

THE ROLE OF FOREIGN OWNERSHIP: THE INFLUENCE OF ACCOUNTING CONSERVATISM AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRAK

Studi literatur ini telah mengeksplorasi Pengaruh Konservatisme Akuntansi dan Pengungkapan Corporate Social Responsibility. Penelitian ini ingin menganalisis bagaimana peran kepemilikan asing mampu memperkuat atau memperlemah pengaruh konservatisme akuntansi dan pengungkapan *corporate social responsibility*. Dengan menggunakan sampel 225 dari 810 perusahaan yang terdaftar di Bursa Efek Indonesia Periode 2019 - 2023. Peneliti menemukan bahwa perusahaan dengan pengungkapan CSR yang lebih tinggi cenderung memiliki praktik pelaporan keuangan yang lebih konservatif. Namun peneliti mengamati bahwa kepemilikan asing mampu memperlemah pengaruh (moderasi negatif) konservatisme akuntansi dan pengungkapan CSR, sejalan dengan teori keagenan. Peneliti juga menemukan bahwa kepemilikan asing dan tingkat kepemilikan institusional memiliki pengaruh negatif signifikan terhadap konservatisme akuntansi dan pengungkapan CSR. Sedangkan kepemilikan manajerial tidak memiliki pengaruh signifikan terhadap konservatisme akuntansi dan pengungkapan CSR. Peneliti menemukan secara simultan kepemilikan asing, kepemilikan institusional dan kepemilikan manajerial berpengaruh negative dan signifikan pengaruh Konservatisme akuntansi dan pengungkapan CSR.

Kata Kunci : Kepemilikan Asing, Konservatisme Akuntansi, Pengungkapan CSR

ABSTRACT

This literature study has explored the influence of accounting conservatism and disclosure of corporate social responsibility. This paper wants to analyze how the role of foreign ownership can strengthen or weaken the influence of accounting conservatism and corporate social responsibility disclosure. Using a sample of 225 out of 810 companies listed on the Indonesia Stock Exchange for the 2019 - 2023 period. Researchers found that companies with higher CSR disclosures tend to have more conservative financial reporting practices. However, researchers observed that foreign ownership was able to weaken the influence (negative moderation) of accounting conservatism and CSR disclosure, in line with agency theory. Researchers also found that foreign ownership and the level of institutional ownership have a significant negative influence on accounting conservatism and CSR disclosure. Meanwhile, managerial ownership does not have a significant influence on accounting conservatism and CSR disclosure. Researchers found that foreign ownership, institutional ownership and managerial ownership simultaneously had a negative and significant effect on accounting conservatism and CSR disclosure.

Keywords : Foreign Ownership, Accounting Conservatism, CSR Disclosure.

I. INTRODUCTION

Corporate Social Responsibility (CSR) is a broad concept that combines sustainability practices, the environment and corporate social performance (Christensen et al., 2019) and (Mittelbach-Hörmanseder et al., 2021). In recent years, CSR initiatives that include "business relationships with people, organizations, institutions, communities, society, and the environment in the

form of intentional actions" (Wood, 2016) have become an integral part of corporate efforts to meet corporate needs, expectations different stakeholders (Burke et al., 2020); (McKinsey & Company, 2016); and (Yu & Zheng, 2020). CSR helps companies maintain long-term goals (Perkiss et al., 2021), achieve better accountability and improve financial performance (Boubakri et al., 2016) and (Brooks & Oikonomou, 2018). CSR reporting is a means of gaining legitimacy at home and abroad (Parsa et al., 2021), as well as a way to receive more accurate analyst estimates (Bernardi & Stark, 2018).

