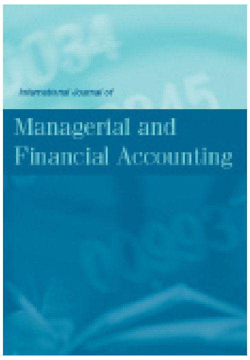

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Reshaping gender quotas in the boardroom: women's participation and accounting conservatism in Indonesia

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Reshaping gender quotas in the boardroom: women's participation and accounting conservatism in Indonesia

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Abstract: In Indonesia, a woman's role is often referred to as a wife, a mother, and a housewife instead of a career position. Thus, women's participation in the boardroom is low. The board gender diversity exhibits advantages such as providing good financial reporting quality. Therefore, this study examines accounting conservatism as a good financial reporting quality and explores the association between women's participation, firm-specific controls, and accounting conservatism in Indonesian manufacturing companies. The study finds that Indonesian manufacturing companies are not conservative in financial reporting. The result demonstrates that hiring more women in the boardroom can enhance accounting conservatism. Hence, reshaping gender quotas – to include more women in the boardroom should be imposed. The result also highlights that in the absence of the conservatism principle, risk disclosure can be a substitute for conservatism, especially in the case of firms' higher profits.

Keywords: board gender diversity; accounting conservatism; manufacturing company; Indonesia.

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1 Introduction

Gender diversity in most literature on demographic attributes of board appears to be rekindled interest by scholars (Erhardt et al., 2003). A growing number of studies on gender diversity reflecting the phenomenon that particular gender – such as women – are likely to be marginalised in diverse groups (Ibarra, 1993). Women who engage in managerial careers have increased significantly (Omar and Davidson, 2001). Nevertheless, women's participation in the boardroom – in high-stake decision making – is generally low, including in Indonesia. Indonesian companies that include at least one woman in the boardroom is accounted for 40%, while Malaysia 63%, Philippines 64%, Singapore 58%, Thailand 88%, and Vietnam 53% (IFC, 2019). Consequently, the governance reform has increasingly promoted the importance of gender diversity in the boardroom (Adams and Ferreira, 2009). Through the good corporate governance (GCG) code, Indonesian companies have been recommended to include women in corporate board since June 2015 (OJK, 2014). There are some benefits found if companies include women in the boardroom. For example, women are more likely to become members of committees that have monitoring purposes, such as audit and corporate governance which bring company to transparency (Adams and Ferreira, 2009), and the firm's disclosure quality (Abad et al., 2017).

Many scholars have conducted studies to investigate the role of women, particularly on financial reporting quality. For example, Waweru and Prot (2018), Khlif and Achek (2017), and Lara et al. (2017) highlight the importance of gender diversity in the boardroom and its impact on accrual earnings. Srinidhi et al. (2011) state that firms with greater women's participation in the boardroom exhibits higher earnings quality. In addition, Yousuf and Aldamen (2021) also find a positive relationship between board gender diversity and earnings quality. A study on board gender and earnings quality is also explored by Zalata et al. (2022); they emphasise the financial background of female directors and earnings quality and find that the participation of woman directors with relevant financial background enhances higher earnings quality than women directors without such background. Therefore, it indicates that women's representation is pivotal in the boardroom to use the benefits of gender-diversified boards in enhancing earnings quality (Yousuf and Aldamen, 2021). In contrast, the study conducted by Kamarudin et al. (2021) which encompasses board gender diversity and corporate sustainability performance, shows a strong relationship among them. To sum up, it is worth mentioning that women can provide specific benefit, such as disclosure quality, thus enhance more effective board communication to investors (Joy, 2008).

In preparing a high-quality firm's disclosure, including financial statements, companies must comply with an accounting standard and accounting principles. One of the most important accounting principles banded to accounting standards is called conservatism (Ball et al., 2000; Wyatt et al., 2001; Ewert and Wagenhofer, 2012; Kabir and Laswad, 2014). Pernyataan Standar Akuntansi Keuangan (PSAK) or the Indonesian Accounting Standard advocates conservative financial reporting, as a result of converging with International financial reporting standard (IFRS) (Januarsi and Hartanto, 2015). This conservative accounting approach is primarily expected to prevent the risk of fraudulent financial reporting, which is likely perpetrated by management to cover the company's actual state (Sri Rahayu et al., 2018). Among varied business sectors, with its complexity and dynamism, a manufacturing company potentially conducts fraudulent financial reporting (Indarti et al., 2016). For this reason, in turn, encouraging companies, especially in manufacturing sector, to implement accounting conservatism is essential.

Recalling previous studies, many scholars find that women are risk-averse and tend to be conservative in their earnings reporting (see Barua et al., 2010; Yu et al., 2010; Ho et al., 2015; García-Sánchez et al., 2017). Nevertheless, there has been a significant amount of accounting conservatism research among developed countries, in comparison to study found across developing countries, like Indonesia. Almutairi and Quttainah (2019) capture the board diversity from fifteen countries, including Indonesia. However, their study focuses on only Islamic banks, which have different regulations compared to manufacturing companies. In addition, Januarsi and Hartanto (2015) also examine women's participation and conservatism in Indonesia. But their study mainly focuses on women in audit committees instead of the boardroom. The study of Spetiari and Sari (2017) can bring into focus a relevant finding of accounting conservatism in Indonesian setting. They find that auditor independence, managerial ownership, leverage, profitability, and auditor independence do not affect accounting conservatism. In contrast, Evana (2020) explores accounting conservatism in Indonesia, yet the study includes independent commissioners, supply chain management, and audit committee.

