



Do Attributes of the Board of Commissioners Affect Accounting Conservatism? The Role of Foreign Institutional Investors

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Abstract

This study examines the influence of board of commissioners' characteristics on accounting conservatism, with foreign institutional investors serving as a moderating variable. One novel aspect of this research is the focus on the tenure of the president commissioner. The methodology employed is quantitative, utilizing a panel data regression model via EViews. Data analysis was conducted using the Fixed Effect Model (FEM) test. The sample includes 314 manufacturing companies listed on the IDX from 2019 to 2022. The findings reveal that the tenure of the president commissioner, alongside the presence of independent and female commissioners, significantly impacts the application of accounting conservatism. Foreign institutional investors moderate the effect of the president commissioner's tenure on accounting conservatism but do not influence the relationship between the presence of independent and female commissioners and the application of accounting conservatism.

Keywords: board of commissioners, accounting conservatism, foreign institutional investors

Introduction

The production of high-quality financial reports is a key indicator of success for any corporation. However, recent decades have seen numerous accounting scandals related to financial reporting. For example, in 2001, major corporations like WorldCom were involved in scandals that included the manipulation of financial statements amounting to billions of US dollars. In Indonesia, similar cases have emerged, such as the involvement of Garuda Indonesia airline in financial report manipulation. Notably, in its 2018 financial report, PT Garuda Indonesia recorded revenue from its partnership with PT Mahata Aero Teknologi totaling USD 239.94 million, despite no payment transactions from PT Mahata Aero Teknologi by year-end. These incidents highlight significant accountability issues within corporate governance.

Corporate governance embodies three fundamental principles: transparency, fairness, and accountability in financial reporting. According to Affianti & Supriyati (2017), adherence to these principles requires management to exercise caution, or conservatism, to ensure the integrity of disclosed information. Witono et al. (2023) further argue that accounting

conservatism is crucial in corporate governance to maintain the quality of financial reports. Accounting conservatism, defined as a directive within a company to report financial values by prioritizing cost disclosure, aims to mitigate the risk of revenue shortfalls against company targets (Sinambela & Almilia, 2018). Almutairi & Quttainah (2019) support this view, suggesting that conservative accounting practices enhance the accuracy of financial reports, thus fostering public trust and confidence in the financial reporting system.

Research on accounting conservatism within Indonesian companies, particularly regarding directors and commissioners, has been extensive but has produced varied outcomes. Studies typically explore the structures of directors and commissioners, including independent commissioners, directors, and female commissioners. Padmawati & Fachrurrozie (2015) found that the ratio of independent commissioners does not significantly affect the application of accounting conservatism. In contrast, Achyani & Lovita (2021) reported that the ratio of independent commissioners positively correlates with accounting conservatism. Furthermore, Witono et al. (2023) highlighted in their study that female directors and commissioners influence the application of accounting conservatism. Similarly, Biduri et al. (2023) emphasized the significant impact of female directors and commissioners on accounting conservatism.

In the broader international context, the terms "board of commissioners" and "directors" are often used interchangeably, and the structuring of directors and commissioners in foreign companies is collectively referred to as the board. Numerous studies have examined boards and accounting conservatism in foreign firms, yet the results remain inconclusive. For instance, Amran & Manaf (2014) found that independent directors play no role in enforcing accounting conservatism, while Nasr & Ntim (2018) argued that independent directors do influence the application of accounting conservatism.

The perspective of agency theory serves as the foundational framework for understanding corporate governance issues (Agustia, 2013). Agency theory is a contractual form involving one or more persons, wherein company owners (as principals) hire managers (as agents) and delegate daily operational decisions to them (Jensen & Meckling, 1976). From this perspective, there are two prevalent management oversight mechanisms: (1) internal control, comprising commissioners and committees, and (2) external control, comprising external auditors (Andarini & Januarti, 2012; Putra & Sumadi, 2019).

