

Leverage, Operating Cash Flow, and Ownership Structure as Predictors of Accounting Conservatism: Evidence from Indonesian Consumer Goods Firms

Desy Fitriani^{1*}, Lesi Hartati², Mutiara Kemala Ratu³

^{1,2,3}Universitas Indo Global Mandiri

Email: fitrianidesy347@gmail.com

Abstract

Accounting conservatism plays an important role in financial reporting to reduce the risk of earnings overstatement and increase transparency. This study examines whether leverage (as a proxy for debt covenant pressure), operating cash flow, managerial ownership, and institutional ownership are associated with accounting conservatism in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in 2021-2023. This study uses a quantitative approach with secondary data obtained from the financial statements of companies selected through purposive sampling techniques, with a sample of 13 companies that produced 39 firm-year observations. Data analysis was carried out using multiple linear regression and classical assumption tests such as normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The four variables are jointly associated with accounting conservatism ($F = 3.160$, $p = 0.026$; adjusted $R^2 = 0.185$). Partially, leverage ($B = 0.180$, $p = 0.016$) and operating cash flow ($B = 0.453$, $p = 0.003$) are positively associated with accounting conservatism, whereas managerial ownership ($B = -0.017$, $p = 0.875$) and institutional ownership ($B = -0.082$, $p = 0.464$) are not significantly associated with it. The findings suggest that creditor pressure and internal cash generation, rather than ownership structure, are related to conservative reporting in this sector, although the small sample and modest explanatory power call for cautious interpretation

Keywords: accounting conservatism, debt covenants, operating cash flow, managerial ownership, institutional ownership

Introduction

Financial statements are the primary channel through which firms communicate their performance and financial position to investors, creditors, and other stakeholders (Safuan, 2019). In Indonesia, their preparation follows the Indonesian Financial Accounting Standards (PSAK) issued by the Indonesian Institute of Accountants, several of which embed conservative treatment, such as those governing inventories, fixed assets, intangible assets, and research and development costs (Indriyanto & Cahyani, 2022). Yet these standards also give managers considerable discretion in choosing accounting methods and estimates (Fadhiilah & Rahayuningsih, 2022). How that discretion is exercised under uncertainty is the central concern of accounting conservatism.

Accounting conservatism is the practice of delaying the recognition of revenues and gains while recognizing expenses and losses earlier, which yields lower asset values and higher liabilities under uncertainty (Daeli & Sutandi, 2023; Jao & Ho, 2019). Basu (1997) formalized

its asymmetric nature, in which bad news is incorporated into earnings more quickly than good news, and Watts (2003) explains it through contracting, litigation, taxation, and regulatory pressures. Conservatism is widely regarded as an important element of reporting quality because it limits managerial opportunism and the tendency to overstate earnings (Halim, 2021). It also lowers litigation risk and restrains payments to opportunistic managers, and overstated earnings are generally considered more damaging to users than understated earnings (Asri Lestari et al., 2023). Conservatism is nonetheless debated: critics argue that it may reduce the quality of financial information, whereas proponents emphasize its contracting and monitoring value (Iskandar & Sparta, 2019).

The cost of insufficient prudence is evident in Indonesian practice. The case of PT Tiga Pilar Sejahtera Food Tbk (now PT FKS Food Sejahtera Tbk) involved receivables overstated by approximately IDR 1.4 trillion through affiliated distributors, together with alleged fund flows to management of IDR 1.78 trillion (Diasca & Apriliawati, 2022). Such cases suggest that optimistic reporting remains a real risk and underline the need to understand what drives firms to report conservatively (Swasti & Meidiyustiani, 2024).

