

GOOD CORPORATE GOVERNANCE AND ACCOUNTING CONSERVATISM: MODERATING ROLE OF LEVERAGE IN INDONESIAN MANUFACTURING FIRMS

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Abstract

This study examines whether Good Corporate Governance (GCG) affects accounting conservatism among Indonesian listed manufacturing firms, and whether leverage moderates that relationship. The 2020–2024 period was chosen because it opens with the onset of COVID-19, a shock likely to have unsettled conservatism practices, and offers the most recent data available at the time of the study. A purposive sample of 62 firms with complete GCG, conservatism, and leverage data across 2020–2024 yielded 309 firm-year observations, compiled from annual reports and the Bloomberg Governance Disclosure Score. Data were analyzed using Fixed Effect Model panel regression under both a direct-effect and a moderated specification. Neither GCG nor its interaction with leverage shows a statistically significant effect on accounting conservatism, while profitability (ROA) and firm size both show significant effects, indicating that firm fundamentals, not governance disclosure or debt-related monitoring, drive conservatism in this sample. For the financial accounting literature, this suggests that GCG scores built on disclosure completeness do not necessarily proxy for the enforcement strength agency theory assumes drives conservative reporting, and that creditor monitoring and board-level oversight operate as separate, non-reinforcing channels rather than the complementary mechanism assumed when leverage is modeled as a governance moderator. The findings extend governance-conservatism research to a concentrated-ownership, civil law developing market, indicating that formal governance-disclosure metrics may not yet capture the institutional enforcement such settings require.

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INTRODUCTION

Financial statements that paint an inaccurate picture of a firm's condition gradually undermine the confidence shareholders and other stakeholders place in reported numbers, which is a large part of why conservatism has become such a central principle in financial reporting (Sun, 2023). Conservative reporting is widely treated as one of the defining markers of accounting quality (Dakhli, 2025), and recent evidence continues to tie it directly to the reliability of the earnings figures markets rely on (Zadeh et al., 2022). The idea itself is fairly simple: losses are recognized as soon as they become probable, while gains are only booked once they are reasonably certain (Aburishah et al., 2022). Framed this way, conservatism functions as a check on managers' and owners' incentive to overstate firm performance and inflate the picture

of financial health presented to outsiders (Yousfi et al., 2025). Nevertheless, prudence taken too far is not without its own cost: excessive conservatism can distort period profit figures just as much as aggressive reporting does, leaving the resulting statements still short of representing the firm's actual economic position (Rahmi & Baroroh, 2022).

The mechanism behind this concern is best understood through agency theory. In Jensen & Meckling (1976) original formulation, the firm is a bundle of contracts linking a principal who owns the business to an agent tasked with running it on the owner's behalf. Because decision-making authority sits with the agent rather than the owner, this arrangement creates information asymmetry that leaves room for management to pursue ends that do not necessarily match what shareholders would prefer (Tuán, 2021), surfacing in financial reporting as an inflated picture of profit or assets designed to make performance look better than it actually is (Nguyen et al., 2023). How unevenly conservatism is actually applied in Indonesia when this incentive goes unchecked is well captured by the Garuda Indonesia episode. Although the airline's 2018 financial statements were not disclosed until 2019, they booked revenue tied to an arrangement with a technology-services partner, PT Mahata Aero Teknologi, before the corresponding cash had actually come in, so the amount sat on the books as a receivable rather than income actually received, a move that turned what should have been a loss into a reported profit. Regulators subsequently sanctioned Garuda and ordered the statements restated, an outcome that speaks directly to management's willingness to inflate reported earnings beyond what the underlying numbers could support (Aviantara, 2023). This is not an isolated, firm-specific episode: applying the Beneish M-Score model to test for indications of manipulation across the manufacturing sector as a whole, Raharja & Pamungkas (2025) estimate that roughly 31% of Indonesian manufacturing firms display such indications, aggregate, sector-wide evidence that agency conflict of the kind agency theory predicts remains a live and widespread problem, not a historical footnote.

