International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 9, Issue 8, 2019

The Effect of Good Corporate Governance on Accounting Conservatism (Study on Banking Companies Listed on IDX 2013-2017)

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The purpose of this research is to provide empirical evidence regarding the effect of good corporate governance on accounting conservatism. Good corporate governance in this research was measured using CGPI scores and accounting conservatism was measured using the accrual-based measure of the model. The research sample used in this research consisted of the banking companies listed on the Indonesian Stock Exchange 2013 - 2017 through the purposive sampling method. The analysis technique used in this research was multiple linear regression. The results of this study show that good corporate governance does not affect accounting conservatism.

Key words: *Good corporate governance, accounting conservatism, profitability, firm size.*

Introduction

The uncertain economic condition in the future is one of the considerations of companies to apply the conservatism principle when preparing financial statements. Conservatism is the concept of delaying the recognition of future cash inflows (Watts, 2003). Conservative accounting states that accountants must report accounting information that is the lowest of several possible values for assets and income and the highest of several possibilities for liabilities and expenses (Hendriksen et al., 1992). Wulandari (2012) states that conservatism is considered to be an obstacle that can affect financial statements because it can cause results that tend to be biased and that do not reflect reality. On the contrary, according to Watts (2003), accounting conservatism is useful for avoiding the opportunistic behaviour of managers. The application of conservatism can mitigate the risk of managers manipulating financial statements.

In Indonesia, the practice of applying the Financial Accounting Standards issued by DSAK IAI facilitates the management's freedom in the use of accounting methods for recording financial statements in accordance with their characteristics (Andreas et al., 2017). This freedom affects the management's decision to report company business transactions in an optimistic or conservative manner (Wardhani, 2008). Wulandari (2012) expresses criticism of accounting conservatism. This influences financial reporting if the management applies a very conservative principle. This is because the output produced does not reflect the facts. In contrast, Watts (2003) supports accounting conservatism because it can suppress excessive opportunism in management. The behaviour of managers in manipulating financial statement information to look good is related to agency theory, which states that managers have a tendency to increase profits to hide poor performance. The level of accounting conservatism that is applied in the financial reporting of each company is different. This is influenced by the commitment of management and the company's internal parties in terms of providing financial information that is accurate, transparent, and not misleading for investors.

Examples of manipulation cases in relation to financial statements by PT Bank Lippo and PT Bank Bukopin indicates the low application of conservatism by companies in the preparation of their financial statements.

One of the factors that influence conservatism is corporate governance (Mohammed et al., 2017). According to the FCGI (2001), good corporate governance is a set of rules that establish relationships between the shareholders, management, creditors, the government, employees and other internal and external stakeholders with respect to their rights and obligations. In other words, it is a system that directs and controls the company

This study focuses on Indonesian banking companies because corporate governance in banking companies is unique compared to non-banking financial institutions, namely due to the presence of depositors as a group of stakeholders whose interests must be accommodated and maintained (Maradita, 2014; Thomas, 2017). The research sample is a banking company listed on the Indonesian Stock Exchange (IDX) and included as a CGPI participant in the 2013 - 2017 period. The last 5 (five) years is expected to provide a current picture and produce valid research.

Conceptual Framework and Hypothesis Development

Agency Theory

Agency relations occur when the owner of the resource (principal) entrusts the manager of the resource (agent) to take on a handful of actions and to delegate the decision-making authority to the agent. The concept of agency theory, according to Jensen et al. (1976), is shown as a contract between the owner of the resource (principal) and the party trusted to manage the resource (agent).

Accounting conservatism

The official definition according to the Glossary Concept Statement No.2 FASB (Financial Accounting Statement Board) defines conservatism as a prudent reaction to dealing with the uncertainties that are inherent in companies to ensure that uncertainties and risks in the business environment are sufficiently considered.

Good Corporate Governance

Corporate governance according to KNKG (2006) is one of the pillars of the market economy system. Good corporate governance is needed to encourage the implementation of an efficient, transparent and consistent market with applicable laws and regulations. Companies can participate in the corporate governance perception index (CGPI) organized by The Indonesian Institute for Corporate Governance (IICG) to evaluate the implementation of corporate governance that has been carried out. IICG is an independent institution whose main activities are to rank and develop corporate governance in Indonesia.

