Capital Intensity, Conflict of Interest, Litigation Risk, and Growth Opportunity as Determinants of Prudence

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Abstract

Prudence is a prudent attitude in dealing with economic uncertainty conditions in the future. This principle is used to prevent overstatement or understatement in financial reporting so that financial statements are presented fairly and free from material misstatement. This study aims to examine the determinants of prudence, consisting of capital intensity, conflict of interest, litigation risk, and growth opportunity. By using purposive sampling criteria, the research sample obtained is 104 observation data or 32 companies in the Consumer Goods industry sector listed on the Indonesia Stock Exchange in 2017-2020. Data analysis techniques used are descriptive statistical analysis and panel data regression. The results show that capital intensity is not a determinant of prudence. Conflict of interest and litigation risk are positive determinants of prudence, while growth opportunity is a negative determinant of prudence. Suggestions for further research are to reexamine this research in different industries, use different proxies for the capital intensity variable, or replace the capital intensity with another variable. For companies, this research can be used as consideration for implementing prudence in their financial reporting. For investors and creditors, this research is expected to be useful as additional information in making decisions. Empirically, the novelty of this research is that conflict of interest, litigation risk, and growth opportunity are determinants of prudence in the Consumer Goods industry sector.

Keywords
Capital Intensity, Conflict of Interest, Growth Opportunity, Litigation Risk, and Prudence.

1. Introduction
International Financial Reporting Standards (2018) state that users of financial statements need the entity's financial information that is relevant, reliable, free from material misstatement, accurate representation, neutral, and unbiased. Those considerations can support the neutrality of financial statements because they reflect an attitude of prudence in the face of economic uncertainty (Zuliyanto Susilo, 2021).

Prudence is a prudent principle in dealing with conditions of economic uncertainty in the future to prevent overestimating assets and income or underestimating liabilities and losses. In other words, assets, revenues, liabilities, or expenses are presented fairly. Implementing prudence in the recognition of assets or income and recognizing costs more quickly can prevent overstatement of earnings and the risk due to uncertainty in the company's operational activities (Hejranijamil et al., 2020; Putri & Herawaty, 2020).

Manipulated financial statement information indicates that the company failed to fulfill the purpose of financial statements, namely, to provide information on the company's performance in actual conditions. If the financial statements are not presented properly, the information becomes biased and cannot be used for making decisions. The manipulation of financial statements, such as the overstatement of certain posts, has occurred in Indonesia. Those manipulations describe a low implementation of prudence in the presentation of financial statements (Hidyah et al., 2020; Zuliyanto Susilo, 2021). The deviation of prudence implementation in the Consumer Goods industry sector is the inflation of funds by PT AISA. Ernst & Young Indonesia (EY) stated that there was a Rp4 trillion overstatement in account receivables, inventories, and fixed assets. In addition, there was an inflated income of Rp662 billion and Rp329 billion in EBITDA (earnings before interest, taxes, depreciation, and amortization). The purpose of financial manipulation at that time was to boost the company's share price (Wareza, 2019).

Capital intensity, conflict of interest, litigation risk, and growth opportunity are a few determinant factors that are suspected have an influence on prudence. However, there are inconsistent results in previous research. Research conducted by Zahro (2021) and Aurillya et al. (2021) showed that capital intensity has a positive effect on prudence. However, research conducted by Murwaningsari & Rachmawati (2017) and Salim & Apriwenni (2018) showed that capital intensity has no effect on prudence. Then, according to research by Hidyah et al. (2020) and S. N. Sari & Agustina (2021), conflict of interest has a positive effect on prudence, while according to research by Andini et al. (2020) and Indraswono (2022) conflict of interest has no effect on prudence. The research by Sholikhah & Suryani (2020) and Murti & Yuniarta (2021) stated that litigation risk has a positive effect on prudence. In contrast, the research by Septriana et al. (2021) and Tunggal & Lasdi (2021) stated that litigation risk has no effect on prudence. Moreover, research conducted by El-Haq et al. (2019) and Sari (2020) showed that growth opportunity has a positive effect on prudence, while research conducted by Suyono (2021) and Widaryanti (2022) showed that growth opportunity has no effect on prudence.

The motivation of this study is to examine the determinants of prudence in the Consumer Goods industry sector listed on the Indonesia Stock Exchange in 2017-2020, since there are still inconsistencies in the results of previous studies on this topic. Therefore, it is still relevant to conduct research on prudence and its determinant factors.

