

The Analysis of Impact of Conditional Conservatism to Investment-Cash flow Sensitivity with Agency Cost As Moderating Variable

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Abstract: *This research aims to give empirical evidence that conditional conservatism could decrease company's investment-cashflow sensitivity, and that decrease is strongest in high agency cost firms rather than low agency cost firms. Another empirical evidence that this research is trying to give is before the implementation of conditional conservatism, high agency cost firms have greater investment-cashflow sensitivity than low agency cost firms. Unlike prior research, this research uses dividend payout ratio as the measurer of agency cost. The test was done by using linear regression on sample selected by using purposive judgement sampling. The result shows that as the recognition of economic losses becomes more timely, the sensitivity of firm investment to cashflow decreases. Conditional conservatism decreases investment-cashflow sensitivity in low agency cost firms but increases the sensitivity in high agency cost firms. In fact, before implementation of conditional conservatism, high agency cost firms have smaller investment-cashflow sensitivity compared to the low agency cost one.*

Keywords: *conditional conservatism, investment-cashflow sensitivity, agency cost, dividend payout ratio, purposive judgement sampling*

1. Introduction

1.1 Background

Prior studies in the field of accounting have proven that the quality of accounting information influences company's value (Healy and Palepu, 2001; Bushman and Smith, 2001; Easley and O'Hara, 2004; Lambert et al., 2007; Lara et al., 2009). This statement stimulates our logic to questioning about what kind of quality that could increase company's value. The quality of accounting information, which is reflected in the financial statements, is shown through many ways of reporting. There are many differences in the way of how accounting is done. One is the principle underlying the procedures for making it. One accounting principle that is considered to have a big influence in book keeping methodology is conservatism. Conservatism in accounting is a concept where the increase in

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the value of assets or income are not easily recognized. Conservatism can also be defined as a tendency which is owned by an accountant who requires a higher level of verification to recognize profit (good news in earnings) compared to admit losses (bad news in earnings) (Basu, 1997).

Guay and Verrecchia (2007) and Suijs (2008) state that conditional conservatism could increase company's value, by increasing the ability to get cheaper cost of external capital. In addition, conditional conservatism also facilitates company's monitoring function that makes a company with conditional conservatism has the advantage in its governance (Lafond and Watts, 2008). Jensen (1986) then stated that conservatism is a mechanism that in ex-ante controls management investment decisions and in ex-post facilitates monitoring function of those decisions. Before investing, manager will tend to avoid having a negative NPV project, knowing that conservatism can easily record a loss on that investment. After running investment projects, the results of conservative accounting will make the assessment of management performance becomes more effective.

In determining the amount of investment activity, company will see the availability of internal funds (usually proxied by the amount of cash flow from operations) in advance. If it is not sufficient, company then will consider seeking additional funding from external parties (Stiglitz and Weiss, 1981; Myers and Majluf, 1984). An "ease" in obtaining external funding makes the determination of company's investment activities is less dependent to its internal fund, so they could make investment activities more efficient. In the realm of corporate finance literatures, investment activity level of dependence on the existence of internal fund is called the sensitivity of investment to internal funds (investment-cash flow sensitivity). This sensitivity shows company's ability to obtain external funding (Kaplan and Zingales, 1997; Hubbard, 1998; Imhof, 2014). The lower the sensitivity shows that corporate investment activities could be funded not only from internal funds, but also from external funds (Fazzari, Hubbard, and Peterson, 1988).

There are factors that correlated with the magnitude of sensitivity, one of which is company's agency cost. Sensitivity will be greater (smaller) when asymmetry information is high (low) between managers and investors, indicated by higher (smaller) agency cost (Jensen, 1986 in Imhof, 2014). When the agency cost is relatively high, company will be more difficult to obtain external financing because of the high cost of external capital set by the investors / creditors, thus, the amount of internal

funds available will be very influential to predict company's investment activities (high investment-cash flow sensitivity) (Imhof, 2014).

Conditional conservatism could reduce the level of company's cost of external capital (Guay and Verrecchia, 2007; Suijs, 2008). Lower cost of external capital will enable company to obtain external funding much easier, so that investment activity is not overly dependent on the availability of internal funds. Referring to this idea, i believe that (1) the conditional conservatism can reduce this level of sensitivity (dependence). Furthermore, the risk assessment by capital providers is influenced by the amount of agency cost (Arugasian, deMello, and Saini, 2014). The amount of agency cost indicates the level of information asymmetry that is trying to be mitigated by the company. The greater (the smaller) agency cost, the greater (the smaller) the risk and return expected by capital providers. The greater (the smaller) the risk and expected return, the greater (the smaller) the cost of external capital to be paid by the company. Cost of external capital which is quite expensive (cheap) difficult (facilitates) the company to obtain additional funding from external sources when investing. As a result, the amount of investment made by the company is very dependent (not dependent) on the amount of internal funds, as indicated by higher (lower) investment-cash flow sensitivity (Imhof, 2014). According to that statement, i believe that (2) the level of investment-cashflow sensitivity for companies with higher agency cost is greater than companies with lower agency cost. Finally, in addition to its ability to reduce the cost of external capital, higher conditional conservatism is also able to improve the quality of corporate governance (Lafond and Watts, 2008; Imhof, 2014). This makes me believe that (3) the effect of conditional conservatism in lowering the investment-cash flow sensitivity is stronger in companies that also have problems in governance (high agency cost firm) and weaker in companies that already have a good governance mechanism (low agency cost firm) .

This study replicates Imhof's (2014) research entitled "conditional conservatism, agency cost, and the cash flow sensitivity of investment firm", where the study was conducted with samples of firms in the United States which has more diffused ownership structure, thus, the context of the agency problem is more directed to the conflict between shareholders and management. While in Indonesia, most companies have concentrated ownership structure so that the agency problem is more directed to the conflict between the minority shareholders and majority shareholders (who are usually

relatives) plus management. I implement this difference by using different proxy compared to the one that Imhof (2014) used when measuring agency cost.

The aim of this study are: (i) to determine whether conditional conservatism could decrease the sensitivity of corporate investment activities to the availability of internal funds; (ii) to determine whether the sensitivity of company's investment activities to its internal fund is higher for companies with relatively high agency cost and lower for firms with relatively low agency cost; (iii) to determine whether the effect of conditional conservatism to reduce investment-cashflow sensitivity is greater for firms with relatively high agency cost and smaller for firms with relatively low agency cost.

