

# Effect Type Strategy, Investment Opportunity Set In Relation Between Managerial Ownership And Accounting Conservatism

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## Abstract

The purpose of this study was to determine the effect type strategy, investment opportunity set in relation between managerial ownership and accounting conservatism. Selected populations in the study are all companies listed in Indonesia Stock Exchange (IDX) outside the financial services company and a real state. The sample selection is based on purposive sampling in order to obtain a representative sample in accordance with the objectives and criteria specified. This suggests that managerial ownership significantly influence accounting conservatism shown from the results of the significant value of 0,020 t and negative direction indicated by the results of the regression coefficient ( $\beta_1$ ) -0334.

The results showed that variable types corporate strategy as moderating variables influence the relationship between managerial ownership and accounting conservatism. On the other hand significant F value of 0000, the managerial ownership and the type of strategy and corporate strategy type moderating variables simultaneously affect the accounting conservatism and Adj R Square value of 0165, which showed that 16.5% accounting conservatism variable influenced by managerial ownership and the type of strategy as well as moderating variable types of corporate strategy, the rest is influenced by other factors. Investment opportunity is not a moderating variable between managerial ownership relationships influence on accounting conservatism. On other hand determinansi coefficient results showed Adj R Square value of 0246 means that 24.6% accounting conservatism variable influenced by managerial ownership and the type of strategies and moderating variable types of corporate strategy.

**Keywords :** Type Strategy, Investment Opportunity, Managerial Ownership and Accounting Conservatism

## 1. Introduction

In accounting assumption of going concern, the company assumed will survive forever. But will not be able to ascertain what happened to the company in the future to avoid excessive expectations of the users of financial statements, the company needs to conservative accounting. Accounting conservatism more emphasis on reliability, so that the reliability of accounting information which does not lead to action earnings management, has led to several cases of accounting reporting scandals. Some cases accounting is widely known, among other things happening in America. The case of Enron management has done a window dressing, manipulate figures of financial statements that performance looks sleek. Unmitigated, income-mark-up with \$ 600 million, and debts of \$ 1.2 billion hidden by the technique of off-balance sheet. (Said, 2004).

WorldCom case revealed last week when a long-distance telephone company's management based on information technology is correcting its financial statements. The company is headquartered in Mississippi was admitted to still lose, rather than gain as indicated in their report on last year and the first quarter of this year. They claim to polish accounting firm that appeared as if they were net profit to US \$ 3.8 billion in the two periods (Mahathir, 2002).

In Indonesia, cases of manipulation scandal financial statements, such as PT. Asian Agri early 2007, about allegations have been manipulating the contents of the Notice of Annual taxes throughout the three years since 2002. The mode among others, through the inflation of costs (USD 1.5 trillion), swelling, loss of export transactions (USD 232 billion), and the collapse proceeds (Rp 889 billion). The goal is to minimize the profits to suppress the tax burden. As a result of such engineering, the state alleged to have harmed at least Rp 794 billion.

In addition, PT. Lippo Tbk and PT. Kimia Farma Tbk also involves financial reporting that starts from the detected presence of manipulation (Gideon, 2005). In the case of multiple financial statements of PT. Lippo, TBK or Lippogate it is also a very serious scandal because it involves not only private agencies, but also institutions which are instrumental arm of government, for example IBRA, Bapepam, the Jakarta Stock

Exchange (JSX), and Bank Indonesia (BI). Lippogate scandal begins cases double the financial statements of all category "audited" by Lippo Bank in September 2002 and December 2003.

Konservatisme conservatism is one characteristic that is very important in the company's accounting system that can help the board of directors in reducing agency costs and improve the quality of the information report finance that will ultimately increase the value of the company and its stock price (Watts, 2003, 2006 in Ahmed and Duellman, 2007).

According Lafond and Watts (2007) shows the number of managerial ownership percentage of the company's shares by the company insider. Managerial ownership is proxied by the percentage of stock ownership by directors and commissioners. Meanwhile, according to Lafond and Rouchowdhury (2007), managerial ownership is the percentage of the company's stock ownership by directors of the company compared to the number of shares outstanding as a whole. Ownership managers determine the policy and management options for conservative accounting methods.

Agriwal research results and Jayaraman (1994) states that managerial ownership is a mechanical substitution to reduce agency cost, free cash flow in all of the company's equity. Research Jensen et.al (1992) stated that the debt ratio is a function of insider ownership, dividends, business risk, profitability, research and development and fixed assets. The results of this study stated that there is a negative relationship between insider ownership with debt policy. These results indicate that the increase in insider ownership, it will align the interests of shareholders and managers, so that managerial ownership can replace the role of debt in reducing agency cost. This finding is consistent with research P.A. Mahadwartha and Jogiyanto Hartono (2002); and Wahidahwati (2001).

Lafond and Roychowdhury (2007) document the role of accounting conservatism in agency conflicts that arise as a result of asymmetric information. Accounting conservatism associated negatively with managerial ownership. The study assumes that the greater managerial ownership, the more risk-taker so that the financial statements are presented less and less conservatively. Widanaputra AAGP research results (2010) provide evidence that the company is managed by a non-owner managers are more conservative than the company managed by the owner manager. This occurs as a result of the smaller agency problems that occur on the owner manager.