Prior studies point to both contractual and governance determinants. On the contractual side, debt covenants give creditors an incentive to demand cautious reporting, and leverage is commonly used to capture this pressure (Daeli & Sutandi, 2023). Operating cash flow reflects a firm's ability to generate cash for debt service, dividends, and new investment without relying on external funding, and it may therefore shape how cautiously management recognizes earnings (Halim, 2021). On the governance side, managerial ownership aligns managers' interests with those of shareholders and may affect reporting and financing decisions (Musbitah & Kusumawati, 2024), while institutional ownership represents external shareholders whose monitoring may influence the degree of conservatism (Tamura, 2022). Signaling theory offers a unifying lens: prudent reporting allows management to send credible, positive signals about information quality to prospective investors and creditors.

However, the empirical evidence is inconsistent. Jao and Ho (2019) report that debt covenants and managerial ownership are positively and significantly related to conservatism, whereas Iskandar and Sparta (2019) and Suwarta et al. (2020) find a negative relationship between debt covenants and conservatism, and Safuan (2019) and Setiawan and Hunein (2024) find no effect of managerial ownership. Evidence on institutional ownership is likewise mixed: Tamur (2022) finds that it significantly affects conservatism, while Setiawan and Hunein (2024) show that a higher institutional stake is associated with lower conservatism. Operating cash flow has been found to affect conservatism positively (Halim, 2021).

Three gaps motivate this study. Empirically, findings on each determinant conflict, and few studies examine the four determinants jointly in a single model (Suwarta et al., 2020; Halim, 2021). In terms of context, most Indonesian studies focus on property and real estate or on the broader manufacturing industry, whereas the consumer goods sector, which has been the subject of reporting-quality concerns (Diasca & Apriliawati, 2022), receives less attention. Theoretically, the studies cited here mostly examine the creditor, liquidity, and ownership channels separately, so it remains unclear which of them carries more weight in explaining conservative reporting. This study combines signaling, agency, and contracting arguments to derive a distinct expectation for each determinant. Examining the four determinants within one sector also holds industry-specific accounting practices and business risk broadly constant, so the relative weight of the creditor, liquidity, and ownership channels can be compared more cleanly than in cross-industry samples.

Accordingly, this study examines the effect of debt covenants, operating cash flow, managerial ownership, and institutional ownership on accounting conservatism in consumer goods manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2021–2023. The novelty of the study lies in testing these four determinants simultaneously and partially in one model for a sector that is directly exposed to consumer and investor scrutiny. The results are useful for investors and creditors assessing reporting quality, and for managers and regulators concerned with prudent financial reporting.

Signaling Theory

Signaling theory holds that management communicates favorable prospects to outside parties when the firm has them (Howe, 1997). The theory explains why firms feel compelled to convey financial information externally: information asymmetry between the firm and outsiders such as investors and creditors can be reduced by sending signals (Arisa & Hakim, 2021). In this study, conservative reporting is such a signal because it prevents earnings and assets from being overstated and gives users figures that can be relied upon.

Signaling theory alone does not fully explain why creditors and owners demand conservative reporting, so this study combines it with agency and contracting arguments (Jensen & Meckling, 1976; Watts, 2003). Under agency theory, conflicts of interest between managers, shareholders, and creditors make timely and verifiable reporting a low-cost way to monitor managers and to limit overstated performance, whereas signaling theory explains how firms use reporting choices to convey credible information to outside parties. Both perspectives can be applied to each determinant. Debt agreements involve information asymmetry between management and creditors, so firms signal the safety of the funds lent through their financial decisions (Manulu & Fiana, 2023). Firms with sound performance are more open about their operating cash flows to convince the market of their prospects (Halim, 2021). Managerial ownership signals the alignment of managers' and shareholders' interests because managers bear the consequences of their own decisions (Sari et al., 2022), and institutional ownership signals professional investors' confidence while enabling closer monitoring that curbs managerial opportunism (Aprilia, 2023).