This study is expected to provide benefits for the development of science, regulatory, and financial practitioners. For the development of science, this study is expected to show whether the impact of conditional conservatism to investment-cashflow sensitivity in Indonesian companies, which is more bank based, will be different from the impact on US companies, which is more market-based. In addition, this study may add to the list of studies on the impact of agency cost in Indonesia to company's value that is reflected in the flexibility of funding sources in investing. For regulators, the study is expected to demonstrate the benefits of the application of conditional conservatism to increase the company's value so that it can be a useful input related to the development of the quality of accounting standards in Indonesia. And for financial practitioners, this study is expected to provide a comprehensive understanding on conditional conservatism and its impact on the company's flexibility in determining the source of funding when investing.

This study is divided into five sections. The first part contains an introduction that will discuss the background of writing, research objectives, and scope. The second part contains the basic theory and hypothesis development. While the third section will discuss the research methodology that addresses the selection of samples, empirical models used, the operationalization of variables, as well as testing the model. Then in the fourth section i will discuss the results of this study. Finally, in section five i will discuss the conclusions, limitations, and potential for future research.

2. Theoretical Framework and Hypotheses Development

2.1 Conditional conservatism with Cost of Capital & Governance's Monitoring Function

Guay and Verrecchia (2007) and Suijs (2008) state that conditional conservatism could increase company's value, by increasing the ability to get cheaper cost of external capital. Commitment to recognize losses in a timely manner (conditional conservatism) causes management to disclose information more thoroughly. It reduces the uncertainty in financial reporting, lowering the risk of the company in the eyes of investors and creditors, and facilitate access to external financing at relatively low cost. In addition, conditional conservatism also facilitates monitoring function that can mitigate information asymmetry. This makes the company with conditional conservatism has advantages in its governance (Lafond and Watts, 2008). As the impact of good governance on the application of conditional conservatism, the manager will tend to avoid having a negative NPV project knowing that conservatism can be easily record a loss on that investment. After running investment projects, the results of conservative accounting will make an assessment of the management performance becomes more effective (Jensen, 1986).

2.2 Investment-Cashflow Sensitivity

Investment-cash flow sensitivity is an indicator to see the level of dependence (sensitivity) of investment activities on the availability of internal funds. One interpretation of the magnitude of this sensitivity could demonstrate the company's ability to obtain external funds when investing. The smaller (larger) sensitivity, the more capable (not capable) companies to get external funding for investment activities (Myers and Majluf, 1984; Fazzari, Hubbard, and Peterson, 1988; Hubbard, 1998; Moyen, 2004; Bushman, Smith, and Zhang 2011; Imhof, 2014). Fazzari, Hubbard, and Peterson (1988) in Moyen (2004) conducted a study related to the sensitivity of investment-cash flow from operations and categorizes companies based on their financial constraints (funding constraints). The amount of financial constraint is determined by the magnitude of the cost of external capital. The greater cost of external capital, the greater the resistance. The results showed that companies with the category of most constrained (relatively higher financing obstacles) has a higher sensitivity of

investment-cashflow from operations than the company in least constrained (relatively lower funding constraints) category.

2.3 Agency Cost

Agency conflict is divided into three types (Godfrey et al., 2010). Type one explains the conflict between shareholders and management. Type two explains the conflict between majority shareholder plus management versus minority, and type three explains the conflict between shareholders and creditors. In Indonesia, mostly, conflict occurs between the majority shareholder (plus management) and minority shareholders. In this condition, dividend is regarded as a more efficient mechanism for measuring agency problems (Rozeff, 1982; Gugler and Yurtoglu, 2001). For the fear of minority shareholders will sell shares in a lower price as a result of the expropriation that happened, the majority shareholder and management tend to give higher dividends as a form of anticipation (Rozeff, 1982; Gugler and Yurtoglu, 2001). On the other hand, the management and the majority shareholder in the company with a relatively low agency problem is not alarming minority shareholders to do so, so that, dividends tend to be smaller (Rozeff, 1982; Gugler and Yurtoglu, 2001).

2.4 Hypotheses Development

2.4.1 Conditional conservatism & Investment-Cashflow Sensitivity

Conditional conservatism, through conditional conservatism, is an accountant tendency to be more careful in recording revenue and more timely in recognizing expense. This tendency caused management to disclose information more thoroughly and reliably, so that the accounting information is more qualified. It reduces the uncertainty in financial reporting, lowering the risk of the company in the eyes of investors and creditors, and facilitate access to external financing at relatively low cost. In line with the statement, Guay and Verrecchia (2007) and Suijs (2008) state that conditional conservatism reduce the cost of external capital. Relatively low cost of external capital will enable the company to take external funds as a source of funding for investment activities. This ease makes the company less dependent on the availability of internal funds to invest (Imhof, 2014). This situation is illustrated by the relatively small investment-cash flow sensitivity after implementation of conditional conservatism. Referring to the idea, i formulate a hypothesis that:

H1. *The conditional conservatism has a negative impact on investment-cashflow sensitivity*

2.4.2 *Sensitivitas Investment-Cashflow dan Agency Cost*

There are other variables that may be related to the amount of sensitivity. The variables in question is the amount of agency cost (Imhof, 2014). Risk assessment by the capital provider is influenced by the amount of agency cost (Arugasian, deMello, and Saini, 2014). The amount of agency cost indicates the level of information asymmetry that is tried to be mitigated by the company. The greater (smaller) the agency cost, the greater (smaller) its risk assessed and return expected by capital providers. The greater (smaller) the risk and expected return, the greater (smaller) the cost of external capital to be paid by the company. Cost of external capital which is quite expensive (cheap), difficult (facilitates) the company to obtain additional funding from external sources when investing. As a result, the amount of investment made by the company is more dependent (not dependent) on the amount of internal funds, as indicated by the investment-cash flow sensitivity that relatively large (small) (Imhof, 2014). Based on these explanations, the hypothesis:

H2. *Investment-cash flow sensitivity of companies that have high agency cost is greater than the companies that have lower agency cost*

2.4.3 *The Agency Cost Moderating Effect on Conditional conservatism Impact to Investment-Cashflow Sensitivity*

Companies with relatively high agency problems have problems in its governance. Lack of good governance made the asymmetry of information tends to be high, so that the company more vulnerable to adverse selection and moral hazard. This situation forced the principal to issue a greater cost as a form of mitigation to the asymmetry of information, which is reflected in the amount of agency cost. Conditional conservatism in this case is considered to become a solution to this situation because it can accommodate an effective oversight function in corporate governance (Lafond and Watts, 2008). In firms with poor governance problem, which is characterized by the magnitude of agency cost, the impact of conditional conservatism will be stronger in reducing sensitivity. The reason is, when the adoption of conditional conservatism on high agency cost firm in addition could lower the cost of capital, it also improves the function of corporate governance. This makes the

owners of capital will provide a higher appreciation when firms with poor governance (high agency cost firm) implement conditional conservatism compared to the application of the same thing in company that already has a good governance (low agency cost firm) (Imhof, 2014). Form of appreciation is the ease of being able to get external funds when companies want to invest, or in other words, a lower investment-cash flow sensitivity. From these arguments, the hypothesis is built:

H3. *Negative influence of conditional conservatism to investment-cashflow sensitivity will be greater for firms with higher agency cost rather than firms with lower agency cost*

3. Research Methodology

3.1 Data Sources & Sample Selection

The data used in this research is secondary data obtained through Thomson Reuters and DataStream. Sampling is done by purposive sampling method. Criteria used in selecting samples are as follows: (i) the Company listed on the Indonesia Stock Exchange during 2008 to 2012; (ii) The Company is engaged in the manufacturing industry; (iii) the company has positive equity value (iv) there is completeness of the data required in a row from 2008 to 2012.