Hypothesis

The implementation of good corporate governance has an impact on increasing investor confidence. This is because there is no information bias between management and investors. Independent commissioners, as one of the mechanisms in implementing good corporate governance, requires accurate and quality information to carry out its monitoring function. Harymawan & Nurillah (2017) show that companies with a good reputation tend to maintain their earnings quality. A strong board of directors (a board of directors dominated by independent commissioners) will require a higher quality of information, which is why they tend to use more conservative accounting principles (Wijayanti, 2012). The research by Nasr et al. (2018) shows that good corporate governance assessed by an independent commissioner has a positive effect on accounting conservatism. Nasih *et al* (2019) also shows that the increased percentage of independent commissioners and directors will be more conservative in terms of the firm's carbon disclosure. Conservatism is an effort to limit both the opportunistic behaviour of managers as well as their pessimism when preparing financial statements (Savitri, 2016). Based on the description above, the hypothesis was formulated as follows:

H1: *Good corporate governance influences accounting conservatism.*

Research Methodology

Research Approach

The method used in this research was quantitative. Quantitative research is a structured research that quantifies the data and generalizes it to the population (Anshori et al., 2009). This study used data from the banking sector listed on the Indonesian Stock Exchange. The type of data used in this study was quantitative data in the form of an annual report on the banking sector during the period 2013 – 2017. The CGPI score of the banking sector in the period 2013 - 2017 was published by the SWA magazine.

Operational and Measurement of Variable

Independent Variable

An independent variable is a variable that can affect other variables. This study used good corporate governance as the independent variable. Good corporate governance is a system of corporate governance that regulates and controls the company with the aim of creating added value for each stakeholder. In this study, good corporate governance was measured by a CGPI score.

Dependent Variable

The dependent variable is a variable that is influenced by other variables. The dependent variable in this study is accounting conservatism. Accounting conservatism is a principle that implements caution by immediately recognizing a loss even though it has not yet been realized. It does not recognize profit before it has been realized (Hery et al., 2009). The accounting conservatism of this study was measured by the accrual value developed by Savitri (2016), namely:

$$CONACC = \frac{(NIO + DEP - CFO)X\ (-1)}{TA}$$

Control Variable

Control variables are controlled variables that will ensure that the influence of the independent variables on the dependent variable is not affected by other factors that have not been examined.

Company Size

The size of the company is the size of a company as seen from the total assets owned by the company at the end of the year. This variable is measured using the natural logarithm of total assets. The size of the company is formulated as follows:

SPit = Ln Tait

Profitability

Profitability is the company's ability to generate profits in a certain period (Kasmir, 2014). This variable is measured using the ROA (return on asset) ratio. ROA is formulated as follows:

$$ROA = \frac{Net\ Income\ after\ Tax}{Total\ Assets}$$

Data Analysis Technique

The multiple regression model in this study was formulated as follows:

$$Conservatism = \alpha + \beta_1 GCG + \beta_2 Size + \beta_3 Profit + \varepsilon$$

Definition:

Conservatism = Accounting Conservatism with Accrual Value
GCG = Good Corporate Governance
Size = Company Size
Profit = Profitability
ε = Error

Descriptive Analysis

Descriptive statistics are statistical calculations used when analysing data by describing the data that has been collected during the study without intending to draw generalizable conclusions (Anshori et al., 2009).

Hypothesis test
Determination Coefficient Test (R^2)

The coefficient of determination is useful for measuring the model's ability to explain the dependent variable. The value of the coefficient of determination is between 0 (zero) and 1 (one).

T test

The t test is intended to show how far the influence of the independent variables individually explain the variation of the dependent variable. This test was carried out with a significance level of 0.05 (α = 5%). The acceptance or rejection of the hypothesis is based on the criteria of whether the p-value> 0.05. If so, then H1 is rejected. This means that there is no influence between the independent variable and the dependent variable and vice versa.

F test

The F test is a test used to determine whether the independent variables entered into the model have a simultaneous influence on the dependent variable. This test was carried out with a significance level of 0.05 (α = 5%). The acceptance or rejection of the hypothesis is carried out with the criteria that if the F statistic <0.05, then H1 is accepted. This means that the independent variable has a significant effect on the dependent variable.

Results and Discussion
Overview of Subjects and Research Objects

The subjects of this study were banking companies listed on the Indonesian Stock Exchange for the period 2013 - 2017. The determination of the research sample used a purposive sampling method with several criteria as described in the table below.

