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Accounting Conservatism: Gender Diversity and Educational Background on the Board of Directors and Commissioner

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ABSTRACT

This research aimed to analyze the effect of the board director's characteristics and the board of commissioners toward accounting conservatism. The characteristics analyzed in this research were size, gender, and educational background that affect their behavior in dealing with issues related to accounting principles. This research will be conducted by analyzing all companies listed on the Indonesia Stock Exchange in 2017-2019 using SPSS. Data was analyzed as 112 data using multiple regression analysis. The results show that both size of directors and commissioner's and women of board director and commissioners affect the accounting conservatism. However, the educational background of board directors and commissioners does not affect accounting conservatism.

INTRODUCTION

Over the past few decades, research regarding accounting conservatism has evolved rapidly. Various findings showed that conservatism had become one of the most important properties of financial reporting (Zhong & Li, 2017). Accounting conservatism is an effort of prudence in preparing financial statements conducted by immediately recognizing possible costs or losses but not immediately recognizing future income or gains even though the probability of occurrence is significant (Suwardjono, 2010). Consequently, if a company transaction allows costs and/or losses to arise, the transaction must be recognized immediately (Yuliarti et al., 2017). On the other hand, transactions that are likely to generate revenue and or profits can only be recognized when the level of certainty is high or when they have materialized.

The principle of accounting conservatism can affect the results of preparing financial statements. If the methods used in preparing financial statements are based on too conservative accounting principles, the results may be biased and it does not reflect reality. On the other hand, financial statements prepared with the principles of accounting conservatism help prevent management from behaving opportunistically (Watts, 2003).
ISSN: 0888-7993, abstract: This paper is Part II in a two-part series on conservatism in accounting. Part I examined alternative explanations for conservatism in accounting and their implications for accounting regulators (SEC and FASB, and it can avoid the occurrence of information asymmetry because this principle limits management in manipulating financial statements (LaFond & Watts, 2008). Furthermore, conservatism is necessary for recording financial information and preparing reports, so stakeholders can make the right decisions (Am-ugsorn et al., 2020). It is shown that accounting conservatism in a company will increase the implementation of good corporate governance and increase the company's value (Sirada, 2014).

Corporate governance has a strong relationship with accounting conservatism. Gao dan Wagenhofer (2021) provided a theoretical explanation for the observation that firms with strong corporate governance exhibit more conservative accounting. The idea of emphasizing

the need for accounting conservatism is to ensure the quality of financial reporting. Thus, it provides meaningful guidance for investors and analysts to use financial information (Matsunaga & Yeung, 2008).

Research on the mechanism of corporate governance associated with accounting conservatism has been conducted quite a lot. Governance mechanisms that have often been used as explanatory variables include managerial ability (Haider et al., 2021) the relation between managerial ability and accounting conservatism is unclear ex ante. High-ability managers may report conservatively to improve the efficiency of contracts, avoid agency conflicts by the timely reporting of future losses, and build reputations for conservative reporting. Conversely, they may not report conservatively to the extent that conservatism reflects biased, and consequently, low-quality earnings. Motivated by these opposing arguments, we examine the relationship between managerial ability and conservatism for Australian firms for the period 2004 to 2013. Our results show that managerial ability is positively associated with accounting conservatism. These results support the notion that high ability managers apply conservatism in accounting because it benefits the firm and stakeholders. Our results are robust to a wide range of proxies for both managerial ability and conservatism, including the Heckman's (1976, share ownership, board character, and internal auditors. Accounting conservatism is affected by government shareholding (Liu, 2019), managerial (Vidyari & Sugiarto, 2018), family (Memon et al., 2020), family ownership, and foreign ownership (Khalil et al., 2020). Besides ownership, the character of the parties involved in corporate governance is also widely associated with corporate accounting conservatism. These parties consist of the board of directors (Nasr & Ntim, 2018), commissioner (Hajawiyah et al., 2020), and auditor (Septiari & Sari, 2019,) both internal and external.

