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**LAW, BUSINESS
& GOVERNANCE**

23-24

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UNIVERSITY (UBL),
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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the First International Conference on Law, Business and Governance (Icon-LBG 2013) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 67 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Utrech University, Maastricht University, Unika ATMA JAYA, Universitas Sebelas Maret, Universitas Negeri Surabaya, Universitas Jambi (UNJA), Diponegoro University, Semarang, Universitas 17 Agustus 1945 Jakarta, Universitas Bandar Lampung, Universitas Andalas Padang, University of Dian Nuswantoro, Semarang, Universitas Terbuka, Universitas Airlangga, Bangka Belitung University, President University, Tujuh Belas Agustus University Jakarta, International Business Management Ciputra University, Surabaya, University of Indonesia, Business School Pelita Harapan University, STIE EKUITAS, Bandung, STAN Indonesia Mandiri School of Economics Bandung, Lampung University.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also gratefull to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

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THE IMPLICATION OF OPPORTUNISTIC BEHAVIOR TOWARDS A FINANCIAL REPORT CONSERVATISM A Study of Banking Company Go-Public at BEI

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Abstract

Background of study Opportunistic behavior is a conflict of interest between investors and creditors due to the tendency of investors in undergoing a wealth transfer from creditors (Fama, 1978a; 1978b). Creditors urge a rather high interest rate and the implementation of a more conservative financial report method (Jong and Dijk, 1999). The concept of opportunistic behavior is divided into three: (1) in terms of direct transfer of wealth, the dividend payment is too high and fund sources from the debt tend to become a major priority (Smith and Warner (1979); (2) In the case of asset substitution, in which a company is involved in the high-risk projects (Jensen and Meckling (1976); (3) in the case of underinvestment, in which investment prospect and growth will not be implemented by investors unless there is a loan from the creditors. These three concepts lead to the wealth transfer from creditors to investors. In short, investors prefer funding obtained from debt. In other words, the higher the debt of a company, the more potential opportunistic behavior between investors and creditors (Fama dan Miller, 1972). Those three concepts become main factors of financial report conservatism. The tricky cases in Indonesia ultimately indicate the low level of conservatism implemented by a company in order to make their financial report (Ahmed et.al, 2002). Therefore, it becomes a motivation in this study and only a few studies were conducted, particularly in Indonesia (Ahmed et. al, 2002).

The problem of the study. According to the background stated before, the problem of this study is whether opportunistic behavior influences financial report conservatism. Opportunistic behavior conducted in this study is associated with the rate of operation uncertainty, the rate of dividend payments and the debt rate.

The aim of the study (1) To examine the accounting conservatism from its upside parts, especially on its relation with debt contract and dividend payments; (2) To examine the phenomenon of debt contract and dividend payments that potentially generates opportunistic behavior regarding the dividend policy.

Related Studies. Qiang (2003) stated that investors are able to transfer their wealth from creditors using a high dividend payment, a new debt funding, and transfer, acquisition or assets removal. In order to manage this conflict, the restrictions of dividends, capital structure and assets conversions. In order to deal with the problem, the pembatasan dividen, capital structure, and change of aktiva. Hirshleifer and Thakor (1992) stated that the pembatasan is usually included in perjanjian debt. Therefore, creditors tend to prefer a conservative financial report. Manager urges to minimize the debt cost of company. A company can lower its debt cost by considering a more restricted limitation rules regarding dividend payments and must implement the conservative accounting. In the studies conducted by Qiang (2003) and Hirshleifer & Thakor (1992), there were not any discussions about the implication of opportunistic behavior towards financial report conservatism. Hence, it is essential to have a further study regarding this problem.

Methods of the Study Quantitative method. Secondary data. An analysis unit is a perusahaan perbankan that go-public at BEI during 2011-2012. The hypothesis of the study is that there is an implication between opportunistic behavior and financial report conservatism. The hypothetical examination was conducted by applying logistic regression, while the tools of analysis implemented SPSS.

The Implication for Business Practices / Practical Contribution (1) A manager is able to consider the decision-making, particularly related with opportunistic behavior, towards financial report conservatism, (2) An accountant tends to be more conservative in making and presenting the financial report based on SAK.

Theoretical Contribution this study contributes to Market Based Accounting Research.