Corporate governance is often positioned in the literature as the structural safeguard against this kind of behavior, tightening supervisory mechanisms and constraining the latitude managers would otherwise have to produce financial statements that understate risk (Hajawiyah et al., 2020). Good Corporate Governance operates as an internal control system built to safeguard transparency, accountability, and integrity throughout the financial reporting process (Nguyen et al., 2023). where governance structures are properly enforced, the resulting oversight is expected to push management toward a more cautious, conservative style of reporting (Sun, 2023). Empirical evidence on this link is not entirely settled, and the disagreement follows a discernible pattern rather than being scattered at random. Dakhli (2025) and Aburisheh et al. (2022) both report a measurable, positive effect of GCG on accounting conservatism using governance indices drawn from single-country, single-period settings; Putra & Satria (2022) and Rahmi & Baroroh (2022), working with comparable index-based measures in different institutional contexts, reach the opposite conclusion, finding no effect at all. The inconsistency is not confined to Indonesia alone: extending the same test across two neighboring Southeast Asian markets, Satria et al. (2022) find that GCG's effect on conservatism in Indonesian manufacturing firms differs from what the same specification produces in Malaysian firms, indicating that the relationship is sensitive not only to the index used but to the institutional setting it is applied in. What these otherwise similar studies share is a common modeling choice: each estimates only a direct, bivariate GCG-conservatism relationship, without allowing for a third factor

that might condition how strongly the two are connected. This is the conceptual gap the present study addresses: the inconsistency across prior findings is plausibly a symptom of omitted moderation rather than of GCG's effect being inherently unstable, a possibility a bivariate specification is not built to test. Building directly on agency theory's premise that oversight curbs opportunistic reporting, this reasoning motivates the study's first hypothesis:

H1: GCG has a positive effect on accounting conservatism.

A second theoretical strand — positive accounting theory's debt covenant hypothesis (Watts & Zimmerman, 1990) — points to a specific candidate for that missing third factor: leverage. Firm characteristics are identified among the categories of contextual variables capable of functioning as moderators in organizational research (Fisher, 1998), and leverage is a natural candidate here because it activates a monitoring incentive that runs parallel to, rather than duplicates, the one agency theory attributes to GCG. Heavily indebted firms operate under loan agreements that fix thresholds on key financial ratios, commonly known as debt covenants (Maiyo et al., 2025), and breaching those thresholds can trigger accelerated repayment schedules, higher borrowing costs, or withdrawn credit facilities (Triwibowo et al., 2025). To avoid crossing that line, management has a direct, contract-based incentive to recognize losses promptly (Kijkasiwat et al., 2022) — an incentive that exists independently of board-level oversight but that should, in principle, reinforce it: a well-governed firm carrying substantial debt faces both internal oversight and external creditor monitoring pushing in the same direction, layering one form of scrutiny on top of the other (Hajawiyah et al., 2020). Testing the covenant hypothesis directly in a neighboring emerging market, Phuong Hong & Tra My (2024) find that leverage is among the financial characteristics most consistently associated with conservative reporting among Vietnamese listed firms, reinforcing debt-related monitoring as a channel distinct from governance oversight rather than a stand-in for it. Leverage itself rises together with the exposure faced by both the company and the parties extending it credit (Kijkasiwat et al., 2022), and heavier borrowing invites tighter creditor surveillance that pushes management toward more cautious profit recognition (Cisse & Priantinah, 2025). Separate evidence from (Kimouche, 2026) and Khalifa et al. (2022) links leverage directly to conservatism levels, suggesting its influence may not stop at a direct effect but could also shape how forcefully governance quality translates into conservative practice. Where agency theory and the debt covenant hypothesis jointly predict a compounding effect — governance oversight and creditor monitoring reinforcing one another — the resulting second hypothesis follows:

H2: Leverage positively moderates the effect of GCG on accounting conservatism.

Testing this joint prediction requires a governance measure that behaves consistently across the sample rather than one built from the researcher's own weighting choices. Much of the prior literature has measured corporate governance only partially, relying on single proxies such as board size, board independence, female directorship, CEO duality, audit committee presence, or institutional ownership structure (Abedin et al., 2022; Alodat et al., 2022; Kijkasiwat et al., 2022). Relying on a single proxy of this kind risks measurement error, since corporate governance is a complex, multidimensional construct that one mechanism alone cannot adequately capture (Larcker et al., 2007) — a conclusion (Larcker et al. (2007) reach directly from

testing 39 such structural measures against firm outcomes and finding the results to be far from uniform across dimensions. On this basis, the present study uses the Bloomberg Governance Disclosure Score (GDS) as a composite index intended to capture governance implementation more comprehensively, while minimizing the measurement weakness that a single proxy introduces (Larcker et al., 2007; Saleem et al., 2025) . A higher GDS reflects a greater degree of corporate openness and transparency in publicly disclosing its governance mechanisms (Adinegara & Sukamulja, 2021) . This choice is not without its own limitation, however: disclosure-based scores of this kind can still be met with what the governance literature terms symbolic rather than substantive compliance, where firms report extensively on governance without the underlying oversight mechanisms actually functioning as intended (Gowry et al., 2023) , a caveat this study returns to when interpreting its results. The 2020–2024 window compounds this concern in a useful way: because the period opens with a system-wide shock in which many firms' financing and governance priorities shifted simultaneously (Chipeta et al., 2021), it offers a setting where disclosure scores and underlying financial exposure are more likely to diverge than in the calmer periods most prior governance-index studies were conducted in, making it a more demanding test of whether GCG scores track real, enforced oversight rather than the mere existence of a reporting policy. This study accordingly re-examines the GCG–accounting conservatism relationship in this specific setting, testing leverage as a moderating rather than a control variable, and offers a market-based, post-pandemic complement to governance-index studies conducted in calmer periods and other institutional contexts.