In general, previous research has investigated the effect of board structure on conservatism, such as size (Almutairi & Quttainah, 2019), independence (Mohammed et al., 2017; El-Habashy, 2019), duality (Am-ugsorn et al., 2020), gender diversity, an education level (Makhlouf et al., 2018), skill and connection (Enache & García-Meca, 2019), reputation and years of service (Almutairi & Quttainah, 2019). However,

the effect of the characteristics of the board of commissioners simultaneously with the director's board is rarely studied. At the same time, the board of commissioners is responsible for overseeing management. Thus, it operates according to policies and resolves conflicts of interest between stakeholders and management. Agency theory was used in this research to explain the application of conservatism in the company that could be seen from the company's financial statements, which could cause agency problems between managers (agents) and stakeholders (principals). Watts (2003) argued that accounting conservatism has evolved to mitigate agency problems' disadvantages.

This research aimed to analyze the effect of the board director's characteristics and the board of commissioners toward accounting conservatism. The characteristics analyzed in this research were size, gender, and educational background that affect their behavior in dealing with issues related to accounting principles (Makhlouf et al., 2018). This research will be conducted by analyzing all companies listed on the Indonesia Stock Exchange in 2017-2019 using SPSS.

LITERATURE REVIEW

The Board of Directors and Accounting Conservatism

Even though several researchers have linked the size of the board of directors with accounting conservatism, the findings are still very mixed. (K. Ahmed & Henry, 2012) found that a decrease in board size is positively related to unconditional accounting conservatism and negatively related to the level of conditional conservatism. More research by (Ahmed & Duellman, 2007) and (Am-ugsorn et al., 2020) showed no relation between the size of the board of directors and accounting conservatism.

On the other hand, Boonlert-U-Thai and Phakdee (2018) stated that the size of the board of directors aims to increase accounting conservatism and reduce earnings manipulation. A large board of directors size can reduce agency conflict and improve the oversight process for company performance (El-Habashy, 2019). If the number of the board of directors is large and the larger the size of the board of directors, more people participate in the decision-making process (Ahmed

& Duellman, 2007). The selection and placement of each member can also be adjusted to their expertise to increase accounting conservatism (Ebrahim & Fattah, 2015). Based on the discussion above, this research hypothesized that:

H₁: The size of the board of directors has a significant effect on accounting conservatism

The involvement of women in top management affects the company's decision to carry out accounting conservatism. Women directors are more likely to be less confident and risk-averse in decision-making (Hillman et al, 2008). On the other hand, women directors are more capable of recognizing bad news so that reporting can be conducted more on time (Ho et al., 2015). Firms run by women CEOs also engage in significantly less earnings management than firms run by male CEOs (Belot & Serve, 2018).

(Gul et al., 2011) found that the diverse gender composition of the board of directors can act as a substitute mechanism for weak corporate governance and increase share price informativeness through increased public disclosure mechanisms. Likewise, with the research conducted by Boussaid et al. (2015), who analyzed 120 companies in France during 2009-2012, found a positive relationship between gender diversity and accounting conservatism. Another study by Huang & Kisgen (2013) on women managers, Palvia et al. (2015) on women CFOs, and (Makhlouf et al., 2018) on women directors also showed significantly consistent results. Based on the discussion above, this research hypothesized that:

H₂: The women's board of directors has a significant influence on accounting conservatism

The Educational background becomes the basis for understanding individual expertise and skills related to a particular field. Education is also important in improving company performance (Makhlouf et al., 2018). Research by (Ason et al., 2021) stated that CEOs with an accounting background are considered capable of providing high-quality financial statements because they have acquired all the necessary knowledge during their higher education related to the correct way of reporting financial information of a company. Directors with financial education are expected

to have intellectual property and perspectives that enable them to deal effectively with the company's financial problems (Westphal & Milton, 2000).

(Yunos et al., 2014) researched the effect of financial expertise as measured by accounting education on accounting conservatism in companies listed in Malaysia from 2001 to 2007. The findings showed that financial expertise correlates significantly with accounting conservatism as measured by asymmetric timeliness but not with accrual-based conservatism. Makhoul et al. (2018) found that education level is significantly positively correlated with accounting conservatism. Based on resource dependency theory, the board of directors is understood as the main resource for the company. Therefore, directors with economic and or financial qualifications will function as strategic resources because they have a combination of competencies and capabilities that will assist them in carrying out their duties. Therefore, based on the discussion above, this research hypothesized that:

H₃: The board of directors with economic education background has a significant effect on accounting conservatism.

