

Conservative Accounting and State Ownership: Estimation Model of Conservatism in Indonesian State-Owned Enterprises

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ABSTRACT

BUMN is considered vital to the national economy, contributing directly to GDP, employment, and market expansion. The contribution of BUMN to State Budget and Expenditure (APBN) revenues in 2018 reached IDR 422 trillion. BUMN companies also control 25% of the capital market capitalization value in Indonesia. BUMN is not much different from other private and public companies; therefore, BUMN is also inseparable from agency conflict. Previous research has shown an inverse effect of government ownership on accounting conservatism and a significant positive relationship between foreign and institutional ownership. The results show that the income level is 'not persistent' because the increase has a 'momentum' of 43%, which increases in the following year. The results also show that the timely recognition of economic gain (gain) as a component of income is repeating transitory component of income and that the recognition of profits is much more timely than recognition of losses indicates that most of the components of temporary gain from income are not classified by the companies studied. as exceptional or extraordinary.

Keywords: balanced scorecard; public sector; new public management.

INTRODUCTION

Indonesian State-Owned Enterprises (BUMN) was originally a continuation of Dutch private companies operating in Indonesia, most of which were public utility (Puspasari, 2015). In 1967, after the Dutch ended their occupation of Indonesia, all Dutch companies operating in Indonesia were nationalized and taken over by the Indonesian government. BUMN is considered vital to the national economy, contributing directly to GDP, employment, and market expansion. BUMN total collective assets contributed IDR 8,092 trillion in 2018 (Ministry of BUMN 2019).

The contribution to State Budget and Expenditure (APBN) revenues in 2018 reached IDR 422 trillion. BUMN companies also control 25% of Indonesia's capital market capitalization value with a value of approximately Rp1.

Although BUMN is a company owned by the Government, BUMN is not much different from other private and public companies in practice. Therefore BUMN is also inseparable from agency conflict. In Indonesia, there are 20 BUMN whose shares are traded on the capital market and allow to be owned by the public. According to Alkurdi, Al-Nimer & Dabaghia, M (2017), there is an inverse effect of government ownership on accounting conservatism and a significant positive relationship between foreign and institutional ownership and accounting conservatism.

Conservatism responds to information asymmetry and litigation, not factors that drive these attributes (Khan & Watts, 2007). Abd-Elnaby (2019) states that there is a positive relationship between conservatism and investment efficiency. The results of his research also show a positive relationship between conservatism and debt financing in companies facing underinvestment problems (Gumilar, I., & Sunarsi, D., 2020).

Conservatism reduces agency conflicts and benefits corporate governance in several ways. First, conservatism limits management's overpayments to themselves and others by timely recognizing losses and delaying the recognition of gains (Watts, 2003a). Second, managers are more likely to leave negative NPV projects under conservative accounting because the economic losses caused by these projects are recognized on a timelier basis (Watts, 2003b).

However, conservatism is negatively related to the percentage of shares held by the largest shareholders, and that this effect is very significant when the percentage of ownership exceeds 30% (Cullinan, 2012). Cullinan's (2012) research also does not find that state ownership affects the relationship between ownership of the largest shareholder and accounting conservatism.

The diversity of research results related to ownership structures, especially for government-owned companies and conservatism, encourages researchers to test and investigate empirically whether ownership structures help maintain accounting conservatism and limit opportunistic management practices in BUMN company's concentration ownership. As an important accounting principle, conservatism has long been a major topic in accounting research. This study contributes to adding to the literature in the following ways. First, enrich research related to accounting conservatism. Second, this paper broadens our understanding of the effect of ownership structure on corporate business activities, particularly on SOE business activities in Indonesia.

Hypothesis development

State ownership with a minority percentage of shares in private control companies is more conservative than similar companies without state minority owners (Cullinan, 2012). Below will be discussed how state or government ownership can be associated with company effectiveness and conservatism.

