Managerial Ability and Convergent Interest on Accounting Conservatism: Internal Control Quality as a mediator

Lisa Kartikasari, Anis Chariri and Fuad

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References

18**The higher the** capacity **of the** manager, **the higher the company's**

chances to implement accounting conservatism. According to Haider et al. (2021), the positive effect of managerial ability on accounting conservatism has two interpretations.

9**First, high-ability managers use their exceptional skills and expertise to** apply conservatism **accounting**

according to their

7**efficient contracts. Second, high-ability** managers **follow conservatism to** maintain reputation **and future careers**

. They receive incentives and increased compensation for their performance. Furthermore,

1**high-ability managers apply** higher **levels of accounting conservatism**. They report losses **in**

the

14**financial statements** with **the** expectation **of the company's**

Nia (2021) but different from those of Kim et al. (2021). Convergent interest positively affects internal quality control. It indicates that the manager's long tenure as a proxy of the variable convergent interest motivates decision-making that aligns with the shareholders' interests. It supports the public disclosure of internal control information. Convergent interest supports the managerial duties and responsibilities, including achieving internal quality control. The longer the manager's tenure, it will encourage the decision-making that aligns

5**the interests of managers and shareholders to** support **the** internal control **information** disclosure to **the**

public.The findings follow the bonding approach of agency theory to prevent problems. There is a management binding program to align their interests with the shareholders. Schoepfer (2007) determined that longer tenure managers are less likely to commit violations because financial misstatements reflect weak internal control. These results align with Wertheim et al. (2016) but are different from Lin et al. (2014). Convergent interest positively affects accounting conservatism. Managers with long tenures apply accounting conservatism principles in line with the company owners. Managers with long tenures reputation awareness prevent deviant accounting practices and apply accounting conservatism. The longer the manager's term, the more knowledge of the company's goals align with the company owner's interests. The owners maximize the firm value through quality financial reports and applying conservative accounting principles. Hsu et al. (2017) suggested that the longer the manager's term, the more conservative accounting principles applied for effective cash flow performance. The fifth hypothesis stated that internal quality control positively affects accounting conservatism. Goh and Li (2011) stated that internal control disclosure items affect the company's decision to apply the accounting conservatism principle. The management uses internal control to minimize agency costs (

8**Hooghiemstra et al., 2015**). Companies **with** internal **quality** controls **understand the** conservatism **role in contracting and reducing agency conflicts**

(Ji et al., 2016). An effective internal control system supports timely recognition of losses. Therefore, a strong internal control system motivates the application of accounting conservatism in the company's financial statements. An effective internal quality control system encourages a good internal control culture that increases companies understanding of accounting conservatism benefits. According to

8**Goh and Li (2011) and Mitra et al. (2013**

), internal quality control facilitates accounting conservatism. In contrast, weak internal control prevents timely loss recognition. Weak internal controls result in inaccurate information and cannot recognize losses promptly, reducing accounting conservatism (Yin et al., 2020). For example, the accounting staff incorrectly estimates future assets cash flow such as goodwill and fixed assets or incorrectly identifies future cash flow reductions that would enable earlier recognition of losses.

3**Sobel Test Model Direct & Total Effect Indirect Effect**

MA→BTM .4132** .3751 MA→ICQ .3780** .421 ICQ→BTM by controlling MA Variable .1254** .4278 MA→BTM by controlling ICQ Variable .2314** .2519 MA→BTM through ICQ .0969** Bootstrap result for the

3**indirect effect: 2**.4125** **Variance Accounted (VAF) for by indirect effect**

20% No mediation.

3**Source: The Processed Secondary Data** (2021) **Table** 3 shows the **Sobel test** that indicates the **direct and total effect**

1**of managerial ability** (MA) **on accounting conservatism** (BTM) is **0**

.4132 and on internal control quality (ICQ) is 0.3780. The direct and total effect of internal control quality (ICQ) on accounting conservatism (BTM) through managerial ability (MA) as the mediating variable is 0.1254, wthe managerial ability (MA) variables

6**on accounting conservatism** (BTM) using **internal control quality** (ICQ) **as** the **mediator**

is 0.2314. In the direct effect, managerial ability (MA) on accounting conservatism (BTM) through internal control quality (ICQ) is recorded as 2.4125. The VAF value of 0.4651 designates internal control quality (ICQ) as a partial mediator between managerial ability (MA) and accounting conservatism (BTM). However, all the values are at a significant level of 5%.

3**Sobel Test Model Direct & Total Effect Indirect Effect**

CI→BTM .8137** .5671 CI→ICQ .0821** .1923 ICQ→BTM by controlling CI Variable .4810** .8147 CI→BTM by controlling ICQ Variable .1824** .2298 CI→BTM through ICQ .0395** Bootstrap result

3**for indirect effect: 2**.7890 **Variance Accounted (VAF) for by indirect effect**

: .3828 Table 4: Sobel Test Results for Convergent Interest, Internal Control Quality and Accounting Conservatism

3**Notes: **p < 0**.05 **Variance Accounted (VAF): > 80% full mediation, 20% ≤ VAF ≤ 80% Partial Mediation, VAF < 20% No mediation. Source: The Processed Secondary Data**

(2021)

3**Table 4 shows the Sobel test and** indicates that **the direct and total effect of** convergent interest (CI) **on**

accounting conservatism (BTM) is 0.8137 and on internal control quality (ICQ) is 0.0821. The direct and total effect of internal control quality (ICQ) on accounting conservatism (BTM) through convergent interest (CI) as the controlling variable is 0.4810. The convergent interest (CI) variable

6**on accounting conservatism** (BTM) using **internal control quality** (ICQ) **as** the **mediator**

is 0.1824. In the direct effect,

6**convergent interest** (CI) **on accounting conservatism** (BTM) through **internal control quality**

(ICQ) is 2.7890. The VAF value of 0.3828 indicates that internal control quality (ICQ) was a partial mediator between convergent interest (CI) and accounting conservatism (BTM). However, all the values were at a significant level of 5%. 7. Conclusion This study examined the relationship between managerial ability, convergent interest, internal quality control, and accounting conservatism. The results showed that internal quality control mediates

9**between managerial ability and** convergent interest with **accounting conservatism. High-ability managers**

enhance internal quality control through public disclosure of internal control to facilitate accounting conservatism. The manager's and shareholder's convergent interests support internal quality control for timely loss recognition. Therefore, a strong internal control system motivates the application of accounting conservatism in financial statements. An effective internal quality control system will create good internal control culture to increase companies understanding of accounting conservatism benefits. This was the first study to examine a comprehensive model between managerial ability, convergent interest, internal quality control, and accounting conservatism. It added to the accounting conservatism literature and determinants. Furthermore, it established

7**implications for regulators, shareholders, and stakeholders to assess** managerial **ability**

through financial statements. In addition, our research has

1**implications for investors and other stakeholders in assessing managerial ability** and convergent interest **when**

applying

1**accounting conservatism** to **financial statements or when making efficient contractual arrangements with managers**

. For regulators, this research can have implications for issuers in the capital market to encourage accounting conservatism. Accordingly,

20**the quality of internal control will** increase through **the** disclosure **of internal**

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