

The Effect of Managerial Ownership, Company Growth, Profitability, and Investment Opportunity Set (IOS) On Accounting Conservatism

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Abstract

This study aims to prove and also analyze empirically the Effect of Managerial Ownership, Company Growth, Profitability, and Investment Opportunity Set (IOS) on Accounting Conservatism (Empirical Study on Manufacturing Companies on the Indonesia Stock Exchange for the Period 2017 – 2019). This research is based on secondary data obtained from the company's annual reports and annual financial statements. There are 72 companies out of a total of 186 companies in this study, which in selecting the sample used purposive sampling technique. As for the data processing in this study, using the data regression analysis method and processed with Microsoft Excel and Eviews 12 software. The results of research that has been carried out using panel data regression tests on the Fixed Effect Model prove that the managerial ownership variable has no significant effect on accounting conservatism, the company growth variable has a significant negative effect on accounting conservatism, the profitability variable has a significant negative effect on accounting conservatism, and the investment opportunity set variable. (IOS) has no significant effect on Accounting Conservatism.

Keywords

managerial ownership; company growth; profitability; investment opportunity set (IOS); accounting conservatism.



I. Introduction

Accounting is closely related to the interests of information where the interests of accounting information can be utilized by various parties, both internal and external parties widely described by financial statements that reflect the condition and performance of the company's operations in a certain period. Information presented for the benefit of internal parties and external parties requires complete and accurate disclosure, both quantitatively and qualitatively (Savitri, 2016).

With the developments in the convergence of International Financial Reporting Standards (IFRS), the concept of accounting conservatism is currently being replaced and associated with the term prudence, the explanation in IFRS regarding prudence is that the recognition to record revenue is allowed to be recognized even though it is only limited to potentials, provided that it meets the following requirements: provisions for revenue recognition, besides that, it must still be guided by the principle of prudence in the recognition process. After the Financial Accounting Standards (SAK) adopted IFRS recording, the International Accounting Standards Board (IASB) has stated that prudence and conservatism are not the expected quality of accounting information,

But in the reality that exists in the midst of the IFRS era, the company's business still has to deal with uncertainty. Therefore, applying the principle of prudence at the right

level when preparing financial statements is seen as a good step to overcome and manage this uncertainty by using the principles of prudence.

As a source of information regarding the performance of a company, financial statements must be prepared in accordance with generally accepted accounting principles. One of the principles referred to in the process of preparing financial statements is conservative accounting principles. The application of conservatism can be very important because public trust related to financial statements published by a company can decrease as a result of accounting manipulations carried out by the company. (Daryatno & Santioso, 2020).

(LaFond & Watts, 2007) also argues that the information asymmetry in the financial statements can be prevented by carrying out conservative financial reporting practices, in addition to limiting the managerial scope in the practice of manipulating financial statements and also being used to prevent managerial opportunism in utilizing financial statements to achieve their interests. certain.

In March 2019 there was a case carried out by PT Tiga Pilar Sejahtera Food Tbk (AISA) which is still being questioned for some time. The former management of AISA has also received allegations of violations based on an audit conducted by the Ernst & Young Public Accounting Firm (EY). In addition, there were problems with the financial statements of PT Garuda Indonesia (Persero) Tbk (GIAA) in 2018 which resulted in sanctions being imposed on the company. The previous period's financial statements showing gains must be restated as losses due to the recognition of receivables as income, which proves that the statements are problematic and must be restated.

The Financial Services Authority (OJK) also sanctioned the company PT Hanson Internasional Tbk (MYRX) and owner Benny Tjokrosaputro for violating the Capital Market laws and regulations. Referring to the OJK announcement, there is evidence of an overstatement of Rp. 613 billion from the sale of ready-to-build lots from a gross sales value of Rp. 732 billion which does not have proof of a sale and purchase agreement from the plots.

This study refers to several mixed results, where there is a research gap that is collected from the variables used by previous researchers that have different impacts on accounting conservatism. Based on the diversity of research results obtained from research gaps in previous journals and phenomena that still occur and with the background described, the authors hereby determine the title of the research, namely "The Effect of Managerial Ownership, Company Growth, Profitability, and Investment Opportunity Set (IOS). Against Accounting Conservatism (Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2017 – 2019)".

