

The Influence of Managerial Ability, CFO Tenure, and Executive Compensation on Accounting Conservatism

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ABSTRACT

This study aims to analyze the effect of managerial ability, Chief Financial Officer (CFO) tenure, and executive compensation on accounting conservatism. Accounting conservatism is considered one of the key principles in financial reporting, serving to enhance prudence and reduce managerial bias in the presentation of financial statements. Executive-related characteristics are believed to influence the application of conservatism, therefore this research focuses on managerial ability, tenure experience, and executive compensation. The research method employed is a quantitative approach using regression analysis. The data were processed with the assistance of SPSS software through classical assumption tests, descriptive analysis, and regression testing. The findings reveal that managerial ability has a positive and significant effect on accounting conservatism, while CFO tenure has a negative and insignificant effect. Meanwhile, executive compensation has a negative but significant effect on accounting conservatism. Thus, the results highlight that managerial ability is the most consistent factor in driving the implementation of accounting conservatism compared to tenure or executive compensation.

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1. Introduction

Accounting conservatism is a prudence principle in financial reporting, where losses and liabilities are recognized more promptly, while assets and revenues are only acknowledged when they are fully realized (Watts, 2003). This practice is important to maintain the quality of financial reports and prevent them from misleading users, although in IFRS the concept of conservatism has been replaced by the principle of prudence (Harnaen et al., 2021). In Indonesia, the application of accounting conservatism still faces challenges. Several cases of financial statement manipulation in manufacturing companies, such as PT Tiga Pilar Sejahtera Food Tbk, PT Kimia Farma, PT Indofarma, and PT Garuda Indonesia, have revealed practices of overstating profits and assets, which contradict the principles of conservatism (Sandria, 2021). This underscores that conservatism plays an important role as a control and protection mechanism against potential financial reporting irregularities. Previous studies have shown that the application of conservatism is influenced by top management characteristics, such as managerial ability, CFO tenure, and executive compensation. However, empirical findings remain inconsistent, with some studies reporting a positive relationship, while others indicate a negative effect (Haider et al., 2021; Salehi et al., 2020; J. S. Zhang & Tan, 2019). This inconsistency indicates a research gap that needs to be further explored regarding the role of managerial factors in determining the level of accounting conservatism in firms. Thus, research on accounting conservatism remains highly relevant, particularly in the Indonesian context. A more in-depth examination of the influence of internal company factors on conservatism is expected to contribute to the development of theory and provide practical implications for managers, investors, and regulators in improving the quality and transparency of financial reporting.

2. Literature Review

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the contractual relationship between the principal (owners or shareholders) and the agent (company management or executives). In this relationship, conflicts of interest arise because agents possess more information (information asymmetry) and have personal interests that do not always align with those of the principal. As a result, agents tend to make decisions that benefit themselves, including in the selection of accounting policies.

The principal, as the shareholder, assigns the manager the obligation to provide reports regarding the condition of the company. These reports may include accounting information such as financial statements. If the agent's performance, as reflected in the financial statements, is not satisfactory, the principal may take actions in accordance with the contractual agreement. This conflict arises due to information asymmetry. The conflict occurs because the explanations obtained are incomplete, or because one party possesses certain information while the other does not. For example, managers have more knowledge than shareholders because they are directly involved in the company's operations. As a result, shareholders are affected by having limited information, which makes it difficult for them to monitor or control the company.

In the context of this study, accounting conservatism is viewed as a mechanism that can reduce agency conflicts. By applying the principle of conservatism namely recognizing losses more quickly and recognizing gains more cautiously management demonstrates its commitment to transparency and to protecting the interests of the company's owners,

thereby reducing opportunities for financial information manipulation. Managerial ability is closely related to this theory, as highly capable managers generally have a better understanding of the importance of maintaining the trust of investors and creditors. From an agency theory perspective, competent managers are better able to manage conflicts of interest and are more likely to choose conservative policies as a form of professional and reputational responsibility.