Research Ward (2008) showed that the higher ownership by the board, the lower level of accounting conservatism as measured by the size of the market. The results of this study are consistent with Lafond and Roychowdhury (2007) which states that conservatism in financial reporting is one of the mechanisms to overcome the problems of the agency when there is a separation between ownership and control. With the growing size of managerial ownership, the agency problems that arise will be greater so that requests for reports which will be increasingly conservative. In addition, research Ahmed and Duellman (2007) showed that the percentage of insider ownership negatively affect accounting conservatism. Likewise Joo An Hoo (2009) found that the percentage of ownership manager was negatively related to conservatism, this finding is consistent with research Beekes et. al (2004), Garcia Lara et. al. (2007), Donglin Xiaand Song Zhu (2009) and Akinobu Shuto and Tomomi Takada (2010).

On the other hand the results of Mohammed Safiq (2010); Wu (2006) states that accounting conservatism is positively related to managerial ownership. This is in accordance with Ros et.al (1999) in Suaryana (2008), the greater the management ownership, management tends to strive even harder for the benefit of the shareholders to increase the value of the company one of them with the application of conservative accounting. Thus the statement indicates a positive relationship between managerial ownership with accounting conservatism.

In investment decisions, the investment opportunity set affect managerial ownership relations and accounting conservatism. Lafond and Rouchowdhury (2007) stated that the problem of managers and shareholders potentially arise when investment policies are based on the effects of the company's profit. The existence of a large conservatism Application potentially creates new problems. When interest between managers and shareholders are not aligned, because the manager will tend to focus on the effects of short-term profits rather than an increase in the value of the company in the long term.

Adam and Goyal (2007) stated that the Investment Opportunity Set (IOS) has an important role in the company's financial policy. IOS policy will have an impact on the financial aspects of the company as the company's capital structure, debt contract, dividend policy, compensation contracts and the company's accounting policies.

Results Jensen (1986) suggest that firms with substantial free cash flow will tend to have higher debt levels especially when the companies have investment opportunity set (IOS) is low. On the other hand, companies with the level of free cash low cash flow will have low debt levels because they do not have to rely on debt as a mechanism to reduce agency cost of free cash flow. Research Gull and Jaggi (1999) found a relationship between free cash flow to debt policies differ among companies that have a low IOS with a company that has a high IOS.

Smith and Watts (1992), proving there is a relationship IOS with dividends, compensation with funding policy with the sample at the level of the industry. While Gaver and Gaver (1993), proving that relationship at the level of the company. Tettet Fijrijanti research results and Hartono Jogyanto (2000) showed the company grew to have leverage and dividend policy relative lower than the company is not growing, growing companies tend to be large companies, and size has a positive correlation with the investment policy through debt.

Research Skinner (1993) documented that the IOS affect directly to the compensation contract bonuses and debt-planning firms. However, there is no direct relationship between IOS and accounting procedures election policies .With such, IOS company is an important determinant in explaining the variation in the selection of accounting procedures. The results of this study are consistent with the argument Watts and Zimmerman (1986, 1990).

Lafond and Rouchowdhury (2007) stated that the Investment Opportunity Set (IOS) is a common factor that affects the relationship between managerial ownership and assymetric timeliness of earnings as a proxy of conservatism. In conditions in which the value of the company is affected by growth and intangible assets will make a negative association between Investment Opportunity Set (IOS) with managerial ownership and accounting conservatism. Bushman et al. (2003) in Juanda (2008) found that the mechanism of corporate governance is closely related to conservatism and corporate strategy.

The company's strategy is one of the steps taken by the manager of the company to be able to maintain its existence. prospector and defender strategy is a typology of organizations that are on two different extremes, even tend opposite (Habbe, 2001). In the context of the product life cycle, the company prospector character type innovator of high intensity in the growth phase. Meanwhile, defender bertipologi company that emphasizes the efficiency aspect is the maturity phase, because in this phase it is reasonable rigorous cost control policy.

Results of research Anthony and Ramesh (1992) showed that the growth phase of the sales growth higher than the maturity phase. In addition, relatively small dividend payments due on earnings growth phase are reinvested in the company. At maturity phase (mature) company will pay bigger dividends than in the growth phase (Pashley and Philipatos, 1990 in Saraswati and Atmini, 2007).

Ittner (1997) stated that the company bertipologi prospector strategy has the opportunity to grow larger than a defender strategy. By using price-to-book value (PBV) as a proxy for companies that have a chance to grow, they stated that the company has the opportunity to grow indicated by the value of PBV relatively larger than the companies that have less opportunity to grow. Investments made in the form of assets in use (assets in place) can still be observed by parties outside the company so little possibility of asymmetry of information. However, investment is still shaped the opportunities and potential will be difficult to be observed by parties outside the company. Because the opportunities and investment potential is related to its future is uncertain and so allow the practice of conservatism (Watts and Zimmerman 1986; Ambarish et al. 1987; aboody and Lev 2000 in Juanda, 2008)

Linkage accounting conservatism with the strategy can be seen from the orientation of the strategy adopted in prioritizing efficiency and innovation. Company with a prospector strategy has the character of innovation of new products, variety and diversion-fication of products. To sustain this strategy, investment in workforce development, research and development expenditures, and capital expenditures are relatively higher than companies defender (Ittner and Larcker 1997).