The two perspectives yield a distinct prediction for each determinant. First, creditors bear downside risk without sharing in upside gains, so higher leverage intensifies the creditor–shareholder agency conflict and the contracting demand for conservative reporting; a positive association is therefore expected for debt covenants (leverage). Second, operating cash flow indicates liquidity and a reduced need for external financing. As a signal it may strengthen credibility, but its direction is theoretically ambiguous because it lowers both creditor pressure and the pressure to present inflated earnings, so it is treated as an open empirical question. Third, managerial ownership aligns managers with shareholders and is expected to be positively associated with conservatism, although very high stakes can lead to entrenchment and weaken the relationship. Fourth, institutional ownership is expected to be positively associated with conservatism where institutions monitor actively, whereas passive or short-horizon institutions would produce no association.

Accounting Conservatism

Accounting conservatism is a principle that, under future economic uncertainty, requires revenue recognition to be delayed and expense recognition to be accelerated (Jao & Ho, 2019). It aims to avoid inflated profits, prevent managerial error, and cope with uncertainty

(Fadhiilah & Rahayuningsih, 2022); when potential losses are uncertain, prudent firms tend to record them (Swasti & Meidiyustiani, 2024). Conservative reports tend to understate rather than state the true value (Putra & Satria, 2022), which limits payments to opportunistic managers and reduces misreporting that can confuse users (Hariyanto, 2021). Two classic perspectives describe the concept: the asymmetric timeliness of earnings, whereby losses are recognized faster than gains (Basu, 1997), and the view that conservatism arises from contracting, litigation, taxation, and regulation (Watts, 2003).

Two forms of conservatism need to be distinguished. Conditional (news-dependent) conservatism is the asymmetric timeliness described by Basu (1997): bad news is recognized in earnings faster than good news, and it is typically measured with the earnings–return relation. Unconditional (news-independent) conservatism arises from the accounting process itself, for example the immediate expensing of some outlays or accelerated depreciation, and produces persistently understated book values and income-decreasing accruals regardless of news (Beaver & Ryan, 2005). This study measures conservatism with CONACC, the accrual-based measure of Givoly and Hayn (2000), which captures the second dimension: consistently negative accruals (net income plus depreciation minus operating cash flow, scaled by total assets) are read as conservative reporting. CONACC fits the hypotheses because they concern a firm's general reporting stance under creditor pressure, liquidity, and ownership structure, rather than how quickly it reacts to particular bad-news events. The findings therefore speak to income-decreasing accrual conservatism and should not be read as evidence on asymmetric loss recognition.

Debt Covenants and Accounting Conservatism

Debt covenants are agreements that protect lenders from managerial actions that could harm their interests, such as excessive dividend payments or additional borrowing (Manulu & Fiana, 2023). Violating a covenant can be costly and disrupt management, so managers try to avoid actions that inflate income artificially (Tamur, 2022). Firms with stricter covenants therefore tend to adopt a more conservative approach (Iskandar & Sparta, 2019), and creditors with greater access to information are better able to monitor the firm.

The evidence is mixed. Positive and significant effects are reported by Jao and Ho (2019), Swasti and Meidiyustiani (2024), Safuan (2019), Tamur (2022), and Indriyanto and Cahyani (2022). Negative effects are found by Iskandar and Sparta (2019) and Manulu and Fiana (2023), while Suwarti et al. (2020) and Daeli and Sutandi (2023) find no effect. Because creditors rely on reported figures to monitor their claims, and signaling theory suggests that prudent reporting reassures them, this study hypothesizes that:

H1: Debt covenants affect accounting conservatism.

Operating Cash Flow and Accounting Conservatism

Operating cash flow shows the extent to which a business can generate funds to repay loans, pay dividends, and make new investments without depending on external financing (Halim, 2021). Its link to reporting discretion runs through liquidity rather than through any automatic effect. Firms with strong operating cash flow depend less on external financing and face less pressure to present inflated earnings to creditors or the market, so managers have less need for income-increasing accruals, which is consistent with a more conservative accrual profile. At the same time, abundant liquidity can also weaken creditor monitoring and give managers room to report either more or less conservatively, so strong cash generation does not

by itself imply conservative accounting. Positive associations with conservatism are reported by Halim (2021), Swasti and Meidiyustiani (2024), and Susilawati (2023), whereas Arisa and Hakim (2021) find no partial effect. Because the direction depends on how liquidity is used, this study tests the relationship without assuming it. Therefore:

H2: Operating cash flow affects accounting conservatism.

