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The Influence of Accounting Conservatism, Ownership Concentration, and Debt Maturity on Investment Efficiency

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ABSTRACT

This study aims to examine the influence of accounting conservatism, ownership concentration, and debt maturity on investment efficiency. This research uses quantitative methods with multiple linear regression models using the SPSS program. The data used in this study are the annual financial statements of companies on the Indonesia Stock Exchange. The population in this study were 122 non-classical consumer companies listed on the Indonesia Stock Exchange. After purposive sampling, the final sample consisted of 42 companies so that the total sample was 126 data. The results of multiple linear regression testing show support for the hypotheses of this study: (1) accounting conservatism has a significant effect on investment efficiency, (2) ownership concentration has a significant effect on investment efficiency, and (3) debt maturity has no effect on investment efficiency. In conclusion, these findings highlight the importance of accounting conservatism and ownership concentration in influencing investment efficiency. However, debt maturity does not appear to have a significant impact on investment efficiency. These insights can guide policymakers and practitioners in making informed decisions to enhance investment practices and optimize resource allocation.

Keywords: Accounting Conservatism; Debt Maturity; Investment Efficiency; Ownership Concentration

INTRODUCTION

The business world is increasingly competitive and complex. Company management is required to be able to manage their company effectively and efficiently to achieve the company's stated goals. Competition in the business world is getting tighter so that the problems faced do not only come from external factors, but also from internal factors of the company. The business industry in Indonesia is currently required to be able to compete globally because many foreign products will fill the local market share if products in Indonesia are unable to compete with foreign products. The challenge for the business industry amidst the competitive business world in Indonesia is the production factor. Increasing production can be done by investing.

Investment involves making preparations for the future, which can include saving, managing funds for business ventures, or participating in insurance schemes that provide future benefits (Putri et al., 2021; Mentari et al., 2022). Manzilati et al. (2022) state that investment plays a crucial role in shaping the level of development and overall welfare of a nation. The investments made do not only focus on the financial sector such as shares, bonds and so on. Investments made by companies can be in the form of buildings, machines, equipment, cars, land and so on which will improve the company's operational activities. Companies make investments to produce company products, this investment is better done efficiently with the aim of increasing company income. Like what PT Indofood Sukses Makmur Tbk did, which optimized adequate production equipment and increased the role of technology in the company's production process. This company has modern production facilities that comply with international standards, making it possible to produce high-quality products and high efficiency, as explained by the President Director of PT Indofood Sukses Makmut Tbk at the 2019 annual general meeting of shareholders (AGMS). Consumer non-cyclicals, the Mustika Ratu Tbk company in 2021 will utilize the company's assets by optimizing its potential, one of which is factory capacity to be used to produce herbal medicine products and continuing its development strategy through company assets, such as brands that have been around for decades in Indonesia and in collaboration with the Puteri Indonesia Foundation as stated by Jodi Andrea Suryokusumo as Finance Director of Mustika Ratu Tbk.

Investment efficiency is a measure of how effectively an investment is used to achieve the desired goals or objectives. In the context of corporate finance, investment efficiency is very important to maximize company value and sustainable economic growth (Jin & Yu, 2017). Investment efficiency is important due to the fact that managers know better than outsiders about the firm's prospects, they can respond rationally by rationing capital or increasing the cost of capital, which can cause the firm to miss good investment opportunities and thus underinvest (Houcinel & Kolsi, 2017). Companies need financial reports that present accounting information which will later be useful as a basis for making decisions, such as investment, operational and financing decisions. In line with the research conducted (Biddle et al., 2009) found evidence that the existence of quality financial reports can make investment more efficient and can reduce information asymmetry between company stakeholders.

Further research in the quality of financial reports is conservatism which is inherent in every accounting system and acts as a prudent reaction to future uncertainty by recognizing unrealized losses as soon as the losses are known and postponing future profits until they occur (Basu, 1997). Conservatism working as an effective mechanism for corporate governance can help shareholders and directors in monitoring managers' investment decisions, by lowering their incentives and ability to select projects with negative net present value and reducing overinvestment (Ahmed & Duellman, 2007).

Ownership concentration itself is the amount of ownership issued by a company that is owned by individuals or entities. Ownership concentration can be seen from the percentage of share ownership. Ownership concentration describes how and who has control over all or most of the company's ownership as well as all or most of the control over business activities in a company. The positive impact of ownership concentration is that corporate governance improves because there are several top shareholders who help make decisions, but it also has a negative impact, namely that the highest shareholders will dominate the decisions taken by the company (Aviyanti & Isbanah, 2019). Based on research conducted by Sualehkhattak & Hussain (2017) and Aviyanti & Isbanah (2019), it shows that ownership concentration has a significant effect on company value and increases the company's investment efficiency.

