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EMPIRICAL EVIDENCE OF MANAGERIAL OWNERSHIP, LEVERAGE, FINANCIAL DISTRESS, AND PROFITABILITY ON ACCOUNTING CONSERVATISM IN MINING COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE DURING THE PERIOD OF 2018-2021

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Abstract

This research aims to empirically examine the impact of managerial ownership, leverage, financial distress, and profitability on accounting conservatism in mining companies listed on the Indonesia Stock Exchange (IDX) during the period of 2018-2021. The data used in this study is obtained from secondary data sources accessed through the company's annual reports and other websites. The research population consists of mining sector companies listed on the Indonesia Stock Exchange during the period of 2018-2021. The sampling technique used in this study is the purposive sampling method, which resulted in 24 out of the total 49 mining companies that have managerial ownership. A total of 24 companies were selected as samples over a period of 4 years, resulting in 96 financial report data samples. The data was processed using the IBM SPSS Statistic 24 application. The results of this study indicate that managerial ownership, leverage, financial distress, and profitability have an impact on accounting conservatism. Therefore, further studies are needed to expand these factors so that the findings can be more comprehensive.

Keywords: Managerial Ownership, Leverage, Financial Distress, Profitability, Accounting Conservatism.

Abstrak

Penelitian ini bertujuan menguji secara empiris, apakah pengaruh kepemilikan manajerial, leverage, financial distress, dan profitabilitas terhadap konservatisme akuntansi pada perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) periode 2018-2021. Data yang dignakan pada penelitian ini adalah data sekunder dari annual report dan diakses dari sumber website lainnya. Populasi penelitian ini adalah perusahaan sektor pertambangan yang terdaftar di BEI periode 2018-2021. Teknik pengambilan sampel menggunakan metoda purposive sampling sehingga dari 49 perusahaan pertambangan dengan jumlah yang menyatakan kepemilikan manajerial sebanyak 24 perusahaan. Diperoleh sampel sejumlah 24 perusahaan dikali 4 tahun sehingga mendapatkan hasil data sebanyak 96 sampel data laporan keuangan perusahaan. Data diolah menggunakan aplikasi IBM SPSS Statistic 24. Hasil penelitian ini menujukkan bahwa kepemilikan manajerial, leverage, financial distress, dan profitabilitas berpengaruh terhadap konservatisme akuntansi. Oleh arena itu, diperlukan studi tambahan untuk dapat memperluas faktor sehingga temuan lebih besar.

Kata Kunci: *Kepemilikan Manajerial, Leverage, Financial Distress, Profitabilitas, Konservatisme Akuntansi*

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INTRODUCTION

Financial statements serve as a benchmark for investors to evaluate whether a company is worth investing in. With the information contained in financial statements, internal stakeholders of the company can make better decisions to improve the company's performance. The quality of a company's financial reporting depends on its ability to adhere to the accounting principle of conservatism, which emphasizes caution in decision-making.

The key to a company's success lies in how its management implements strategies to take the right steps towards the progress of the company in the future. This is supported by research by Aurillya et al. (2021) which gives management freedom to choose accounting procedures required by applicable financial accounting standards. Financial distress is a condition in which a company exhibits symptoms that lead to a financial crisis, making it unable to fulfill its obligations as a debtor due to a lack of funds to run their business. Financial distress serves as a warning for company management to address financial risks. For example, in 2018, PT Bumi Resource Tbk had a debt of US$137.3 million, and recent data as of Q3 2020 indicates that the repayment of the debt will continue until 2023. This has been caused by several factors, including a decline in coal prices, a decrease in sales volume, and debt payments (https://investor.id/market-and-corporate/226797/tiga-penyebab-utama-kerugian-bumi-resources) (Rossiana, 2020).

Based on the above phenomenon, PT Bumi Resources Mineral (BMRS), a company engaged in coal mining, is attempting to pay off its debt to PT Aneka Tambang Tbk by making installment payments starting from September 2018. Accounting conservatism can play an important role in improving a company's financial statements in the future. However, in addition to that, the management's role in evaluating the company's performance is also necessary. Based on research by Fauzi, E., & Badriyah, M (2023), it is stated that accounting conservatism has independence which allows financial reports to be prepared based on conservative or optimistic principles, both cautious and optimistic. The approach used is considered appropriate to the circumstances and makes it possible to anticipate uncertain economic conditions, this shows that the company is very careful in preparing its financial reports and is based on the idea that businesses face economic uncertainty in the future, therefore it focuses on calculations, measurement, and future recognition.

Several influences can influence accounting conservatism namely managerial ownership, leverage, and profitability. Managerial ownership is a level of stock ownership in a company that actively enables competent decision-making for the company. Managerial decisions that are based on careful consideration and agreed upon by relevant parties can have a positive impact on a company's value. This can increase investors' confidence in investing in the company (Rahmi & Baroroh, 2022).

Besides that, leverage may affect a company's perspective on prudence in presenting financial reports, which is known as accounting conservatism. According to Pahriyani & Asiah (2020), the higher a company's debt, or leverage, the more it can affect the managerial behavior in making decisions to apply the principle of accounting conservatism.