Research Ahmad Juanda (2007) showed that the type of strategies affect the relationship between conflict of interest and accounting conservatism. Under conditions prospector strategy type, the relationship between conflict of interest and accounting conservatism is getting weaker, and even lead to a negative relationship. Similarly to the contrary, the condition of the company type defender strategy, positive relationship between conflict of interest and concert-vatisma accounting stronger.

This research is the development of research and Rouchowdhury Lafond (2007) with some differences, among others:

1. Research Lafond and Rouchowdhury (2007) using Asymmetric of timeliness as a proxy for conservatism refers to Basu (1997). This study uses a proxy conservatism corporate market value refers to the research Beaver and Ryan (2000). This proxy using the approach of market-to-book ratio of Beaver and Ryan (2000) as a proxy for conservatism.
2. Research Lafond and Rouchowdhury (2007) using the Top Five CEO as a proxy for managerial ownership, whereas in this study using the percentage ownership of shares held by directors and commissioners. (Ward, 2008)
3. Research conducted by Lafond and Rouchowdhury (2007) using leverage, size, market-to-book ratio and litigation as a control variable, whereas in this study using a moderating variable Kallapur Investment Opportunity Set and Trombley (1999) and Type Strategy (Juanda, 2007)

This study will be divided into five sections. The first part contains an introduction that will discuss the background of writing, research objectives, and scope. While the second part is the basic theory and hypothesis development. In part three will discuss the research methodology related to the selection of the sample, the empirical model used, the operationalization of variables, and model testing. While on the four will discuss the results of this study. Finally, in section five will discuss the conclusions, limitations, and potential for future research.

Based on the above background, the formulation of the problem to be addressed in this study are:

1. Is the managerial ownership affect the application of accounting conservatism policy?
2. Is the Investment Opportunity Set moderate the effect of managerial ownership on the application of accounting conservatism policy?
3. What type of managerial ownership strategy moderates the effect of the application of accounting conservatism policy?

## 2. Review of Literature

### 2.1 Agency theory

Agency theory is the basis of the theory underlying the company's current business practices. Agency theory is a theory that arise because of a conflict of interest between principal and agent. Principal shareholder while the agent as a manager. Principal agent contracted to perform resource management within the company. In other words the principal that provides facilities and funding for the company's operations. Agent is obliged to manage the resources of the company, in addition to the agent also obliged to account for the tasks assigned to them. While principals have an obligation to give in return for tasks that have been charged to the agent.

Jensen and Meckling (1976) stated that the company management functions by separating the ownership function would be vulnerable to the agency conflict. Conflict of interest arises because of human nature. Eisenhardt (1989) stated that the agency theory using three assumptions of human nature, namely: (1) man on generally selfish (self-interest), (2) humans have a limited power of thought regarding the perception of the future (bounded rationality), and (3) people always avoid the risk (risk averse).

With the separation of management of ownership and function, it will give rise to any information that is not balanced (Asymmetric Information). The existence of information asymmetry between management (agent) with the owner (principal) may open opportunities for managers to take action Management of earnings in order to fool the owner of the economic performance of companies. In this case, if the manager has more information than shareholders, then the manager will tend to do kecurang with earnings management practices to increase their own profits. There are various motivations that encourage earnings management. Positive accounting theory (Positive Accounting Theory) proposed three hypotheses motivation of earnings management, namely: (1) the hypothesis bonus program (the bonus plan hypothesis), (2) debt covenant hypothesis (the debt covenant hypothesis), and (3) the political cost hypothesis (and the political cost hypothesis) (Watts and Zimmerman, 1986). The emergence of agency problems caused by conflicts of interest and the information asymmetry can make companies bear the cost of agency (agency cost).

According to Jensen and Meckling (1976) agency costs is a reduction of the value of assets of the company because of the separation of control and ownership. Agency costs include: (1) the cost of monitoring by the

principal, ie the costs incurred by the principal to ensure that the agent acts in the interest of the principal, (2) the cost of bonding by an agent, the costs incurred by the agent to ensure that the manager will not take action which deviate from the interest of the principal, (3) the residual loss, ie the amount of principal that reduced welfare due to there being a different decision taken by the agent with a decision that aims to maximize shareholder value.

The results showed that accounting conservatism has a very large role in the resolution of agency problems, among others, conflict Bondholder and shareholder (Ahmed et al., 2002), the conflict between creditors and management (Zhang, 2008). Likewise, Lafond and Roychowdhury (2008) document the role of accounting conservatism in agency conflicts that arise as a result of asymmetric information. Accounting conservatism associated negatively with managerial ownership. The study assumes that the greater managerial ownership, the more risk-taker so that the financial statements are presented less and less conservatively. This is supported by Billet and Liu (2008) which says that the increase in the cost of debt increased managerial voting rights.

Watts (2003) states that accounting conservatism is one mechanism to form an efficient contract by applying perusahaan. Konservatisme conservatism is one characteristic that is very important in the company's accounting system that can help the board of directors in reducing agency costs and improve the quality of the information report finance that will ultimately increase the value of the company and its stock price (Watts, 2003, 2006 in Ahmed and Duellman, 2007).

