



# The Effect Of Managerial Ownership, Institutional Ownership, Growth Opportunity And Profitability On Accounting Conservatism

Widaryanti

*Sekolah Tinggi Ilmu Ekonomi Pelita Nusantara, Semarang, Indonesia*

[wdr.yanti2@gmail.com](mailto:wdr.yanti2@gmail.com)

\*Corresponding Author

## ABSTRACT

This study aims to analyze the effect of Managerial Ownership, Institutional Ownership, Growth Opportunity and Profitability on Accounting Conservatism. With a sample of 165 manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019 selected using the purposive sampling method. The data obtained in this study used the documentation method. With multiple regression analysis method. Data collection method by understanding secondary data obtained from external sources and financial reports of producers listed on the Indonesia Stock Exchange. The results of this study are that managerial ownership has a negative and insignificant effect on accounting conservatism. From these results it can be said that although management is the shareholder and owner, there is no significant effect. Not all executives in the company own shares in the company. As a result, management tends to apply accounting principles while minimizing profits. Institutional ownership and growth opportunity have no effect on accounting conservatism. These results indicate that all manufacturers apply the precautionary accounting principle. Profitability has a positive effect on accounting conservatism.

**Keywords:** Accounting conservatism, Growth opportunity, Institutional ownership, Managerial ownership, Profitability

## INTRODUCTION

Many factors are believed to influence accounting conservatism. The first element is managerial ownership. Management ownership is such that management behavior is directly involved in all decisions (Siregar and Pambudi, 2017). Ownership of senior management tends to use conservative principles (Anggraeni, 2017). Management has a high level of management awareness and makes careful decisions. Takeovers have an impact somewhat similar to the application of conservative principles (Dita, 2017). Financial reports provide reliable information if management applies proper monitoring skills (Nurjanah, 2020). According to a survey (El-haq 2019) and Wutantoro and Maharani (2020), management ownership has no significant effect on accountants' maintainability. Meanwhile, Putra et al. , (2019) and Pratiwi et al (2020), in their research, argue that management ownership has a significant positive effect on conservatism in accounting.

The second factor is institutional ownership. Institutional ownership is the percentage of organizational share ownership, which is expressed as a percentage (Nabela, 2012). Institutional ownership encourages greater vigilance on the part of managers for optimal performance (Anggraeni, 2017). Institutions are only interested in high rates of return. The greater the institutional ownership, the greater the degree of application of the principle of conservatism. This is because it monitors the behavior of managers so that the organization does not report excessive profits. Son et al. , (2019) and Roberts and all (2019) show that institutional ownership has a positive effect on accounting prudence. On the other hand, according to the Pratiwi and Gladisia





(2020) survey, system ownership does not affect account maintenance.

The third factor is growth opportunity. Growth opportunity is a growth opportunity (El Haq et al., 2019). A high level of growth opportunities in a business requires sufficient capital to fund future growth activities. This is because the company hides reserves to increase its investment and can reduce its profits during this period. Due to the large amount of funds, managers use conservative principles to cover the company's investment costs. According to a survey by ElHaq and All (2019), growth opportunities have a significant impact on accounting conservatives. On the other hand, according to Mulyani and Juvenrio (2017), growth opportunities do not have a significant effect on accounting conservatism.

The fourth factor is profitability. Profitability is the percentage used by a business to determine its ability to generate profits over a certain period of time and to provide insight into the efficiency of its operations. Firms with higher profits are more profitable and therefore more likely to have political costs. The higher the return on investment (ROA), the more conservative the principles applied because the company wants to reduce the costs of politicians (El Haq et al, 2019). According to a survey by ElHaq, et al (2019) and Wtantor and Maharani (2020), profitability has no significant effect on accounting maintenance. Meanwhile, Abdurahman and Ermawati (2018) argue that profitability has a significant negative effect on accounting maintenance. Research with the concept of accounting conservatism still gives mixed results. The purpose of this study is to analyze the effect of managerial ownership, institutional ownership, growth opportunity and profitability on accounting conservatism either partially or simultaneously (Case study on manufacturing companies listed on the Indonesia Stock Exchange in 2017 - 2019).

## LITERATURE STUDY

A contract between one or more parties that uses another party to provide services that delegate decision-making authority to another party is the definition of agency theory proposed by Jensen and Meckling (1976). Jensen and Meckling (1972) also suggested that agency theory, also known as contract theory, views the firm as a contractual arrangement between employees. Therefore, this theory states that every part of the company has a corresponding interest in achieving business goals. Shareholders who act as agents and managers as agents are an important part of agency theory. The agent must perform various tasks assigned by the principal. In this case, the person signs a contract with the agency to manage the company's resources. The principal provides the necessary equipment and funds for the company's activities. As a director, the agent is responsible for the management of the company's assets and all previous activities. Agency theory can cause agency problems because entrepreneurs and their parties seek to maximize useful functions for their own benefit (Jensen and Meckling, 1976). If there is discrepancy in information between the principal and the agent, agency problems may arise. One of the agency problems that often occurs is information asymmetry. Obtaining incomplete information can create information asymmetry. Information asymmetry is a condition in which information is held by agents who act as information providers rather than principals as users of information. For example, managers are responsible for running the company, so they have more information about the company than shareholders. Therefore, under these circumstances there is little information about shareholders and it is difficult for shareholders to control the company which is directed by management. This situation benefits management as it allows them to maximize their performance.