1.1 Objectives

This study aims to examine the determinants of prudence consisting of capital intensity, conflict of interest, litigation risk, and growth opportunity in the Consumer Goods industry sector listed on the Indonesia Stock Exchange in 2017-2020.

2. Literature Review

2.1 Agency Theory

Agency theory is a theory in which one or more principals (stakeholders) involve agents (management) to perform services on behalf of the principals and delegate some decision-making authority to agents related to the entity's operational activities, which can result in information asymmetry because agents have more financial position information than the principals. The occurrence of information asymmetry can lead to moral hazard, a condition that will arise if the agent violates the work contract or fails to do the things that have been mutually agreed upon. It can also lead to adverse selection. Adverse selection occurs when the principals do not know if the agents' decisions are really based on the information that has been obtained or not. In addition, it can occur because agents are negligent in carrying out their duties (Jensen & Meckling, 1976; Murray et al., 2017).

Agency conflicts can occur because of differences in interests between the principal and the agent. The agent's decisions are not always in line with the interests of the principal. Management is potentially self-interested. Thus, excessive optimism in the presentation of financial statements can occur without the principal knowing if the entity's performance is deteriorating. By implementing prudence in the presentation of financial statements, management can balance their own interests and stakeholders. Also, can prevent manipulation or misstatements in financial reporting (Majidah et al., 2018; Mumayiz & Cahyaningsih, 2020; Widaryanti, 2022).

2.2 Prudence

Prudence is defined as a prudent attitude in dealing with conditions of economic uncertainty in the future. It is important to achieve neutrality in financial statements. Prudence can cause lower profit recognition because expenses or losses are recognized even though they have not yet been incurred, whereas revenues or gains are recognized when they have occurred. The purpose of prudence is to minimize excessive optimism in reporting business results (Hejranijamil et al., 2020; Šestanj-Perić & Keglević Kozjak, 2020). In the International Financial Reporting Standards

(2018) paragraph 2.16 about the principle of prudence, it is explained that assets and revenues are not overstated, liabilities and expenses are not understated. However, this principle does not underestimate the recognition of assets and revenues, nor does it not overstate liabilities and expenses. Such misstatements may result in the overstatement or understatement of income or expenses in subsequent periods. Financial Accounting Standards that apply the concept of prudence according to (Ikatan Akuntan Indonesia, 2019) are Statement of Financial Accounting Standards No. 14 about Inventories and Statement of Financial Accounting Standards No. 48 about Asset Impairment.

2.3 Capital Intensity

Capital intensity describes the company's ability to generate income by utilizing its capital efficiently. It can be used as a measure of the company's prospects to compete in the market. High capital intensity indicates that the company is a capital-intensive company, where the government is more concerned about these companies because government tends to allocate large political costs to large companies. The value of capital intensity can make investors and creditors more cautious in assessing the company's performance to prevent possible risks, because capital intensity can increase the company's risk. As a result, managers will be more prudent in presenting their financial statements and will suppress profit engineering (Lee et al., 2011; Murwaningsari & Rachmawati, 2017).

Research related to the effect of capital intensity on prudence has been conducted by Zahro (2021) and Aurillya et al. (2021). The results of this study indicate that capital intensity has a positive effect on prudence. High capital intensity describes that the company is a capital-intensive company which can lead to a bigger political cost. Other than that, large and capital-intensive companies have high assets and profits which indicates excessive optimism. Therefore, a high capital intensity ratio will make managers more prudent in presenting financial statements.
H_1: Capital intensity is a positive determinant of prudence.

2.4 Conflict of Interest

The company's capital sources come from investors and creditors, which can cause differences of interest. Management's decisions do not always benefit both parties. Investors and creditors generally have different perceptions about how to achieve business goals, economic interests, and what actions are appropriate for themselves. Creditors have an interest in securing their funds so that the company has the minimum assets to pay obligations, while investors try to take advantage of these funds. The value of a company's debt can describe how much the creditor's claim is on the company's assets. To minimize risk, creditors support the prudent presentation of financial statements. Therefore, the level of conflict of interest can affect the implementation of the principle of prudence contained in the presentation of financial statements (Lepistö et al., 2020; S. N. Sari & Agustina, 2021).