Board of Commissioners and Accounting Conservatism

The size of the board of commissioners is an essential element of the characteristics of the board of commissioners. It can affect the level of accounting conservatism. Agency theory explains that the board of commissioners is expected to minimize agency problems between the directors and shareholders. Thus, the company applies conservative accounting principles (Yulianti et al., 2017) to prevent deviant behavior from directors and managers. In addition, the larger the size of the board of commissioners indicates that the control and supervisory functions in the good corporate governance mechanism have been implemented (Ahmed & Duellman, 2007). Hence, the use of conservative accounting will be higher as well. Similar research was conducted by Bara (2016) on manufacturing companies on the Indonesia Stock Exchange for the period 2012-2014, whose results showed that the size of the board of commissioners had a positive effect on accounting conservatism. On the other hand, research by Hani (2012), Zulaikha & Wulandini (2012) showed that there is

no effect of the size of the board of commissioners on accounting conservatism. Based on the discussion above, this research hypothesized that:

H₄: The size of the board of commissioners has a significant effect on accounting conservatism

Previous research has shown that gender diversity, as proxied by the proportion of women members on the board provides many advantages. The existence of women members can increase the company's competitive advantage (Smith et al., 2006), increase innovation and creativity (Campbell and Minguuez-vera (2008), and increase the effectiveness in solving a problem because many alternatives can be used. (Abbott et al., 2012). Ginesti et al. (2018) argued that the women's board of commissioners increases the transparency of financial reports because women tend to be more thorough and careful in monitoring activities. In addition, women commissioners tend to be more conservative in their oversight of company activities and in providing strategic advice to management. Therefore, based on the discussion above, this research hypothesized that:

H₅: The women's board of commissioners has a significant effect on accounting conservatism

The board of commissioners is expected to have the capability to understand the company's business operations in order to be able to provide relevant advice to the directors in business operations and produce quality financial reports. The effectiveness of the board of commissioners in monitoring the company depends on competence (Xie et al., 2003), especially in terms of knowledge of the company's line of business and understanding of corporate governance mechanisms. Competence is obtained from education that has been taken by the councils (Hermawan, 2011).

Adequate knowledge of finance and economics can be a solid basis for commissioners in carrying out the task of examining and analyzing financial statements that have been prepared by management. Therefore, the board of commissioners with an economic and financial education background will have theoretical knowledge and sensitivity to market conditions so that they can be more responsive and conservative in dealing with problems that occur in the company by providing strategic suggestions for

the company management (Bara, 2016). Therefore, the following hypothesis was formulated as follows: H_6 : Board of commissioners with economic education background has a significant effect on accounting conservatism.

RESEARCH METHODOLOGY

Data Population, Sample, and Data Collection Techniques

The population in this research was all companies listed on the Indonesia Stock Exchange from 2017-2019. The sample used was a manufacturing company listed on the Indonesia Stock Exchange from 2017-2019. The sampling technique used was purposive sampling with criteria such as companies listed on the Indonesia Stock Exchange from 2017-2019 in a row, companies with rupiah currency, and companies that have never experienced losses during the research year. Sources of data derived from secondary data used in the Annual Report.

Definition of Operational Variable

This research consisted of one dependent variable and six independent variables with variable measurements as follows:

Variable	Indicator
Accounting Conservatism	(Givoly and Hayn, 2000)
Board of Directors Size	Jumlah dewan direksi. (El-Habashy, 2019)
Women Board of Directors	Number of women Board of Directors (Makhlouf, et. al., 2018)
Board of Directors with Economic Education Background	The number of director's board with economic education background (including finance, management, and accounting). (Makhlouf, et. al., 2018)
Board of Commissioner's Size	Number of Board of Commissioners (Bara, 2016)
Women Board of Commissioners	The number of women's Board of Commissioners. (Setiawan, et al., 2020)
Board of Commissioners with Economic Education Background	Number of commissioners with economic education background (including finance, management, accounting) (Hermawan, 2011)

Data Analysis

The method of data analysis in this research is multiple regression analysis using SPSS version 25.00. Before performing the multiple regression tests, the data needed to be tested for classical assumptions first. The classical assumption test consisted of normality, multicollinearity, autocorrelation, and heteroscedasticity tests. Furthermore, the data could be analyzed using multiple regression tests to see the value of the coefficient of determination, model feasibility test (F test), and hypothesis testing (t-test).

RESULT AND DISCUSSION

Data

According to the purposive sampling criteria that have been determined previously, the data collected was 120 data consisting of 40 manufacturing companies for three years (2017-2019). However, the data outliers were eight because they did not pass the autocorrelation test, so the data used were 112 data.