Keywords: conservatism, opportunistic behavior, dividend

1. INTRODUCTION

Opportunistic behavior is a conflict of interests between investors and creditors caused by the tendency of investors to do a transfer of wealth from the creditors (Fama, 1978a; 1978b). Creditors urges a rather high interests rates and the implementation of a more conservative financial report (Jong and Dijk, 1999). The concept of opportunistic behavior is divided into three: (1) in terms of direct transfer of wealth, the dividend payments is too high and fund sources from the debt tends to become a major priority (Smith and Warner (1979); (2) In the case of asset substitution, in which a company is involved in the high-risk projects (Jensen and Meckling (1976); (3) in the case of underinvestment, in which investment prospect and growth will not be implemented by investors unless there is a loan from the creditors. The implication of those 3 concepts leads to the effort of transfer of wealth from creditors to investors. In other words, investors prefer funding coming from debts. Therefore, the more debts a company owns, the more potential opportunistic behavior made by investors and creditors (Fama and Miller, 1972). All of those three concepts become a motivation towards the implementation of financial report conservatism. Some trickery cases in Indonesia implicitly reveal the low rate of conservatism implemented by a company in making their financial report (Ahmed et.al, 2002).

This study is inspired by the study conducted by Ahmed et.al (2002) stating that trickery cases in Indonesia implicitly reveal the low rate of conservatism implemented by a company in making their financial report. This study has not ever been conducted before, especially in Indonesia (Ahmed et.al, 2002), and hence the writer pays attention to conduct a further research. This study aims to: (1) Examine the accounting conservatism from its upside parts, particularly related with contract of debts and dividend payments; (2) Examine the contract of debts' phenomenon and dividend payments that potentially generate opportunistic behavior associated with dividend policy.

Limitation

There are 2 limitation in this study:

1. The use of sample is only limited for banking company that go-public at BEI, and therefore it could not be generalized for all kinds of industries.
2. The range of time of the financial report data is only used during 2011-2012, and hence the amount of the sample is rather only a few.

2. LITERATURE REVIEWS

Theory

Theory implemented in this theory is agency theory stating that if there is a separation between the owner as the principle and the manager as the agent that runs a company, there will be an agency problem since each party attempts to optimize its functions of utility. In order to minimize the agency problem, it needs contracts in the company either between the shareholders and the manager or contracts between management and employees, suppliers, and creditors (Jensen & Meckling, 1976).

Related Studies

Basu (1997) defined conservatism as a practice in decreasing profit and lowers aktiva bersih in responding bad news, yet it does not increase profit (boosting aktiva bersih) in responding good news.

Qiang (2003) stated that investors were able to transfer wealth from creditors through a too high dividend payments, funding for new debts, and transfer, acquisition, or penghapusan aktiva. In order to deal with this conflict, it needs a dividend restriction, capital structure, and assets changes. The restriction is usually included in the perjanjian utang. So, creditors tended to urge a more conservative financial report.

A hypothesis about relations between conflicts of interests in the contract of debt and conservatism is based on an assumption stating that the opportunity of company investments generates a dividend policy and company funding. Related with several fundings needed to implement a company investment opportunity, it is assumed that a manager also urges to reduce cost of debt. A company is able to reduce its cost of debt by receiving a more strict rules of restrictions regarding dividend payments and applying conservatism accounting (Hirshleifer dan Thakor, 1992).

Watt dan Zimmerman (1986) stated about debt hypothesis in positive accounting. The hypothesis is that a company owning debts tends to report its profit higher in order to avoid the debt restrictions. Besides, a

manager can choose the more aggressive method in order to optimize income and influence the debt creditors.

Ahmed et al (2002) stated that there will be a possibility for a company not to apply a conservative accounting because it will sacrifice the other aspects. The aspect sacrificed is the lower profit performance that leads to the bad marking from the outsiders.

Therefore, studies that only sees the relations between opportunistic behaviors caused by contract of debts and conservatism are not sufficient, unless they consider some other factors such as the dividend payment and the uncertainty rates of operation.

This study completes the gap research conducted by Ahmed et al (2002) by adding the variable of opportunistic behaviors, that is the operation uncertainty yang diprosikan with dividend pay out (DPO), measured by a long period debt ratio towards the assets.