Other factors that can affect accounting conservatism are profitability and a company's ability to generate profits in a specific period, as well as the level of their asset sales and equity. According to Hanum (2020), when a company's profitability increases, applying the principle of accounting conservatism will also increase retained earnings in the company.

The mining sector made a significant contribution to the Indonesian government's revenue in 2018. As the data suggests, it is apparent that the Non-Tax State Revenue (PNBP) in the Mineral and Coal sector has reached IDR 41.77 trillion in the 2018 State Budget (APBN). This figure exceeds the target of IDR 32.1 trillion that was set. The success of the mineral and coal sector is due to their discipline and regularity in fulfilling their obligations. The mining sector can also serve as the driver and supporting force the economy in the areas where the company operates.

Given the background information presented above, we are compelled to undertake this study due to the interesting nature of the topic, the limited extent of previous research, and the presence of inconsistencies in the existing literature. Consequently, our objective is to conduct an empirical investigation aimed at examining the effect of managerial ownership, leverage, financial distress, and profitability on accounting conservatism within the mining industry for the period spanning from 2018 to 2021.

LITERATURE REVIEW

Managerial ownership plays a crucial role in the decision-making process of a company, serving as a cornerstone that provides guidance and direction for future decisions. In this context, signalling theory is closely related to managerial ownership, as it involves the transmission of signals or relationships through management in both the internal and external information of a company.

Management plays a crucial role in controlling the company to sustain its long-term survival. In the study by Dewi and Suryanawa (2014), it was found that managerial ownership structure has a positive impact on accounting conservatism. This finding is supported by previous research by Rahmi and Baroroh (2022) which demonstrated that companies with strong managerial ownership structure tend to apply conservative accounting procedures. Thus, it can be concluded that managerial ownership structure plays an important role in determining the accounting conservatism of a company.

Based on the findings of Ursula and Adhivinna (2018), it can be inferred that managerial ownership has no significant impact on conservatism. The authors suggest that a low level of managerial ownership is indicative of a lesser desire to have a stake in the company. Hence, the first hypothesis of this study can be formulated as follows:

H_1: Managerial ownership has an impact on accounting conservatism.

This principle involves borrowing funds or financial resources to purchase something with the expectation of gaining profits in the future. These anticipated profits are expected to exceed the borrowing costs, thereby yielding highly beneficial returns. Leverage is a ratio that indicates the relationship between a company's debt and equity. The higher the leverage ratio, the higher the potential profitability for the company. This provides us with information regarding the sustainability of a debt that has been borrowed by the company (Pahriyani & Asiah, 2020).

In the context of signalling theory and leverage, managers play a crucial role in the prudent evaluation of their management practices when handling a company with high levels of liabilities. In such instances, strict adherence to the principles of accounting conservatism is imperative for effective management (Pahriyani & Asiah, 2020).

The utilization of leverage can potentially yield a favorable impact on the practice of accounting conservatism. This assertion is supported by Rahmi and Baroroh (2022) who maintain that the presence of significant or escalating levels of corporate debt can incentivize managers to adopt an accounting approach characterized by conservatism for their respective firms. The findings of Pahriyani & Asiah (2020), Ursula & Adhivinna (2018), Alhayati (2013), and Dewi & Suryanawa (2014) provide further support for a positive relationship between leverage and accounting conservatism. However, these results are in contrast to the research conducted by Hanum (2020), Kalbuana & Yuningsih (2020), and Pramudita (2012), which suggests that leverage has no impact on the implementation of accounting conservatism because the creditor does not implement supervision in carrying out operations and accounting at the company and also does not apply conservativeness to be able to face the company's uncertainty. Therefore, the second hypothesis of this study can be phrased as:

H_2: Leverage has an impact on accounting conservatism.

Financial distress can be associated with signalling theory because this theory can provide information to external parties regarding the financial condition of a company. In situations of financial distress, companies require accurate and timely information in order to address financial difficulties that may lead to bankruptcy.

Financial distress has the potential to positively influence accounting conservatism, as supported by research conducted by Pahriyani & Asiah (2020), Syifa (2017), and Pramudita (2012). This effect can be beneficial because financial difficulties can motivate management to apply a higher level of caution to the company in order to develop it in the future.

The study conducted by Dewi and Suryanawa (2014) has stated that financial distress has a negative impact on accounting conservatism this is because one of the reasons for a company's declining or problematic financial condition is the poor quality of managers. This situation can trigger shareholders to replace managers. This finding contrasts with the results from Hanum's (2020) and Alhayati's (2013) research, which have found no significant impact of financial distress on the implementation of accounting conservatism in companies. Therefore, the third hypothesis of this study can be formulated as follows:

H_3: Financial distress has an impact on accounting conservatism.

The signalling theory plays a significant role in conveying information to external parties when assessing a company's profitability. In this regard, the theory facilitates investors in making decisions concerning their investment in the company. As the potential for profitability increases, the competitiveness of the company in relation to others also rises.

