

**Board Characteristic and Accounting Conservatism Non-financial Company
in Indonesia During 2021-2023**



Research Proposal

BY:

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Submitted as One of the Requirements to Obtain a Bachelor of Economics Degree

**MINISTRY OF EDUCATION, CULTURE, RESEARCH AND
TECHNOLOGY**

SRIWIJAYA UNIVERSITY

FACULTY OF EKONOMY

YEAR 2024-2025

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Board Characteristic and Accounting Conservatism Non-financial Company in
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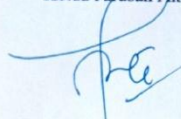


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Adalah benar hasil karya saya sendiri. Dalam skripsi ini tidak ada kutipan hasil karya orang lain yang tidak saya sebutkan sumbernya.

Demikianlah pernyataan ini saya buat dengan sebenarnya, dan apabila pernyataan saya ini tidak benar di kemudian hari, saya bersedia dicabut predikat kelulusan dan gelar kesarjanaan.

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MOTTO DAN PERSEMBAHAN

MOTTO :

Perjalanan panjang dan penuh lika-liku bukanlah penghalang, melainkan bukti bahwa setiap proses berharga pada akhirnya akan sampai di tujuan.

PERSEMBAHAN:

Skripsi ini penulis persembahkan untuk Allah SWT atas segala nikmat, rahmat dan karunia-Nya yang telah diberikan, Kedua orang tua, Keluarga tercinta, Teman Seperjuangan, Almamater dan Penulis sendiri.

KATA PENGANTAR

Segala puji dan syukur kita panjatkan kehadirat Allah SWT, karena atas karunia dan karunia-Nya, penulis dapat menyelesaikan skripsi berjudul "Karakteristik Dewan dan Konservatisme Akuntansi pada Perusahaan Non-Kuangan di Indonesia 2021-2023". Skripsi ini disusun sebagai salah satu syarat kelulusan program Sarjana Ekonomi Universitas Sriwijaya.

Penulis mengucapkan terima kasih yang sebesar-besarnya kepada pembimbing, Pak Agil Novriansa, S.E., M.Sc., Ak atas bimbingan, arahan, dan dukungan yang sangat berharga selama penyusunan skripsi ini. Beliau telah berbagi ilmu dan memberikan motivasi yang sangat berharga selama proses penelitian.

Penulis menyadari bahwa skripsi ini masih memiliki banyak kekurangan, baik dari segi penyusunan maupun penyajiannya, karena keterbatasan kemampuan penulis. Meskipun terdapat kekurangan dan ketidaksempurnaan, penulis mengharapkan masukan, kritik, dan saran yang membangun dari berbagai pihak. Akhirnya, penulis berharap penelitian ini dapat bermanfaat bagi para pembaca, khususnya peneliti masa mendatang yang akan melakukan penelitian di bidang yang sama.

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UCAPAN TERIMA KASIH

Alhamdulillah Rabbil Alamin, Puji syukur penulis panjatkan kehadiran Allah SWT atas segala rahmad, hidayah, dan karunia-nya sehingga penulis dapat menyelesaikan skripsi ini dengan baik. Penyusunan skripsi ini tidak terlepas dari doa, dukungan, bimbingan dan bantuan dari berbagai pihak. Oleh karena itu, penulis menyampaikan ucapan terimakasih kepada :

1. Kepada orang tua penulis yaitu bapak Amir dan ibu Yuli Lutfiah yang selalu memberikan dukungan, mendoakanku, mencintaiku, menyayangiku, memberikan semangat kepadaku dan yang selalu mengharap keberhasilanku
2. Kepada kakakku tersayang, Alya Salsabila yang selalu memberikan dukungan, semangat dan canda dalam lelahnya kesibukanku
3. Kepada adikku, Afifah Nadhirah yang selalu memberikan dukungan, semangat dan canda dalam lelahnya kesibukanku
4. Bapak Prof. Dr. Taufiq Marwa, S.E., M.Si. selaku Rektor Universitas Sriwijaya
5. Bapak Prof. Dr. Azwardi, S.E., M.Si. selaku Dekan Fakultas Ekonomi Universitas Sriwijaya.
6. Ibu Dr. Hasni Yusrianti, SE, M.AAC., Ak selaku Ketua Jurusan Akuntansi Fakultas Ekonomi Universitas Sriwijaya
7. Ibu Patmawati, S.E., M.Si., Ak., CA, CSRS. selaku Sekretaris Jurusan Akuntansi Fakultas Ekonomi Universitas Sriwijaya.
8. Ibu Efva Octavina Donata Gozali, S.E., M.Si., Ak dan Ibu Dr. Hasni Yusrianti, SE, M.AAC., Ak selaku Dosen Pembimbing Akademik yang telah membimbing dan mengarahkan penulis selama masa studi.
9. Bapak Agil Novriansa, S.E., M.Sc., Ak selaku Dosen Pembimbing Skripsi yang telah meluangkan waktu untuk memberikan bimbingan, membantu penulis dalam menyelesaikan skripsi ini, serta memberikan masukan dan motivasi yang sangat berarti.