3.2 Research Model

This study aimed to examine the effect of conditional conservatism in reducing the investment-cash flow sensitivity in Indonesia. It also wanted to test whether the effect will be stronger for firms with relatively large agency cost and weaker in companies with relatively small agency cost. To test these predictions I use ordinary least squares regression which is based on Imhof (2014). The dependent variable of this study is the investment-cash flow sensitivity. In measuring the sensitivity, I regress the amount of investment companies (INV) on cash flow from operations (CFO) and Tobin's Q (a proxy for measuring the level of investment opportunities) as well as the size, the prior annual stock return and the previous year's investment value as a control variable. It is based on Imhof (2014). The magnitude of the coefficient attached to the CFO (β_1) shows the magnitude of the investment-cash flow sensitivity. To better understand the relationship between investment and cash flow, I control the amount of the firm's growth opportunity by using Tobin's Q (1969) according to

Imhof (2014). The greater the value of Tobin's Q, the more promising outlook for investment companies so that managers tend to be more likely to invest in new projects (Imhof, 2014). There are differences between my regression model and Imhof's (2014). In a regression model that I use, I put the dividend out of models. This is done because I use the amount of dividends (through dividend payout ratio) as a proxy for my moderating variables, namely the company's agency cost.

Independent variable in this study is the application of conditional conservatism, or in other words the application of conditional conservatism. I use Givoly and Hayn (2000) model in measuring conditional conservatism. Givoly and Hayn (2000) measures conservatism with the average amount of the company's accrual, which is derived from net income minus the cash flow from operations, for three years with a median value in period t , multiplied by negative one to ensure that the positive value indicates higher conservatism (the result of this formula is denoted by CONS). In a conditional conservatism testing to lowering the investment-cash flow sensitivity, I interact operating cash flow (CFO) with conditional conservatism (CONS) into the regression model of investment-cash flow sensitivity previously described. Because conditional conservatism is believed to have a negative effect on investment-cash flow sensitivity, I predict the magnitude of this interaction (CFO*CONS) will be negative and statistically significant (Imhof, 2014).

Moderating variable in this study is the magnitude of agency cost. I use the amount of dividends to measure the agency cost. From the magnitude of the results of these measurements, I will divide companies into two classifications. Classification is divided by the level of agency cost (expressed in notation AGENCY) as measured by the dividend payout ratio. Variable agency cost is treated as a dummy. Company with AGENCY below the mean value of industry-year classified as a company with lower agency cost and coded 0, while companies with AGENCY above the-year mean value of the industry classified as a company with high agency cost (coded 1). I will interact this variable with some of the variables that exist in the model to eliminate a criteria / conditions which is undesirable, and at the same time testing the desired criteria.

To get a more specific description on the amount of conditional conservatism's negative influences on the investment-cash flow sensitivity, this study uses firm size (SIZE), prior annual stock return (RET_{it-1}), as well as the previous year investment value of (Inv_{it-1}) as control variables. Size

(SIZE) may affect the magnitude of the company access to sources of external funding, thus affecting the sensitivity of its investment-cash flow (Gurgler et al., 2000, in Imhof, 2014). In the regression model of investment that has been described previously, I estimate a positive relationship between firm size and investment activities. As a further control variables, I use the prior annual stock return (RET_{it-1}). My argument is based on the argument of Lamont (2000) and Richardson (2006) in Imhof (2014) that the stock return has the information related to the company's growth prospects which is not caught in the measurement of Tobin's Q.

Based on the explanation above, for each hypothesis I will use these research models as follows:

(1) Model 1 : Investment-cash flow sensitivity, the early testing (Hypothesis 1)

$$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 Q_{it} + \beta_3 SIZE_{it} + \beta_4 RET_{it-1} + \beta_5 INV_{it-1} + \epsilon_{it}$$

Where :

INV_{it} : The value of firm i investment in period t

CFO_{it} : *Operating cash flows* of firm i in period t

Q_{it} : The value of firm i investment opportunity (Tobin's Q) in period t

SIZE_{it} : The size of firm i in period t

RET_{it-1} : *Annual stock return* of firm i in period t-1

INV_{it-1} : The value of firm i investment in period t -1

The main expectation of this model 1, in accordance with the interpretation of hypothesis 1, is: $\beta_1 > 0$.

(2) Model 2 : The testing on the negative influence of conditional conservatism on investment-cash flow sensitivity (Hypothesis 1)

$$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 CONS_{it} + \beta_3 CFO_{it} * CONS_{it} + \beta_4 Q_{it} + \beta_5 SIZE_{it} + \beta_6 RET_{it-1} + \beta_7 INV_{it-1} + \epsilon_{it}$$

Where :

INV_{it} : The value of firm i investment in period t

CFO_{it} : *Operating cash flows* of firm i in period t

CONS_{it} : The amount of conditional conservatism firm i in period t

Q_{it} : The value of firm i investment opportunity (Tobin's Q) in period t

SIZE_{it} : The size of firm i in period t

RET_{it-1} : *Annual stock return* of firm i in period t-1

INV_{it-1} : The value of firm i investment in period t -1

The main expectation of this model number 2, according to the interpretation of hypothesis 1, is:
 $\beta_3 < 0$ Magnitude CONS obtained from measurements of conditional conservatism company using the model Givoly and Hayn (2000).