In a business era full of uncertainty and complexity, the role of accounting conservatism as a financial reporting approach becomes increasingly important. Conservatism arises in response to the risks and uncertainties associated with the business environment and can have a significant impact on the assessment of a company's financial health. Conservative accounting is an approach to financial reporting that pays attention to the recognition of profits and assets. This principle is based on the idea that it is better to anticipate uncertainty and risk than to ignore it. In this context, conservatism takes into account not only profits, but also the possibility of future losses. The main goal of a conservative approach is to provide a more conservative picture of the company's financial situation, thereby aiming to protect shareholders and creditors. With business complexity and regulatory changes, the role of conservatism in the accounting context is increasing. Although conservatism was initially considered an aspect that could limit the flexibility of financial reporting, it is now recognized as a factor that supports the reliability and trustworthiness of financial information.

The phenomenon of accounting conservatism in mining companies, namely PT. Timah Tbk (TINS) where the company underestimated the cost of goods sold from the sale of tin metal by IDR 640 billion. As a result, TINS restated its 2018 financial report. In addition, on December 31 2018, property ownership was undervalued by IDR 119 billion and fixed assets by IDR. 25 billion. In the same year, in the profit and loss statement, the gain on revaluation of investment properties amounted to IDR 45 billion and IDR 53 billion, while other expenses amounted to IDR 53 billion and other less recorded expenses amounted to IDR 4 billion.

One of the reasons is the profit from the land revaluation of the Mstikasari Legend City in Bekasi which was lower, namely IDR 87 billion in 2018, based on an independent appraiser's report. The latest phenomenon that will emerge in Indonesia in 2023 is related to the low level of application of conservatism in the presentation of financial reports, especially at the Wiskita Karya and Wijaya Karya companies. BUMN II Kartika, Deputy Minister, suspected that the two companies had manipulated financial reports which stated that both companies were profitable even though the company's cash flow was never positive. As Wiskita Karya Series A shareholders, BUMN and BPKP have the authority to carry out the investigation process.

According to a recent study (KPMG, 2020), up to 96% of the world's largest companies publish CSR reports publicly. This raises the question of whether the rapid increase in CSR reporting reflects a real increase in the accountability of listed companies, or whether these companies are more focused on their perceived legitimacy rather than increasing their impact on society by introducing a purely symbolic strategy. Stakeholder theory argues that companies use corporate strategy as a prerequisite or commitment mechanism to support stakeholders.

Earnings quality, as measured by the level of conservatism in financial reporting, must be improved through actions taken by companies to improve relationships with stakeholders and strengthen legitimacy, so CSR disclosure mechanisms become important (Cheng & Kung, 2016). In contrast, agency theory argues that leaders can use their relationships with stakeholders to hide opportunistic activities or enhance their reputation as socially responsible leaders (Anagnostopoulou et al., 2021); (Ferrell et al., 2016); and (Lins et al., 2017).

We test whether CSR disclosure is associated with accounting conservatism by investigating the impact of CSR activities on the relationships between firms and various stakeholders. Our results show a strong positive (negative) relationship between CSR disclosure and accounting conservatism (aggressiveness) in the Russian joint stock companies we studied. Nevertheless, we find that Russian state ownership has a negative (positive) moderating effect on the relationship between reporting conservatism (aggressiveness) and CSR disclosure.

II. LITERATURE REVIEW

Accounting conservatism, based on the Financial Accounting Statement Board (FASB) Stament of Concept No. 2, is a wise response to uncertainty and risk regarding future business conditions. This cautious approach weakens management's commitment to providing transparent, accurate and non-misleading information regarding financial reporting. The factor that determines the degree of accounting conservatism in a company's financial reporting is a prudent response.

Accounting conservatism is the tendency of accountants to demand higher levels of validation in order to recognize good news as gains and bad news as losses. The literature assumes that accounting conservatism can overstate profits and net assets, thereby weakening managers' incentives to reduce potential takeovers (Burke et al., 2020), and (Cheng & Kung, 2016) report that conservative accounting provides more timely signals to stakeholders regarding default. Consistent with this concept, (Biddle et al., 2020) found that accounting conservatism planning was able to reduce the risk of company bankruptcy by relaxing earnings management. These conservative reporting practices reduce concerns that reported corporate performance measures will significantly exceed operating cash flow. It has been argued that accounting conservatism is able to increase contract efficiency and reduce managerial overcompensation. Although conservative reporting benefits employees, suppliers, and customers, their well-being is greatly affected when a company experiences bankruptcy (Huang et al., 2019). Previous research also shows that conservative reporting reduces the risk of stock market crashes, thereby providing benefits to society as a whole (Guo et al., 2020). Overall, the literature suggests that the benefits of conservative reporting can be felt by many stakeholders.