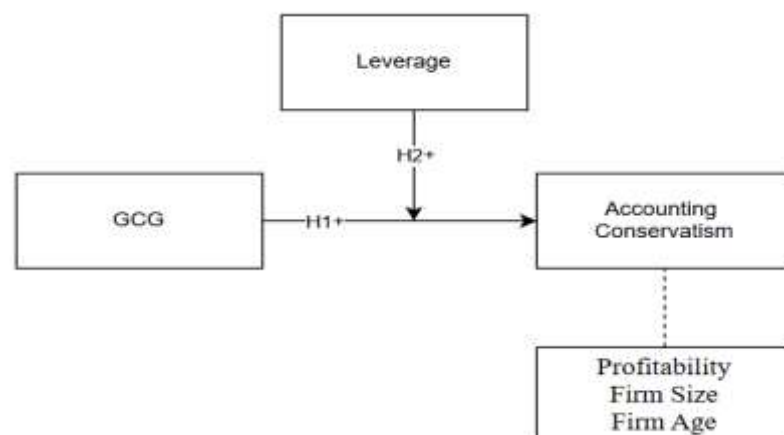


Figure 1. Conceptual Framework

RESEARCH METHODS

Research Design

This study adopts a quantitative design based on secondary panel data covering the 2020–2024 period. That window was chosen for two reasons: it begins at the onset of COVID-19, a period of acute financial strain likely to have unsettled conservatism practices, and it was simply the newest data on hand when this study was carried out, which should make the results a more up-to-date picture of how Indonesian manufacturers are actually governed. Most data points were hand-collected from annual reports posted on company websites and via the Indonesia Stock Exchange portal, with GCG scores added in from the Bloomberg database.

Population and Sample

Sample selection followed a purposive approach, applying three screening criteria: the firm published an annual report for each year between 2020 and 2024, remained listed on the IDX throughout that window, and had complete data on GCG score, accounting conservatism, and leverage. The initial sample consisted of 310 firm-year observations. One firm-year observation of PT Sri Rejeki Isman Tbk (Sritex) was excluded because it did not meet the predetermined sample selection criteria, particularly the requirement that firms publish an annual report for each year from 2020 to 2024. Sritex was declared bankrupt by the Semarang Commercial Court in October 2024. Moreover, a recent study examining Sritex's financial performance reported that the company's 2024 annual report had not yet been prepared and therefore used the first-semester 2024 financial statements instead (Supriyanto, 2025). Accordingly, the required full-year annual report for 2024 was not available to satisfy the sampling criterion. The exclusion was therefore based on the predetermined screening criteria rather than discretionary judgment by the researchers, resulting in a final sample of 309 firm-year observations.

Variable Measurement

This section defines each variable used in the analysis, how it is measured, and the source from which it is drawn.

Good Corporate Governance is proxied by the Bloomberg Governance Disclosure Score (GDS), drawn from the Bloomberg Environmental, Social, and Governance (ESG) Database. The score ranges from 0 to 100 and aggregates 23 components covering various aspects of corporate governance disclosure, where a higher figure denotes stronger governance practice (Vorst, 2023). As noted in the Introduction, GDS measures disclosure comprehensiveness rather than verified enforcement, and Bloomberg's coverage is itself limited to firms it actively tracks, which may not include every listed manufacturing firm in a given year; a high score can in principle reflect thorough reporting rather than materially stronger governance (Gowry et al., 2023). This limitation is revisited when interpreting the results in the discussion section.

Accounting conservatism is a prudence principle in financial reporting reflected in a company's tendency to recognize losses more quickly than gains. This study measures conservatism using the Cumulative Accrual (CONACC) model developed by Givoly & Hayn, where a higher CONACC score signals a more conservative reporting stance (Aburishah et al., 2022; Givoly & Hayn, 2000):

$$CONACC = \left[\frac{NIO + DEP - CFO}{TA} \right] X (-1)$$

NIO is net income before extraordinary items, as reported on the income statement; DEP is the depreciation and amortization expense for the fiscal year, as reported on the income statement or cash flow statement; CFO is net cash flow from operating activities, as reported on the statement of cash flows; and TA is total assets at the end of the fiscal year, as reported on the balance sheet. The result is multiplied by -1 so that a higher CONACC value corresponds to a more conservative reporting stance, consistent with the sign convention in (Givoly & Hayn, 2000).

