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DO MANAGER POLICIES LEAD TO CORPORATE IDIOSYNCRATIC RISK?

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Abstract

Certain manager policies can push the company to be riskier. Some of the manager's policies include investment in investment opportunity sets, dividend policies and accrual policies through accrual earnings management. This study examines idiosyncratic risk with the three managers' policies. Tests were carried out using data from 75 food and beverage sub-sector companies listed on the Indonesia Stock Exchange from 2016 to 2020 using multiple linear regression analysis for panel data. The results suggest that investment opportunity set and accrual earnings management negatively affect idiosyncratic risk, whereas dividend policy positively affects idiosyncratic risk. This study places the investment opportunity set under test with idiosyncratic risk in the manager's policy framework, which is rarely used in previous studies.

Keywords: *Investment Opportunity Set, Dividend Policy, Earnings Quality, Internal Risk.*

1. Introduction

In general, the company's goals are to obtain and achieve the maximum profit, develop the company, and maintain the company's survival, commonly known as going concern (Kieso et al., 2018). To achieve this goal, companies should include additional funding capital through a participation mechanism generally conducted by selling company shares to the public (Ratnasari & Hudiwinarsih, 2013). In various countries, the capital market has an important role in public companies' capital activities and in determining the economic situation (Wijoyo & Firmansyah, 2021). Investors employ the capital market as an investment medium. Investors generally obtain capital gains by increasing share prices

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and cash dividends (Puspitaningtyas, 2017). Risk is uncertain and may occur based on current considerations (Fahmi, 2016). The investment will always be related to the level of risk; in other words, the level of risk is inherent in every investment alternative. In every investment decision-making, investors consider the expected return factor. Investors should also consider the risk factors that will arise from the alternative investment because the size of the risk in an alternative investment will affect the level of income expected from the investment. A fixed income, if the higher investment risk, lowers the value of the stock, which can cause the stock price to fall and vice versa (Afriyeni & Marlius, 2019). Corporate risk impacts the company's survival or the value of shares owned by a company (Budiman & Setiyono, 2012). The higher the risk of a company's stock value indicates that management will attempt to maintain the company's image from the investors' perspective.

In investment, types of risk consist of systematic risk and unsystematic risk. Systematic risk cannot be diversified or related to the market. The unsystematic risk or commonly called idiosyncratic risk is a diversified risk or a risk that is directly related to changes in internal conditions in a company (Oktarina, 2010). Unsystematic risks include labor strikes and demands by other parties.

Bartram et al. (2011) stated that risk indicates the possibility of an event that provides uncertainty about the expected return and the goals to be achieved. In line with this, systematic and specific risks jointly hinder investors' welfare. Companies do various ways to attract investors, such as improving the performance contained in the financial statements (T. A. Lee, 2020). However, this information provided to the public does not always provide information according to actual conditions.

The major financial scandals that occurred in the world that befell

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Worldcom have shocked the world. After acquiring MCI, UUNet, Compuserve, and the AOL (*American Online*) data network in 1998, communications capacity became too large, and the dot-com bubble occurred in 2000. As a result, Worldcom's revenue fell drastically. It motivated Bernard Ebbers as CEO, Scott Sullivan as CFO, and David Myers as senior auditors to manipulate financial statements. In addition, several Indonesian companies have also been involved in financial scandals, such as Bank Global in 2004 and PT. KAI in 2006 (Bachtiar, 2012). Management's confidential information makes investors hesitate to make transactions, causing high stock return volatility (Bailey et al., 2006). Negative information manipulated by managers will accumulate at some point. When it occurs, insider trading will override all bad information and result in a stock crash in the form of a decrease in the company's stock return (Jin & Myers, 2006). Thus, stock prices are also useful for investors to assess risk (Koonce et al., 2005).

Idiosyncratic risk arises due to certain internal policies. Idiosyncratic risk cannot be separated from the company's internal policies (Firmansyah et al., 2020; Firmansyah & Suhanda, 2021). Investors unable to diversify prefer companies that can minimize idiosyncratic risk because they can provide high returns. Idiosyncratic risk is more controllable than systematic risk, and this is because the idiosyncratic risk is an internal risk that the manager fully controls.