Criteria of Sample	Number of Data
Companies listed on the IDX in 2017-2019 in a row.	130
Companies with rupiah currency	39
Companies that had never experienced a loss during the research year	51
Total sample	40
Total sample 3 years	120
Data outlier	8
Total sample used	112

Result of Classical Assumption Test

The results of the classical assumption test aim to see whether the results of the resulting regression model are BLUE (Best Linear Unbiased Estimator). Thus, the classical assumption test is a prerequisite before multiple linear regression tests are performed. The results of the classical assumption test can be seen in the following table:

Table 2. Result of Classical Assumption Test

Variable	Tolerance	VIF	Sig. (Heteroscedasticity Test)
BOD_Size	0.290	3.452	0.996
BOD_Woman	0.623	1.604	0.967
BOD_Education	0.361	2.772	0.726
BOC_Size	0.317	3.157	0.684
BOC_Woman	0.776	1.288	0.780
BOC_Education	0.505	1.980	0.748
Sig. Kolmogorov-Smirnov Test			0.096
Sig. Run Test			0.088

Source: Data processed (SPSS), 2022

Based on the table above, it can be concluded that all classical assumption tests consisting of the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test have passed the test. It means that multiple linear regression tests can be performed.

Multiple Regression Analysis Result

In this research, a multiple linear regression test was performed using SPSS version 25.00. The results of multiple linear regression can be seen in the following table:

According to the table above, the coefficient of determination (Adj. R²) was 0.141. It means that the variable size of the board of directors, women board of directors, the board of directors with an economic education background, the size of the board of commissioners, the women board of commissioners, and the board of commissioners with an economic education background affect accounting conservatism by 14.1%. The rest, 85.9%, were influenced by other variables that are not included in the research model.

Table 3. Multiple Regression Analysis Result

Variable	Regression Coefficient	Sig.
Intercept	-0.221	0.000
BOD_Size	-0.029	0.010*
BOD_Woman	0.063	0.000*
BOD_Education	0.010	0.380
BOC_Size	0.028	0.017*
BOC_Woman	-0.051	0.003*
BOC_Education	-0.007	0.545
BOC_Education		0.141
Sig. Uji F		0.001

Source: Data processed (SPSS), 2022

Based on table 3, it can be seen the value of the regression coefficient for each independent variable. Thus, the regression model can be formulated as follows:

$$CA = -0.221 - 0.029BODSIZE + 0.063BODWOM + 0.010BODEDU + 0.028BOCSIZE - 0.051BOCWOM - 0.007BOCEDU + \epsilon$$

The constant coefficient value of -0.221 indicated that if all independent variables were 0,

then the value of accounting conservatism would remain at -0.221. The regression coefficient value for the board of directors (BOD_Size) variable size was -0.029. It means that if the size of the board of directors increases by 1 point, then accounting conservatism would decrease by 0.029 points. The women's board of directors variable (BOD_Woman) has a regression coefficient of 0.063. It indicated that if the women's board of commissioners increases by 1 point, accounting conservatism would also increase by 0.063 points.

The regression coefficient value of the variable for the board of directors with an economic education background (BOD_Education) of 0.010 indicated that if the board of directors with an economic education background increased by 1 point, accounting conservatism would increase by 0.010 points. The board of commissioners (BOC_Size) variable size showed a regression coefficient value of 0.028. It means that if the variable size of the board of commissioners increases by 1 point, then accounting conservatism would also increase by 0.028 points.

The regression coefficient of the women's board of commissioners variable was -0.051. It indicated that if the women's board of commissioners increases by 1 point, accounting conservatism would decrease by 0.051 points. The value of the regression coefficient for the variable of the board of commissioners with economic education background was -0.007. This means that if the board of commissioners with an economic education background decreased by 1 point, then conservatism would increase by 0.007 points.

The Effect of Board of Director's Size on Accounting Conservatism

Based on table 3, it can be seen that the significance value for the variable size of the board of directors was 0.010. It can be concluded that H₁ was accepted. It means that the size of the board of directors affected accounting conservatism. The results of this research followed the research of Ahmed and Henry (2011). Agency theory explained that the size of the board of directors was expected to reduce agency conflict. Thus, companies would apply the principle of accounting conservatism (El-Habashy, 2019). The large size of the board of directors increased the effectiveness of the supervisory process in the company because the assignment of directors was adjusted to their respective expertise, thereby increasing the scope of accounting conservatism (Ebrahim & Fattah, 2015; Ahmed & Duellman, 2007). The larger the board of directors, the more people participate in decision-making. It resulted in greater prudence in decision-making. Hence, accounting conservatism would also be higher.

