



# The Influence of Good Corporate Governance, Company Growth, Leverage, Investment Opportunity Set on Accounting Conservatism in Manufacturing Companies in Indonesia

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**ABSTRACT:** In recent years, there is still a lack of application of conservatism in Indonesia. So the core research aims to investigate how managerial ownership, independent commissioners, audit committees, company growth, leverage, investment opportunity sets influence accounting conservatism. This research is taken from the annual reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The samples in this study were 44 samples taken by purposive sampling method, with 107 samples being processed. The data analysis method uses the SPSS program. This research yields the results that managerial ownership has no effect on accounting conservatism, independent commissioners have an effect on accounting conservatism, audit committees have no effect on accounting conservatism, company growth has no effect on accounting conservatism, leverage has no effect on accounting conservatism, and investment opportunity set has no effect on accounting conservatism.

**Keywords:** good corporate governance; company growth; leverage; investment opportunity sets; accounting conservatism.

## I. INTRODUCTION

An entity is required to make appropriate and comprehensive disclosures in both qualitative and quantitative forms in providing information. Financial reports are used as a tool to present information containing activities during the operating year concerned. Giving freedom in choosing the accounting method for each company is adjusted to the situation and condition of the company based on the provisions of the Financial Accounting Standards (SAK). The accounting method chosen by the company has an influence on the numbers presented in the financial statements, so that it can indirectly it is said that the concept of conservatism will affect the financial statements. Conservatism is a principle related to company profit information. This conservatism is expected so that companies can produce quality and useful information for users of financial reports. Conservatism can be understood as being cautious in conditions of uncertainty over what might happen in the future. Be careful in recognizing profits and losses, expenses and income, as well as assets and liabilities.

Good Corporate Governance is a set of rules governing the relationship between shareholders, management (managers) of the company, creditors, the government, employees, and other internal and external stakeholders relating to their rights and obligations or in other words a system that controlling the company (FCGI, 2001). Company growth is the expectation desired by all parties, both internal and external

parties of the company. Companies with increasing growth will have the ability to bear losses (Charitou et al, 2011). Leverage or debt level ratio is the use of assets and sources of funds by companies that have fixed expenses with the aim of increasing the potential profit of shareholders (R. Saputra et al., 2016). Investment opportunity set is a collection of investments held in the form of assets where the investment depends on the company's future expenditure. Investment opportunity sets can affect the growth of company assets as well as the company's growth rate and are expected to have a high enough rate of return so that the income generated by an investment exceeds the costs incurred.

In this situation, as a student at the Muhammadiyah University of Surakarta, I want to do something to contribute because there is still a lack of application of accounting conservatism in Indonesia. I decided to do research with the title "The Influence of Good Corporate Governance, Company Growth, Leverage, and Investment Opportunity Sets on Accounting Conservatism (Empirical Study of Manufacturing Companies Listed on the IDX in 2019-2021)".

## II. MATERIALS AND METHODS

### 2.1. Accounting Conservatism

The official definition of accounting conservatism is contained in the Glossary of Concept Statements No. 2 of the FASB (Financial Accounting Statement Board), which defines accounting conservatism as a careful reaction in dealing with uncertainty and risk in the business environment that has been sufficiently considered (Savitri, 2016). Accounting conservatism is a principle whereby a company recognizes future losses, but does not immediately recognize future income or profits, even though it is likely to occur. Often high sales growth increases market expectations of future cash flows so that it will influence conservatism. Sales growth in the future indicates that the company has achieved a high level of profit. The higher the sales growth proves that the company is getting more conservative.

