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ANALYSIS OF THE INFLUENCE OF MANAGERIAL OWNERSHIP, ORGANIZATION SIZE, DEBT CONTRACTS AND INFORMATION SYSTEMS ON MANUFACTURING COMPANY ACCOUNTING SYSTEMS

Abstract:

This study examines manufacturing businesses listed on the Indonesia Stock Exchange between 2020 and 2022 in order to ascertain the impact of managerial ownership, knowledge asymmetry, loan contracts, and company size on accounting conservatism. 34 businesses were utilized as a sample in this study. Purposive sampling was the method of sampling employed in this investigation. Multiple regression analysis was used in this study to evaluate the hypothesis. The findings demonstrated a substantial relationship between management ownership and accounting conservatism. Accounting conservatism is significantly impacted by contract debt. Accounting conservatism is significantly influenced by company size. While accounting conservatism is unaffected by information asymmetry. Accounting conservatism as assessed by BTMR is influenced by managerial ownership, knowledge asymmetry, debt obligations, and firm size collectively.

Keywords

Indonesia Stock Exchange, Managerial Ownership, Accounting Conservatism, Firm Size.

Introduction

Information about a company's resource management performance may be found in its financial statements. The end result of a company's accounting efforts are financial statements. These financial statements' main objective in serving the public interest is to convey data on the entity's financial situation, financial performance, and cash flow because this information is crucial for making business choices. Every business is required to produce accurate and honest financial records. Since both internal and external parties utilize the information provided by these financial statements, the reporting must adhere to the applicable standards' objectives, regulations, and accounting principles in order to provide financial reports that are helpful to each user. Savitri asserts that earnings data, which offers details on a company's financial success over a specific time period, is one of the key focuses in financial reporting. As consumers of financial statements, creditors and investors can analyze a firm's performance, estimate profits, forecast future profits, and determine the risk of lending money to or investing in the company using earnings and its components.

One approach to accounting recognition known as accounting conservatism is thought to be able to foresee the ambiguity of corporate earnings. Belkaoui claims that conservatism is a concept of exclusion or modification since it restricts the display of accurate and pertinent accounting data. One of the basic concepts in the compilation of financial statements is accounting conservatism, which essentially stresses the use of recording techniques with the least chance of resulting in values of assets and income. According to the conservatism tenet, income and assets are not instantly recognized even if they have a high likelihood of happening. However, obligations and costs are. Therefore, if there are circumstances that might result in losses, costs, or debts, such losses, costs, or debts must be recognized right away. In contrast, the relevant revenue or asset should not be recognized right away if there is a condition that is likely to result in profit until it has really been realized.

When preparing financial accounts, conservative accounting is a principle that recognizes estimations of losses but disallows the recognition of profits that have not yet been realized. As a result, it is clear why using the concept of accounting conservatism would result in low profits for the financial statements since it expedites expense recognition while slowing down revenue recognition. Each organization has a distinct amount of conservatism since they all have different demands. To create accurate financial accounts, management will decide how much conservatism to implement throughout the organization. The firm is operating in an unpredictable economic environment, which is why the accounting conservatism concept is being applied.

Numerous accounting scandals in recent years have entered the legal system. The underapplied accounting conservative standard in the financial statement presentation is one of the scandal's contributing factors. At the American corporation WorldCom and the Japanese company Toshiba, there are financial manipulation allegations. The WorldCom corporation fabricated 3.8 billion US dollars' worth of sales in 2002. By recording line costs as income when they should have been expenses and raising revenues using fictitious account entries that were written as unallocated corporate income accounts, the corporation was able to conceal falling revenues. With assets valued at 103.9 billion dollars, the corporate bankruptcy of WorldCom was the biggest in American history at the time. The company's profits were exaggerated by US$1.2 billion over a five-year period, according to the conclusions of an impartial committee created by the company, and the second was in 2015.

Managemental ownership, institutional ownership, outsiders, information asymmetry, audit committees, independent commissioners, liquidity, sales growth, current ratio, profitability, company growth, CEO turnover, audit quality, financial distress, board size, board composition, stock price crash risk, and operational risk are a few of the variables that can affect accounting conservatism. The only independent variables utilized in this study, however, were managerial ownership elements, information asymmetry, loan contracts, and firm size. Managerial ownership is the percentage of shares owned by managers of all outstanding company shares. Managerial ownership can have an influence on the company because owning part of the shares in the company will lead to financial interests which result in management applying more conservative accounting. The proportion of ownership structure can influence company policy and decision making. If managerial ownership is higher than external parties, the company will tend to use conservative accounting methods.