The Effect of the Women Board of Directors on Accounting Conservatism

Table 3 shows the significance value for the variable number of women board of directors of 0.000. Thus, it can be concluded that H₂ was accepted. It showed that the number of women board of directors affected accounting conservatism. The results of this research were consistent with the research of Makhlouf et al.(2018) and Palvia et al.(2015). women board of directors tend to be risk averse and less confident than the male board of directors in several fields (Bellot & Serve, 2017; Ho et al., 2014), including finance (Martin et al., 2009; Barber & Odean, 2001; Schubert et al., 1999). Therefore, women directors prefer to adopt conservative accounting practices. Women directors also show a lower tolerance for opportunistic behavior than male directors (Srinidhi et al., 2011) and tend to prefer to conduct audits to monitor the preparation of financial statements (Gul et al. 2008).

The Effect of the Board of Directors with Economic Education Background on Accounting Conservatism

According to table 3, it can be seen that the significant value for the board of directors variable with economic education background was 0.380. Hence, it can be concluded that H₃ was not accepted. It showed that the board of directors with an economic education background did not affect accounting conservatism. The results of this research were not following the research of Ason et al. (2021). The company required the board of directors to have the ability to run the company as well as possible. Thus, a board of directors with any educational background must have a basic understanding of financial statements.

The Effect of Board of Commissioner's Size on Accounting Conservatism

Table 3 shows the significant value of the size of the board of commissioners at 0.017. thus, it can be concluded that H₄ was accepted. It means that the size of the board of commissioners affected accounting conservatism. The results of this

research were in line with the results of research by Yuliarti & Yanto (2017) and Zulaikha & Wulandini (2012). In the corporate governance mechanism, companies with strong boards require a higher level of conservatism than companies with weak boards (Lara, 2007). Agency theory explains that the board of commissioners is expected to minimize problems that occur between the board of directors and shareholders. Therefore, companies need to apply the principle of accounting conservatism to avoid behavioral deviations from directors and managers. The increasing number of commissioners makes the supervisory process more effective in the process of formulating policies and company financial reports (Yuliatratri & Yanto, 2017)

The Effect of the Women's Board of Commissioners on Accounting Conservatism

According to table 3, it can be seen that the significance value of the women's board of commissioners variable was 0.003. It can be concluded that H_5 was accepted. It showed that the women's board of commissioners affected accounting conservatism. The results of this research were in line with the research of Abbot et al. (2012), stating that the existence of a women's board contributes to the ability of the board to manage an independent mental attitude, reduce the spread of group thinking, and increase the ability of the board to monitor financial reporting. With the presence of a women board of commissioners, the diversity of members of the board of commissioners will be even greater. Campbell and Minguez-vera (2008) explained some advantages of having gender diversity in board members. First, board members with greater diversity can relatively increase the company's competitive advantage (Smith et al., 2006). Second, the diversity of board members can increase innovation and creativity. Third, diversity

can increase the effectiveness of solving a problem because many alternatives can be used.

The Effect of the Board of Commissioners with Economic Education Background on Accounting Conservatism

Table 3 shows the t value of the board of commissioners with an economic education background of 0.545. It can be concluded that H_6 was unacceptable. It means that the board of commissioners with economic education background could not affect accounting conservatism. The competence of board members is an important factor in the effectiveness of the board's functioning (Beasley, 1996; Xie et al., 2003). The effectiveness of the board of commissioners in monitoring the company depends on experience, knowledge, and educational background. Thus, board members can understand the company's business operations (Hermawan, 2011). With various educational backgrounds, it is expected that the members of the board of commissioners can monitor the company according to their respective fields so that they can complement each other. The suitability of the educational background of the commissioner's board is also adjusted to the type of industry/company.

CONCLUSION

According to the results of the research and discussion, it can be concluded that the size of the director's board, the women's board of directors, the size of the board of commissioners, and the women of the board of commissioners affect accounting conservatism. Meanwhile, the board of directors and the board of commissioners with economic education backgrounds do not affect accounting conservatism.

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