

Firm Size and Accounting Conservatism in Indonesia's Largest Listed Banks: The Mediating Role of Board of Commissioners Size

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Abstract. This study examines whether firm size is associated with accounting conservatism directly and indirectly through the size of the board of commissioners in large Indonesian listed banks. The study uses 75 bank-year observations from 15 large banks listed on the Indonesia Stock Exchange during 2020–2024. Firm size is measured as the natural logarithm of total assets, board structure is measured by the number of commissioners, and accounting conservatism is proxied by the market-to-book ratio as a cumulative net-asset measure. Path analysis shows that firm size is positively associated with board size ($B = 0.390$; $\beta = 0.446$; $p < 0.001$) and accounting conservatism ($B = 0.548$; $\beta = 0.578$; $p < 0.001$), whereas board size is negatively associated with accounting conservatism ($B = -0.406$; $\beta = -0.374$; $p = 0.001$). The indirect effect is negative and significant ($ab = -0.158$; Sobel $z = -2.642$; $p = 0.008$), indicating competitive mediation: larger banks exhibit greater conservatism directly, but the expansion of board size partially offsets that relationship. The findings support the political cost explanation for the direct firm-size effect while showing that board size should not be interpreted as equivalent to governance quality. The study contributes evidence from a highly regulated banking setting and highlights the need to distinguish governance structure from governance effectiveness when explaining conservative financial reporting.

Keywords: firm size; accounting conservatism; board of commissioners; corporate governance; Indonesian banking

1 Introduction

Banks differ from non-financial firms because they operate with high leverage, substantial information opacity, systemic externalities, and intensive prudential oversight. These features make governance and financial reporting particularly important because bank decisions affect not only shareholders but also depositors, creditors, regulators, and financial stability. Recent banking research therefore treats governance as a sector-specific monitoring mechanism rather than simply a general corporate attribute (Andres & Vallelado, 2008;

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Nguyen, 2024). In Indonesia, the study period also covers an important regulatory transition: POJK No. 55/POJK.03/2016 governed corporate governance for commercial banks in the earlier years, while POJK No. 17 of 2023 subsequently strengthened and consolidated governance requirements for commercial banks (Otoritas Jasa Keuangan, 2016, 2023).

Firm size is central to this setting for two related reasons. First, agency theory suggests that organizational growth increases operational complexity, delegation, and information asymmetry between managers and capital providers. Larger organizations consequently require more extensive monitoring structures and internal controls to limit agency costs (Garanina & Kaikova, 2016; Huu Nguyen et al., 2020; Jensen & Meckling, 1976). In banks, this complexity is amplified by multiple business lines, branch networks, risk-management functions, and regulatory requirements. Board structure can therefore expand as the scale and complexity of the bank increase.

Second, the political cost hypothesis predicts that large and visible firms face greater scrutiny from regulators, governments, the media, and other stakeholders. Managers of such firms may have incentives to avoid reporting outcomes that attract additional political intervention or distributional claims and may therefore adopt reporting choices that reduce the risk of overstated performance (Belz et al., 2019; Soliman, 2019; Watts & Zimmerman, 1978, 1990). This argument is especially relevant to large banks because their economic significance and systemic role place them under close supervisory attention.

Accounting conservatism provides one mechanism through which this reporting caution may be expressed. Conservatism generally requires stronger verification for the recognition of economic gains than for losses and can reduce contracting and information risks when managers possess private information (LaFond & Watts, 2008; Watts, 2003). At the same time, empirical measurement is not straightforward. This study uses the market-to-book ratio as a cumulative net-asset measure of unconditional conservatism. A higher market value relative to book equity may be consistent with the cumulative understatement of net assets; however, the ratio also reflects growth opportunities and market expectations. Consequently, the proxy should be interpreted as an indicator rather than a pure measure of conservatism (McNichols et al., 2014).

Corporate governance is expected to influence the reporting process because boards monitor management and oversee the integrity of financial statements. Prior studies generally associate stronger governance mechanisms with more credible or more conservative reporting, although the sign and magnitude depend on the governance dimension being measured (Ahmed & Duellman, 2007; Mohammed et al., 2017; Nasr & Ntim, 2018). A critical issue in the present study is that corporate governance is operationalized only through the number of members of the board of commissioners. Board size is a structural governance mechanism, but a larger board is not necessarily a better board. Additional members may provide expertise and monitoring capacity, while excessively large boards may create coordination costs, slower decision-making, or diffusion of responsibility (Andres & Vallelado, 2008).