Information asymmetry arises when management (the agent) has access to more information than the investor (the principle). In an agency relationship, information asymmetry always occurs when one party, in this example corporate management, shareholders, and stakeholders, obtains unequal information compared to the other party. One of the elements that might result in the manipulation of financial statements is information asymmetry. Therefore, choosing conservative accounting rules is one strategy to prevent the manipulation of financial figures.

Company size is another element that influences accounting conservatism in addition to the aforementioned ones. The size of a firm reflects the amount of wealth (assets) it has. The business is classified between major corporations and small enterprises based on size. More complicated management systems and better earnings are characteristics of larger companies. Large businesses may face greater risks and more issues. In addition, compared to small businesses, huge corporations would incur higher political expenses. In order to minimize significant tax burdens (political expenses) resulting from huge profits, corporations with enormous sizes typically follow the principle of accounting conservatism so that the profits earned are not excessively high. This study aims to determine the effect of managerial ownership, information asymmetry, debt contracts and company size on accounting conservatism.

1. Literature Review

Conservatism is a cautious concept used when presented with options that are very unlikely to lead to overestimation of assets and earnings. When in doubt, pick a conservative course of action that is highly unlikely to provide excessive revenues for assets and profits. According to Watts, accounting conservatism requires a difference that can be verified or tested in order to distinguish between a profit and a loss. According to how it has historically been understood, accounting conservatism foresees all losses rather than gains. Conservatism conforms to the idea of speeding expense recognition while postponing revenue recognition. As a result, claimed earnings are frequently exaggerated.

Incentives connected to contract prices for debt agreements, political expenses like taxes, and compensation for management success are what lead to accounting conservatism. In order to identify bad news as losses and good news as profits and to promote effective contracts between management and shareholders, accounting conservatism uses more suitable standards. Conservatism is the idea of exercising prudence in the face of uncertainty in order to prevent managers and business owners from being overly optimistic. The key tenets of conservatism are as follows: (1) one should not predict profits before they materialize, but one should acknowledge losses that are extremely likely to take place. (2) When given a choice of two or more accounting procedures, accounting must select the one that is least advantageous to the business.

The proportion of outstanding business shares that are owned by managers is known as managerial ownership. The term "managerial ownership" refers to a situation in which the manager holds stock in the firm or is a stakeholder in it. The fact that the management of the firm owns a sizable portion of the shares demonstrates this. There are differences between businesses with high managerial ownership and those with little or no managerial ownership. Decisions and actions will be in line with the interests of management, who are also shareholders, in businesses with high managerial ownership. The more ownership by management there is in a corporation, the more that management will work to further their own interests as shareholders.

Due to the manager's sense of ownership in the firm, managerial ownership might also stop management from declaring earnings in an exaggerated manner. Additionally, management's desire to manage earnings through income maximization is diminished, which results in a low tendency for earnings reporting. On the theory that declaring results that are not overstatements would allow management to expand the firm by employing concealed reserve cash, this is done. By increasing the firm's worth in this manner, potential investors and investors may see the company favorably and decide to invest. On the other hand, in businesses with little or no managerial ownership, the management will operate in the best interests of the business, not the shareholders. Because managers would seek incentives from realizable profits (the plan bonus theory), earnings reporting will be overstated. As a result, management performance will be favorable to shareholders who anticipate receiving dividends on the created earnings. The corporation will thus declare earnings at a greater value than it ought to.

Agency issues will occur if there is a division between the principal and the agent in charge of running the business since each of these parties will constantly seek to optimize their utility function. This occurs as a result of the separation of the company's ownership and management. Managers or agents have access to more knowledge about the business and its prospects than the principle, according to Apriliyanto. This circumstance offers the agent the chance to distort financial reporting using the knowledge he possesses in an effort to increase wealth. Because management and stockholders hold different opinions, information asymmetry results. Different commercial interests result in various information requirements that are required by both parties. Adverse selection and moral hazard are two examples of information asymmetry, according to Scott.

One or more groups in commercial transactions or transactions may have surplus knowledge that is advantageous relative to other groups, which is a sort of information asymmetry known as adverse selection. Managers have a number of strategies to benefit from the knowledge advantage they have over investors. By arranging the data presented to investors, among other things. Investors' capacity to make investing decisions may be impacted by this. One or more organizations in a commercial transaction or potential transaction can monitor the degree of their activities in the fulfillment of the deal, but other groups cannot. This creates a sort of information asymmetry known as moral hazard. The separation of ownership and control that distinguishes the majority of business structures is the root of this issue.

Leverage (debt contract) is a measure of how much of the company's assets are funded by debt and how secure the lenders feel they are. The amount of debt (also known as leverage) is the utilization of resources by businesses with a fixed burden in an effort to raise the potential returns for shareholders. One ratio used to gauge how much debt is utilized for business spending is leverage. Leverage is the term used to define the connection between business debt, capital, and assets. Hery asserts that there are four different kinds of leverage ratios: times interest earned ratio, debt to equity ratio, long-term debt to equity ratio, and debt to asset ratio.