The application of accounting conservatism in companies is closely linked with agency theory. Managers often select and apply conservative methods to optimize company performance (Risdiyani & Kusmuriyanto, 2015). However, conflicts of interest arise between company owners, investors, and managers. While owners and investors prefer lower profits to minimize taxes, managers strive for higher profits to enhance their performance evaluations (Andreas et al., 2017). Consequently, agency theory necessitates the adoption of accounting conservatism by companies to accurately account for all internal costs and revenues (Sinambela & Almilia, 2018).

One of the proxy mechanisms of corporate governance aimed at safeguarding public or shareholder interests is the composition of a company's leadership (El-Habashy, 2019). In Indonesia, the management system of limited liability companies adheres to a two-tier board system, comprising the board of commissioners and directors (Sulaeman,

2020). This management system is regulated by Article 1, paragraphs 5 and 6, of the Republic of Indonesia Law Number 40 of 2007 concerning Limited Liability Companies. The legislation outlines the roles as follows: (5) Directors, designated as the company's body vested with complete authority and responsibility for managing the company and representing it in judicial and non-judicial proceedings, in alignment with the company's goals and legal requirements; and (6) the board of commissioners, serving as the supervisory body of the company, offering counsel to the directors in adherence to legal stipulations.

This study will specifically examine the attributes of the board of commissioners. According to the Financial Services Authority Regulation Number 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, the board of commissioners comprises a minimum of two members, one of whom must be an independent commissioner. As defined by [Fathonah \(2016\)](#), an independent commissioner is characterized by their autonomy from management, fellow board members, or other shareholders, which enables them to effectively safeguard the company's interests.

The inclusion of independent commissioners serves to safeguard the interests of shareholders ([Setiawan & Andriyanto, 2019](#)). Tasked with representing shareholders, the board of commissioners is duty-bound to exhibit independence in executing oversight duties and offering assessments regarding deviations in financial reports that fall short of prescribed standards ([Butar, 2020b](#)). [Suryarahman & Trihatmoko \(2021\)](#) explain that the board of commissioners typically serves in a supervisory capacity, with independent commissioners playing a balancing role in the board's decision-making process. This distinction highlights the critical differences between the board of commissioners and independent commissioners. The supervisory function prevents management from making arbitrary decisions for their own interests or without the knowledge of shareholders ([Merslythalia & Lasmana, 2016](#)).

The decision-making process and policies adopted by the board of commissioners can be influenced by gender differences, as well as the personalities and characteristics of men and women ([Hartoko & Astuti, 2018](#)). [Fauziah & Probohudono \(2018\)](#) contend that gender diversity within the board of commissioners fosters a broader spectrum of ideas and perspectives, enhancing the efficacy of financial information evaluation. Elevating female representation in leadership roles transcends the mere promotion of gender parity within organizations ([Khushk et al., 2023](#)). Women's leadership styles, perceived as more interactive and participatory, facilitate the solicitation of input, foster open communication channels with subordinates, and promote information exchange ([Moreno-Gómez et al., 2018](#)).

Among board members, the chief commissioner wields significant influence in decision-making processes. While prior research extensively scrutinizes the attributes of the board of commissioners, studies focusing on the chief commissioner remain scant. Consequently, this study endeavors to supplement existing research by centering on the chief commissioner, particularly examining tenure. Tenure serves as a pivotal attribute of top management, discerning disparities in the implementation of management accounting systems ([Ahmed, 2023](#)). The term "top manager" herein pertains to the chief commissioner, with tenure anticipated to accumulate expertise, capabilities, and

experiences within the board, thereby enhancing the quality of accounting information (Widianingsih & Setiawan, 2023).