State Ownership in BUMN

In research conducted by Sun, Tong & Tong (2002), the relationship between government ownership and company performance follows an inverted U-shape pattern. A certain level of government ownership appears to be 'optimal.' Too much ownership of BUMN shares by the government means too much control and interference in the SOE's economic operations. Too little government ownership means too little support from the government to pull SOEs out of their trouble. How much is the optimal level of government ownership of BUMN and can direct

BUMN to work properly is a question that has not been answered at this time. Yu (2013) suggests that a higher level of state ownership makes it superior to dispersed ownership structures because of the benefits of government support and political connections. His research also states that the Segregated Stock Structure Reform makes previously non-tradable shares legally tradable, improves corporate governance, and reduces the negative effects of non-tradable state stocks.

Research looking at how government ownership company performance has influences yielded mixed results. Whether government ownership in the company (government link company) causes the company to be better and more effective or not will be greatly influenced by different business environments and circumstances. Companies that apply more conservatism reporting are proven to have better corporate performance, and state ownership does affect the effectiveness of corporate governance on corporate conservatism and performance (Yun, 2014).

Government ownership is also associated with firm efficiency, Feng, Sung & Tong (2004) find that the efficiency of Singapore government-owned companies is comparable to privately-managed companies and find that through the buy-and-hold strategy, the return on government link company (GLC) shares is proven to provide an equally large relative return to market or other control sample returns over a range of investments of up to four years. The GLC also performs at par with market and industry performance up to five years before listing. Ang & Ding (2006) found more or less similar results, that financial and market performance for GLCs in Singapore on average show higher ratings than non-GLCs, even after controlling for firm-specific factors such as profitability, leverage,

Contrary to research by Feng, Sung & Tong (2004) and Ang & Ding (2006). Dewenter & Malatesta (2001) found that government-owned companies in Europe are significantly less profitable than privately-owned companies. The difference in profitability is not only statistically significant but also large in value. Additionally, the differences exist in a sample spanning 20 years and multiple business cycles. These results indicate that government companies are less efficient than private companies.

Conservatism in BUMN

Watts (2003a) argues that conservatism and the resulting net asset bias may be an important component of better efficient financial reporting as implied by various statements by accounting regulators and academics because conservatism tends to be an efficient financial reporting mechanism in the absence of a contract. Watts (2003a) also says that conservatism is related to litigation costs by shrinking net assets. Conservatism reduces the litigation costs that companies expect. The asymmetry in litigation costs is consistent with an evolving legal system to limit opportunistic payments to managers and others to firms.

Theoretically, conservatism can reduce agency costs and increase investment efficiency (Abd-Elnaby, 2019; Lara, 2016), and companies that adopt more conservative accounting get more loans from banks with foreign ownership or exclusive foreign banks (Chen., et al. 1, 2010). Conservatism also reduces management forecast errors related to company operations, earnings volatility, and the range of estimates to a certain extent (Sun & Xu, 2012). Higher ownership by institutions that tend to monitor managers tends to be associated with more conservative financial reporting (Ramalingegowda, 2009). This positive association was more pronounced among companies with more growth options and higher information asymmetry.

However, some studies have found results suggesting concentrated ownership is driving a decline in conservatism. Song (2015) states that ownership concentration reduces accounting conservatism. Because when ownership concentration increases, controlling shareholders will be motivated to violate the interests of minority shareholders and tend to hide their behavior by manipulating income, increasing ownership concentration also decreases the need for quality information. Nawang and Selahudin (2015) found that GLCs tend to have less conservative accounting practices than non-GLCs. Yunos (2010) also found encouragement from outside shareholders and shareholders in Malaysian companies for a lower level of conservatism.

Wan Ismail, Kamarudin & Othman (2012) found that companies related to the government were not conservative when preparing their financial reports. This finding is in line with claims that managers in government-linked firms practice aggressive financial reporting because of weak governance, high incentives to maximize compensation, and larger agency problems. The conservative reporting found in state-controlled firms suggests that managers in these firms may have lower incentives to increase profits because their opportunities for better job prospects are limited.

In government-owned companies, there are two points of concern that could reduce the effectiveness of shareholder mechanisms. First, the rights of major shareholders are in the taxpayer's hands, resulting in widespread ownership. Second, in government-related entities, managers are often appointed by the government through connections. It causes these managers to depend more on their political performance and social reputation than their business acumen (Cullinan, 2012).