Managerial Ownership and Accounting Conservatism

Managerial ownership refers to shares held by managers, which makes them both agents and owners (Musbitah & Kusumawati, 2024). Managers who are also owners behave as if they have a stake in the firm, which can reduce information asymmetry (Jao & Ho, 2019) and align their interests with those of shareholders (Setiawan & Hunein, 2024). Higher ownership may therefore encourage conservative practices to reduce the risk of overstating income and assets. Jao and Ho (2019) and Hariyanto (2021) find a positive effect, Kristanti (2020) finds a negative one, and Musbitah and Kusumawati (2024), Baroroh (2022), and Fadhiilah and Rahayuningsih (2022) find none. Based on the alignment argument, this study proposes:

H3: Managerial ownership affects accounting conservatism.

Institutional Ownership and Accounting Conservatism

Institutional shareholders such as banks, insurance companies, and investment firms (Jao & Ho, 2019) monitor management and can discourage excessive optimism (Fadhiilah & Rahayuningsih, 2022). Because of their large equity stakes, they have stronger incentives to review managers' behavior and performance (Tamur, 2022), and they may prefer conservative reporting to reduce investment risk (Jao & Ho, 2019). Tamur (2022) and Musbitah and Kusumawati (2024) find a significant effect, and Setiawan and Hunein (2024) report that a larger institutional stake is associated with lower conservatism. In contrast, Putra and Satria (2022), Fadhiilah and Rahayuningsih (2022), and Hariyanto (2021) find no effect, which suggests that institutional investors do not always monitor effectively. Hence:

H4: Institutional ownership affects accounting conservatism.

Joint Effect and Research Framework

The decision to apply conservative accounting is unlikely to depend on a single factor. Debt covenants, operating cash flow, and the ownership structure together shape how firms manage risk and information asymmetry (Fadhiilah & Rahayuningsih, 2022). This leads to the fifth hypothesis, and the relationships are summarized in Pict 1.

H5: Debt covenants, operating cash flow, managerial ownership, and institutional ownership jointly affect accounting conservatism.

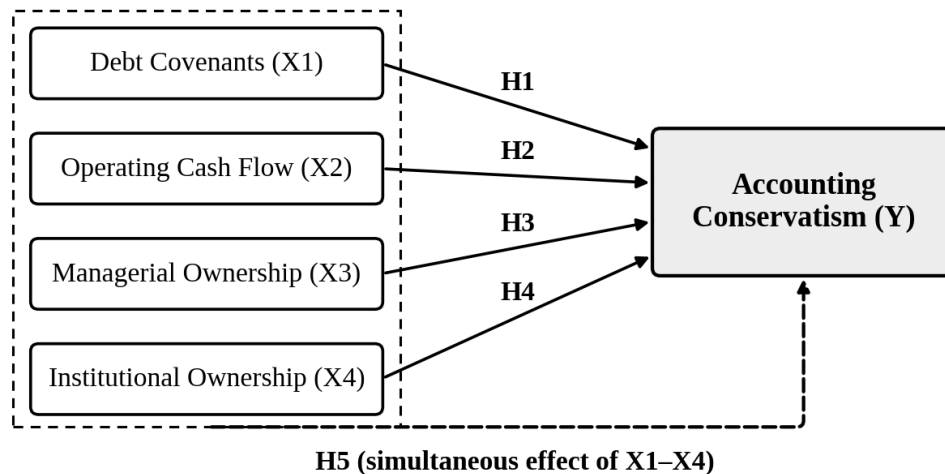


Figure 1. Research framework
Source: author's elaboration, 2025

Method

Research Design and Data

This study uses a quantitative explanatory approach. The data are secondary and were taken from the annual and financial reports of consumer goods manufacturing firms published on the Indonesia Stock Exchange website (www.idx.co.id) and on each firm's official website. The observation period is 2021–2023.