An essential governance facet capable of effectively executing external oversight functions is share ownership (Rustiarini et al., 2021). Kuswiratmo (2016) explains that limited liability companies are categorized based on share ownership, encompassing (1) local ownership by Indonesian individuals or legal entities; (2) foreign ownership by foreign individuals or legal entities; and (3) government ownership in state-owned or regional companies. Institutional ownership denotes shares held by institutional investors within a company (Kristanto & Hanafi, 2019). Institutional share ownership, generally held by organizational entities such as banks, insurance companies, investment companies, pension funds, and other institutions, plays a pivotal role (Agustia, 2013). Consequently, this study leverages foreign institutional investors to either bolster or diminish the impact of board of commissioners' attributes on accounting conservatism. Greater foreign institutional investment typically correlates with enhanced transparency in company information disclosure and superior corporate governance, thereby augmenting the quality of company information (Dan et al., 2023). Foreign institutional investors advocate for heightened application of accounting conservatism, thus exerting a positive influence thereon (Khalil et al., 2020).

The use of qualified public accounting firm (KAP) services is a crucial factor in producing quality financial reports (Achyani & Lovita, 2021). Achyani noted that KAPs classified as Big Four have better audit quality than non-Big Four firms. A KAP is considered more independent if it has a number of partners with accountant licenses (Padmawati, 2015). KAPs affiliated with the Big Four are expected to provide higher audit quality than non-Big Four KAPs due to their strong incentive to maintain their reputation in providing audit services and producing quality financial reports (Butar, 2020b).

This study aims to validate the impact of foreign institutional investors on shaping the attributes of the board of commissioners, specifically focusing on the tenure of the chief commissioner, the ratio of independent commissioners, and the presence of female commissioners, in relation to the implementation of accounting conservatism. Surveys were conducted on manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022.

According to Byrd et al. (2010), agency theory posits that the length of board tenure can significantly influence the quality of a board's oversight of company operations. Building on this theoretical framework, subsequent research indicates that directors with extended tenures typically possess substantial experience and competence, which enhances their ability to provide superior guidance to the company (Livnat et al., 2021). These experienced directors tend to improve their expertise, skills, and dedication by taking on more significant roles and responsibilities, thereby improving the quality of financial reporting (Widianingsih & Setiawan, 2023). However, Clements et al. (2018) argue that directors with prolonged tenures may become overly compliant with management, potentially overlooking necessary criticism and resisting changes in management practices. In light of these discussions, this study proposes the following hypothesis:

H₁: Tenure of the president's commissioner have positive influences on accounting conservatism.

Furthermore, agency theory underscores the importance of having independent commissioners within companies, viewing their role as critical to enhancing company performance (Muth & Donaldson, 1998). Supporting this view, Andarini & Januarti (2012) suggest that a significant presence of independent commissioners is likely to lead to a greater focus on risk assessment. The work of (Hartoko & Astuti, 2021) further demonstrates that independent commissioners are effective in overseeing the preparation of financial statements. (Butar, 2020) adds that independent commissioners contribute to the reliability of financial information by advocating for systematic implementation of sound financial reporting practices among managers. Based on a thorough review of the literature, this study articulates the following hypothesis:

H₂: Independent commissioners have a positive influence on accounting conservatism.

Agency theory suggests that the presence of women on the board of commissioners enhances the monitoring mechanisms and better aligns the interests of managers with those of shareholders (Biduri et al., 2023). This theory is further supported by (Butar, 2020), who posits that a dominant presence of female commissioners effectively fulfills supervisory responsibilities. Adding empirical support, Witono et al. (2023) provide evidence that the inclusion of women on the board of commissioners improves the board's efficacy in overseeing financial reports. Moreover, (Fauziah & Probohudono, 2018) argue that female commissioners contribute to decision-making processes that inherently involve reduced risks. Drawing on these findings, this study formulates the following hypothesis:

H₃: The presence of female commissioners has a positive influence on accounting conservatism.

Additionally, agency theory and previous research underscore the impact of board composition on company governance. Directors with extended tenures are typically indicative of stable companies with effective boards (Livnat et al., 2021). In the context of global investment and governance, foreign institutional investors bring a profound understanding of governance mechanisms, informed by their extensive international investment experiences (Kim & Starks, 2016). This study thus proposes the following hypothesis based on the cumulative insights from existing literature:

H₄: Foreign institutional investors moderate the impact of the chief commissioner's tenure on accounting conservatism.

