The Mediating Role of Accounting Conservatism on the Influence of Independent Commissioners and Managerial Ownership of Financial Performance

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This research was conducted by analyzing the mediating role of Accounting Conservatism on the influence of Independent Commissioners and Managerial Ownership on Financial Performance. The population of this research is the manufacturing industry listed on the Indonesia Stock Exchange from 2012 to 2016. The sampling technique uses purposive sampling produced from 174 sets of observational data. Data analysis method used is multiple regression. The result of the research is that Independent Commissioners and managerial ownership have a direct positive effect on financial performance. Other verification results mediate accounting conservatism on the effect of managerial ownership on financial performance. Meanwhile, accounting conservatism as a mediating variable on the influence of Independent Commissioners on financial performance is not proven.

**Key words:** Accounting conservatism, financial performance, Independent Commissioner, managerial ownership.

**Background of Study**

The Central Agency on Statistics has informed the performance of the manufacturing industry in Indonesia since the third quarter of 2012, when slow economic growth has been experience. Several industries recorded negative profit growth. For example, furnishing dropped by 15.85% and the textile industry decreased by 15.38%. Furthermore, the machinery and equipment industry decreased by 12.94%. The application of industrial
governance was lower than the application of corporate governance (Ministry of Industry, 2014). This was supported by the survey results of the ACMF (ASEAN Capital Market Forum) who collaborated with the ADB (Asian Development Bank) in 2012, 2013, and 2014 that implemented of Corporate Governance (CG) in Indonesia was still low compared to other ASEAN countries. Among the six countries with the largest capital markets in ASEAN, Indonesia had the second bottom rank, ahead only of Vietnam. Meanwhile, the highest CG rank was won by Thailand followed by Malaysia, Singapore and the Philippines. The low application of CG resulted in ineffective corporate supervision which resulted in corruption that can be detrimental to a company.

According to Malik and Nadeem (2014) financial performance was an assessment of the company's financial position in a certain period to obtain an efficient understanding of the company using its assets to obtain profits. Since the finances of a company reflect work performance in a certain period (Syahrina, Halim and Julizaerma, 2015), the application of corporate governance was very important as a tool to maximize the welfare of shareholders and improve financial performance (Shleifer and Vishny, 1997).

In this study, the mechanism of corporate governance was proxied by an Independent Commissioner and Management Ownership. Independent Commissioners monitoring management were expected to decrease management approval at the company. (El-chaarani, 2014). The Board of Commissioners members will provide an independent view of the company's management that will obtain effective approval. As an effective supervision, it is expected to improve financial performance. Research by Gugong, Arugu, and Dandago (2014) and Mburu and Kagiri (2013) showed there was positive influences of Independent Commissioners on financial performance. These results were not the same as done by Ongore and Kusa (2014) and Johl, Kaur, and Cooper (2015). This result caused by the ineffectiveness of the Independent Commissioner in carrying out his monitoring role was due to the more dominant role of managers and executive directors in the company (Rahman and Ali, 2006).

Furthermore, one of the mechanisms to overcome the conflict is the existence of the company's shares ownership by management. According to Jensen and Meckling (1976), as greater as ownership of management, so managements go on the company's profit increase. It was related to ownership, the manager has a share of the profits earned. Research by Andow and David (2016); Li and Sun (2014) and El-Chaarani (2013) proved that managerial ownership had a positive effect on financial performance. While Tertius and Christiawan (2013) and Namazi and Kermani (2013) posed that managerial ownership was not related to financial performance.

A literature review found that previous studies in this field had inconsistent results. This difference was thought to be caused by the other variables that affected financial
performance. The financial performance of a company was inseparable from the use of the principles applied in the financial statements. The quality of a financial statement was influenced by factors such as compliance in carrying out accounting principles and the conservatism principles (Panman and Zang, 2002).