The managers appointed by the government will tend to take opportunistic actions that make their reputation better, so the managers selected will choose investments that provide personal added value in the short term even though they produce low returns compared to long-term investments, which is profitable but does not provide added value individually.

Increasing government ownership will also reduce the ownership of outsiders in the company; this will also result in lower demand for information and the need to monitor managers, so that increasing government ownership causes a decrease in the need for conservatism. So that the hypothesis that is formed is:

H1: Companies owned by the state (BUMN) have a lower level of accounting conservatism than companies that are not owned by the state (non-BUMN).

METHOD

Conservatism in BUMN

Measurement of conservatism in this paper uses a time-series test of timeliness in loss recognition from the model Basu (1997) modified in the paper Ball & Shivakumar (2005):

$$\Delta NI_t = \alpha_0 + \alpha_1 D\Delta NI_{t-1} + \alpha_2 \Delta NI_{t-1} + \alpha_3 D\Delta NI_{t-1} \times \Delta NI_{t-1} + \alpha_4 DBUMN + \alpha_5 DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1} + \varepsilon_t$$

The change in income (alternatively defined as including and excluding extraordinary and extraordinary items) from fiscal year t-1 to t, scaled to the initial book value of total assets. It is

a dummy variable that takes a value of 1 if the previous year's change was negative. $\Delta NI_t D \Delta NI_{t-1} \Delta NI_{t-1}$

With an approach according to the research of Ball & Shivakumar (2005), the recognition of profits is untimely, by delaying the recognition of income until there is an increase in cash flow which is recognized, causing profits to be recognized as a component of positive income which is "persistent" so that it tends not to be reversed and has implications for value. Likewise, the timely recognition of economic losses implies they are recognized as "transitory" decreases in income, and therefore a reverse occurs; thus, it can be argued that economic losses are recognized in a more timely manner than gains imply... $\alpha_2 = 0 \alpha_3 < 0$

In this study, the variable is a dummy variable that takes 1 for BUMN companies and 0 for public companies (non-BUMN). Our prediction in this study predicts that financial reporting related to conservatism in BUMN and non-BUMN companies will show different results where the main hypothesis in this study is that BUMN companies will be more likely to recognize gains more timely than public companies (non-BUMN). companies that are not owned by the state (non-BUMN) have a higher level of accounting conservatism than companies owned by the state (BUMN) with predictions. $DBUMN \alpha_5 > 0$

According to the research of Ball & Shivakumar (2005), the independent variable in this specification is the change in income, which has two main advantages. First, changes in income provide the correct specifications to identify. Second, incremental coefficients are more likely to be influenced more by survival bias in terms of change because survival frequencies tend to be more similar in samples of negative and positive income change than samples of negative and positive income levels (i.e., loss-making firms less likely to survive. rather than profitable companies experiencing decreased revenues). α_3

Roychowdhury & Watts (2007) estimate that the measure introduced through the Basu (1997) model is a measure that can cumulatively better assess conservatism using the net asset value approach when compared to the Market to Book (MTB) approach. It is in line with the research of Ryan (2007), which states that the measurement of conservatism with the asymmetric timeliness approach is still the main measurement tool in empirical studies related to conditional conservatism.

Population and Research Sample

The samples used in this study were companies in the financial, health care, utilities, materials, industrial, communication services, and transportation sectors listed on the IDX in the 2017-2019 period. These sectors were chosen because they followed the types of Indonesian BUMN industries listed on the IDX.

Of the 20 Indonesian state-owned companies listed on the IDX, this study only took 18, two SOEs, namely PT. Bukit Asam and PT. Housing Development was not included in the calculation due to incomplete data.

The sampling technique is carried out with the criteria of companies that present the financial statements required for a complete study. The data used in this research is in the form of financial and non-financial data for BUMN and non-BUMN companies for similar industries in Indonesia.

