity on Accounting Conservatism. A company's potential for future investment and earnings is reflected in its growth opportunity (Hong & My, [2024](#)). According to Agency Theory, high growth amplifies agency conflicts, as managers may overstate assets to attract funding and engage in opportunistic behavior. GCG, proxied by independent board members and board size, mitigates this risk by enhancing oversight, restricting managerial discretion, and enforcing prudent practices such as timely loss recognition.

Complementing this, Signaling Theory (Spence, [1973](#)) emphasizes that GCG strengthens the credibility of growth related disclosures to external stakeholders, reducing the risk of overly optimistic reporting and encouraging conservative practices (Elwisam et al., [2024](#)). Empirical evidence supports this moderating role: firms in emerging markets with strong GCG mechanisms show a weaker negative relationship between growth opportunity and accounting conservatism, as effective boards enforce higher reporting standards amid uncertainty (El-Haq et al., [2019](#); Puspita & Srimindarti, [2023](#)).

It is anticipated that this link will be moderated by GCG, which is represented by independent board members and size. By means of improved oversight, GCG functions as a counterbalance, mitigating the impact of expansion prospects on accounting conservatism and guaranteeing responsible however ideal reporting.



H4a: Independent Board Members weaken the effect of growth opportunity on accounting conservatism.

H4b: Board Size weakens the effect of growth opportunity on accounting conservatism.

Good Corporate Governance Moderates the Effect of Managerial Ownership on Accounting Conservatism. Managerial ownership aligns managers' interests with shareholders, encouraging cautious reporting and promoting accounting conservatism (Jensen & Meckling, 1976). GCG proxied by independent board members and board size, strengthens the positive effect of managerial ownership by curbing opportunistic behavior and ensuring timely loss recognition (Elwisam et al., 2024).

From the standpoint of Signaling Theory (Spence, 1973), suggests strong governance enhances credibility and transparency of managerial ownership signals. Empirical studies confirm that high GCG levels amplify the positive relationship between managerial ownership and conservatism, particularly in emerging markets such as Indonesia, where Indonesia Stock Exchange (IDX) regulations emphasize independent board members to reduce information asymmetry (Muttakin et al., 2019).

Based on Agency Theory complemented by Signaling Theory and recent empirical evidence, it is expected that GCG moderates the positive effect of managerial ownership on accounting conservatism, such that the positive relationship is stronger under high levels of GCG, proxied by optimal board size and higher independent board members.

H5a: Independent Board Members strengthen the positive effect of managerial ownership on accounting conservatism.

H5b: Board Size strengthens the positive effect of managerial ownership on accounting conservatism.

Good Corporate Governance Moderates the Effect of Financial Distress on Accounting Conservatism. Financial distress can encourage conservatism through timely loss recognition but may also trigger opportunistic reporting under agency conflicts. GCG mitigates these risks by enhancing board oversight and ensuring prudent disclosure practices (Wirawan, 2024).

From the perspective of Signaling Theory (Spence, 1973) strong GCG strengthens the credibility of financial reporting during distress, reassuring investors and creditors about management's transparency and commitment to reporting integrity. Empirical evidence shows that firms with robust GCG mechanisms maintain stronger conservatism during financial stress, particularly through timely recognition of losses, demonstrating that board size and independent can effectively moderate the relationship between financial distress and accounting conservatism (Triwibowo et al., 2025; Wirawan, 2024).

Based on Agency Theory complemented by Signaling Theory and recent empirical studies, it is expected that GCG moderates the positive effect of financial distress on accounting conservatism, such that the positive relationship is stronger under high levels of GCG, proxied by optimal board size and a higher percentage of independent board members.

H6a: Independent Board Members strengthen the positive effect of financial distress on accounting conservatism.



H6b: Board Size strengthens the positive effect of financial distress on accounting conservatism.

METHODS

Data and Sample Selection. This study employs a quantitative research design using a population-based approach, in which the entire population of non-financial firms listed on the Indonesia Stock Exchange (IDX) is included as the research sample. All non-financial firms available in Refinitiv Eikon during the period 2015 to 2024 were selected without applying additional exclusion criteria, other than the standard removal of financial institutions due to their distinct regulatory and reporting characteristics. Using the full population ensures that the analysis captures the complete behavior of non-financial firms over the observed decade.