Idiosyncratic risk can threaten the company’s going concern in the future. Managers with an opportunistic nature take advantage of their discretion to carry out certain policies that may differ from shareholders’ interests. On the other hand, the shareholder as the principal gives authority to the manager as the agent to manage the business concerning the principal's ownership in the form of shares to maximize the welfare of

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investors (Jensen & Meckling, 1976). The company's policy mistakes taken by managers without shareholders' approval turned out to be detrimental. Managers motivated to act in their interests put the company at risk. Managers have more complete information concerning the company than investors. As a result, managers can control company policies so that the company appears to achieve the goals expected by shareholders. In developed countries where investors dominate, institutional investors dominate in emerging markets, so the capital market becomes inefficient in developing countries. In an inefficient market, the basic sentiment of companies reflected in accounting data can result in high returns (Kumari et al., 2017). Therefore, research on idiosyncratic risk needs to be investigated further.

Several previous studies that investigated the factors that explain idiosyncratic risk were carried out with corporate sustainability performance (Lee & Faff, 2009), institutional ownership (Lee & Faff, 2009), earnings management (Agustia et al., 2020; Chang et al., 2015; Firmansyah & Suhanda, 2021; Wijoyo & Firmansyah, 2021; Zhou et al., 2016), green innovation strategy (Lin et al., 2020), leverage (Liu et al., 2014; Simarmata et al., 2019), corporate social responsibility (Chen et al., 2018).

Idiosyncratic risk occurs due to management's choices, such as investment, dividend, and accounting policies. One of the investment policies is the investment opportunity set, while the accounting policy managers can control earnings management. The quality of financial statements can be reflected in the earnings quality. Rajgopal & Venkatachalam (2011) concluded that poor earnings quality aligns with financial statements that are difficult for users to understand. Good earnings quality indicates a low indication of earnings management practices.

Managers usually have the incentive to delay disclosing bad

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financial information but, in some circumstances, either the incentive or the ability to withhold information (Entrepreneur, n.d.). It causes the sudden release of accumulated negative information, and even earnings management positively affects the risk of stock price crashes (Cohen et al., 2014). Testing of earnings management on idiosyncratic risk using data from developed countries was carried out by (Chang et al., 2015; Datta et al., 2017). They used accrual earnings management to measure the earnings quality of corporate data in the US. Agustia et al. (2020) and Firmansyah & Suhanda (2021) employed idiosyncratic risk accrual earnings management with data from developing country companies in Indonesia. Chang et al. (2015), Firmansyah & Suhanda (2021) and Zhou et al. (2016) concluded that accrual earnings management increases idiosyncratic risk. This study's results contradict Agustia et al. (2020) and Wijoyo & Firmansyah (2021), who concluded that accrual earnings management decreases idiosyncratic risk. Some of these studies have inconsistent results on accrual earnings management against idiosyncratic risk, so further investigation is needed.

A dividend policy is one option for managers to avoid asymmetric information about the company's condition and prospects between company management and investors (Profilet & Bacon, 2013). Investors dare to invest in companies because dividend policy information signals investors about the company's long-term earnings prospects (Putu et al., 2014). Dividend policy is one of the important factors that managers must focus on in running the company because it significantly influences both internal and external parties (Putu et al., 2014). High-risk companies tend to pay smaller dividends because high-risk companies have the profitability to experience lower profits (Rahmawati, 2015). The company's return can be in the form of dividends or capital gains. Thus, the lower the dividend payout,

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the higher the company's risk. Research by Kim & Kim (2013) concluded that dividend policy has a negative effect on idiosyncratic risk. Therefore, this study should be investigated further because there are inconsistencies. This study aims to analyze the effect of dividend policy and accrual earnings management on idiosyncratic risk.