RESULT AND DISCUSSION

In Table 1, we can see a summary of statistics for all the companies that were sampled in this study, the data has not been treated by censoring, but from observations on the data, it is known that extreme values mostly occur in state-owned companies, so the researchers estimate that censorship will have a sufficient effect, significant to the calculation results.

The calculation of the model is carried out then; the researcher will test the hypothesis in two ways: First, by calculating the data without censoring the data (Panel A). Second, perform calculations with data that has been in the sensor (Panel B).

Table 1
Summary statistics (in a million rupiah)

Variable	Mean	Std. Dev	Min	Max
ΔNI_t	-4,599,501	17,600,000	-120,000,000	16,200,000
$D\Delta NI_{t-1}$	0.7708333	0.4217637	0	1
ΔNI_{t-1}	-4,848,369	19,000,000	-169,000,000	10,800,000
$DNI_{t-1} \times \Delta NI_{t-1}$	-5,113,356	18,900,000	-169,000,000	0
$DBUMN$	0.125	0.3318733	0	1
$DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1}$	-3,368,478	18,000,000	-169,000,000	0
Number of Observation	144			

An analysis is carried out using the Ordinary Least Square model to get the results of the parameters to prove the hypothesis that the model can compare the level of conservatism between BUMN and non-BUMN companies in Indonesia, and the results can be seen in Table 2 below.

Table 2
Robust Least Square

$\Delta NI_t = \alpha_0 + \alpha_1 D\Delta NI_{t-1} + \alpha_2 \Delta NI_{t-1} + \alpha_3 D\Delta NI_{t-1} \times \Delta NI_{t-1} + \alpha_4 DBUMN + \alpha_5 DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1} + \varepsilon_t$				
Variable	Predicted Sign	Coefficient	Std. Error	Prob
Panel A (without censoring)				
Constanta (α_0)		57978.18	67889.94	0.395
$D\Delta NI_{t-1}$ (α_1)	?	- 273881	778133.5	0.725
ΔNI_{t-1} (α_2)	0	- 0.43478	0.6701	0.000
$DNI_{t-1} \times \Delta NI_{t-1}$ (α_3)	-	1.64073	0.1058	0.000
$DBUMN$ (α_4)	?	119952	376974	0.751
$DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1}$ (α_5)	+	-0.50062	0.1443	0.001
Number of Observation	144			
R-squared		0.6792		
Prob> F		0.0000		

Panel B(with censoring)

Constanta (α_0)		57978.18	67945.19	0.395
$D\Delta NI_{t-1}$ (α_1)	?	-876010.8	469875.2	0.064
ΔNI_{t-1} (α_2)	0	-0.4345777	0.0670734	0.000
$DNI_{t-1} \times \Delta NI_{t-1}$ (α_3)	-	1.303836	0.417335	0.002
$DBUMN$ (α_4)	?	-3181493	4380502	0.469
$DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1}$ (α_5)	+	-0.9272709	0.5378078	0.087
Number of Observation	138			
R-squared	0.0957			
Prob> F	0.0000			

Dependent variable: changes in earnings from year t-1 to year t, which are assessed based on the size of total assets at the end of year t-1. Independent variable: = 1 if = 0 otherwise; , a dummy for BUMN with a value of = 1 if the company is a BUMN company and 0 if not. $\Delta NI_t, D\Delta NI_{t-1}, \Delta NI_{t-1} < 0; DBUMN$. Panel A: all data is computed without censoring; Panel B: the data is calculated after censorship

From the calculation of the value of -0.43 in Panel A and Panel B with a probability of below 5%, the two values indicate that there is “timely” recognition of income so that timely recognition of income components in the form of economic benefits implies they are recognized as “transitory” in the component of income and tends to reverse causing value. This result is not by the initial prediction where the value, this result shows that the level of income will experience a continuation because the increase has a ‘momentum’ of 43%, which continues as a decrease in the following year $\alpha_2 \alpha_2 < 0 \alpha_2 = 0$