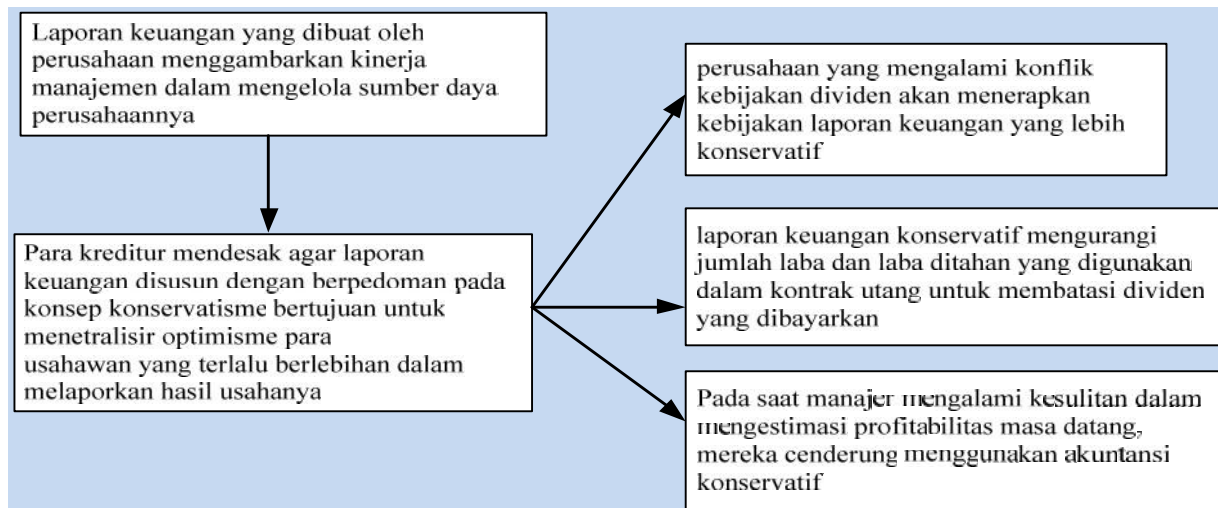
The Development of Hypothesis

Conservatism and Conflicts of interests

Ahmed et al. (2002) stated that financial report conservatism may decrease opportunistic behavior regarding the dividend policy between shareholders and creditors, particularly those who stated that a company having dividend policy conflict will implement a more conservative financial report policy, and the company implementing a conservative financial report policy will generate a lower cost of debts. This statement is based on theory that conservative financial report will decrease the amount of profit and laba ditahan that is used in the contract of debts in order to restrict the paid dividend. So, the more conservative financial report method's option is one among several ways that can reduce risks to the creditors, that is avoiding the excess of dividend payments. Reducing risks is important the conflict between the shareholders' interests and creditors are getting wider and leading to other conflicts such as a policy of new debt funding and investment policy. When a company chooses a more conservative financial report method, then a creditor will receive higher return related with the prevention of high dividend payments. In the basis of this reason, the hypothesis is as follows:

H1: There is an implication of opportunistic behavior towards financial report conservatism

3. CONCEPTUAL FRAMEWORK



Sumber: Penulis (2013)

4. RESEARCH DESIGN

Dependent Variable

Dependent variable used in this study is dummy variable, those are (1) conservatism and (0) optimistic. The measurement of conservatism in this study is conducted by having several assumptions that is based on SAK (2012). The measurement of conservatism proxy based on *Earnings/accrual measures* ((Givoly dan Hayn, 2000), (Dewi, 2004), (Widya, 2004)) is:

$$C_{it} = NI_{it} - CF_{it}$$

C_{it} = The rate of conservatism

NI_{it} = laba bersih before *extraordinary item* minus depreciation dan amortization

CF_{it} = cash flow from operational kegiatan

If the difference between laba bersih and cash flow is in negative, then profit is included into conservative (1), yet if the difference between laba bersih and cash flow is in positive, then the profit is optimistic (0). It is because of profit is lower than cash flow obtained by companies during certain period of time.

Independent Variable

1. **The Uncertainty of operation** diprosikan with the standard of return on asset (ROA)
2. **The Rate of Dividend Payments** diprosikan with dividend pay out (DPO), that is measured from the percentages of total assets
3. **The Debt Rate** diprosikan dengan leverage, and measured from a long period debt ratio towards assets.

Sample

examined was perusahaan perbankan go publik at BEI under some considerations:

- (1) perusahaan perbankan go publik at BEI is regarded, by the writer, as a company with stable bersih profit report that could support Indonesian economy leading to a small financial report conservatism since the Banking financial report making at BEI is based on SAK in Indonesia.
- (2) There are lots of studies regarding financial report conservatism using manufacturing companies and services industry, and hence the writer considered other companies that were never been involved in financial report conservatism by taking sample of perusahaan perbankan go publik at BEI.