After aligning all variables and confirming data completeness across firms and years, the final dataset consists of 8,440 firm-year observations, representing 844 firms observed consistently for ten years. This produces a balanced panel dataset, allowing for uniform comparison across entities and across time. To enhance data quality and to reduce the impact of extreme values, all continuous variables were winsorized at the 1st and 99th percentiles, preserving distributional integrity while preventing outlier-driven distortions in the estimation results.

By incorporating the entire population of non-financial firms, this study addresses limitations commonly found in prior research, which often relied on relatively narrow or sector-specific samples. For instance, Hajawiyah et al. (2020) and Achyani et al. (2021) examined only manufacturing firms over a limited three-year period, Hariyanto (2020) focused solely on the real estate and property sector without incorporating any moderating variables, and Aurillya et al. (2021) focused exclusively on manufacturing firms during the 2017 to 2020 period without incorporating any moderating variables. The broader coverage used in this study therefore improves the generalizability of the findings and provides a more comprehensive understanding of firm-level behavior in the Indonesian capital market.

Variable measurement. Accounting conservatism serves as the study's dependent variable. The notion from (Halimah et al., 2021), which is derived from the method of Givoly and Hayn, is adopted to assess this variable utilizing an accrual-based approach. The amount of total accruals, which is determined by subtracting operating cash flow from net income before exceptional items ($Cit = NI_{it} - CFO_{it}$), is a proxy for conservatism. Conservative earnings are indicated by a negative value of this accrual; a greater degree of accounting conservatism is shown by a larger negative value.

Three important firm-specific factors make up the independent variables: Growth Opportunity (GROWTH), as determined by the market-to-book value ratio; Managerial Ownership (MOWN), as determined by the percentage of shares held by the company's management; and Financial distress, as determined by the Altman Z'-Score. All ratio component data, including working capital, retained earnings, EBIT, total assets, total liabilities, and book value of equity, were obtained directly from Refinitiv Eikon. Utilizing this database guarantees uniformity in configuration and data correctness across businesses. The study includes control variables for Firm Size (SIZE), which is determined by the natural logarithm of total assets, and Leverage (LEV), which is determined by the debt-to-equity ratio, in order to separate the impacts of these main factors. **Table 1** contains a thorough measurement for every variable.



Table 1. Variable Description and Measurement

No	Variabel	Symbol	Measurement
1	Accounting Conservatism	CONACC	Net Income - Cash Flow Operating. A larger negative value indicates higher conservatism
2	Growth Opportunity	GROWTH	The ratio of market value to book value of equity, calculated as (closing price × number of shares outstanding) ÷ total equity
3	Managerial Ownership	MOWN	The percentage of shares owned by management compared to the total shares outstanding
4	Financial Distress	ZSCORE	Altman Z” – Score (1995)
5	Good Corporate Governance		
	Independent Board Members	BIND	Number of independent board members divided by the number of boards
	Board Size	BSIZE	Number of board members
6	Firm Size	SIZE	LN(Total Assets)
7	Leverage	LEV	Debt to Equity

Source: Processed Data (2025)

The operational definitions and measurements of the research variables are shown in **Table 1**. CONACC is determined by subtracting operating cash flow from net income; GROWTH is determined by the market-to-book value of equity ratio; MOWN is the percentage of shares held by management; ZSCORE is determined by the Altman Z-Score; control variables include SIZE (Ln of total assets) and LEV (debt-to-equity ratio); and moderating variables are BIND and BSIZE.

Empirical Model. The effects of growth opportunity, managerial ownership, and financial distress on accounting conservatism are investigated in this study using a panel data regression model. Independent board members (BIND) and board size (BSIZE) are used to measure GCG, which is a moderating variable. Panel data that is balanced makes up the dataset. EViews was used to do statistical regression analysis. Firm fixed effects and year fixed effects are also included in the model. The following describes the theoretical regression models that were employed in this investigation:

Baseline Model,

$$CONACC_{it} = \alpha + \beta_1 GROWTH_{it} + \beta_2 MOWN_{it} + \beta_3 ZSCORE_{it} + \gamma_1 SIZE_{it} + \gamma_2 LEV_{it} + \mu_i + \lambda_t + \varepsilon_{it} \dots \dots \dots (1)$$