II. Review of Literature

2.1 Agency Theory, Positive Accounting, and Signaling

Theories that are widely used in Accounting Conservatism research are Agency theory, Positive Accounting, and Signaling. The concept of agency theory is the idea that there is an agency relationship in which the principal (owner) can give instructions to the agency (management) and act on behalf of the company. Where the principal is the shareholder, and the manager or management as an agent.

The positive accounting theory states that there are three hypotheses that can motivate management to choose the accounting principles to be applied, namely Bonus Plan, Debt/Equity, and Political Cost. Signaling theory explains how the company should

provide an overview for users of financial statements for everything that is done by the company's management in completing the wishes of the owner of the company. (Shefa El-Haq et al., 2019).

2.2 Hypothesis Development

Conservatism can be interpreted simply as an attitude of prudence or prudence, if the prudent principle is applied it will tend to produce pessimistic reports so that the impact on the reports that will be disclosed tends to be lower than the true value. Development is a systematic and continuous effort made to realize something that is aspired. Development is a change towards improvement. Changes towards improvement require the mobilization of all human resources and reason to realize what is aspired. In addition, development is also very dependent on the availability of natural resource wealth. The availability of natural resources is one of the keys to economic growth in an area. (Shah, M. et al. 2020)

(Feltham & Ohlson, 1995) argued that the main characteristic of conservatism in the long run is that the net value of assets in the financial statements is lower than their market value. Accounting conservatism is explained as the expectation that reported net assets will be less than market value in the long run. Temporary (Basu, 1997) defines it as something that must go through a high validation check when receiving good news or good news related to positive economic trends than when receiving bad news or bad news related to positive economic trends in terms of recording company earnings.

In (Salehi & Healthy, 2018) From a broader perspective, conservatism is also defined and interpreted as an accountant's preference for the adoption of accounting methods leading to lower values of assets and income with higher values of liabilities and expenses. (Basu, 1997). (Givoly & Hayn, 2000) defines conservatism as a selection criterion regarding accounting records that refers to minimizing revenue at a slower rate while accelerating accounting records for the components of expense accounts in reported cumulative profits.

The proposed hypothesis is:

H1: Managerial Ownership variable has a significant positive effect on the Accounting Conservatism variable.

(Nugraha & Setiany, 2020) states that managerial ownership is the number of shares owned by the managerial members of the company, either by the Board of Directors or the Board of Commissioners, which is described by the percentage of the total value of the total number of company shares. This means that it is indicated by the large percentage of share ownership by the company's management.

The high managerial ownership structure compared to the company's external parties will result in companies tending to use conservative accounting methods. The number of managerial shareholdings that continues to increase in shareholdings in the company, encourages managers to use records which will lead to accounting conservatism.

Managerial ownership will affect accounting conservatism because the high level of managerial ownership will affect the strong application of accounting conservatism. This problem arises because management has a sense of responsibility in responding to the goals of shareholders who are none other than themselves (Hariyanto, 2020).

H2: The variable of company growth has a significant positive effect on the accounting conservatism variable.

Increasing sales growth will often affect the level of conservatism because future cash flows will also be expected to increase by market conditions. The company's future growth shows the potential that the company will generate high profits. Higher revenue growth indicates a more conservative company. This research is based on the results

researched by (Ahmed & Duellman, 2011) which states that sales growth has a positive effect on accounting conservatism.

If a company is in the process of growth, the profits will be higher. Companies that record high profits will encourage more conservative accounting records to reduce their income in order to avoid external costs such as political costs which are also found in positive accounting theory. So, the method that is able to record low profits is the conservatism accounting method (Rahayu et al., 2018).

H3: Profitability variable has a significant positive effect on the Accounting Conservatism variable.

In (Shefa El-Haq et al., 2019) explains that profitability is the company's strength to benefit from the business processes that are carried out. If the company has high profitability, it tends to have better opportunities when competing with other companies that have similar industries. In addition, high profitability is able to indicate that there is potential for future growth of the company.