## 2.2 Accounting Conservatism

Watts (2003) defines conservatism as differences in the demand for verifiability recognizes gains or losses. Conservatism is the application of accounting principles will lead to earnings figures and lower asset and debt costs as well as higher than it should be.

Lafond and Watts (2007) stated that conservatism is a difference in demand for accounting recognition of the profits and losses that will result in asset understatement. Conservatism is considered as a medium that can reduce agency costs because it can reduce the asymmetry of information and functions that are not appropriate in the contract. Conservatism can be used as a medium to reduce the asymmetry of information because it can reduce the space manager to manipulate financial statements. Conservatism also prevent users of financial statements of obscuring resources. According to FASB (1983) No. 5, conservatism is prudent reaction to uncertainty to try to ensure that the uncertainty of the business risk is quite worthy of consideration. The implication by recognizing the costs and losses that are likely to occur, but do not immediately recognize revenue and earnings will come despite the possibility of large. In other words, reported earnings lower than it should be, this is done as to avoid the risk. Basu (1997) stated that conservatism is an accountant tendency to require a higher level of verification in recognizing good news as bad news as an advantage rather than a disadvantage. So that means that the higher the level of verification difference between bad news and good news in the company, the more conservative financial statements issued by the company. The implications of the definition of conservatism is in practice, conservative accounting will recognize all expenses or losses that might occur, but did not immediately recognize revenue or profits that will come though the likelihood is great.

Ward (2008) states that accounting conservatism in the company applied in different levels. One of the factors that determine the level of conservatism in financial reporting of a company is the commitment of management and internal party companies in providing quality information for investors.

Juanda (2007) stated that conservatism is an accounting principle that if implemented would result in figures tend to be low income and assets, as well as figures and debt costs tend to be high. Such tendency occurs because conservatism embraces the principles of slow recognition of revenue and accelerate the recognition of expenses. As a result, reported earnings tend to be too low (understatement).

In summary, they state that accounting conservatism cause persistent understatement of earnings reports and the cumulative net assets during the reporting period.

## 2.3 Managerial Ownership

According Lafond and Rouchowdhury (2007), managerial ownership is the percentage of the company's stock ownership by directors of the company compared to the number of shares outstanding as a whole. Medium according to According Lafond and Watts (2007) managerial ownership shows the percentage ownership of

company stock by the company insider. Managerial ownership is proxied by the percentage of stock ownership by directors and commissioners.

Agency theory explains that the interests of management and shareholders' interests are often at odds. Jensen (1992) suggests there are two potential conflicts within the agency cost is the conflict between shareholders to creditors and the conflict between shareholders with management. Several alternatives to reduce agency cost firstly, of free cash flow, especially under the control and management of cash flow. Second, increase the debt financing, debt reduction will reduce conflicts between shareholders with the manager. Third, by increasing ownership by management. Proportion of ownership interest held by manager can influence company policy.

Agriwal research results and Jayaraman (1994) states that managerial ownership is a mechanical substitution to reduce agency cost, free cash flow in all of the company's equity. Research Jensen et.al (1992) stated that the debt ratio is a function of insider ownership, dividends, business risk, profitability, research and development and fixed assets. The results stated there is a negative relationship between insider ownership with debt policy. These results indicate that the increase in insider ownership, it will align the interests of shareholders and managers, so that managerial ownership can replace the role of debt in reducing agency cost. Research P.A. Mahadwartha and Jogiyanto Hartono (2002) examined the effect of the investment opportunity set (IOS), managerial ownership, firm size and debt policy dividend payout ratio. Research findings show that the debt policy, investment opportunity set (IOS) has a positive influence on the dividend payout ratio. While the managerial ownership and firm size has a negative effect on the dividend payout ratio.

Based on the classical agency theory, the greater ownership by inside directors (affiliated commissioner / commissioner outside independent directors) will lead to the suitability of purpose between management and shareholders. Jensen and Meckling (1976) to form a theory which states that ownership by management will reduce the agency problem as more and more of the shares owned by the management, the stronger their motivation to work in increasing the value of shares enterprises. However, on the other hand as the owner of inside directors may use the power to expropriate voting against the company.

In the context of conservatism, ownership by inside directors and management has two different views. Ownership by inside directors and management can act as a function of monitoring the financial reporting process, and also can be a motivating factor does the expropriation of the minority shareholders. If the inside directors and management of the monitoring function properly, then it will require information from financial reporting that have a high quality so that they will require the use of higher conservatism principle anyway. However, if their holdings are actually pushing for the expropriation of the company, then they will be more inclined to use a more liberal accounting principles (more aggressive).

Research AAGP Widanaputra (2010) generally show higher empirical evidence of conflict between management and shareholders on the dividend policy, the company is more conservative. This happens, because the management is trying to maximize its interests with conservative accounting earnings reported that the number gets smaller, so the amount of dividends are distributed is also getting smaller. The smaller dividends are distributed, the fund management greater control. The results of this study provide evidence that the company is managed by a non-owner managers are more conservative than the company managed by the owner manager. This occurs as a result of the smaller agency problems that occur on the owner manager.

Ahmed and Duellman (2007) conducted a study on the effect of insider ownership and the independent board director of the accounting konservatisme. Shareholding company by the insider is expected to reduce the agency problem between managers and shareholders. In addition to ownership by the insider, the application of corporate governance in the company is expected to improve the control of the shareholders of the company. One application of corporate governance mechanism is the existence of an independent commissioner. The results of this study showed that the percentage of insider ownership negatively affect accounting conservatism. Independent board director significant effect on accounting conservatism with size, leverage, growth and institusioanl onwership as control variables.

