ACCOUNTING CONSERVATISM ON SUSTAINABILITY REPORT

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Abstract

A business entity is built only to maximize profit and maximize the welfare of shareholders. However, in the future, companies must pay attention to ethics in doing business, with work patterns and company work strategies or the application of sustainable management. Research on accounting conservatism on disclosure in sustainability reports has been widely carried out, but the results are still inconsistent. This research uses quantitative research with a causal approach. The quantitative data used for this research is secondary data in the form of Annual Reports, Sustainability Reports, and financial reports from 2015 to 2019. The data processing in this study uses the SPSS 26 application. The population in this study are all companies that have to go public on the IDX. The data collection technique used is purposive sampling. The results of this study indicate that accounting conservatism has a significant negative effect on the disclosure of sustainability reports. This illustrates that the more conservative a company's management is, the less information disclosed in the sustainability report will be.

Keywords: Sustainability Report, Financial Report, Accounting Conservatism.

INTRODUCTION

In the old paradigm, a business entity was built only to maximize profit and maximize the welfare of shareholders. However, in the future, companies must pay attention to ethics in doing business, with work patterns and company work strategies or the application of sustainable management. Article 66 paragraph 2 of Law No. 40 of 2007 concerning limited liability companies states that companies that have gone public must make sustainability reports (Sustainability Reporting). Then Bapepam - LK has also issued a regulation that requires public companies to disclose the implementation of Corporate Social Responsibility (CSR) activities in their annual reports. The Financial Services Authority has also issued OJK regulation number 51/POJK.03/2017 regarding the implementation of sustainable finance for financial service institutions,

Sustainability Report is a non-financial sustainability report that can be used as a reference by companies to view reporting from social, economic, and environmental dimensions. Sustainability Report as evidence that there is a commitment from the company to its social environment whose results can be assessed by the parties who need the information (Suarjana, 2019).

The Sustainability Report is an idea based on the Company's responsibilities in addition to the interests of the Company's owners (shareholders) (single bottom line) but also has responsibilities to interested parties (stakeholders). The background underlying the Company's CSR activities is based on the idea that the Company's responsibilities must be based on the triple bottom line, namely the Company's environmental, social and financial responsibilities.

Corporate Social Responsibility (Corporate Social Responsibility). Corporate social responsibility (CSR) is the Company's commitment in carrying out its operational activities to always make a positive contribution to society, the environment, and shareholders. The implementation of corporate social responsibility (CSR) by the Company can be realized through the disclosure of CSR (Corporate Social Responsibility Disclosure) which is associated with the public in the Sustainability Report or can be combined in the Company's annual report.

Accounting is synonymous with information. Accounting information that is widely used by the company's external parties is the company's financial statements that present information about the company's performance and condition (Savitri, 2016). In presenting quality financial statements, presenters are also faced with conservatism considerations which are the precautionary principle (Nugroho, et.al, 2017).

Conservatism is applied because accounting uses the accrual basis of informing and presenting a company's financial statements. Accrual causes the formation of accounting value not only the real value of financial transactions, both those that flow in and out but also includes a recording of the value of transactions that give rise to the possibility of future cash inflows and outflows, both those caused by past and future transactions. the present (Savitri, 2016).

Principle of conservatism there are still many criticisms that arise but there are also those who support the application of the principle of conservatism so that the principle of conservatism is still considered a controversial principle (Dewi & Suryanawa, 2014).

Research on accounting conservatism on disclosure in sustainability reports has been widely carried out, but the results are still inconsistent. Among them are the results of research by Cho, Kang, Lee, & Park (2020) which found that CSR disclosure is related to the level of accounting conservatism. Malo-Alain, Melegy, & Ghoneim (2019) stated that there is a positive and significant correlation between accounting disclosures in sustainable development and accounting conservatism, the results found can be explained by the fact that increasing sustainability disclosure leads to an increase in the value of accounting conservatism. While the results of research by Kurniawan & Wibowo (2009) there is no clear evidence to support the relationship between conservatism and CSR reporting. Hanan, et. al (2020) revealed that the sustainability report had no significant effect on conservatism and Farha, et.al. (2020) stated that accounting conservatism hurts the disclosure of sustainability reports.