In the research conducted by Hanum (2020), Syifa (2017), and Kalbuana & Yuningsih (2020), it was revealed that accounting conservatism can have a positive impact on a company's profitability. Consequently, in order to enhance managerial oversight in the future, companies may consider adopting appropriate accounting conservatism, particularly when evaluating profit attainment. It is crucial not only to convey the benefits, but also to elucidate how the company navigates various uncertainties and ambiguities.

The above explanation run contrary to the findings of Abdurrahman & Ermawati's (2018) research, which stated that profitability has a negative impact on the application of accounting conservatism because companies can seek funds from their capital by issuing shares rather than seeking funds from debt because it has big risks. Therefore, the fourth hypothesis of this study can be stated as follows:

H_4: Profitability has an impact on accounting conservatism.

RESEARCH METHODOLOGY

Research Design

This study aims to provide empirical evidence on whether several independent variables, namely managerial ownership, leverage (proxied by Debt to Asset Ratio (DAR)), financial distress (proxied by the Z-Score method established by Altman), and profitability (proxied by Return On Equity (ROE)), affect the dependent variable, which is the level of conservatism in accounting disclosure. This study is classified as descriptive research, utilizing a quantitative approach and used multiple linear regression. Data collection is conducted from annual reports held by mining companies listed on the Indonesia Stock Exchange (BEI), based on the variables being investigated.

Population and Sample

The population in this study consists of mining companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The sampling was carried out using purposive sampling technique, with the following criteria:

Information	Amount
Mining sector companies listed on the Stock Exchange Indonesia (BEI) in 2018-2021.	49
Mining companies that publish reports consecutive annual financial statements during the 2018-2021 period.	0
Mining sector companies that publish disclosure of managerial ownership shares in the report lack of money.	24
Mining sector companies that have information related data	25

needed for research	
Number of company samples	24
Research observation period	4
Total observation data (2018-2021)	96

Source: Author's own calculations based on our research data (2023).

Based on the table above, research obtained as many as 24 companies in the mining sector and the period used as the research sample namely for 4 (four), so the data used in this research totaling 96 research data.

RESULT AND DISCUSSIONS

Table 1. T-Test

Coefficient					
Variables	**Unstandardized Coefficients**		**Standardized Coefficients Beta**	**t**	**Sig.**
	B	**Std. Error**			
Managerial Ownership	-0.783	0.133	-0.411	-5.893	0.000
Leverage	-0.248	0.037	-0.461	-6.703	0.000
Financial Distress	-0.027	0.008	-0.242	-3.575	0.001
Profitability	-0.115	0.036	-0.21	-3.146	0.002

Source: Author's own calculations based on our research data (2023).

Several results of research data processing, as presented in the table above, can be further elaborated as follows:

As the p-value of managerial ownership (X1) is less than 0.05 (p = 0.000), it can be stated that there is a significant impact of managerial ownership on accounting conservatism. Therefore, the size of managerial ownership can be measured by the total number of shares owned by the company's management. This goes beyond mere consideration of personal holdings or bonuses, as managers must also factor in the company's overall share ownership. Management can determine the future growth of the company by assessing the potential impact of investments (Dewi & Suryanawa, 2014).

With a significance value of 0.000 being less than 0.05, it can be concluded that the use of leverage (X2) has a statistically significant impact on accounting conservatism. Hence, as a company's leverage increases, creditors are granted greater authority to scrutinize its operations and accounting practices. Consequently, such creditors tend to adopt accounting conservatism when preparing the company's financial statements, as it ensures a more cautious approach towards financial reporting.

With a total value of 0.001, which is less than 0.05, financial distress demonstrates a significant impact on accounting conservatism. Therefore, it can be concluded that financial distress (X3) affects accounting conservatism. It is safe to say, therefore, that declining financial levels or the presence of financial problems can have a negative impact on the quality of accounting conservatism carried out by companies. This shows that the company still needs to improve the quality of its accounting conservatism related to financial matters. It can be argued that the absence of profound managerial actions towards the concerning financial condition may put the company at risk of experiencing bankruptcy in the future.

Profitability (X4) has a significant impact on accounting conservatism as indicated by the significant result of 0.002, which is less than 0.05. It can be inferred that as the level of profitability increases, there is a greater inclination towards adopting accounting conservatism in financial reporting. Profitability can be a determining factor for investors to assess a company's performance, both in terms of its ability to generate expected profits and in influencing stock market prices and dividend payments (Kalbuana & Yuningsih, 2020).

CONCLUSION

Based on the results of the research and discussions presented, several conclusions can be drawn regarding the impact of managerial ownership, leverage, financial distress, and profitability on accounting conservatism disclosure in mining sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2021. However, the data obtained in this study is limited to 24 out of 49 mining sector companies that reported having managerial ownership shares in their financial statements. Therefore, further research is needed to expand the methods used so that it covers greater number of mining companies.

In terms of practitioners, the results of this research can serve as a reference for companies in managing debt in order to apply the principle of conservatism in the preparation of their financial statements. Additionally, for investors, this research can assist in considering and monitoring companies with significant levels of debt as it may impact the application of accounting conservatism in the presentation of their financial statements. Therefore, it is necessary to evaluate the debt aspect of a company prior to making an investment in order to minimize potential future losses.

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