Research related to the effect of conflict of interest on prudence has been conducted by Hidyah et al. (2020) and S. N. Sari & Agustina (2021). The results of this study indicate that conflict of interest has a positive effect on prudence. As a matter of corporate social responsibility, managers must pay attention to the interests of their stakeholders. In addition, creditors and investors have an important role in the continuity of a company's business. Creditors who lend funds to companies will ask for prudent financial reports to minimize future risks. Therefore, the high level of conflict of interest between creditors and investors will motivate managers to apply prudence to their financial statements.

H_2: Conflict of interest is a positive determinant of prudence.

2.5 Litigation Risk

Litigation risk is a firm risk that has the potential to result in litigation threats from interested parties, such as creditors or investors who feel aggrieved, thus making the company related to litigation issues that can have an impact on the company's value in the public's eyes. To avoid the costs caused by litigation risk, companies will apply prudence to their financial reporting because high reporting of profits and assets will trigger high litigation risk as well (Putri & Herawaty, 2020; Qin et al., 2021).

Research related to the effect of litigation risk on prudence has been conducted by Sholikhah & Suryani (2020) and Murti & Yuniarta (2021). The results of this study indicate that litigation risk has a positive effect on prudence. Managers will be encouraged to apply prudence to their financial reporting if the threat of litigation tends to be high. Being associated with legal problems will incur greater costs. Rationally, managers will try to avoid losses that may occur by applying prudence to their financial statements.

H_3: Litigation risk is a positive determinant of prudence.

2.6 Growth Opportunity

Growth opportunity is the company's opportunity to grow by investing in profitable things. The company will require a lot of costs to finance the growth that will occur in the future if the current company's growth value tends to be high. This large cost encourages management to apply prudence so that the company can fulfill the investment financing (W. P. Sari, 2020; Idrus et al., 2022).

Research related to the effect of growth opportunity on prudence has been conducted by El-Haq et al. (2019) and Sari (2020). The results indicate that growth opportunity has a positive effect on prudence. Generally, prudent companies have hidden reserves that can be used to fulfill future investment costs. In addition, a growing company indicates a higher scale of firm size, so that there is stricter supervision from the government regarding taxation, so that management is motivated to apply prudence to their financial statements.

H_4: Growth opportunity is a positive determinant of prudence.

3. Methods

This study was conducted on the Consumer Goods industry sector listed on the Indonesia Stock Exchange in 2017-2020. With the sampling criteria, 136 research samples were obtained from 34 Consumer Goods industry companies. However, there are 32 data observations excluded because they interfere with the model, so the total research sample consists of 104 data observations from 32 companies. The research data comes from the annual reports of Consumer Goods industry companies listed on the Indonesia Stock Exchange that can be accessed from its official website and the company's official website. The research datasets were analyzed using descriptive statistics and panel data regression. The following is the equation for panel data regression:

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

Keterangan:

Y	: Prudence
α	: Constant
β_1-β_4	: Regression Coefficient
X_1	: Capital Intensity
X_2	: Conflict of Interest
X_3	: Litigation Risk
X_4	: Growth Opportunity
ε	: Error term

3.1 Definition of Operational Variables

3.1.1 Independent Variable

1) Prudence

In this research prudence is measured by using Earning/Accrual Measure from Zhang's (2007) model by dividing nonoperating accruals and total assets. Then, the result is multiplied by -1 to facilitate analysis. Here is the formula for measuring prudence:

$$\text{CONACC} = \frac{\text{Nonoperating Accrual}}{\text{Total Assets}} \text{x} (-1)$$

CONACC	=	The level of prudence
Nonoperating Accrual	=	Operating Accrual - ΔAccount Receivable - ΔInventory - ΔPrepaid Expense + ΔAccount Payable + ΔTaxes payable
Operating Accrual	=	Net income + Depreciation - Cash Flow from Operations

A high CONACC value indicates a higher prudence application in the company. On the other hand, a low CONACC value indicates a lower prudence application in the company (Haniati & Fitriany, 2010).