(3) Model 3: The Correlation testing of agency cost and investment-cash flow sensitivity (Hypothesis 2)

$$INV_{it} = a_{it} + \beta_1 CFO_{it} + \beta_2 AGENCY_{it} + \beta_3 AGENCY_{it} * CFO_{it} + \beta_4 Q_{it} + \beta_5 SIZE_{it} + \beta_6 RET_{it-1} + \beta_7 INV_{it-1} + \epsilon_{it}$$

Where :

INV_{it} : The value of firm i investment in period t

CFO_{it} : *Operating cash flows* of firm i in period t

AGENCY_{it} : The value of firm i *agency cost* in period t

Q_{it} : The value of firm i investment opportunity (Tobin's Q) in period t

SIZE_{it} : The size of firm i in period t

RET_{it-1} : *Annual stock return* of firm i in period t-1

INV_{it-1} : The value of firm i investment in period t -1

The main expectation of this model number 3, according to the interpretation of hypothesis 2, is:
 $\beta_3 > \beta_1$.

(4) Model 4: The testing of agency cost moderating effect on the impact of conditional conservatism to investment-cashflow sensitivity (Hipotesis 3)

$$INV_{it} = a_{it} + \beta_1 CFO_{it} + \beta_2 CONS_{it} + \beta_3 CFO_{it} * CONS_{it} + \beta_4 AGENCY_{it} + \beta_5 CFO * AGENCY_{it} + \beta_6 CFO_{it} * CONS_{it} * AGENCY_{it} + \beta_7 Q_{it} + \beta_8 SIZE_{it} + \beta_9 RET_{it-1} + \beta_{10} INV_{it-1} + \epsilon_{it}$$

Where :

INV_{it} : The value of firm i investment in period t

CFO_{it} : *Operating cash flows* of firm i in period t

CONS_{it} : The amount of conditional conservatism firm i in period t

AGENCY_{it}: The value of firm *i* *agency cost* in period *t*

Q_{it} : The value of firm *i* investment opportunity (Tobin's Q) in period *t*

SIZE_{it} : The size of firm *i* in period *t*

RET_{it-1} : *Annual stock return* of firm *i* in period *t-1*

INV_{it-1} : The value of firm *i* investment in period *t-1*

The main expectation of this model 4, according to the interpretation of hypothesis 3, are: $\beta_6 < \beta_3$.

Operationalization of the variables used can be seen in Table 1 Appendix 1.

3.3 Model Testing

The models above will be estimated using OLS regression with pooled data. In this test, I also test the fulfillment of BLUE (Best Linear Unbiased Estimate) assumptions where the model must meet the assumption of normally distributed, no heteroscedasticity, and no multicollinearity. Tests carried out using STATA statistical software 12 to obtain estimation of the value of models parameter.

4. Results

4.1 Descriptive Statistic

This study uses sample of manufacturing companies listed in Indonesia Stock Exchange during the period 2008-2012. The number of companies that are used as sample totaling 113 companies with 474 company years, which 152 of the samples is classified as high agency cost firms and 322 sample as low agency cost firms. Characteristics of the sample can be seen from Table 2 in Appendix 2, and the results of the descriptive statistics in Table 3, Appendix 2. From Table 3 it can be seen that the average value of the variable conditional conservatism (CONS) is 0.0048 with an average CONS for groups firms with high agency cost is lower when compared with low enterprise agency cost (0.0019 and 0.0061). It shows that the average low agency cost company in Indonesia manufacturing industry is more conservative than the average high agency cost company. In addition, the variable investment (INV) has an average value of 0.0587 with an average INV to a group of companies with high agency

cost is higher than the company its low agency cost (0.0706 and 0.0531). This shows that the Indonesian manufacturing industry, the average company of high agency cost invest more in capital expenditure (CAPEX) compared to the average low agency cost company.

4.2 The Analysis of Impact of Conditional conservatism to Investment-Cashflow Sensitivity

To investigate and analyze the influence of conditional conservatism on investment-cash flow sensitivity, then i tested the hypotheses using regression equations described in Model 1 and 2. The Model 1 test results can be seen in Table 4 in Appendix 2.

Based on Table 4 it can be seen that the adjusted R Square for research model 1 is 0.2968. These result indicates that 29.68% of the variation amount of the investment company can be explained by the independent variables in the model, and the rest is explained by other variables. While the F test shows that overall independent variables in the model significantly influence the dependent variable.

Based on t test model 1, the independent variables CFO has a probability value of t-statistic of 0.0010 with a coefficient of 0.0422 or $\beta_1 > 0$. That is, the variable CFO has a significant positive effect on the level of confidence of 99% on the dependent variable INV. CFO positive correlation coefficient indicates a dependence (sensitivity) of investment activity on the availability of internal funds. While significant control variable is SIZE (with a significance level of 10%), returnt-1 (with a significance level of 1%), and INVT-1 (with signifikansi 1% level).

CFO variable has a probability of significant t-statistic with a positive correlation. This is consistent with the prediction that there is a positive relationship between the CFO with INV. Interpretation of the results shows that investment activity does have a positive dependency (sensitivity) for the presence of internal funds. The test results are consistent with research models Stiglitz and Weiss (1981), Myers and Majluf (1984), Kaplan and Zingales (1997), Hubbard (1998), and Imhof (2014).

Q insignificant effect on the level of investment the company shows that the company's investment activities in Indonesia's manufacturing industry is influenced by factors other than the company's opportunity to invest (as measured by Tobin's Q). These factors such characteristics of the company (one of them the size of the company), its performance in the capital markets, as well as

investing activities in the previous year. Size as one of the characteristics of the company has a significant positive effect on the size of the investment company. These results are in line with the statement Gurgler et al. (2000) that the size of the company affect its access to external funding, and then affects the investment-cash flow sensitivity (Imhof, 2014). Prior annual stock return has a significant positive effect on the size of the investment company. This is similar to Lamont (2000) and Richardson (2006) which states that the value of the prior stock return affect the future value of an investment company for storing information related to the company's growth prospects are not explained in Q. The projection of the amount of investment company that will do in the future is not will be far away from his past investment value. This makes the variable INVT-1 has a large positive effect (0.4485) and significant at the 1% level to variable INV.

The results of model 1 indicates the existence of investment activities dependence (sensitivity) on the existence of internal funds. To test hypothesis 1 i will regress model 2 which already included the effect of CONS. The test results of model 2 can be seen in Table 5 in Appendix 2.

Based on Table 5 it can be seen that the adjusted R Square for model 2 is 0.3177. These result indicates that after being combined with CONS variables, 31.77% of the variation amount of the investment company can be explained by the independent variables in the model and the rest is explained by other variables. While the F test shows that the overall independent variables in the model significantly influence the dependent variable. Based on this model 2 t test, it can be seen that the CFO * NEG (as my hypothesis testing variable) has a probability value of t-statistic of 0.0030 (significant at 1%) with a coefficient of -0.1064 or $\beta_3 < 0$. This shows that the magnitude of the positive influence of the CFO to INV shown in model 1 will be negative with a coefficient of -0.1064 after interacted with CONS. In other words, CFO coefficient which shows the sensitivity of investment-cashflow will be dropped after being interacted with CONS. Control variables used in the model 2 is still having similiar direct result of t test on the coefficients and their significance to the results of the test model 1.