Conservatism is a circumspect reaction due to uncertainties and risks inherent in business situations that need to be considered for good judgement to be effected (Givoly and Hayn, 2002). Therefore, the role of the Independent Commissioner encouraged management to be cautious in accounting policies. This is proven by the research of Yunos, Ismail, and Smith (2012) concluded that there was a positive influence of the Independent Commissioner on the application of conservatism. According to Lafond and Watts (2007), the principle of conservatism can reduce the manipulation of financial statements and reduce agency costs. Reducing agency costs will increase company profits and subsequently improve financial performance.

The increase of share ownership by managers is expected to act as suitable as the expectation of the principal manager so that management to be more careful in accounting policies. In line with the research of Lafond and Roychowdhury (2007) Widya (2017) proved the positive influence of managerial ownership on conservatism. Accounting conservatism protects shareholders, creditors, and stakeholders. Therefore, it can increase financial performance (Sana'a, 2016). It was proven by the research of Affes and Hardouk (2016) and concluded by Nainggolan and Pratiwi (2017) that accounting conservatism has a positive effect on financial performance.

**Theoretical Framework and Hypothesis Development**

Corporate governance was a system that regulated and handled companies to create value added for stakeholders (Monks, 2003). The mechanism is the existence of Independent Commissioners who will produce more effective supervision and limit managerial opportunists (Fama and Jensen, 1983). According to Jensen and Meckling (1976), managerial ownership was one of the mechanisms of corporate governance that helps control agency problems. The interests of management and shareholders can be harmonized if managers have more company stocks (Morck et al., 1989). Haniffa and Cooke found that (2002) the implementation of corporate governance improved financial performance through control and supervision mechanisms. Financial performance is a measurement of a company's financial position in a certain period, namely the efficient use of resources to get profits (Malik and Nadeem, 2014).

Meanwhile, according to Accounting Principles Board Statement No. 4, financial statements were more useful if they complied with the qualitative characteristics of being relevant, clear
and understandable, verifiable, neutral, timely, comparable and complete. Therefore, the accounting policy required circumspection (conservatism). LaFond and Roychowdhury (2007) conservatism was one mechanism in overcoming agency problems when there appeared to be a separation between ownership and control. The optimization of the Independent Commissioner control and management ownership was expected to be the choice of accounting policies based on prudence in accordance with the conditions and provision of added value to the company so as to improve financial performance.

**Hypothesis Development**

**Independent Commissioner and Financial Performance**

Managers have more complete knowledge about the company than investors (Scott, 2012). Therefore, in determining accounting policies, managers are free to be opportunistic, by maximizing profits for themselves and harming others, or being efficient to increase the company value (Holthausen, 1990). Independent Commissioners tend to have more effective monitoring capabilities. Independent Commissioners can deal with any self-serving actions or opportunistic behaviour by managers, so that it will produce effective oversight (Fama and Jensen, 1983). Effective supervision will improve financial performance. This opinion was supported by research by Mburu and Kagiri (2013); El-Chaarani (2015) that there was a positive influence of Independent Commissioners on financial performance and resulted in the following hypothesis:

H1: Independent Commissioner has a positive effect on financial performance

**Managerial Ownership and Financial Performance**

Jensen and Meckling (1976) argued that if the greater shareholding by management, then it will less the tendency of management to optimize the use of resources while reducing agency costs due to differences in interests. The greater the manager's ownership, the greater manager incentive to strive to increase company profit because the manager obtains parts of the profits (Jensen and Meckling, 1976). Thus, managers are motivated to improve financial performance. This opinion is supported by Niskanen's research (2012) and further, Li and Sun (2014) and Andow and David (2016) who concluded that managerial ownership has a positive effect on financial performance and the following hypothesis was proposed:

H2: Managerial ownership has a positive effect on financial performance.