3.1.2 Dependent Variable

1) Capital Intensity

In this research, capital intensity is measured by the ratio of total assets to total sales. This ratio shows the level of the company's capital because the higher capital intensity ratio indicates that the company is a capital-intensive company, where the risks faced are also greater and have an impact on strict supervision by investors and creditors (Zahro, 2021). Here is the formula for measuring capital intensity:

$$\text{CAPI} = \frac{\text{Total Assets}}{\text{Total Sales}}$$

2) Conflict of Interest

In this research, conflict of interest is measured by debt to asset ratio (DAR). The company's debt amount describes how much creditors claim on the company's assets. It may increase the conflict of interest between creditors and investors. Therefore, the value of conflict of interest can be seen from how much the company's debt is (Hidyah et al., 2020). Here is the formula for measuring conflict of interest:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

3) Litigation Risk

In this research, litigation risk is measured by debt-to-equity ratio (DER). A high ratio value indicates that a company's litigation risk is high as well. It describes that the company is indicated to be unable to pay off its debt (Sholikhah & Suryani, 2020). Here is the formula for measuring litigation risk:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

4) Growth Opportunity

In this research, growth opportunity is measured by asset growth. Asset growth describes the occurrence of growth opportunities in the company. Growing assets illustrate higher growth opportunities and the potential of excessive optimism in the company (Monalisa & Riduwan, 2018). Here is the formula for measuring growth opportunity:

$$\text{Asset Growth} = \frac{\text{Total Assets (t)} - \text{Total Assets (t} - 1)}{\text{Total Assets (t} - 1)} \text{ x } 100\%$$

4. Data Collection

The data is sourced from the annual reports of Consumer Goods industrial companies listed on the Indonesia Stock Exchange in 2017–2020, obtained from the official websites of the Indonesia Stock Exchange and the company's official websites, as well as reference books and previous research related to the research.

5. Results and Discussion

5.1 Results

5.1.1 Descriptive Statistical Analysis

Table 1 Descriptive Statistical Analysis Results

	Prudence	***Capital Intensity***	***Conflict of Interest***	***Litigation Risk***	***Growth Opportunity***
Mean	0.005728	1.114500	0.417996	0.596720	0.067449
Maximum	0.996052	4.231964	2.899874	1.906242	0.561690
Minimum	-0.699808	0.327084	0.083064	-2.127341	-0.785841
Std. Deviasi	0.139034	0.492957	0.397950	0.626992	0.141649
Observasi	104	104	104	104	104

Descriptive statistical analysis results are shown in Table 1 and described as follows:

1) The average value of prudence is 0.005728, smaller than the standard deviation value of 0.139034. It shows that the companies are prudent. However, the data varies. The research data shows that 67 observation data are prudent (64%), and 37 other observation data (36%) are not prudent. This means that most of the Consumer Goods industry financial reports in 2017-2020 are indicated to be prudent.
2) The average value of capital intensity is 1.114500, greater than the standard deviation value of 0.492957. This indicates that the Consumer Goods industry sector is capital-intensive.
3) The average value of conflict of interest is 0.417996, greater than the standard deviation value of 0.397950, and the DAR value is below 50%. This means that the conflict of interest between debtholders and shareholders in the Consumer Goods industry sector is relatively low.
4) The average value of litigation risk is 0.596720, smaller than the standard deviation value of 0.626992. This shows that the composition of debt is relatively lower than its equity and indicates that the Consumer Goods industrial sector does not have the potential to experience litigation problems. However, the data varies. The research data shows that 62 observations data (60%) are low-risk companies, and 42 other observation data (40%) are high-risk companies.
5) The average value of growth opportunity is 0.067449, smaller than the standard deviation value of 0.141649. It indicates that the growth opportunity in the Consumer Goods industry sector is relatively low. However, the data varies. Research data shows that companies that are growing and not growing are relatively balanced (52%).

5.1.2 Classic Assumption Test

1) Heteroscedasticity Test

The purpose of the heteroscedasticity test is to determine whether there is a deviation from the classical assumption requirements, where a good regression model has homoscedasticity. If the probability < α 0.05, then heteroscedasticity occurs. However, if the probability > α 0.05, then homoscedasticity occurs (Ghozali, 2018:137). The following is the result of the heteroscedasticity test in Figure 1.:

Heteroskedasticity Test: Harvey			
F-statistic	2.107529	Prob. F(4,99)	0.0855
Obs*R-squared	8.160951	Prob. Chi-Square(4)	0.0859
Scaled explained SS	13.52213	Prob. Chi-Square(4)	0.0090

Figure 1. Heteroscedasticity Test Results

Figure 1. shows the value of Prob. Chi-Square (Obs*R-squared) is 0.0859 > α 0.05. It means that there is no heteroscedasticity problem in the research regression model. Thus, the regression model is feasible to use to predict prudence based on independent variables, capital intensity, conflict of interest, litigation risk, and growth opportunity.