### 2.2. Good Corporate Governance

Corporate governance based on the Institute for Corporate Governance (ICG) is defined as a mechanism that directs and controls the company so that the company's activities work based on the wishes of stakeholders. The implementation of the good corporate governance mechanism is one means of overseeing the course of company activities, including monitoring the prudent level of management in presenting financial reports. Thus the company's financial statements are expected to reflect correct and reliable information as a basis for decision making by interested parties. This is a part of the principles of good corporate governance which contains transparency, bank accountability, bank responsibility, objective and free from pressure from any party in decision making (independence), and always pays attention to the interests of all stakeholders. based on the principle of equality and fairness. The implementation of good corporate governance is carried out by all parties within the company, with the main actor being the top management of the company who is authorized to set company policies and implement these policies (Bank Indonesia Regulation No. 8/4/PBI/2006). The mechanism of good corporate governance is applied as a part that is considered capable of motivating accounting conservatism. The mechanism of good corporate governance is proxied by the size of the board of directors, the size of the board of commissioners, the size of the audit committee, the number of independent commissioners, the turnover of directors, institutional ownership, managerial ownership and supervision by the workforce (Ammy, 2016). In this study the mechanisms used are managerial ownership, independent commissioners, and audit committees.

### 2.3. Company Growth

Growth is an element that occurs in the company cycle. The size of growth in the company depends on the company's activities. The definition of growth in financial management generally indicates an increase in the size of the company's scale. Usually in measuring growth is done by calculating the input or output, that is by using the company's physical size, such as land area, buildings, office equipment, and other fixed assets. However, in measuring the growth of companies that use the physical size of the company, it is difficult to compare it with other companies. The measurement that can best describe the company's growth is the growth of its own capital because through the growth of its own capital it means that all decisions in the

financial management function are involved, namely growth caused by decisions about investment, decisions about funding and dividend policy.

#### **2.4. leverage**

Companies will show good performance to their creditors so they can get loans and creditors can feel confident that the funds provided will be guaranteed. Creditors can use leverage ratios in assessing a company's ability to fulfill its obligations (Fahmi, 2017). The company will try to make financial reporting optimistic or less conservative by increasing the value of profits and reducing liabilities and expenses.

#### **2.5. Investment Opportunity Sets**

According to Mulyatno (2014: 84): "Investment opportunity set describes the breadth of investment opportunities or opportunities for a company, but is very dependent on the company's choice of expenditure for future interests. Investment opportunity set is a set of investment decisions in the form of assets owned and future investment options. The value of the investment opportunity set itself affects the value of the company. According to Andreas, Ardeni, and Nugroho (2017): "Investment opportunity set is an opportunity to develop, but often companies are not always able to implement all investment opportunities in the future. For companies that cannot take advantage of these investment opportunities, they will experience expenditures that are higher than the value of the lost opportunity. The investment opportunity value is the present value of the company's choices to make investments in the future. Investment opportunity set is a company investment opportunity that gives a positive signal because it can affect the company's asset growth rate and the company's growth rate in the future.

The proportion of managerial ownership in manufacturing companies on the Indonesia Stock Exchange during the observation period was still low resulting in a company's managerial tending to prioritize personal interests, not based on maximizing value in making company financial decisions, resulting in frequent conflicts between managers and shareholders

The results of this study are not in line with (Pratanda & Kusmuriyanto, 2014) who managed to conclude that Managerial Ownership has a positive effect on accounting conservatism. Meanwhile, this research is in line with research (Padmawati & Fachrurrozie, 2015) and (Yuniarti & Pratomo, 2020) which conclude that Managerial Ownership has no effect on accounting conservatism.

#### **H1 The Effect of Managerial Ownership on Accounting Conservatism**

Independent commissioners are members of the board of commissioners who come from outside the company who have a neutral attitude and are not in favor of either shareholders or management. This is in accordance with the overarching theory, namely the stewardship theory which states that there is no conflict of interest between management and shareholders.

The results of this study are consistent with research conducted by Wardhani (2008) and Wulandini (2012) which explain that there is no relationship between the proportion of independent commissioners and accounting conservatism. However, the results of this study are not in accordance with the stewardship theory, which explains that there is no conflict of interest between shareholders and the existing management of the company.