A high level of leverage can increase a firm's financial risk, while at the same time potentially enhancing its returns when managed optimally (Baker et al., 2020). Leverage captures how heavily a firm relies on debt to finance its assets, measured as

the Debt-to-Asset Ratio (Islami & Wulandari, 2023):

$$DAR = \left(\frac{TOTAL LIABILITIES}{TOTAL ASSETS} \right) \times 100\%$$

Total liabilities in the numerator combines both short-term (current) liabilities — obligations due within one year, such as trade payables and short-term debt — and long-term (non-current) liabilities — obligations due beyond one year, such as long-term loans and bonds payable — as reported on the balance sheet.

ROA serves as an important measure for assessing whether management has generated an adequate return from the company's assets, while also evaluating the company's effectiveness in managing and utilizing its available resources (Meiryani et al., 2023). Profitability is captured through return on assets (ROA), an indicator of how efficiently a firm turns its asset base into earnings (Aoudane et al., 2025):

$$ROA = \left(\frac{NET INCOME}{TOTAL ASSETS} \right) \times 100\%$$

Firm size is captured by the natural logarithm of total assets (LnTA), a transformation used to narrow scale differences across firms and improve the normality of the data (Veronica & Widyasari, 2023).

Firm age is calculated as the number of years elapsed between a firm's IPO and the year being observed (Prieto et al., 2024):

$$FIRM AGE = YEAR OF OBSERVATION - YEAR OF ESTABLISHMENT$$

Data Analysis Method

Testing H1 and H2 requires two equations: a direct-effect specification and a moderated specification that adds the $GCG \times DAR$ interaction term:

$$\begin{aligned} CONACC &= \beta_0 + \beta_1 GCG SCORE + \beta_2 DAR + \beta_3 ROA + \beta_4 LnTA + \beta_5 FirmAge + \varepsilon \\ CONACC &= \beta_0 + \beta_1 GCG SCORE + \beta_2 DAR + \beta_3 (GCG SCORE \times DAR) + \beta_4 ROA + \beta_5 LnTA \\ &\quad + \beta_6 FirmAge + \varepsilon \end{aligned}$$

In both equations, CONACC is accounting conservatism as defined above; GCG_SCORE is the Bloomberg Governance Disclosure Score; DAR is the debt-to-asset ratio; $GCG_SCORE \times DAR$ is the interaction term testing leverage's moderating role; ROA, LnTA, and FirmAge are the control variables defined above; β_0 is the intercept; β_1 through β_6 (β_1 through β_5 in Model 1) are the estimated coefficients; and ε is the error term. Model 1 tests the direct effects of GCG and leverage on conservatism without an interaction term, corresponding to H1; Model 2 adds the interaction term to test H2.

Panel Data Estimation and Classical Assumption Tests

Before estimating either model, the panel data must first be tested to determine the most appropriate estimation technique among three candidate specifications: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Baltagi, 2021). Three formal tests are conventionally used for this purpose, each comparing a different pair of specifications. The Chow test compares CEM against FEM. The Hausman test compares FEM against REM. The Breusch-Pagan Lagrange Multiplier (LM) test compares CEM against REM.

Once the estimation technique is selected, the data are also screened against the classical assumptions underlying panel regression before the results are interpreted. Normality is assessed using the Jarque-Bera (JB) test, which evaluates whether the regression residuals' skewness and kurtosis are consistent with a normal distribution. Multicollinearity is assessed using the pairwise correlation matrix among the independent variables, with a coefficient above 0.80 conventionally taken as evidence of

a potentially problematic degree of collinearity. Heteroskedasticity is tested using a Likelihood Ratio (LR) test, comparing the restricted and unrestricted log-likelihoods under the null hypothesis that residuals are homoskedastic. Autocorrelation is tested using the Durbin-Watson (DW) statistic, which detects serial correlation in the residuals across observations. These diagnostic procedures follow the classical assumption testing framework described by (Ghozali & Ratmono, 2020) .

Overall model fit is assessed in two complementary ways. The F-test evaluates whether the independent and control variables jointly exert a statistically significant effect on accounting conservatism, testing the null hypothesis that all slope coefficients are simultaneously equal to zero against the alternative that at least one differs from zero. Following the conventional significance levels outlined in Gujarati & Porter (2009), the model is considered jointly significant when the associated probability value falls below the 0.10 threshold. The coefficient of determination (R^2) and its adjusted counterpart (Adjusted R^2) then indicate how much of the variation in accounting conservatism is explained by the model as a whole, with the adjusted version preferred when comparing model fit because it penalizes the inclusion of additional explanatory variables that do not meaningfully improve explanatory power (Gujarati & Porter, 2009).

