

THE EFFECT OF MANAGERIAL OWNERSHIP, DEBT COVENANT AND GROWTH OPPORTUNITIES ON ACCOUNTING CONSERVATISM IN MANUFACTURING COMPANIES

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Abstract

The purpose of this research is to prove the influence of managerial ownership, debt covenants and growth opportunities on accounting conservatism. This research was conducted on the Indonesia Stock Exchange for the 2018 – 2022 period. The type of research used in the research was a quantitative approach. This research uses secondary data obtained through the Indonesia Stock Exchange website from 2018 - 2022. The population and sample were taken based on certain criteria or purposive sampling. Data analysis in this research used SPSS 16. The data analysis technique used in the research used multiple regression analysis.

The results of this research show that managerial ownership of debt covenants and growth opportunities have a significant effect on accounting conservatism in food and beverage sub-sector manufacturing companies for the 2018 - 2022 period.

Keywords: Managerial Ownership, Debt Covenant, Growth opportunities, Accounting Conservatism

Introduction

Financial reports are a form of obligation entrusted to management to manage resources in an entity. Annual financial reporting includes a balance sheet, profit and loss report, equity turnover report, cash flow report and notes to financial reports. The concept of conservatism in GAAP (Generally Accepted Accounting Principles) is outlined in SFAC No. 2, which specifically explains the characteristics that make accounting information useful. Conservatism is a response to uncertainty (Novikasari & Ritonga, 2012).

The principle of conservatism in Indonesia is regulated in the ratification of graduation accounting standards (PSAK) No. 14 covers inventory, PSAK No. 17 covers the Sultan's accounting, PSAK No. 19 covers non-living assets and PSAK No. 20 covering research and development costs. So, accounting standards in Indonesia should never require financial audits to apply the principle of conservatism in rounding off audit reports in Indonesia. Soewardjono (2008) Conservatism is an attitude or school of thought in facing uncertainty to take action or impulsivity based on the emergence (outcome) that has arisen from the uncertainty that has arisen.

The principle of conservatism in Indonesia is regulated in financial accounting standards regulations (PSAK) no. 14 regarding inventory, PSAK No. 17 regarding depreciation accounting, PSAK No. 19 regarding intangible assets and PSAK No. 20 regarding research and development costs. So accounting standards in Indonesia should require companies to apply the principle of conservatism in preparing financial reports in Indonesia. Soewardjono (2008) Conservatism is an attitude or school of thought in facing uncertainty to take action or decisions on the basis of the worst outcome from that uncertainty.

Ownership structure influences the application of conservatism methods. There are several company ownership structures, including managerial ownership and institutional ownership. According to Sudana (2011), ownership structure is a separation between company owners and company managers. The owner or shareholder is the party who invests capital in the company, while the manager is the party appointed by the owner and given the authority to make decisions in managing the company, with the hope that the manager will act in accordance with the owner's interests.

Debt covenant is a debt agreement made by a creditor to a borrower, the aim of which is to obtain credit funds and contains an agreement to repay the loan. Some debt agreements contain agreements that bind the borrower to fulfill the terms of the debt agreement (Scott, 2000). Watts and Zimmerman (1986) identify covenants such as dividend and stock purchase restrictions, working capital restrictions, merger restrictions, acquisition restrictions, investment restrictions, asset restrictions and future financing restrictions as forms of debt.

Growth Opportunities are the company's opportunities to grow in the future (Brigham and Houston, 2006). A company with a high growth rate seeks to increase its fixed assets to such an extent that it requires more funds in the future, but must still be able to maintain its level of profit. As a result, accumulated profits increase and the company is in trouble taking on more debt to maintain its debt ratio. Growth Opportunities for the company to grow in the

future. Fast growing companies seek to increase their fortunes using sales percentages and asset changes.

The theory of governance describes the relationship between two parties, one as owner (principal) and the other as manager (agent). The theory of default explains that when there is a difference between the owner and the principal. According to Jensen and Meckling (1976), the theory of leadership is a design that explains the contextual relationship between principals and agents, namely between two people or more, a group or a group of organizations. The principal is the party who has the right to take the ultimate responsibility for the future of the operation and assigns responsibility to other parties (agent). Melnurlu Helry Selptianto (2016).

The existence of managerial ownership is an interesting thing when it is related to corporate governance. Managerial ownership is a condition where the manager owns shares in the company or in other words the company manager also acts as a shareholder in the company (Tarigan, 2016:2).

Sari Rahmadhani and Arkanulddin Nulr (2015) Management ownership has had a negative impact on agricultural consultancy. This is due to the still low level of managerial ownership in Indonesia although it is also true that companies will be more conservative in maintaining the trustworthiness of investors.

H1: Managerial Ownership Influences Accounting Conservatism.

Debt covenant is an ultimate agreement to protect loan buyers from management actions related to credit fraud, excess profits, additional loans, or allowing the owner's capital and wealth to remain below the specified level (Rohim, 2014).

Agulstina (2015) states that the higher the debt or total assets of the company, the greater the ability of the ultimate management manager to choose the ultimate accounting procedure to improve what is reported, so that the failure report presented by the company is not consistent.