Barclay, Gode, and Kothari (2005) in Muhammad Safiq (2010) discuss the benefits of rewards for managers based on performance as measured by earnings. The results showed that conservative financial reporting is hypothesized to facilitate contracts between shareholders and managers with the agency problem. If the interests of managers and shareholders are not aligned, the agency problem into terrible trouble for them. Thus, the degree of alignment of interests between managers and shareholders are positive.

Lafond and Roychowdhury (2007) stated that conservatism in financial reporting is one of the mechanisms to overcome the problems of the agency when there is a separation between ownership and control. They hypothesized that by getting his managerial ownership, the agency problems that arise will be greater so that the demand for conservative reports will increase. Consistent with this hypothesis, they found a negative relationship between managerial ownership conservatism measured by using asymmetric timeliness measure of recognition of profit and loss.

Wu (2006) examined the impact of managerial ownership on earnings quality that one size is conservatism in financial reporting. Hypothesis two-way relationship between two variables. On the one hand, managers with high equity ownership would choose to use a lower level of conservatism to avoid a drop in stock prices. On the other hand, a more conservative accounting will be used as a rational creditors will expect managers with high ownership would be more in line with shareholders so that the creditors need a specific mechanism to protect the value of their investment. In addition, shareholders will also see their potential earnings management done by the larger managerial ownership is thus demanding a high level of conservatism in order to avoid short-term opportunistic managers.

Research and Song Donglin Xia Zhu (2009) showed that at high levels of leverage, low level of shareholder control, and low levels of ownership led to conservative management reporting. Further research Akinobu Shuto And Tomomi Takada (2010) found a low level of managerial ownership and tin ggi, associated significantly negative between managerial ownership and conservatism. The results showed that the demand for accounting conservatism decreases as a result of a decrease in the agency problem, consistent with the effects of incentive alignment. This finding is consistent with research Garcia Lara et. al. (2007), and Joo An Hoo (2009).

However, the results of Mohammed Safiq (2010) states that accounting conservatism is positively related to managerial ownership. Likewise, the results of Wu (2006) concluded that the percentage of companies that have a higher managerial ownership shows a pattern that is more conservative in reporting their income. It is evidence that there is a positive relationship between managerial ownership with the level of conservatism in the company. Findings Mohammed Safiq (2010) and Wu (2006) in accordance with Ros et.al (1999) in Suaryana (2008) which states that the greater the management ownership, management tends to strive even harder for the benefit of the shareholders to increase the value of the company one of the conservative accounting application. Thus the statement indicates a positive relationship between managerial ownership with accounting conservatism.

#### **2.4 Company strategy**

The company's strategy is one of the steps taken by the manager of the company to be able to maintain its existence. For managers, the urge to choose accounting policies should be tailored to the type of company strategy is being executed. Miles and Snow (1978) in Habbe and Hartono (2001) classifies the company strategy into four typologies, namely prospector, analyzer, defender, and the reactor, with the following definition:

1. The Prospector is an organization that continuously supervise the creation of market opportunities and conduct of changes and uncertainties to respond to competitors. Function marketing and R & D becomes more dominant. Performance is not just based on profit and efficiency but more important is to be a leader in product innovation.
2. The Defender is an organization that tends to limit the type of production or market restriction. Assessed based on the financial performance of the company, production, and technical engineering to emphasize spending on marketing and research and development (R & D).
3. Analyzer is an organization that is a combination of forces between prospector and defender. In the area more stable, this organization operates regularly and efficiently through the use of structures and processes are formulated. In the area a more turbulent, top managers close attention to new ideas and then appropriately competitors adopt it.
4. Reactor is an organization that top managers often perceive that there has been a change and uncertainty in the operational environment, but can not respond effectively. Because this type of organization is less consistent regarding the relationship between strategy and structure, it rarely makes adjustments to the members the power to do as was done by the environment.

The theory of product life cycle (product life cycle) has the assumption that every product will evolve. There are four phases in the evolution of a company's life cycle, namely the introduction phase (introduction / pioneering), growth / expansion, maturity (mature / harvest), and the decline (decline). Some literature also mentions that the

capital expenditure and sales growth, which is a major signal for the company's strategy, as well as cost effective strategy is a function of the stage of the cycle of the organization.

Research Anthony and Ramesh (1992) found a higher sales growth compared to the phase of maturity and decline. In addition, dividend payments are relatively smaller, because the earnings growth phase reinvested into the company. In the research of Anthony and Ramesh (1992), if it is associated with the life cycle of the company, found strong sales growth in the growth phase compared to the maturity phase.

### 3. Theoretical Framework

Jensen and Meckling (1976) to form a theory which states that ownership by management will reduce the agency problem as more and more of the shares owned by the management, the stronger their motivation to work in improving the company's stock value. Based on the classical agency theory, the greater ownership by inside directors (affiliated commissioner / commissioner outside independent directors) will lead to the suitability of purpose between management and shareholders. However, on the other hand as the owner of inside directors can use the power to expropriate voting against the company.