Therefore, conditioned by all aforementioned above, our study fills the gap by examining women's participation in the boardroom as a proxy of board gender diversity and financial reporting quality – accounting conservatism – in Indonesia. Our study provides contributions in the following ways. First, we extend the literature on the effect of women's participation on conservatism in Indonesia. Second, this study provides additional evidence on the positive effect of women in the boardroom in enhancing financial reporting quality. Third, our study supports the governance reform put forward by Indonesian regulators in enhancing the numbers of women in the boardroom as their numbers are still low compared to other jurisdictions, such as Malaysia, Singapore, and Thailand. This paper is structured as follows: Section 1 depicts the introduction. We then outline a discussion of the literature review in Section 2. Next, we discuss research methodology and finding in Section 3 and 4. Lastly, we conclude our study in Section 5.

2 Literature review

2.1 Underpinning theories of gender diversity

Research on board of directors is predominated by agency theory (Johnson et al., 1996; Dalton et al., 2007). Nevertheless, a study that focuses on gender diversity reflected by the presence of women in the boardroom can be underpinned by not only agency theory, but also resource dependence theory and stakeholder theory. The agency theory considers women in the boardroom as outsiders, who can play a better role compared to their encounter – men (Kirsch, 2018). Moreover, the presence of women in the boardroom leads to a positive impact in terms of CEO power (Ahern and Dittmar, 2012). Similarly, resource dependence theory is deemed as a more plausible view in an understanding board of directors, although less commonly adapted than agency theory (Hillman et al., 2009). As a relevant reference of resource dependence theory, many scholars followed Pfeffer (1972) who highlights the board composition and the need to match the resources given by the board with the needs of the firms. As suggested by Boyd (1990), resources in this context should be "resource-rich" directors that are centred to board composition. Therefore, the board is not just about the number, but the characteristics of directors that matters. Consequently, people from different race, gender, and expertise on boardroom is essential, which can obtain specific resources (Pasaribu et al., 2019). Hillman et al. (2007) have found that firms with particular forms of environmental dependencies are more probably to have women directors. Therefore, by having resource providers such as women on boards can influence firms' decision-making and financial reporting (Mohammed et al., 2017), such as conservative financial reporting (García-Sánchez et al., 2017). In addition, the stakeholder theory conveys that the pivotal role of boards is to establish good relationships with firms' stakeholders (Pasaribu et al., 2019). The boards are not necessarily the agents of shareholder or owners. Consequently, the boardroom should be filled with people from different race, gender, and ethnicity to reflect the community (Pasaribu et al., 2019). By doing so, firms may deal with certain pressure, but the strain is less significant (Terjesen et al., 2009).

2.2 Accounting conservatism

Accounting conservatism is one of the accounting principles, which raises a question of particular importance and is interested by accounting researchers nowadays. The proverb 'Anticipate no profit, provide for all losses' can be a reflection devoted to conservatism, which refers to an increase in the verification of recognising profit compared to recognising loss (Watts, 2003). Previous studies find that conservatism can mitigate agency problem as it decreases overpayment of rewards to managers and restricts their opportunistic behaviour (Yunos et al., 2012; Boussaid et al., 2015; García-Sánchez et al.,

2017) as well as reduces information asymmetry between managers and shareholders (Ho et al., 2015). In addition, Sugiarto and Fachrurrozie (2018) state that low conservatism applications will trigger financial fraud cases.

Previous studies have elucidated the potential advantage of conservatism in financial reports, for example, lowering the cost of capital (Larmande and Stolowy, 2019), minimising the agency cost by mitigating information asymmetry, and facilitating corporate governance (Lara et al., 2009). Moreover, a study that uses data on time-series variation, shows that firms' financial reporting is more conservative year by year (Zhong and Li, 2017). Consequently, a growing number of companies that perceive conservatism is seen in many kinds of literature of various countries. For example, Givoly and Hyan (2000) find that financial reporting in the US has become more conservative in the last four decades. In the EU, firms also seem more conservative financial reporting (Grambovas et al., 2006). Similarly, Iwasaki et al. (2018) find that there is likely greater demand for accounting conservatism in Japanese firms.

Several studies have also highlighted the practice of conservatism in developing countries such as Malaysia, Thailand, and Indonesia. For example, Madah Marzuki et al. (2016) provide evidence that conservatism practice in Malaysia increases with the amendment of the Malaysian Code of Corporate Governance 2007, mainly due to audit committee independence and financial expertise. In their further study, Madah Marzuki and Abdul Wahab (2018) find that conservatism is broadly practiced as a feature of financial reporting in three ASEAN countries which are Malaysia, Thailand, and Singapore. This study highlights that conservatism in these three ASEAN countries is increasing after the IFRS convergence in 2012. Nevertheless, more corrupt countries have less conservatism despite the convergence. This finding is consistent with Madah Marzuki and Abdul Wahab (2016) who state that conservatism is influenced by institutional factors such as family connection, political connection, and ethnicity. In contrast, their study finds that the richest-men connection in business reduces conservatism.

In Indonesia, there are few studies examine conservatism. For example, Andreas et al. (2017) highlight that several commissioners heighten ties with the accounting conservatism in manufacturing companies listed on Indonesian Stock Exchange (IDX). Other finding, such as from Sri Rahayu et al. (2018) indicates that leverage, litigation risk, financial distress, and company growth have significant effect on accounting conservatism, while political cost does not affect accounting conservatism. Spetiari and Sari (2017) find a significant effect of SIZE on accounting conservatism, yet auditor independence, managerial ownership, leverage, profitability, and auditor independence do not affect accounting conservatism. In addition, Evana (2020) examines the effect of independent commissioners, supply chain management, and audit committee on accounting conservatism. The study results indicate that supply chain management has a significantly negative effect on accounting conservatism, while independent commissioners and audit committee have no significant impact. All these studies highlight many factors that determine conservatism in Indonesia; therefore, we come to the first hypothesis:

Hypothesis 1 Indonesian manufacturing companies are conservative.