This study also includes the investment opportunity set or IOS in a test that has never been done before. An investment opportunity whose size depends on future expenditures determined by management is expected to produce a higher expected return called IOS (Saputri, 2019). In general, IOS explains how big the investment opportunity or opportunity is for a company that depends on the company's financing options for future interests. IOS also plays a role as a company growth projection tool. In addition, IOS is also used as a tool for consideration in investment decisions because it is necessary to consider it by confirming it through various measurable variables. The investment opportunity set can determine the company's future growth. In line with this, IOS testing on market response is usually carried out on firm value (Kallapur & Trombley, 2001; Suartawan & Yasa, 2017) and stock returns (Yusma & Holiawati, 2019). However, IOS testing in the context of idiosyncratic risk has never been carried out. Thus, research on the relationship between investment opportunity sets and idiosyncratic risk is relevant to be carried out and relevant to the concept of market-based accounting research.

To support the research, in conducting this research, the control variables are leverage, firm size and liquidity. Leverage is the proportion of debt to assets owned by the company. Companies with high debt levels in their capital structure are increasingly experiencing increased financial difficulties, which will later be associated with increased risk for the company (Hardwick & Adams, 1999). The greater the leverage, the greater

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the company has a larger debt, thus increasing its default risk. Oktarina (2010) and Paligorova (2011) concluded that leverage positively affects the company's earnings and risk management. Furthermore, (Biase & D'Apolito, 2012) confirmed that leverage and systematic risk have a strong positive relationship.

Companies with a larger size have more resources for optimizing performance (Parendra et al., 2020). However, company resources can be misused by managers for certain motives. Large companies also face more complex business problems, so they cannot be separated from the risks they must bear. Chang et al. (2015), Kumari et al. (2017), and Zhou et al. (2016) suggested that firm size has a positive effect on idiosyncratic risk.

Liquidity relates to the company's ability to meet its short-term liabilities by using current assets (Brigham & Houston, 2019). If a company's low level of liquidity shows that the company's financial performance is not good, the company's risk increases and vice versa. (Beaver et al., 1970) examined the effect of market and accounting factors on the company's systematic risk. They found a negative correlation between liquidity and the company's systematic risk.

This study has several contributions. First, this study attempt to add the literature on financial accounting, especially capital market-based financial accounting research in developing countries. Second, this study is expected to be employed by the Indonesia Financial Services Authority to improve policies concerning investor protection.

2. Literature Review

In the agency theory context, the delegation by the principal provides authority to the manager as an agent to carry out business operations and choose the accounting policies that apply to the company's financial statements. The agents can use accounting policies to fulfill their motives through accrual earnings management (Firmansyah & Suhanda,

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2021). Agents can choose accounting policies at their discretion in carrying out company operations. In addition, incomplete financial statement information due to accrual earnings management is not able to reduce asymmetric information between managers and stockholders (Firmansyah & Irwanto, 2020).

Several studies proved that accrual earnings management increases idiosyncratic risk (Chang et al., 2015; Firmansyah & Suhanda, 2021; Zhou et al., 2016). The manager has the authority as an agent to apply accounting policies in reporting financial information, including accrual earnings management activities. In line with this, accrual policies that may not be in line with the interests of shareholders can be used as a signal that the policy can increase the company's risk. By choosing an accrual policy due to the lack of information held by shareholders, managers can use it with certain motives. It will affect the earnings quality, which encourages contributing to idiosyncratic risk.

H_1: Accrual earnings management is positively associated with idiosyncratic risk.

The signaling theory states that the company will always provide financial information to external parties as a report and accountability (Spence, 1973). Managers are also responsible for providing information to influence and attract investors and potential investors in the right conditions and time (Spence, 1973). The investment opportunity set is an investment opportunity that is used as a guideline to determine the classification of the company's future growth (Abbas et al., 2019). The size of the investment opportunity set depends on the future expenditures the management decides. The investment opportunity set describes how wide the investment opportunity is for a company, but the investment opportunity set is highly dependent on the company's future expenditures; investment choices are an opportunity

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to grow (Abbas et al., 2019). Based on the theory, the company's investment spending signal will signal the company's future growth, reducing the idiosyncratic risk borne by investors. The company is expected to obtain a return within a certain period, so the market and stock prices will respond well.