The influence of conservatism on accounting practices has been around for a long time. Conservatism has influenced accounting practices for nearly 500 years. The phenomenon of Indonesian companies trading their shares on the Indonesian Stock Exchange is unique because these companies have an institutional ownership structure and foreign ownership. The Indonesian Stock Exchange stated that Indonesian share ownership is still dominated by institutional investors. This means that institutional investors' trading activities become the benchmark for stock trading. Furthermore, overall share ownership in the Indonesian Stock Exchange capital market is currently still dominated by foreign investors. The percentage of foreign investors on the IDX is 60% and the percentage of domestic investors is 40%. Based on this phenomenon, researchers want to know more about the influence of ownership, namely ownership of the board of directors, institutional ownership, and foreign ownership on fiscal conservatism in Indonesia. The relationship between accounting conservatism and institutional investor ownership, as well as the relationship between accounting conservatism and foreign ownership, has not been well researched.

Then there is the element of constitutional ownership, where institutional owners have the right to participate in decision making as external parties to the company. This agency monitors operating performance and encourages managers to adopt conservative accounting policies. Institutional investors usually control large shareholdings to influence management decisions. This has an impact on management's ability to reduce the risk of manipulation or overstatement of financial statements due to information asymmetry.

Conservatism can be influenced by several factors, such as the company's Corporate Social Responsibility (CSR). A company's Corporate Social Responsibility Disclosure (CSRD) is considered a form of corporate responsibility or commitment to the social environment to contribute to sustainable economic development. CSR-oriented companies can emphasize information transparency through conservative reporting, minimizing conflicts with stakeholders, and improving management policies (Anagnostopoulou et al., 2021). Corporate Social Responsibility (CSR) is an ongoing commitment in the business world to act ethically and improve the welfare of workers and their families, while contributing to the economic development of the wider community.

III. Research Methods

In this research, the authors used a quantitative research design (Simanjuntak et al., 2020); (Situmorang & Simanjuntak, 2021) and (Simanjuntak et al., 2023). Quantitative research is objective



measurement and mathematical measurement of data samples obtained through questionnaires, surveys, tests, or other research tools to prove or test hypotheses (temporary assumptions) proposed in research (Situmorang & Simanjuntak, 2019) and (Simanjuntak et al., 2023). The companies surveyed were listed on the Indonesia Stock Exchange from 2019 to 2023, and had sustainable positive net profit, operating income and positive cash flow from operating activities during the five - year study period (2019 to 2023). The sample size of companies that meet the sample selection criteria is 225 samples. The total number of research observation data is 1,125 observation data (225) sample companies.

IV. RESULTS AND DISCUSSION

Descriptive Statistics Results

Table 1. Descriptive Statistics

	Mean	Min	Max	Standard Deviation
Acc_Con	-.1791	-.5741	.7692	.1784
CSR	-.1758	-.5938	.0011	.1138
Frgn_Own	-.2439	-.1323	.6893	.1748
Inst_Own	-.6980	-.0028	.9638	.2652
Mngr_Own	-.1436	-.0136	.6479	.1289