Population and Sample

The population comprises 52 manufacturing firms in the consumer goods sector listed on the IDX. Samples were selected by purposive sampling using five criteria: (1) listed on the IDX in 2021–2023; (2) published financial statements for 2021–2023; (3) earned a profit throughout 2021–2023; (4) disclosed managerial ownership in each year; and (5) disclosed institutional ownership in each year. As shown in Table 1, 13 firms met the criteria, giving 39 firm-year observations. The criteria were applied sequentially, so each exclusion in Table 1 refers to the firms remaining after the previous criterion ($52 - 3 - 10 - 13 - 13 = 13$). Firms that reported zero managerial or institutional ownership were retained as valid observations (the minimum managerial ownership in Table 3 is 0%), whereas firms that did not disclose ownership data in every year were excluded. The profitability criterion removes loss-making firms, which are precisely the firms in which conservative loss recognition would be most visible. The sample is therefore restricted to consistently profitable firms and is subject to selection bias: the estimated associations describe profitable consumer goods firms and cannot be generalized to firms reporting losses. The restriction also narrows the variation in accruals, operating cash flow, and leverage, which may attenuate or distort the estimated

coefficients, and the direction of this bias cannot be determined without data on the excluded firms.

Table 1. Sample selection

No	Criteria	Number
1	Consumer goods manufacturing firms listed on the IDX, 2021–2023	52
2	Firms that did not publish financial statements for 2021–2023	(3)
3	Firms that reported a loss during 2021–2023	(10)
4	Firms that did not consistently disclose managerial ownership in 2021–2023 (missing disclosure; reported zero ownership retained)	(13)
5	Firms that did not consistently disclose institutional ownership in 2021–2023	(13)
Number of sample firms		13
Years of observation		3
Total observations, 2021–2023		39

Source: processed data, 2025

Variable Operationalization

Accounting conservatism (Y) is measured with the accrual-based proxy CONACC, in which a higher value indicates more conservative reporting (Swasti & Meidiyustiani, 2024). Debt covenants (X1) are proxied by the debt-to-assets ratio (DAR), a leverage indicator (Jao & Ho, 2019). Operating cash flow (X2) is cash from operating activities scaled by total assets. Managerial ownership (X3) and institutional ownership (X4) are the percentages of shares held by managers and institutions, respectively. Table 2 summarizes the measurement.

Table 2. Operationalization of variables

Variable	Measurement	Source
Accounting conservatism (Y)	CONACC = [(Net income + Depreciation – Operating cash flow) / Total assets] × (–1)	Swasti & Meidiyustiani (2024)
Debt covenants (X1)	DAR = Total debt / Total assets	Jao & Ho (2019)
Operating cash flow (X2)	OCF = Cash flow from operating activities / Total assets	Swasti & Meidiyustiani (2024)
Managerial ownership (X3)	MO = Managerial shares / Shares outstanding × 100%	Jao & Ho (2019)
Institutional ownership (X4)	IO = Institutional shares / Shares outstanding × 100%	Musbitah & Kusumawati (2024)

Source: processed data, 2025



Data Analysis

The data were processed with SPSS version 25 through descriptive statistics, classical assumption tests, and multiple linear regression (Ghozali, 2018). Normality was tested with the Kolmogorov–Smirnov test, supplemented by the Monte Carlo method when the residuals were not normal. The Monte Carlo option in SPSS does not rely on the asymptotic approximation of the test: it draws repeated random samples of the same size from the hypothesized normal distribution and estimates the p-value from the share of simulated samples whose test statistic is at least as extreme as the observed one, together with a confidence interval for that p-value ([confirm the number of samples and confidence level used; the SPSS default is 10,000 samples at 99%]). Multicollinearity was assessed through tolerance and the variance inflation factor (VIF), heteroskedasticity through the scatterplot of residuals, and autocorrelation through the Durbin–Watson test and the runs test. Because the 39 observations are three annual observations on each of 13 firms, the data have a panel structure and observations from the same firm may be correlated. The model is estimated by pooled ordinary least squares, whose standard errors assume independent observations; the implications for inference are discussed in the limitations. The regression model is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