Individual hypotheses are tested using the t-test (partial test) associated with each estimated coefficient, evaluating whether that variable's effect on accounting conservatism is statistically distinguishable from zero once the other variables in the model are held constant. Following the conventional significance levels outlined in Gujarati & Porter (2009), a coefficient is considered statistically significant, and the corresponding hypothesis supported, when its probability value falls below the 0.10 threshold; where a coefficient additionally meets the stricter 0.05 threshold, this is noted as a stronger level of significance. The sign of each significant coefficient is then compared against the direction predicted by H1 and H2 to determine whether that hypothesis is supported or rejected.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 lays out the mean, median, maximum, minimum, and standard deviation for the study's six variables, GCG, CONACC, leverage, profitability, firm size, and firm age, computed across all 309 firm-year observations.

Table 1. Descriptive Statistics

	GCG	CONACC	Leverage	Profitability	Firm Size	Firm Age
Mean	62.15874	0.175899	25.03045	0.057436	30.41332	3.056475
Median	71.70000	0.153816	22.74000	0.048100	30.34313	3.332205
Maximum	96.81000	0.809898	200.3700	0.621200	33.78683	3.871201
Minimum	0.000000	-1.172733	0.000000	-0.696500	27.22435	1.386294
Std. Dev.	30.38990	0.170886	24.81998	0.094929	1.328042	0.539145
Observations	309	309	309	309	309	309

Source: Processed data, 2026

Table 1 shows that the level of data dispersion varies across variables, which can be assessed by comparing each variable's standard deviation to its mean; the higher this ratio, the more heterogeneous the sample is with respect to that variable. Leverage and profitability show the widest dispersion relative to their means (standard deviation nearly matching or exceeding the mean itself), so their averages should be read with

caution; CONACC shows a similarly wide spread, ranging from firms that lean aggressive (minimum -1.172733) to firms that are highly conservative (maximum 0.809898). GCG averages 62.15874 on its $0-100$ scale but varies considerably across firms (standard deviation 30.38990), pointing to a moderately, rather than uniformly, governed sample. Firm size and firm age, by contrast, are comparatively homogeneous. Overall, the dataset shows sufficient variation to support the panel regression analysis that follows.

Model Selection Test

Table 2 reports the Chow and Hausman test results used to identify the most suitable panel model for this study, together with the resulting decision from each test.

Table 2. Model Selection Test

Effect Test	Prob.	Result
Uji Chow	0.000	FEM
Uji Hausman	0.000	FEM

Source: Processed data, 2026

Both tests in Table 2 converge on the same answer: the Fixed Effect Model (FEM) as this study's specification. A probability value of 0.000 on the Chow test, well under the 0.05 cutoff, favors FEM over the Common Effect Model (CEM), while the Hausman test's probability value, also 0.000 , favors FEM over the Random Effect Model (REM). With both tests agreeing, FEM carries forward into the regression analysis that follows.

Classical Assumption Test Results

Before interpreting the Fixed Effect Model estimates, the panel data were screened against the classical assumptions described in the Methods section.

Normality Test

Normality was assessed using the Jarque-Bera test, illustrated in Figure 2. The test returned a statistic of 142.3205 with a probability value of 0.000000 , indicating that the residuals depart from normality (skewness of -0.632 and kurtosis of 6.069). The normality assumption, however, is primarily a small-sample concern: with 309 firm-year observations, this assumption can reasonably be relaxed, since the Fixed Effect Model's coefficient estimates and associated t-statistics remain asymptotically valid regardless of the residuals' distribution (Gujarati & Porter, 2009). Classical assumption testing in this context is therefore more usefully concentrated on multicollinearity, heteroskedasticity, and autocorrelation, since violations of these, unlike non-normality at this sample size, can render statistical inference invalid (Ghozali & Ratmono, 2020).