10. Ibu Dr. Yulia Saftiana., SE., M.Si., Ak selaku Dosen Penguji yang telah memberikan masukan dan saran dalam penulisan skripsi ini
11. Kepada Agung, Nanda, dan Satya yang sudah menemani selama proses bimbingan skripsi dalam suka dan duka
12. Kepada Admin Jurusan mba Sri, Mba Layla dan Mba Nurul yang sudah menemani selama proses surat menyurat untuk keperluan perkuliahan.
13. Kepada teman-teman Akuntansi angkatan 2021 "VEGAS". Terima kasih atas kebersamaan dan perjuangan selama ini. Semoga setiap langkah kita kedepan dipenuhi kesuksesan dan keberkahan.
14. Semua pihak yang telah membantu dan mendukung, baik secara langsung maupun tidak langsung yang tidak bisa penulis sebutkan satu persatu selama masa perkuliahan dan penyusunan skripsi ini.
15. Kepada almamater tercinta, Universitas Sriwijaya. Suatu kebanggaan dan kehormatan bisa menimba ilmu serta menyelesaikan pendidikan di institusi yang luar biasa ini.
16. Terakhir, untuk diriku sendiri, Muhammad Farhan Romadhon. Terima kasih telah bertahan sejauh ini, telah memberikan yang terbaik, dan tidak menyerah meski banyak rintangan yang menghadang.

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SURAT PERNYATAAN ABSTRAK

Saya dosen pembimbing skripsi menyatakan bahwa abstrak skripsi dalam bahasa Inggris dari mahasiswa :

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Telah saya periksa cara penulisan, *grammar*, maupun susunan *tenses*-nya dan kami setuju untuk disampaikan pada lembar abstrak.

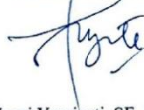
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ABSTRAK

**Pengaruh Karakteristik Dewan terhadap Penerapan Akuntansi
Konservatisme pada perusahaan Non-Kuangan Indonesia
pada tahun 2021-2023**

Oleh:

Muhammad Farhan Romadhon

Penelitian ini bertujuan untuk menguji pengaruh karakteristik Dewan Komisaris terhadap konservatisme akuntansi. Objek penelitian ini adalah perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2021 s.d. 2023. Penelitian menggunakan metode *purposive sampling*, dengan jumlah sampel penelitian ini sebanyak 198 perusahaan selama 3 tahun dengan total 594 observasi. Variabel independen adalah independensi, kesibukan, keragaman gender, etnis dan keahlian keuangan. Sedangkan, variabel dependen yang digunakan adalah konservatisme akuntansi. Penelitian ini menggunakan pendekatan kuantitatif dengan jenis data berupa data sekunder. Pengujian penelitian ini menggunakan teknik analisis regresi data panel dengan alat analisis STATA versi 17. Hasil penelitian menunjukkan bahwa independensi dan etnis Dewan komisaris mempunyai pengaruh signifikan positif terhadap konservatisme akuntansi, sedangkan kesibukan, keberagaman gender, dan keahlian keuangan tidak memiliki pengaruh signifikan terhadap konservatisme akuntansi.

Kata kunci: Karakteristik Dewan, Konservatisme Akuntansi, Perusahaan Non-Kuangan.

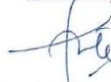
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ABSTRACT

*Board Characteristic and Accounting Conservatism in
Non-Financial Company in Indonesia in 2021-2023*

By:

Muhammad Farhan Romadhon

This study aims to examine the effect of board characteristics on accounting conservatism. The subjects of this study were non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The study used a purposive sampling method, with a sample size of 198 companies over a three-year period, resulting in a total of 594 observations. The independent variables were board independence, busy board, board gender diversity, board ethnicity, and board financial expertise. The dependent variable was accounting conservatism. This study employed a quantitative approach with secondary data. Panel data regression analysis was used with STATA version 17. The results showed that board independence and ethnicity had a significant positive effect on accounting conservatism, while busy board, board gender diversity, and board financial expertise did not significant on accounting conservatism.

