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Good Governance, Companies Are More Careful?

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ABSTRACT: The purpose of this research was to determine the effect of institutional ownership, independent commissioner as independent variables against the accounting conservatism and leverage as a control variable. In this research accounting conservatism is measured using market to book value. The sample used in this study consists of companies in the manufacturing sector that have consistently been listed on the Indonesia Stock Exchange (IDX) during the period of 2021-2023. The sampling method is purposive sampling, resulting in a sample of 120 companies selected as the research sample or a total of 360 company data used as the sample. The analysis technique used is multiple linear regression analysis. Research results indicate that the institutional ownership and independent commissioner positively affect accounting conservatism. This will provide insights for stakeholders in assessing the factors that influence accounting conservatism.

KEYWORDS: good corporate governance, accounting conservatism, institutional ownership, independent commissioner, leverage

INTRODUCTION

Management performance in managing organizational resources can be evaluated through financial statements prepared by the company (Sholikhah and Baroroh 2021). Financial statements are comprehensive documents that articulate financial data related to the company at a specified accounting interval. This report is required to comply with the objectives, provisions, and basic principles of accounting in accordance with general standards, so that it can produce reports that can be accounted for and provide benefits for all stakeholders who need it (Pratanda and Kusmuriyanto 2014). According to the Financial Accounting Standard Statement (PSAK) No.1 (2009), the purpose of financial statements is to provide information about the financial position, financial performance, and cash flow of entities so that users of financial statements can use them to make economic decisions. Investors and creditors are the main stakeholders who have an interest in the use of financial statements.

Financial Accounting Standards (SAK)

gives the company's managers the freedom to choose accounting methods or estimates to create financial statements. According to Putri and Kusumawati (2024), to overcome unstable economic conditions and prevent manipulation of corporate financial statements, the policy of accounting conservatism is implemented.

According to Basu (1997), accounting conservatism is a principle: immediate recognition of losses, low profits, the lowest asset valuation, and the highest liabilities and the highest value liabilities valuation. Meanwhile, according to Noviyanti and Agustina (2021), losses must be immediately acknowledged in the annual financial statements, but there is still uncertainty as to whether the losses actually occur. This means that if there is a possibility of information or loss, the accountant should immediately record it as an expense or liability. On the other hand, income or profit should not be recognized as long as there is still uncertainty about whether future income will be received. Earnings can only be recognized if they are confident that they are accepted (Setyanto et al. 2024).

Wardhani (2008) states that regional conservatism in a company has been applied at various levels of the company. One of the factors that can affect corporate accounting conservatism is the company's management mechanism. According to Achyani et al. (2017) is generally an excellent corporate governance, both principles are based on regulatory ethics, law and business, based on corporate processes and management. In connection with this study, the mechanisms used include institutional property, independent committee members, and administrative property.

This research is a replication of previous research conducted by Noviyanti and Agustina (2021), where there are several differences regarding this research, the addition of an additional independent variable, namely *managerial ownership* which refers to research conducted by Sholikhah and Baroroh (2021). The inconsistency of the results of previous research made the author interested in raising the topic of accounting conservatism by using leverage as a control variable.

Agency Theory

Jensen and McKling (1976) state that there is an agent relationship where there is a contract between the owner (director) and the manager (agent). The shareholders assign a manager or agent to run the company and issue decision-making authority. Because of the owner's authority for the agent in managing the company's operations, the agent has more information than the company owner (Samuel 2015). In a company, there is a difference in interests between the manager and the owner. Where the owner wants to avoid tax losses and have a stable profit, while the manager or agent wants to perform well to maintain his position, while the manager wants to make a large profit and can be seen by the interested parties. Based on this interest, companies must implement control mechanisms that benefit investors, owners and managers (Lafond and Watts 2008).

One of them uses accounting conservatism to present conclusions to avoid conflicts of interest and information imbalances between agents and owners (Mumayiz and Cahyaningsih 2020). The existence of a conflict between the agent and the owner can lead to institutional problems. Pirmaningsih et al. (2023) In reality, agency problems are not only completely solved with contracts. In such situations, the use of effective company management (good company management) is an important factor in mitigating the problem Pirmaningsih et al. (2023).

Dependent variables are variables that are influenced or that are the result of the existence of independent variables (Sugiyono, 2013). The dependent variable in this study is accounting conservatism.

Independent variables are variables that affect or cause change, or the emergence of dependent variables. In this study, the independent variables used were institutional ownership and independent commissioner.

The control variable is a variable that can be controlled so that the influence of independent variables is not influenced by external factors that are not studied. The control variable in this study is leverage.