The values are 1.64 in Panel A and 1.30 in Panel B, with each probability being below 5%; both values are not by the initial prediction; namely, the positive value of the calculation results shows that economic losses are recognized in a less timely manner (untimely) rather than economic gain so that economic losses are recognized with a “persistent” nature that causes no reverse. The incremental coefficient on positive changes in earnings is significantly consistent with the recognition of gains that are much more timely than recognition of losses, indicating that most of the temporary gains from income are not classified by the companies studied as either exceptional or extraordinary. $\alpha_3 \alpha_3 < 0 \alpha_3$

The value is positive for Panel A and negative value for Panel B, but the probability value for the two panels is far above 5%, which means that there is no significant difference in the timing of recognition of economic gains and economic losses between non-BUMN companies and BUMN companies for companies. -companies that were sampled in this study. α_4

The main hypothesis to be seen in this study is whether non-BUMN companies are more likely to admit economic losses more timely than BUMN companies. From the calculation results, it is known that the value is -0.5 for Panel A and -0.9 for Panel B; both values are opposite to the initial prediction that the coefficient value will produce a number > 0. The probability value for Panel B is above 5%; this result shows that there is no difference in time in loss recognition for BUMN companies in Indonesia that are listed on the IDX compared to non-BUMN companies; this result is thought to be caused by censorship that is carried out on data where most of the data subject to censorship come from BUMN so that the calculation results are biased. $\alpha_5 \alpha_5 \alpha_5$

The probability value for Panel A is below 5%, with a coefficient value of -0.5; this result shows that BUMN companies in Indonesia listed on the IDX tend to recognize gains more timely than non-BUMN companies. These results also show that the initial hypothesis is proven that BUMN companies listed on the IDX have a lower level of conservatism when compared to non-BUMN companies in the same industry. If we connect with the discussion in section 2, this behavior can be driven by certain motivations, as we know that human motivation is complex, including the desire for money and status, job satisfaction, respect by others, justice, and no exception, also with motivation in the form of incentives. Incentives given in performance evaluation and evaluation are much more important as a motivator than the money that goes with them. Money may remain important as a signal that someone is valued (Maslen & Hopkins, 2014). α_5

The results of this study indicate that in BUMN companies, the recognition of economic benefits is more timely when compared to non-BUMN companies due to motivation in the form of personal opportunism and incentives in the form of bonuses to managers, so that faster recognition of economic benefits can make certain financial performance more reliable achieved and bonus incentives can also be received more quickly. The condition of Indonesia that describes the environment according to the research of Loyola & Portilla (2020) discussed in section 2 also encourages misreporting in the form of faster profit recognition to increase the financial performance of BUMN.

Additional test

Leverage is a measure that shows the extent to which debt or preferred stock is used in the company’s capital structure. The financial ratio used in this research is Financial Leverage which is determined by the ratio of debt to equity. This ratio shows the proportion of debt to equity owned by the company.

Return on assets(ROA) is a profitability ratio that measures a company’s ability to generate profits from the use of all its resources or assets. As a profitability ratio, ROA is used to assess the quality and performance of a company in generating a net income from the utilization of its assets. In this study, ROA is calculated by dividing net income after tax and total assets.

Leverage and ROA are used as control variables in additional tests to see whether differences in the proportion of debt, net income, and total assets will give different results to the hypothesis and tests carried out previously. Additional tests will show how far the company’s performance indicated by the difference in leverage and ROA will affect conservatism. The test results can be seen in Table 3 below.

Table.3
Robust Least Square

$$\Delta NI_t = \alpha_0 + \alpha_1 D\Delta NI_{t-1} + \alpha_2 \Delta NI_{t-1} + \alpha_3 DNI_{t-1} \times \Delta NI_{t-1} + \alpha_4 DBUMN + \alpha_5 DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1} + \alpha_6 Leverage + \alpha_7 ROA + \varepsilon_t$$

Variable	Predicted Sign	Coefficient	Std. Error	Prob
Panel A (without censoring)				
Constanta (α_0)		22523.48	165817.4	0.892
$D\Delta NI_{t-1}$ (α_1)	?	-246084.6	1006000	0.807
ΔNI_{t-1} (α_2)	-	-0.402760	0.07597	0.000