2.3 Board gender diversity and accounting conservatism

In more traditional Indonesia, the traits of the masculine societies are displayed, yet to become less pronounced. The father or the eldest man remains to play an influential figure, as his thought is significant and respected (Hidasi, 2017). For Indonesian people, a woman's role is often referred to as a wife, a mother, and a housewife instead of a managerial board member – a career position. Nevertheless, around the 1970s, when Indonesia welcomed foreign investment, women became the primary workforce in multinational companies (Hidasi, 2017). Despite this advancement, data during 2012–2014 captured women directors in the 100 biggest Indonesian listed firms remained stagnant around 11–12% (CGIO and Korn Ferry, 2016). A more vibrant business environment and investors' demand require the company to meet such complex expectations, such as a good financial reporting quality. Thus, a comprehensive decision-making is needed and can be fulfilled by considering various perspectives and interests from diverse board of directors (OJK, 2014). The diversity of the board of directors, including academic qualifications, expertise, age, and gender, has been options proposed by Organisation for Economic Co-operation and Development (OECD) – an organisation that compiles and sets corporate governance principles (OECD, 2013). Therefore, issuers and public companies should be suggested to enact a policy on diversity of the board of commissioners and board of directors (as Indonesia implements a two-tier board system), leading to anti-discriminatory policy. Hence, OJK (Indonesian: *Otoritas Jasa Keuangan* or Financial Service Authority of Indonesia – the Indonesian government agency which regulates and supervises the financial services sector) recommends firms to "comply or explain" the diversity of the boards in the annual report (OJK, 2014).

This study is inspired by Makhlouf et al. (2018) stating that gender diversity is significantly related to accounting conservatism. Board gender diversity is measured by the composition of women (the socially and culturally aspects of the feminine) in the boardroom. The presence of women can enhance a better organisational outcome and raise the firm's decision-making as they are deemed to make resilient decisions (Srinidhi et al., 2011). The study conducted by Rossi et al. (2017) that nuances comprehensive explanation on women and firm performance shows that women are often seen to demonstrate different viewpoints, course of actions, and leadership styles compared to men in the workplace. They found a significant association between the presence of women and firm performance, thus, firms with more women on their boards work better. Previous studies show significant relationship between women and earnings conservatism (Barua et al., 2010; Yu et al., 2010; Ho et al., 2015; García-Sánchez et al., 2017). The findings show that women are more ethical and risk-averse, more conservative in reposting earnings, and can recognise bad news in reported earnings in more timely manner (Powell and Ansic, 1997; Jianakolpos and Bernasek, 1998; Byrnes et al., 1999). These facets lead women directors to provide better financial reporting to reduce litigation risk and potential reputation loss. Thus, they are less probably to manipulate reported earnings (Gul et al., 2011; Srinidhi et al., 2011). In addition, García-Sánchez et al. (2017) find that women in the boardroom positively affects accounting conservatism and earnings quality. Prior literature, such as Adams and Ferreira (2009) and Srinidhi et al. (2011) show unique role of women directors. They find that women add more value to the firm's board monitoring capabilities. Additionally, a study on women and earnings conducted by Yousuf and Aldamen (2021) emphasises that there is a positive relationship between board gender diversity and earnings quality. More importantly, in the context of national culture, featuring power distance, individualism, uncertainty avoidance, professionalism, uniformity, secrecy, and conservatism moderate the relationship between woman directors and accruals quality. In addition, Ho et al. (2015) find a positive association between CEO gender and accounting conservatism, and the results are consistent with conventional wisdom.

These findings imply that women's participation exhibits a higher level of accounting conservatism. Nevertheless, a quest for the effects of having women on board on accounting conservatism in Indonesian manufacturing companies is being concerned. Therefore, it leads to our central hypothesis:

Hypothesis 2 There is a significant positive relationship between board gender diversity and accounting conservatism.

3 Research methodology

3.1 Sample selection and data collection

Our subject of study mainly focuses on Indonesian manufacturing companies. Thus, we collect data from various manufacturing sectors, including cement, ceramic porcelain and glass, silver and related, chemical, plastics and packaging, animal feed, woods and processed, pulp and paper, machine and construction equipment, automotive and parts, textiles and garments, shoes, wire, electronics, food and beverages, cigarette, pharmacy, cosmetics and household, and household appliances, listed on IDX from 2015 to 2018. Manufacturing companies are selected due to the large population in IDX and the likelihood to conduct fraudulent financial reporting (Indarti et al., 2016). We obtain financial data from the EMIS database, IDX website, and an annual report from each company's website. We collect financial and boardroom information, shown in Table 1. The sample is selected using the purposive sampling method by choosing the firms that present the data needed in the analysis.

Table 1 Sample selection

Description	*Number of observations*
Initial sample (144 x 4 years)	576
(-) missing data due to unavailability of annual report	(24)
(-) missing data of firms' continuously compounded return	(249)
(-) missing data in calculating C_*SCORE*	(90)
(-) outliers	(79)
Final sample	134

3.2 Variables definitions and measurements

3.2.1 Dependent variable

This study uses accounting conservatism as a dependent variable by using *C_SCORE* developed by Khan and Watts (2009). The first measurement of *C_SCORE* is conducted by estimating Basu (1997) regression with equation (1) and it allows the coefficients to vary across firms and with time, the equation as follows:

$$N_{it} = \beta_0 + \beta_{1it} DR_{it} + \beta_{2it} R_{it} + \beta_{3it} R_{it} * DR_{it} + e_{it}$$

where

N_{it} Net income before extraordinary items per share of firm *i*, deflated by the beginning of the period share price.