### Accounting Conservatism

According to Soewardjono (2010), accounting conservatism recognizes potential costs and losses, but does not immediately explain future income or gains. According to the FASB Statement of Concept 2, accounting conservatism is a cautious response to certain business uncertainties, taking into account the level of uncertainty and risk in business and the business environment. This ambiguity and risk should be reflected in financial statements to improve forecasts and neutrality. Sound reporting is in the best interest of all users of financial statements. The following are factors that cause conservatism to be still feasible to apply in accounting according to Watts (2003) and Winelti (2012), namely: 1) Contracting, 2) Litigation (litigation), 3) Political costs.

Conservatism in accounting tends to require higher levels of auditing because accountants see bad news as a loss and good news as an advantage. Based on the precautionary principle,





financial statements are intended to be useful to users. Therefore, the greater the difference between receivables and company profits, the more conservative the financial statements presented. These are usually very large assets, but tend to delay the recognition of assets and revenues until the business actually receives those assets and revenues. Subsequent losses or costs incurred will be recognized immediately. Until now the principle of conservatism is still a controversy in every company. There are parties who consider that the principle of conservatism is beneficial, but not a few parties who consider that the principle of conservatism is not useful.

## METHOD

In this study, the dependent variable is conservatism in accounting. According to Watt (2003), the accounting conservatism scale uses a capital scale. This measure uses income, depreciation expense, net operating cash flow. The independent variable in this study is the manager's share ownership variable. Manager's shareholding uses two metrics: the number of shares held by management and the total shareholder base. The institutional ownership variable is measured by two metrics: the number of shares owned by the institution and the total number of shares owned. Growth Opportunity number of shares outstanding x closing price of shares / total equity. In this study, researchers used return on activity (ROA) to measure profitability. The subjects of this survey are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017, 2018 and 2019. For sampling in this study, we used a rational sampling method: deterministic test-based sampling. Data collection method by understanding secondary data obtained from external sources and financial reports of producers listed on the Indonesia Stock Exchange. Multilinear analysis (multiple regression) was conducted to examine the effect of two or more independent variables on the dependent variable (Ghazali 2011).

## RESULTS AND DISCUSSION

In this study, the sample used was a manufacturing company listed on the Indonesia Stock Exchange in 2017-2019, and reported the financial statements used during the study and presented the data needed during the study. Sample for 2017-2019 survey is 165. To generate normal data from the sample results (N) up to 157 companies and then exclude up to 8 companies by way of outliers.

**Table 1. Statistic descriptive**

	N	Minimum	Maximum	Mean	Std. Deviation
KM	157	,0000	,7320	,095122	,1695507
KI	157	,0002	,9339	,461534	,2841283
GO	157	-,0278	100,6930	3,428522	11,9052935
PROFIT	157	-,2099	,4808	,037063	,0810674
CONACC	157	-,1868	,1287	,013130	,0567679
Valid N (listwise)	157				

Source: Output SPSS 24,2021

Testing this assumption by observing the Skweness-kurtosis table. The test results of skweness-kurtosis are as follows:

**Table 2. Skewness-Kurtosis Test**

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Unstandardized Residual	157	-,021	,194	-,182	,385
Valid N (listwise)	157				

Source: Output SPSS 24,2021

Based on the results of the output table above, the Skewness value is  $-0.107 < 1.96$  and Kurtoziz is  $0.466 < 1.96$ , with these results, the processed data has met the normality test.



**Table 3. Autocorelation Test**

Model	R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
1	,480 <sup>a</sup>	,231	,210	,0504467	2,144

Source: Output SPSS 24,2021

Because the DW value of 2.144 is greater than the upper limit (du) of 1.79 and less than 4-1.79 (4-du), it can be concluded that there is no autocorrelation problem.

**Table 4. Multicolonearity Test**

Model		Collonearity Statistics	
		Tolerance	VIF
1	KM	,889	1,125
	KI	,892	1,121
	GO	,890	1,123
	PROFIT	,894	1,119

Source: Output SPSS 24,2021

From the results of the multicolonearity test above, it shows that all VIF values of each variable have a value less than 10 and a tolerance value greater than 0.10. So it can be concluded that the regression model used in this study does not occur multicolonearity because there is no correlation between independent variables.