H2: It is suspected that Debt Covenant has had an impact on the accounting concession.

Growth Opportunities are the foundation for an ultimate business that can grow and develop. Companies that want to grow and develop will apply the principles of accounting conservatism. By implementing the self-help principle, investors and prospective investors will respond positively to the business, so that goodwill can be created. Goodwill is likely to be created because a company that is experiencing a high level of growth has the ultimate motivation to display a smaller overall profit. If the profit shown by the

company is small, then the market value will be greater than the bulk value. A market value that is greater than the bulk value means that the company is able to generate profits from the assets owned by the company (Karantika and Sullistyawati 2018).

H3: It is assumed that Growth Opportunities will have a positive impact on accounting consultancy.

The implementation of accounting consultancy is very important for managerial ownership, institutional ownership, debt leadership and growth opportunities because it can contribute to improving efficiency and efficiency in cell operations, thus improving the performance of reporting results. Having a good return report will be a consideration for investors when investing their funds. Apart from that, share ownership by intellectual parties, namely managerial ownership and institutional ownership, can also improve the company's sustainable performance.

H4: It is suspected that managerial ownership, financial investment and growth opportunities simultaneously have an impact on accounting consulting.

RESEARCH METHODS

Population, Sample and Sampling Technique

The population in this study are manufacturing companies in the food and beverage industry sub-sector listed on the Indonesian Stock Exchange in 2018 - 2022, totaling 43 companies. Data analysis and results. The sampling method uses purposive sampling with the following criteria:

No.	Criteria	Accumulation
1.	Total manufacturing operations registered with Bulrsa Elfelk Indonesia in 2021 – 2022	143
2.	Companies that do not publish a report on the return report in a timely manner	24
3.	Businesses that experience failure	13
The operations used as samples		106
Research period (year)		2
Total data sampled		212

Definition of operational variables

The dependent variable of the research is accounting conservatism, conservatism is calculated using the accrual measure, using the Givoly and Hayn (2000) formula. The formula for accounting conservatism is as follows:

$$Cit = N - CFit$$

Note:

Cit: accounting conservatism

N: net income before extraordinary items plus depreciation and amortization.

CFit: cash flow from operational activities

There are three independent variables in the research. The first is managerial ownership which is measured by the number of shares owned by management divided by the total shares outstanding. The second independent variable, namely debt covenant, is a contract directed at the borrower by the creditor to limit activities that might damage the loan value and loan recovery (Cochran, 2001). This research uses leverage measurement, with the formula:

$$Leverage = \frac{Debt}{Aset}$$

The third independent variable is growth opportunities according to Mai (2006), Growth opportunity is the opportunity for growth of a company in the future. Companies that predict high growth in the future will prefer to use shares to fund company operations. Calculation of growth opportunities using market to book value of equity is in accordance with research conducted by Astarini (2011). The formula for Growth opportunity is

$$Market\ to\ book\ value\ of\ equity = \frac{Shares\ outstanding\ x\ closing\ share\ price}{Total\ Equity} \times 100\%$$

The analysis techniques used include descriptive statistical analysis and hypothesis testing. Descriptive statistical analysis contains information regarding the characteristics of research data in the form of minimum values, maximum values, average values and standard deviation. Testing the first hypothesis uses mixed linear regression analysis using the Stata 14 test tool as follows:

$$K = \alpha_0 + \beta_1 KM + \beta_2 DC + \beta_3 GO + e$$

Information:

K	=Accounting Conservatism
a	=Constant
K_managerial	=Managerial ownership
D_convenant	=Debt Covenant
G_Opportunities	=Growth Opportunities
b1 – b3	= regression coefficient
e	=Variables outside the error model

DISCUSSION RESULT

Descriptive Statistics Results

Table 2: Descriptive statistics

	Obs	Minimum	Maximum	Mean	Std. Deviation
KA	212	-1.06453	5.98535	5.84453	1.25932
GO		2.37836	0.21285	.008636	0.797472
D.C	212	0.000016	0.00163	3.88894	1.55173
KM	212	0.007563	.007563	.4913413	.530888
Valid N (listwise)	212				

Table 4. Multiple linear regression

Variable	Coef	Std. Errr	t	P>t
(Constant)	7.28	0.273503	0.07	0.948
GO	1.87	0.019645	9.10	0,000
D.C	1.85	0.682331	8.02	0,000
KM	1.49	0.091258	8.43	0,000
F	0,000			
Adj-R2	0.9148			
R2	0.9236			
N	212			

The Influence of Managerial Ownership on Accounting Conservarvatisme

Managerial ownership has an important impact on accounting consultancy. The results of this research are shown with a significance value of $0.000 < 0.05$. This means that H0 is accepted and H1 is accepted. In this way it can be concluded that partially there is a significant influence of managerial ownership on accounting conservativeness.