where Y is accounting conservatism, X1 debt covenants, X2 operating cash flow, X3 managerial ownership, X4 institutional ownership, α the constant, β the regression coefficients, and ε the residual. Hypotheses were tested with the t-test (partial), the F-test (simultaneous), and the coefficient of determination (R^2) at a 5% significance level.

Results and Discussion

Descriptive Statistics

Table 3 presents the descriptive statistics for the 39 observations. On average, 34.46% of the sample firms' assets are financed by debt, operating cash flow is 9.21% of total assets, managers hold 20.29% of shares, and institutions hold 49.32%. Managerial ownership varies widely (0%–65%), and some firms have negative operating cash flow. The mean of accounting conservatism is slightly negative (−0.0178), which indicates that, under the accrual-based measure, conservatism in the sample is relatively low on average.

Table 3. Descriptive statistics

Variable	N	Min.	Max.	Mean	Std. Dev.
Debt covenants (X1)	39	0.03	0.60	0.3446	0.15729
Operating cash flow (X2)	39	−0.06	0.29	0.0921	0.08684
Managerial ownership (X3)	39	0.00	0.65	0.2029	0.21886
Institutional ownership (X4)	39	0.07	0.82	0.4932	0.22188
Accounting conservatism (Y)	39	−0.20	0.23	−0.0178	0.06905

Source: processed data, 2025

Classical Assumption Tests

Table 4 summarizes the classical assumption tests. The Kolmogorov–Smirnov test gave a significance of 0.022, so the residuals were initially not normal. The Monte Carlo significance



of 0.299 does not reject normality, but a nonsignificant result is not proof of normality, and with only 39 observations both tests have limited power. The two tests also disagree, so the residual distribution is not clearly normal; distributional diagnostics such as skewness, kurtosis, and a normal Q–Q plot of the residuals are not reported here and should accompany the test results. Because the t- and F-tests in a small sample rely on approximately normal residuals, the p-values below should be read with caution. Tolerance values are above 0.10 and VIF values below 10, so there is no multicollinearity by the conventional rule of thumb, although the two ownership variables show moderately high VIF values (5.517 and 5.959), which inflate their standard errors by a factor of about 2.3 and 2.4 (the square root of the VIF). The scatterplot shows no clear pattern, indicating no heteroskedasticity. The Durbin–Watson value (1.286) lies between the lower (1.2734) and upper (1.7215) bounds and is therefore inconclusive, so a runs test was applied; its significance of 0.105 shows that the residuals are random and free of autocorrelation.

Table 4. Summary of classical assumption tests

Test	Indicator	Result	Conclusion
Normality	Kolmogorov–Smirnov, Asymp. Sig. (2-tailed)	0.022	Not normal
	Monte Carlo Sig. (2-tailed)	0.299	Normal (> 0.05)
Multicollinearity	Tolerance (range)	0.168–0.816	No multicollinearity (> 0.10)
	VIF (range)	1.226–5.959	No multicollinearity (< 10)
Heteroskedasticity	Scatterplot of residuals	Random pattern	No heteroskedasticity
Autocorrelation	Durbin–Watson (dL = 1.2734; dU = 1.7215)	1.286	Inconclusive
	Runs test, Asymp. Sig. (2-tailed)	0.105	No autocorrelation (> 0.05)