Independent Board Members as a Moderator,

$$CONACC_{it} = \alpha + \beta_1 GROWTH_{it} + \beta_2 MOWN_{it} + \beta_3 ZSCORE_{it} + \delta_1 (GROWTH_{it} \times BIND_{it}) + \delta_2 (MOWN_{it} \times BIND_{it}) + \delta_3 (ZSCORE_{it} \times BIND_{it}) + \gamma_1 SIZE_{it} + \gamma_2 LEV_{it} + \mu_i + \lambda_t + \varepsilon_{it} \dots \dots \dots (2)$$

Board Size as a Moderator,

$$CONACC_{it} = \alpha + \beta_1 GROWTH_{it} + \beta_2 MOWN_{it} + \beta_3 ZSCORE_{it} + \phi_1 (GROWTH_{it} \times BSIZE_{it}) + \phi_2 (MOWN_{it} \times BSIZE_{it}) + \phi_3 (ZSCORE_{it} \times BSIZE_{it}) + \gamma_1 SIZE_{it} + \gamma_2 LEV_{it} + \mu_i + \lambda_t + \varepsilon_{it} \dots \dots \dots (3)$$



The empirical model is built to examine the factors that influence accounting conservatism (CONACC) based on the given variables. Growth opportunity (GROWTH), managerial ownership (MOWN), the level of financial distress (ZSCORE), and corporate governance proxies like the percentage of independent board members (BIND) and board size (BSIZE) are all included in the model. Additionally included are control variables for firm size (SIZE) and leverage (LEV). Formally, a panel regression framework is used to assess the connection, accounting for common macroeconomic shocks through year fixed effects (λ_t) and unobserved, time-invariant firm heterogeneity through firm fixed effects (μ_i). Idiosyncratic shocks are captured by the error term (ε_{it}). A constant term (α) and regression coefficients ($\beta, \gamma, \delta, \varphi$, etc.) for the corresponding explanatory variables are used to specify the model for company (i) in year (t).

RESULTS

The dataset employed in this study comprises non-financial firms listed on the Indonesia Stock Exchange (IDX) and is structured as balanced panel data for the chosen period of observation. To offer an initial understanding of the data characteristics and the associations among the variables, descriptive statistics and preliminary analyses are presented before conducting the regression estimation. This study utilizes EViews software as the analytical tool to process and estimate the panel data regression models.

Table 2. Overview of Variable Characteristics

Variable	Mean	Median	Maximum	Minimum
CONACC	-2.850	7.820	2.200	-7.740
GROWTH	16.196	6.035	32.410	0.050
MOWN	94.735	100.000	100.000	0.010
ZSCORE	53.255	5.245	143.600	-16.880
BIND	96.006	98.800	250.470	0.550
BSIZE	10.100	11.000	11.000	1.000
SIZE	644.647	29.150	2023.010	12.580
LEV	3.117	0.530	10.750	-0.960

Source: Processed Data (2025)

Table 2 shows the descriptive statistics for all variables used in this study. The mean value of accounting conservatism (CONACC) is -2.850 , indicating that, on average, firms tend to apply conservative reporting practices, as reflected in negative accruals. The minimum value of -7.740 further shows that some companies report even more conservative accrual levels. Growth opportunity (GROWTH) shows an average of 16.196 , suggesting that the sampled firms generally have strong prospects for future expansion, supported by relatively high market valuations compared to book values. Managerial ownership (MOWN) has a notably high mean of 94.735 per cent, which implies that most companies have substantial insider ownership, potentially influencing managers' reporting preferences and risk attitudes.

The average Altman Z^{''}-Score for financial distress (ZSCORE) is 53.255 , which indicates that most firms in the sample operate in a financially healthy condition, although the minimum score of -16.880 suggests the presence of firms facing severe financial pressure. For the governance variables, independent board members (BIND) shows an average of 96.006 , reflecting a relatively high proportion of independent board members.



Meanwhile, the average board size (BSIZE) is 10 members, consistent with common governance structures in Indonesian listed companies. The control variables also demonstrate substantial variation: firm size (SIZE) averages 644.647, while leverage (LEV) has a mean of 3.117, indicating moderate reliance on debt financing. Overall, the descriptive statistics illustrate the diverse characteristics of the non-financial firms included in this study, providing a solid foundation for the subsequent regression analysis.