The structure of share ownership is usually spread across institutional, managerial and public ownership. In this research, the proportion of managerial ownership is very large. If a managerial investor has ownership of a large number of shares, then they have the ultimate right to supervise the behavior and performance of the company. The results of the research are in line with

previous research conducted by Iqbal Shodiq Ahmadi (2021) and Latifa Dinar (2015) who have obtained extensive results that managerial ownership structure has had a positive impact on the consolidation of accounting. It has been reported that this is due to the fact that when management has high shareholdings, they have the authority to report their profits optimistically without being influenced by external parties. However, while most of the shares are still owned by the company, the management wants the international parties to be interested in making new investments in the company by reporting profits optimistically.

However, the results of this research are not in line with the research of Fani Risdiyani (2015) and Olvy Angella (2020) who stated that managerial ownership has no influence on accounting consultancy. This is because there is low share ownership, so the company is more concerned about the profits that will be obtained and which will be presented in the return report. Because it wants to increase profits, the company does not have reserve funds that can increase investment. So in the company's profitability report, the manager issued an optimistic overall earnings report.

The influence of Delbt convelnant on accounting consultancy

Delbt Convelnant had an impact on the accounting consultancy. The results of this research are shown with a significance value of $0.000 < 0.05$. This means that H_0 is accepted and H_1 is accepted. In this way, it can be concluded that partially there is a significant influence of debt convelnant on accounting concessions.

Delbt convelnant Promote the company's ability to pay its long-term debts so that the company's management will choose various considerations to determine the debt-related policies that will be implemented. The management manager will consider the existence of debts that must be paid from existing debts, and it is hoped that there will be no interference from the lender (creditor) regarding the debts granted. The results of research are in line with previous research carried out by Fani Risdiyani and Kulsmulriyanto (2015) and Intan Noviani (2020) which has shown a large amount of evidence that the delbt convelnant has had a positive impact on accounting consultancy. This will generally influence management behavior in implementing the accounting method, managers will apply conservative accounting to avoid greater risks. When the level of debt is high it will make the business more careful, because a high level of debt becomes a threat to the survival of the business. In companies that have higher debt, creditors have greater rights to monitor and supervise the implementation of operations and accounting for the company, managers experience ultimate difficulties in disclosing information from creditors.

However, the results of this research are not in line with the research of Ellva Chellia Novita (2017) and Olvy Angella (2020) which stated that financial development does not have an impact on the accounting consultancy process, because if the business has long-term debt, whether in large or small amounts, making ultimate management use accounting conservative.

The Influence of Growth Opportunities on Accounting Conservatism

Growth Opportunities had an impact on the accounting consultancy. The results of this research are shown with a significance value of $0.000 < 0.05$. This means that H0 is accepted and H1 is accepted. In this way, it can be concluded that partially there is a significant influence on growth opportunities on accounting concessions.

Growth Opportunities Having the ability to develop a business, this means that the growth of the business is a sign that the business has profitable aspects, and investors will also expect a rate of return (rate of return) from the investment they make. The results of research are in line with previous research carried out by Tri Novikasari, et al (2012) and Ellva Chellia Novita (2017) which has shown that growth opportunities have had a positive impact on accounting consultancy, leading to good development. This is because the higher the growth opportunities, the greater the amount of funds needed. The large amount of funds required causes managers to implement accounting consultancy so that investment financing can be completed. In addition, the application of the principle of accounting conservatism results in the existence of hidden reserves which can be used for investment. This growth will be responded positively by investors so that the market value of the conservative venture is greater than the bulk value so that goodwill is created. This trend can indicate that market growth is growing due to assets that have already developed or are increasing and are attracting the interest of investors looking to invest.

However, the results of this research are not in line with the research of Intan Noviani (2021) and Nobita Sulgiarto (2017) who stated that growth opportunities had no impact on accounting consultancy. This is because the manager does not always apply the principle of conservatism by minimizing the ultimate profit through increasing the investment funds required by the company in its growth. The success of the growth of the business resulted in funding, most of which came from international producers. So that the company does not minimize profits by implementing accounting conservatism.

Conclusion

This research aims to determine the influence of managerial ownership, debt covenants and growth opportunities on accounting

conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2018-2022.

Based on the tests that have been carried out, it can be concluded that Managerial Ownership has a significant effect on Accounting Conservatism. Thus, it can be concluded that partially there is a significant influence of managerial ownership on accounting conservatism. This is because when management has high share ownership, they have the authority to report profits optimistically without being influenced by external parties. Debt Covenant has a significant effect on accounting conservatism. This is because when the debt level is high it will make the company more careful, because a high debt level is a threat to the survival of the company. In companies that have higher debt, creditors have greater rights to know and supervise the company's operations and accounting, managers have difficulty hiding information from creditors. Growth Opportunities has a significant effect on accounting conservatism. This is because the higher the growth opportunities, the greater the funding required. The large amount of funds required causes managers to apply accounting conservatism so that investment financing can be met. In addition, the application of the principle of accounting conservatism causes hidden reserves that can be used for investment. Managerial Ownership, Debt Covenant and Growth Opportunities on Accounting Conservatism. The results of simultaneous hypothesis testing show that managerial ownership, debt covenants and growth opportunities influence accounting conservatism. Managers who own company shares have incentives that are in line with other shareholders to improve the company's financial performance. This can encourage them to make better decisions for the company's growth. Large financial institutions often have significant interests in the companies they own shares in.

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