Based on the description of the background above, the problem is formulated as follows:
1. Does accounting conservatism affect disclosure in sustainability reporting?

In connection with the problems stated above, this research is intended to:
1. To examine whether there is an influence between conservatism on disclosure in the sustainability report.

LITERATURE REVIEW

The research conducted is focused on conservatism towards sustainability reports (case study: companies listed on the Indonesian stock exchange 2015 – 2019). In this study, the dependent and independent variables were used. Accounting conservatism is an independent variable. A sustainability report is a dependent variable. The data obtained were tested using regression.

Agency theory states that agents have an important role in accounting, especially in providing information to stakeholders. This role is often equated with the role of stewardship, where an agent will report to the principal about past events. Often the relationship between the principal and the agent is reflected in the relationship between the owner of capital or the investor as the principal and the manager as the agent. In this case, the agent has more information than the principal, giving rise to information asymmetry.

According to the FASB (Financial Accounting Statement Board) accounting conservatism is a prudent reaction in the face of the uncertainty inherent in the company to try to ensure that the uncertainties and risks in the business environment are adequately considered. Hati, (2011) states that conservatism is a practice that recognizes profits and revenues more slowly, speeds up the recognition of costs or losses, and lowers asset recognition, and increases debt valuation.

According to the GRI standards, sustainability reporting is a practice in measuring and disclosing company activities, as a responsibility to the wider community regarding the organization's performance in realizing sustainable development goals.

According to Cho, Kang, Lee, & Park (2020), CSR disclosure is related to the level of accounting conservatism. Malo-Alain, Melegy, & Ghoneim (2019) stated that there is a positive and significant correlation between accounting disclosures in sustainable development and accounting conservatism, the results found can be explained by the fact that increasing sustainability disclosure leads to an increase in the value of accounting conservatism. While the results of research by Kurniawan & Wibowo (2009) there is no clear evidence to support the relationship between conservatism and CSR reporting. Farha, et.al. (2020) stated that accounting conservatism has a negative effect on the disclosure of sustainability reports.

Based on the background of the problem, problem formulation, research objectives and literature review as described above, the hypotheses proposed in the study are as follows:

H1: Accounting conservatism has a significant positive effect on the sustainability report.

RESEARCH METHODOLOGY

This research uses quantitative research with a causal approach. The quantitative data used for this research is secondary data in the form of Annual Reports, Sustainability Reports, and financial reports from 2015 to 2019. The causal approach used aims to test hypotheses about the effect of one or several variables (independent variables) on other variables (dependent variable). Data processing in this study using the SPSS 26 application.

The population in this study are all companies that have gone public on the IDX. The data collection technique used is purposive sampling where the sampling is based on certain criteria (Sujarweni, 2016). The sample criteria used are as follows:

Table 1. Sample selection criteria

No	Criteria
1	Companies listed in the Sri-Kehati and ESG Leader index
2	Companies that issue Sustainability Reports and Financial Reports for the 2015-2019 Period
3	Companies that issue Financial Statements in IDR

To examine the accounting conservatism of the sustainability report, there are two variables used in this study, namely:

1. Dependent Variable (Y)

The dependent variable (Y) in this study is the sustainability report. The dependent variable is a variable whose value is determined or influenced by other variables. To see the sustainability reporting practices carried out by the company, the researcher conducted an analysis using the content analysis method which was based on the provisions on disclosure/reporting that should be carried out by the Sustainability Reporting Guideline and Global Reporting Initiative (GRI) Guidelines. The GRI presents a standardized corporate reporting framework on how to disclose environmental, social, and corporate governance issues in its annual report. Then

the results of content analysis from secondary data are analyzed to see how the process of implementing sustainable development and sustainability reporting is carried out by the company. The weighting of the content analysis is based on the completeness of the reports disclosed, which are as follows:

Table 2 Assessment of the Quality of the Sustainability Report

Weight	Information
0	Undisclosed components
1	Disclosed components

The results of the disclosure of items analyzed from each company by giving weights are calculated by the formula:

$$DISCGRI = \frac{Number\ of\ scores\ revealed}{Expected\ maximum\ score}$$

2. Independent Variable (X)

Independent variables or independent variables are variables that explain or affect other variables. In this study, there is 1 (one) independent variable (X), namely accounting prudence. The following is an operational definition used in measuring conservatism adapted from Givolyn and Hayn (2000) Conservatism Based On Accrued Items:

$$CONACC = \frac{(NIO+DEP-CFO)\times(-1)}{TA}$$

Information:

CONACC   = Earning conservatism based on accrued items
NIO   = Operating profit of the current year
DEP   = Depreciation of fixed assets of the current year
CFO   = Net amount of cash flow from operating activities of the current year
TA   = Book value of closing total assets

3. Analysis Method
Linear Regression Analysis

Testing the relationship between accounting conservatism and sustainability report used a linear regression test tool and with the assumption of the Ordinary Least Square (OLS) method. The OLS method was first introduced by Carl Friedrich Gauss, a mathematician from Germany. The essence of the OLS method is to estimate a regression line by minimizing the sum of the squares of errors of each observation on that line (Ghozali, 2013). The linear regression model used is as follows:

$$Y = \alpha + \beta_1 X_1 + e$$

Information:
Y   = Sustainability Report
α   = Constant

β1 = Regression coefficient of each variable
X1 = Conservatism
e = Standard Error

The data used in this research is secondary data. The data sampled from this research are the company's financial reports, annual reports, and sustainability reports contained in the ESG Leader and Sri-Kehati indexes for 2015-2019. This study uses IBM SPSS version 26.0 software in the data processing.

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are used to provide a description or description of data seen from the average value (mean), standard deviation, maximum, minimum, sum, range, kurtosis, and skewness (distribution of distribution) and the number of cases (Ghozali, 2013: 19).

Table 3 Descriptive Statistics

Descriptive Statistics

	N	Range	Min	Max	Sum	mean		Std. Dev	var.
							Std.		
	stat	stat	stat	stat	stat	stat	Error	stat	stat
Conservatism	234	1.63	-1.41	.22	-51.41	-.2197	.01761	.26941	.073
Sustainability Report	234	.84	.11	.95	91.24	.3899	.00990	.15146	.023
Valid N (listwise)	234								

Source: Financial Report and Sustainability Report (Data processed with SPSS)

Based on the table of SPSS results above, it shows the number of sample data (N) consisting of Conservatism and Sustainability Reports, each of which is 234. From this 234 sample data, the smallest value (Minimum) is -1.41 for Conservatism and 0.11 for Sustainability Report. . The largest value (Maximum) is 0.22 for Conservatism and 0.95 for the Sustainability Report. The Range value is the difference between the minimum and maximum values, which is 1.63 for Conservatism 0.84 for the Sustainability Report. The Sum value is the sum of the sample data for each variable, which is -51.41 for Conservatism, and 91.24 for the Sustainability Report. The average value of the sum of each variable or the Mean is -0.2197 for Conservatism, and 0,

Normality test
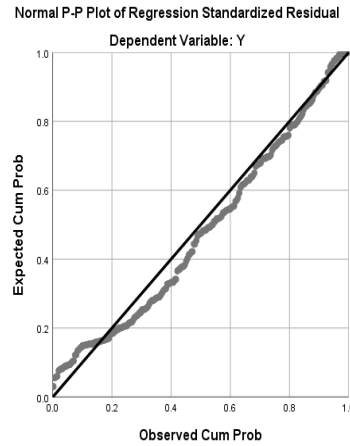
Source: Financial Report and Sustainability Report (Data processed with SPSS)