The research gap therefore lies not simply in testing whether firm size or governance is associated with conservatism. Previous studies have largely examined direct relationships between these variables, often across heterogeneous industries, or have treated individual governance characteristics as direct determinants of conservatism. Less attention has been given to the mechanism through which the scale of a bank may shape conservative reporting by first changing its governance structure. This mechanism is particularly relevant in the largest Indonesian listed banks, where both political visibility and regulatory monitoring are unusually high and where the meaning of a larger board may differ from that in less regulated sectors.

This study addresses that gap by testing the mediating role of board of commissioners size in the relationship between firm size and accounting conservatism using 15 large IDX-

listed banks over 2020–2024. The contribution is threefold. First, the study integrates agency theory and the political cost hypothesis within a single mediation framework. Second, it distinguishes board size from governance quality, thereby avoiding the assumption that a larger board automatically represents better governance. Third, it provides evidence from a concentrated and highly regulated banking context in which regulatory supervision may alter the relationship between internal governance structure and conservative reporting. The study asks whether firm size is associated with accounting conservatism directly and whether an additional indirect association operates through board size.

1.1 Agency Theory and Political Cost Hypothesis

Agency theory explains governance demand through the separation of ownership and control. Managers possess information that principals cannot observe perfectly, creating opportunities for self-interested decisions and increasing monitoring and bonding costs (Jensen & Meckling, 1976). In a banking context, governance mechanisms, including the board of commissioners, help oversee managerial decisions, risk-taking, and the financial reporting process. As banks become larger and more complex, the monitoring problem becomes more difficult, creating a stronger demand for formal oversight structures.

The political cost hypothesis complements agency theory by explaining why large firms may prefer reporting choices that avoid aggressive recognition of performance. Political visibility and the possibility of regulatory intervention, taxation, or stakeholder claims increase with organizational scale (Watts & Zimmerman, 1978, 1990). For large banks, these political and regulatory pressures coexist with agency problems. Firm size may therefore affect accounting conservatism both directly through political visibility and indirectly through changes in governance structure.

1.2 Firm Size and Board of Commissioners Size

Larger banks operate with more assets, products, geographic units, regulatory interfaces, and risk categories. These conditions increase the information-processing and monitoring demands placed on the board. A broader board may provide additional expertise and capacity to oversee complex activities, although this does not imply that board quality increases mechanically with headcount. Evidence on corporate governance and agency costs supports the view that organizational complexity is associated with stronger or more extensive governance structures (Garanina & Kaikova, 2016; Huu Nguyen et al., 2020; Li et al., 2021). Accordingly, the study expects a positive association between firm size and board size.

H1: Firm size is positively associated with the size of the board of commissioners.

1.3 Firm Size and Accounting Conservatism

The political cost hypothesis predicts that larger firms are more visible and face greater scrutiny. In large banks, the potential economic consequences of reporting errors or aggressive performance recognition are amplified by regulatory oversight and systemic relevance. Conservative reporting can therefore reduce the risk of overstating net assets or earnings and can function as a response to contracting and political pressures (Belz et al., 2019; LaFond & Watts, 2008; Watts, 2003). Prior Indonesian evidence also documents an association between firm size and accounting conservatism in banking and other listed firms (Affianti & Supriyati, 2017; Ibrahimy & Suryaputri, 2022; Solichah & Fachrurrozie, 2020).

H2: Firm size is positively associated with accounting conservatism.

1.4 Board of Commissioners Size and Accounting Conservatism

From a monitoring perspective, a board with sufficient capacity can restrain opportunistic financial reporting and demand more prudent recognition policies. Prior studies connect board and audit-governance characteristics with conservative accounting (Ahmed & Duellman, 2007; Nasr & Ntim, 2018; Sultana, 2015). Nevertheless, board size alone is an incomplete proxy for governance effectiveness. Larger boards can add knowledge and independence but can also introduce communication and coordination costs (Andres & Vallelado, 2008). The directional hypothesis follows the monitoring argument, while the empirical interpretation recognizes that a negative coefficient would indicate that board size does not operate as a simple measure of governance quality.