The tenure of the CFO is also relevant within the framework of agency theory. A long-tenured CFO has extensive access to internal information and influence over the financial reporting process. Within the agency framework, this can have dual implications: on one hand, an experienced CFO may choose more conservative reporting to reduce the risk of conflict with the principal. On the other hand, long tenure may lead to entrenchment, a situation in which the CFO feels secure in their position and begins to neglect prudence, thereby increasing the risk of opportunistic behavior.

Meanwhile, litigation risk acts as an external pressure that strengthens the influence of conservatism within the agency theory framework. The presence of legal threats or lawsuits from investors due to misleading financial statements encourages agents (management) to be more cautious and accountable, leading them to adopt conservative reporting policies to minimize legal consequences and negative reputational impacts.

Thus, agency theory provides a strong explanation of the dynamics of the relationship between management and company owners, and how various factors, such as managerial ability, executive tenure, and compensation incentives, may influence the level of conservatism in financial reporting. Accounting conservatism, from the perspective of this theory, functions as a control mechanism to reduce the risk of conflict and protect the principal's interests, especially in environments that involve litigation risks or the potential for information manipulation.

Signaling Theory

Signaling Theory was first introduced by Spence (1973), explaining that when there is information asymmetry between the internal parties of a company (management) and external parties (investors, creditors, or shareholders), internal parties will send certain signals to communicate the company's actual condition. These signals must be credible and difficult to imitate by parties who do not possess similar quality. In the corporate context, various managerial actions such as financial policies, accounting reporting practices, and executive compensation design can function as signals for external parties to assess the company's performance, integrity, and prospects. Signaling theory is based on the premise that managers possess information about the company and attempt to convey this information to the public so that the company's stock price increases. The term "signal" in signaling theory refers to managerial actions that provide cues to investors regarding how management views the company's prospects (Manalu & Fiana, 2023).

Executive compensation is one mechanism that can be explained through signaling theory. The level and structure of compensation granted to executives reflects how the company values managerial ability in managing resources and achieving sustainable performance. High compensation that is based on long-term performance (such as stock incentives or results-based bonuses) can serve as a positive signal that the company has strong governance and is oriented toward sustainable performance rather than merely short-term profit

achievement. This signal is expected to enhance investor confidence in the credibility of financial reporting.

In relation to accounting conservatism, signaling theory explains that management wishing to demonstrate a commitment to transparency and prudence will tend to adopt more conservative reporting practices. Accounting conservatism, characterized by recognizing losses more quickly than gains, serves as a signal of managerial integrity and caution in dealing with economic uncertainty. Thus, executive compensation designed to encourage long-term orientation can strengthen the application of accounting conservatism as a credible signal to the market. In the context of manufacturing companies in Indonesia during the 2020–2024 period, this relationship becomes relevant given the post-pandemic economic dynamics and the increasing attention to governance practices and financial reporting transparency in the capital market.

Accounting Conservatism

Accounting conservatism is a principle in accounting that emphasizes the recognition of losses more quickly than gains in financial statements. This means accountants are required to act cautiously in the face of uncertainty, recognizing revenue or assets only when they are truly realized, while acknowledging expenses or liabilities even when they are still estimated (Basu, 1997). Watts (2003) defines conservatism as a prudence principle in financial reporting, wherein companies avoid hastiness in recognizing and measuring assets and earnings, while recognizing losses and liabilities that may occur. Applying this principle leads to the selection of accounting methods that report lower earnings or assets and higher liabilities. Conservatism is associated with understated financial statements, which carry less risk than overstated ones, thereby making the resulting reports more reliable. The aim of accounting conservatism is to protect external parties, such as investors and creditors, from the risks of overly optimistic reporting. Through this approach, financial statements become more dependable in situations of economic uncertainty (Watts, 2003). Furthermore, Watts (2003) states that accounting conservatism has several important functions: reducing information asymmetry between management and owners, limiting managerial opportunism, enhancing contract efficiency particularly in debt agreements and executive compensation and reducing the potential for litigation caused by overly optimistic earnings reporting.

