THE EFFECT OF ACCOUNTING INFORMATION QUALITY ON LABOR INVESTMENT EFFICIENCY WITH LITIGATION RISK AS A MODERATING VARIABLE
(Empirical Study on Manufacturing Companies listed on the Indonesia Stock Exchange in 2021-2022)

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ABSTRACT

This research aims to examine the effect of accounting information quality on labor investment efficiency with litigation risk as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange in 2021-2022. The variables used in the test are the quality of accounting information as the independent variable and labor investment efficiency as the dependent variable and litigation risk as the moderating variable.

This study used manufacturing companies in 2021-2022 with a total sample of 112 samples. Sampling is based on a purposive sampling method that follows certain criteria. Multiple regression analysis and moderation regression analysis are the methods used in the study.

The results of this study indicate that the quality of accounting information has a significant positive effect on labor investment efficiency and litigation risk cannot moderate the relationship between the level of labor investment efficiency and the quality of accounting information.

Keywords: litigation risk, accounting information, accounting information quality, labor investment efficiency,

INTRODUCTION

In the era of globalization, society has been overwhelmed by information. This influence causes more and more companies to realize that information systems can provide very effective support in improving their core capabilities so that all companies need information on various types of reports for the purpose of making the right decisions (Yuan *et al.,* 2022).

The right decisions are essential to achieve great profits and also to reduce losses within the company. To be able to make the right decisions, companies need to determine the types of decisions that need to be made, what reports are needed to make those decisions, and also how to collect and analyze the data needed to produce quality reports. Therefore, the quality of accounting information plays an important role in assisting in all aspects of making the right decisions.

Company growth depends on managers' decisions. Managers must have accurate andreliable information. Many managers misuse this information. They report inaccurate company conditions. This is caused by information asymmetry. The emergence of information asymmetry problems is detrimental to shareholders because managers use itfor personal gain (Harto, 2014).

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Some studies suggest that companies can reduce information asymmetry through improving the quality of financial reporting (Bushman *et al.,* 2001). On the other hand, high-quality accounting information can reduce market friction and asymmetric information, as well as adverse selection and moral hazard, thereby reducing underinvestment and overinvestment. Litigation risk also plays a role in reducing agency problems and improving the quality of accounting information, which then leads to better capital allocation efficiency (Chung *et al.,* 2013). Therefore, any factor that reduces litigation risk may weaken the deterrent effect, leading to opportunistic behavior by managers, lower accounting quality, and reduced investment efficiency. Opportunistic is when a person seeks to advance his or her own interests by using deceitful tactics and exploiting situations for his or her own benefit.

Nuzula and Nurlaily (2020) define investment as the act of managing money or investing with current money or capital in the hope of getting a steady source of income in the future. The main purpose of investment is to obtain assets in the future whose value is greater than the initial investment. The company must invest effectively to gain profits for the company. Companies must avoid *overinvestment* and *underinvestment* problems in order to invest efficiently. When a business misses an investment opportunity with a positive *Net Present Value*, it is underinvesting. Overinvestment will occur if a business makes an investment when the *Net Present Value is* negative.

Investment efficiency can be achieved by considering investment opportunities that are profitable for the business and by allowing managers to make the best decisions. Managers are entitled to choose guiding principles when making decisions about investments (Saputra *et al*., 2022). In other words, it refers to the use of certain techniques without sacrificing the desired results and is the most straightforward, economical, time-saving, and short-range approach.

When there are agency problems in organizations between principals and agents, suboptimal decision-making occurs. The knowledge gap between the principal, the business owner, and the agent, management, gives birth to this conflict. Because of this information gap, managers, acting as representatives of the company, sometimes act in a way that benefits them financially more than maximizing value for shareholders. This information gap can lead to problems with overinvestment or underinvestment, which prevents the business from achieving the optimal level of investment (Saputra *et al.,* 2022).Therefore, it is important to solve this agency problem so that decision making in the company can become more optimal and efficient.

One of the crucial elements in production is human resources, which is generally a significant cost factor (i.e. employee compensation costs) accounting for two-thirds of the economic value generated by a company (Yuan *et al.,* 2022). Skilled and productive staff are becoming increasingly important for businesses to compete worldwide in the information economy. Therefore, companies need to invest in their workforce to improve its efficiency and productivity.

There is still little research conducted on the relationship between the effectiveness of labor investment made by companies and the quality of accounting information (Yuan *et al.,* 2022). This is because it is assumed that labor investment expenditures have lower adjustment costs compared to capital investment expenditures.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION
Agency Theory

Agency theory is based on the theoretical framework of the interaction of owners who behave as agents and shareholders or business owners who behave as principals, where owners have the responsibility to manage the business. According to agency theory, the business serves as the center point of the contract between managers (agents) and owners of financial resources (principals), responsible for the supervision and management of the potential (Jensen & Meckling, 1976).