**Independent Commissioner, Financial Performance, and Accounting Conservatism**

Conservatism is useful for Independent Commissioners in carrying out their functions as supervisors of management performance and decision makers. In the financial reporting
process, Independent Commissioners require accurate information in order to monitor manager's performance effectively and efficiently. The accounting and financial reporting system is one of the most reliable information in monitoring managers, in the decision-making process, and strategy setting (Ahmed and Duellman, 2007). Independent Commissioners will require higher quality information so as they will tend to use more conservative accounting principles.

Research by Yunos, Ismail, and Smith (2012) showed that there was a positive influence of Independent Commissioners on accounting conservatism. Ahmed and Duellman (2007) stated that a board of directors dominated by Independent Commissioners required conservatism so that it can help him to reduce agency costs arising from asymmetric information between managers and other parties. Affes and Sardouk's research (2014) concluded that the application of accounting conservatism has a positive effect on financial performance. Lafond and Watts (2007) argued that the application of the principle of conservatism in financial statements can reduce the possibility of managers in manipulating financial statements and reducing agency costs. In addition, Fala (2007) argued that the adoption of conservative accounting will produce profits as well as quality financial performance because this principle prevents overstated company earnings. The following hypothesis is also proposed:

**H3:** The influence of Independent Commissioners on Financial Performance is mediated by Accounting Conservatism.

**Managerial Ownership, Financial Performance, and Accounting Conservatism**

It is expected that the increase in share ownership by management in accordance with the shareholders’ expectancy. Management will be more careful in choosing the chosen accounting policies. Therefore, circumspection in applying conservative accounting principles is expected to improve financial performance. LaFond and Roychowdhury's research (2007) concluded the positive influence of managerial ownership on conservatism. Meanwhile, Watts (1999) if the greater of the ownership of management, then the management tends to try harder for the shareholders’ importance to increase the company value by applying conservative accounting, for instance. Furthermore, the application of accounting conservatism will reduce agency costs and improve the quality of financial statement information so that it will improve financial performance ultimately.

**H4:** The Effect of Managerial Ownership on Financial Performance is mediated by Accounting Conservatism.
Research methodology

Companies listed on the Indonesia Stock Exchange was employed as the population in this research. Meanwhile, the manufacturing industry which was listed on the Indonesia Stock Exchange of 2012-2016 period was employed as the sample in this study. The total of all companies used as the sample of this study amounted to 174 companies. The regression model developed to test the hypotheses that have been formulated are:

1. \( \text{ROA: } \beta_0 + \beta_1 \text{IC} + \beta_2 \text{MO} + \beta_3 \text{AT} + \beta_{4-7} \text{ Dummy Year} + \varepsilon \) (1)
2. \( \text{Cons : } \beta_0 + \beta_1 \text{IC} + \beta_2 \text{MO} + \beta_3 \text{AT} + \beta_{4-7} \text{ Dummy Year} + \varepsilon \) (2)
3. \( \text{ROA : } \beta_0 + \beta_1 \text{Cons} + \beta_2 \text{AT} + \beta_{3-6} \text{ Dummy Year} + \varepsilon \) (3)
4. \( \text{ROA : } \beta_0 + \beta_1 \text{IC} + \beta_2 \text{MO} + \beta_3 \text{Cons} + \beta_4 \text{AT} + \beta_{5-8} \text{ Dummy Year} + \varepsilon \) (4)

Information :
ROA : Return on Assets as a proxy for financial performance
\( \beta_0 \) : Regression equation constant
\( \beta 1-8 \) : Coefficient of the Independent variable
MO : Managerial ownership
IC : Independent Commissioner
CONS : Accounting conservatism
AT : Total Assets
Dummy year : Year, measured by dummy
E : Standard error