The test results of model 2 in Table 5 shows that the variable CFO * NEG has a t-statistic probability of a significant negative correlation coefficient. This correlation coefficients is consistent with my prediction. This indicates that the first hypothesis which states "conditional conservatism will

decrease the sensitivity of investment-cash flow" is acceptable. Interpretation of the results of the testing of this model indicates that companies that implement conditional conservatism of higher will have a lower dependence on internal funds when investing. These result is consistent with Imhof (2014) who said the same thing.

Explanation for this situation can be expressed as follows: conditional conservatism or conditional conservatism is considered as an accountant tendency to be more careful in recording revenue and more timely in recognizing loss. This tendency is causing management to disclose information more thoroughly and reliably, so that the accounting information to be more qualified. It reduces the uncertainty in financial reporting, lowering the risk of the company in the eyes of investors and creditors, and facilitates access to the external cost of capital with relatively low cost (Guay and Verrecchia, 2007; Suijs, 2008). Relatively low cost of external capital will enable the company to obtain external funding as a source of funding for investment activities, so, the company becomes less dependent on internal funds when investing (Imhof, 2014). This situation is illustrated by the relatively low level of investment cash flow sensitivity.

4.3. Correlation Analysis of Agency Cost with Investment-Cashflow Sensitivity

Furthermore, to investigate and analyze the correlation of agency cost with investment-cash flow sensitivity level, then i tested my prediction using regression equations described in Model 3 above. Model 3 test results can be seen in Table 6 in Appendix 2.

Based on Table 6 it can be seen that the adjusted R Square for research model 3 is 0.2976. These result indicates that 29.76% of the variation amount of the investment company can be explained by the independent variables in the model, and the rest is explained by other variables. While the F test shows that overall independent variables in the model significantly influence the dependent variable.

From the results of the t test in this model 3, CFO has a probability value of t-statistic of 0.0005 with a coefficient of 0.0485 or $\beta_1 > 0$. This means CFO variables have a significant positive effect on the dependent variable INV. AGENCY variable has a magnitude coefficient of 0.0038 but not significantly. This is indicating that the positive effect of AGENCY does not have a significant impact on the amount of investment companies in this study. In model 3, my tool to test the hypothesis 2 is the magnitude of the variable coefficient AGENCY * CFO (β_3). I believe that the coefficient

AGENCY*CFO will be positive, greater than CFO coefficient (β_1), as well as significant. If you look at the results in Table 5, it is seen that the variable coefficient AGENCY*CFO is -0.0418 and is at 10% significance level. These results indicate that this variable is significant, but the correlation coefficient is negative and (of course) is smaller than the coefficient of CFO. Negative correlation coefficient indicates that this variable has the opposite direction from my hypothesis. In short, if interacted with AGENCY, CFO sensitivity scale to INV will decrease until it reaches a negative number. This shows the sensitivity of the variables AGENCY*CFO to INV is lower than the sensitivity of the CFO in INV itself. Control variables used in model 3 is still having a direct result of t test on the coefficients and significance, with the result at the time of testing remodeled 1 and 2.

The results of model 3 in Table 6 shows that the test results actually the opposite of my hypothesis. The results showed that the Indonesian manufacturing company that has larger agency cost, their investment activity is more dependent from their internal funds. In other words, the investment-cash flow sensitivity in large cost agency companies tend to be negative, and then the second hypothesis is rejected. Any increase (decrease) of CFOs in companies with a large agency cost will lower (raise) the amount of their investment activities. The interpretation is not consistent with Imhof (2014), but consistent with Moyen (2004) and Kaplan and Zingales (1997).

According to Moyen (2004), there are two main reasons for this. First; "In the amount of company's cash flow from operations there are a number of cash inflow derived from the issuance of debt". Basically, CFO held in the category of low and high agency cost is correlated with the amount of investment. If having a higher investment opportunity, they will also invest higher. When it gets higher investment opportunity but internal funds are not sufficient, low agency cost will fund its investment by issuing debt securities. Problems arise because of the effect of cash inflow from debt (which is allocated to operations) is also included in the amount of CFO regression model specification. This causes the value of the investment-cash flow sensitivity for low agency cost firm seemed to be higher.

The second reason for this sensitivity magnitude is; "Low agency cost firms tend to be more flexible in choosing where to allocates their funds both on investment, dividend payments, or both. While high agency cost firm must choose one of them ". Moyen (2004) stated that in addition to cash

flow from the issuance of debt, low agency cost firm is more flexible than high agency cost to increase the size of the investment firm along with the amount of dividends paid. This is because there is no requirement to provide a fairly high dividend, thus, low agency cost firm does not have to sacrifice an increase in investment when deciding to pay dividends. Finally, the addition of cash flow from operations (which is infiltrated with additional funding from debt) will be followed by an increase in the value of investment in the same direction and almost as large, so the sensitivity of the company in this category seemed to be high. This trend adds an explanation of why the investment-cash flow sensitivity on low agency cost firms seemed to be higher.

Moyen (2004) also explains why on the high agency cost firm, the sensitivity is relatively low. When getting additional cash flow from operations, high agency cost firm must choose whether to allocate these funds to increase investment or to pay dividends. Why they must choose? because companies in this category tend to give large amounts of dividends. So that when choosing to allocate funds to the payment of dividends, there is no remaining funds to increase its investment. This makes the investment-cash flow sensitivity at high agency cost firms seems to be lower (Kaplan and Zingales, 1997; Moyen, 2004) and even tend to be negative.

For the control variables, in general there is no material change in results. All of variables correlation coefficient direction and significancy, in general, is still the same. This suggests that these control variables in the model have consistent function, without prejudice to the presence of moderating / new variable.

4.4 The Analysis of Agency Cost's Moderating Effect on Conditional conservatism Negative Impact to Investment-Cashflow Sensitivity

Furthermore, to examine the moderating effects of agency cost on conditional conservatism negative influences to investment-cash flow sensitivity, then i tested my prediction using regression equations described in Model 4 above. 4 Model Test results can be seen in Table 7 in Appendix 2.

Based on Table 7 it can be seen that the adjusted R Square for model 4 is 0.3211. These result indicates that 32.11% of the variation amount of the company investment can be explained by the independent variables in the model, and the rest is explained by other variables. While the F test shows that overall independent variables in the model significantly influence the dependent variable.