Table 1: Sample Distribution

No	Sample Characteristics	2013	2014	2015	2016	2017
1	Banking companies that participated in the CGPI ranking during the 2013-2017 period.	11	6	13	10	12
2	The company is not listed as a banking company on the Indonesia Stock Exchange (IDX) during the 2013-2017 period.	(4)	(1)	(5)	(5)	(6)
3	The company did not publish an annual report during the 2013-2017 period.	(0)	(0)	(0)	(0)	(0)
4	The company did not publish the audited financial statements and provided the complete information needed in this study.	(0)	(0)	(0)	(0)	(0)
5	The company uses a currency other than rupiah in presenting financial statements.	(0)	(0)	(0)	(0)	(0)
	TOTAL	7	5	8	5	6

Descriptive Statistical Analysis

Descriptive analysis in this study was intended to provide an overview or description of the data distribution of the research variables as seen from the data of the minimum value, maximum value, average value and standard deviation. Based on the research sample, the descriptive analysis results are described as follows:

Table 2: Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	31	81,60	93,86	87,7206	3,07856
SIZE	31	32,11625	34,65767	33,57616	0,84089
PROF	31	0,00135	0,03410	0,01968	0,00838
CONS	31	-0,04486	0,02900	-0,00918	0,02236
Valid N (listwise)	31				

Model Analysis and Hypothesis Testing
Model Analysis

The analysis of the model in this study used the multiple linear regression test with stepwise regression in order to get the model that can best show how the influence of the independent variable (good corporate governance) and the control variables (company size and profitability) have an impact on the dependent variable of accounting conservatism.

Table 3: Stepwise Regression Model Results

Variable	**B**	**t**	**Sig**
Constant	-0,475	-2,223	0,034
Size	0,014	2,184	0,037
Prof	-1,064	-1,599	0,121
R Square	0,146		
F Sig	0,110		

Based on the results of the regression analysis, mathematical equations were compiled from this study as follows:

$$Conservatism = -0{,}475 + 0{,}014 Size - 1{,}064 Prof$$

Hypothesis test
T Test

Based on the research results, the independent variable of good corporate governance is not included in the best stepwise regression model. This means that the variable of good corporate governance is not significant when related to accounting conservatism. It can also be concluded that good corporate governance has no effect on accounting conservatism. Thus the hypothesis in this study was not proven and H1 was rejected. Firm size control variable has a significance value of 0.037. This significance value is smaller than 0.05, so it can be concluded that company size has a positive effect on accounting conservatism. The profitability control variable of the company has a significance value of 0.121. This significance value is greater than 0.05, so it can be concluded that profitability has no effect on accounting conservatism.

F Test

The test results of the F value indicate a significance value of 0.110. The significance value is greater than 0.05, so it can be concluded that good corporate governance, company size and profitability do not have a simultaneous effect on accounting conservatism.

Coefficient of determination (R^2)

The results of the multiple linear regression testing showed an R2 of 0.146 or 14.6%. This shows that good corporate governance, company size and profitability are able to explain accounting conservatism by 14.6% while the remaining 0.854 or 85.4% is explained by other variables outside of the research model.

Discussion

Good corporate governance measured by the CGPI score has no significant effect on accounting conservatism. Good corporate governance in this study has an average value of 87.7206. Based on the range of CGPI rating scores, these results indicate that the banking companies that were sampled in this study received the 'very trusted' title from The Indonesian Institute for Corporate Governance (IICG) for implementing good corporate governance. The figure tends to be high but, based on the results of this study, there are still public banking companies that consider the implementation of good corporate governance as a demand for regulations and not as an important requirement for the survival of the company. This is indicated by the low awareness of banking companies when implementing good corporate governance with continuous improvement. Thus the inclusion of banking companies in the ranking of corporate governance perception index (CGPI) does not affect investors (Ramadhani, 2018) in the banking sector. The implementation of good corporate governance cannot be done directly in a short period of time. This is because the application of good corporate governance requires time, planning, and information about the characteristics, culture, and relationships between the company organs (Ramadhani, 2018). This is why good corporate governance does not affect accounting conservatism.

The size of the company has a positive effect on accounting conservatism in this study because the significance value is smaller than 0.05, at 0.037. These results support Noviantari et al. (2015), which states that company size has a positive effect on accounting conservatism. Companies of a relatively large size have a high profit that is relatively permanent, therefore the government tends to raise taxes and ask for higher public services from these large companies (Wulandari, 2012). Managers at relatively large companies tend to apply more conservative accounting principles to reduce the political costs.

Profitability does not affect accounting conservatism because the significance value of this study was greater than 0.05 at 0.121. The results of this study support the research of Satya et al. (2013), which states that profitability has no effect on accounting conservatism. Companies with relatively small profitability tend to do earning management and avoid the adoption of conservative accounting with the aim of increasing company profits. In other words, there are other factors that influence managers when they are applying accounting conservatism.

Conclusion

Based on this research, it can be concluded that good corporate governance measured by the CGPI score has no effect on accounting conservatism. Further research should consider other ways of measuring good corporate governance such as self-assessment, the ASEAN Corporate Governance Scorecard (ACGS), etc.

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