The role of debt in reducing manager discretion and disciplining debt for investment decisions. Companies that have a project value with a positive net present value can finance the project using short-term debt and can reduce the problem of underinvestment. This is because the debt will be liquidated in a short time and profitability will completely belong to the Company, which has been discussed in the literature (Jensen, 1986). Shortening debt maturities allows for better manager control, as shorter maturities encourage more frequent renegotiations; lenders have closer contact with the borrower and can ascertain the performance of the company during the first period and then they can decide whether to renew or change the terms of the contract (Ortiz-Molina & Penas, 2008). Therefore, greater use of short-term debt is expected to reduce information asymmetry and adverse selection.

The objective of this research is to investigate how accounting conservatism, ownership concentration, and debt maturity impact investment efficiency. Understanding the relationship between these variables can provide valuable insights for investors, policymakers, and financial analysts in making informed decisions regarding investment strategies and financial management practices.

LITERATURE REVIEW

Information asymmetry also arises because agents/managers have more information about the condition of the company, both from a financial and non-financial perspective, than the information held by the company owner. Information asymmetry between company managers and company owners can reduce investment efficiency. Quality financial reports help reduce information asymmetry between management and company owners. With transparent and trustworthy financial reports, investors can make better-informed investment decisions. Agency theory considers how management has incentives to manipulate information in financial reports for their personal interests, so the quality of financial reports is important in minimizing this potential conflict of interest. Agency theory helps in understanding how management can have different incentives in a company's capital structure and how this can affect investment efficiency. By using agency theory, we can identify how information asymmetry and agency relationships between management and company owners influence these variables and ultimately influence the company's investment efficiency.

Richardson (2006) defines total investment as all company expenses related to capital expenditures, acquisitions, and research & development minus the proceeds obtained from the sale of property, plant, and equipment. Investment is the allocation or sacrifice of a certain amount of funds made in the present with the hope of gaining profits in the future (Fajriani et al., 2021). Investment efficiency is a measure of how effectively an investment is used to achieve the desired goals or objectives. In the context of corporate finance, investment efficiency is very important to maximize company value and sustainable economic growth (Jin & Yu, 2017). Investment efficiency is important due to (Houcinel & Kolsi, 2017) The fact that managers know better than outsiders about the company's prospects, they can respond rationally by rationing capital or increasing the cost of capital, which can cause the company to miss good investment opportunities and thus underinvest. Investment decisions require a company to decide how it will allocate some of its resources. Typically, management will look for different potential investment opportunities. However, because investment decisions are a significant corporate activity, they must ultimately be approved by the board of directors. High investment efficiency, companies can allocate resources better, minimize investment costs, and generate maximum returns. This can increase the company's value and its competitiveness in the market. Apart from that, investment efficiency can also influence regional economic growth, because companies that are efficient in investment can make a greater contribution to economic development. Therefore, company investment efficiency is an important indicator in evaluating company performance in managing their investments (Cheng et al., 2013). Investment efficiency refers to a company's ability to invest in the most productive and profitable way. This can include efficient use of resources, making appropriate investment decisions, and achieving optimal results from investments made (Lei & Chen, 2019). Investment efficiency can affect company performance, economic growth, and shareholder wealth. Efficient investment can help companies create added value, increase productivity, and expand employment opportunities. Apart from that, investment efficiency can also strengthen the company's financial position in the long term (Biddle et al., 2009).

Accounting conservatism is an approach or principle in preparing financial reports that encourage accountants to take a more conservative or careful attitude in measuring assets, liabilities, income, and costs. This principle aims to avoid misuse or excess optimism in reporting a company's financial performance. In other words, accounting conservatism emphasizes recognizing losses earlier than recognizing profits, as well as taking risk and uncertainty into account more carefully. Accounting conservatism aims to ensure that financial reports provide an honest and conservative picture of a company's financial condition, allowing stakeholders to make more informed and trustworthy decisions (Tjhen et al., 2012). Accounting conservatism is one of the most pervasive characteristics of financial reporting and one of the most influential accounting principles. This is an inherent feature of any accounting system and acts as a prudent reaction to future uncertainty by recognizing unrealized losses as soon as they are recognized and deferring future profits until they occur (Basu, 1997). This asymmetric recognition of gains and losses results in earnings reflecting bad news more quickly than good news, allowing conservatism to support a monitoring and signaling role, influencing corporate investment decisions. Conservatism leads to full disclosure of information, it improves the company's information environment by increasing the accuracy of information and the reliability of earnings, which reduces uncertainty about future cash flows. Conservatism is a way to reduce information asymmetry in the capital market and reduce the company's external financing costs, thereby reducing the problem of underinvestment.