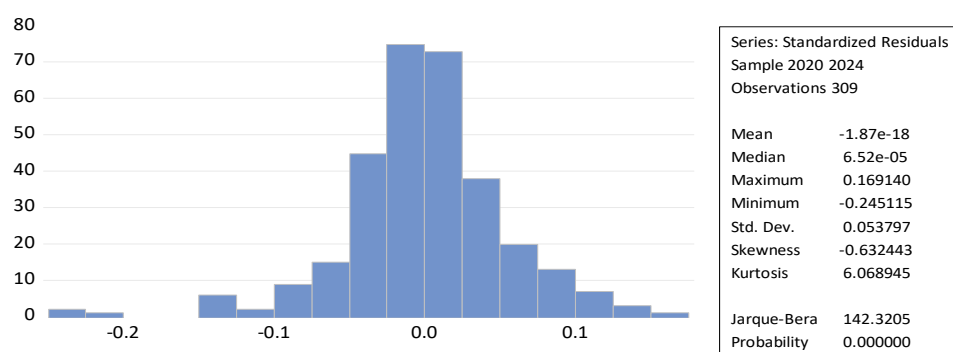


Figure 2. Normality Test

Source: Processed data, 2026

Multicollinearity Test

Multicollinearity was assessed using the pairwise correlation matrix among the independent variables, reported in Table 3. A coefficient above 0.80 is conventionally taken as evidence of a potentially problematic degree of collinearity. Most variable pairs fall well within an acceptable range, with the exception of GCG and the interaction term (GCG $\times$ DAR), correlated at 0.70667 — an expected consequence of the interaction term's mechanical relationship with its own constituent variable rather than evidence of a broader collinearity problem among the model's substantive predictors.

Table 3. Multicollinearity Test

	CONACC	GCG	GCG X LEVERAGE	LEVERAGE
CONACC	1	0.03871	-0.38333	-0.44361
GCG	0.03871	1	0.37370	-0.08379
GCG X LEVERAGE	-0.38333	0.37370	1	0.70667
LEVERAGE	-0.44361	-0.08379	0.70667	1

Source: Processed data, 2026

Heteroskedasticity Test

Heteroskedasticity was tested using a Likelihood Ratio (LR) test, reported in Table 4, comparing the restricted and unrestricted log-likelihoods under the null hypothesis that the residuals are homoskedastic. The test returned a value of 5.552947 (df = 33, p = 1.0000), failing to reject the null hypothesis, so the residuals are taken to be homoskedastic.

Table 4. Heteroskedasticity test

Panel Period Heteroskedasticity LR Test			
Equation: UNTITLED			
Specification: CONACC C GCG LEVERAGE GCG*LEVERAGE ROA LN_TA FIRM_AGE			
Null hypothesis: Residuals are homoskedastic			
	Value	df	Probability
Likelihood ratio	18.99392	62	1.0000
LR test summary:			
	Value	df	
Restricted LogL	349.2417	303	
Unrestricted LogL	358.7386	303	

Source: Processed data, 2026

Autocorrelation Test

Autocorrelation was tested using the Durbin-Watson (DW) statistic, reported in Table 5. The statistic of 2.195244, close to the benchmark value of 2, indicates no meaningful autocorrelation in the residuals.

Table 5. Autocorrelation test

Akaike info criterion	-2.571718
Schwarz criterion	-1.752083
Hannan-Quinn criter	-2.244062

Source: Processed data, 2026

Model Fit and Hypothesis Test

Table 6 reports the Fixed Effect Model regression results, listing each variable's t-statistic and probability value together with the model's overall goodness-of-fit measures.

Table 6. Panel Data Regression Results

Variable	t-Statistic	Prob.
C	5.137051	0.0000
GCG	1.363160	0.1741
Leverage	1.695382	0.0913
GCG*Leverage	-1.372221	0.1713
ROA	20.99859	0.0000
LN_TA	-4.967404	0.0000
FIRM_AGE	1.138265	0.2561
R-squared	0.908973	
Adjusted R-squared	0.883666	
S.E. of regression	0.058285	
Sum squared resid	0.818717	
Log likelihood	478.2518	
F-statistic	35.91875	
Prob(F-statistic)	0.000000	

Source: Processed data, 2026

An F-statistic of 35.91875 with a probability value of 0.000000 confirms the model's overall statistical significance, meaning the independent and control variables together exert a meaningful joint effect on accounting conservatism. Model fit is likewise strong: an R-squared of 0.908973 and an adjusted R-squared of 0.883666 indicate that the model accounts for roughly 88.4% of the variation in accounting conservatism. Much of that adjusted R-squared, however, is attributable to the control variables, profitability, firm size, and firm age, whose combined explanatory power carries the model's fit well beyond what GCG and leverage alone would provide.

On the hypothesis tests themselves, GCG's effect on accounting conservatism falls short of statistical significance, its t-statistic of 1.363160 and probability value of 0.1741 sitting above the conventional 0.05 cutoff, so H1 is rejected. The interaction term capturing whether leverage moderates the GCG-conservatism link is likewise insignificant, with a t-statistic of -1.372221 and a probability value of 0.1713, so H2 is rejected as well: in this sample, leverage does not moderate the relationship between GCG and accounting conservatism. Interestingly, leverage does show a marginally significant direct effect on conservatism in its own right, its t-statistic of 1.695382 and probability value of 0.0913 clearing the 10% significance threshold. In other words, although leverage fails to strengthen or weaken the hypothesized GCG-conservatism link, it appears to shape the degree of conservatism a firm adopts through a channel separate from its role as a moderator.