The application of accounting conservatism in a company can be indicated by a high level of profitability so that the amount of retained earnings owned by the company also shows a high number. The higher the level of profitability in a company, it will encourage companies to apply conservative accounting records, besides that managers also apply accounting conservatism to manage the company's profit level so that it looks stable and does not show very significant changes in each period.

In terms of earnings management practices to show earnings to make it look less volatile, companies with a high level of profitability will use a conservative accounting method. (Verawaty et al., 2017).

H4: The Investment Opportunity Set (IOS) variable has a significant positive effect on the Accounting Conservatism variable.

(Permatasari & Yulianto, 2020) explained, companies with various potential investment opportunities, both tangible and intangible, show their condition to the public where the company has a very large growth opportunity than companies that only have smaller investment opportunities.

According to (Gaver & Gaver, 1993) in (Rachim & Setiany, 2021) said that the Investment Opportunity Set (IOS) is the total value of the company that is influenced by future expenses that are currently an investment choice in the hope of providing increased returns.

On research (Octavianti et al., 2021) explained that the company's investment policy based on the Investment Opportunity Set (IOS) can affect the number of assets owned by the company and affect the financial aspects of the company including debt-receivable agreements, company compensation agreements, capital structure, dividend policy and also especially on recording policies. corporate accounting.

III. Research Method

The companies sampled in this study are manufacturing companies that are listed consecutively on the Indonesia Stock Exchange from 2017 to 2019 with the data criteria in the table below:

Table 1. Sampling

Sample Criteria	Amount
Manufacturing Companies that are consecutively listed on the IDX 2017-2019	186
Companies that do not have Managerial Share Ownership in 2017-2019	(95)

The company is not listed on the IDX during 2017 - 2019	(19)
Sample companies	72
Total Data for 2017 – 2019	216

The definition of variable operationalization is:

Table 2. Operationalization of Variables and Measurement of Variables

No	Variable	Dimension	Indicator	Formula	Scale
1	Managerial Ownership (X1)	Number of shares owned by the Board of Directors and Commissioners	Total Managerial Share	Number of Managerial Shares	Ratio
				Number of outstanding shares	
2	Company Growth (X2)	Sales Growth	<i>Sales Growth</i>	Total Net Sales t – Total Net Sales t-1	Ratio
				Total Net Sales t-1	
3	Profitability (X3)	Company Profit Rate	ROA	Net Profit After Tax	Ratio
				Total Assets	
4	<i>Investment Opportunity Set (X4)</i>	Addition or subtraction of the company's fixed assets	Fixed assets	Book value of fixed assets t - Book value of fixed assets t-1	Ratio
				Total Assets	
5	Accounting Conservatism (Y)	Earnings/Accrual Measures	<i>Accrual Base</i>	(NIO+DEP-CFO) x (-1)	Ratio
				Total Assets	

The multiple regression analysis model carried out in this study is as follows:

$$\text{CONNACC} = + 1\text{MO} + 2\text{SG} + 3\text{ROA} + 4\text{IOS} + e$$

IV. Result and Discussion

The research data has gone through the classical assumption test. The classical assumption tests carried out in this study include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

The results of the multiple regression analysis of this study can be described as follows:

$$Y = 0.007749 + 0.177516 (X1) - 0.039122 (X2) - 0.811832 (X3) - 0.003282 (X4) +$$

Table 3. Results of Regression Analysis

Dependent Variable: CONSERVATISM_ACCOUNTING				
Method: Panel Least Squares				
Date: 06/06/22 Time: 00:52				
Sample: 2017 2019				
Periods included: 3				
Cross-sections included: 59				
Total panel (balanced) observations: 177				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.007749	0.031559	0.245536	0.8065
MANAGERIAL_OWNERSHIP	0.177516	0.300113	0.591498	0.5554
COMPANY_GROWTH	-0.039122	0.019736	-1.982278	0.0499
PROFITABILITY	-0.811832	0.140923	-5.760835	0.0000
IOS	-0.003282	0.051991	-0.063134	0.9498
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.658833	Mean dependent var	-0.012981	
Adjusted R-squared	0.473286	S.D. dependent var	0.052587	
S.E. of regression	0.038165	Akaike info criterion	-3.421896	
Sum squared resid	0.166046	Schwarz criterion	-2.291402	
Log likelihood	365.8378	Hannan-Quinn criter.	-2.963412	
F-statistic	3.550758	Durbin-Watson stat	2.801719	
Prob(F-statistic)	0.000000			

4.1 Discussion

a. Effect of Managerial Ownership on Accounting Conservatism

Managerial ownership as measured by the number of shares owned by managerial members of the company, either by the Board of Directors or the Board of Commissioners, compared to the total number of company shares, shows that partially the managerial ownership variable has no significant effect on accounting conservatism.