Agency theory explains the role of independent commissioners in balancing power dynamics between internal parties (directors and managers) and external stakeholders (shareholders, suppliers, etc.) to enhance company performance, as outlined by (Rashid, 2018). Independent commissioners, often viewed as more conservative than internal directors, help mitigate agency costs that arise from informational asymmetries between shareholders and management (Fauziah & Probohudono, 2018). The appointment of reliable independent commissioners signals to investors a firm's commitment to prioritizing stakeholder interests. Furthermore, institutional share ownership plays a critical role in overseeing and influencing management decisions. According to (Merslythalia & Lasmana, 2016), a higher proportion of investor share ownership increases their leverage to press managers towards aligning with investor goals. Based on these discussions, this study proposes the following hypothesis:

H₅: Foreign institutional investors moderate the impact of independent commissioners on accounting conservatism.

Additionally, to address agency problems, shareholders advocate for increased gender diversity on corporate boards, which is believed to reduce agency conflicts (Fauziah & Probahudono, 2018). The presence of women on the board of commissioners not only fulfills this diversity requirement but also impacts financial decision-making, as shown in studies by (Rustiarini et al., 2021). (Am-ugsorn et al., 2020) suggest that financial statements should incorporate accounting conservatism, facilitating investor decision-making based on thorough risk assessments. Drawing upon these insights, the following hypothesis is formulated:

H₆: Foreign institutional investors moderate the impact of female commissioners on accounting conservatism.

Audit quality, defined as the standard of practices that fulfill the duties and responsibilities of auditors, is a crucial aspect of the auditing profession (Achyani & Lovita, 2021). According to (Padmawati & Fachrurrozie, 2015), there is a negative relationship between audit quality and accounting conservatism. This correlation was observed in a study focusing on Indonesian manufacturing companies listed on the IDX that utilized the services of Big Four auditing firms (KAP) during 2010-2013. These companies exhibited lower instances of accounting conservatism, potentially due to the high standards of audit quality expected from Big Four firms. These firms are presumed to deliver superior audit quality compared to non-Big Four KAPs, primarily driven by the motivation to uphold their reputation and ensure the production of high-quality financial reports (Butar, 2020b).

