The Relationship between Ownership Structure and Accounting Conservatism in Manufacturing Sector Companies Listed on Indonesia Stock Exchange

Yan Christianto Setiawan
Magister Akuntansi / Fakultas Bisnis dan Ekonomika Universitas Surabaya
yan_christian07@yahoo.co.id

Yie Ke Feliana
Magister Akuntansi / Fakultas Bisnis dan Ekonomika Universitas Surabaya
yiekefeliana@staff.ubaya.ac.id

Abstract
Majority of Indonesian companies are family firms. Previous studies report that family firms have type II agency problem. Conservatism, as one proxy of financial reporting quality, facilitates the efficiency of the principal-agent contract. This study aims to examine the relationship of ownership structure and accounting conservatism. In this study, the population is all companies in manufacturing sector and listed on the Indonesia Stock Exchange (BEI) period 2011 - 2013. Analysis of data uses panel data and the best model is showed by fixed effect regression, rather than random effect and ordinary least square. The results of this study show that (1) there is a positive relationship between the largest shareholder or controlling shareholder and accounting conservatism; (2) there is a positive relationship between the family as the largest shareholder as well as the controlling shareholder and accounting conservatism; (3) there was no correlation between non-family as the largest shareholder and accounting conservatism, but there is a negative relationship when nonfamily become the controlling shareholder and accounting conservatism; (4) other blockholder presence was not related significantly to reduce the largest shareholder preferences regarding accounting conservatism on the whole sample or sub-sample of non-family, but there is a negative relationship in the sub-sample when the family became the largest shareholder.

Keywords: family ownership, non-family ownership, controlling shareholder, blockholder, accounting conservatism, agency theory

1. Introduction
Conservatism is one important characteristic of accounting information in more than 500 years (Basu, 1997). Conservatism is an attempt to choose accounting methods that will generate revenue recognition as slowly as possible, expenses are recognized as soon as possible, a lower valuation of the assets and higher liabilities valuation (Wolk and Tearney, 1997). By adopting this principle, overstated income/assets or understated expenses/liabilities can be avoided.

Accounting conservatism can be used as a tool to reduce information asymmetry between managers and owners of the company, thus it reduce agency costs. Conservative financial information provides better protection for shareholders and corporate value (Lafond & Rowchowdhury, 2008).

Conservatism as a facility that can improve the efficiency of the contract between the principal - agent, highly influenced by whom and how many the owner (principal) of the the company. Several studies have been conducted to