Table 3 reports the correlation coefficients among the variables. Overall, the results indicate low to moderate correlations, suggesting that multicollinearity is unlikely to pose a concern in the regression models. Growth opportunity (GROWTH) shows a positive correlation with accounting conservatism 0.349, implying that firms with higher growth prospects tend to report less conservative accruals, although this relationship remains moderate in strength. Managerial ownership (MOWN) exhibits a very weak correlation with CONACC 0.049, indicating little linear association between insider ownership and conservative reporting at the correlation level.

Table 3. Correlation Analysis

Variabel	CONACC	GROWTH	MOWN	ZSCORE
CONACC	1			
GROWTH	0.349	1		
MOWN	0.049	0.132	1	
ZSCORE	0.289	0.584	0.151	1
BIND	0.070	0.112	0.011	0.147
BSIZE	0.098	0.180	0.635	0.232
SIZE	0.311	0.267	0.110	0.396
LEV	0.361	0.557	0.078	0.403
	BIND	BSIZE	SIZE	LEV
BIND	1			
BSIZE	0.326	1		
SIZE	0.062	0.154	1	
LEV	0.102	0.136	0.408	1

Source: Processed Data (2025)

Financial Distress (ZSCORE) is moderately correlated with CONACC 0.289, suggesting that financially stronger firms (higher Z-scores) tend to be less conservative, although the relationship is not strong. The governance variables display relatively small correlations with the dependent variable: independent board members (BIND) correlates at 0.070, and board size (BSIZE) at 0.098, aligning with expectations that governance characteristics may influence conservatism more meaningfully through interaction effects rather than direct correlations. The control variables, firm size (SIZE) and leverage (LEV), show moderate correlations with CONACC 0.311 and 0.361, respectively but still fall within acceptable ranges.

Table 4. Baseline Model

Variable	Coefficient	Std. Error	t-Stat	Prob.
C	0.334	0.098	3.391	0.000
GROWTH	0.223	0.012	17.899	0.000
MOWN	0.003	0.001	3.780	0.000
ZSCORE	0.011	0.000	40.991	0.000



SIZE	8.540	1.650	5.184	0.000
LEVERAGE	0.069	0.003	19.660	0.000
Firm Effect			Yes	
Year Effect			Yes	
N	8.440			
R2	0.788			
Adjusted R2	0.765			
F Statistic	33.079			
Prob(F-statistic)	0.000			

Source: Processed Data (2025)

Table 4 shows the regression results of the baseline model. The results indicate that growth opportunity, managerial ownership, and financial distress consistently have a positive effect on accounting conservatism at the 1 per cent significance level. An R-squared value of 0.788 indicates that this model is able to explain 78 per cent of the variation in accounting conservatism, indicating good explanatory power.

Table 5. Independent Board Members as a Moderator

Variable	Coefficient	Std. Error	t-Stat	Prob.
C	6.620	2.830	23.383	0.000
GROWTH	4.550	1.470	30.932	0.000
MOWN	3.230	1.530	2.110	0.034
ZSCORE	1.400	4.160	3.366	0.000
BIND	9.940	1.550	6.427	0.000
Z_GROWTH×BIND	-4.570	1.500	-30.991	0.000
Z_MOWN×BIND	2.150	1.270	1.699	0.089
Z_ZSCORE×BIND	-4.220	1.080	-3.898	0.001
SIZE	4.110	1.825	22.503	0.000
LEVERAGE	9.140	4.050	22.590	0.000
Firm Effect			Yes	
Year Effect			Yes	
N	8440			
R2	0.960			
Adjusted R2	0.955			
F Statistic	212.377			
Prob(F-statistic)	0.000			

Source: Processed Data (2025)

The estimation results with independent board members moderation (BIND) are presented in **Table 5**. This model shows a significant increase in explanatory power with an R-squared of 0.960, indicating that the model explains 96 per cent of the variation in accounting conservatism.

The findings suggest that independent board members weaken the positive relationship between GROWTH and accounting conservatism.

In addition, independent board members tend to strengthen the influence of MOWN.

However, contrary to the initial hypothesis, the moderating role of independent board members weakens the relationship between ZSCORE and conservatism, suggesting a less effective oversight function under conditions of financial distress in the Indonesian context.