Source: processed data, 2025

Regression Results and Hypothesis Testing

Table 5 reports the multiple regression results. The estimated model is $Y = -0.077 + 0.180X_1 + 0.453X_2 - 0.017X_3 - 0.082X_4$. The F-test gives $F = 3.160$ with a significance of 0.026 (< 0.05), so the four independent variables jointly affect accounting conservatism and H5 is supported. The R^2 of 0.271 (adjusted $R^2 = 0.185$) means the model explains 27.1% of the variation in conservatism, and other factors outside the model explain the rest. The adjusted R^2 of 0.185 indicates modest explanatory capacity: more than 80% of the variation in conservatism is left unexplained. The 95% confidence intervals, computed from the reported coefficients and standard errors ($df = 34$), are wide: 0.036 to 0.324 for debt covenants, 0.171 to 0.735 for operating cash flow, -0.238 to 0.204 for managerial ownership, and -0.308 to 0.144 for institutional ownership. The interval for debt covenants lies close to zero, and the intervals for the two ownership variables include sizeable values of either sign, so the data do not rule out economically meaningful ownership associations. No additional robustness checks are reported, so the coefficients should not be read as precise estimates. Partially, debt covenants

($t = 2.526$, $p = 0.016$) and operating cash flow ($t = 3.251$, $p = 0.003$) have positive and significant effects, so H1 and H2 are supported, whereas managerial ownership ($t = -0.159$, $p = 0.875$) and institutional ownership ($t = -0.741$, $p = 0.464$) are not significant, so H3 and H4 are not supported.

Table 5. Results of multiple linear regression

Variable	B	Std. Error	Beta	t	Sig.	Decision
(Constant)	-0.077	0.077		-1.009	0.320	
Debt covenants (X1)	0.180	0.071	0.409	2.526	0.016	H1 supported
Operating cash flow (X2)	0.453	0.139	0.570	3.251	0.003	H2 supported
Managerial ownership (X3)	-0.017	0.109	-0.055	-0.159	0.875	H3 not supported
Institutional ownership (X4)	-0.082	0.111	-0.265	-0.741	0.464	H4 not supported

Dependent variable: accounting conservatism. $R = 0.521$; $R^2 = 0.271$; adjusted $R^2 = 0.185$; $F(4, 34) = 3.160$, Sig. = 0.026 (H5 supported); $N = 39$.

Source: processed data, 2025

Debt Covenants and Accounting Conservatism

The positive and significant effect of debt covenants supports H1: the higher the share of assets financed by debt, the more conservative the reporting. Firms with heavy debt face closer creditor scrutiny, and recognizing losses promptly while deferring uncertain gains reassures creditors that the funds lent are secure, which is consistent with the signaling argument. This finding agrees with Jao and Ho (2019), Swasti and Meidiyustiani (2024), Safuan (2019), and Tamur (2022), but differs from Iskandar and Sparta (2019), Manulu and Fiana (2023), Suwarti et al. (2020), and Daeli and Sutandi (2023). A possible reason for the difference is that this study measures covenants with the leverage ratio and covers a single sector.

Operating Cash Flow and Accounting Conservatism

Operating cash flow also has a positive and significant effect, so H2 is supported. Firms with good cash management can withstand unstable conditions and make strategic decisions without liquidity worries, which allows them to be more careful in recognizing revenue and quicker in recognizing potential losses. The result is in line with Halim (2021), Swasti and Meidiyustiani (2024), and Susilawati (2023), and contradicts Arisa and Hakim (2021), who found no partial effect in the consumer goods sector. Operating cash flow has the largest standardized coefficient in the model (0.570), making it the most influential determinant in this sample.

Managerial Ownership and Accounting Conservatism

Managerial ownership has no significant effect, so H3 is not supported. Although managers hold an interest in the firm, an average stake of about 20% with large dispersion across firms does not seem enough to motivate them to report more conservatively. The result is consistent with Musbitah and Kusumawati (2024), Baroroh (2022), Fadhiilah and Rahayuningsih (2022), and Safuan (2019), but differs from Jao and Ho (2019) and Hariyanto

(2021), who found a positive effect, and from Kristanti (2020), who found a negative one. Under signaling theory, managerial ownership therefore does not act as an effective signal of prudent reporting among these firms.