H3: Board of commissioners size is positively associated with accounting conservatism.

1.5 Mediating Role of Board of Commissioners Size

Combining the two theoretical perspectives suggests a two-channel relationship. Firm size can affect conservatism directly because political visibility encourages cautious reporting, while firm size can also change the structure of governance required to monitor complex organizations. If board structure subsequently affects financial reporting, an indirect path arises from firm size to accounting conservatism through board size. Because the direction of the indirect effect depends on the estimated board-size coefficient, the mediation hypothesis is stated in non-directional form.

H4: Board of commissioners size mediates the relationship between firm size and accounting conservatism.

2 Method

2.1 Research Design, Population, and Sample

Table 1. Purposive Sampling Criteria

Criterion	Operational requirement
Listing status	The bank was listed on the IDX during the study period and had publicly available annual reports for the required observations.
Observation period	Annual-report and market data were available for 2020, 2021, 2022, 2023, and 2024.
Data completeness	Total assets, board of commissioners membership, year-end market value of equity, and book value of equity were available.
Size focus	The eligible banks were restricted to 15 large listed banks based on total assets in order to examine a segment with high economic and regulatory significance.
Final sample	15 banks × 5 years = 75 bank-year observations.

Note. The sample is intended to represent the large listed-bank segment rather than all Indonesian commercial banks. Any claim about percentage coverage of national banking assets should be supported by a stated reference year and an explicit calculation: Asset Coverage = Σ Sample Bank Assets / Total Industry Bank Assets × 100, using the relevant OJK industry denominator.

This study uses a quantitative explanatory design with secondary bank-year data. The population comprises commercial banks listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 observation period. Purposive sampling was used to focus on large listed banks for which the variables required for the mediation model were consistently observable. The final sample comprises 15 banks observed over five years, yielding 75 bank-year observations.

The study uses secondary data from annual reports and audited financial statements published through the IDX and/or the banks' official investor-relations channels. Market-price and shares-outstanding information is measured at fiscal year-end to align the market value of equity with the corresponding book value of equity. The 2020–2024 period also captures changes in the Indonesian commercial-bank governance framework, including the transition from POJK No. 55/POJK.03/2016 to POJK No. 17 of 2023 (Otoritas Jasa Keuangan, 2016, 2023).

2.2 Variable Measurement

Table 2. Operational Definition and Measurement of Variables

Variable	Symbol	Measurement	Interpretation
Firm Size	SIZE	Natural logarithm of total assets reported in the annual financial statements.	Higher values indicate a larger bank.
Board of Commissioners Size	BDSIZE	Total number of members serving on the Board of Commissioners in bank-year <i>i,t</i> .	A structural governance proxy; it measures board size, not overall governance quality.
Accounting Conservatism	CONS	Market-to-book ratio = Market value of equity / Book value of equity. Market value of equity = year-end share price × shares outstanding.	A higher ratio is interpreted as greater cumulative understatement of book net assets, while recognizing that the ratio also captures growth expectations.

$$SIZE_{it} = \ln(\text{Total Assets}_{it})$$

$$CONS_{it} = \text{Market Value of Equity}_{it} / \text{Book Value of Equity}_{it}$$

The board-size proxy is retained because this study specifically investigates the monitoring structure represented by the Board of Commissioners. This choice is consistent with governance research that treats board size as one observable governance mechanism (Andres & Vallelado, 2008). Accordingly, the study avoids equating a larger board with “better corporate governance.” Governance quality also depends on independence, expertise, committees, ownership structure, meeting effectiveness, and other characteristics that are not captured by headcount alone.

2.3 Analytical Procedure

The analysis proceeds in four stages. First, descriptive statistics are reported for all variables. Second, residual normality is assessed for each regression equation. Multicollinearity is assessed only for the second equation because it contains two predictors; tolerance and variance inflation factor (VIF) are interpreted using conventional thresholds. Tolerance and VIF are used specifically to diagnose multicollinearity; they are not heteroscedasticity tests. Third, two regression equations are estimated to obtain the path coefficients. Fourth, the indirect effect is evaluated using the Sobel statistic based on the unstandardized coefficients and their standard errors.