The Examination of Hypothesis

The examination applied logistic regression. logistic regression is part of regression analysis used to analyze dependent variable in which the category and independent variable is categorized, continued, or the combination of both of them. In order to know the implication from the independent variable, the significant test, either wholly or individually, is needed to conduct. In the examination of logistic regression, assumption of data normality is not necessary since it is included in non-linear regression and therefore it does not meet the requirements of *ordinary least square* (OLS) method (Ghozali, 2005:211). Dummy variable conducted in this study, plus the other 3 independent variables, aims to examine whether the probability of conservatism is influenced by the uncertainty of operation, the rate of dividend payments, and the debt rate.

Equation Model:

$$DCON_{it} = S_0 + S_1ROA + S_2DPO + S_3LVG + \epsilon_{it}$$

$$S_0 . S_4 = \textit{intercept}$$

Information:

- $DCON_{it}$ is dummy variable measured with assumed model. The number 1 is for conservative accounting, and 0 is for optimistic.
- ROA is the uncertainty of operation diprosikan with standard deviation return on asset (ROA).
- DPO is the rate of dividend payments diprosikan dengan *dividen pay out* (DPO)
- DC *debt covenant* that is diprosikan by applying *leverage (long term-debt/assets)* company j to period t.
- ϵ_{it} = *error term*.

Data Analysis

Applying SPSS program version 21, with the significant level of 5 %.

5. FINDINGS

The Description of Variable

Berdasarkan data 29 bank dapat ditabulasi tentang hasil pemilihan metoda laporan keuangan konservatisme (laba bersih < arus kas : konservatisme bernilai negatif) dan optimisme (laba bersih > arus kas : konservatisme bernilai positif). Hasil tabulasi dapat dilihat pada tabel 1.

According to the data taken from 29 banks, it can be put into table about the selection result of the conservatism financial report method and (laba bersih < arus kas : konservatisme bernilai negatif) and optimism (laba bersih > arus kas : konservatisme bernilai positif). The result of tabulation can be seen in table 1.

Table 1 : The Selection Result of Financial Report Method

The Selection of Financial Report Method	Bank
Conservatism (<u>laba bersih</u> < Cash Flow) 2011-2012	Bank Pundi Indonesia Tbk. ; Bank Permata Tbk ; Bank of India Indonesia ; Bank Mayapada Internasional Tbk ; Bank OCBC NISP Tbk ; Bank Himpunan Saudara 1906 Tbk
Optimism (<u>laba bersih</u> > Cash Flow) 2011-2012	Bank Capital Indonesia Tbk. ; Bank Mutiara Tbk. ; Bank Danamon Indonesia Tbk. ; Bank Bumi Arta Tbk. ; Bank Pan Indonesia
Conservatism (<u>laba bersih</u> < Cash Flow) 2011 or only in 2012	Bank Agroniaga Tbk (2011) ; Bank ICB Bumiputera (2012) ; Bank Central Asia Tbk (2012) ; Bank Bukopin Tbk. (2012) ; Bank Negara Indonesia (Persero) Tbk (2011) ; Bank Nusantara Parahyangan Tbk. (2012) ; Bank Rakyat Indonesia (Persero) Tbk (2011) ; Bank Tabungan Negara (Persero) Tbk. ; Bank QNB Kesawan Tbk. (2012) ; Bank Mandiri (Persero) Tbk. (2011) ; Bank CIMB Niaga Tbk. (2012) ; Bank Internasional Indonesia Tbk (2012) ; Bank Sinarmas Tbk (2011) ; Bank Tabungan Pensiunan Nasional Tbk (2012) ; Bank Victoria International (2012) ; Bank Artha Graha Internasional Tbk (2011) ; Bank Windu Kentjana Internasional Tbk (2011) ;
Optimism (<u>laba bersih</u> > Cash Flow) 2011 or only in 2012	Bank Agroniaga Tbk (2012) ; Bank ICB Bumiputera (2011) ; Bank Central Asia Tbk (2011) ; Bank Bukopin Tbk. (2011) ; Bank Negara Indonesia (Persero) Tbk (2012) ; Bank Nusantara Parahyangan Tbk. (2011) ; Bank Rakyat Indonesia (Persero) Tbk (2012) ; Bank QNB Kesawan Tbk. (2011) ; Bank Mandiri (Persero) Tbk. (2012) ; Bank CIMB Niaga Tbk. (2011) ; Bank Internasional Indonesia Tbk (2011) ; Bank Sinarmas Tbk (2012) ; Bank Tabungan Pensiunan Nasional Tbk (2011) ; Bank Victoria International (2011) ; Bank Artha Graha Internasional Tbk (2012) ; Bank Windu Kentjana Internasional Tbk (2012)