According to Ward (2008) in the context of conservatism, ownership by inside directors and management has two different views. Ownership by inside directors and management can act as a function of monitoring the financial reporting process, and also can be a motivating factor does the expropriation of the minority shareholders. If the inside directors and management of the monitoring function properly, then it will require information from financial reporting that have a high quality so that they will require the use of higher conservatism principle anyway. However, if their holdings are actually pushing for the expropriation of the company, then they will be more inclined to use a more liberal accounting principles (more aggressive).

Research conducted by Ahmed and Duellman (2007) show that conservatism is considered capable of reducing the ability of managers to present the profit and net assets overstate the more recognized gain. Barclay, Gode, and Kothari (2005) in Muhammad Safiq (2010) showed that the conservative financial reporting is hypothesized to facilitate contracts between shareholders and managers with the agency problem. If the interests of managers and shareholders are not aligned, the agency problem into terrible trouble for them. Thus, the degree of alignment of interests between managers and shareholders are positive.

Ward (2008) states that accounting conservatism in the company applied in different levels. One of the factors that determine the level of conservatism in financial reporting of a company is the commitment of management and internal party companies in providing information that is transparent, accurate and not misleading to investors. These results indicate that the higher ownership by the board, the lower level of accounting conservatism as measured by the size of the market. Wu (2006) in warhdani (2008) explains that the negative relationship between conservatism with managerial ownership may be caused by the tendency of managers with high equity ownership would choose to use a lower level of conservatism to avoid a drop in stock prices.

Ahmed and Duellman (2007) conducted a study on the effect of insider ownership and the independent board director of the accounting konservatisme. Shareholding company by the insider is expected to reduce the agency problem between managers and shareholders. The results of this study showed that the percentage of insider ownership negatively affect accounting conservatism. Independent board director significant effect on accounting conservatism with size, leverage, growth and institutioanl onwership as control variables. An investigation results Joo Hoo (2009) found that the percentage of ownership manager was negatively related to conservatism. These results are consistent with research, Garcia Lara et. al. (2007), Donglin Xiaand Song Zhu (2009) and Akinobu Shuto and Tomomi Takada (2010).

On the other hand Ros et.al (1999) in Suaryana (2008), states greater management ownership, management tends to strive even harder for the benefit of the shareholders to increase the value of the company one of them with the application of conservative accounting. Research results Wu (2006); Mohammed Safiq (2010) concluded that the percentage of companies that have a higher managerial ownership shows a pattern that is more conservative in reporting their income. It is evidence that there is a positive relationship between managerial ownership with the level of conservatism in the company.

AAGP Widanaputra (2010) provide evidence that the company is managed by a non-owner managers are more conservative than the company managed by the owner manager. This occurs as a result of the smaller agency problems that occur on the owner manager. Additionally Lafond and Roychowdhury (2007) stated that conservatism in financial reporting is one of the mechanisms to overcome the problems the agency when there is



a separation between ownership and control. They hypothesized that by getting his managerial ownership, the agency problems that arise will be greater so that the demand for conservative reports will increase. Consistent with this hypothesis, they found a negative relationship between managerial ownership conservatism measured by using asymmetric timeliness measure of recognition of profit and loss. Based on the above, then the separation of the management functions of the supervisory function makes the manager has more information than shareholders. When managerial ownership is low, then the managers tend to opportunistic behavior by means of earnings management practices to increase their own profits. This is done with the manager reported overstate earnings, thereby increasing the agency cost. Thus, to reduce agency costs, the shareholders want managers to implement a more conservative accounting. Based on the explanation allegedly there is a negative relationship between managerial ownership with accounting conservatism

Results of investigation of the influence of managerial ownership on accounting conservatism that has not been consistent, showing the presence of other factors that also menginteraksi. These results encourage researchers to include Investment Opportunity Set as moderating variables. Investment opportunity set as the value of the investment choices depending on the policy manager to undertake capital expenditures (discretionary expenditure) in the future which can be viewed as a growth option (Kole, 1991). Ahmed and Duellman (2007) Making a conclusion will be the role of conservatism in agency conflicts between managers and shareholders will very likely be affected by the effects of the Investment Opportunity Set (IOS). Investment Opportunity Set (IOS) touches both the interests of managers and shareholders. Lafond and Rouchowdhury (2007) proved that the IOS as a proxy for investment companies associated in the relationship between managerial ownership and accounting conservatism. In the context of agency cost of free cash flow, when many positive NPV projects, the IOS and related negative free cash flow. The impact of this relationship, the IOS and IOS with leverage and the negative payout dividend (Kallapur and Trombley, 2001). Research results Smith & Watts (1992) and Gaver and Gaver (1993) shows that firms that grow tend to have debt in the capital structure (leverage) and the dividend distribution is relatively lower than the company does not grow. Likewise, the results of research Fijrijanti and Hartono (2009) showed the company grew to have leverage and dividend policy relative lower than the company is not growing, growing companies tend to be large companies, and size has a positive correlation with the investment policy through debt.