Keywords: *Board Characteristic, Accounting Conservatism, Non-Financial Company.*

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TABLE OF CONTENT

COVER	I
LEMBAR PERSETUJUAN UJIAN KOMPREHENSIF	II
LEMBAR PERSETUJUAN SKRIPSI	III
SURAT PERNYATAAN INTEGRITAS KARYA ILMIAH	IV
MOTTO DAN PERSEMBAHAN	V
KATA PENGANTAR	VI
UCAPAN TERIMA KASIH	VII
SURAT PERNYATAAN ABSTRAK	IX
ABSTRAK	X
ABSTRACT	XI
RIWAYAT HIDUP	XII
TABLE OF CONTENT	XIII
LIST OF TABLE	XVI
LIST OF FIGURE	XVII
CHAPTER I INTRODUCTION	1
1.1 BACKGROUND	1
1.2 FORMULATION OF THE PROBLEM	9
1.3 OBJECTIVE	9
1.4 BENEFITS OF RESEARCH	10
CHAPTER II LITERATURE REVIEW	11
2.1 THEORETICAL FRAMEWORK	11
2.1.1 <i>Agency Theory</i>	11
2.1.2 <i>Cultural Diversity Theory</i>	12
2.1.3 <i>Board Independence</i>	13
2.1.4 <i>Busy Board</i>	14
2.1.5 <i>Board Gender Diversity</i>	15
2.1.6 <i>Board Ethnicity</i>	16

2.1.7	<i>Board Financial Expertise</i>	17
2.1.8	<i>Accounting Conservatism</i>	18
2.2	PREVIOUS RESEARCH.....	19
2.3	FRAMEWORK.....	22
2.4	HYPOTHESIS DEVELOPMENT.....	23
2.4.1	<i>Board Independence and Accounting Conservatism</i>	23
2.4.2	<i>Busy Board and Accounting Conservatism</i>	24
2.4.3	<i>Board Gender Diversity and Accounting Conservatism</i>	25
2.4.4	<i>Board Ethnicity and Accounting Conservatism</i>	26
2.4.5	<i>Board Financial Expertise and Accounting Conservatism</i>	27
CHAPTER III RESEARCH METHOD		29
3.1	RESEARCH SCOPE.....	29
3.2	RESEARCH DESIGN	29
3.3	TYPE AND SOURCE OF DATA.....	30
3.4	POPULATION AND SAMPLE.....	30
3.5	DATA ANALYSIS TECHNIQUE.....	31
3.5.1	<i>Descriptive statistics</i>	32
3.5.2	<i>Correlation Matrix</i>	33
3.5.3	<i>Panel Data Regression Analysis</i>	33
3.5.4	<i>Classical Assumption Test</i>	35
3.5.5	<i>Hypothesis Test</i>	37
3.6	OPERATIONAL DEFINITION OF VARIABLES.....	38
3.6.1	<i>Dependent Variable</i>	38
3.6.2	<i>Independent Variable</i>	40
3.6.3	<i>Control Variable</i>	42
CHAPTER IV RESULT & DISCUSSION		46
4.1	RESEARCH RESULT	46
4.1.1	<i>Description of Research Object</i>	46
4.1.2	<i>Descriptive Statistics Test Results</i>	47
4.1.3	<i>Correlation Matrix Analysis</i>	53
4.1.4	<i>Panel Data Regression Analysis</i>	56
4.2	DISCUSSION OF RESEARCH RESULTS.....	63
4.2.1	<i>The Effect of Board Independence on Accounting Conservatism</i> ...	63

4.2.2	<i>The Effect of Busy Board on Accounting Conservatism</i>	65
4.2.3	<i>The Effect of Board Gender Diversity on Accounting Conservatism</i> 66	
4.2.4	<i>The Effect of Board Ethnicity on Accounting Conservatism</i>	67
4.2.5	<i>The Effect of Board Financial Expertise on Accounting Conservatism</i> 68	
CHAPTER V CONCLUSION & RECOMMENDATION		69
5.1	CONCLUSION	69
5.2	LIMITATION	70
5.3	RECOMMENDATION	70
5.4	IMPLICATION	70
5.4.1	<i>Theoretical Implication</i>	70
5.4.2	<i>Practical Implication</i>	71
REFERENCES		73