Accounting Conservatism

Accounting conservatism is an important and influential feature in financial accounting because it influences accounting practices for a long period of time, accounting conservatism is the principle of prudence in overcoming uncertainty in companies (Evana 2020). In conservatism, costs and losses are recorded faster while gains and *gains* are recognized more slowly. This will have an impact on the figures in the company's financial statements (Arthasari and Dwiati 2022). The principles of conservatism for accounting are based on the idea that businesses will be exposed to future economic uncertainty. It is prepared to estimate the company's annual financial statements that handle all the uncertainties that arise. Therefore, this principle can be a consideration in estimating in situations of uncertainty, so as not to damage assets or profits. Based on this principle, accountants tend to record losses when there is uncertainty about profits, but profits are not recorded when there is uncertainty about losses (Savitri 2016).

Institutional ownership and Conservative Accounting.

Institutional ownership is the shares of institutions such as insurance companies, banks, investment companies, and other institutions. Institutional ownership structure refers to the proportion of the number of shares in an institution and refers to the overall total number of shares outstanding in a company (Thomas et al. 2020).

Institutional ownership has been proven to have a positive influence on accounting conservatism in the research of Agustina et al. (2022), Noviyanti and Agustina (2021), Putri and Kusumawati (2024), Mayaniputri (2021) and Hajawiyah et al. (2020). High institutional shareholding encourages stricter oversight of managerial performance and behavior, so that management will operate more transparently. Therefore, the greater the level of institutional ownership, the higher the pressure felt by managers to implement financial reporting conservatively. This indicates that companies with significant levels of institutional ownership tend to prefer conservative accounting practices (Agustina et al. 2022).

In contrast to the research of Habiba (2016), Pratanda and Kusmuriyanto (2014), Cung and Fajri (2023), Thomas et al. (2020), Setyanto et al. (2024) and Ashari and Kusumawati (2023) which proves that *institutional ownership* has no effect on accounting conservatism. (Ashari and Kusumawati 2023) states that the increasing number of shares owned by an institution does not guarantee that the institution is able to carry out effective supervision of the preparation of financial statements by management. In practice, institutions are often not optimal in supervising management performance, thus opening up opportunities for management to manipulate data to increase profits.

H1: *Institutional ownership* has an effect on accounting conservatism.

Independent Commissioner and Accounting Conservatism

According to Nur et al. (2019), in their research it was revealed that based on agency theory, independent commissioners play a role in reducing conflicts between shareholders and managers caused by the separation of roles of both parties by applying maximum monitoring measures for management steps. The existence of independent commissioners is essential for companies because they are able to act objectively and independently.

The results of the research of Pirmaningsih et al. (2023), Nur et al. (2019), Hajawiyah et al. (2020), Noviyanti and Agustina (2021), Agustina et al. (2022), and Pratanda and Kusmuriyanto (2014) *independent commissioners* have a positive effect on accounting conservatism. In the study, Noviyanti and Agustina (2021) stated that the large number of independent commissioners has been proven to be able to increase the application of accounting conservatism in an entity. With its authority to supervise and monitor the performance of managers in the company's operations, the existence of independent commissioners is more reflective of the power of the board of commissioners. This condition supports the increase in the application of the prudential principle in company management.

Different results are shown in research conducted by Evana (2020), and Risdiyani and Kusmuriyanto (2015). Evana (2020) stated that *independent commissioners* have no effect on accounting conservatism. This explains that in other words, *independent commissioners* do not carry out optimal management supervision. As a result, the financial statements made by the company are not conservative and have no impact on the company's policies, including the application of accounting conservatism. In addition, the existence *of an independent commissioner* to comply with formal rules or regulations is not a guarantee of good corporate governance.

H2: *Independent Commissioners* have an influence on accounting conservatism.

Leverage and Conservatism Accountancy

In the study of Setyanto et al. (2024) reveals that *leverage* refers to a business's ability to meet its obligations consistently, including paying debts on time, and maintaining that capacity. Rahayu et al. (2018) revealed that *Leverage* refers to a ratio that shows the level of a company's debt and is often used by creditors as a basis for providing loans. In agency theory, differences in interests between managers and creditors can lead to conflicts. Managers tend to pursue personal interests such as bonuses and large salaries, so they can act opportunistically to achieve them. This behavior can affect the quality of reported profits, where managers may overestimate profits to look higher.