Agriwal research results and Jayaraman (1994) states that managerial ownership is a mechanical substitution to reduce agency cost, free cash flow in all of the company's equity. Research Jensen et.al (1992) stated that there is a negative relationship between insider ownership with debt policy. These results indicate that the increase in insider ownership, it will align the interests of shareholders and managers, so that managerial ownership can replace the role of debt in reducing agency cost. This finding is consistent with research P.A. Mahadwartha and Jogiyanto Hartono (2002); and Wahidahwati (2001); Jansen et. al. (2002); chen and steiner (1999) who showed that managerial ownership negative effect on the debt.

Demsetz and Lehn [1985] in Lanford (2007) showed that when a company operates in a relatively volatile environment, it is very expensive to monitor the actions of managers and observe directly the effect of such action. In a situation such as a high managerial ownership is likely to be efficient. This indicates that at the time the company grew, the increase in managerial ownership will align the interests of shareholders and managers, so that managerial ownership can offset the cost of monitoring in reducing agency cost. Research Putu Anom (2003) provide evidence that the investment opportunities the company has a positive and significant relationship of managerial ownership, this suggests that the low book to market ratio or the higher the investment opportunities will increase the willingness of managers to increase its stake in the company.

Watts and Zimmerman (1986, 1990). Stating IOS company is an important determinant in explaining the variation in the selection of accounting procedures. Skinner (1993) documented that the IOS affect directly to the compensation contract bonuses and debt-planning firms. and prove the existence of a direct relationship between IOS and accounting procedures selection policy, through the nature of the contract kompensasi- bonus plan and debt agreements. Roychowdhury and Watts (2006) provides an overview of the relationship between Investment Opportunity Set (IOS) and accounting conservatism. that the Investment Opportunity Set (IOS) that the greater will be vulnerable to a decline in the value of assets primarily intangible assets are not recognized. It makes a negative association between Investment Opportunity Set (IOS) with accounting conservatism.

However Givoly and Hyan (2000) which states that the company's growth rate (growth opportunities) can be a positive influence on accounting conservatism conservatism used when the proxy is the market-to-book ratio. Companies that have high growth rates are considered by the market to have favorable prospects in the future. This makes the market reacted positively to the stock price of a company that makes stock prices rise. The

movement of stock prices will boost the value of the company, which means the greater the market-to-book ratio of the company.

From the description above, the presence of agency conflicts between managers and shareholders of potential affected by investment decisions. Investment decision indicated the investment opportunity set will influence the behavior of managers. When the investment opportunity set high, managers tend to increase its stake in the company because of the positive signal to the value of the company. Increased investment opportunity set will align the interests of shareholders and managers, because the investment opportunity set can replace the cost of monitoring in reducing agency cost. With the reduction of agency costs, the application of conservatism in the company to be low. Vice versa decrease in the investment opportunity set, then the application of accounting conservatism becomes high. Thus, supposedly moderate the investment opportunity set of managerial ownership influences on accounting conservatism.

The company's strategy is one of the steps taken by the manager of the company to be able to maintain its existence in the company. For managers, the urge to choose accounting policies should be tailored to the type of corporate strategy being dijalankan. Bushman et al. (2003) in Juanda (2007) found that the mechanism of corporate governance is closely related to conservatism and corporate strategy. They found that the variation in the timeliness of accounting with the current conditions can be partially explained by the structure of governance, growth, fluctuations in returns, firm size, firm age, tenure of managers, diversification strategies and past performance.

In the context of the life cycle concept, prospector strategy approach because there are two growth phases of growth characteristics. First, the growth due to new opportunities and development of products and secondly, the growth in the sense of a high rate of growth (Miles and Snow: 1978: 57). On the other hand there is a defender strategy in maturity phase because in this phase needs to strict cost control and emphasizes efficiency.

Research Anthony and Ramesh (1992) connects the accounting performance by the reaction of stock prices and the approach is the life cycle theory because each phase in the life cycle using accounting performance measures berbeda. Pada growth phase, found a higher sales growth compared to the maturity phase and decline. In addition, dividend payments are relatively smaller, because the earnings growth phase reinvested into the company. Ittner, et al. (1997) revealed that the growth phase, the profit is reinvested into the company so that it will reduce the debt, due to the presence of new products and product variations, it will open up new market opportunities to concentrate on increasing sales and market share.

On the other hand Gumanti and Puspitasari (2008) examined the association IOS and financially with a variable number of stages siklus corporate life. The results of this study indicate that in the early stages of the expansion of independent variables dividend yield significant negative effect on the IOS. This study supports the compensation contracts that companies in the growth phase has a low dividend yield, because the profits are used for reinvestment to boost the company's growth. Research Ahmad Juanda (2007) showed that the type of strategies affect the relationship between conflict of interest and accounting conservatism. Under conditions prospector strategy type, the relationship between conflict of interest and accounting conservatism is getting weaker, and even lead to a negative relationship.

From the description above, it can be concluded that for managers, the urge to choose accounting policies should be tailored to the type of company strategy is being executed. Company prospector type tend to have average earnings growth and high sales, thus indicating the condition of the company in the growth phase. In the growth phase, the manager tends to increase its stake in the company because of the presence of a positive signal to the value of the company. Thus, the company will align the interests of type prospector shareholders and managers, because it can reduce agency cost. By decreasing the cost of the agency, then the application of conservatism in the company to be low. In contrast to company type defender strategy, the application of accounting conservatism becomes high. Thus, supposedly moderate the company's strategy of managerial ownership influences on accounting conservatism.