According to table 1, the explanation is as follows:

1. The companies chose a conservative financial report method (profit < cash flow) for 2 consecutive years 2011 and 2012 are 6 banks
2. The companies chose an optimistic financial report method (profit > cash flow) for 2 consecutive years 2011 and 2012 are 5 banks
3. The companies chose a conservative financial report method (profit < cash flow) in 2011 are 7 banks. The companies chose a conservative financial report method (profit < cash flow) in 2012 are 9 banks.

4. The companies chose an optimistic financial report method (profit > cash flow) in 2011 are 9 banks.
The companies chose an optimistic financial report method (profit > cash flow) in 2011 are 7 banks.

Bank choosing a conservative financial report either in 2011-2012 or one between 2 years reveals that the banks decrease the amount of profit and laba ditahan used in the contract of debt in order to restrict the paid dividend. It is done in order to reduce risks of opportunistic behavior between shareholders and creditors since there is a new policy regarding the new debt funding and investment policy.

Table 2 : The Result of logistic regression analysis

Variable	B	Wald	Sig.	Exp(B)
Conflict of interest towards the uncertainty rate of operation (X1)	,327	5,467	0,019	1,387
Conflict of interest towards dividend payments (X2)	,015	4,553	0,033	1,015
Conflict of interest towards the debt rate (X3)	15,077	7,192	0,013	3530676,311
Constant	-13,489	3,21	0,073	1,386 10 ⁻⁶
Nagelkerke R Square = 0,498 Hosmer and Lemeshow Test = 32,907 Prob = 0,000				

The value of Nagelkerke R Square of 0,498 reveals that the probability occurred of accounting conservatism is influenced by opportunistic behavior including the uncertainty rate of operation, conflict of interests towards dividend payments, and conflict of interest towards debt rate of 49,8 %, while 50,2 % is influenced by other variables that is not available in the equation of logistic regression.

According to table 2, the equation of logistic regression is as follows:

$$\ln\left(\frac{p}{1-p}\right) = -13,489 + 0,327 X_1 + 0,015 X_2 + 15,077 X_3$$

According to the equation above, the explanations are as follows:

1. The coefficient of the conflict of interest towards the uncertainty of operation (x1) is 0,327, whereas if the other free variables regarded constant, then in every change of opportunistic behavior towards the uncertainty rate of operation (X1) will contribute to the probability prediction of accounting conservatism (laba bersih < cash flow) of 1,387 (e^{0,327}) higher compared to optimism (laba bersih < cash flow)
2. The coefficient of the conflict of interest towards the rate of dividend payments (x2) is 0,015, whereas if the other free variables is regarded constant, then in every change of opportunistic behavior towards the rate of dividend payments (x2) will contribute to the probability prediction of accounting conservatism (laba bersih < cash flow) of 1,015 (e^{0,015}) higher compared to optimism (laba bersih < cash flow)
3. The coefficient of the conflict of interest towards the debt rate (X3) is 15,077, whereas if the other free variables is regarded constant, then in every change of opportunistic behavior towards the the debt rate (X3) will contribute to the probability prediction of accounting conservatism (laba bersih < cash flow) of 3530676,311 (e^{15,077}) higher compared to optimism (laba bersih < cash flow)

Based on the table above, the explanation of the result towards hypothetical examination is as follows:

1. The significant value in opportunistic behavior variable towards the uncertainty rate of operation (X1) is 0,019 < () 0,05 reveals that the variable is significantly applied in order to predict the accounting method in the bank.
2. The significant value in opportunistic behavior variable towards the rate of dividend payment (X2) is 0,0033 < () 0,05 reveals that the variable is significantly applied in order to predict the accounting method in the bank.

3. The significant value in opportunistic behavior variable towards the debt rate (X3) is $0,013 < ()$ 0,05 reveals that the variable is significantly applied in order to predict the accounting method in the bank.