Table 6. Board Size as a Moderator

Variable	Coefficient	Std. Error	t-Stat	Prob.
C	2.790	8.940	3.123	0.001
GROWTH	3.560	1.180	3.005	0.002
MOWN	2.650	9.880	2.680	0.007
ZSCORE	5.560	7.650	7.264	0.000
BSIZE	-6.380	2.050	-3.106	0.001
Z_GROWTH×BSIZE	-3.550	1.000	-3.546	0.004
Z_MOWN×BSIZE	5.330	2.150	2.480	0.013
Z_ZSCORE×BSIZE	3.370	6.882	4.894	0.000
SIZE	7.480	6.598	11.337	0.000
LEVERAGE	1.940	1.470	13.177	0.000
Firm Effect			Yes	
Year Effect			Yes	
N	8440			
R2	0.480			
Adjusted R2	0.421			
F Statistic	8.137			
Prob(F-statistic)	0.000			

Source: Processed Data (2025)

Table 6 shows the results of moderation by board size (BSIZE). The results are consistent with the previous model, indicating that board size acts as a significant moderating variable. The model explains approximately 48 per cent of the variation in accounting conservatism.

Larger boards discourage high-growth companies from being too conservative in their reporting because BSIZE reduces the positive correlation between GROWTH and accounting conservatism.

BSIZE reinforces the positive correlation between conservatism and MOWN, suggesting that the highest degree of reporting prudence is achieved when management ownership and extensive board oversight are combined.

BSIZE considerably increases the positive correlation between conservatism and ZSCORE, demonstrating that larger boards offer more collective oversight during difficult financial times, which in turn promotes more cautious reporting to preserve corporate credibility.

A thorough summary of the findings of the hypothesis testing is given in **Table 7**. Two of the three primary hypotheses were determined to be accepted based on the data analysis. Since the regression results actually revealed a significant positive link, Hypothesis 1 (H1), which anticipates a detrimental effect of growth opportunity on accounting conservatism, was rejected. On the other hand, both Hypothesis 2 (H2) about the beneficial impact of managerial ownership and Hypothesis 3 (H3) about the beneficial impact of financial distress on conservatism were accepted. Additionally, it was widely acknowledged that GCG plays a moderating influence.

Table 7. Hypothesis Result

Hypothesis	Coefficient	Sig	Result
H1 Growth opportunity exerts a negative effect on the level of accounting conservatism	0.223	0.000	Rejected



H2	Managerial ownership exerts a positive effect on the level of accounting conservatism	0.003	0.000	Accepted
H3	Financial distress exerts a positive effect on the level of accounting conservatism	0.011	0.000	Accepted
H4a	Independent Board Members weaken the effect of growth opportunity on accounting conservatism	-4.570	0.000	Accepted
H4b	Board size weakens the effect of growth opportunity on accounting conservatism	-3.550	0.000	Accepted
H5a	Independent Board Members strengthen the positive effect of managerial ownership on accounting conservatism	2.150	0.089	Accepted
H5b	Board size strengthens the positive effect of managerial ownership on accounting conservatism	5.330	0.013	Accepted
H6a	Independent Board Members strengthen the positive effect of financial distress on accounting conservatism	-4.220	0.000	Rejected
H6b	Board size strengthens the positive effect of financial distress on accounting conservatism	3.370	0.000	Accepted

Source: Processed Data (2025)

The positive influence of managerial ownership (H5a & H5b) was reinforced, while the positive effect of growth opportunity (H4a & H4b) was weakened by independent board members (BIND) and board size (BSIZE). On the moderation of financial distress, however, there was a surprising finding: independent board members (BIND) actually had a significant negative moderating effect (H6a was rejected), whereas board size (BSIZE) increased the association with conservatism (H6b was approved). This suggests that board size is a more effective governance instrument than the simple existence of independent directors in Indonesia's financial distress.

DISCUSSION

The Effect of Growth Opportunity on Accounting Conservatism. The findings show that growth opportunity has a positive and significant impact on accounting conservatism, which is contrary to Hypothesis H1. This positive relationship implies that firms with higher growth prospects typically adopt more conservative accounting practices because high-growth firms operate under greater uncertainty and are subject to intense scrutiny from creditors and investors (Aurillya et al., 2021). Managers use conservatism as a strategic strategy to control this elevated risk and preserve credibility in the capital market. They demonstrate caution and lower the possibility of future legal action or reputational harm from overstating performance by quickly identifying losses and postponing profits.