Table 1: Procedure of Sample Selection

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sample 2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of manufacturing companies on the Indonesia stock exchange</td>
<td>140</td>
<td>142</td>
<td>144</td>
<td>143</td>
<td>145</td>
<td>714</td>
</tr>
<tr>
<td>Incomplete data</td>
<td>-66</td>
<td>-72</td>
<td>-77</td>
<td>-80</td>
<td>-76</td>
<td>-371</td>
</tr>
<tr>
<td>Using dollars</td>
<td>-28</td>
<td>-28</td>
<td>-28</td>
<td>-28</td>
<td>-28</td>
<td>-140</td>
</tr>
<tr>
<td>didn’t end December</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
<td>-10</td>
</tr>
<tr>
<td>not conservatism</td>
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<td>-3</td>
<td>-1</td>
<td>-3</td>
<td>-5</td>
<td>-12</td>
</tr>
<tr>
<td>Outlier Data</td>
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<td>0</td>
<td>-2</td>
<td>-1</td>
<td>-2</td>
<td>-7</td>
</tr>
<tr>
<td><strong>Selected company</strong></td>
<td><strong>42</strong></td>
<td><strong>37</strong></td>
<td><strong>34</strong></td>
<td><strong>29</strong></td>
<td><strong>32</strong></td>
<td><strong>174</strong></td>
</tr>
</tbody>
</table>
Findings and Discussions

Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
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<tr>
<td>ROA</td>
<td>174</td>
<td>0.0001</td>
<td>0.3809</td>
<td>0.07211</td>
<td>0.0715833</td>
</tr>
<tr>
<td>IC</td>
<td>174</td>
<td>0.3</td>
<td>0.8</td>
<td>0.382989</td>
<td>0.1033135</td>
</tr>
<tr>
<td>OM</td>
<td>174</td>
<td>0.0001</td>
<td>0.2561</td>
<td>0.051043</td>
<td>0.0650986</td>
</tr>
<tr>
<td>CONS</td>
<td>174</td>
<td>0.0003</td>
<td>0.9615</td>
<td>0.255926</td>
<td>0.2572023</td>
</tr>
<tr>
<td>AT</td>
<td>174</td>
<td>103239</td>
<td>245435000</td>
<td>10008326</td>
<td>34332583</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>174</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Information

ROA : Return On Asset
IC  : Independent commissaries
MO  : Managerial ownership
Cons : Accounting conservatism
AT  : Assets Total

Table 2 above presents information that financial performance (ROA) has an average value of 0.072110, which means the average financial performance (ROA) in this study sample is 7.211%. The Independent Commissioner variable (IC) has an average value of 0.382989, which means that the average Independent Commissioner is 38%. This shows that companies in Indonesia have complied with the minimum number of Independent Commissioners in their companies.

Managerial Ownership Variable (OM) has an average value of 0.051043, which means an average management ownership of 5.10% and show that the level of management ownership in manufacturing companies in Indonesia is relatively low. Variable Accounting Conservatism (Cons) has an average value of 0.255926 or 25.59% which shows that the financial statements of manufacturing companies in Indonesia are relatively conservative. The Total Assets variable has an average value of 10008326.95 and this shows that the average value of the manufacturing industry in Indonesia has a relatively large asset.
### Table 3: The Results of regression analysis of all samples