2) Multicollinearity Test

The purpose of the multicollinearity test is to determine whether there is a correlation between the independent variables in the regression model. A good regression model is that there is no correlation between independent variables. The rule of thumb of this method is if the correlation coefficient value > 0.85, the regression model contains multicollinearity. On the other hand, if the correlation coefficient is < 0.85, the regression model does not contain multicollinearity (Tri Basuki & Prawoto, 2017:220). The following is the result of the multicollinearity test in Figure 2.:

	X1	X2	X3	X4
X1	1.000000	0.094418	0.173736	0.009182
X2	0.094418	1.000000	-0.286152	-0.443449
X3	0.173736	-0.286152	1.000000	0.176954
X4	0.009182	-0.443449	0.176954	1.000000

Figure 2. Multicollinearity Test Results

X_1: *Capital Intensity*
X_2: *Conflict of Interest*
X_3: *Litigation Risk*
X_4: *Growth Opportunity*

Figure 2 shows the correlation value between independent variables is less than 0,85. It describes that between independent variables there is no multicollinearity problem. Thus, the regression model is feasible to use to predict prudence based on independent variables, capital intensity, conflict of interest, litigation risk, and growth opportunity.

5.1.3 Panel Data Regression Model Selection

1) Chow Test

According to Tri Basuki & Prawoto (2017:277), Chow test is a test to determine the most appropriate model between common effects or fixed effects in estimating data. Here are the hypotheses in the Chow test:
H_0: Common effects models. H_0 is accepted if the probability value of Chi-square Cross-section > α 0.05
H_1: Fixed effect model. H_1 is accepted if the probability value of Chi-square Cross-section α < 0.05
The following is the result of the chow test in Figure 3.:

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.798663	(31,68)	0.0002
Cross-section Chi-square	85.525283	31	0.0000

Figure 3. Chow Test Results

Figure 3 shows the cross-section Chi-square value is 0.0000 < α 0.05. It means, H_0 is rejected and H_1 is accepted. The model used is the fixed effect model. Therefore, Hausman test was conducted to determine the most appropriate model between the fixed effect model and the random effect model.

5.1.4 Hausman Test

According to Tri Basuki & Prawoto (2017:277), Hausman test is a test to determine the most appropriate model between fixed effects or random effects in estimating data. Here are the hypotheses in the Hausman test:
H0: Random effect models. H0 is accepted if the probability value of random cross section > α 0.05
H1: Fixed effect model. H1 is accepted if the probability value of random cross section < α 0.05
The following is the result of the Hausman test in Figure 4.:

Correlated Random Effects - Hausman Test
Equation: REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	84.550904	4	0.0000

Figure 4. Hausman Test Results

Figure 4 shows the random cross-section value 0.0000 < α 0.05. It means, H_0 is rejected and H_1 is accepted. The most appropriate model to use after the Chow test and Hausman test for this research is the fixed effect model.

5.1.5 Coefficient of Determination

The coefficient of determination is conducted to measure the level of the model's ability to explain the variation of the dependent variable. The high and low values of adjusted R2 describe the limited ability of the independent variable to explain the dependent variable (Ghozali, 2018:97). The following is the result of the coefficient of determination in Figure 5.:

R-squared	0.643049	Mean dependent var	0.005728
Adjusted R-squared	0.459325	S.D. dependent var	0.139034
S.E. of regression	0.102233	Akaike info criterion	-1.455701
Sum squared resid	0.710707	Schwarz criterion	-0.540335
Log likelihood	111.6965	Hannan-Quinn criter.	-1.084859
F-statistic	3.500071	Durbin-Watson stat	2.208186
Prob(F-statistic)	0.000005		

Figure 5. Coefficient of Determination Results

Figure 5 shows the Adjusted R-squared value of 0.459325, or 46%. It means that the independent variable; capital intensity, conflict of interest, litigation risk, and growth opportunity are able to explain the dependent variable prudence by 46%, while the remaining 54% is explained by other variables outside this study.