These results are in line with research conducted by (Verawaty et al., 2017), (Yuliarti & Yanto, 2017), (Ursula & Adhvinna, 2018), (Main & Point, 2018), (Nuraeni & Tama, 2019), (Tesar & Lidiyawati, 2019), (Hakiki & Solikhah, 2019), (Sinambela & Almilia, 2018), (Solichah & Fachrurrozie, 2019), (Shefa El-Haq et al., 2019), (Daryatno & Santioso, 2020), and (Angela & Salim, 2020) which shows that Managerial Ownership has no significant effect on Accounting Conservatism.

This study also obtained results that are in line with those carried out by (Ursula & Adhvinna, 2018) which shows that managerial ownership has no effect on accounting conservatism, if the managerial ownership of the company is indicated at a low level, it will also have an impact on the low sense of belonging to the company and also the company's decisions will not be taken much on the opinions and inputs of management decisions in carrying out the company's interests, so that The main objective of the company's interests is more focused on the level of profit that will be presented in the company's financial statements.

The higher the incentive to obtain company profits in the financial statements, will have an impact on managers who will report more optimistic earnings because they choose not to apply accounting conservatism. Managers prefer to use accounting records that can maximize their goals in getting bonuses or maximum reciprocal performance appraisals so that it is less likely in a company to carry out conservative accounting.

However, the results of the study prove that this research is contrary to the Theory Agency (Watts & Zimmerman, 1986) which states that in the financial statements can be seen a relationship that occurs between shareholders and management. Management in managing the company's operating activities wants to achieve an assessment that the

company being managed can get an increase in terms of company profits and or an increase in company assets. So based on this concept, managers encourage to increase profits which will increase a number of bonuses as reciprocity obtained according to the positive accounting theory presented by(Watts & Zimmerman, 1986)in the Bonus Plan hypothesis.

This is because managerial share ownership in manufacturing companies in 2017-2019 is statistically descriptive which can be seen in the average number of shares showing a relatively small number with an average of 10.22%, thus proving that the majority of companies in Indonesia are mostly owned. by other parties that have an impact on the strong control of the company by the majority shareholder. So the existing policies in the company, including in terms of determining the level of company accounting conservatism, are not influenced by managerial share ownership(Nuraeni & Tama, 2019).

b. The Effect of Company Growth on Accounting Conservatism

The company's growth as seen from the company's sales growth rate shows that the company's growth variable partially has a significant negative effect on accounting conservatism. These results indicate that the higher the company's growth rate, the less the level of accounting conservatism in the company will be.

Companies that experience increased corporate growth through increased sales apply the principle of low accounting conservatism. The company's rapid growth has resulted in the company's financial needs to expand its market to be even greater. The higher the company's financial needs, the more the company's desire to increase its market share through the expansion of company turnover is expected and it is expected to obtain high profits to provide trust and assessment from investors and encourage new investments in the company in the future.

This research is in line with the results of research conducted by(Permatasari & Yulianto, 2020)which shows that company growth has a significant negative effect on accounting conservatism, only a few of the managers practice the principles of accounting conservatism by reducing profits to meet investment needs in the company. Some companies use external data that is used to meet investment needs so that there is no urgency to reduce profits with the principles of accounting conservatism in financial statements.

The company's increased growth in a period can illustrate how managerial activities in managing the company's operational activities are able or not to improve company performance so that they are able to give confidence to the parties who invest in the company and also creditors for the return of a number of investments that have been given.(Watts & Zimmerman, 1986).