The inference is that growth is a spur for caution rather than aggressive reporting in emerging markets like Indonesia. According to this research, analysts and investors should view conservative reporting in high-growth companies as a risk management tactic rather than an indication of subpar performance. It emphasizes the significance of governance



structures for regulators to make sure that this conservatism is used correctly and does not mask actual economic performance. Businesses need to focus more on expansion prospects since doing so will boost investment returns and produce higher-quality earnings (El-Haq et al., 2019).

Studies like Hong & My (2024) and Nuraeni & Tama (2019), which contend that growth stimulates aggressive reporting to attract investment, reveal a negative effect in contradiction to this finding. However, it is consistent with and supports the findings of Puspita & Srimindarti (2023), El-Haq et al. (2019), and Tamur (2022), who also discovered a positive relationship, highlighting the fact that growth-related uncertainties encourage businesses to take a more cautious reporting stance in order to foster long-term stakeholder trust.

The Effect of Managerial Ownership on Accounting Conservatism. The results validate that managerial ownership significantly and favorably influences accounting conservatism, supporting Hypothesis H2. The alignment of managers' and shareholders' interests is what drives this beneficial effect (Agency Theory). Managers' personal wealth is closely linked to the long-term viability of the company when they have a sizable ownership position (Lubis et al., 2025). As stewards, managers use conservatism to limit risks, improve the accuracy of financial statements, and preserve the firm's worth, which ultimately protects their own investment. This lessens the incentives for short-term earnings manipulation and promotes more cautious reporting (Amalia et al., 2025).

For boards and shareholders, this implies that equity-based compensation can align managerial behavior with the objective of transparent and prudent disclosure. The practical implication is that encouraging managerial ownership can be an effective internal governance mechanism to foster responsible financial reporting.

This outcome is in line with the conclusions of Chiedu et al. (2022) and Hariyanto (2020), who contend that managerial ownership encourages stewardship and cautious reporting. It runs counter to research like Hajawiyah et al. (2020), which discovered a negative impact and suggested that entrenched managers might utilize their ownership to steer clear of conservative practices that could lower share prices in the near term. The stewardship effect that is currently prevalent in the Indonesian market may be better captured by the current study's setting, which uses a full population sample over a longer period of time.

The Effect of Financial Distress on Accounting Conservatism. The findings validate Hypothesis H3 by showing that accounting conservatism is positively and significantly impacted by financial distress. Businesses experiencing financial difficulties are more likely to be monitored by creditors and to violate covenants (Wandi, 2022).

Adopting conservative accounting, according to Agency and Signaling Theories, enables these businesses to legitimately communicate to the market that they are aware of challenges, preserving creditor trust and lowering lawsuit risk. Early warning systems that allow stakeholders to take corrective action and show management's dedication to openness in times of crisis are provided via timely loss recognition.

This suggests that more conservatism in a distressed company's filings should be seen by creditors and investors as a legitimate admission of issues rather than an effort to conceal them (Setiadi et al., 2023). It emphasizes conservatism as a vital tool for business management to negotiate with stakeholders and preserve access to capital during difficult financial times.

This result is in line with recent research showing that distress encourages cautious reporting (Setiadi et al., 2023; Triwibowo et al., 2025; Wirawan, 2024). In contrast,



research such as Yamin & Ramadhani (2024) and Sari & Srimindarti (2022), found a negative association, indicating that struggling enterprises may manipulate earnings higher to appear healthier. The population-wide analysis of the current study supports the idea that, in the Indonesian setting, short-term opportunistic motivations are subordinated to the need to preserve credibility in times of adversity.

Good Corporate Governance as A Moderating Variable. The results show a significant direct effect of the governance variables before examining the moderating role. The degree of accounting conservatism is directly impacted negatively by board size (BSIZE) and positively by the percentage of independent board members (BIND). The benefits of BIND are consistent with agency theory, which holds that in order to safeguard the interests of external shareholders, independent board members will improve supervision and demand more cautious reporting (Chang, 2023).

On the other hand, agency and resource dependence theories can account for the detrimental effects of BSIZE. Boards that are too big may find it difficult to achieve an agreement, coordinate inefficiently, and communicate poorly, which will ultimately undermine their monitoring ability and give management more freedom to report less conservatively (Destriana & Sebastian, 2025).

Good Corporate Governance Moderates the Effect of Growth Opportunity on Accounting Conservatism. Hypotheses H4a and H4b are supported. GCG considerably reduces the positive correlation between growth opportunity and accounting conservatism. This is because a strong board ensures that this prudence does not become excessive reporting conservatism that could obscure the firm's true value and growth potential. The board's supervisory role tempers overly cautious reporting, promoting a more balanced disclosure (Novitasari & Suwarno, 2022).