Astria (2011) notes that conservatism is defined as a prudent reaction to uncertainty, intended to protect the rights and interests of shareholders and debtholders. Meanwhile, Basu (1997) defines conservatism as the practice of reducing earnings (decreasing net assets) in response to bad news but not increasing earnings in response to good news. The purpose of using the conservatism concept is to neutralize excessive optimism from entrepreneurs in reporting their performance. However, applying this concept may result in fluctuating earnings, which can reduce the ability of earnings to predict future cash flows (Sari & Adhariani, 2009). Under the conservatism principle, when two or more accounting alternatives equally meet the objectivity of financial reporting, the chosen alternative is the one with the least favorable impact on shareholders' equity. Thus, this concept acknowledges costs and losses more quickly, recognizes revenue and gains more slowly, values assets at the lowest possible amount, and liabilities at the highest. Expenses must be recognized sooner than revenues, resulting in lower net income. Consequently, conservatism

leads to pessimistic financial reporting, which reduces users' optimism. According to Martani and Dini (2010), such pessimism is necessary to neutralize managerial optimism. However, excessive conservatism may trigger understated earnings, which can negatively affect investor valuation. Therefore, its application must be proportional and based on professional judgment by competent managers (Ahmed & Duellman, 2013). This study measures accounting conservatism using the Basu (1997) model, one of the most widely used and commonly adopted approaches in accounting research. This model offers several advantages that make it a preferred method for measuring the extent to which companies apply conservatism principles in their financial reporting.

Litigation Risk

Litigation risk refers to the possibility that a company or its managers may face legal claims, particularly those related to misleading or manipulative financial reporting. In the context of accounting, this risk often arises when financial statements are perceived as not reflecting the company's actual economic condition, thereby harming investors, creditors, or other stakeholders (Field et al., 2005). Litigation against a company may stem from contract violations, inadequate disclosure, or accounting errors and can result in financial losses as well as damage to the company's reputation. This litigation risk is closely related to the position of investors and creditors as external parties who are legally protected. The potential risk associated with litigation arises when the company fails to fulfill the interests of these creditors and investors. In seeking to protect their rights, investors may pursue legal claims and initiate litigation against the company (Fernando et al., 2023).

Litigation risk is understood as a form of business risk associated with legal matters. Companies generally avoid litigation because legal issues not only harm firm value but also increase costs related to resolving such issues (Sinambela & Almilia, 2018). Litigation risk is considered an external factor that may cause company managers to adopt more conservative financial reporting. This occurs because when the threat of litigation is relatively high, managers are more inclined to apply higher levels of accounting conservatism (Fernando et al., 2023). This has been proven in research by Mustikasari et al. (2020), which shows that litigation risk affects accounting conservatism. The findings indicate that companies facing high litigation risk tend to adopt more cautious accounting policies to avoid potential legal claims.

Litigation risk is an important issue in financial accounting because it is directly related to the company's legal responsibilities and reputation regarding the information disclosed in financial reports. In an increasingly transparent business environment under heightened public scrutiny, companies face pressure to present information that is not only technically accurate but also not misleading. Inaccuracies or manipulation in financial reporting may trigger legal actions from shareholders, investors, or regulatory authorities, thereby increasing financial burdens and damaging the company's public image.

Managerial Ability

Managerial ability refers to a manager's capacity to efficiently manage a company's resources in order to generate optimal output or performance. This ability encompasses strategic, operational, analytical, and leadership aspects in making economic and financial decisions (Demerjian et al., 2013). In accounting literature, managerial ability is often measured using efficiency-based approaches such as Data Envelopment Analysis (DEA),

which compares actual output to the expected output from a given combination of inputs (Demerjian et al., 2013). Research by Haider et al. (2021) found that managers with high managerial ability tend to apply less accounting conservatism. This occurs because they have greater confidence in estimating and managing risks and possess reputational incentives not to delay profit recognition. Conversely, managers with low ability are more likely to adopt cautious and conservative financial reporting as a form of protection against personal and reputational risk.