$$BDSIZE_{it} = \alpha_1 + a SIZE_{it} + \varepsilon_{1it}$$

$$CONS_{it} = \alpha_2 + c' SIZE_{it} + b BDSIZE_{it} + \varepsilon_{2it}$$

$$\text{Indirect effect} = a \times b$$

$$\text{Sobel } z = (a \times b) / \sqrt{(b^2 SE_a^2 + a^2 SE_b^2)}$$

Standardized beta coefficients are used in the path diagram because they place the paths on a comparable scale, whereas the Sobel test uses the unstandardized coefficients and their

standard errors. Statistical significance is evaluated at $\alpha = 0.05$. The analyses were conducted using SPSS 24. Because the observations are repeated bank-year observations, the estimated relationships should be interpreted as associative rather than causal; future work should validate the mediation using panel estimators or bank-clustered standard errors.

3 Results and Discussion

3.1 Results

3.1.1 Descriptive Statistics

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Firm Size (SIZE)	75	18.00	21.00	19.08	0.969
Board of Commissioners Size (BDSIZE)	75	2.00	6.00	3.65	0.846
Accounting Conservatism (CONS)	75	0.08	4.41	1.45	0.920

Firm size ranges from 18.00 to 21.00 with a mean of 19.08, while board size ranges from 2 to 6 commissioners with a mean of 3.65. The accounting-conservatism proxy has a mean market-to-book ratio of 1.45, although individual bank-years vary substantially from 0.08 to 4.41. A mean above one is consistent with book equity being lower than market equity on average, but this statistic should not be interpreted as evidence that all observations are conservative because the market-to-book ratio is also influenced by market expectations.

3.1.2 Diagnostic Tests

For Equation 1, the reported Kolmogorov–Smirnov significance value for the residuals is 0.081; for Equation 2, it is 0.200. Both exceed 0.05, so the normality null hypothesis is not rejected. In Equation 2, the correlation implied by the first standardized path coefficient (0.446) yields a tolerance of approximately 0.801 and a VIF of approximately 1.248 for the two predictors. These values are well within conventional limits, indicating no material multicollinearity problem. Tolerance and VIF diagnose multicollinearity rather than homoscedasticity. A separate residual-based heteroscedasticity diagnostic should be reported in replication or robustness analysis because it evaluates a different regression assumption.

3.1.3 Path Analysis

Table 4. Regression Results for Equation 1: Firm Size → Board Size

Predictor	B	Std. Error	Standardized β	t	p
Firm Size	0.390	0.091	0.446	4.260	<0.001

Note. Dependent variable: Board of Commissioners Size. $N = 75$. $R^2 \approx 0.199$; adjusted $R^2 \approx 0.188$; $F \approx 18.148$. For the one-predictor model, R^2 is consistent with the reported standardized path coefficient.

Firm size has a positive and statistically significant association with board size ($B = 0.390$; $\beta = 0.446$; $t = 4.260$; $p < 0.001$). Thus, H1 is supported. In standardized terms, a one-standard-deviation increase in firm size is associated with a 0.446-standard-deviation increase in board size.

Firm size is positively associated with accounting conservatism after controlling for board size ($B = 0.548$; $\beta = 0.578$; $t = 5.180$; $p < 0.001$), supporting H2. Board size, however, is negatively associated with accounting conservatism ($B = -0.406$; $\beta = -0.374$; $t = -3.348$; $p = 0.001$). Because H3 predicted a positive association, H3 is not supported in its hypothesized direction, even though the empirical coefficient is statistically significant.

Table 5. Regression Results for Equation 2: Predictors of Accounting Conservatism

Predictor	B	Std. Error	Standardized β	t	p
Firm Size	0.548	0.106	0.578	5.180	<0.001
Board of Commissioners Size	-0.406	0.121	-0.374	-3.348	0.001

Note. Dependent variable: Accounting Conservatism. $N = 75$. $R^2 \approx 0.281$; adjusted $R^2 \approx 0.261$; $F \approx 14.079$. The model explains approximately 28.1% of the variation in the accounting-conservatism proxy.