#### **H2 Effect of Independent Commissioners on Accounting Conservatism**

In carrying out its duties, the audit committee has the function of assisting the board of commissioners to do things such as improving the quality of financial reports, creating a climate of discipline and judgment that can reduce opportunities for deviations in company management. This shows that the existence of an audit committee is less effective in monitoring the management in using the principle of conservatism in the company's financial reporting process. Thus, regardless of the number of audit committees in the company, it does not affect the occurrence of accounting conservatism (Liyanto & Anam, 2017).

The results of this study are not in line with (Yuniarti & Pratomo, 2020) who managed to conclude that the Audit Committee has a positive effect on accounting conservatism. Meanwhile, this study is in line with

research (I. Sari et al., 2017) which concluded that the Audit Committee has no effect on accounting conservatism.

### **H3 The Influence of the Audit Committee on Accounting Conservatism**

The results of this study are inconsistent with the research conducted by Ahmed on conservatism through accruals and market values. However, this research is in accordance with research conducted by Indrayati (2010) and Martani and Dini (2010) which states that there is no influence between sales growth and accounting conservatism. Sales growth will affect the level of accruals in companies such as inventory and receivables. The higher the sales growth indicates that the company is more conservative.

### **H4 Effect of Company Growth on Accounting Conservatism**

The higher the level of debt owned by the company means that the company's financial condition is not very good, then the creditor has a greater right to know and supervise the implementation of the company's operations and accounting. Creditors will tend to demand managers to apply conservatism in preparing financial reports. Due to the application of the principle of conservatism, the profits presented will tend to be low, thereby reducing the distribution of net assets and profits to investors and managers in the form of dividends and bonuses. This is done by creditors because creditors have an interest in the security of their funds which are expected to be profitable for themselves. In addition, the greater the level of debt, the more intensive it is for managers and owners to take earnings management actions with the aim of reporting increased performance, which causes the company to be less conservative.

### **H5 Effect of Leverage on Accounting Conservatism**

The greater the investment opportunity set, the greater the market to book ratio as a proxy for accounting conservatism. Conversely, the smaller the investment opportunity set, the smaller the market to book ratio as a proxy for accounting conservatism. This happens because the market reacts positively to the company's growth, so the stock price increases. This stock price will increase the IOS value, which means that the company's market to book ratio will also be greater. The results of this study are consistent with research conducted by Lafond and Roychowdhury (2007). Lafond and Roychowdhury stated that the investment opportunity set (IOS) is associated in the relationship between asymmetric timeliness as a proxy for conservatism. high level to prepare for their future jobs such as international tour guide, tour designer or tour executive. Therefore, I want to make efforts to improve the learning environment and help them engage in class activities and improve their learning outcomes in terms of accuracy in speaking English. my students often cause misunderstandings because there are too many grammatical and pronunciation errors and then they cannot communicate effectively with others. However, these tourism students need a high level of English to prepare for their future jobs such as international tour guides, tour designers or tour executives . Therefore, I want to make efforts to improve the learning environment and help them engage in class activities and improve their learning outcomes in terms of accuracy in speaking English.

### **H 6 The Effect of Investment Opportunity Set on Accounting Conservatism**

## **III. RESEARCH METHODS**

The sample was selected as the object of research based on the population. The sample was selected using a purposive sampling method, namely selecting a sample based on certain criteria that are relevant to the research objective. The sample criteria chosen were: (1) Companies that publish complete annual reports for the 2019-2021 research period , (2) Companies that provide all the data needed in this research, (3) Companies that publish financial reports in rupiah currency , (4) Companies that did not experience losses during the 2019-2021 research period.

Secondary data were obtained from annual reports and financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019 to 2021. Data were obtained from the official website of the IDX (www.idx.co.id) and other relevant sources, such as websites company official .

The analytical method used to test the hypothesis in this study is multiple linear regression, because to find out whether there is a significant effect of one dependent variable and more than one independent variable.