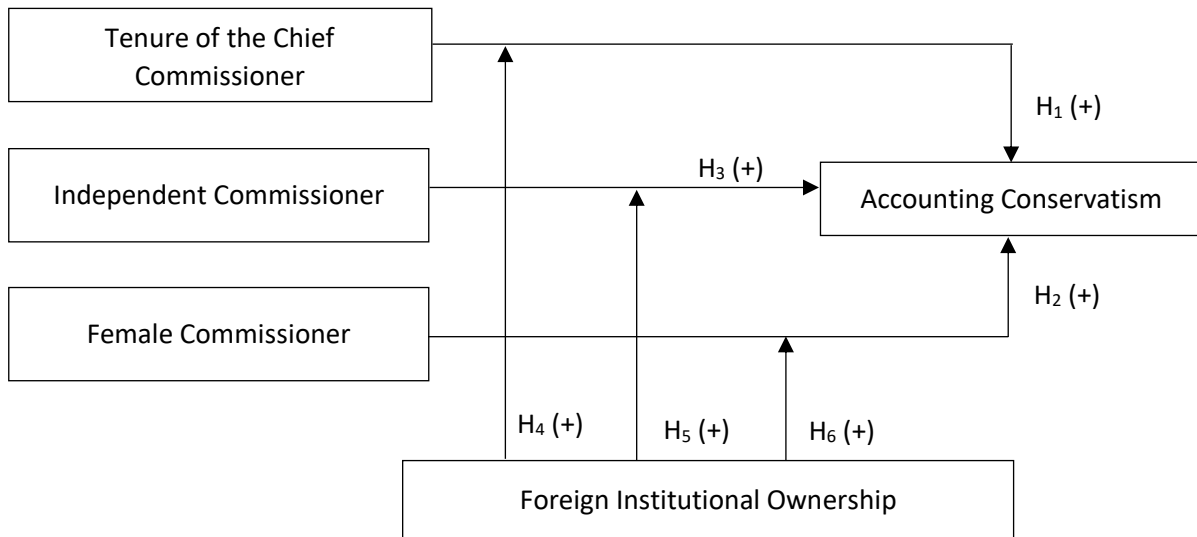


Figure 1. Framework of Thought

Source: Data Processed, 2024

Research Method

This research utilized a quantitative methodology to examine the impact of board of commissioners' attributes on accounting conservatism, with a specific focus on the role of foreign institutional investors. According to Sugiyono (2015), quantitative research

aims to substantiate hypotheses by identifying specific populations or samples, employing research instruments, and conducting data analysis in a statistical manner.

The study analyzed data from companies listed on the Indonesia Stock Exchange. A purposive sampling technique was used to select the sample, based on the following criteria: (1) Companies must be listed within the manufacturing sub-sector of the Indonesia Stock Exchange; (2) Companies must regularly publish annual and periodic financial reports, covering the period from 2019 to 2022; (3) Companies must provide the requisite data necessary for the research. Following these criteria, a sample consisting of 108 companies was established, resulting in 314 observation data points. This approach ensures that the sample is representative and that the findings can be generalized to the broader population of manufacturing companies on the exchange.

In this study, accounting conservatism was defined as the dependent variable and assessed through the accrual method. This method calculates the ratio of the current year's operating income plus depreciation of fixed assets minus operating cash flow, all divided by total assets, as detailed by (Givoly & Hayn, 2000). The independent variables were as follows: (1) the tenure of the chief commissioner, quantified by the duration of service in the role (Livnat et al., 2021); (2) the proportion of independent commissioners, measured by the ratio of independent commissioners to the total number of commissioners (Setiawan & Andriyanto, 2019); and (3) the presence of female commissioners, indicated by the ratio of female commissioners to the total board membership (Fauziah & Probahudono, 2018).

Additionally, the study included a moderating variable: the percentage of share ownership by foreign institutional investors, which was determined by the ratio of shares held by these institutions to the total outstanding shares. Control variables were also incorporated, with audit quality being assessed via a binary variable. A value of 1 was assigned if the company was audited by a Big-4 Public Accounting Firm (PAF), and 0 if audited by a non-Big-4 PAF (Setiawan & Andriyanto, 2019). This framework ensures a comprehensive evaluation of the factors influencing accounting conservatism, allowing for nuanced analysis of the relationships between board composition, external oversight, and financial reporting practices. The regression model equation in this study is as follows.

$$\text{CON ACC} = \alpha + \beta_1\text{CTEN} + \beta_2\text{CINDE} + \beta_3\text{CFEM} + \beta_4\text{AUDIT} \dots\dots\dots (1)$$

$$\text{CON ACC} = \alpha + \beta_1\text{CTEN} + \beta_2\text{CINDE} + \beta_3\text{CFEM} + \beta_4\text{KINSA} + \beta_5\text{AUDIT} \dots\dots\dots (2)$$

$$\text{CON ACC} = \alpha + \beta_1\text{CTEN} + \beta_2\text{CINDE} + \beta_3\text{CFEM} + \beta_4\text{CTEN}*\text{KINSA} + \beta_5\text{CINDE}*\text{KINSA} + \beta_6\text{CFEM}*\text{KINSA} + \beta_7\text{AUDIT} \dots\dots\dots (3)$$

Note:

- CON ACC = Accounting conservatism
- CTEN = Tenure of the chief commissioner
- CINDE = Independent commissioners
- CFEM = Female commissioners
- AUDIT = Audit quality
- KINS = Foreign institutional investors
- CTEN*KINSA = Interaction between the tenure of the chief commissioner and foreign institutional investors
- CINDE*KINSA = Interaction between independent commissioners and foreign institutional investors

- CINDE*KINSA = Interaction between female commissioners and foreign institutional investors
- CFEM*KINSA = Accounting conservatism

The data analysis technique in this study uses panel data regression. The panel data regression model estimation method is carried out through three approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Of the three regression models selected based on the results of the chow test and hausman test, the panel data regression model for this study is the Fixed Effect Model (FEM).