According to Chen and Lin (2021), managerial ability is a key component of dynamic capabilities theory, which enables managers to identify opportunities, allocate resources, and implement strategies effectively amid market competition. Executives with high managerial ability are capable of achieving cost efficiency, improved profit margins, and better returns on assets (ROA). Managerial ability also contributes to improved risk management, including in the face of economic uncertainty and financial crises. Findings by Kumar and Zbib (2022) show that executive managerial ability has a positive and significant relationship with cumulative market returns and abnormal stock returns. Additionally, companies led by individuals with high managerial ability tend to be more resilient under pressure and record better return on equity (ROE) compared with other firms. Specifically, highly capable executives also tend to maintain stronger liquidity levels before the COVID-19 pandemic, which further supported superior company performance during the crisis.

CFO Tenure

CFO tenure refers to the length of time an individual has served as Chief Financial Officer (CFO) in a company. This tenure is considered an important indicator for understanding the stability of financial leadership and its influence on company policies and performance (Yu, 2021). In general, CFOs with longer tenures typically possess broader work experience and higher professional competence. Additionally, CFOs with longer tenure tend to have a deeper understanding of the company's financial conditions. As a result, the process of communicating company information to stakeholders is carried out more accurately and promptly, supported by a high level of accounting prudence (Yu, 2021).

According to Gounopoulos et al. (2024), the age and tenure of a CFO play an important role in shaping career concerns. Younger or newly appointed CFOs have longer career horizons, making them more cautious when making risky decisions because their reputation and future income are more vulnerable to the consequences of mistakes. Conversely, senior CFOs or those with long tenure may face lower reputational pressure as they approach the end of their careers. Therefore, age and tenure need to be considered separately, as each reflects different aspects of a CFO's motivations and professional considerations.

Research by Liu et al. (2022) found that CFOs with longer tenure tend to reduce classification shifting, a form of earnings management that reallocates revenue items to inflate operating income. However, such practices are more common at the beginning and end of a CFO's tenure, indicating that tenure influences financial reporting behavior. Furthermore, a study by Hu et al. (2024) shows that CFOs who are older, have longer tenure, and possess higher education levels tend to encourage companies to adopt more aggressive working capital management policies.

Executive Compensation

Executive compensation refers to the remuneration provided to corporate executives, which includes financial rewards such as salaries, bonuses, allowances, and various benefits offered by the company to enhance managerial performance (Wijayanti et al., 2025). This compensation functions as a mechanism to address agency problems by aligning the objectives of management with those of shareholders (Nurmaya et al., 2025). 2025). As a key element of corporate governance, executive compensation reflects the incentives granted to top management to ensure that their decisions and actions are consistent with shareholder interests. The compensation structure typically consists of base salary, annual bonuses, and long term incentives such as stock options and equity awards. One widely adopted approach in designing compensation systems is to link managerial share ownership and performance based bonuses as incentives aimed at improving managerial effectiveness (Bhuyan et al., 2022).

A primary method for monitoring the actions of corporate executives is to align their incentives with shareholder value through the use of compensation contracts that include stock option schemes. Such contracts are intended to motivate executives to exert greater effort while limiting opportunistic behavior. The structure of compensation influences the extent to which executives are encouraged to undertake riskier investment decisions and pursue long term gains that correspond with shareholder interests (Moardi et al., 2020).

The relationship between accounting conservatism and executive compensation incentives can be understood through at least two perspectives. First, conservatism protects shareholders from granting excessive compensation to executives because it enhances the verifiability of reported financial information (Watts 2003). Second, because accounting conservatism reduces managerial risk taking, compensation incentives tied to conservatively reported earnings are more likely to encourage executives to make sound business decisions (X. Zhang et al., 2019).

Additionally, Nurmaya (2025) explains that executive compensation is a reward granted to executives for contributing to improvements in corporate performance. Executives hold the authority to formulate corporate policies, which may enhance firm performance and influence the level of compensation they receive. However, executives may also act opportunistically by adopting policies that serve their personal interests in order to secure higher compensation. Higher levels of executive compensation may increase the likelihood of earnings management, implying that greater compensation is often accompanied by greater opportunities for manipulating reported earnings.