The hypothesis of this study uses multiple linear regression analysis which includes the hypothesis of the effect of managerial ownership, independent commissioners, audit committees, leverage, investment opportunity sets on accounting conservatism. The regression equation model is as follows:

$$\text{CON} = \beta_0 + \beta_1 \text{KM} + \beta_2 \text{KI} + \beta_3 \text{KT} + \beta_4 \text{CG} + \beta_5 \text{L} + \beta_6 \text{IOS}$$

Information :

**CON** = Accounting Conservatism  
**KM** = Managerial Ownership  
**KI** = Independent Commissioner  
**KT** = Audit Committee  
**CG** = Company Growth  
**L** = leverage  
**IOS** = Investment Opportunity Set  
**B 0- β 6** = Constant

#### Operational Variable

Dependent Variable	Indicators	References
Accounting Conservatism (KA)	$\text{CONACC} = \frac{(\text{NI} + \text{DEP}) - \text{CFO}}{\text{TA}}$	Savitri, 2016
<b>Independent Variable</b>		
KM )	$\frac{\text{Jumlah Saham Manajer}}{\text{Jumlah Saham yang Beredar}}$	Susanti and Mildawati, 2014
Independent Commissioner (KI)	$\frac{\text{Jumlah Komisaris Independen}}{\text{Jumlah Komisaris}}$	Susanti and Mildawati, 2014
Audit Committee (KT)	$\sum \text{Komite audit yang dimiliki perusahaan}$	I. Sari et al, 2017
Company Growth (CG)	$\frac{\text{Total Penjualan Neto}_t - \text{Total Penjualan Neto}_{t-1}}{\text{Total Penjualan Neto}_{t-1}}$	Ahmed and Dahlan, 2017
Leverage (L)	$\frac{\text{Total Utang}}{\text{Total Aset}}$	Fahim, 2015
Investment Opportunity Set (IOS)	$\frac{\text{Nilai Buku Aset Tetap}_t - \text{Nilai Buku Aset Tetap}_{t-1}}{\text{Total Aset}}$	Aristanti and Son, 2015

## IV. RESULTS AND DISCUSSION

### Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	0.392	0.373		1,051	0.296
km	0.054	0.061	0.072	0.890	0.375
KI	-0.933	0.128	-0.593	-7,290	0.000
KT	0.056	0.121	0.047	0.466	0.642
cg	0.013	0.065	0.016	0.200	0.842

L	-0.005	0.049	-0.008	-0.097	0.923
IOS	-0.003	0.053	-0.006	-0.061	0.951

Based on the table above, the results obtained from multiple linear regression analysis. With the equation of the multiple linear regression analysis model, as follows:

$$KON = 0.392 + 0.054KM - 0.933KI + 0.056KT + 0.031CG - 0.005L - 0.003IOS + e$$

Based on the regression equation, it can be interpreted as follows:

- 1) A constant value of 0.392 means that if the variable managerial ownership (KM), independent commissioner (KI), audit committee (KT), company growth (CG), leverage (L), investment opportunity set (IOS) does not change or is considered constant (value 0), then accounting conservatism is 0.0392.
- 2) The regression coefficient on the variable managerial ownership (KM) shows a value of 0.054 and is positive. This shows that if KM increases by 1 unit then the level of accounting conservatism will increase by 0.054 and vice versa if KM decreases by 1 unit then the level of accounting conservatism will increase by 0.054.
- 3) The regression coefficient on the independent commissioner variable (KI) shows a value of -0.933 and is negative. This shows that if KI increases by 1 unit, the level of accounting conservatism will decrease by 0.933 and vice versa if KI decreases by 1 unit, the level of accounting conservatism will increase by 0.933.
- 4) The regression coefficient on the audit committee variable (KT) shows a value of 0.056 and is positive. This shows that if KT increases by 1 unit then the level of accounting conservatism will increase by 0.056 and vice versa if KT decreases by 1 unit then the level of accounting conservatism will increase by 0.056.
- 5) The regression coefficient on the company growth (CG) variable shows a value of 0.013 with a positive sign. This shows that if CG increases by 1 unit, the level of accounting conservatism will increase by 0.013 and vice versa if CG decreases by 1 unit, the level of accounting conservatism will increase by 0.013.
- 6) The regression coefficient on the leverage variable (L) shows a value of -0.005 with a negative sign. This shows that if L increases by 1 unit, the level of accounting conservatism will decrease by 0.005 and vice versa if L decreases by 1 unit, the level of accounting conservatism will increase by 0.005.
- 7) The regression coefficient on the investment opportunity set (IOS) variable shows a value of -0.003 with a negative sign. This shows that if the IOS increases by 1 unit, the level of accounting conservatism will decrease by 0.003 and vice versa if the IOS decreases by 1 unit, the level of accounting conservatism will increase by 0.003.

