

The Effect of Ownership of Managerial, Level of Debt and Growth Opportunities on the Accounting Conservatism

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ABSTRACT

The study finds out affect managerial growth opportunities of manufacturing companies in Indonesia period of 2015-2018. Data collected by purposive sampling method and the sample amounted to 56 companies. This study used multiple regression as techniques for data analysis and helped by *Eviews* version 10.0 and Microsoft Excel 2013. The result of this study indicates that the negative impact of leverage on accounting conservatism, while managerial ownership and growth opportunities have no significant effect on accounting conservatism. However, this study shows that simultaneously, leverage, have a significant effect on accounting conservatism.

Keywords: Managerial Ownership, Leverage, Growth Opportunities, Accounting Conservatism

1. INTRODUCTION

Managerial ownership is one of the factors that make management consider whether or not to use the conservatism principle. Decisions made in the company will be more conservative when managers have high managerial ownership. Opportunities of Growth are also one of the factors surely will affect the conservatism. When the company is experiencing a high growth rate, it will use conservative accounting because of the large need for funds in the future. Companies with a high level of debt will have a high financial risk in the eyes of creditors and shareholders. If the company has a high level of debt, it will reduce the interest of the company or be rejected by the community and the company, which ultimately makes the market value of the company's shares decrease.

Although there are many studies on the principle of conservatism, the results are still inconsistent. Alfian and Sabeni (2012) [1] show that managerial ownership and growth opportunities have significant positive effect on accounting conservatism. However, Savitri (2016) [2] shows that growth opportunities have a significant effect on accounting conservatism. Then, Dewi and Suryanawa (2014) [3] revealed that managerial ownership and debt levels have an effect on accounting conservatism. However, Pramudita (2012) [4] in his research produced a level of debt that had no influence on accounting conservatism.

1.1. Related Work

According to Sugiyanto and Chandra (2019) [5], relates their signal theory to the problem of information asymmetry between management and investors, regarding

the company's capital structure is determined by incentive signals from company management. Management with an information advantage has an incentive to signal information to people through the debt level option. According to Wulandari, et al. (2014) [6], signal theory also explains that managers will provide information with financial reports which show that companies carry out conservative accounting policies in order to get higher quality profits because the principle of accounting conservatism prevents a company from enlarging profits and also helps users of financial statements so that in their presentation, they provide a non-exaggerating picture of assets and profits.

Agency theory has a key element where principals and agents have different choices or goals. Principals have the motivation to prosper themselves through company profits, while agents have the motivation to increase their economic and psychological needs in terms of getting compensations and loans. This distinction able to bring a conflict of interest between those two. Wulandari, et al (2014) [6] explained that positive accounting theory predicts that managers will increase their earnings with the aim of hiding their poor performance. The tendency to increase profits is due to information asymmetry, limited managerial tenure, limited managerial obligations, and payment asymmetry. Daljono (2013) [7] describes positive theory which is a theory that wants to explain and predict a certain event.

Wulandari, et al. (2014) [6] in their research found that the results did not have a significant effect on managerial ownership and accounting conservatism because of the low share ownership, so the company is more concerned with the profits that will be obtained and what will be presented

in financial statements. Because they want to increase profits, the company does not have reserve funds that can increase investment. So, the manager makes an over optimistic earnings report. Meanwhile, Dewi and Suryanawa's research (2014) [8] produces ownership of managerial which has a powerful positive effect on accounting conservatism, which means managers tend to choose conservative accounting if shares owned by high management.

Saputra (2016) [9] in his research results obtained a significant positive effect of growth opportunities or opportunities for accounting conservatism. He said that growth opportunities have a role for accounting conservatism. He also said that goodwill will be created because the growth that occurs can be responded positively so that the book value will be smaller than the company's conservative market value.

Affianti and Supriyati (2019) [10] say that companies with a lot of debt have a high level of financial risk to creditors and shareholders. The risk surely decreases the company's attractiveness in the point of view of potential investors. The drop of attractiveness of the public and investors to the company of course lower the market price of the company's shares. The drop of stock prices surely will make the market-to-book ratio lower, which is a proxy for conservative measurements. The drop of the value of the market to the book ratio shows that the company is becoming less conservative.

The hypotheses of this study are as follows:

H₁: Managerial ownership has an effect on accounting conservatism

H₂: The level of debt affects accounting conservatism

H₃: Growth Opportunities have an effect on accounting conservatism

1.2. Our Contribution

The purpose of this study is to find out the effect of managerial ownership, leverage and growth opportunities to accounting conservatism. this study indicates that the negative impact of leverage on accounting conservatism, while managerial ownership and growth opportunities have no significant effect on accounting conservatism. However, this study shows that simultaneously managerial ownership, leverage, and growth opportunities have a significant effect on accounting conservatism.

1.3. Paper Structure

The population used in this study are manufacturing companies from all sectors listed on the Indonesia Stock Exchange during the 2016-2018 period. The sample was taken by using objective sampling method. The objective sampling is a sampling process that limits the number of samples with criteria defined by the researcher to point results better. The sample size to be used in this study will be determined by certain criteria or limitations. Sampling in this study was conducted with the following criteria, namely: (a) Manufacturing companies listed on the (IDX) Indonesia

Stock Exchange during the 2015-2018 period, (b) Companies presenting financial reports in both rupiah and USD during the study period, (c) the company has reports complete and audited finance for the period 2015-2018, (d) the company has data on the closing price of shares, (e) the company has data that the commissioners and directors hold shares, (f) the company has a positive amount of leverage. The number of companies that meet the criteria is 56 companies.