DISCUSSION

Effect of GCG on Accounting Conservatism

The GCG coefficient does not reach statistical significance, indicating that the data provide no evidence of a positive effect of Good Corporate Governance on accounting conservatism. One possible explanation concerns the nature of the GCG measure itself: the Bloomberg Governance Disclosure Score primarily reflects the extent and completeness of corporate governance disclosures rather than the effectiveness

with which governance mechanisms are implemented or enforced, so a higher score does not necessarily indicate stronger independent oversight as assumed by agency theory.

A second, complementary explanation lies in the ownership structure typical of Indonesian listed firms. Unlike the dispersed-ownership setting agency theory was originally built around, Indonesian manufacturing firms are frequently controlled by a dominant family or business-group shareholder, and formal governance mechanisms in such firms tend to operate under the influence of that controlling owner rather than as an independent check on management (Nasir et al., 2024). Where ownership is concentrated in this way, board composition, audit committee activity, and other disclosed governance mechanisms can reflect the controlling shareholder's own preferences rather than arm's-length oversight, which would blunt the link between a firm's disclosed governance score and how conservatively it actually reports. This offers a structural reason, beyond measurement limitations alone, why variation in GCG scores was not accompanied by a corresponding difference in accounting conservatism in this sample.

This finding contrasts with Aburishah et al. (2022), Dakhli (2025), and Hajawiyah et al. (2020), who reported significant positive effects of GCG on accounting conservatism. However, the finding is consistent with Rahmi & Baroroh (2022) and Veronica & Widyasari (2023), who likewise found no significant effect of GCG on accounting conservatism.

Leverage Moderates the Effect of GCG on Accounting Conservatism

The interaction term used to test leverage's moderating role likewise fails to reach significance, so the data do not support leverage moderating the GCG-conservatism link in the hypothesized direction. Leverage's own direct effect, however, is marginally significant ($p = 0.0913$), indicating that more indebted firms in this sample report somewhat more conservatively regardless of how strong their formal governance is.

This direct effect rests on firmer theoretical ground than the debt covenant hypothesis alone can provide. Contract theory frames debt as a set of formal agreements through which creditors constrain a borrower's future actions to protect their claim (Smith & Warner, 1979); covenants tied to accounting-based thresholds give management a contractual incentive to recognize losses promptly, since doing so preserves the firm's standing under the loan agreement. Positive Accounting Theory extends this logic to the reporting choices such contracts induce, predicting that firms closer to violating a debt covenant adopt more conservative accounting to reduce that risk (Watts & Zimmerman, 1990). Together, these two theoretical strands explain why leverage exerts a direct effect on conservatism even where it fails to interact with governance quality: creditor monitoring under contract theory operates through a channel, contractual restriction, that is structurally distinct from the disclosure-based channel GCG is meant to capture, so the two need not reinforce one another for either to matter on its own.

Why leverage fails to moderate GCG's effect, specifically, can also be read against Indonesia's institutional setting. Under La Porta et al. (1998) legal-origin framework, civil law countries such as Indonesia rely comparatively less on formal legal enforcement of investor and creditor rights than common law countries do, leaning instead on concentrated ownership and relationship-based mechanisms to substitute

for weaker statutory protection. In such a setting, the complementarity between board-level governance and creditor discipline that H2 presumed, one that has typically been documented in common law markets with stronger formal enforcement, may simply not materialize: creditor monitoring and disclosed governance quality can operate as parallel, independent channels rather than mutually reinforcing ones, consistent with what this study finds. This result also aligns with Sun (2023) and Prieto et al. (2024), who likewise report no significant moderating effect of leverage on the governance-conservatism relationship, while remaining consistent with the broader literature. This result is consistent with the direct effect of leverage documented earlier, in line with (Khalifa et al., 2022; Kimouche, 2026; Phuong Hong & Tra My, 2024).

Control Variables: Profitability and Firm Size

Beyond the study's core variables, both profitability (ROA) and firm size are significant predictors of accounting conservatism, and both admit a Positive Accounting Theory explanation that GCG and leverage alone do not capture. Under the political cost hypothesis (Watts & Zimmerman, 1990), firms that are more visible to regulators, tax authorities, and the public, whether because they are highly profitable or simply large, face greater scrutiny and correspondingly stronger incentives to understate earnings through conservative accounting, both to reduce the appearance of extranormal profitability and to limit exposure to unfavorable political and regulatory attention. This logic applies to profitability and size in slightly different ways: a highly profitable firm has more taxable income and more visible performance to defend, while a large firm draws sustained regulatory and public attention regardless of any single year's results, and both pressures push toward more conservative reporting.