3. Methodology

This study is classified as explanatory research, aiming to explain the causal relationship between managerial ability, CFO tenure, and executive compensation on accounting conservatism. The research population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The selected period considers the impact of the COVID-19 pandemic, global economic uncertainty, and geopolitical dynamics that affect the manufacturing industry and the practice of accounting conservatism. The sample was determined using purposive sampling with the following criteria: (1) manufacturing companies consistently listed on the IDX during 2020–2024; (2) publishing complete annual financial statements; (3) providing data for all research variables, and (4) not experiencing delisting or permanent suspension.

The study employed secondary data obtained from annual reports, financial statements, and sustainability reports available on the IDX website and the companies' official websites. The research variables consist of independent variables (managerial ability, CFO tenure, executive compensation) and the dependent variable (accounting conservatism). Accounting conservatism was measured using the Basu (1997) model, which evaluates the tendency of accounting to recognize losses more quickly than gains through the relationship between earnings and stock returns.

Data analysis was conducted in several stages, beginning with descriptive analysis to provide an overview of data characteristics. Classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were then carried out to ensure the feasibility of the regression model. Hypothesis testing was performed using Moderated Regression Analysis (MRA).

4. Result

Table 1. Descriptive Statistics of the Data

Variable	N	Minimum	Maximum	Mean	Std. Deviation
X1 (Managerial Ability)	155	-0.26	0.23	0.0250	0.06819
X2 (CFO Tenure)	155	0.00	3.83	1.7607	0.91821
X3 (Executive Compensation)	155	368000000.00	202734000000.00	28506256560.0000	41988128040.00000
Y (Accounting Conservatism)	155	-0.37	0.39	0.0081	0.08933

This study utilized 155 firm-year observations from 31 manufacturing companies listed on the Indonesia Stock Exchange (IDX) over a five-year period. Table 1 shows the descriptive statistics of the variables used. The average managerial ability (X1) was 0.025 with a standard deviation of 0.068, ranging from -0.26 to 0.23. The average CFO tenure (X2) was 1.76 years with a standard deviation of 0.92, the shortest tenure being 0.00 years and the longest 3.83 years. Executive compensation (X3) had an average of IDR 28,506,256,560 with a relatively high deviation (IDR 41,988,128,040), ranging between IDR 368,000,000 and IDR 202,734,000,000. Accounting conservatism (Y) had an average of 0.008 with a standard deviation of 0.089, with the lowest value -0.37 and the highest 0.39.

To ensure the validity of regression analysis, the normality assumption was tested. A regression model can be considered to meet the normality assumption if the residuals (e_i) are normally distributed. The hypotheses for this test are:

H_0 : Residuals are normally distributed

H_1 : Residuals are not normally distributed

To test this assumption, a histogram, a Normal P-P plot, and the One-Sample Kolmogorov-Smirnov Test can be used as follows:

Figure 1. Histogram and normal P-P plot

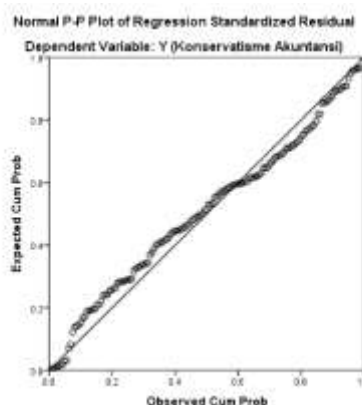
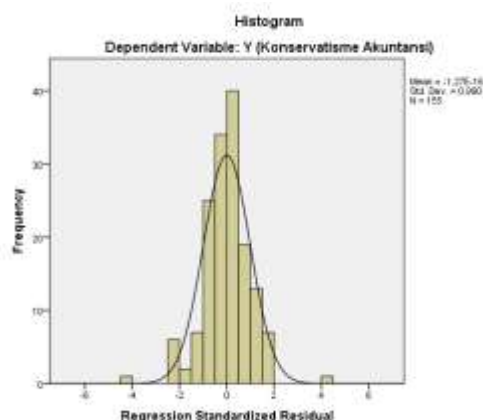


Table 2. One Sample Kolmogorov-Smirnov Test

Residual	Significance
Model 1	0.061

Based on the histogram, the bar diagram follows the normal curve, and from the P-P plot, the observed data points are located around the diagonal line. Furthermore, the One-Sample Kolmogorov-Smirnov Test shows a significance value of 0.061, which is greater than α (0.05). Based on these three tests, the decision is to accept H_0 , meaning that the residuals are normally distributed (assumption fulfilled).