2. METHODS

The variables of independent used in the study as follows managerial ownership, level of debt, and opportunities of growth. While the dependent variable is accounting conservatism. Accounting conservatism will be formulated by:

$$\text{CONACC} = \frac{(\text{NIO} + \text{DEP} - \text{CFO}) \times \text{TA}}{\text{TA}}$$

Description:

CONACC : *Earnings conservatism based on accrued items*

NIO : *Operating profit of current year*

DEP : *Depreciation of fixed assets of current year*

CFO : *Net amount of cash flow from operating activities of current year*

TA : *Book value of closing total assets*

If the CONACC > 0 or positive value, then the company has a high level of conservatism.

If the CONACC value < 0 or negative, then the company has a low level of conservatism.

Managerial ownership can be formulated as:

$$\text{KM} = \frac{\text{the number of shares owned by commissioners and directors}}{\text{the number of shares outstanding}}$$

Growth opportunities will be formulated with:

$$= \frac{\text{Market to book value of equity} \times \text{the number of shares outstanding} \times \text{the closing price of the shares}}{\text{Total Equities}}$$

The level of debt can be proxied by the Debt to Asset Ratio (DAR). DAR will be formulated by:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

Based on descriptive statistical testing, it can be seen that accounting conservatism (Y) shows an average value (mean) of -0.002583 and the median value (median) in this study is -0.016017. Then, from the results above, the highest value of accounting conservatism variable (Y) is 1.642815 and the lowest value is -0.784481. Furthermore, the standard deviation obtained from testing on this variable is 0.182436. Then, the managerial ownership variable (X₁) shows an average value (mean) of 0.102163 from 224 research samples and obtains a middle value (median) of 0.016900 with the highest value of and the lowest value of 0.7393 and 0.000008 the standard deviation shown at 0.174928. Then, the variable level of debt (X₂) produces an average (mean) of 0.577987 and obtains a

middle value (median) of 0.470088 has the highest value of 11.36465 and the lowest value of 0.022748 and has a standard deviation of 1.074379. And the third variable, namely growth opportunities (X_3), shows an average result (mean) of 17.21743 and a median (median) of 0.915191. Next, the highest value is 1014.283 and the lowest value is 0.056147, and indicated a standard deviation of 113.1514.

Table 1 The Results of Statistical Test

Statistical Test Table t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.117379	0.021196	5.537798	0.0000
X1	0.101755	0.133130	0.764329	0.4458
X2	-0.221099	0.018751	-11.79132	0.0000
X3	-0.000149	0.000454	-0.328201	0.7432

Sumber: output *Eviews 10.0*

For the t test, the probability of X_1 is 0.4458 with a coefficient value of 0.117379. When viewed from the probability results of 0.4458, this value is greater than 0.05, so it can be said that the variable X_1 , according to accounting conservatism has no effect. In variable X_2 , a probability of 0.0000 is obtained, so it can be said that the level of debt affects accounting conservatism because the value is less than 0.05. However, if we pay attention to the existing results through the coefficient value of -0.221099, it means that the effect of the debt level is negative, so if we conclude again that accounting conservatism is affected but negatively. Then, in the X_3 variable, the probability can be seen of 0.7432. When compared with the significance of 0.05, this means that the probability value of 0.7432 is superior than 0.05, it can be said that variable does not have influence to accounting conservatism.

Table 2 Determination-Coefficient Test

<i>R-Squared</i>	<i>Adjusted R-Squared</i>
0,549118	0,390626

Source: *Eviews 10.0*

Based on the table above, it could be seen the results of the determination coefficient test on R-Squared are 0.549118 and the Adjusted R-Squared is 0.390626. From this figure, it can be interpreted that the Managerial Ownership, Debt Level, and Growth Opportunities variables have abilities far from 1. It can also be interpreted that it is limited in explaining the Accounting Conservatism variable because the Adjusted R-Squared is only 0.390626 which is still 39.06 % can be explained by Managerial Ownership, Debt Level and Growth Opportunities and 60.94% is not variables in the study.

3. FINDINGS AND DISCUSSIONS

The results of proving the hypothesis in this study for X_1 affect Y rejected. From the results obtained in this study, it can be said that although management is a shareholder and has ownership, it does not have a significant effect because in every company, not all management have share ownership or become shareholders so they tend to use accounting methods or principles that can maximize bonus. The results obtained support the results obtained in the research of Alfian and Sabeni (2012) [1], Deslatu and Susanto (2017) [11], Viola and Diana (2016) [12], and Wulandari, et al (2014) [6]. At the level of debt, the results obtained, namely the level of debt affect accounting conservatism. However, the results obtained have a negative effect on accounting conservatism. From the results, it can be said that managers tend to increase company profits so that the financial condition of the company is seen as good by creditors, which is actually not so good. The results obtained from this study are the same as the results obtained by Noviantari and Ratnadi (2015) [13], Viola and Diana (2016) [12], and in Affianti and Supriyati's research (2019) [10]. In growth opportunities, the results obtained do not have a significant effect on accounting conservatism. Similar results were found by Deslatu and Susanto (2017) [11] and Savitri (2016) [12].

4. CONCLUSION

Based on the results of the study, it is shown that accounting conservatism is not influenced by managerial ownership and the growth opportunities that may occur because not all companies provide shares to management, although not all provide them with a large value. And for growth opportunities, this is due to the absence of hidden reserves kept by the company.

The limitations of this study are due to: (a) the research period is only 4 years, namely from 2015-2018, (b) the research only uses three independent variables, and (c) the research object is limited, namely only using manufacturing companies. Based on the existing limitations, for further research, it is best to be able to increase the period so that it can be seen whether there is a stronger effect if the study period is extended. Then also can add or replace variables that do not exist in this study. Then, you can also replace the research subject with companies other than manufacturing companies.

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