Figure 1 P-Plot Graph

Based on the graph of SPSS results above, it can be seen a P-Plot graph where the distribution of points follows and approaches the diagonal line. The distribution of points that are close to the diagonal line contained in the graph is concluded that the residual probability plot value is normally distributed. Thus the assumption of normality for residual values in simple linear regression in this study. can be fulfilled

Heteroscedasticity Test

To determine heteroscedasticity can use the Glejser test. The basis for decision making in this test is if the significance value is 0.05, it can be concluded that there is no heteroscedasticity problem, but on the contrary, if the significance value is <0.05, it can be concluded that there is a heteroscedasticity problem. The results of the heteroscedasticity test obtained are as follows:

**Table 4 Heteroscedasticity Test**

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.112	.008		14,788	.000
	Conservatism	-.022	.022	-.065	-.995	.321

a. Dependent Variable: ABRESID

Source: Financial Report and Sustainability Report (Data processed with SPSS)

In the calculation results above, it is known that the significance value of Conservatism is more than 0.05, namely 0.321. Based on this, it can be concluded

that there is no heteroscedasticity between independent variables in the regression model. So the above results can be explained by the results of graphic analysis, namely a scatterplot graph, the points formed must be spread randomly, spread both above and below the number 0 on the Y-axis. If this condition is met then there is no heteroscedasticity and the regression model is feasible to use. The results of the heteroscedasticity test using a scatterplot graph are shown in the figure below:
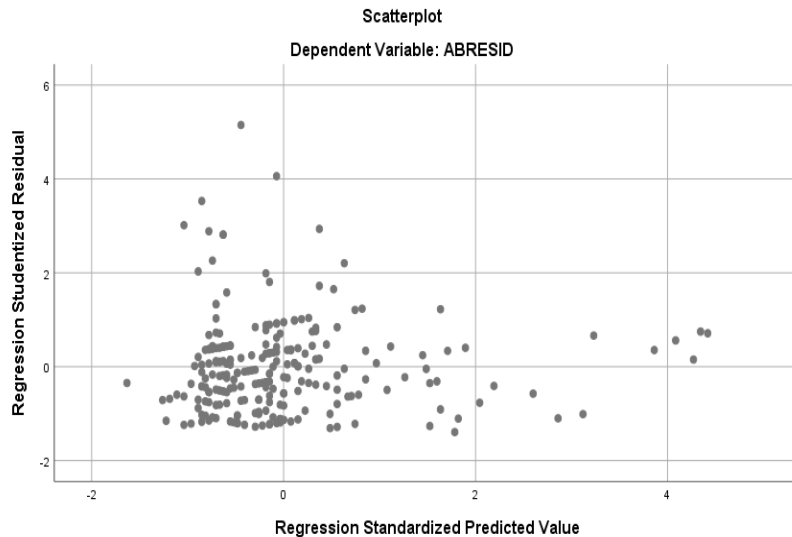
Source: Financial Report and Sustainability Report (Data processed with SPSS)
Figure 2 Scatterplot Graph

By looking at the scatterplot graph above, it can be seen that the points spread randomly, and are spread both above and below the number 0 (zero) on the Y-axis. It can be concluded that there are no symptoms of heteroscedasticity in the regression model used.

Multicollinearity Test

This test is intended to see whether there are two or more independent variables that are linearly correlated. If this situation occurs, we will face difficulties in distinguishing the effect of each independent variable on the dependent variable. To detect the presence of multicollinearity symptoms in the research model, it can be seen from the tolerance value or the Variance Inflation Factor (VIF) value. Tolerance limit > 0.10 and VIF limit < 10.00, so it can be concluded that there is no multicollinearity among the independent variables.