The results of this study are not in line with the Signaling Theory which states that financial statements must be able to provide positive or negative signals to users of the company's financial statements, high company growth should make managers apply accounting conservatism to minimize the risk of future economic uncertainty in the future. in relation to increases in sales growth, especially in credit sales which will have an impact on accounts receivable accounts or costs that will arise from transactions that increase sales which are too significant.

c. The Effect of Profitability on Accounting Conservatism

Profitability as measured by Return on Assets shows that the profitability variable partially has a significant negative effect on Accounting Conservatism. These results indicate that the higher the level of company profitability, it indicates the low application of accounting conservatism is carried out. Where in this study proves the company applies

a low accrual rate to obtain and describe high company profits so that it shows the company's existence in the eyes of investors and the public.

The results of this study are in line with (Utama & Titik, 2018), (Arum & Titik, 2019), and (Solichah & Fachrurrozie, 2019) which state that companies have a strong incentive to show good work results through financial statements at a high level of conservatism. low or by showing an optimistic report by recording the value of income and assets that can be obtained as high as possible.

The results of this study indicate a discrepancy with the hypothesis that has been formulated previously. Due to obtain and maintain the existence of the company in the eyes of shareholders and the public, the company wants to show a high level of profitability so that the application of conservatism will not be applied and have an impact on the emergence of a negative relationship between profitability and accounting conservatism (Yuliarti & Yanto, 2017).

The results of this study also show different things from positive accounting theory and signaling theory which are used as references. Signaling theory states that the high level of profitability means that it indicates the high profit owned by the company, where the profit will give a positive indication of the company's progress in the future. The more profitable a company is reflected in the level of profitability, the more likely it is to practice conservative accounting principles, because managers use conservatism to manage earnings and ensure that profits are balanced and not too volatile.

This is also contrary to Positive Accounting Theory which has the assumption that the relationship of profitability when associated with political costs, namely the high profitability of the company will show a high level of profit reporting as well and will cause political costs to also increase, one of which is the imposition of taxes charged to the company. becomes larger so that a conservative accounting method will be applied if the company's profits show higher numbers to reduce the potential for political costs to arise in the future.

d. Effect of Investment Opportunity Set (IOS) on Accounting Conservatism

Investment Opportunity Set (IOS) as measured by the comparison of the book value of fixed assets shows that the Investment Opportunity Set (IOS) variable partially has no significant effect on Accounting Conservatism. The results of this study are in accordance with research conducted by (Hakiki & Solikhah, 2019) and (Angela & Salim, 2020) which states that the investment opportunity set (IOS) has no effect on the accounting conservatism variable because the company has not been able to optimize its alternative investment opportunities with the expenditure that will arise from the investment choice. The total value of the company which is affected by future expenditures which is currently an alternative investment in the hope of providing increased returns, but the increasing investment opportunity set will also be very vulnerable to asset value depreciation, especially intangible assets that are not recognized.

Investment opportunity set which is illustrated from the number of fixed assets to total assets shows that the fixed assets owned by the company are used to encourage the company's operations to be prioritized to achieve production in relation to the manufacturing industry which is used for production processes and activities supporting business productivity so that companies are very brave to make investment choices. with a note that the costs incurred as a result of these fixed assets can be controlled and can be covered from the use of these assets in relation to supporting the achievement of the company's targets in the future.

The results in this study are not in line with the Signaling Theory where management or companies should consider implementing accounting conservatism by seeing that fixed asset investment also has an expenditure risk in the future in relation to the book value of fixed assets and calculation of depreciation by applying an increasing accrual rate. It will obtain a level of profit that is relatively low and relatively permanent in the financial statements, so that it can provide an overview of the performance of fixed assets that investors can understand the situation in the company and predict performance and take investment steps in the company in the future.

V. Conclusion

The aim of this research is to find out how the influence of Managerial Ownership, Company Growth, Profitability and Investment Opportunity Set (IOS) on Accounting Conservatism. Managerial Ownership has no significant effect on Accounting Conservatism, Company Growth has a significant negative effect on Accounting Conservatism, Profitability has a significant negative effect on Accounting Conservatism, and Investment Opportunity Set (IOS) has no significant effect on Accounting Conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019.

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