Djalil et al. (2017) stated that the higher the investment opportunity set, the higher the company's opportunity to grow and allow the hope for an increase in expected returns. Therefore, with the increase in expected return, the lower the idiosyncratic risk is borne by investors. The current manager is not only the company's manager but also the company's owner, so management will be more careful in making investment policy decisions for the company's survival. It is also in line with (Rini & Mimba, 2019), which concluded that the higher the investment opportunity set, the higher the expected return in the future. The investment opportunity set is expected to reduce the idiosyncratic risk if a company has a high investment opportunity set.

H_2: the investment opportunity set is negatively associated with idiosyncratic risk.

Signaling theory emphasizes the importance of financial statement information presented by companies that will affect investor decisions (Sari et al., 2017). With the signal provided by dividend policy information to investors, it is possible to reduce the asymmetric information that occurs. Dividend policy is presented in the financial statements based on shareholder wealth and the company's ability to maintain earnings. In determining the right payment policy, the company, through the board of directors, takes into account input from senior management to determine how much dividend policy will be decided. DeAngelo & DeAngelo (1990) concluded that companies that reduce the number of dividends paid reflect that the company is experiencing financial distress. Deshmukh (2005) stated that managers cut dividends

ISSN : 2579-7573
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when facing financial difficulties to avoid not paying (omitting) in the future. The costs incurred will be very expensive if the company eliminates dividend distribution (omission). Managers prefer to reduce dividends rather than cut dividends, so companies with low idiosyncratic risk will pay lower dividends to maintain a stable dividend policy.

From an investor's perspective, companies with a high level of financial risk will respond differently to companies with a low level of financial risk. It can occur due to differences in the abnormal returns of the shares of companies that announce an increase or decrease in dividends with different levels of risk for each company. Athari (2021) and Kim & Kim (2013) found a negative relationship between dividend payout and company risk.

Managers can choose the dividend policy that will be applied annually. A dividend policy depends on the quality of the company's earnings in financing the dividend payments given to investors. Good earnings quality indicates the risk the company has, so the better the quality of the company's earnings, the higher the dividends the company can give. Thus, increasing the dividend payout ratio will reduce the idiosyncratic risk investors receive.

H_3: Dividend policy is negatively associated with idiosyncratic risk.

3. Research Methods

This study employs secondary data from food and beverage sub-sector companies listed on the Indonesia Stock Exchange from 2016 to 2020 derived from www.idx.co.id and www.finance.yahoo.com in the form of financial report data and stock prices. The summary of the sample as purposive sampling is as follows:

Table 1
Research sample

Criteria	**Amount**
The sub-sector companies as of 2021	33
The sub-sector companies before 2016	(16)
Companies that do not have complete annual reports	(1)
Companies that have active common stock traded from 1 Jan 2016 to 31 December 2020	(1)
Number of companies that can be employed in this study	15
Year	5 year
Total observations	**75**

Source: developed in research (2022)

The dependent variable used in this study is the idiosyncratic risk (IDIOVOL). This study employs

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accrual earnings management (AEM), investment opportunity set (MBVE), and dividend policy (DPR) as the independent variable. Also, this study includes three control variables: leverage, size, and liquidity.

This study's proxy of idiosyncratic risk employs Fama & French's (1993) 3-factor model. Regression is carried out in a time-series manner for all companies that are the study's sample. The 3-factor model equation can be described as follows.

$$Rt - RFt = \beta0 + \beta1(RMt - RFt) + \beta2SMBt + \beta3HMLt + \varepsilon it \quad \text{.....(1)}$$

Where:
Rit : monthly excess return on company stock i
RFt : risk-free monthly rate, using the monthly yield on 10-year government bonds as used in research by Firmansyah et al. (2020)
RMt : market monthly excess return (RM), using monthly market return
SMBt : the monthly relative return of small versus large firms, calculated using market capitalization data
HMLt : monthly relative return from high versus low ratio, calculated using book-to-market value data
Eit : monthly residual value of company i

Based on Liu et al. (2014) market capitalization ranking data on the study population, two portfolios are formed consisting of the Big (B) group portfolio, namely the top 50% of stocks and the small (S) group, namely the bottom 50% of shares (Liu et al., 2014). Meanwhile, based on the market capitalization ranking data, three portfolios were also formed based on the previous year's book-to-market value ranking data for the study population, which consisted of the high (H) group portfolio, namely the top 30% of stocks, low group (L), namely the bottom 30% of shares; and the remaining 40% shares (Liu et al., 2014).