LIST OF TABLE

TABLE 2.1 PREVIOUS RESEARCH	19
TABLE 3.1 SAMPLING CRITERIA	31
TABLE 3.2 OPERATIONAL DEFINITIONS AND MEASUREMENT OF VARIABLES	44
TABLE 4.1 RESEARCH OBJECTS BASED ON SECTOR	46
TABLE 4.2 DESCRIPTIVE STATISTICS TEST RESULTS	47
TABLE 4.3 CORRELATION MATRIX TEST RESULTS	53
TABLE 4.4 MULTICOLLINEARITY TEST RESULTS	56
TABLE 4.5 HETEROSCEDASTICITY TEST RESULTS	57
TABLE 4.6 HETEROSCEDASTICITY TEST RESULTS	58
TABLE 4.7 COMMON EFFECT MODEL REGRESSION ESTIMATION RESULTS ...	59

LIST OF FIGURE

FIGURE 2.2 FRAMEWORK	22
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Chapter I

Introduction

1.1 Background

Accounting conservatism is an accounting principle that emphasizes caution in financial reporting, where companies tend not to recognize income or assets that are not yet certain to be realized but immediately recognize expenses or losses that may occur (García-Sánchez et al., 2017). There are two conditions in Accounting conservatism, namely Conditional Conservatism and Unconditional Conservatism. The Conditional Conservatism is the recognition of losses only if there is sufficient evidence (Yunos et al., 2012) . While Unconditional Conservatism is Using conservative accounting policies without considering certain conditions, such as the accelerated depreciation method (Ismail et al., 2021) . Accounting conservatism plays an important role because Accounting Conservatism can “Reduce the Risk of Asymmetric Information” (Sharma & Kaur, 2021) , “Strengthen Governance Mechanisms” (Muhammad et al., 2024) , and “Improve the reliability of financial reports that are useful for Stakeholders” (Mohammed et al., 2017).

However, even though accounting conservatism provides various benefits in increasing the transparency and reliability of financial reports, its implementation does not always run smoothly. One example is in the case of PT Garuda Indonesia. In December 2018, Garuda recorded revenues of USD 239.94 million or around IDR 2.98 trillion from cooperation with PT Mahata Aero Technology This transaction was part of a long-term aircraft lease contract that

did not meet the revenue recognition criteria. Despite this, management—particularly members of the board of directors—recognized the revenue prematurely, resulting in financial statements that did not reflect the company's true financial position and performance. As a result, in 2018, Garuda Indonesia posted a net profit of USD\$809.85 thousand or equivalent to IDR11.33 billion (assuming an exchange rate of IDR14,000 per US dollar at that time). This figure jumped sharply compared to 2017 which suffered a loss of USD216.5 million (Hartomo, 2019)

At the Annual General Meeting of Shareholders (AGM) held on April 29, 2019 at the Pullman Thamrin Hotel, Jakarta (IDN Financial, 2019). At that time, two Garuda Indonesia commissioners, Chairal Tanjung and Dony Oskaria, assessed that there were irregularities in the 2018 financial report, considering that Garuda Indonesia's financial report was not in accordance with the Financial Accounting Standards Statement (PSAK) Number 72 concerning revenue recognition so they refused to sign at that time. From this refusal, it attracted the attention of the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) to conduct further investigations. On June 28, 2019, Garuda Indonesia was sanctioned by OJK, IDX and the Ministry of Finance, Sri Mulyani. The Garuda Indonesia Board Member was fined 100 million per person who signed the financial report. In addition to being fined, the Minister of SOEs fired several directors, namely President Director I Gusti Ngurah Askhara Danadiputra (Ari Askhara) and four other directors. A total of five directors were dismissed,

leaving two directors still in office due to negligence in their duties (Muslimawati, 2019)

The above example demonstrates the importance of good governance, including the role of board characteristics in ensuring the consistent implementation of Accounting Conservatism. The case of Garuda Indonesia highlights how weak corporate governance and aggressive revenue recognition can lead to financial misreporting, ultimately resulting in regulatory sanctions and leadership dismissals. This issue is particularly relevant in the non-financial sector, where companies are not subject to strict prudential regulations like those in the financial sector. Unlike banks and other financial institutions, which operate under strict regulatory oversight, non-financial firms have greater flexibility in financial reporting, making corporate governance mechanisms—such as board characteristics—critical in shaping accounting conservatism. Therefore, this study investigates how various board characteristics influence accounting conservatism in non-financial firms in Indonesia from 2019 to 2023. The board characteristics analyzed in this study include board independence, gender diversity, the prevalence of busy boards, ethnic diversity, and the financial expertise of board members. Meanwhile, accounting conservatism serves as the main variable to assess how these board traits impact the level of prudence in the company's financial reporting.