R_{it} The fiscal year continuously compounded return.

DR_{it} The dummy variable, which is equal to one if R_{it} is negative and is zero otherwise. The earning variable N_{it} is calculated as $X_{it}/N_{it}P_{it\text{-}1}$ where X_{it} is the net income before extraordinary items form firm *i*, N_{it} is the adjusted number of shares and $P_{it\text{-}1}$ is the share price.

In this model, the dependent variable is earnings, whereas stock return as the independent variable. The coefficient on stock return b2 measures the sensitivity of accounting income to positive stock return (a proxy for economic gain). Then, we input (b2 + b3) to measure the total sensitivity of accounting income to negative stock return. The estimation of the timeliness of good and bad news at the firm-year level will be specified by *G_SCORE* for the timeliness of good news and *C_SCORE* for the asymmetric timeliness of bad news, and linear functions of firm-specific characteristics (leverage, SIZE, and the market-to-book ratio (MTB) (Khan and Watts, 2009). The following are the models for *G_SCORE* and *C_SCORE*:

$$G\_SCORE = b_{1it} = \mu_{1t} + \mu_{2t} SIZE_{it} + \mu_{3t} MTB_{it} + \mu_{4t} LEV_{it}$$

$$C\_SCORE = b_{3it} = \lambda_{1t} + \lambda_{2t} SIZE_{it} + \lambda_{3t} MTB_{it} + \lambda_{4t} LEV_{it}$$

where

SIZE The natural log of total assets.

MTB The market value of equity divided by the book value of equity.

LEV The total debt deflated by total assets.

Therefore, Basu’s (1997) regression can be rewritten as shown in (3) by substituting (2a) and (2b) into (1):

$$\begin{aligned} N_{it} = {} & \beta_0 + \beta_{1it} DR_{it} + R_{it} \left(\mu_{1t} + \mu_{2t} SIZE_{it} + \mu_{3t} MTB_{it} + \mu_{4t} LEV_{it} \right) \\ & + R_{it} \;*\; DRit \left(\lambda_{1t} + \lambda_{2t} SIZE_{it} + \lambda_{3t} MTB_{it} + \lambda_{4t} LEV_{it} \right) \\ & + \left(\delta_{1t} SIZE_{it} \;+\; \delta_{2t} MTB_{it} \;+ \delta_{3t} LEV_{it} \;+\; \delta_{4t} DR_{it} \;*\; SIZE_{it} \right. \\ & \left. + \delta_{5t} DRit * MTBit \;+\; \delta 6tDRit * LEVit \right) + eit \end{aligned}$$

3.2.2 Independent variable

Our independent variable is board gender diversity measured by the percentage of women in the boardroom.

Table 2 Definition of variables

Variable symbols	*Definition*	*Measurement*
	Dependent variable	
C_SCORE	Resulting in earnings reflecting 'bad news' more quickly than 'good news' (Basu, 1997)	Measured by using C_SCORE developed by Khan and Watts (2009)
	Independent variables	
PERC_WOMEN	Percentage of women on board (Gull et al., 2018)	Percentage of women in boardroom
	Control variables	
DISC_REMUNE	Disclosure of provisions on the establishment of a board remuneration	Dummy variable that is equal to one if the firm disclose information of provisions on the establishment of a board remuneration, or zero otherwise
CEO_DUALITY	CEO who also occupies the chair position of the board of directors (Rechner and Dalton, 1991)	Dummy variable that is equal to one if the firm's CEO also occupies the chair position on the board, or zero otherwise
BIG4_DUMMY	Big4 external auditor which audit the company	Dummy variable that is equal to one if the firm is audited by big4 auditor during sample year, or zero otherwise
DISC_RISK	Any information about: opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted or may impact upon the company, as well as the management of any such opportunity, prospect, hazard, harm, threat, or exposure (Linsley and Shrives, 2006)	Dummy variable that is equal to one if the firm disclose information of risk management on the annual report, or zero otherwise
SIZE	Size of the firms	Natural Logarithm of total assets.
MTB	Market to book ratio	Market capitalization book value
LEV	Degree to which a company is financing its operations through debt versus wholly-owned funds	Total liabilities shareholder's equity
DUMMY_LOSS	Profit/loss of the firm	Dummy variable that is equal to one if the firm shows loss, or zero otherwise