**Table 5. Spearman Rho Test**

			KM	KI	GO	PROFIT	ABS_RES
Spearman's rho	KM	Correlation Coefficient	1,000	-,014	-,184*	-,127	-,126
		Sig. (2-tailed)	.	,860	,021	,112	,117
		N	157	157	157	157	157
	KI	Correlation Coefficient	-,014	1,000	,002	-,010	,063
		Sig. (2-tailed)	,860	.	,979	,905	,433
		N	157	157	157	157	157
	GO	Correlation Coefficient	-,184*	,002	1,000	,341**	,041
		Sig. (2-tailed)	,021	,979	.	,000	,614
		N	157	157	157	157	157
	PROFIT	Correlation Coefficient	-,127	-,010	,341**	1,000	-,001
		Sig. (2-tailed)	,112	,905	,000	.	,987
		N	157	157	157	157	157
	ABS_RES	Correlation Coefficient	-,126	,063	,041	-,001	1,000
		Sig. (2-tailed)	,117	,433	,614	,987	.
		N	157	157	157	157	157

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*.. Correlation is significant at the 0.01 level (2-tailed).

Source: Output SPSS 24,2021

From the results of the Spearman Rho test above, it is stated that all variables have sig values. more than 0.05, it can be concluded that in this study there is no heteroscedasticity.

**Table 6. Multiple Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,008	,009		-,795	,428
	KM	-,045	,025	-,133	-1,768	,079
	KI	,033	,015	,163	2,170	,032
	GO	,000	,000	-,092	-1,216	,226
	PROFIT	,306	,053	,437	5,803	,000

Source: Output SPSS 24,2021

Managerial ownership variable shows the results of  $t_{count} > t_{table}$  ( $-1.768 < 1.654$ ) with a significance value of 0.079 which is greater than the value of  $= 0.05$  in a positive direction. This means that H1 with the result "managerial ownership has a positive effect on accounting conservatism" is rejected. So it can be concluded that managerial ownership has no effect on accounting conservatism. From these results it can be said that although management is the shareholder and owner, there is no significant effect. Not all executives in the company own shares in the company. As a result, management tends to apply accounting principles while minimizing profits. The results of this survey are consistent with the survey conducted by Putra et al (2019), which confirmed that manager ownership has a positive impact on accounting maintenance. However, this study is inconsistent with the research of El Haq et al (2019) and Wutantoro and Maharani (2020), which argue that manager ownership does not affect accounting conservativeness.

Institutional ownership variable shows  $t_{count} < t_{table}$  ( $2.170 < 1.654$ ) with a significant value of 0.032 which is smaller than the value of  $= 0.05$ . This means that H2 with the result "institutional ownership has a positive and significant effect on accounting conservatism" is accepted. From the results of the study, it can be seen that institutional leadership can make the institution perform well the function of monitoring the performance of management in carrying out the principle of conservatism. The results of this study are in line with the research of Putra et al (2019) which states that board ownership has a positive effect on accounting policy. However, this study contradicts the research of ElHaq et al (2019) and Wutantoro and Maharani (2020), which argues that management ownership does not affect accounting conservatism.

Growth opportunity variable shows  $t_{count} < t_{table}$  ( $-1.216 < 1.654$ ) with a significant value of 0.226 which is greater than  $= 0.05$ . This means that H3 with the result "growth opportunity has a positive effect on accounting conservatism" is rejected. So it can be concluded that growth opportunity has no effect on accounting conservatism. These results indicate that all manufacturers apply the precautionary accounting principle. This is not always the case for developing companies. Growing companies tend to require more capital to meet their needs to support the growth process. As a result, growing companies tend to choose other accounting methods to attract investors who are interested in investing in their business. The results of this survey are inconsistent with a survey conducted by El Haq et al (2019), which argues that growth opportunities affect accounting conservatives. However, this study is in line with research by Mulyani and Juvenrio (2017) that growth opportunity has no effect on accounting conservatism.

Profitability variable shows  $t_{count} > t_{table}$  ( $5.803 > 1.654$ ) with a significance value of 0.000 which is smaller than  $= 0.05$ . This means that H4 with the result "Profitability has a positive effect on accounting conservatism" is accepted. With a higher level of profitability, the company applies the precautionary principle to reduce political costs. The results of this study contradict the research of Abdurahman and Ernawati (2018) which found that





profitability has a significant negative effect on accounting prudence. However, Syifa et al. that profitability has a positive effect on accounting prudence.

### CONCLUSION

The researcher draws the following conclusions that managerial ownership and growth opportunity have no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. Institutional ownership and profitability have a positive effect on accounting conservatism in manufacturing companies listed on the IDX in 2017-2019. Managerial ownership, institutional ownership, growth opportunity and profitability have a simultaneous effect on accounting conservatism. This study only uses four independent variables, namely management ownership, institutional ownership, growth opportunity and profitability. It is hoped that further research can use other variables such as leverage, opportunity pool, litigation risk, financial difficulty, etc. Future studies are expected to use other measurement tools to measure accounting conservatism and allow clear comparisons to get better results.

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