An independent board is an important component of corporate governance, which functions to provide objective oversight of managerial decision making (Le et al., 2023). Independent board members are typically chosen from outside the

organization, enabling them to impartially ensure that decisions are made in the best interests of all stakeholders (Sharma & Kaur, 2021). Since their roles are not influenced by emotional or financial connections to internal parties, independent board members can guarantee that company policies adhere to the standards of transparency, accountability, and regulatory compliance.

Research on independent boards and accounting conservatism still shows inconsistent results. Research conducted by (Amran & Manaf, 2014) in Malaysia explored how independent boards serve as a governance tool to reduce the likelihood of financial statement manipulation by adhering to sound reporting practices. The findings indicated that independent boards effectively enhance accounting conservatism. Conversely, research by (García-Sánchez et al., 2017) which focused on companies in Spain with concentrated ownership, revealed that the existence of an independent board did not significantly influence accounting conservatism under specific circumstances.

Busy board indicates that board members occupy several roles in various companies, potentially leading to divided attention (Le et al., 2023). Those board members engaged with multiple companies may provide increased insights from diverse industries, assisting the organization in implementing best practices related to Corporate Governance (Sharma & Kaur, 2021).

Research on the relationship between busy boards and Accounting Conservatism shows inconsistent results. Le et al (2023) revealed that busy board members often lack time to conduct effective oversight, which can have a

negative impact on Accounting Conservatism. However, Sharma & Kaur (2021) showed that the experience of busy board members can offset the impact of their time constraints.

Board gender diversity refers to the presence of women in the composition of the board as part of the company's decision-making (Muhammad et al., 2024). Presence of woman in board plays an important role in creating a broader and more comprehensive perspective, encouraging innovation, and increasing governance accountability (García-Sánchez et al., 2017). In addition, Presence of woman in board helps reduce bias in decision-making, increases stakeholder trust, and supports more inclusive and sustainable business strategies (Muhammad et al., 2024).

Based on research by Muhammad et al (2024) in 15 European Countries, he found that having women in the board of directors promotes a more conservative approach to reporting within companies, stemming from women's inherent tendencies towards ethics and risk management. Meanwhile, research conducted by Bedeir (2024) in Saudi Arabian non-financial companies, He discovered that, in certain instances, the influence of board gender diversity on accounting conservatism was not significant. One example is the intricate board composition in multinational corporations, where a predominance of males on the board may impede the integration of women in the practice of accounting conservatism.

Board Ethnicity is an important aspect of corporate governance that reflects the variety of cultural, linguistic, and ethnic backgrounds among board members (Yunos et al., 2012) . The presence of members from diverse ethnic backgrounds is often considered to bring added value, as they can offer broader and unique perspectives in decision-making. These perspectives not only enrich strategic discussions but also strengthen oversight of management activities, including in terms of financial reporting (Yunos et al., 2012) . In relation to accounting conservatism, ethnic diversity provides an interesting dynamic. Board members from different ethnicities may have a more cautious approach in assessing business risks, which in turn can encourage companies to adopt more conservative financial reporting principles.

Research on board ethnicity towards accounting conservatism have shown unstable results. Research conducted by Yunos et al (2012) found that ethnic diversity increases accounting conservatism by bringing more cautious cultural values into decision making. However, Mohammed et al (2017) research conducted in Asia, he found that the impact of ethnic diversity can depend on the context. This study highlights that the company's ownership structure, such as concentrated ownership by families or controlling shareholders, can limit the influence of ethnic diversity in influencing strategic decision making. In addition, a homogeneous corporate culture tends to reduce the effectiveness of ethnic diversity because minority perspectives are less considered in decision making. Additional research is needed to explore the elements that influence the connection between ethnic diversity and accounting conservatism.