The results of the multicollinearity test in this study are shown in the following table:

Table 5 Multicollinearity Test
Coefficients[a]

	Collinearity Statistics	
Model	Tolerance	VIF
1	1,000	1,000

a. Dependent Variable: Y

Based on the output of "Coefficients" in the "Collinearity Statistics" section, it is known that the Tolerance value for Conservatism is 1,000 which is greater than 0.10. Meanwhile, the VIF value for Conservatism is 1000 < 10.00. Then referring to the basis of decision making in the multicollinearity test, it can be concluded that there are no symptoms of multicollinearity in the regression model.

Autocorrelation Test

Table 6 Autocorrelation Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.245a	.060	.056	.14715	1,713

a. Predictors: (Constant), Conservatism

b. Dependent Variable: Sustainability Report

Based on the table above, the DW value can be known as 1.713, this value will be compared with the 5% significance table value, with a sample size of 234 (n) and the number of independent variables 1 (k = 1), then the value of du is 1.7785 and DW value of 1.713 is smaller than the upper limit (du) which is 1.7785 and less than (4-du) or 4 - 1.7785 = 2.2215. So it can be concluded that there is no autocorrelation.

Linear Regression Analysis
Research Model Test

The Testing of coefficient determination is to show how much the dependent variable can be explained by the independent variables.

Table 7 Coefficient Determination

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.245a	.060	.056	.14715	1.713

a. Predictors: (Constant), Konservatisme

b. Dependent Variable: Sustainability Report

Based on the table above, shows that the magnitude of the coefficient of determination (R Square) is 0.060. This means that the contribution of Conservatism to the Sustainability Report is 60%, while the remaining 40% is explained by other variables not disclosed in this study.

t-test results

The t statistical test shows how far the influence of one independent variable is individually in explaining the dependent variable. This partial test is done by comparing the value of (alpha) with the p-value. If the p-value < (0.05), then H0 is rejected. So it can be said that there is a partial influence between the independent variable and the dependent variable, and vice versa. The following are the results of the t-statistical test, which can be seen in the table below:

Table 8 t-test
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.360	.012		28,949	.000
Conservatism	-138	.036	-.245	-3,852	.000

a. Dependent Variable: Sustainability Report
Source: Financial Report and Sustainability Report (Data processed with SPSS)

Based on the table above, it is shown that the Conservatism Variable has a regression coefficient value of -0.138, meaning that if accounting conservatism increases by 1%, then the disclosure of sustainability reports will decrease by 0.138. Table 4.7 shows that partially the conservatism variable has a significant value of 0.000 <0.05, and the value of constant (B) is negative (-0.138) meaning that accounting conservatism has a significant negative effect on the disclosure of sustainability reports, so Ho in this study is accepted and H1 is rejected.

The Effect of Accounting Conservatism on Sustainability Reports

The results of the linear regression show that Accounting Conservatism has a significance value of 0.000 <0.05 and has a Beta (B) value of -0.138. These results indicate that conservatism in the sustainability report has a significant negative effect. In other words, Ho in this study is accepted. The results of this linear regression test also show that every 1 (one) increase in sustainability report disclosure will reduce the level of accounting conservatism by 0.138. The results of this study are in line with the results of research conducted by Farha, Lilik, H., & Ni K., S., (2020) which states that accounting conservatism has a significant negative effect on sustainability reporting.

Conservatism is defined as a prudent reaction in the face of uncertainty that occurs in economic and business activities (Susanto & Tiara, 2016). Accounting conservatism plays a role in reducing information asymmetry between agents and principals. The agency theory used in the study is not in line with the results of the study, where the agents who have been appointed by the principal to run the business from the principal apply conservative accounting thereby reducing the amount of information disclosed in the sustainability report.

Disclosure of the Sustainability Report which is still voluntary only measures and discloses the company's activities as a responsibility to the wider community in realizing the goals of sustainable development. To reduce the information asymmetry of agents, it is enough to apply the principle of accounting conservatism to financial reporting.

CONCLUSION

The results of this study indicate that accounting conservatism has a significant negative effect on the disclosure of sustainability reports. This illustrates that the more conservative a company's management is, the less information disclosed in the sustainability report will be.

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