Result and Discussion

The descriptive statistical analysis of the variables in this study is detailed in [Table 1](#). [Table 1](#) summarizes the data for the key variables analyzed. The average value of accounting conservatism is -0.314, suggesting that a significant number of companies in the sample adhere to accounting conservatism principles. The tenure of the president commissioner (CTEN) ranges widely from 1 to 46 years, indicating considerable variability in service duration. The standard deviation for the tenure of the president commissioner is 8.772, which is greater than the mean of 7.455, highlighting the heterogeneous nature of this data. The proportion of independent commissioners (CINDE) ranges from a minimum of 0.167 to a maximum of 1.000. This range indicates that some companies have as few as 16.7% independent commissioners, while others have boards composed entirely of independent commissioners. The standard deviation for the percentage of independent commissioners is 0.128, which is smaller than the mean value of 0.444, suggesting a relatively homogeneous distribution with low variability. For the presence of women on the board of commissioners (CFEM), values range from 0.000 to 0.750, indicating that some companies have no female commissioners, whereas others have up to 75% female representation. The standard deviation for this variable is 0.127, greater than the mean of 0.055, indicating that the data regarding female commissioner presence is varied and heterogeneous.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
CON ACC	-0.978	0.363	-0.314	0.201
CTEN	1.000	46.000	7.455	8.772
CINDE	0.167	1.000	0.444	0.128
CFEM	0.000	0.750	0.055	0.127
KINSA	0.000	0.999	0.199	0.298
AUDIT	0.000	1.000	0.392	0.488
N	314			

Descriptive Statistics for Dummy Variables		
Variable	Frequency 1	Frequency 0
AUDIT	0,392	0,608
N	314	

Source: Data Processed, 2024

[Table 1](#) also presents descriptive statistics for the moderation variable concerning share ownership by foreign institutions. The values range from 0.000 to 0.999, showing

that some companies have no foreign institutional ownership, while others have nearly all their shares owned by foreign institutions. The standard deviation is 0.298, which is higher than the average value of 0.199, again indicating a heterogeneous distribution.

Table 1 provides descriptive statistics for the audit quality variable. The data reveal that 60.8% of companies are audited by non-Big 4 Public Accounting Firms, and 39.2% are audited by Big-4 Public Accounting Firms, highlighting the distribution of audit quality among the sampled companies.

Table 2. Regression Analysis Results

Variable	Model 1	Model 2	Model 3
C	-0.253 (0,000)	-0.255 (0,000)***	-0.288 (0,000)***
CTEN	-0.006 (0,013)**	-0.006 (0,012)**	-0.004 (0,058)*
CINDE	-0.251 (0,004)***	-0.254 (0,005)***	-0.188 (0,052)*
CFEM	0.219 (0,023)**	0.222 (0,023)**	0.191 (0,046)**
KINSA		0.014 (0,434)	0.241 (0,102)
AUDIT	0.203 (0,000)***	0.203 (0,000)***	0.210 (0,000)***
CTEN*KINSA			-0.016 (0,074)*
CINDE*KINSA			-0.430 (0,114)
CFEM*KINSA			0.414 (0,154)
F	14.935	14.730	14.497
Sig F	0.000	0.000	0.000
Adjusted R-Squared	0.832	0.831	0.832

*, **, *** significant at 10%, 5%, 1%

Source: Data Processed, 2024

The outcomes of the regression model analysis are depicted in Table 2. Model 1 of Table 2 presents the results of the regression tests aimed at addressing H₁, H₂, and H₃, which pertain to the impact of the chief commissioner's tenure, independent commissioners, and female commissioners on accounting conservatism, respectively. Meanwhile, models 2 and 3 in Table 2 illustrate the results of regression tests used to address H₄, H₅, and H₆, focusing on the role of foreign institutional investors as moderation variables in influencing the chief commissioner's tenure, independent commissioners, and female commissioners on accounting conservatism.