After carrying out the regression using the Fama-French 3-factor model, the value of idiosyncratic risk is obtained through the monthly residual value (εit), which is then standardized and annualized (multiplied by √12) (Firmansyah et al., 2020).

$$\text{IDIOVOLFM} = \sqrt{\frac{\sum_{i=1}^{n}[\varepsilon_{it} - (\varepsilon_{it} - \bar{\varepsilon})]^2}{n}} \times \sqrt{12}$$

ISSN : 2579-7573
E-ISSN : 2715-5102

This study uses an additional proxy to test the sensitivity of the research results, a market model referring to previous studies by Firmansyah et al. (2020). With the following formula:

$R_{it} = \beta 0 + \beta 1 Rmt + \varepsilon it$..... (2)

Where:

R_{it} : the company's stock return *i* at time t;

R_{mt} : monthly stock return from the Composite Stock Price Index (CSPI)

ε_{it} : Residual

The accrual earnings management in this study refers to the model of Kothari et al. (2005) and has also been used by Firmansyah & Irwanto (2020) and Firmansyah & Suhanda (2021). with the following formula:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = \alpha_0\left[\frac{1}{TA_{i,t-1}}\right] + \alpha_1\left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{TA_{i,t-1}}\right] + \alpha_2\left[\frac{PPE_{i,t}}{TA_{i,t-1}}\right] + \alpha_3 ROA_{i,t-1} (3)$$

Where:

$TAC_{i,t}$: Earnings before extraordinary items are reduced by cash flows from operating activities in period t

$TA_{i,t-1}$: Total of all assets in period t-1

$\Delta REV_{i,t}$: Change in income from t to period t-1

: Change in receivables from t to period t-1

PPE : Plant, Property and Equipment

This study does not distinguish between upward and downward earnings, so the residual result of the regression model of discretionary accruals is absolute.

The investment opportunity set proxy in this study using the market-to-book equity value as Astriani (2014) is formulated as follows:

$$MBVE = \frac{\text{(Number of shares outstanding x closing price)}}{\text{Total Equity}}$$

This study uses a dummy for dividend policy proxy as Firmansyah et al. (2021), represented by the numbers 0 and 1. The number 0 illustrates that the company does not implement a dividend policy, while the

ISSN : 2579-7573
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number 1 illustrates that the company implements a dividend policy.

This study uses DAR (debt to assets to ratio) for leverage proxy following Chang et al. (2015) and Hatane et al. (2019).

$$\text{LEV} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

Firm size in this study uses the natural logarithm total assets as Chang et al. (2015) and Firmansyah & Muliana (2018).

$$\text{SIZE} = \ln(\text{Total Asset})$$

The company's liquidity proxies follow Arifin & Asyik (2015) and Asikin et al. (2021) as follows:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Hypothesis testing in this study used multiple linear regression analysis for panel data. Using panel data requires additional analysis to determine the common, fixed, or random effects used in the regression. This study uses two models. The following are the main models of hypothesis testing in this study:

$IDIOVOL_{it}FF = \beta_0 + \beta_1 AEM_{it} + \beta_2 MBVE_{it} + \beta_3 DPR_{it} + \beta_4 LEV_{it} + \beta_5 SIZE_{it} + \beta_6 LIQ_{it}$….(3)

Meanwhile, the additional regression model is used as follows:

$IDIOVOL_{it}MM = \beta_0 + \beta_1 AEM_{it} + \beta_2 MBVE_{it} + \beta_3 DPR_{it} + \beta_4 LEV_{it} + \beta_5 SIZE_{it} + \beta_6 LIQ_{it}$ …..(4)

Where:

$IDIOVOL_{it}$: Idiosincratic Risk (Std residual market model X √12)

AEM_{it} : Accrual earning management period t

$MBVE_{it}$: Market to book value of equity period t

DPR_{it} : Dividend Payout companies period t

LEV_{it} : Total company debt divided by total assets for period t

$SIZE_{it}$: Natural logarithm of total assets for period t

LIQ_{it}: Current assets compared to current liabilities of the company in period t

4. Results and Discussions

4.1 Results

Table 2 below depicts descriptive statistics of the variables used in this study.

Table 2
Descriptive Statistics

Variable	Mean	Med.	Max.	Min.	Std. Dev.	Obs.
IDIOVOL_FF	0,3072	0,2438	0,9937	0,0095	0,2227	75
IDIOVOL_MM	0,3531	0,2598	1,4092	0,0000	0,2670	75
AEM	0,0693	0,4702	0,4894	0,0013	0,0744	75
MBVE	3,8092	1,3093	30,1682	-0,4576	6,6081	75
DPR	0,6400	1,0000	1.0000	0,0000	0,4832	75
LEV	0,5150	0,4965	2,8999	0,1405	0,4353	75
SIZE	28,9589	28,6988	32,7256	27,0658	1,4250	75
LIQ	1,9109	1,5081	5,1130	0,1523	1,2002	75

Source: processed (2022)

Table 3 shows the results of hypothesis testing using the fixed effect model.

Table 3
Summary of Hypothesis Test Results

	Model 1 IDIOVOL_FF				Model 2 IDIOVOL_MM			
Var.	Coeff.	T-Stat.	Prob.		Coeff.	T-Stat.	Prob.	
C	-0.974	1.131	0.196		-2.068	1.264	0.053	
AEM	-0.410	0.213	0.030	**	-0.454	0.249	0.037	**
MBVE	0.004	0.006	0.228		0.005	0.007	0.244	
DPR	0.023	0.109	0.415		0.173	0.119	0.077	*
LEV	0.047	0.071	0.465		0.097	0.090	0.144	
SIZE	0.044	0.038	0.256		0.080	0.042	0.034	**
LIQ	-0.019	0.020	0.181		-0.002	0.023	0.201	
R^2		0.702				0.735		
Adj.R^2		0.592				0.637		
F-stat		6.383				7.513		
Prob(F-stat.)		0.0000				0.0000		

Source: Processed (2022)

Furthermore, Table 4 is an additional test to distinguish earnings management into income maximization and income minimization.

Table 4
Additional Test

Var.	***Income Maximization* (n=38)**						***Income Minimization* (n=37)**					
	Model 1			**Model 2**			**Model 1**			**Model 2**		
	Coef	t-Stat	Prob	Coef	t-Stat	Prob	Coef	t-Stat	Prob	Coef	t-Stat	Prob
C	1.20	1.48	0.15	1.55	1.51	0.14	2.48	3.35	0.00	2.50	3.08	0.00
AEM	0.12	0.22	0.83	-0.09	-0.13	0.89	0.05	0.05	0.96	-0.49	0.34	0.73
MBVE	-0.01	-0.87	0.39	-0.002	-0.29	0.77	-0.01	-2.56	0.01	-0.01	-2.77	0.01
DPR	-0.16	-1.69	0.10	-0.17	-1.43	0.16	0.17	1.65	0.11	0.17	1.50	0.14
LEV	-0.27	-1.51	0.14	-0.24	-0.99	0.33	0.02	0.45	0.66	0.07	1.44	0.16
SIZE	-0.02	-0.83	0.41	-0.03	-0.96	0.34	-0.07	-3.18	0.00	-0.07	-3.02	0.01