From the results of the t test this model 4, the variable CFO*CONS shows the correlation coefficient of -0.1208 with significance at the 1% level. Proven as in hypothesis 1 that conditional conservatism can reduce the dependence on the investment activities of internal funds. AGENCY variables showed a positive coefficient of 0.0027 but not significantly. This indicates that the presence of agency cost dummy variables in the model does not affect the size of the company's investment activity. CFO*AGENCY which shows sensitivity of the large agency cost company has a coefficient value of -0.0106 but not significant (t-stat 0.3640). Although the agency cost result in model 4 is not significant, the magnitude of the coefficient CFO*AGENCY unidirectional and almost as large as the results of hypothesis 2 (coefficient and significance CFO * AGENCY in hypothesis 2: -0.0418 and 0.0830). As for the CFO*AGENCY*CONS, it has a coefficient of 0.4140 and significant at the 5% level. This suggests that in high agency cost firm, investment-cash flow sensitivity actually increased by 0.4140 after interacted with CONS.

When compared to β_3 (CFO*CONS), coefficient β_6 (CFO* AGENCY*CONS) has a greater magnitude of sensitivity / coefficient. This suggests that $\beta_6 > \beta_3$, in contrast with my predictions which assert that $\beta_6 < \beta_3$. Instead of having much more negative value than β_3 , the magnitude of β_6 in fact have a positive value. That is, the investment-cash flow sensitivity in high agency cost firms increases after the implementation of conditional conservatism. Control variables used in the model 4 is still having a similar direct test results on the coefficients and significance, as the results in hypothesis 1, 2, and 3.

The results of model 4 in Table 7 shows the fact that contrary to my hypothesis 3. Instead of getting easier, the application of conditional conservatism would make the high agency cost firms more difficult in obtaining external funding. In other words, the dependence increases when company implements more conditional conservatism. This shows that the hypothesis 3 is rejected. This situation is not consistent with the Imhof (2014) who found that the negative effect of conditional conservatism on the investment-cash flow sensitivity is strongest in high agency cost firms relative to the low agency cost one.

There is an explanation for this situation. Imhof's (2014) research is conducted in the United States where people there having a different characteristics with Indonesian people. This characteristic

differences include differences in decision-making, including decisions related to risk assessment and the return expected by the owners of capital. Changes in risk assessment fund owners as a result of an increase in conditional conservatism on the high agency cost firm is greater than the change in the risk assessment firm low agency cost, but reversed. While the risk assessment on the low agency cost firms improved (indicated by a decrease of sensitivity), the risk assessment of high agency cost firm worsen (indicated by an increase in investment-cashflow sensitivity). The main cause can be understood from the characteristics of conditional conservatism itself.

Conditional conservatism drives company to not rush (be careful) when recording revenues / profits, but tend to be more timely in the recording of expense / loss. This principle tends to lowering income, although it improves the quality of earnings. If done by a firm with high agency cost in the United States, owners of capital considered it as a good tendency to be more careful in recording profit. As a result, the cost of external capital required becomes relatively cheaper. In addition, the implementation of higher conditional conservatism on high agency cost firms repair its insight over the governance function. Two things make the company become a lot more easier to obtain external funds when investing, and that makes the investment-cash flow sensitivity becomes smaller (Guay and Verrecchia, 2007; Suijs, 2008; Lafond and Watts, 2008; Imhof, 2014). However, when performed by Indonesian high agency firms, capital owners consider it bad because basically high agency cost firms had much to allocate funds for the dividend (Kaplan and Zingales, 1997; Moyen, 2004). When companies apply higher conditional conservatism, capital providers are not focusing on the shape of prudence applied by the company. Capital givers is focus more on the assumption that there is no more profit left for them. In effect, the cost of external capital required becomes relatively more expensive. In addition, an increase in expense / loss also makes the company seem to have more bad governance because it can not make a profitable managerial decisions. Two things that make Indonesian high agency cost firms (which implement higher conditional conservatism) becomes more difficult to obtain external funds when investing, thus, the dependence (sensitivity) on its internal fund becomes higher.

5. Conclusion, Implication, and Limitation

This study aims to provide empirical evidence that conditional conservatism has a negative effect on investment-cash flow sensitivity, and it will be even greater influence on companies with high agency cost as compared with low agency cost. In addition, this study also wants to prove that before the application of conditional conservatism, companies with high agency cost of investment-cash flow sensitivity is higher than the low enterprise agency cost. Different from previous studies, this study uses the dividend payout ratio to measure the amount of agency cost.

The results showed that in terms of reducing investment activity dependence on the availability of internal funds, conditional conservatism has a significant negative effect. This indicates that the application of conditional conservatism is able to reduce the company's dependence on the availability of internal funds when investing. Control variables were shown to affect the amount of investment is the size of the company, prior annual stock return, and the amount of investment in the previous period. These results are consistent with research Imhof (2014) who conducted a similar study with a sample of companies in the United States.

Furthermore, this study shows that high agency cost firms has less investment-cashflow sensitivity than the low agency cost one. The causes are: (1) There is the amount of cash flow from the issuance of debt securities that being add into the calculation of cash flow from operations companies of low agency cost firm (2) high agency cost firm is not focused on investment because they have to prioritize allocation of funds to the provision of a relatively large dividends. This makes the sensitivity seemed to be negative (Kaplan and Zingales, 1997; Moyen, 2004). These results are not consistent with the Imhof (2014), but consistent with Moyen (2004) and Kaplan and Zingales (1997).

Associated with evidentiary moderating effect of agency cost, this study found that the negative effect of conditional conservatism decreases the sensitivity in low agency cost firms but increases it on the high agency cost one. These results are not consistent with Imhof (2014). This difference is caused by differences in the characteristics of investors in the United States and Indonesia.

In the United States, the implementation of conditional conservatism lowers high agency cost firm's cost of external capital. In addition, the implementation of conditional conservatism on high

agency cost firm improve its governance oversight (Guay and Verrecchia, 2007; Suijs, 2008; Lafond and Watts, 2008; Imhof, 2014). In Indonesia, the implementation of higher conditional conservatism in high agency cost firms is a bad thing because basically the company has already allocates most of its fund for dividends (Kaplan and Zingales, 1997; Moynen, 2004). When these companies apply higher conditional conservatism, capital providers are more focused on the assumption that there is no more profit left for them. In effect, the cost of external capital required becomes relatively more expensive. In addition, an increase in expense / loss (as a result of conditional conservatism) also makes the company seem to have a bad governance because it can not make profitable managerial decisions. This situation makes the high agency cost firms Indonesia which implement higher conditional conservatism, has a higher investment-cash flow sensitivity compared to the low agency cost one.