Board financial expertise pertains to the knowledge and experience that board members have in areas such as finance, accounting, auditing, or risk management, which allows them to effectively oversee the company's financial reports. Having financial expertise among board members enhances the oversight of financial reporting, supports more informed decision-making, and minimizes the risk of financial statements being manipulated in ways that do not comply with relevant accounting standards. (García-Sánchez et al., 2017).

According to research by García-Sánchez et al (2017) , having financial experts on the board of directors enhances the quality of financial reporting and fosters the use of conservatism. Similarly, Yin et al (2020) discovered that the effect of board financial expertise on accounting conservatism is more pronounced within the company. Both studies concur that financial expertise on the board positively affects financial oversight and cautious reporting. Nevertheless, studies examining the relationship between board financial expertise and accounting conservatism remain limited and have not incorporated additional variables to ascertain whether this relationship could be influenced by other factors.

This research builds upon the investigations carried out by Mohammed et al (2017) and Le et al (2023). This study introduces several new elements. Firstly, it does not examine just one or two board characteristics in isolation, but instead looks at five board characteristics in conjunction: independence, busyness, gender diversity, ethnic diversity, and financial expertise. Secondly, this research is centered on developing nations, specifically Indonesia, analyzing non-financial

sector firms listed on the Indonesia Stock Exchange during the period from 2019 to 2023. This approach distinguishes it from earlier studies, such as the one by Mohammed et al (2017) , which investigated developing countries using non-financial companies listed on the Kuala Lumpur Stock Exchange from 2007 to 2012, and Le et al. (2023), which focused on developed countries with firms from various sectors listed on the Australian Stock Exchange between 2009 and 2018.

This research also uses Control variables, namely profitability, Company Size, and Leverage. The first control variable is profitability. According to Sharma & Kaur (2021) , companies with high profitability tend to have greater ability to provide resources to ensure more accurate and conservative financial reports. This suggests that profitability can affect the quality of more prudent accounting decision-making. The second control variable is company size. Amran & Manaf (2014) assert that larger companies usually have more complex organizational structures and higher exposure to market risk. Thus, larger companies tend to implement stricter accounting conservatism practices to protect the interests of stakeholders. The last control variable is Leverage. According to García-Sánchez et al (2017) leverage plays a crucial role in influencing a company's financial reporting behavior. Ismail et al (2021) stated that companies with higher debt levels tend to adopt accounting conservatism as a strategy to reduce information asymmetry and assure creditors of their financial health. Firms with higher leverage levels face greater scrutiny from creditors and other external stakeholders, which can encourage more conservative accounting practices to mitigate risks and maintain financial stability and maintain investor confidence.

1.2 Formulation of the problem

Considering the background outlined previously, the problem formulation for this study can be expressed as follows:

- 1) Does gender diversity among the board of directors influence conservatism of accounting non-financial firms in Indonesia?
- 2) Does board independence influence conservatism of accounting in non-financial companies in Indonesia?
- 3) Does financial expertise in board members influence conservatism of accounting in companies in Indonesia?
- 4) Does ethnicity in the board influence conservatism of accounting in non-financial companies in Indonesia?
- 5) Does busy boards influence conservatism of accounting in non-financial companies in Indonesia?

1.3 Objective

Based on the formulation of the problem outlined above, the aims of this research are as follows:

- 1) To investigate whether the gender diversity of the board of directors has an impact on the level of accounting conservatism.
- 2) To explore how independence within the board influences accounting conservatism.
- 3) To assess the extent to which the financial expertise of board members affects accounting conservatism.

- 4) To examine the influence of ethnic diversity in the board on accounting conservatism.
- 5) To analyze how a busy board impacts accounting conservatism

1.4 Benefits of research

1) Theoretical Benefits

Theoretical Benefit on this research aims to enhance the existing literature on the impact of board characteristics on accounting conservatism, particularly in developing countries like Indonesia. Furthermore, it seeks to address gaps in the literature regarding the role of board characteristics, such as gender diversity, financial expertise, and ethnicity, in shaping conservative accounting practices, thereby contributing to the field of corporate governance.

2) Practical Benefits

Practical benefit on this research is expected to offer recommendations to policymakers for developing more effective corporate governance frameworks, particularly in defining the composition of board members in non-financial companies. It emphasizes the importance of considering board characteristics such as gender diversity, financial expertise, and independence to enhance the application of accounting conservatism. Consequently, policymakers can establish more structured guidelines to promote prudent and transparent financial reporting practices.

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