Moeinfar in Yan (2017) defines ownership concentration as a pattern of share distribution between shareholders of different companies. Where concentration is the category of companies whose ownership concentrates in one party (blockholder) and dispersion is the category of companies whose ownership is spread out. Ownership concentration describes how and who has control over all or most of the company's ownership as well as all or most of the control over business activities in a company. Ownership concentration can be seen from the percentage of share ownership owned by individuals or entities. Desender and Lafuente (2009) argue that concentration of company ownership can increase company management control. Ownership concentration can have a significant impact on a company's value, especially because it affects the dynamics of power and control. Here are some ways in which ownership concentration can relate to investment efficiency. High ownership concentration often means that a small number of shareholders have significant power in making a company's strategic decisions. This can impact the company's direction and strategy, which in turn can impact the company's performance. Risk and Decision Making: If the concentration of ownership is concentrated among individuals or groups who have particular agendas or interests, this may increase the risk that decisions taken may not always be in line with the interests of the company or minority shareholders. This can affect company performance and investor perceptions about investment efficiency.

Concentration of ownership concerns the predictions of agency theory, claiming that agency conflicts are driven by widespread ownership and the separation of shareholders and management (DeFond, 1992; Jensen & Meckling, 1976; Watts & Zimmerman, 1983) argue that conflicts of interest between agents and principals increase demand on audit quality, which is common in companies with dispersed ownership. However, firms with concentrated ownership have less traditional agency problems and controlling shareholders have more incentives to maximize firm value and their ability to monitor managers. Entrenchment problems can occur if tight control is exercised, where the large ownership of majority shareholders allows them to take over the interests of minority shareholders. However, major shareholders can signal that they are not pursuing a takeover by requesting high-quality auditors.

Debt maturity is the relationship between short-term debt maturity and long-term debt maturity. Antoniou et al. (2006) said there was no standard definition for classifying short-term debt and long-term debt. Debt that has a maturity of one year is considered long term (Scherr & Hulburt, 2001). Barclay and Smith (1995) consider long-term debt to be debt that matures in 3 years or 5 years. Bhutta et al. (2022) say that debt maturity is debt repayment, whether it refers to the time period within which a debt must be paid back by the company that made the loan. A contract where the principal gives decision-making authority to an agent to carry out a certain amount of work on behalf of the principal is called agency theory (Jensen & Meckling, 1976). To reduce conflict between the two, companies must present quality financial reports by reducing information asymmetry. This agency theory is in line with the implementation of quality financial reports and debt maturity where proper contract design can align the interests between principals and agents in preventing things that could trigger conflicts of interest between principals and agents. Apart from reducing information gaps, another way to reduce this agency problem is to maintain appropriate debt maturity, the shorter the debt maturity, the maturity structure, the lower this agency problem (Marsya & Dewi, 2022). The role of debt in reducing managers' discretion and disciplining debt for investment decisions, that when there is a project with a positive NPV, the company can finance the project using its short-term debt and can reduce the problem of underinvestment. This is because the debt will be liquidated in a short time and profitability will fully belong to the Company, which has been discussed in the literature (Jensen, 1986; Myers, 1977). Shortening debt maturities allows for better manager control, as shorter maturities encourage more frequent renegotiations; lenders have closer contact with the borrower and can ascertain the company's performance during the first period and then they can decide whether to renew or change the terms of the contract (Ortiz-Molina & Penas, 2008). Therefore, greater use of short-term debt is expected to reduce information asymmetry and adverse selection.

RESEARCH METHOD

This research uses a quantitative approach. This research aims to determine the influence of conservatism, ownership concentration, and debt maturity on investment efficiency. The data collection technique used is the non-participant observation method by accessing the BEI website, namely www.idx.co.id. By determining the greeting sample, this research used a purposive sampling technique.

Table 1. Research Sample Criteria

No	Research Sample Criteria	Amount
1	Non-cyclical consumer sector companies listed on the IDX	122
2	Non-cyclical consumer sector companies newly registered on the IDX for the 2019-2023 period	(50)
3	Non-cyclical consumer sector companies that are exchanged for other sectors	(1)
4	Non-cyclical consumer sector companies that use foreign currency	(2)
5	Non-cyclical consumer sector companies whose financial reports are incomplete	(14)
6	Outlier companies in the non-cyclical consumer sector	(16)
Total		42 x 3 (126)

Table 1 shows that the data population is 122 companies and the sample is 42 companies and the data used in this research is 126 data. The data analysis method is multiple linear analysis using SPSS version 25 software with classical assumption tests, namely normality, autocorrelation, multicollinearity and heteroscedasticity. The hypothesis testing used is the partial test (t).