This study has several weaknesses, namely: (1) The number of companies that being sampled only 113 samples with 474 firms-year of five years of research. The number is still relatively small when compared with Imhof's (2014) research which uses 51.897 samples of 10 years of research. Future studies can fix this by adding a period of study in order to get more number of samples. Greater amount of sample will make the research more representative; (2) In calculating the value of conditional conservatism company, i only use one model so that there is no comparison. The use of this models also still has potential less comprehensive in measuring the magnitude of conditional conservatism. In contrast to Imhof (2014) which uses a model Givoly and Hayn (2000) and Basu (1997) to measure the conditional conservatism. Future studies can fix this by using several models to measure the conditional conservatism that can be used as a comparison. Then, from these models compared to seen and been a major models higher coefficient of determination; (3) The study did not determine the proportion of the amount of each sample group of low and high agency cost firms are taken. As a result, my research has the potential for bias in representing the true state of the phenomenon of investment-cash flow sensitivity in the two groups of companies. Future studies could develop this research to determine the proportion of the amount of high and low sample enterprise agency cost with a specific mechanism adapted to the purpose of research. This minimizes the bias so that research can represent the real situation on the phenomenon of investment-cash flow sensitivity in the two groups of companies.

The implications of this research for (1) the development of science: research indicates that the relationship between agent and principal in Indonesia is more efficient, not opportunistic. Thus, future studies in Indonesia is expected to be more focused on the exploration of efficient agency relationship; (2) regulators: the IFRS convergence in fact the principle of conservatism has been removed and replaced by prudence (prudence). However, the results of this study may be a standard board might consider to include elements of conditional conservatism in characteristic prudence (prudence) in the conceptual framework. In addition, the empirical evidence that the application of conditional conservatism can improve the company's flexibility in managing its financial resources when investing may be considered by the Securities and Exchange Commission to require the application of conditional conservatism on the companies listed on the exchange. This is important because later on competition between companies in the ASEAN region will be intense, and the flexibility of determining the source of funds when investing plays an important role in supporting the sustainability of growth companies; (3) financial practitioners: results of this study are expected to broaden the horizon of financial practitioners, investors, creditors, financial analysts, auditors and accountants that conditional conservatism is an accounting principle that is able to increase the company's flexibility in arranging funding sources when investing. It is also expected that future financial practitioners may consider the application of conditional conservatism as an indication with a positive impact to company's value..

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Tabel 3. Statistik Deskriptif

Tabel 3						
Panel A. Statistik Deskriptif, Sampel Keseluruhan						
Variable	N	Mean	Median	S.D	Min	Max
NEG_ACC	474	0.0048	0.0080	0.0908	-0.5348	0.5348
INV	474	0.0587	0.0375	0.0590	0.0000	0.3106
CFO	474	-0.0295	-0.0483	0.1933	-0.8228	2.3019
Q	474	1.5773	1.0626	1.2850	0.3288	6.8926
SIZE	474	14.1746	13.9639	1.4677	11.0413	18.5879
RETURN _{t-1}	474	0.4201	0.1782	0.8936	-0.9500	3.8794
INV _{t-1}	474	0.0557	0.0331	0.0606	0.0000	0.3096
AGENCY	474	0.1020	0.0000	0.1749	0.0000	1.3374
Panel B. Statistik Deskriptif, Low vs. High AGENCY COST subsampel						
Variable	Mean		S.D		Median	
	Low	High	Low	High	Low	High
NEG_ACC	0.0061	0.0019	0.1029	0.0573	0.0109	0.0077
INV	0.0531	0.0706	0.0589	0.0574	0.0318	0.0546
CFO	-0.0586	0.0321	0.1991	0.1649	-0.0773	0.0166
Q	1.2214	2.3311	0.7721	1.7501	0.9695	1.7405
SIZE	13.9549	14.6399	1.3695	1.5619	13.7941	14.2862
RETURN _{t-1}	0.3497	0.5693	0.8891	0.8876	0.0714	0.3499
INV _{t-1}	0.0525	0.0627	0.0620	0.0569	0.0300	0.0416

Table 4. Hasil Regresi OLS Model Tanpa Interaksi CONS

Model Tanpa Interaksi CONS (Model 1)					
$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 Q_{it} + \beta_3 SIZE_{it} + \beta_4 RET_{it-1} + \beta_5 INV_{it-1} + \epsilon_{it}$					
Variabel	Prediksi Tanda	Coefficient	Prob	Sig.	VIF
C		-0.0041	0.4270		
CFO	(+)	0.0422	0.0010	***	1.34
Q	(+)	0.0020	0.1745		1.43
SIZE	(+)	0.0023	0.0750	*	1.09
RET _{t-1}	(+)	0.0082	0.0010	***	1.00
INV _{t-1}	(+)	0.4443	0.0000	***	1.06
N			474		
F Test Sign			0.0000		
Adj R Square			0.2968		
***Signifikan pada level 1% (one-tailed)					
**Signifikan pada level 5% (one-tailed)					
*Signifikan pada level 10% (one-tailed)					
<p>INV adalah capital expenditure dibagi dengan total asset pada periode t. CFO adalah besaran arus kas kegiatan operasi perusahaan i pada periode t dibagi dengan beginning period total assets. CONS adalah proksi untuk conditional conservatism, merupakan rata-rata selama tiga tahun atas selisih dari net income dengan kas operasi yang dideflasikan dengan rata-rata total asset. Q adalah proksi untuk mengukur besaran kesempatan investasi. merupakan total penjumlahan market value of ordinary shares outstanding, book value of long term debt, dan current liability yang kemudian dibagi dengan total assets (Kroes, 2013). SIZE adalah logaritma natural dari rata-rata total asset. RET_{t-1} adalah annual stock return perusahaan i pada periode t-1. INV_{t-1} adalah besaran investasi (INV) perusahaan i pada periode t-1. AGENCY akan menjadi 1 apabila agency cost perusahaan relatif tinggi (berada diatas mean), 0 apabila relatif rendah (berada dibawah mean). Diukur dengan membagi dividen dengan besaran EBITDA perusahaan pada periode t.</p>					