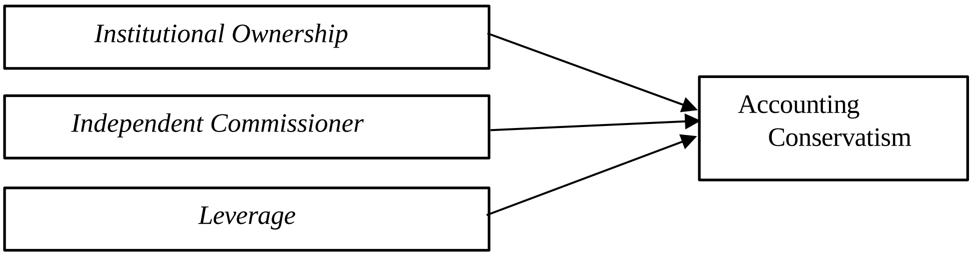
The results of research conducted by Pratanda and Kusmuriyanto (2014), Yuliarti et al. (2017), Oktana et al. (2023), Rahayu et al. (2018), Sugiarto and Fachrurrozie (2018) and Ashari and Kusumawati (2023) prove that *leverage* has a positive effect on accounting conservatism. It was found in the research of Pratanda and Kusmuriyanto (2014) that with greater *leverage*, the level of conservatism of the accounting used is also higher, and with greater *leverage*, creditors have a greater right to see and supervise how the business is run. Creditors have an interest in the safety of their funds that are expected to earn a return, so they tend to demand that managers use a conservative approach when compiling financial statements.

Research conducted by Kurniawan and Mulyani (2024), Setyanto et al. (2024), Thomas et al. (2020), Aryani and Muliatu (2020), Noviyanti and Agustina (2021), Susanto and Ramadahni (2016) and Utama and Titik (2018) proves that *leverage* has no effect on accounting conservatism. Based on research by Susanto and Ramadahni (2016), it is shown that the size of a company's debt does not always encourage companies to be more careful in decision-making. This is suspected to be because creditors tend to be less strict in overseeing the company's operations and accounting practices, giving managers flexibility in executing debt agreements, especially if the company is a large company with stable financial conditions. This situation increases creditors' confidence to continue providing loans. As a result, the higher the debt, managers tend to compile financial statements that are less conservative or more optimistic, by choosing accounting methods that aim to increase the company's profits.

H3: *Leverage* affects accounting conservatism.

The relationship between independent variables and dependent variables can be described with the following research model:

Figure 1 Research Model



RESEARCH METHODS

The object of research in this study uses the purposive sampling method, where manufacturing companies are listed on the Indonesia Stock Exchange (IDX) during the period of 2021-2023. The research data used are financial statements and annual reports issued by the company every year. The companies that meet the criteria that can be presented as research samples are as many as 120 companies, so that the total data used is 360 companies. The following is a table of sample selection procedures in the study based on predetermined criteria:

Table 1 Sample Selection Procedure

Yes	Research Sample Selection Criteria	Number Companies	ofmount of Data
1	Company manufactory that by consistently listed on the Indonesia Stock Exchange during 2021-2023	163	489
2	Manufacturing companies that are not consistently issued financial statements ending December 31 from 2021-2023	(15)	(45)
3	Manufacturing companies that do not consistently issue financial statements using Rupiah (Rp) currency units from 2021-2023	(27)	(81)
4	Manufacturing companies that do not consistently have revenue from sales above 0 Rupiah (Rp) during the 2021-2023 period	(1)	(3)
Total Research Sample		**120**	**360**

Source: IDX Data Collection Results

Accounting conservatism

The measurement of accounting conservatism refers to research conducted by Noviyanti and Agustina (2021) using *the market to book value* proxy as follows:

Accounting conservatism

The measurement of accounting conservatism refers to research conducted by Noviyanti and Agustina (2021) using *the market to book value* proxy as follows:

$$KA = \frac{\text{Market Value of Shares}}{\text{Book Value of Shares}}$$

Where:
Market Value of Shares = Share price at closing date
Book Value of Shares = Total Equity/Total shares outstanding

Independent Commissioner

Based on the research of Noviyanti and Agustina (2021), the proxy used to calculate the total number of independent commissioners is as

Next:

$$IC = \frac{Total\ Independent\ Commissioner}{Total\ Members\ of\ Board\ of\ Commissioner}$$

Institutional Ownership

The measurement of this *institutional ownership* variable refers to the research of Noviyanti and Agustina (2021), where by using the proxy:

$$IO = \frac{\text{Total Institutional Shares}}{\text{Total Shares Outstanding}}$$

IO = Total Shares Outstanding

Total Institutional Shares

Leverage

Based on the research of Noviyanti and Agustina (2021), *the leverage* calculation is calculated using *the Debt to Equity Ratio* (DER) with the proxy:

RESEARCH RESULTS

Analysis of Correlation Coefficient (R) and Coefficient of Determination (Adjusted R2)

The results of the correlation coefficient analysis of 0.440 which are in the range of 0 to 1, which shows that there is a relationship between dependent variables, namely accounting conservatism

F Test Results

The results of the statistical test F which showed *that Sig.* 0.000 is smaller than the value (α) 0.05, if it is interpreted that the model is fit and suitable for use in the study.