<table>
<thead>
<tr>
<th>Variable</th>
<th>ROA (1)</th>
<th>Cons (2)</th>
<th>ROA (3)</th>
<th>ROA (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.75</td>
<td>-0.985</td>
<td>0.092</td>
<td>0.013</td>
</tr>
<tr>
<td></td>
<td>-0.125</td>
<td>0</td>
<td>-0.042</td>
<td>-0.802</td>
</tr>
<tr>
<td>IC</td>
<td>0.1</td>
<td>0.001</td>
<td>0.103</td>
<td>(0.037) **</td>
</tr>
<tr>
<td></td>
<td>(0.050) *</td>
<td>-0.996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OM</td>
<td>0.252</td>
<td>0.519</td>
<td>0.189</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.003) ***</td>
<td>(0.074) *</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cons</td>
<td></td>
<td></td>
<td>0.09</td>
<td>0.067</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000) ***</td>
<td>(0.000) ***</td>
</tr>
<tr>
<td>Ln_AT</td>
<td>0.007</td>
<td>0.049</td>
<td>0.001</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(0.019) **</td>
<td>(0.000) ***</td>
<td>-0.636</td>
<td>-0.25</td>
</tr>
<tr>
<td>D_2013</td>
<td>-0.006</td>
<td>0.052</td>
<td>-0.011</td>
<td>-0.01</td>
</tr>
<tr>
<td></td>
<td>-0.717</td>
<td>-0.35</td>
<td>-0.476</td>
<td>-0.508</td>
</tr>
<tr>
<td>D_2014</td>
<td>-0.032</td>
<td>0.03</td>
<td>-0.035</td>
<td>-0.035</td>
</tr>
<tr>
<td></td>
<td>(0.096) *</td>
<td>-0.597</td>
<td>(0.030) **</td>
<td>(0.025) **</td>
</tr>
<tr>
<td>D_2015</td>
<td>-0.022</td>
<td>0.44</td>
<td>-0.024</td>
<td>-0.025</td>
</tr>
<tr>
<td></td>
<td>-0.195</td>
<td>-0.462</td>
<td>-0.146</td>
<td>-0.117</td>
</tr>
<tr>
<td>D_2016</td>
<td>-0.017</td>
<td>0.043</td>
<td>-0.022</td>
<td>-0.021</td>
</tr>
<tr>
<td></td>
<td>-0.286</td>
<td>-0.456</td>
<td>-0.178</td>
<td>-0.182</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.075</td>
<td>0.114</td>
<td>0.099</td>
<td>0.145</td>
</tr>
<tr>
<td>F-Statistic</td>
<td>4.511</td>
<td>12.157</td>
<td>4.182</td>
<td>10.064</td>
</tr>
<tr>
<td></td>
<td>-0.002</td>
<td>0</td>
<td>-0.001</td>
<td>0</td>
</tr>
<tr>
<td>N</td>
<td>174</td>
<td>174</td>
<td>174</td>
<td>174</td>
</tr>
</tbody>
</table>

*,**, ***: showed significant of 0.1, 0.05, and 0.01

Model:

1. ROA: \( \beta_0 + \beta_1 \text{IC} + \beta_2 \text{OM} + \beta_3 \text{AT} + \beta_{4-7} \text{Dummy Year} + \varepsilon \) (1)
2. Cons: \( \beta_0 + \beta_1 \text{IC} + \beta_2 \text{OM} + \beta_3 \text{AT} + \beta_{4-7} \text{Dummy Year} + \varepsilon \) (2)
3. ROA: \( \beta_0 + \beta_1 \text{Cons} + \beta_2 \text{AT} + \beta_{3-6} \text{Dummy Year} + \varepsilon \) (3)
4. ROA: \( \beta_0 + \beta_1 \text{IC} + \beta_2 \text{OM} + \beta_3 \text{Cons} + \beta_4 \text{AT} + \beta_{5-8} \text{Dummy Year} + \varepsilon \) (4)
Information
ROA: Return On Asset
IC : Independent commissaries
MO : Managerial ownership
Cons: Accounting conservatism
AT : Total asset, measured by natural log

Based on the regression results in Table 3 above, this study finds that the Independent Commissioner has a positive effect on financial performance. This test showed a β1 coefficient of 0.100 with a significance level (ρ-value) of 0.050 below the significance level of 0.10. Thus, it proved that there is a positive influence of the Independent Commissioners on financial performance. This means hypothesis 1 (H1) is supported.

The result of testing the management ownership influence revealed that there was a positive influence on financial performance. Regression test results showed that the β2 coefficient is 0.252, with a significance value (ρ-value) of 0.003 below 0.05. Thus, based on Table 4 Model (1) above the 2nd research hypothesis is supported.

In the Table 3, Model (1) above, the effect of control variables of total assets and year dummy on financial performance is also shown. The test results indicate a positive effect of total assets on financial performance with a coefficient value of β3 of 0.007. The significance level ρ value of 0.019 below 0.05.