LIQ	-0.01	-0.34	0.74	-0.01	-0.31	0.76	-0.06	-1.38	0.17	-0.05	-0.95	0.35
R^2		0.2851		0.2487				0.3080		0.2847		
Adj.R^2		0.1468		0.1033				0.1696		0.1416		
F-Stat		2.0614		1.7104				2.2251		1.9904		
Prob(F-stat)		0.0022		0.0048				0.0065		0.0000		

Source: Processed (2022)

4.2 Discussions

4.2.1 The association between accrual earnings management and idiosyncratic risk

The hypothesis test results suggest that accrual earnings management is negatively associated with idiosyncratic risk in both model 1 (FF model) and model 2 (MM model). The companies that practice accrual earnings management negatively influence idiosyncratic risk so that when managers carry out accrual earnings management, the idiosyncratic risk borne by investors will decrease. Investors consider that accrual earnings management actions in food and beverage companies as an indicator that reduces the company's idiosyncratic risk. This study's results align with research conducted by Agustia et al. (2020) and Wijoyo & Firmansyah (2021). However, the result of this study is not in line with Chang et al. (2015), Firmansyah & Suhanda (2021), and Zhou et al. (2016).

According to agency theory, accrual earnings management actions taken by company management can create asymmetric information. In addition, investors are not aware of accrual earnings management practices by management. Earnings management can be triggered due to information asymmetry because managers have an advantage over information compared to shareholders.

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Accrual earnings management practices by management can create opportunities to communicate company performance to investors through accounting discretion (Scott, 2015).

Managers have a responsibility to be able to fulfill the wishes of the company's owner, namely increasing the welfare of shareholders so that the principal gives bonuses if the manager can achieve certain profit targets. Companies have many contracts, such as inter-company work contracts with their managers and loan contracts with companies and their creditors (Scott, 2015). Efficient contracts take the view of companies managing their own companies most efficiently, thereby maximizing the prospects for the company's survival (Scott, 2015). Accrual earnings management behavior by food and beverage companies shows that managers use accrual earnings management to increase contract efficiency to manage earnings in rigid and incomplete money contracts. In addition, managers use accrual earnings management to convey the company's internal information to the market, which is expected to strengthen stock prices (Priantinah, 2016). It illustrates that accrual earnings management can better reflect the company's prospects (Priantinah, 2016).

Efficient contracts mean the optimal balance of benefits and contract costs. It can be achieved through the manager's decision to choose appropriate accounting policies for the company in certain situations.

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Managers use the strategy to increase company efficiency through accounting policies (Scott, 2015). Managers use discretion to achieve profit stability from time to time so that this action can meet investors' expectations as company owners (Firmansyah et al., 2020). In addition, reviewed in the context of efficiency measures, companies should report small profits constantly than report large profits. Still, there is no guarantee that the company will provide profits in the following year (Scott, 2015). In this study, food and beverage companies carry out earnings management as an efficiency measure through the establishment of accounting policies as food and beverage companies are identical to the use of production machines, efficiency-oriented managers will take policies to shrink machines based on unit activity methods, this will impact information earnings that are conveyed as good news under investors' expectations. This study confirms that earnings management is considered good news for investors.

4.2.2 The association between investment opportunity set and idiosyncratic risk

The result of hypothesis testing in the first and second models shows that IOS is not associated with idiosyncratic risk. Meanwhile, test results perform additional analysis by separating companies with positive and negative DA values. A company with a negative DA finds that IOS has a negative effect on idiosyncratic risk. In this study, it is stated that the investment opportunity set will

ISSN : 2579-7573
E-ISSN : 2715-5102

increase the company's investment opportunity to grow, and the level of idiosyncratic risk owned by the company will be smaller. This condition explains that the IOS owned by the company, either in low or high amounts, affects idiosyncratic risk in companies that tend to practice income minimization earnings management. Investors or shareholders believe that the company's IOS instruments can influence investors' investment decisions.