Institutional Ownership and Accounting Conservatism

Institutional ownership also has no significant effect, so H4 is not supported. The presence of institutional shareholders, whose average stake is relatively high (49.32%), does not appear to push firms to be more careful in presenting profits and losses. This is consistent with Putra and Satria (2022), Fadhiilah and Rahayuningsih (2022), and Hariyanto (2021), who suggest that institutional investors do not always monitor management effectively, but differs from Tamur (2022), Musbitah and Kusumawati (2024), and Setiawan and Hunein (2024). The VIF values of 5.5–6.0 for the two ownership variables mean that their standard errors are inflated by a factor of about 2.3–2.4, which widens their confidence intervals and lowers the power to detect an association. Both variables are percentages of the same shares outstanding, so some overlap between them is plausible. The nonsignificant results for H3 and H4 should therefore be read as imprecise rather than as evidence of no association. Sensitivity checks that enter each ownership variable separately, or use a combined ownership measure, were not performed here and are needed to establish the stability of these findings.

Joint Effect

The simultaneous significance of the model shows that a firm's conservative accounting policy is shaped by the combined influence of creditor pressure, cash generation, and ownership structure rather than by a single factor (Fadhiilah & Rahayuningsih, 2022). At the same time, the modest explanatory power (adjusted R^2 of 18.5%) shows that conservatism also depends on factors that are not captured by this model.

Conclusion

This study examined the effect of debt covenants, operating cash flow, managerial ownership, and institutional ownership on accounting conservatism in consumer goods manufacturing firms listed on the IDX in 2021–2023. The four variables jointly affect accounting conservatism. Partially, debt covenants and operating cash flow have positive and significant effects, which means that firms facing higher creditor pressure and firms with stronger operating cash flow report more conservatively. Managerial ownership and institutional ownership have no significant effect.

The findings are based on 13 consumer goods firms and 39 firm-year observations and describe associations rather than causal effects, so the implications below are limited to this sample and are not recommendations for reporting policy. For managers and creditors, the results indicate that leverage and operating cash flow move together with more income-decreasing accruals among profitable consumer goods firms; whether adopting more conservative reporting would bring any benefit cannot be concluded from this model. Investors may treat leverage and operating cash flow as contextual information when reading accrual-based earnings in this sector, bearing in mind that part of the cash flow association is mechanical. For regulators, the absence of a significant association for managerial and institutional ownership does not show that ownership structure is irrelevant, given the low precision of these estimates; broader samples are needed before any regulatory inference is drawn.



This study has limitations. It covers only three years, one sector, and 39 observations from 13 firms, uses a single accrual-based proxy that captures income-decreasing accruals rather than asymmetric loss recognition, and explains 27.1% of the variation in conservatism (adjusted $R^2 = 18.5\%$). The sample is restricted to firms that were profitable in all three years, which excludes loss-making firms and may bias the estimates. The model is estimated by pooled OLS and treats the 39 firm-years as independent although they are repeated observations on 13 firms, so standard errors may be understated; with only 13 firms, firm-clustered standard errors alone would also be unreliable, and panel specifications (fixed or random effects) or small-sample-corrected clustered or bootstrap inference are needed. Residual normality is not firmly established, the ownership variables show moderately high collinearity, and no robustness checks are reported. In addition, operating cash flow is part of the CONACC measure, which links the two variables mechanically. Future research should extend the observation period and sectors, include loss-making firms, use panel estimators and alternative ownership specifications, consider macroeconomic conditions and regulation, add variables such as board of commissioners structure, disclosure level, corporate social responsibility, or audit quality, and use alternative measures of conservatism, including asymmetric-timeliness measures, and more varied methods to capture longer-term dynamics

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