Dummy testing in 2013 showed that there was no influence on financial performance based on the results of the β4 coefficient of -0.006 which was not significant with ρ value of 0.717. The 2014 dummy showed that there was an influence on financial performance as seen from the β5 coefficient of -0.032, which proved to be significant with a ρ value of 0.096. Dummy testing in 2015 and 2016 showed that there was no influence on financial performance. This can be seen Table 3 Model (1) above that the coefficients β6 and β7 are -0.022 and -0.017 which were not significant with ρ values of 0.195 and 0.286.

In the Table 3 Model (2) it is shown that the coefficient of determination (adjusted R2) is 0.114 or 11.4%. This means that the independent variable in this study was able to explain its effects on the dependent variable by 11.4%, the rest was influenced by other variables which were not examined in this research model. Furthermore, testing the significance value of this model returned Prob (F-statistic) of 0.000. The significance value means that this research model was fit. Based on the regression results in Table 3, Model (2) produced a β1 coefficient of 0.001 and a significance value (ρ-value) of 0.996 and it can be concluded that the Independent Commissioner had no effects on conservatism.
This test could not prove the influence of the Independent Commissioner on accounting conservatism, so the influence of the Independent Commissioner on financial performance did not meet the first precondition for mediation. Thus, based on the test results above, it appeared that the influence of the Independent Commissioner on financial performance was not mediated by accounting conservatism.

The results of testing the effect of managerial ownership on financial performance revealed that the coefficient $\beta_2$ which is worth 0.519. It can be seen from the significance value ($\rho$-value) which is worth 0.074. Thus, it can be concluded that the results of this study have fulfilled the first prerequisite for the mediation of management ownership on financial performance.

The test results regarding the effect of accounting conservatism on financial performance can be seen from Table 3 Model (3) and the coefficient of determination (adjusted R2) of this research model was 0.099 or 9.99%. This means that the independent variable in this research model was able to explain its effects on the dependent variable of 9.99%, the rest was influenced by other variables which were not examined in this research model. Based on the regression results in Table 3 Model (3) above, it appeared that accountant conservatism has a significant effect on the financial performance level. Regression results showed that the coefficient is 0.090, has a significance value ($\rho$-value) of 0.000 under 1%. Thus, based on the results of this test, the accounting conservatism required the prerequisites as a mediating variable.

The testing of the Independent Commissioner influence, managerial ownership, and accounting conservatism on financial performance were carried as presented in Table 3 Model (4) with 174 observations. It can be seen from the results of the test that the coefficient of determination (adjusted R2) of this research model was 0.145 or 14.5%. This means that the independent variable in this study was able to explain its effects on the dependent variable by 14.5%, the rest was influenced by other variables which were not examined in this research model. The significance value of Prob (F-statistic) of 0,000 indicated that this research model fit.

Based on the regression results in Table 3 Model (4) above, it appeared that the Independent Commissioner influenced the financial performance. Regression results showed that the coefficient was 0.103 and has a significance value (p-value) of 0.037. The regression results above also showed that managerial ownership variables influenced the level of financial performance, it could be seen in the regression coefficient of 0.0189 and the significance value (p-value) of 0.017. In Table 3 model (4) above, the accounting conservatism was proven to affect the level of financial performance. Regression results showed that the coefficient is -0.067, has a significance value (p-value) of 0.000 under 0.05%. Total assets as
a control variable in this study did not affect ROA. The coefficient value of total assets was 0.003, has a significance value (p-value) of 0.250.

The testing of mediation mechanisms was done through path analysis. It was the hypotheses of this study that were compiled to prove the mediation mechanism by accounting conservatism on the influence of independent commissioners and management ownership on financial performance.