3.2.3 Control variables

We use several control variables to produce a robust model for this study. Control variables of this study are board remuneration disclosure, CEO duality, Big4 auditors, risk management disclosure, firms' size, market to book ratio (*MTB*), debt to equity, and profit/loss. Board remuneration disclosure is included as its establishment has been recommended in the GCG General Guidelines (OJK, 2014). In June 2018, the most current edition of the Indonesian Corporate Governance Manual was issued, imposing public companies to disclose provisions on establishing a board remuneration. This variable is measured using dummy variable, 1 if a company discloses the information about board remuneration in annual report and 0 if otherwise. In addition, since Indonesia has been taking action on GCG, given that the application of GCG by the board of directors has not been optimal (Widyaningsih et al., 2017), we then include CEO duality as one of the elongated challenges of GCG. According to Gul and Leung (2004), CEO duality cripples overall accountability, thus it brings the companies less transparent for all stakeholders. Consequently, CEOs with dual control in boardroom might be less active in monitoring board activities (Fan et al., 2007). Hence, a firm with CEO duality will likely be less conservative financial reporting is still questionable and interesting to be examined in Indonesian context. In addition, since *OJK* has been establishing regulations to improve information quality in the security market, the presence of Big4 auditors, such as Deloitte, PwC, KPMG, and E&Y, as the most professional external auditors, is appealing issue to be included in the study to realise a significant impact on the accounting policy. Additionally, in terms of management disclosure, there has been much literature on the risk management topic, yet, devoted to the more local context, little attention has been paid to risk disclosure. Insufficient risk disclosure in Indonesian companies in the latest literature is surprisingly given the consequential of the financial environment. However, the quest of disclosure by the company, with their compound setting of interests and goals, to some extent, seems to have evaded the investigation of academicians. The Corporate Governance Code states that the composition of board members has to be adequate to respond to the complexity of the company's business and to consider the requirement for efficient decision-making. Therefore, board members shall include disclosure of effectiveness of the internal control system, including risk management, control system, and internal audit (KNKG, 2006). Seemingly, to further explore the association of financial ratio and accounting conservatism, thus, firms' size, *MTB*, debt to equity, and profit/loss are used in this study, in which the Indonesian literature is limited to leverage, financial distress, IOS (investment opportunity set), and ROE. We provide operational definition of variables used in this study, shown in Table 2.

3.3 Empirical model

To test the first hypothesis whether the sample of firms show accounting conservatism or not, we run Khan and Watts (2009)'s conservatism equation as in equation (1):

$$\begin{aligned}N_{it} = {} & \beta_0 + \beta_{1it} DR_{it} + R_{it}\left(\mu_{1t} + \mu_{2t} SIZE_{it} + \mu_{3t} MTB_{it} + \mu_{4t} LEV_{it}\right) \\ & + R_{it} * \; DR_{it}\left(\lambda_{1t} + \lambda_{2t} SIZE_{it} + \lambda_{3t} MTB_{it} + \lambda_{4t} LEV_{it}\right) \\ & + \left(\delta_{1t} SIZE_{it} + \delta_{2t} MTB_{it} + \delta_{3t} LEV_{it} + \delta_{4t} DR_{it} * SIZE_{it}\right. \\ & \left. + \delta_{5t} DR_{it} * MTB_{it} + \delta_{6t} DR_{it} * LEV_{it}\right) + e_{it}\end{aligned} \tag{1}$$

where *N* is profit or loss for the year per share of firm *i*, deflated by the beginning of period share price, *R* is fiscal year continuously compounded return; *DR* is dummy variable, equalling one if *R* is negative, and '0'; otherwise, *SIZE* is the natural log of total assets, *MTB* is the market value of equity divided by the book value of equity and *LEV* is the total leverage deflated by the total assets. To establish the effect of women on board as hypothesised in hypothesis 2, we estimate annual regressions from equation 1, and obtain coefficients of λ_{1t}, λ_{2t}, λ_{3t} and λ_{4t} to estimate *C_SCORE*. *C_SCORE* varies across firms through a cross-sectional variation in the firm-year characteristics (*SIZE*, *MTB*, and *LEV*) over time through a variation in λ. Conditional conservatism increases in *C_SCORE*. The *C_SCORE* is regressed with our independent and control variables as equation (2) to answer hypothesis 2 and 3 of this study:

$$C\_SCORE_{it} = \beta_0 + \beta_1 PERC\_WOMEN_{it} + \beta_2 Control\ variables_{it} + \varepsilon_{it} \tag{2}$$

Coefficient β_1 measures the relationship between conservatism and the percentage of women directors. It is expected that coefficients β_1 will be positive, which leads to the interpretation that women enhance accounting conservatism.

4 Findings

4.1 Descriptive analysis

Table 3 presents descriptive statistics for the variables we use for conservatism, independent variables, and control variables. The mean (median) for the profit or loss of the firm (*N*) is 0.025 (0.035), and compounded return (*R*) is 5,728 (6,459). Meanwhile, the mean (median) for the dummy variable of negative return (*DR*) is 0.067 (0.000). The result indicates that only 7 % of the samples show negative returns, even though the percentage of companies with negative earnings is 14 %. The mean (median) result for overall conservatism (*C_SCORE*) indicates the value is positive, which is 0.039 (0.014), which provides initial evidence that the company practices conservatism. Nevertheless, the value is deficient. The result for independent variables indicates that the mean percentage of women directors among the manufacturing firms in Indonesia is 9 %. For control variables, 60 % of the sample disclose the detail of board remunerations. 5 % of the sample have the duality of CEO and Chairman and 32 % of them are audited by Big 4 auditors in Indonesia. 93.3 % of the companies in the sample disclose their risk. For financial variables, the result indicates that the mean (median) for *SIZE* and *MTB* is 22,391 (21,354) and 5,723 (6,519), respectively. The mean (median) for *LEV* is 0.525 (0.079) and mean (median) for *DUMMY_LOSS* is 0.134 (0.000).