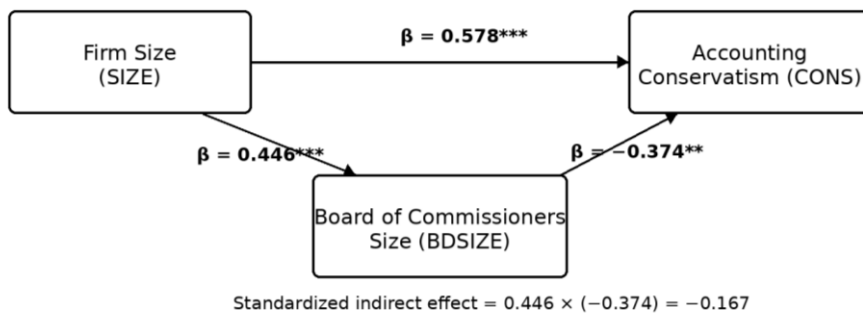


Fig 1. Standardized Path Coefficients

Note. *** $p < 0.001$; ** $p = 0.001$. The diagram uses standardized coefficients. The standardized indirect effect is -0.167 and the approximate total standardized association is 0.411 .

3.1.4 Mediation (Sobel) Test and Hypothesis Decisions

Table 6. Hypothesis Testing Summary

Hypothesis	Relationship	Expected	Empirical result	Decision
H1	SIZE $\rightarrow$ BDSIZE	Positive	$\beta = 0.446$; $p < 0.001$	Supported
H2	SIZE $\rightarrow$ CONS	Positive	$\beta = 0.578$; $p < 0.001$	Supported
H3	BDSIZE $\rightarrow$ CONS	Positive	$\beta = -0.374$; $p = 0.001$	Not supported (opposite sign)
H4	SIZE $\rightarrow$ BDSIZE $\rightarrow$ CONS	Mediation	$ab = -0.158$; $z = -2.642$; $p = 0.008$	Supported; negative/competitive mediation

The indirect effect is calculated using the unstandardized coefficients from Equation 1 and Equation 2: $a \times b = 0.390 \times (-0.406) = -0.158$. Using $SEa = 0.091$ and $SEb = 0.121$ produces a Sobel statistic of $z = -2.642$ with $p = 0.008$. The indirect effect is therefore statistically significant. Because the direct effect of firm size on conservatism is positive while the indirect effect through board size is negative, the pattern is best described as competitive (inconsistent) mediation. H4 is supported statistically, but the mediation does not reinforce the positive direct effect; it partially offsets it.

3.2 Discussion

3.2.1 *Firm Size and Board Structure*

The positive relationship between firm size and board size is consistent with agency theory. As banks expand, oversight becomes more demanding because managers coordinate larger asset portfolios, more complex products, wider networks, and more extensive risk-management obligations. A larger board can provide a broader pool of monitoring capacity and expertise, which is consistent with evidence linking governance structures to organizational complexity and agency-cost control (Garanina & Kaikova, 2016; Huu Nguyen et al., 2020; Li et al., 2021). The finding should nevertheless be interpreted as an association with board structure, not proof that governance quality improves simply because more commissioners are appointed.

3.2.2 *Firm Size and Accounting Conservatism*

The positive direct coefficient from firm size to accounting conservatism is consistent with the political cost hypothesis. Large banks are more visible, systemically important, and closely monitored than smaller banks. This visibility can increase the costs of aggressive reporting because overstatement may trigger regulatory, reputational, litigation, or stakeholder consequences. The result therefore supports the argument that larger banks have stronger incentives to avoid overly optimistic book values and reporting choices (Belz et al., 2019; LaFond & Watts, 2008; Watts & Zimmerman, 1990). It is also consistent with Indonesian studies that report a relationship between firm size and conservative accounting behavior (Affianti & Supriyati, 2017; Ibrahimy & Suryaputri, 2022; Solichah & Fachrurrozie, 2020).

The banking context is important to this interpretation. During 2020–2024, Indonesian commercial banks operated under a formal governance regime supervised by OJK, with POJK No. 17 of 2023 replacing POJK No. 55/POJK.03/2016 and strengthening the governance framework (Otoritas Jasa Keuangan, 2016, 2023). For large banks, conservative reporting may therefore reflect not only discretionary managerial preferences but also the broader environment of prudential regulation, external audit, risk governance, and supervisory scrutiny.