The hypothesis of this study suggested that the Independent Commissioner has a positive effect on financial performance, mediated by accounting conservatism. Based on Table 3 Model (2), the Independent Commissioner has no effect on accounting conservatism. Table 3, model (3) findings show that accounting conservatism influenced financial performance. Although the test results in Model (3) indicated that accounting conservatism affected the financial performance. However, the unproven influence on Model (2) indicated that the Independent Commissioner has a positive effect on financial performance, mediated by accounting conservatism (H3) was not supported.

This study could not prove the existence of accounting conservatism mediation toward the influence of the Independent Commissioner on financial performance. It was suspected that the monitoring function carried out by the Independent Commissioner was not a factor determining the choice of conservatism principles. In addition, the selection of accounting principles was in the management handling. While the independent commissioner’s duties only ensure that the processes in the company run well through monitoring mechanisms and mediated between the principals and agents to reduce agency problems. The results of this study were not in line with the research of Yunos, Ismail, and Smith (2012) and Ahmed and Duellman (2007) who found the positive influences of the Independent Commissioner on the application of conservatism.

The research hypothesis suggested that management ownership has a positive effect on financial performance, mediated by accounting conservatism. Based on Table 3, in Model (2), it was known that managerial ownership affected accounting conservatism, as well as in Model (3) that accounting conservatism affected financial performance. The influence of Model (2) and Model (3) indicated the existence of mediation mechanism. Furthermore, in Model (1) it was known that managerial ownership was proven to have an effect on financial performance compared to its effect on Model (4). In Model (4), the effect of managerial ownership on financial performance was tested by being controlled by accounting conservatism.
Based on Table 3, it can be determined the amount of indirect influences of managerial ownership on financial performance, which was equal to the product of managerial ownership coefficient in Model (2) denoted by \( p_2 \) with the accounting conservatism coefficient in Model (3) notated by \( p_3 \), which was formulated as follows. The indirect effect coefficient of managerial ownership is 0.04671. The total of the managerial ownership effect on financial performance was equal to the coefficient of managerial ownership in Model (1) of 0.29871. Furthermore, based on the 3rd table, Model (2) and Model (3), there was a significant influence. This condition revealed that there was mediation by accounting conservatism.

Thus, it can be concluded that accounting conservatism mediated the effect of managerial ownership on financial performance, and this means that H4 hypothesis was supported.

**Conclusion**

Independent Commissioners had a positive effect on financial performance. The optimal role of independent Commissioners will produce the objective oversight required. Each management policy complied with applicable regulations and in accordance with the principal's expectations. Therefore, agency costs could be reduced and the confidence of the community increased, thereby increasing financial performance. Managerial ownership had a positive effect on financial performance. The greater the managerial ownership, the more optimal management will be in managing a company, ensuring improved financial performance. Management must take responsibility for company ownership as it is part of the company's owner.

Accounting conservatism was not an intervening variable that influenced the proportion of independent commissioners and financial performance. It was suspected that the monitoring carried out by the Independent Commissioner was not one of the factors that determined the selection of conservatism principles, but the accounting principle was in the management handling. Meanwhile, the independent commissioner only guaranteed the management process through a monitoring mechanism and mediated between the principals and agents to reduce agency problems.

Accounting conservatism was a variable that intervened in the relationship between management ownership and financial performance. This study proved the statement of Jensen and Meckling (976) that conflicts between managers and investors that occurred because both parties seek to maximize each other's profits can be overcome by bonding mechanisms, namely shared ownership. Managerial shared ownership will align and help the unification of interests between managers and shareholders so that managers directly get the benefits of decisions taken.
Implications

The Financial Services Authority (OJK), which supervised companies listed on the Indonesia Stock Exchange further optimized the function and presence of the Independent Commissioner in accordance with applicable regulations. Optimizing the functions of the Independent Commissioners could improve financial performance. Moreover, it is needed in the context of regulations relating to the company ownership of shares. The higher management ownership, the more optimal the management of companies and consequently, the more improved the financial performance. Furthermore, accounting policies must adhere to conservatism: the more conservative; the more compliant with applicable regulations.
REFERENCES