5.1.6 t Statistic Test

The t-test shows the effect of the independent variables (capital intensity, conflict of interest, litigation risk, and growth opportunity) individually on the dependent variable (prudence). The significance value $\alpha < 0.05$ indicates that the independent variable influences the dependent variable. However, if the significance value is $> \alpha$ 0.05, it indicates that the independent variable has no effect on the dependent variable (Ghozali, 2018:99). The following is the result of the t-test in Figure 6.:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.048646	0.095572	-0.509000	0.6124
X1	-0.148200	0.082035	-1.806550	0.0753
X2	0.479651	0.068269	7.025909	0.0000
X3	0.085174	0.041973	2.029275	0.0463
X4	-0.470974	0.091230	-5.162473	0.0000

Figure 6. t Statistic Test Results

Based on Figure 6, the panel data regression equation can be formulated as follows:

$$Y = -0.048646 + -0.148200X1 + 0.479651X2 + 0.085174X3 + -0.470974X4$$

X_1: Capital Intensity
X_2: Conflict of Interest
X_3: Litigation Risk
X_4: Growth Opportunity

5.2 Discussion

Capital Intensity as a Determinant of Prudence

The t-test shows the value of the regression coefficient (β_1) of capital intensity is -0,148200 with a significance level of 0,0753 > α 0.05. The results of this test accept H_0 and reject H_a. It means that capital intensity is not a determinant of prudence. Companies with high capital intensity will require high capital from external parties, namely investors. Thus, to attract investors, the company will present its financial statements optimistically in accordance with investors' expectations. The results of this study are not in line with the results of Zahro (2021) and Aurillya et al. (2021) which stated that capital intensity has a positive effect on prudence.

Conflict of Interest as a Determinant of Prudence

The t-test shows the value of the regression coefficient (β_2) of conflict of interest is 0.479651 with a significance level of 0.0000 < α 0.05. The results of this test reject H_0 and accept H_a. It means that conflict of interest is a positive determinant of prudence. The results of this study are in line with the results of Hidyah et al. (2020) and S. N. Sari & Agustina (2021) which stated that conflict of interest has a positive effect on prudence. The greater the company's debt, the more creditors' claims on company assets. This creates pressure for management to prioritize the interests of creditors compared to investors because of the company's potential for default and creditors' concerns about the safety of their funds, thus triggering a conflict of interest between creditors and investors. Therefore, the application of prudence will increase.

Litigation Risk as a Determinant of Prudence

The t-test shows the value of the regression coefficient (β_3) of litigation risk is 0.085174 with a significance level of 0.0463 < α 0.05. The results of this test reject H_0 and accept H_a. It means that litigation risk is a positive determinant of prudence. The results of this study are in line with the results of Sholikhah & Suryani (2020) and Murti & Yuniarta (2021) which stated that litigation risk has a positive effect on prudence. Managers will be encouraged to apply prudence to their financial reporting if the threat of litigation tends to be high. Rationally, managers are motivated to be more prudent reporting their financial statements to avoid costs and losses.

Growth Opportunity as a Determinant of Prudence

The t-test shows the value of the regression coefficient (β_4) is -0.470974 with a significance level of 0.0000 < α 0.05. The results of this test reject H_0 and accept H_a. It means that growth opportunity is a negative determinant of prudence. The greater a company's growth opportunities, the lower the application of prudence. Instead of applying prudence to fulfill the investment needs and growth of the company, management seeks external financing sources from investors. To gain investor trust, management presents financial statements optimistically. The results of this study are not in line with the results of El-Haq et al. (2019) dan Sari (2020) which stated that growth opportunity has a positive effect on prudence.

6. Conclusion

This research aims to examine the determinants of prudence consisting of capital intensity, conflict of interest, litigation risk, and growth opportunity in the Consumer Goods industry sector listed on the Indonesia Stock Exchange in 2017-2020. The results of the hypothesis test indicate that capital intensity is not a determinant of prudence. Conflict of interest and litigation risk are the determinants of prudence. Meanwhile, growth opportunity is a negative determinant of prudence.

7. Limitation and Suggestions

The limitations of this study are in the elimination of outliers for the data to be normal. There are 32 data observations excluded because they interfere with the model, so that not all research samples can be used in this research.

Suggestions for further research are to reexamine this research in different industries, use different proxies for the capital intensity variable, or replace the capital intensity with another variable. In addition, capital-intensive companies are expected to pay more attention to prudence in their financial statements. Also, for companies that are growing, it is necessary to pay more attention to implementing prudence in their financial reporting. Moreover, for investors and creditors, this research is expected to be useful as additional information in making decisions.

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