RESULTS

The results of this research are to test classical assumptions and hypotheses.

Table 2. Classic Assumption Test

		Unstandardized Residuals
N		126
Normal Parameters, b	Mean	0.0000000
	Std. Deviation	0.00035787
Most Extreme	Absolute	0.074
Differences	Positive	0.074
	Negative	-0.047
Statistical Tests		0.074
Asymp. Sig. (2-tailed)		0.083c,d

Source: Processed Data

Table 2 of the Kolmogorov-Smirnov Test results shows the Asymp results. Sig (2-tailed) of 0.083 means the data is normally distributed. This is because the significant value is >0.05. So, it can be concluded that the regression model meets the normality assumption.

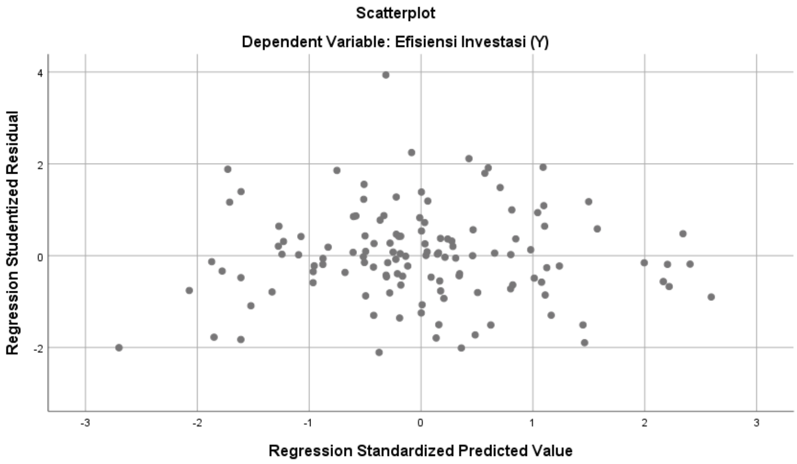
Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	NOAC (Conservatism)	0.792	1.262
	OWN (ownership concentration)	0.923	1.083
	Debt Maturity	0.792	1.263

Source: Processed Data

Table 3 shows that all the variables used in this research have a tolerance value above 0.10, namely Conservatism of 0.792, Ownership Concentration of 0.923 and Debt Maturity of 0.792, while the VIF value is less than 10, namely Conservatism of 1.262, Ownership Concentration of 1.083 and Debt Maturity of 1.263 This means that there is no correlation between the independent variables in the regression model.

Figure 1. Heteroscedasticity Test



Source: Processed Data

Figure 1, Heteroscedasticity test using Scatterplot, it can be seen that the points in this regression model are spread above and below the number 0 on the Y axis. So it can be concluded that the independent variables in the regression model in this study are free from heteroscedasticity.

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.127a	0.016	-0.008	0.0003622	2.113

Source: Processed Data

Table 4, using the Cochane-ocrut method, shows that the Durbin-Watson value is 2.113, then compared with the DU value of 1.6608, then determined according to the method with DU < d < 4-DU, the result is 1.6608 < 2.113 < 2.3392. Therefore, it can be concluded that there is no autocorrelation.

Multiple Linear Regression Test

The multiple linear regression test is carried out with the aim of finding out how much influence the independent variable has on the dependent variable and being able to predict the value of the dependent variable if all the values of the independent variables are known.

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Table 5. Multiple Linear Regression Test and Partial Test (t)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.027	0.000		342.951	0.000
	NOAC (Conservatism)	0.063	0.000	0.222	2.292	0.024
	OWN (ownership concentration)	0.000	0.000	-0.242	-2.688	0.008
	Debt Maturity	-0.078	0.000	-0.129	-1.330	0.186

Source: Processed Data

Table 5 shows the multiple linear regression equation model, namely:

$$Y = 0.027 + 0.063X1 + 0.000X2 - 0.078 + e$$

The constant value is 0.027, if the independent variables (conservatism, ownership concentration and debt maturity) are considered constant, then the dependent variable value (investment efficiency) is 0.027, the regression coefficient value of variable X1 (conservatism) is 0.063. This shows that if there is a one unit increase in the conservatism variable, it can increase investment efficiency by 0.063. The regression coefficient value of the variable X2 (ownership concentration) is -0.000. This shows that if there is a one unit increase in the ownership concentration variable, it can increase investment efficiency by 0.000 and the regression coefficient value of variable X3 (debt maturity) is -0.078. This shows that if there is a one unit increase in the debt maturity variable, it can increase investment efficiency by -0.078.