Table 3 Descriptive analysis

	Mean	*Median*	*Maximum*	*Minimum*	*Std. dev.*
	Panel A: dependent variable (conservatism)				
N	0.025	0.035	0.487	–2,652	0.269
R	5,728	6,459	7,947	–0.478	2,279
DR	0.067	0.000	1,000	0.000	0.251
C_SCORE	0.039	0.014	0.994	–0.010	0.112

Table 3 Descriptive analysis (continued)

	Mean	*Median*	*Maximum*	*Minimum*	*Std. dev.*
		Panel B: independent variable			
PERC_WOMEN	8,761	6,500	33,000	0.000	9,912
		Panel C: control variables			
DISC_REMUNE	0.597	1,000	1,000	0.000	0.492
CEO_DUALITY	0.052	0.000	1,000	0.000	0.223
BIG4_DUMMY	0.321	0.000	1,000	0.000	0.469
DISC_RISK	0.933	1,000	1,000	0.000	0.251
SIZE	22,391	21,354	31,191	18,733	2,942
MTB	5,723	6,519	9,027	–1,772	2,440
LEV	0.525	0.079	38,972	0.000	3,369
DUMMY_LOSS	0.134	0.000	1,000	0.000	0.342

4.2 Correlation analysis

Table 4 tabulates the correlations analysis for the variables used in this study. The result indicates no significant correlation between conservatism (*C_SCORE*) and our independent variables *PERC_WOMEN* using Spearman correlation. Nevertheless, the Pearson correlation result indicates a positive and significant correlation (0.265, $p < 0.01$) between *PERC_WOMEN* and *C_SCORE* indicating that the higher percentage of women is associated with a higher degree of conservatism. The result for control variables indicates that there is a negative and significant correlation between *C_SCORE* and *DISC_RISK* using both ordinary (–0.231, $p < 0.01$) and Spearman correlation (–0.153, $p < 0.10$), providing evidence that the more the companies disclose their risk, the level of conservatism is reducing. In addition, the result also highlights that when the firms incur a loss, they tend to be conservative, and the result is significantly positive using both ordinary (–0.366, $p < 0.01$) and Spearman correlation (–0.222, $p < 0.05$).

4.3 Univariate analysis

Table 5 presents the univariate analysis using paired sample t-test and Mann-Whitney test comparing the differences between conservative companies and firms that are not conservative. The result indicates that conservative firms (have positive *C_SCORE*) are 107 firms, while non- conservative firms (negative *C_SCORE*) are only 27 firms. The result is consistent with the descriptive analysis, which indicates that only 7 % of firms show negative returns, and the value of *C_SCORE* is low. Thus, the t-test and Mann-Whitney results show that there are no significant differences between conservative and non-conservative firms as the degree of conservatism among the firms is low.

4.4 Multivariate analysis

Table 6 reports the regression results for conservatism. First, we try to run the basic Basu's model of conservatism with and without its control variables in model 1 and 2, respectively. The degree of conservatism is shown by the coefficient of the interaction between *R*DR* where it is expected that the coefficient is significantly positive, indicating that earnings are more sensitive to bad rather than good news. The result of conservatism using Basu's model is all insignificant except for leverage (model 2). Then when we run the modified Basu's model by Khan and Watts (2009), the model is more significant with f-stats at 5 % significant level ($p < 0.05$). Nevertheless, the conservatism (*R*DR*) result is still insignificant, indicating that overall manufacturing firms in Indonesia are not conservative. The result of the model indicates that the firms are more sensitive to good news rather than bad news, where *R* is significant at 5 % level. Nevertheless, the correlation is negative, indicating that when earnings are positive, the firms reduce their returns, which is an act of being conservative. The result is consistent with the findings in descriptive analysis, which shows that the firms are practicing conservatism, but the level of conservatism is low as they are more sensitive to good rather than bad news. The measurement of conservatism (*R*DR*) shows a positive correlation but insignificant, indicating that overall, the firms are not conservative. Therefore, the first hypothesis is rejected. This result is consistent with Basu (1997) which indicates that the measurement of conservatism (*R*DR*) is insignificant during the low auditor liability regime. It highlights that accounting conservatism is insignificant for the sample that has lower enforcement as characterised by Indonesia as one of the emerging countries. The result also consistent with the result in descriptive analysis, which shows that only 7 % of the sample shows negative returns as compared to the sample that shows negative earnings are 14 %.

We then regress conservatism with the current corporate governance reform in Indonesia, to investigate whether the recent reforms can enhance conservatism among the firms. The result is reported in Table 7. Finally, we present model 1 till 9 to show one by one the effect of our variables on conservatism as measured by *C_SCORE*. The relationship between conservatism as measured by *C_SCORE* and *PERC_WOMEN* is significantly positive throughout model 1 till model 9, highlighting the role of women in enhancing conservatism. The result is consistent with the view from previous research, which indicate that women are more risk-averse and thus more ethical (Yu et al., 2010; Ho et al., 2015; García-Sánchez et al., 2017) and have capacity to be more timely in recognising bad rather good news.

For control variables, the result for *DISC_REMUNE* is insignificant, indicating that providing remuneration disclosure does not influence firms to be conservative. The result may be due to the reason that providing disclosure remuneration is not only about providing high-quality disclosure, but instead, firms are exposing the sensitive information which is board of directors' remuneration to the stakeholders. For example, if the firms disclose that their remuneration is high while their earnings and returns are low, the stakeholders will question it. Thus, the result provides evidence that whether firms be conservative or not does not depend on the disclosure of board of directors' remuneration. There is a negative relationship between *DISC_RISK* and *C_SCORE*. The result is consistent with Gigler and Hemmer (2001) viewed that the disclosure quality acts as a substitute to conservatism policy in the sense that pro-active disclosure will be made only if their accounting system is not too conservative. Hejranijamil et al. (2020) have stated that firms be f conservative to reduce uncertainty, and the same role is played by risk disclosure (Heinle and Smith, 2017). The result for other control variables highlights that conservative firms are larger firms (0.007, $p < 0.10$) and incurred loss (0.103, $p < 0.01$).