Based on the descriptive statistics obtained, the Accounting Conservatism (Acc_Con) variable has a mean of -0.1791, a standard deviation of 0.1784, and minimum (Min) and maximum (Max) values of -0.5741 and .7692, respectively. In addition, the Corporate Social Responsibility (CSR) variable has a mean of -0.1758, with a standard deviation of 0.1138, minimum (Min) and maximum (Max) values of -0.5938 and 0.0011 respectively. In addition, the Foreign Ownership variable (Frgn_Own) has a mean value of -0.2439, with a standard deviation of 0.1748, the minimum (Min) and maximum (Max) values are -0.1323 and 0.6893 respectively. The Institutional Ownership variable (Inst_Own) has a mean value of -0.6980, with a standard deviation of 0.2652, minimum (Min) and maximum (Max) values of -0.0028 and 0.9638 respectively. In addition, the Managerial Ownership variable (Mngr_Own) has a mean value of -0.1436, with a standard deviation of 0.1289, the minimum (Min) and maximum (Max) values are -0.0136 and 0.6479 respectively. Based on the data and explanation above, the value of all variables, the mean value is greater than the standard deviation value, so it can be concluded that all variables are normally distributed.

Multiple Linear Regression Analysis

Table 2. Results of Multiple Linear Analysis (Equation 1)

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	Results
	B	Std. Error	Beta			
(Constant)	-0.272	0.089		4.754	0.000***	
Frgn_Own	-0.238	0.291	-0.574	5.630	0.000***	Signifikan
Inst_Own	-0.364	0.068	-0.480	4.718	0.000***	Signifikan
Mngr_Own	-0.068	0.079	-0.064	1.620	0.135***	Tidak Signifikan
Moderating_1	-0.298	0.291	-0.064	-3.620	0.000***	Signifikan

Dependent Variable: Acc_Con

Table 3. Results of Multiple Linear Analysis (Equation 2)

Model	Unstandardized Coefficient	Standardized Coefficient	t	Sig.	Results
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	B	Std. Error	Beta			
(Constant)	-0.459	0.189		3.975	0.000***	
Frgn_Own	-0.425	0.345	-0.164	3.620	0.000***	Signifikan
Inst_Own	-0.347	0.412	-0.180	5.701	0.000***	Signifikan
Mngr_Own	-0.564	0.289	-0.264	1.263	0.296***	Tidak Signifikan
Moderating_1	-0.538	0.128	-0.539	8.240	0.000***	Signifikan

Dependent Variable: CSR

Based on tables 1 and 2 above, it shows that:

1. Foreign Ownership is able to weaken (negative influence) Institutional Ownership on Accounting Conservatism.
2. Foreign ownership is able to weaken (negative influence) institutional ownership on corporate social responsibility (CSR) disclosure.
3. Foreign ownership has a significant negative effect on accounting conservatism.
4. Foreign ownership has a significant negative effect on Corporate Social Responsibility (CSR) Disclosure.
5. Institutional Ownership has a significant negative effect on Accounting Conservatism.
6. Institutional Ownership has a significant negative effect on Corporate Social Responsibility (CSR) Disclosure.
7. Managerial Ownership has no significant effect on Accounting Conservatism.
8. Managerial Ownership has no significant effect on Corporate Social Responsibility (CSR) Disclosure.
9. Foreign Ownership, Institutional Ownership and Managerial Ownership simultaneously have a significant negative effect on Accounting Conservatism.
10. Foreign Ownership, Institutional Ownership and Managerial Ownership simultaneously have a significant negative effect on Corporate Social Responsibility (CSR) Disclosure.

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the regression results above, the researcher concludes: Foreign ownership is able to weaken (negative influence) on accounting conservatism and corporate social responsibility (CSR) disclosure. Partially, Foreign Ownership and Institutional Ownership have a significant negative effect on Accounting Conservatism and Corporate Social Responsibility (CSR) Disclosure. And simultaneously Foreign Ownership, Institutional Ownership and Managerial Ownership have a significant negative effect on Accounting Conservatism and Corporate Social Responsibility (CSR) Disclosure.

Recommendations

For future researchers, it is recommended to consider adding additional variables other than those included in this research, such as leverage, corporate governance, and company size, in order to deepen understanding of the factors that influence Tax Avoidance.

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