$DNI_{t-1} \times \Delta NI_{t-1} (\alpha_3)$	+	1.609293	0.113213	0.000
$DBUMN (\alpha_4)$?	1318028	3837197	0.732
$DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1} (\alpha_5)$	-	-0.500817	0.14523	0.001
Leverage (α_6)	?	-303453.7	377732	0.423
ROA (α_7)	?	-2078668	2285286	0.365
Number of Observation	121			
R-squared	0.6763			
Prob> F	0.0000			
Panel B (with censoring)				
Constanta (α_0)		31725.62	159363.5	0843
$D\Delta NI_{t-1} (\alpha_1)$?	-896145.7	634101.4	0.160
$\Delta NI_{t-1} (\alpha_2)$	-	-0.401788	0.076710	0.000
$DNI_{t-1} \times \Delta NI_{t-1} (\alpha_3)$	+	1.263118	0.438669	0.005
$DBUMN (\alpha_4)$?	-3053376	4432900	0.492
$DBUMN \times D\Delta NI_{t-1} \times \Delta NI_{t-1} (\alpha_5)$	-	-0.985404	0.554162	0.097
Leverage (α_6)	?	-360118.1	373773	0.337
ROA (α_7)	?	-2297108	2443099	0.349
Number of Observation	115			
R-squared	0.089			
Prob> F	0.0000			

Dependent variable: changes in earnings from year t-1 to year t, which are assessed based on the size of total assets at the end of year t-1. Independent variable: = 1 if = 0 otherwise; a dummy for BUMN with a value of = one if the company is a BUMN company and 0 if not; Leverage, the amount of total debt divided by total assets; ROA, obtained by dividing net income after tax and total assets. $\Delta NI_t, D\Delta NI_{t-1}, D\Delta NI_{t-1} < 0; DBUMN$. Panel A: all data is computed without censoring; Panel B: the data is calculated after censorship

Additional tests show results that are not much different from the results that have been done before; the calculation values in Panel A and Panel B are more or less the same except for where the probability value in Panel A is below 5% but is above 5% in Panel B. this is thought to be caused by the censorship that has been described previously. (α_5).

Overall, the calculation results show that differences in company performance do not affect conservatism, so we can conclude that the sample companies tend to recognize profits more timely than recognizing losses.

CONCLUSION

The phenomenon of globalization and internationalization of the capital market by using accounting information has made transparency and timeliness of financial reporting a frequent topic of discussion. One of the qualitative characteristics that include this requirement is accounting conservatism (Neag, 2015). As an important accounting principle, conservatism has long been a major topic in accounting research. This study contributes to adding to the literature in the following ways. First, enrich research related to accounting conservatism. Second, this paper broadens our understanding of the effect of ownership structure on corporate business activities, particularly on SOE business activities in Indonesia.

This study primarily wants to see whether state-owned companies (BUMN) have a lower level of accounting conservatism than companies that are not owned by the state (non-BUMN). The results show a continuation or increase in income that depends on the increase, where the income level is 'not persistent' because the increase has a 'momentum' of 43%, which continues as an increase in the following year. The results also show that the timely recognition of economic benefits (gain) as a component of income is a repeating transitory component of income and that the recognition of profits is much more timely than recognition of losses indicates that most of the components of temporary gain from income are not classified by the companies studied. as exceptional or extraordinary. For the main hypothesis, the results show that BUMN companies in Indonesia listed on the IDX tend to recognize gains more timely than non-BUMN companies, which shows that BUMN companies listed on the IDX have a lower level of conservatism when compared to non-BUMN companies in the same industry.

This study has limitations, among others. First, this study only looks at conservatism through the time-series test of timeliness in loss recognition with the change in net income approach as a conservatism estimation model; future research can see how conservatism is seen from other approaches, especially to assess conservatism in government-owned companies. Second, the next research can observe how conservatism in all companies listed on the Indonesian stock exchange without being limited to the type of industry, such research can increase investors' and businessmen's understanding of the characteristics of companies listed on the Indonesian stock exchange.

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