For investors, this means that in companies with good GCG, conservative reporting in high-growth situations is more likely to reflect measured caution rather than excessive risk aversion. This implies that a well-structured board serves as a calibration mechanism for financial reporting.

The result is consistent with the more general theoretical role of governance as a monitoring mechanism that conditions managerial decision, even though there are few direct research on this particular moderation (Jensen & Meckling, 1976). It is consistent with research showing that the efficacy of the board affects how corporate attributes translate into accounting results. Our research offers new empirical proof that this governance function particularly appears as a moderating influence on the conservatism brought on by growth opportunity.

Good Corporate Governance Moderates the Effect of Managerial Ownership on Accounting Conservatism. The hypotheses H5a and H5b are validated. GCG enhances managerial ownership's beneficial impact on accounting conservatism. High managerial ownership is complemented by excellent governance, which has a beneficial moderating effect (Royana et al., 2025). Governance provides the required framework for oversight, while ownership aligns interests. Together, they establish a synergistic process that ensures stewardship behavior is successfully directed toward responsible reporting by reinforcing internal incentives (ownership) through external supervision (the board).

The practical implication is that a strong board is necessary to fully enjoy the benefits of executive ownership for reporting quality. This makes the case for a comprehensive strategy for governance reform.



Studies like Chiedu et al. (2022) and Hariyanto (2020), which only examined the direct impact of managerial ownership, are expanded upon by this finding of a beneficial synergy between managerial ownership and board supervision. This findings show that strong board oversight procedures (BIND/BSIZE) enhance the beneficial impact of management ownership (MOWN) on conservatism. This bolsters the idea that corporate governance functions as a system in which external controls (board monitoring) and internal incentives (share ownership) work in concert to generate more responsible reporting practices (Anggraeni et al., 2022).

Good Corporate Governance Moderates the Effect of Financial Distress on Accounting Conservatism. There are conflicting findings on the moderating effect of GCG on the relationship between distress and conservatism. The beneficial effect is weakened by independent board members (H6a denied), while it is strengthened by board size (H6b approved). Because it brings together a wider range of skills and collective monitoring capabilities, a larger board improves the relationship. This combined power makes it easier for the board to enforce strict, cautious reporting during financial difficulties in order to safeguard stakeholder interests (Tiara et al., 2025).

Independent directors actually erode the relationship, despite popular belief. This unexpected outcome might emerge from Indonesia's unique high-pressure financial distress situation, where independent directors may encounter real-world constraints like limited access to up-to-date information or a lack of power to firmly oppose management in a crisis (Khameswary, 2019).

These conflicting results have important ramifications. The beneficial impact of board size implies that collective capacity should be taken into account in regulations (Meiliana & Julia, 2022). The detrimental effect of independence draws attention to a possible governance gap during emergencies, indicating that changes might need to concentrate on giving independent directors greater information rights and more precise mandates in emergency situations. The resource-based view of boards is supported by the strengthening effect of board size. In contrast to idealized governance models, the weakening effect of independent directors is consistent with critical research in emerging economies that challenges the de facto efficacy of board independence in difficult circumstances (Khameswary, 2019). This discrepancy draws attention to an important contextual gap in the literature.

CONCLUSION

This study provides several key conclusions. First, growth opportunity has a positive and significant effect on accounting conservatism, contrary to the initial hypothesis, indicating that firms with higher growth prospects adopt more cautious reporting to manage future uncertainties. Second, managerial ownership positively influences conservatism, as managers with equity stakes exercise greater prudence in financial reporting. Third, financial distress positively affects conservatism, reflecting firms' tendency to report cautiously under financial pressure to maintain credibility with stakeholders.

Regarding the moderating role of GCG, board size and the proportion of independent board members strengthen the positive effect of managerial ownership and weaken the positive effect of growth opportunity. However, the moderation of independent board members on financial distress appears ineffective, suggesting that independent board



members in Indonesia may not fully perform their oversight function during periods of financial strain.

For future research, it is recommended to explore additional governance mechanisms, alternative measures of accounting conservatism, longer study periods, economic crisis contexts, comparative studies in other emerging markets, and a closer examination of the effectiveness of independent board members.

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