Company size refers to a company's size as determined by the total value of its assets. Purnama and Daljono claim that a comparison of the size or size of an object may be used to evaluate a company's size in general. According to Bahaudin, business sizes may be broadly categorized into three groups: big businesses, mid-sized businesses, and small businesses. According to Susanto and Ramadhani, the logarithm of total assets, which is increasing in size, reflects the firm size and will increase it. In comparison to smaller businesses, large businesses are considered to have bigger earnings. Large businesses so frequently run more risks. Large corporations typically employ conservative accounting methods because they must deal with substantial political expenses. Furthermore, Susanto and Ramdhani argued that because large corporations may have higher tax rates, they will often employ the principle of prudence to declare earnings at the lowest possible level.

2. Methodology

The quantitative approach used in this study is an associative research kind. This study focuses on the relationship between managerial ownership, as represented by the percentage of outstanding shares owned by management and the percentage of shares owned by management, accounting conservatism, as represented by the BTMR, information asymmetry, as represented by company spreads, debt contracts, as represented by the debt to equity ratio, and company size, as represented by total assets. This study focuses on the manufacturing companies that will list on the Indonesia Stock Exchange between 2020 and 2022. A purposive selection technique was used to choose a sample of 34 firms for this investigation. The company's annual financial report was where the secondary data for this study was gathered. Multiple linear regression was performed to analyze the data using the SPSS V 20 application.

3. Results

Before leading to the main hypothesis testing, the data in this study were processed in the classical assumption test to fulfill the requirements of linear regression analysis. In the normality test, it was found that the significant value of this research was obtained at 0.200 > 0.05, which means that the data is normally distributed and has met the normality requirements in the regression model. Through P-Plot testing, it is obtained that the points follow and approach the diagonal line, meaning that the regression model fulfills the normality assumption.

The tolerance value of all independent variables is greater than 0.10, and the VIF value of all independent variables is greater than 10.00, according to multicollinearity. Accordingly, the regression equation model does not have a multicolonierity problem and may be employed in this study based on the findings of the calculations mentioned above. According to the heteroscedasticity results. However, it is known that there are no dots that create a particular pattern and that the dots are evenly spaced above and below the value 0 on the Y axis, proving that there is no heteroscedasticity. Regression analysis test findings may be used to create a multiple linear regression equation, which looks like this: Y = 1.904 - 0.008X1 + 0.002X2 + 0.000X3 - 0.050X4 + 0,535

The constant value (a) shows the value of accounting conservatism (Y). This means that if the managerial ownership variable, information asymmetry, debt contract and company size are considered constant, then the value of accounting conservatism is 1.904. Managerial ownership is directly proportional to accounting conservatism. This can be seen from the regression coefficient on the managerial ownership variable (X1) of -0.008. This means that there is a negative relationship between managerial ownership and accounting conservatism. Where the better managerial ownership, the more accounting conservatism will decrease. Information asymmetry is in line with accounting conservatism. This can be seen from the regression coefficient on the information asymmetry variable (X2) of 0.02. This means that there is a unidirectional relationship between information asymmetry and accounting conservatism. Where the higher the information asymmetry, the accounting conservatism will decrease. Debt contract is neutral to accounting conservatism. This can be seen from the regression coefficient on the debt contract variable (X3) of 0.000. This means that there is no unidirectional or opposite relationship between debt contracts and accounting conservatism. Where the better or not a company's debt contract, accounting conservatism will not increase or decrease. Company size (X4) has a negative influence or is not in line with accounting conservatism. This is evidenced by the coefficient value of -0.050. Where the larger the company size, the lower the accounting conservatism.

The simultaneous testing results show that the F value is 5.471 with a 0,001 sign. Conclusion: Accounting conservatism as assessed by BTMR is influenced by management ownership characteristics, knowledge asymmetry, debt obligations, and firm size. According to the results of the coefficient of determination test, the adjusted R square value is 0.150, which means that variations in the independent variables managerial ownership, information asymmetry, debt contracts, and company size can account for 15% of the variation in the dependent variable BTMR. While the remaining 85% is explained by other causes outside the model, such as litigation, profitability, growth opportunity, board size, analyst coverage and financial distress.