Based on the data provided in Table 2, this study derived several principal findings. The effect of the chief commissioner's tenure on accounting conservatism was found to be negative, leading to the rejection of H₁. Similarly, the influence of independent commissioners on accounting conservatism was also negative, resulting in the rejection of H₂. Conversely, the impact of female commissioners on accounting

conservatism was positive, supporting H₃. In terms of the moderation variables, the moderating role of foreign institutional investors in the effect of the chief commissioner's tenure on accounting conservatism did not show significance, leading to the rejection of H₄. Similarly, the roles of foreign institutional investors in influencing the impacts of independent commissioners and female commissioners on accounting conservatism were not supported, resulting in the rejection of H₅ and H₆, respectively. Notably, only the positive effect of female commissioners on accounting conservatism was supported (H₃), while the impacts related to the tenure of the chief commissioner and independent commissioners were negative, and the potential moderating effects of foreign institutional investors were not confirmed.

The primary finding of this study highlights a significant negative impact of the chief commissioner's tenure on accounting conservatism, contrasting with previous research and theoretical expectations. Previous studies on the tenure of the chief commissioner and its influence on accounting conservatism are limited. Agency theory suggests that longer board tenures might improve the quality of board supervision over company performance. However, this study reveals a divergence from this theory and contrasts with the findings of [Muttakin et al. \(2019\)](#), who suggested that executives with prolonged tenures have a vested interest in ensuring the accuracy of financial statements. On the contrary, findings from [Clements et al. \(2018\)](#) indicated that directors with longer tenures might become overly compliant with management and resist criticisms regarding financial reporting. The current study suggests that while the tenure of the chief commissioner influences accounting conservatism, longer-serving chief commissioners may not necessarily adhere to conservative accounting practices, implying that newly appointed chief commissioners might bring fresh perspectives and drive the adoption of higher-quality financial reporting practices.

The second key finding reveals that independent commissioners exert a notable negative impact on accounting conservatism, which is inconsistent with agency theory. Agency theory posits that the presence of independent commissioners should positively affect company performance due to their role in mitigating conflicts between management and shareholders ([Muth & Donaldson, 1998](#)). This result also contrasts with [Merslythalia & Lasmana \(2016\)](#), who argued that a greater ratio of independent commissioners within a company does not guarantee the adoption of conservative accounting practices. Conversely, [Pratanda & Kusmuriyanto \(2014\)](#) found that a higher ratio of independent commissioners is associated with an increased level of accounting conservatism. However, the current study's findings suggest a significant negative association, indicating that higher proportions of independent commissioners are linked to less conservative accounting practices. This discrepancy suggests the need for a more nuanced understanding of the roles and effects of independent commissioners within different organizational and regulatory contexts.

The third finding of this study underscores a significant positive impact of female commissioners on accounting conservatism, supporting the agency theory perspective. Agency theory suggests that the presence of women on the board of commissioners can enhance the monitoring mechanism and better align the interests of managers with those of shareholders ([Biduri et al., 2023](#)). This finding, however, contrasts with the research by [Am-ugsorn et al. \(2020\)](#), which did not observe any significant influence of female board members on accounting conservatism. On the other hand, [Butar \(2020\)](#) argued that

boards with greater female representation are more effective at fulfilling their supervisory roles. The current study's results suggest a significant positive association, indicating that a higher proportion of female commissioners is associated with more conservative accounting practices.