#### Model Feasibility Test (F Test)

Model	Sum of Square	Df	MeanSquare	F	Sig.
Regression	1,000	6	0.167	9,232	0.000b
residual	1.805	100	0.018		
Total	2,805	106			

Based on the table, it shows that the significance value (0.000) is smaller than the significance level  $\alpha$  (0.05), so it can be concluded that the variable managerial ownership (KM), independent commissioners (KI), audit committee (KT), company growth (CG), leverage (L), and investment opportunity set (IOS) simultaneously affect accounting conservatism.

**Determination Coefficient Test (R2)**

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	0.597 <sup>a</sup>	0.356	0.318	0.134360

Based on the table, the coefficient of determination (Adjusted R2) is 0.318. This means that 31.8% of the variation in the dependent variable of accounting conservatism can be explained by the independent variables of managerial ownership (KM), independent commissioners (KI), audit committees (KT), company growth (CG), leverage (L), and investment opportunity set (IOS). While the remaining 68.2 % is explained by other variables outside the model studied.

**Statistical Test (T Test)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	0.392	0.373		1,051	0.296
km	0.054	0.061	0.072	0.890	0.375
KI	-0.933	0.128	-0.593	-7,290	0.000
KT	0.056	0.121	0.047	0.466	0.642
cg	0.013	0.065	0.016	0.200	0.842
L	-0.005	0.049	-0.008	-0.097	0.923
iOS	-0.003	0.053	-0.006	-0.061	0.951

Based on the table it can be explained as follows:

- The managerial ownership variable (KM) has a significance value of 0.375 or 37.5% which means it is greater than 0.05 or 5%. Thus it can be concluded that H1 is rejected, meaning that managerial ownership has no effect on accounting conservatism.
- The independent commissioner variable (KI) has a significance value of 0.00 or 0% which means it is smaller than 0.05 or 5%. Thus it can be concluded that H2 is accepted, meaning that independent commissioners have an effect on accounting conservatism.
- The audit committee variable (KT) has a significance value of 0.642 or 64.2% which means it is greater than 0.05 or 5%. Thus it can be concluded that H3 is rejected, meaning that the audit committee has no effect on accounting conservatism.
- The company growth (CG) variable has a significance value of 0.842 or 84.2%, which means it is greater than 0.05 or 5%. Thus it can be concluded that H4 is rejected, meaning that company growth has no effect on accounting conservatism.
- The leverage variable (L) has a significance value of 0.923 or 92.3% which means it is greater than 0.05 or 5%. Thus it can be concluded that H5 is rejected, meaning that leverage has no effect on accounting conservatism.
- The investment opportunity set (IOS) variable has a significance value of 0.951 or 95.1% which means it is greater than 0.05 or 5%. Thus it can be concluded that H6 is rejected, meaning that the investment opportunity set has no effect on accounting conservatism.

**V. CONCLUSION**

Based on the results of the analysis tests that have been carried out, it can be concluded as follows:

- Managerial ownership has no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.



2. Independent commissioners influence accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.
3. The audit committee has no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.
4. Company Growth has no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.
5. Leverage has no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.
6. Investment opportunity set for accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2019-2021.

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