It is known that management ownership (X1) has a significance level of 0.0027 (0.05) based on the findings of the t statistical test. As a result, H1 is accepted, allowing the claim that managerial ownership influences accounting conservatism to be made. The significance level for information asymmetry (X2) is thus 0.055 (>0.05). As a result, H2 is disproved, and it may be concluded that accounting conservatism is unaffected by knowledge asymmetry. The significance threshold for the debt contracts (X3) t test findings is 0.001 (0.05). Therefore, H3 is acknowledged, and it may be inferred that debt contracts have an impact on accounting conservatism. The significance threshold for the firm size variable (X4) is thus 0.007 (0.05). Thus, H4 is recognized, allowing it to be claimed that accounting conservatism is influenced by firm size.

4. Discussion

Managerial ownership has an impact on accounting conservatism. According to the major premise put out, management ownership has an impact on accounting conservatism. According to the regression analysis, the management ownership variable has a significance level of 0.027 and a regression coefficient of -0.213. According to these findings, management ownership in manufacturing firms listed on the IDX in 2020–2022 has an impact on accounting conservatism (H1 accepted). The findings of this study corroborate studies by Sari et al, which demonstrate that management ownership significantly reduces accounting conservatism. High equity ownership managers will opt for less conservative accounting practices to prevent a decline in stock values. Because if a company's profit is low, the dividends that investors will get will be small, causing reduced investor interest in investing in the company which results in a decrease in the company's share price.

LaFond and Roychowdhury said that conservatism in financial reporting is one method for resolving agency issues when ownership and control are separated. The demand for conservative reports will rise as a result of the decreased management ownership and the increased agency difficulties. The findings of this study contradict those of Risdiyani and Kusmuriyanto and Kartika et al., who found no significant relationship between management ownership and accounting conservatism. The second theory put out contends that in industrial firms listed on the IDX, knowledge asymmetry has an impact on accounting conservatism. Accounting conservatism in manufacturing businesses listed on the IDX is impacted by information. According to the findings of the regression analysis, the Spread variable has a regression coefficient of 0.180 and a significance level of 0.055. These findings show that accounting conservatism is unaffected by knowledge asymmetry (H2 rejected).

The results of this study support the results of research conducted by Kartika, Subroto and Prihatiningtyas and Ati which state that the information asymmetry variable has no effect on accounting conservatism. This happens because information asymmetry in a company is not the main reason for the application of accounting conservatism in a company. In general, the main reason for the application of conservatism in financial statements is due to demands from external parties to limit opportunistic behavior by management and demand quality financial reports. The results of this study do not support research conducted by Isniawati, Rahmawati and Budiatmanto which states that information asymmetry affects accounting conservatism.

The third hypothesis proposed states that debt contracts affect accounting conservatism. The regression analysis results show that the DER variable has a regression coefficient of - 0.310 with a significance level of 0.001. These results indicate that debt contracts affect accounting conservatism (H3 accepted). The findings of this study corroborate those of studies by Utama, Titik, Noviantari, and Ratnadi, which demonstrate that leverage (debt contracts) significantly reduces accounting conservatism. The business will function well if it decides to raise capital through loans. By boosting the value of income and assets while decreasing the value of liabilities and costs, the firm will often produce optimistic financial statements. This is an attempt by the corporation to persuade the lender that the loan will be guaranteed. When creating financial statements, management is prompted to become less conservative by a high leverage ratio. The findings of this study contradict earlier studies by Susanto and Ramadhani that claimed debt contracts and leverage have no impact on accounting conservatism.

The fourth hypothesis proposed states that company size affects accounting conservatism. company size affects accounting conservatism. The regression analysis results show that the SIZE variable has a regression coefficient of -0.261 with a significance level of 0.007. These results indicate that company size affects accounting conservatism (H4 accepted). The results of this study support research conducted by Firmasari which shows that company size has a negative effect on accounting conservatism. This is due to the tendency of large companies to present optimistic profits to show good performance to third parties (creditors and investors). Meanwhile small companies tend to be cautious in presenting their profits by forming cost reserves for the continuity of the company's operations. The results of this study do not support research conducted by Yuliarti which shows that company size has no effect on accounting conservatism.

Conclusion

The simultaneous testing results show that the F value is 5.5 with a 0,001 significance level. Conclusion: Accounting conservatism as assessed by BTMR is influenced by management ownership characteristics, knowledge asymmetry, debt obligations, and firm size. According to the results of the coefficient of determination test, the adjusted R square value is 0.15, which indicates that changes in the independent variables managerial ownership, information asymmetry, debt contracts, and company size can account for variations in the dependent variable BTMR to the extent of 15%. While other factors outside the model, such as litigation, profitability, expansion opportunities, board size, analyst coverage, and financial crisis, account for the remaining 85% of the explanation. Changes in the independent variables managerial ownership, information asymmetry, loan contract, and business size can account for 15% of the variance in the dependent variable, BTMR. While other factors outside the model account for the remaining 85% of the explanation.

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