The percentage of banks' prediction in applying conservatism and optimism can be seen in table 3 as follows:

Table 3 : The percentage of banks' prediction in applying conservatism and optimism

The number of Banks	Numbers of customers predicted in the upcoming time		Total
	Optimism	Conservatism	
Optimism (<u>laba bersih</u> > cash flow)	14	13	27
Conservatism (<u>laba bersih</u> < arus kas)	5	26	31

Based on table 3, the explanation is as follows:

1. There are 27 data of company applying optimism accounting. 14 data (51,85%) is predicted keeping up applying optimism accounting, while 13 data of company (48,15%) is predicted applying conservatism accounting method.
2. There are 31 data of company applying conservatism accounting method. 26 data (83,87%) is predicted applying conservatism accounting method, while 5 data of company (16, 13%) is predicted applying optimism accounting method.
3. Several Banks that actually applying optimism method and predicted applying optimism method are: Bank Agroniaga Tbk (2012), Bank ICB Bumiputera (2011), Bank Central Asia Tbk (2011), Bank Bukopin Tbk. (2011), Bank Nusantara Parahyangan Tbk. (2011), Bank Mutiara Tbk. (2011 dan 2012), Bank CIMB Niaga Tbk.(2011), Bank Internasional Indonesia Tbk (2011), Bank Victoria International (2011), Bank Windu Kentjana International Tbk (2012), Bank Artha Graha Internasional Tbk (2012), Bank Mega Tbk (2012).
4. Several Banks that actually applying conservatism method and predicted applying optimism method are: Bank QNB Kesawan Tbk. (2012), Bank Mandiri (Persero) Tbk. (2011), Bank of India Indonesia (2012), Bank Tabungan Pensiunan Nasional Tbk (2012), Bank OCBC NISP Tbk (2012).
5. Bank yang secara aktual melakukan metode konservatisme dan diprediksi akan tetap melakukan metode konservativmes adalah : Several Banks that actually applying conservatism method and predicted applying optimism method are: Bank Agroniaga Tbk (2011), Bank ICB Bumiputera (2012), Bank Central Asia Tbk (2012), Bank Bukopin Tbk. (2012), Bank Negara Indonesia (Persero) Tbk. (2011), Bank Nusantara Parahyangan Tbk. (2012), Bank Rakyat Indonesia (Persero) Tbk (2011), Bank Tabungan Negara (Persero) Tbk. (2011 dan 2012), Bank Pundi Indonesia Tbk. (2011 dan 2012), Bank CIMB Niaga Tbk. (2012), Bank Internasional Indonesia Tbk (2012), Bank Permata Tbk (2011 dan 2012), Bank Sinarmas Tbk (2011), Bank of India Indonesia (2011), Bank Victoria International (2012), Bank Artha Graha Internasional Tbk (2011), Bank Mayapada Internasional Tbk (2011 dan 2012), Bank Windu Kentjana International Tbk (2011), Bank Mega Tbk (2011), Bank OCBC NISP Tbk (2011), Bank Himpunan Saudara 1906 Tbk (2011 dan 2012).

6. DISCUSSION

Based on several findings above, the accurate prediction of the three free variables towards accounting conservatism is 68,97 %. Among 28 banks during 2011 and 2012, it is found that 83,87 % data is predicted applying conservatism accounting method. It reveals that dunia perbankan applying conservatism in financial report that is more transparent, accountable, and qualified, so it could protect related parties.

This finding supports the previous study conducted by Qiang (2003) that in order to decrease opportunistic behavior, it needs dividend, capital structure, and the asset changes included in the debt agreement, so creditors tends to urge a more conservative financial report.

This finding also supports the previous studies conducted by Hirshleifer and Thakor (1992) stating that a company can reduce the cost of debt by receiving the more restricted constraint in terms of dividend payments and must implement conservative accounting, that is the conservative financial report.

In fact, there are still many trickery cases in Indonesia regarding the financial report. It also supports the study conducted by Ahmed et al (2002) stating that los of trickery cases in Indonesia indirectly indicates the low rate of conservatism applied by the company in making their financial report. It is because of the possibility of a company not to apply the conservative accounting. If it is applied, then it will sacrifice other aspects. Those aspects are the profit performance reported is lower that leads to the unfair assessment from outsiders.

the writer advices that perbankan in Indonesia, particularly perbankan go public at BEI must apply conservatism in their financial report and asset measurement, and profit. This effort aims to make a more transparent financial report.

7. CONCLUSION

According to the data above, then the writer conclude as follows:

1. Within 2 consecutive years 2011-2012, the conservatism financial report is the most chosen by banks
2. The Influence of the three free variables towards conservatism accounting is 49,8 %.
3. According to the wald statistic, the conflict variable of debt rate interest gives an implication towards accounting conservatism.

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