The multicollinearity test is conducted to examine whether there is a correlation among the independent variables in the regression model. A good regression model should not contain multicollinearity. One method used to detect multicollinearity is the Variance Inflation Factor (VIF). If the VIF value is greater than 10, it indicates the presence of multicollinearity. Conversely, if the VIF value is less than 10, it indicates the absence of multicollinearity.

Table 3. Multicollinearity Test with VIF

Variable	Tolerance	VIF
X1 (Managerial Ability)	0.985	1.015
X2 (CFO Tenure)	0.968	1.033
X3 (Executive Compensation)	0.980	1.021

Based on the table above, it can be concluded that the VIF values of each independent variable are less than 10, with tolerance values greater than 0.1. This indicates that there is no strong correlation among the independent variables, or in other words, no multicollinearity exists (assumption fulfilled).

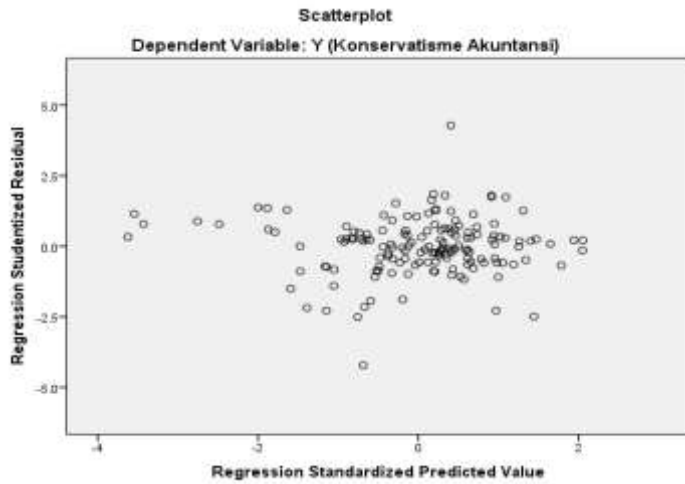
This test aims to examine whether the regression model has a relatively constant variance of residuals or not. A good regression model is one with homogeneous residual variance. The hypotheses are as follows:

H_0 = residual variance is homogeneous

H_1 = residual variance is not homogeneous

One way to test for homoscedasticity is by examining the scatterplot between the predicted values of the dependent variable (ZPRED) and the residuals (SRESID). If the points form a certain regular pattern (such as wavy, widening, then narrowing), it indicates the presence of heteroscedasticity (assumption not fulfilled). However, if no clear pattern is observed and the points are randomly scattered above and below zero on the Y-axis, it suggests that heteroscedasticity does not occur (assumption fulfilled).

Figure 2. Heteroscedasticity with scatterplot



Based on the results of the scatterplot, the points are randomly dispersed (without a clear pattern) both above and below zero on the Y-axis, indicating that the assumption of homoscedasticity is fulfilled (residual variance is homogeneous).

To test for the presence of autocorrelation, the Durbin-Watson statistic is used. This test is conducted by comparing the calculated Durbin-Watson value with the Durbin-Watson table values (d_L and d_U). The hypotheses of the test are as follows:

H_0 : No autocorrelation exists among residuals.

H_1 : Autocorrelation exists among residuals.

Decision-making using the Durbin-Watson test can be carried out by first obtaining the values of d_L and d_U from the Durbin-Watson table for $k = 3$ and $n = 155$. Subsequently, the decision regions are determined as follows:

Table 4. Autocorrelation Test with Durbin Watson

d_L	d_U	DW	$4-d_U$	$4-d_L$
1.698	1.777	2.203	2.223	2.302

Based on the Durbin-Watson statistic, since the value lies between d_U and $4 - d_U$, it can be concluded that there is no autocorrelation among the residuals (assumption fulfilled).