3.2.3 *Why Is Board Size Negatively Associated with Accounting Conservatism?*

The negative board-size coefficient is the most theoretically important result because it contradicts H3's simple monitoring prediction. This result should not be interpreted as evidence that the Board of Commissioners is merely a formality. The data only show that a larger number of commissioners is associated with a lower market-to-book conservatism proxy after controlling for firm size. Several mechanisms can explain this pattern without assuming ineffective governance.

First, board size measures quantity rather than governance quality. A larger board may provide more expertise, but it may also create communication costs, slower consensus, or diffusion of monitoring responsibility. Banking research has long emphasized that the effect of board structure is not necessarily monotonic and that the benefits of additional directors can be offset by coordination costs (Andres & Vallelado, 2008). Thus, the negative coefficient is compatible with an agency-theory trade-off rather than a rejection of governance as a monitoring mechanism.

Second, large Indonesian banks are subject to intensive external regulation and internal control requirements. When prudential supervision, audit committees, risk functions, external auditors, and regulatory reporting already constrain financial reporting, adding commissioners may have limited incremental influence on accounting conservatism. The relevant governance channel may instead be the independence, expertise, diligence, or committee role of commissioners—characteristics not captured by board headcount. Prior research likewise shows that specific board and audit attributes can have different associations with conservatism (Ahmed & Duellman, 2007; Mohammed et al., 2017; Nasr & Ntim, 2018; Sultana, 2015).

Third, the dependent variable is a market-to-book measure. Although a higher market-to-book ratio can reflect cumulative accounting understatement, it also embeds investor expectations about future profitability and growth. (McNichols et al., 2014) demonstrate that market-to-book contains both a conservatism component and a future-value component. The negative board-size coefficient may therefore partly reflect valuation effects that are not pure accounting conservatism. This measurement limitation makes a cautious interpretation essential and suggests that future research should replicate the analysis using accrual-based or asymmetric-timeliness conservatism measures.

3.2.4 Competitive Mediation and Theoretical Contribution

The mediation result refines the proposed theoretical argument. Firm size has a strong positive direct association with accounting conservatism, but firm size is also associated with a larger board, and larger board size is negatively associated with the conservatism proxy. Consequently, the indirect effect is negative. The board-size channel therefore offsets part of the positive political-cost channel rather than transmitting it in the same direction. This competitive mediation explains why the study should not conclude simply that “good governance causes larger banks to be more conservative.” Instead, the evidence indicates two simultaneous mechanisms: political visibility is associated with greater conservatism, while structural board expansion is associated with lower measured conservatism after size is controlled.

This distinction strengthens the contribution to agency theory. Agency theory does not require that every increase in a governance mechanism improve every reporting outcome; governance arrangements can involve monitoring benefits and coordination costs. The results therefore suggest that the relevant question for large banks is not how many commissioners they have, but whether the board’s composition, independence, expertise, committees, and work processes make monitoring effective. For the political cost hypothesis, the positive direct effect remains consistent with the prediction that larger and more visible institutions adopt more cautious reporting outcomes.

4 Conclusion

This study investigates the relationship between firm size and accounting conservatism and the mediating role of board of commissioners size in 15 large Indonesian listed banks during 2020–2024. Firm size is positively associated with board size and accounting conservatism. Board size is significantly but negatively associated with accounting conservatism. The Sobel test confirms a significant negative indirect effect, indicating competitive mediation: larger banks exhibit greater conservatism directly, while the board-size pathway partially offsets that positive relationship.

The findings support the political cost hypothesis for the direct firm-size effect and provide a more nuanced implication for agency theory. A larger Board of Commissioners

should not automatically be interpreted as better corporate governance. Board headcount captures a structural characteristic, whereas governance effectiveness depends on independence, expertise, diligence, committee design, and the interaction between internal monitoring and external regulation. Accordingly, the negative board-size coefficient is more appropriately interpreted as evidence that governance structure and governance quality are distinct concepts, especially in a highly regulated banking environment.

The study has several limitations. The governance proxy is restricted to board size; the market-to-book ratio can capture growth expectations in addition to unconditional conservatism; and the analysis pools repeated bank-year observations without explicitly modelling bank and year effects. Future studies should construct a multidimensional governance index, use alternative conservatism measures, and apply panel mediation models with bank- and year-specific controls or clustered standard errors. These extensions would help determine whether the competitive mediation documented here reflects board structure, regulatory context, market valuation, or a combination of these mechanisms.

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