Table 4 Correlation analysis

Correlation		*1*		*2*		*3*		*4*		*5*		*6*	
R	1	1,000		–0.434	***	0.001		0.080		–0.135		–0.009	
DR	2	–0.693	***	1,000		0.211	**	0.090		0.220	**	0.339	***
C_SCORE	3	–0.230	***	0.375	***	1,000		0.027		0.054		0.035	
PERC_WOMEN	4	0.040		0.142		0.265	***	1,000		0.099		–0.012	
DISC_REMUN	5	–0.157	*	0.220	**	0.093		0.111		1,000		–0.081	
CEO_DUALITY	6	–0.155	*	0.339	***	–0.037		0.019		–0.081		1,000	
BIG4_DUMMY	7	–0.203	**	0.071		–0.072		–0.349	***	–0.087		0.126	
DISC_RISK	8	–0.037		–0.047		–0.231	***	–0.142		–0.038		–0.071	
SIZE	9	–0.833	***	0.612	***	0.156	*	–0.064		0.116		0.211	**
MTB	10	0.557	***	–0.239	***	–0.056		–0.025		–0.140		0.081	
LEVERAGE	11	–0.096		0.014		0.011		0.063		–0.114		–0.007	
DUMMY_LOSS	12	–0.112		0.069		0.366	***	0.063		–0.033		–0.092	

Correlation analysis

Correlation		*7*		*8*		*9*		*10*		*11*		*12*	
R	1	–0.079		–0.044		–0.401	***	0.919	***	–0.158	*	–0.023	
DR	2	0.071		–0.047		0.405	***	–0.406	***	0.246	***	0.069	
C_SCORE	3	–0.017		–0.153	*	0.080		0.044		0.107		0.222	**
PERC_WOMEN	4	–0.350	***	–0.138		–0.052		0.073		–0.006		0.025	
DISC_REMUN	5	–0.087		–0.038		0.119		–0.092		–0.106		–0.033	
CEO_DUALITY	6	0.126		–0.071		0.182	**	–0.005		0.046		–0.092	
BIG4_DUMMY	7	1,000		0.057		0.335	***	–0.090		0.095		0.104	
DISC_RISK	8	0.057		1,000		–0.030		–0.031		–0.107		–0.157	*
SIZE	9	0.306	***	0.021		1,000		–0.432	***	0.389	***	0.070	
MTB	10	–0.056		–0.008		–0.368	***	1,000		–0.176	**	0.001	
LEVERAGE	11	0.116		–0.001		0.197	**	–0.078		1,000		0.247	***
DUMMY_LOSS	12	0.104		–0.157	*	0.097		–0.020		0.006		1,000	

Table 5 Univariate analysis of conservative and non-conservative firms

	N = 107		*N = 27*		*t-test*	*Mann_Whitney*
	Mean	*Median*	*Mean*	*Median*		
PERC_WOMEN	8,533	6,000	9,667	10,000	0.597	0.547
DISC_REMUNE	0.607	1,000	0.556	1,000	0.626	0.624
CEO_DUALITY	0.047	0.000	0.074	0.000	0.572	0.570
BIG4_DUMMY	0.318	0.000	0.333	0.000	0.878	0.877
DISC_RISK	0.916	1,000	1,000	1,000	0.121	0.120
SIZE	22,405	21,380	22,335	21,293	0.913	0.754
MTB	976,405	724,420	791,376	622,600	0.419	0.624
LEV	0.603	0.080	0.215	0.076	0.595	0.967
DUMMY_LOSS	0.150	0.000	0.074	0.000	0.308	0.306

Our significant result of women and conservatism is consistent with previous studies which find that women are inversely related with securities litigation risk (Joo et al., 2021), earnings management (Lara et al., 2017) and acquisitions (Schadewitz and Spohr, 2021). According to Joo et al. (2021), women have tougher and strict monitoring skills as well as more independent as compared to male directors which lead them to be more cautious on litigation risk, thus more conservative. Adhikari et al. (2019) highlight that woman are less aggressive especially when it relates to corporate strategies, i.e., merger and acquisitions, hence lead to higher goodwill write downs. These literatures highlight women directors are more conservative and thus can provide good governance to the firms. Therefore, our result provides implications to the regulators to increase women quotas in boardroom as currently the percentage of women on board in Indonesia is still low as compared to other emerging countries.

4.5 Endogeneity test

Ho et al. (2015) contend that there are no confirmatory conclusions can be made whether women affect accounting conservatism or women are chosen as an incentive to induce more accounting conservatism in a firm. Thus, most of previous research (Francis et al., 2015; Faccio et al., 2016; Huang and Kisgen 2013) argue that appointments of female executives on top positions may not be random and hence the endogeneity problem is present in investigating the relationship between women and accounting conservatism. Therefore, we run a dynamic model from panel data by generalised method of moments (GMM) to address this problem.

According to Arellano and Bond (1991) using GMM enable to eliminate individual effects by taking the first difference of the regression equation. We use GMM by having deeper lag of dependent variable as instrument for different lags of dependent variable. In addition, adding deeper lag of the dependent variable will reduce the number of observations.

The result of GMM indicates that *PERC_WOMEN* remain positive which indicates that women remain significantly positive which indicates that women enhance conservatism (0.000, $t = 3,453$, $p < 0.010$ which support there is no endogeneity problem in our model.