The fourth finding indicates that foreign institutional investors have a notable negative impact on the influence of the chief commissioner's tenure on accounting conservatism. This finding is contrary to agency theory, which posits that longer board tenure should enhance the quality of board supervision and company performance. It also contradicts the conclusions of [Ramalingegowda & Yu \(2012\)](#), who found that increased institutional investor share ownership tends to foster more conservative financial reporting. Conversely, this finding aligns with [Suwarti et al. \(2023\)](#), who reported that the percentage of foreign ownership does not improve transparency in financial statement preparation. The current study suggests a significant negative correlation, indicating that higher proportions of foreign institutional ownership lead longer-serving chief commissioners to adopt less conservative accounting practices, possibly due to different expectations or standards held by these investors regarding corporate governance and reporting practices.

The fifth finding suggests that foreign institutional investors do not significantly influence the impact of independent commissioners on accounting conservatism. This result diverges from the agency theory, as outlined by [Rashid \(2018\)](#), which posits that independent commissioners play a critical role in balancing power between internal parties (directors and managers) and external stakeholders (shareholders, suppliers, etc.) to enhance company performance. [Khalil et al. \(2020\)](#) argued that foreign institutional investors typically advocate for higher levels of accounting conservatism, the current study aligns with [Asiriuwa et al. \(2019\)](#), which found that foreign share ownership does not significantly impact the implementation of conservative accounting practices in the financial statements within the banking sector. This suggests that the presence of foreign institutional ownership does not necessarily encourage independent commissioners to adopt conservative accounting practices. The implication is that the selection criteria for independent commissioners by foreign institutional investors should emphasize independence and accounting knowledge to ensure high-quality financial reporting.

The sixth finding reveals that foreign institutional investors do not exert a significant influence on the impact of female commissioners on accounting conservatism. This contrasts with the agency theory perspective, which advocates for increased gender diversity on corporate boards to mitigate agency problems ([Fauziah & Probohudono, 2018](#)). Although [Dang et al. \(2023\)](#) suggested that foreign institutional investors promote more transparent company information, thus enhancing information quality, [Anjani et al. \(2018\)](#) found that foreign ownership does not significantly affect accounting conservatism. The variability in the ratio of women on boards across different countries, and the absence of regulations mandating a minimum ratio of female commissioners in Indonesia, might explain why foreign institutional investors might not influence female commissioners towards accounting conservatism.

Additionally, the study indicates that audit quality, used as a control variable, has a significant positive effect on accounting conservatism. This finding suggests that companies audited by Big-4 affiliated public accounting firms are more likely to apply conservative accounting practices, reinforcing the reputation of Big-4 firms in producing

high-quality financial reports. This contradicts Achyani & Lovita, (2021), who found no significant impact of audit quality on accounting conservatism in their study, noting that only a few manufacturing companies in their sample were audited by Big Four firms. This discrepancy highlights the potential influence of audit firm reputation and the scope of the audit on the adoption of conservative accounting practices.

Conclusion

The findings of this study demonstrate the influence of the board of commissioners' characteristics on the application of accounting conservatism. It is observed that the tenure of the main commissioner negatively impacts accounting conservatism; commissioners appear to increase the application of accounting conservatism at the onset of their term but tend to decrease their conservatism over time. Additionally, the proportion of independent commissioners is found to have a negative relationship with accounting conservatism—the lower the proportion of independent commissioners, the higher the accounting conservatism applied. In contrast, the proportion of female commissioners positively influences accounting conservatism, indicating that a higher proportion of women on the board correlates with greater accounting conservatism.

Regarding the role of foreign institutional investors, the findings suggest that these investors encourage main commissioners with longer tenure to adopt less conservative accounting practices. However, foreign institutional investors do not appear to influence independent or female commissioners towards more conservative accounting practices.

This research contributes to multiple stakeholders including companies and investors. Companies are advised to consider the composition of their board of commissioners carefully, as it plays a crucial role in overseeing company performance and the implementation of accounting conservatism. Investors, on the other hand, may use these insights to assess the risk levels associated with their investments, particularly by evaluating the company's conservatism in financial reporting. Furthermore, the focus of this research on specific company types and the limitations of the research period are acknowledged. These factors may influence the generalizability of the results, suggesting the need for further studies to explore different contexts and extended periods to validate these findings.

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