After all the classical regression assumptions were satisfied, the analysis was continued to examine the effect of the independent variables on the dependent variable using multiple linear regression.

Subsequently, regression analysis was carried out to determine the effect of the independent variables (X_1 : Managerial Ability, X_2 : CFO Tenure, and X_3 : Executive Compensation) on the dependent variable Y (Accounting Conservatism).

In processing the data using multiple linear regression analysis, several steps were conducted to assess the relationship between the independent and dependent variables. Based on the results of data processing with SPSS software, the summary is presented as follows:

Table 5. Summary of Multiple Linear Regression Test

Variable	B	t statistic	P-value t	Description
Constant	0.032			
X_1 (Managerial Ability)	0.267	2.577	0.011	Significant
X_2 (CFO Tenure)	-0.012	-1.509	0.133	Not significant
X_3 (Executive Compensation)	-3.380×10^{-13}	-2.002	0.047	Significant

A	= 0.050
Coefficient of Determination (R ²)	= 0.069
F-statistic	= 3.707
F-table (F _{3,155,0.05})	= 2.663
P-value F	= 0.013
t-table (t _{155,0.05})	= 1.975

Based on the analysis results, the regression model obtained is as follows:

$$Y = 0.032 + 0.267 X_1 - 0.012 X_2 - 3.38 \times 10^{-13} X_3 + ei \quad (1)$$

The partial regression model test is used to determine whether each independent variable in the regression model individually has a significant effect on the dependent variable. The hypotheses are as follows:

H₀: There is no significant effect of each independent variable on the dependent variable;

H₁: There is a significant effect of each independent variable on the dependent variable.

Decision rules:

Reject H₀ if |t calculated| > t table, or p-value < α

Accept H₀ if |t calculated| < t table, or p-value > α

Based on Table 5, the results are as follows:

The obtained constant of 0.032 indicates that before considering the effect of the independent variables, there is an initial increase in the dependent variable Y (Accounting Conservatism) of 0.032 points.

Variable X₁ (Managerial Ability) has a positive and significant effect on variable Y (Accounting Conservatism). This can be seen from the t-test statistic where |t calculated| is greater than t table (2.577 > 1.975) and the p-value t is smaller than α (0.011 < 0.050). This leads to the decision to reject H₀. The coefficient obtained is 0.267, meaning that an increase of 1 point in managerial ability increases accounting conservatism by 0.267 points significantly.

Variable X₂ (CFO Tenure) has a negative and insignificant effect on variable Y (Accounting Conservatism). This can be seen from the t-test statistic where |t calculated| is smaller than t table (1.509 < 1.975) and the p-value t is greater than α (0.133 > 0.050). This leads to the decision to accept H₀. The coefficient obtained is -0.012, meaning that an increase of 1 point in CFO tenure decreases accounting conservatism by 0.012 points, but not significantly.

Variable X₃ (Executive Compensation) has a negative and significant effect on variable Y (Accounting Conservatism). This can be seen from the t-test statistic where |t calculated| is greater than t table (2.002 > 1.975) and the p-value t is smaller than α (0.047 < 0.050). This leads to the decision to reject H₀. The coefficient obtained is -3.38×10⁻¹³, meaning that an increase of 1 point in executive compensation decreases accounting conservatism by 0.00000000000003 points significantly.

The simultaneous test is conducted to determine whether all variables used in the regression model collectively have a significant effect on variable Y (Accounting Conservatism). The hypotheses are as follows:

H₀: The independent variables collectively have no significant effect on the dependent variable.

H₁: The independent variables collectively have a significant effect on the dependent variable.

Decision rules:

Reject H_0 if $F_{\text{calculated}} > F_{\text{table}}$, or $p\text{-value} < \alpha$

Accept H_0 if $F_{\text{calculated}} < F_{\text{table}}$, or $p\text{-value} > \alpha$

Based on Table 5, the value of $F_{\text{calculated}}$ is greater than F_{table} ($3.707 > 2.663$) and has a p -value smaller than α ($0.013 < 0.050$), so H_0 is rejected. This means that simultaneously, the independent variables X_1 (Managerial Ability), X_2 (CFO Tenure), and X_3 (Executive Compensation) significantly affect the dependent variable Y (Accounting Conservatism).