Table 2 Descriptive Statistical Test Results

Variabel	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
KA	360	-21,1516	44,8570	1,960689	4,3338927
I	360	0	0,9971	0,659620	0,2494566
IC	360	0	0,8333	0,418619	0,1186453
LEV	360	-30,1534	17,0370	0,676328	2,9789984

Source: Data Processing Results

Based on table 2, it shows the results of data on 360 companies from 2021 to 2023 used as samples in this study. Accounting conservatism (KA) has a minimum value of -21.1516, a maximum value of 44.8570, an average value of 1.960689 and a standard deviation value of 4.3338927. Institutional Ownership (IO) has a minimum value of 0 in 2021 to 2023 and a maximum value of 0.9971, an average value of 0.659620 and a standard deviation value of 0.2494566. *Independent commissioner* (IC) has a minimum score of 0, a maximum score of 0.8333, an average score of 0.418619 and a standard deviation of 0.1186453. *Leverage* (LEV) has a minimum value of -30.1534, a maximum value of 17.0370, an average value of 0.676328 and a standard deviation of 2.9789984.

Table 4 Results of the t test

Model	B	*Itself.*	Result	Conclusion
I	3,003	0,008	H1 is acceptable	Influential
IC	10,798	0,000	H2 is acceptable	Influential
LEV	0,412	0,000	H3 is acceptable	Influential

Source: Data Processing Results

Based on the results of the t-test in table 4, *institutional ownership* (IO) shows a significance value (*Sig.)* of 0.008 and a coefficient value of 3.003 which means that *institutional ownership* (IC) has a positive effect on accounting conservatism (KA). The greater the level of institutional ownership, the higher the pressure that managers feel to implement financial reporting conservatively. This indicates that companies with significant levels of institutional ownership tend to prefer conservative accounting practices (Agustina et al. 2022).

Independent commissioner (IC) shows a significance value (*Sig.)* of 0.000 and a coefficient value of 10.798 which means that *independent commissioner* (IC) has a positive effect on accounting conservatism (KA). This shows that the large number of commissioners has proven to be able to increase the application of accounting conservatism in an entity. With its authority to supervise and monitor the performance of managers in the company's operations, the existence of independent commissioners is more reflective of the power of the board of commissioners. This condition supports the increase in the application of the prudential principle in company management (Noviyanti and Agustina 2021).

Leverage (LEV) has a significance value (*Sig.*) of 0.000 and a coefficient value of 0.412 which means that leverage (LEV) has a positive effect on accounting conservatism (KA). This shows that the greater *the leverage*, the higher the level of accounting conservatism applied, because creditors have an interest in ensuring the safety of their funds and demand financial statements prepared with a conservative approach (Pratanda and Kusmuriyanto 2014).

CONCLUSIONS, LIMITATIONS, RECOMMENDATIONS

Based on the results of the research, It is concluded that *institutional ownership, independent commissioner, dan leverage* has a positive effect on accounting conservatism. There are several limitations found in this study that affect the results of this study, namely as follows: (1) The results of the data quality test in the data normality test before the outlier and after the outlier states that the residual data is not distributed normally, (2) the results of the classic assumption test in This study states that there is a problem of heteroscedasticity, including *Independent Institutional Ownership* and *Independent Commissioner*, and (3) Analysis Results *adjusted* R2 indicates that the independent variables in the This research can only explain dependent variable of 19.4%. So there are still other variables that has a greater influence on the application of accounting conservatism that are not included in the variable independent. To overcome the existence of limitations in this study, the following Recommendations that get Considered for future research on conservatism Accounting: (1) Using Transformations data to avoid problems with abnormal data distribution, (2) variable transformation or apply *generalized least squares* to reduce the risk of heteroscedasticity problems, and (3) Research It is further recommended to add another variable in place of the variable that is not influence in this study, such as profitability, audit quality, financial pressures (*financial distress*), debt agreement (*debt covenant*), sales growth, and other independent variables.

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