Table 5. Hasil Regresi OLS Model Hipotesis 1

Regresi OLS Dengan Interaksi CONS (Model 2)					
$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 CONS_{it} + \beta_3 CFO_{it} * CONS_{it} + \beta_4 Q_{it} + \beta_5 SIZE_{it} + \beta_6 RET_{it-1} + \beta_7 INV_{it-1} + \epsilon_{it}$					
Variabel	Prediksi Tanda	Coefficient	Prob	Sig.	VIF
C		-0.0187	0.2000		
CFO	(+)	0.0338	0.0140	**	1.79
CONS	(+/-)	-0.0403	0.0875	*	1.47
CFO*CONS	(-)	-0.1064	0.0030	***	1.47
Q	(+)	0.0018	0.1975		1.50
SIZE	(+)	0.0034	0.0185	**	1.14
RETt-1	(+)	0.0080	0.0010	***	1.08
INVt-1	(+)	0.4485	0.0000	***	1.06
N		474			
F Test Sign		0.0000			
Adj R Square		0.3177			
***Signifikan pada level 1% (one-tailed)					
**Signifikan pada level 5% (one-tailed)					
*Signifikan pada level 10% (one-tailed)					
<p>INV adalah capital expenditure dibagi dengan total asset pada periode t. CFO adalah besaran arus kas kegiatan operasi perusahaan i pada periode t dibagi dengan beginning period total assets. CONS adalah proksi untuk conditional conservatism, merupakan rata-rata selama tiga tahun atas selisih dari net income dengan kas operasi yang dideflasikan dengan rata-rata total asset. Q adalah proksi untuk mengukur besaran kesempatan investasi. merupakan total penjumlahan market value of ordinary shares outstanding, book value of long term debt, dan current liability yang kemudian dibagi dengan total assets (Kroes, 2013). SIZE adalah logaritma natural dari rata-rata total asset. RETt-1 adalah annual stock return perusahaan i pada periode t-1. INVt-1 adalah besaran investasi (INV) perusahaan i pada periode t-1. AGENCY akan menjadi 1 apabila agency cost perusahaan relatif tinggi (berada diatas mean), 0 apabila relatif rendah (berada dibawah mean). Diukur dengan membagi dividen dengan besaran EBITDA perusahaan pada periode t.</p>					

Table 6. Hasil Regresi OLS Model Hipotesis 2

Regresi OLS Dengan Interaksi AGENCY					
$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 AGENCY_{it} + \beta_3 AGENCY_{it} * CFO_{it} + \beta_4 Q_{it} + \beta_5 SIZE_{it} + \beta_6 RET_{it-1} + \beta_8 INV_{it-1} + \epsilon_{it}$					
Variabel	Prediksi Tanda	Coefficient	Prob	Sig.	VIF
C		-0.0045	0.4200		
CFO	(+)	0.0485	0.0005	***	1.51
AGENCY	(+/-)	0.0038	0.2405		1.23
AGENCY*CFO	(+)	-0.0418	0.0830	*	1.59
Q	(+)	0.0026	0.1350		1.84
SIZE	(+)	0.0022	0.0845	*	1.11
RETt-1	(+)	0.0079	0.0015	***	1.07
INVt-1	(+)	0.4472	0.0000	***	1.06
N		474			
F Test Sign		0.0000			
Adj R Square		0.2976			
***Signifikan pada level 1% (one-tailed)					
**Signifikan pada level 5% (one-tailed)					
*Signifikan pada level 10% (one-tailed)					
<p>INV adalah capital expenditure dibagi dengan total asset pada periode t. CFO adalah besaran arus kas kegiatan operasi perusahaan i pada periode t dibagi dengan beginning period total assets. CONS adalah proksi untuk conditional conservatism, merupakan rata-rata selama tiga tahun atas selisih dari net income dengan kas operasi yang dideflasikan dengan rata-rata total asset. Q adalah proksi untuk mengukur besaran kesempatan investasi. merupakan total penjumlahan market value of ordinary shares outstanding, book value of long term debt, dan current liability yang kemudian dibagi dengan total assets (Kroes, 2013). SIZE adalah logaritma natural dari rata-rata perusahaan i pada periode t-1. AGENCY akan menjadi 1 apabila agency cost perusahaan relatif tinggi (berada diatas mean), 0 apabila relatif rendah (berada dibawah mean). Diukur dengan membagi dividen dengan besaran EBITDA perusahaan pada periode t.</p>					

Tabel 7. Hasil Regresi OLS Model Hipotesis 3

Regresi OLS Dengan Interaksi AGENCY dan CONS					
$INV_{it} = \alpha_{it} + \beta_1 CFO_{it} + \beta_2 CONS_{it} + \beta_3 CFO_{it} * CONS_{it} +$ $\beta_4 AGENCY_{it} + \beta_5 CFO * AGENCY_{it} + \beta_6 CFO_{it} * CONS_{it} * AGENCY_{it} +$ $\beta_7 Q_{it} + \beta_8 SIZE_{it} + \beta_9 RET_{it-1} + \beta_{10} INV_{it-1} + \epsilon_{it}$					
Variabel	Prediksi Tanda	Coefficient	Prob	Sig.	VIF
C		-0.0204	0.1815		
CFO	(+)	0.0352	0.0150	**	2.01
CONS	(+/-)	-0.0350	0.1195		1.49
CFO*CONS	(-)	-0.1208	0.0010	***	1.56
AGENCY	(+/-)	0.0027	0.3090		1.28
CFO*AGENCY	(+)	-0.0106	0.3640		1.69
CFO*AGENCY*CONS	(-)	0.4141	0.0210	**	1.14
Q	(+)	0.0012	0.3140		1.93
SIZE	(+)	0.0035	0.0165	**	1.18
RETt-1	(+)	0.0084	0.0005	***	1.09
INVt-1	(+)	0.4424	0.0000	***	1.07
N		474			
F Test Sign		0.0000			
Adj R Square		0.3211			
***Signifikan pada level 1% (one-tailed)					
**Signifikan pada level 5% (one-tailed)					
*Signifikan pada level 10% (one-tailed)					
<p>INV adalah capital expenditure dibagi dengan total asset pada periode t. CFO adalah besaran arus kas kegiatan operasi perusahaan i pada periode t dibagi dengan beginning period total assets. CONS adalah proksi untuk conditional conservatism, merupakan rata-rata selama tiga tahun atas selisih dari net income dengan kas operasi yang dideflasikan dengan rata-rata total asset. Q adalah proksi untuk mengukur besaran kesempatan investasi, merupakan total penjumlahan market value of ordinary shares outstanding, book value of long term debt, dan current liability yang kemudian dibagi dengan total assets (Kroes, 2013). SIZE adalah logaritma natural dari rata-rata total asset. RETt-1 adalah annual stock return perusahaan i pada periode t-1. INVt-1 adalah besaran investasi (INV) perusahaan i pada periode t-1. AGENCY akan menjadi 1 apabila agency cost perusahaan relatif tinggi (berada diatas mean), 0 apabila relatif rendah (berada dibawah mean). Diukur dengan membagi dividen dengan besaran EBITDA perusahaan pada periode t.</p>					