This pattern is worth underscoring precisely because it complicates a simple reading of the model's overall fit. The regression's adjusted R^2 is high, but that explanatory power is carried disproportionately by ROA and firm size rather than by GCG or leverage, the variables this study's hypotheses are actually about. A high R^2 here should not be read as evidence that the GCG-conservatism model is strongly supported; it reflects how well the full set of variables together tracks conservatism, not how much of that tracking comes from governance or leverage specifically. Disentangling the two matters for how these results should be interpreted: the model fits the data well, but that fit says little about H1 or H2 on its own.

CONCLUSION

This study set out to determine whether Good Corporate Governance shapes accounting conservatism among Indonesian listed manufacturing firms, and whether leverage conditions that relationship. The answer to both is no: GCG shows no significant direct effect on accounting conservatism, and leverage does not moderate that relationship. Conservatism in this sample instead appears driven by firm fundamentals, profitability and firm size, rather than by governance disclosure or debt-related monitoring.

These findings carry implications for policy as well as theory. For accounting standard-setters, the disconnect between disclosure-based governance scores and actual reporting conservatism suggests that governance-related disclosure requirements alone may be insufficient to shape reporting behavior; standard-setters may need to pair disclosure requirements with enforcement or verification mechanisms that give a governance score genuine bite, rather than treating fuller disclosure as a

proxy for stronger oversight. For capital market regulators, particularly Indonesia's OJK and the Indonesia Stock Exchange, the results suggest that governance-quality scores used in listing or index-inclusion criteria should be read cautiously: a high disclosure score does not guarantee conservative, prudent financial reporting, so regulators relying on such scores for oversight purposes may want to supplement them with direct indicators of reporting quality.

The results also carry distinct practical implications for different market participants. For investors, a firm's governance disclosure score should not be read as a reliable signal of how conservatively it reports; profitability and firm size are more informative indicators of a firm's reporting tendencies in this sample, so investors evaluating reporting quality would do better to look at firm fundamentals directly rather than governance scores alone. For creditors, the marginally significant direct effect of leverage on conservatism suggests that debt covenants and lending relationships continue to exert real, if modest, pressure on how conservatively a borrower reports, independent of that borrower's formal governance profile; creditors may accordingly want to maintain their own monitoring and covenant structures rather than relying on a borrower's public governance credentials as a substitute. For capital market regulators, distinct from the standard-setting implication above, the absence of a moderating relationship between governance and leverage indicates that board-level and creditor-based oversight do not currently reinforce one another in the way an integrated governance-and-leverage regulatory framework might assume; regulators designing disclosure or governance requirements should treat these as separate levers rather than expecting one to compensate for weaknesses in the other.

Several limitations should be acknowledged. Although the model's coefficient of determination is high, it rests on GCG and leverage as its main explanatory variables, leaving room for other, unmodeled factors to be shaping accounting conservatism in ways this study cannot detect. Data availability also constrained the sample: Bloomberg's Governance Disclosure Score is not available for every IDX-listed manufacturing firm, so the analytical sample necessarily excludes firms the provider does not track. Sampled firms are accordingly not necessarily representative of Indonesian manufacturing firms as a whole, and these findings should not be generalized to the sector without this caveat in mind.

Future research would benefit from measuring governance through internal mechanisms rather than an externally assembled disclosure score, hand-collecting indicators such as the proportion of independent commissioners, board size and meeting frequency, or audit committee effectiveness directly from annual reports; a hand-collected proxy of this kind would avoid Bloomberg's coverage gap and could more directly capture the internal oversight processes agency theory is actually about, rather than how much a firm discloses of them. Incorporating variables such as audit quality, litigation risk, financial distress, and institutional ownership, alongside a longer observation window and firms beyond manufacturing, would further sharpen the model's explanatory power and the generalizability of its conclusions.

Statement on the Use of Artificial Intelligence (AI)

AI was used in the preparation of this manuscript. The authors used artificial intelligence tools solely to assist with language refinement, grammar checking, and editing for clarity and readability. The authors remain fully responsible for the accuracy, originality, integrity, and academic content of the manuscript. All AI-assisted content

has been reviewed and verified by the authors prior to submission.

Conflicts of Interest

The authors declare no conflicts of interest.

Author Contributions

Conceptualization, Anisha Rahmawati and Andri Prastiwi; data curation, Anisha Rahmawati; formal analysis, Anisha Rahmawati; writing—original draft preparation, Anisha Rahmawati; writing—review and editing, Andri Prastiwi; visualization, Anisha Rahmawati; supervision, Andri Prastiwi. All authors have read and agreed to the final version of the manuscript.

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