Today's market response tends to be influenced by the information provided by the company to the public. Information that aligns with investors' wishes for the company's future is considered positive, so investors have confidence in the company's future. The information managers provide through investment opportunities to investors illustrates the company's future growth classification, which gives investors confidence in the company's good future value. The higher the investment opportunity the manager can project, the higher the opportunity for the company to grow, which increases the company's value as a positive response to investors (Djalil et al., 2017). This indicates that companies with increased firm value have a decreased idiosyncratic risk. It is in line with the results of this study, which found that investment opportunities negatively affect idiosyncratic risk.

If it is associated with signaling theory, signaling can be conducted through spending on investments made by companies in the capital market

ISSN : 2579-7573
E-ISSN : 2715-5102

(Wijaya & Suganda, 2020). A positive signal from a company with a high IOS value will provide good growth prospects in the future. The positive signal given by the company through IOS is the information used by investors as an indicator in assessing that companies with high IOS influence idiosyncratic risk as a result of implementing manager policies. The test results of this study can confirm this view in the group of companies that carry out income minimization. Managers, as the party responsible for the company's business processes, provide prospects for investment opportunities. Then investors use the available information to make investment decisions (Firmansyah et al., 2020).

Publicly disseminating information gives investors confidence that the food and beverage sector is a sector that has good growth opportunities for the company in the future. Furthermore, managers who gain investors' trust will be more careful in making risky decisions. Good investment opportunities have a role in providing expected returns in the future, which have the effect of reducing idiosyncratic risk (Rini & Mimba, 2019). Managers carry out good news generated through investment opportunities to obtain a good assessment from investors.

4.2.3 The association between dividend policy and idiosyncratic risk

The result of testing the third hypothesis in model 1 suggests that dividend policy is not associated with

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idiosyncratic risk. Meanwhile, the second model shows that dividend policy positively affects idiosyncratic risk. Thus with the second model, there is sufficient evidence to reject the third hypothesis. The sample used in this study uses a relatively small sample so that the market regression model is more suitable for a smaller number of return samples in explaining the relationship between dividend policy and idiosyncratic risk compared to the Fama-French model. Thus, the result of this study explains that dividend policy has a positive effect on idiosyncratic risk. The test results in this study contradict the findings of Kim & Kim (2013). Managers take advantage of the high dividend policy to attract investors to invest in companies with high idiosyncratic risk. Organizational policies such as paying large dividends require high transaction costs.

According to signaling theory, the information provided by management through dividend policy acts as a signal to investors. Signals given to investors can influence their determination to invest (Hartono, 2017). This study confirms that the dividend policy carried out by managers in food and beverage companies provides bad news to investors. This study's result indicates that the manager's dividend policy is risky and does not align with the investors' wishes. This is because some food and beverage companies pay dividends with the condition of the company's financial performance being not good, which is indicated by

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E-ISSN : 2715-5102

the company's profits experiencing losses when paying dividends; for example, the company PSDN in 2016, 2018 and 2019 paid dividends when the company experienced a loss in the current year.

Investors are more demanding in the food and beverage sub-sector companies, and it is better to use retained earnings for business development or product diversification which is more profitable for the company in the future than paying dividends. Thus, the policy taken by this manager can impact the company's stock price because it improves the company's fundamental condition. Therefore, investors in the food and beverage sub-sector prefer to get profits through capital gains compared to dividends.

5. Conclusion

This study concludes that accrual earnings management decreases idiosyncratic risk. By utilizing discretionary accrual policies, managers manage earnings to encourage lowering company-specific risks. Meanwhile, the investment opportunity set does not affect idiosyncratic risk. Based on the additional test results, it is shown that companies with negative discretionary accruals values indicate that IOS decreases idiosyncratic risk. Furthermore, dividend policy has a positive effect on idiosyncratic risk. Dividend policy through increasing dividend payments by companies is considered less concerned with the company's business development through ownership of productive assets.

This study has limitations because it only examines food and beverage sector companies listed on the IDX. In addition, the existence of certain criteria in the selection of samples reduces the number of samples used in the study. Future

research can use company data on consumer goods or manufacturing companies. This research indicates that the Indonesian Financial Services Authority should improve policies related to dividend payment arrangements made by listed companies in the form of restrictions on companies that can make dividend payment policies based on the financial statements of related companies.

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