#### **4. Hypothesis**

H1: Managerial ownership negative effect on accounting conservatism

H2: Investment Opportunity Set moderate the negative effects of managerial ownership on accounting conservatism.

H3: Type of Company Strategy moderate the negative effects of managerial ownership on accounting conservatism weakened

### 5. Methodology, Finding and Discussion

The object of this study is a non-financial services company listed on the Indonesia Stock Exchange. In 2008 - 2010 the companies sampled already registered in the Indonesia Stock Exchange (IDX). After selecting a sample with purposive sampling technique acquired 32 companies non-financial services that meet the criteria. Study period starting from 2008 up to 2010 so that the research data as a whole amounted to 96 samples.

In determining variable Investment Opportunity Set determined using four proxy, namely: In line with Gaver and Gaver (1993) and Kallapur and Trombley (1999), Market Value to Book Value of Assets Ratio (MVA / BVA), Capital Assets Addition to Book Value ratio (CAP / BVA), Capital Market Value Addition to Assets ratio (CAP / MVA) and the ratio of market to book value of equity (MVEBVE). Furthermore, the value of each of these indicators were analyzed using factor analysis commom.

The final result of the factor analysis firm Strategy type through two stages of testing, where the first stage is obtained value of KMO and Bartlett's Test, less than 0.5. KMO value is equal to 0.499 and the value of the Anti-image Matrices Karpen 0.514, the sma 486, cemve 0.516, and PBV 0.482, so that in the process of re-testing, then the value of the Anti-image smallest Matrices issued namely PBV 0.482. In the second retest obtained results KMO value equal to 0.524 and the value of the Anti-image Matrices Karpen 0.536, sma 0.519, cemve 0.522. Thus, it can be the next step in the process is to test the factor analysis. And the final result is obtained only one factor alone, then these factors into variable types of corporate strategy.

While the dependent variable accounting conservatism (KON) has a positive minimum value. Here are the details of descriptive data are processed:

- a. Variable Investment Opportunity Set (SKI) of the interval from 2008 to 2010 has a range of 15.4000, a minimum value of -8.6871, the maximum value of 6.7130, Investment Opportunity Set average of standard deviation of 0.018143 and 1.4324369 with a total sample of 96.
- b. Variable Type of Company Strategy (SP) of the interval from 2008 to 2010 has a range of 9.8872, a minimum value of -4.3276, the maximum value of 5.5596, an average of Corporate Strategy (SP) of -0.004203 and standard deviation of 1.0152632 with a total sample of 96 .
- c. Ownership Variable manejerial (K\_MJRL) of the interval from 2008 to 2010 has a range of 68.2400, a minimum value of 0.1000, the maximum value of 68.3400, the average manejerial Ownership (K\_MJRL) of the standard deviation of 6.881260 and 9.3376143 with a total sample of 96.
- d. Variable accounting conservatism (KON) of the interval from 2008 to 2010 has a range of 57429.6424, a minimum value of 0.0047, the maximum value of 57429.6471, on average accounting conservatism (KON) is 616.391674 and the standard deviation of 5.8598628 with a total sample of 96.

### 6. Conclusion

This study examines the effect of the type of strategy, and the investment opportunity set of the relationship between managerial ownership and accounting conservatism in public companies listed on the Stock Exchange. This study used a sample of 32 companies selected by the criteria of not including banking and real estate industry with 96 observations during the years 2008 - 2010. This study obtained the following results:

1. Test results on the first hypothesis, significance value of t is smaller than the specified  $\alpha$  ( $\alpha = 0.05$ ), which is 0,020. And the regression coefficient ( $\beta_1$ ) -0334 and 0056 R square. This suggests that managerial ownership significantly influence accounting conservatism shown from the results of the significant value of 0,020 t and negative direction indicated by the results of the regression coefficient ( $\beta_1$ ) -0334. The influence of managerial ownership on accounting conservatism of 5.6% the rest is influenced by other factors. Thus, the first hypothesis is proven that the percentage ownership of managers and significance was negatively related to accounting conservatism
2. In the hypothetical model 2, the variable type of company strategy as moderating variables proved. This can be seen from the results  $\beta_3$  (regression coefficient) -0399 with a significance value of 0.037 is below the 0.05 significance. This is due to the significant value below the value at the 0.05 significance, then the variable type terukti corporate strategy as moderating variables influence the relationship between managerial ownership and accounting conservatism. On the other hand significant F value of 0000, the managerial ownership and the type of strategy and corporate strategy type moderating variables simultaneously affect the accounting conservatism and Adj R Square value of 0165, which showed that 16.5% accounting conservatism variable influenced by

managerial ownership and the type of strategy as well as moderating variable types of corporate strategy, the rest is influenced by other factors.

3. In the hypothetical model 3, the variable Investment Opportunity Set the company as a moderating variable is not proven. This can be seen from the results  $\beta_3$  (regression coefficient) 0169 with significant value. 0184 well above the 0.05 significance. Thus, the Investment Opportunity Set is not a moderating variable between managerial ownership relationships influence on accounting conservatism. On other hand determinansi coefficient results showed Adj R Square value of 0246 means that 24.6% accounting conservatism variable influenced by managerial ownership and the type of strategy and corporate strategy type moderating variable. Thus the results of testing the third hypothesis is not proven

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