Table 6 Regression analysis of conservatism

Variable	*1*	*2*		*3*	
Dependent variable	*Basic Basu's model*	*Basu's model with control variables Earnings*		*Modified Basu's model (Khan and Watts, 2009)*	
Intercept	0.019	–0.277		1,733	
	0.197	–0.571		1,720	
R	0.000	0.007		*–0.352*	**
	0.002	0.295		–2,078	
DR	–0.016	0.043		0.321	
	–0.094	0.253		0.547	
R*DR	0.021	0.094		2,357	
	0.038	0.171		0.148	
SIZE		0.015		*–0.070*	*
		0.841		–1,787	
MTB		0.000		0.000	
		–0.028		0.914	
LEV		*–0.789*	***	1,125	
		–3,047		1,751	
R*SIZE				*0.015*	**
				2,230	

Table 6 Regression analysis of conservatism (continued)

Variable	*1*	*2*	*3*
Dependent variable	*Basic Basu's model*	*Basu's model with control variables Earnings*	*Modified Basu's model (Khan and Watts, 2009)*
DR*SIZE			0.000
			0.120
R*DR*SIZE			–0.113
			–0.232
R*MTB			0.000
			–0.807
DR*MTB			–0.033
			–0.054
R*DR*MTB			0.692
			0.128
R*LEV			*–0.345* ***
			–3,286
DR*LEV			–0.947
			–0.933
R*DR*LEV			3,506
			0.484
Period fixed	Yes	Yes	Yes
Adjusted R-squared prob. (F-statistics)	–0.021	0.034*	0.078**

Table 7 Regression analysis of women's participation and conservatism

Variable / *DV*	*1*		*2*		*3*		*4*	
Intercept	0.013		0.005		0.006		0.002	
	0.985		0.278		0.345		0.082	
PERC_WOMEN	0.003	***	0.003	***	0.003	***	0.003	***
	3,116		3,002		3,000		2,962	
DISC_REMUNE			0.015		0.014		0.014	
			0.724		0.687		0.700	
CEO_DUALITY					–0.018		–0.020	
					–0.397		–0.446	
BIG4_DUMMY							0.009	
							0.405	
DISC_RISK								
SIZE								
MTB								
LEV								
DUMMY_LOSS								
Period fixed	Yes		Yes		Yes		Yes	
Adjusted R- squared		0.053		0.049		0.043		0.037
Prob (F-Statistic)		**		**		*		*

Table 7 Regression analysis of women's participation and conservatism (continued)

Variable	*5*		*6*		*7*		*8*		*9*	
DV	*Conservatism*									
Intercept	0.095	**	–0.064		–0.077		–0.083		–0.078	
	2,177		–0.761		–0.814		–0.864		–0.853	
PERC_WOMEN	0.003	***	0.003	***	0.003	***	0.003	***	0.002	**
	2,714		2,707		2,708		2,729		2,444	
DISC_REMUNE	0.012		0.006		0.006		0.005		0.009	
	0.623		0.281		0.303		0.241		0.485	
CEO_DUALITY	–0.028		–0.046		–0.049		–0.050		–0.024	
	–0.621		–1,041		–1,076		–1,101		–0.557	
BIG4_DUMMY	0.011		-0.004		–0.004		–0.004		–0.013	
	0.486		-0.179		–0.188		–0.156		–0.612	
DISC_RISK	–0.097	**	–0.098	**	–0.098	**	–0.098	**	–0.075	*
	–2,385		–2,515		–2,503		–2,493		–1,949	
SIZE			0.008	**	0.008	**	0.008	**	0.007	*
			2,200		2,141		2,172		1,808	
MTB					0.000		0.000		0.000	
					0.301		0.299		0.238	
LEV							–0.001		–0.001	
							–0.386		–0.215	
DUMMY_LOSS									0.103	***
									3,636	
Period fixed	Yes		Yes		Yes		Yes		Yes	
Adjusted R- squared		0.076		0.104		0.098		0.092	0.181	
Prob (F-Statistic)		**		***		***		**		***

5 Conclusions

We utilise 134 observations of manufacturing companies' financial information to examine the association between board gender diversity and accounting conservatism. We measure accounting conservatism by using *C_SCORE* developed by Khan and Watts (2009). Accounting conservatism is an appealing issue because there is still a lack of implementation of the conservatism principle in Indonesian companies, although accounting conservatism is suggested by Indonesian Accounting Standard. In addition, we incorporate board gender diversity measured by the percentage of women sit in the boardroom. This particular obligation has been recommended in GCG code for issuers and public companies. Nevertheless, women's participation in the boardroom in Indonesia is still low.

Our findings indicate that, overall, Indonesian manufacturing companies are not conservative. Nevertheless, conservatism among the firms is enhanced by the higher percentage of women in the boardroom. This finding is proved by the result of positive relationship between the percentage of women and accounting conservatism. It highlights the role of women in enhancing financial reporting quality. Furthermore, the result for control variables provides evidence that the more the companies disclose their risk, the level of conservatism reduces, indicating that risk disclosure plays a substitute role to conservatism. Finally, our finding also emphasises that when firms incur a loss, they tend to be conservative.

This study has implications for regulators, given that Indonesian companies have fewer women in the boardroom, thus, reshaping gender quotas – to include more women in the boardroom – should be imposed not only on the disclosure but also in the practice. Demonstrating gender quotas of women in the boardroom can be a good initiative to promote high-quality information to stakeholders. Similarly, the regulator is required to extensively promote the conservatism principle as it brings advantages to the firms. The result also provides an alternative to the firms in the absence of conservatism principle; risk disclosure can be a substitute for conservatism, especially in the case of firms earning higher profit.

This study has some limitations, such as a small sample SIZE. Therefore, future research is expected to have a larger sample SIZE and more financial ratios and non-financial information. Future research can also measure accounting conservatism using other models, such as Ball and Shivakumar (2005) or Basu (1997) alone. In addition, this study mainly focuses on the board gender diversity, having different characteristics of board, for example, educational background, age, experience, expertise, and ethnicity should be considered. It may also include other disclosures, such as corporate social responsibility, audit internal committee, board remuneration committee, and other variables related to the Indonesian institutional setting, such as family connections and political connections.

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