Partial Test (t)

Partial tests are carried out to determine the influence of each independent variable on the dependent variable. The basis for making partial test decisions (T) in this regression model is that if the significant value is <0.05 then the independent variable partially influences the dependent variable (Y). Apart from that, another basis for decision-making for partial tests is that if the value of Tcount > Ttable then the independent variable (X) partially influences the dependent variable (Y).

The T value is 2.292 with a significant level of variable X1 (conservatism) of 0.024. This shows that the Tcount value in the conservatism variable is greater than Ttable 2.292>2.024 and the significant value is 0.024<0.05. This shows that conservatism has an effect on investment efficiency.

The calculated T value is -2.668 with a significant level of variable X2 (ownership concentration) of 0.008. This shows that the Tcount value in the ownership concentration variable is greater than Ttable -2.668 <2.024 and the significant value is 0.008 <0.05. This shows that ownership concentration affects investment efficiency.

The calculated T value is -1.330 with a significant level of variable X3 (debt maturity) of 0.186. This shows that the Tcount value in the debt maturity variable is greater than Ttable -1.330 <2.024 and the significant value is 0.186>0.05. This shows that debt maturity has no effect on investment efficiency.

DISCUSSION

The quality of financial reports, especially high ones, can help companies make investments appropriately and efficiently. High-quality financial reports can also minimize information asymmetry in the company. This is supported by agency theory which explains the relationship between two parties, namely the agent and the principal. High conservatism can help reduce information asymmetry between owners and management. By providing accurate, relevant, and reliable information, financial reports can increase owners' understanding of company performance and facilitate better decision-making. Based on agency theory, there are various ways to reduce information asymmetry, such as disclosing the quality of financial reporting which helps in better monitoring of managerial activities, thereby reducing managers' opportunistic behavior (Suaidah & Sebrina, 2020).

Ownership concentration influences investment efficiency because there is a linear relationship between concentration of ownership and investment efficiency, at high levels of ownership, the principal owner is motivated to make efficient investments because the costs of doing so exceed the benefits. However, as the principal owner's shareholding continues to increase, the costs of taking personal advantage will overtake the profits derived from such actions (Wang, 2018).

The use of short-term debt cannot increase investment efficiency because interest rates in Indonesia are higher compared to interest rates abroad. This condition will result in cash flowing into the company, cash that could have been used for investing, which ultimately has to be spent to pay debts and their fairly high interest. So, investments that benefit the company cannot be implemented optimally and investment efficiency cannot be achieved.

CONCLUSION

The conclusion of this research is that the results for the influence of accounting conservatism on investment efficiency have a significant effect on investment efficiency. The research results are also supported by Sari and Suaryana (2014) show that high-quality conservatism can minimize information asymmetry. The results of this study are also in line with the findings (Biddle et al., 2009; Chen et al., 2011; Gomariz & Ballesta, 2014). Good accounting conservatism of a company can help managers identify good investment opportunities through projects so that managers can make the right decisions regarding company investments.

The results for the effect of ownership concentration are that it has a significant effect on investment efficiency, and ownership concentration has a positive sign. In theory, a high level of ownership concentration in a company will increase the monitoring of manager performance and reduce the manager's own profit-seeking behavior so that investment efficiency can be achieved. Increased ownership concentration could drive the investment efficiency. This is supported by research results (Ifada et al., 2019) which states that ownership concentration can influence investment efficiency. The majority shareholder will influence management decision-making by taking into account the interests of shareholders.

The results for the influence of debt maturity have no effect on investment efficiency. The results obtained are in line with research (Rahmawati & Harto, 2014) whose research results show that debt maturity does not have a significant effect on investment efficiency. The use of short-term debt cannot increase investment efficiency because interest rates in Indonesia are higher compared to interest rates abroad. This condition will result in cash flowing into the company, cash that could have been used for investing, which ultimately has to be spent to pay debts and their fairly high interest. So, investments that benefit the company cannot be implemented optimally and investment efficiency cannot be achieved.

LIMITATION

The limitation of this research is that in assessing the quality of financial reports it only focuses on accounting consistency, while there are still other proxies in measuring the quality of financial reports which will have an impact on investment efficiency. This research uses one sector as the object of this research, where this research should also test the efficiency of investment in other sectors listed on the Indonesian Stock Exchange. Time limitations mean that this research only examines research from the 2019-2021 period.

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DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest.

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