The magnitude of the contribution of the independent variables simultaneously to the dependent variable, based on the calculation results in Table 5, shows a coefficient of determination (R Square) of 0.069. This result indicates that the contribution of the independent variables (X_1 , X_2 , and X_3) included in the regression equation to variable Y (Accounting Conservatism) is 6.9%, while the remaining 93.1% is explained by other independent variables not included in this model.

The author needs to report the results in sufficient detail so that the reader can see which statistical analysis was conducted and why, and later to justify their conclusions.

The "Discussion and Analysis" part, highlights the rationale behind the result answering the question "why the result is so?" It shows the theories and the evidence from the results. The part does not just explain the figures but also deals with this deep analysis to cope with the gap that it is trying to solve.

5. Discussion

Managerial ability refers to the effectiveness of managers in utilizing company resources to enhance firm value. Competent managers are expected to make more strategic decisions, including adopting more conservative accounting policies. According to Baik et al. (2011), highly capable managers can predict future performance changes more efficiently. Such managers are more inclined to apply accounting conservatism to strengthen their reputation through prudent reporting practices and to avoid the negative image that may arise from concealing poor future performance. Managerial ability thus reflects the competencies and skills of managers in efficiently managing corporate resources to improve performance and firm value (Demerjian et al., 2013). Managers with high capability tend to be more careful in handling accounting information and in selecting policies that enhance market trust.

Previous studies indicate that high-ability managers can deliver superior corporate performance (Cheung et al., 2017; Demerjian et al., 2013), possess strong negotiation skills, and demonstrate deep industry expertise (Custodio & Metzger, 2013; Demerjian et al., 2013). Haider et al. (2021) provide empirical evidence that managerial ability is positively associated with accounting conservatism. Competent managers are more likely to adopt conservative reporting practices to maintain reputation and stakeholder trust. This is further supported by García and García (2018) who found a positive effect of managerial ability on financial reporting quality as part of accounting conservatism.

This study's findings are also consistent with Zhang and Tan (2019) who show that CFOs with excessively long tenure may pursue more aggressive accounting policies, thereby reducing conservatism. Similarly, Hu et al. (2024) reveal that CFOs who are older, have longer tenure, and higher education levels tend to drive firms toward more aggressive working capital management policies.

Regarding executive compensation, Kothari et al. (2009) argue that executives such as CEOs and CFOs who receive profit-based bonuses or stock options are more likely to delay the

recognition of losses in order to preserve the company's performance image. This behavior contradicts the principle of accounting conservatism, which requires timely recognition of losses. Such compensation schemes motivate managers to avoid prudent reporting and instead present overly optimistic, even manipulative, financial statements. Srichoke et al. (2021), further support this view, finding that executives with higher bonus intensity tend to reduce accounting conservatism due to the pressure to report better short-term performance in order to secure higher compensation.

In addition, Nurmaya (2025) states that executive compensation is a reward given to executives for improving company performance. Since executives hold the authority to establish corporate policies, these policies can enhance firm performance and, at the same time, influence the compensation they receive. However, executives may act opportunistically by designing policies that serve personal interests, ultimately leading to higher compensation. Compensation levels may also affect earnings management, meaning that higher compensation often comes with an increased likelihood of earnings manipulation.

6. Conclusion and Suggestion

Based on the analysis, it can be concluded that managerial ability has a positive and significant effect on accounting conservatism, indicating that the higher the managerial ability, the greater the application of conservatism in financial reporting. In contrast, CFO tenure does not affect accounting conservatism, suggesting that the length of service of a CFO is not a determining factor in a company's conservative practices. Furthermore, executive compensation has a negative and significant effect on accounting conservatism, implying that the higher the compensation received by executives, the lower the level of conservatism applied. Therefore, the findings highlight that individual factors, particularly managerial ability, play a more dominant role in encouraging the implementation of accounting conservatism compared to tenure and compensation-based incentives.

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