When an agent acts against the interests of the principal, leading to the imposition of agency costs, there may be a conflict of needs between the principal and the agent. Three assumptions create agency theory according to (Eisenhardt, 1989): (1) individuals are inherently individualistic, (2) individuals have a certain ability to think ahead (bounded rationality), human views of the future (bounded rationality), and (3) *risk aversion*, or the desire to avoid danger.

Contingency Theory

The relationship between group performance in various scenarios and the leadership style used in them is examined by contingency theory (Sethuraman & Suresh, 2014). This statement conveys the idea that a leader must be able to assess the attitudes required to support successful leadership implementation when planning organizational operations. With the current events and social dynamics, it is imperative for leaders to have the ability to quickly adjust to changing circumstances on a daily basis.

One method to explain the differences in organizational structure is contingency theory. According to contingency theory, no management control system can be designed and used well in every organizational situation. But certain management control systems work better in some contexts or with certain groups of people (businesses).

The contingency method also addresses results that are inconsistent with previous investigations. Using generated uncertainty as an additional variable can help strengthen research findings. This new variable is usually used as a moderating factor to determine the influence between other variables. The indicator in this investigation is litigation risk.

Figure 1

Theoretical Framework
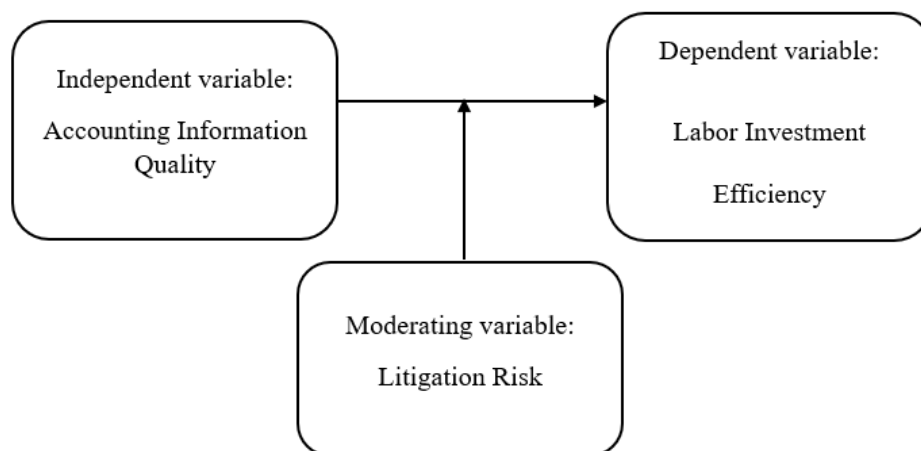
Accounting Information Quality and Labor Investment Efficiency

Underinvestment and overinvestment in capital are examples of inefficient capital investment caused by market frictions (Stein, 2003). Information asymmetries also arise in labor investment, agency problems, and budget constraints in addition to capital investment. Firms anticipate that high-quality accounting data will reduce information asymmetry, eliminate budget constraints and agency problems, and ultimately improve the efficiency of labor investment.

The accuracy of financial data can help close the understanding gap that separates management and investors (Septiana, 2017). In particular, with high-quality accounting information, shareholders can limit the inefficient labor investment behavior of self-interested managers by properly understanding the operating conditions of the organization.

High-quality accounting data allows shareholders to determine whether research and development investment, profitability, labor scale, and remuneration scale for the upcoming production period are fair, even in cases where management chooses to withhold some information. This makes monitoring more effective.

Under such circumstances, ineffective employee behaviors such as underfiring, overhiring, and underfiring are more likely to be detected. According to (Lambert, 2001), the average variable in management compensation schemes is accounting knowledge. In addition, high-quality accounting information can help improve the effectiveness of compensation plans and reduce employee costs, which will inhibit managers' investment in staff training.

H1 : The quality of accounting information has a positive effect on labor investment efficiency.

Accounting Information Quality, Labor Investment Efficiency, and Litigation Risk

G. Biddle *et al.* (2009) mention that the possibility of lawsuits will reduce agency conflicts and encourage higher accounting standards, which will increase the effectiveness of resource allocation. Where a business commits fraud or discrepancies that may hinder outsiders, lawsuits will arise. Companies receive poor value from litigation. Therefore, managers strongly recommend not to sue. Although it is impossible to completely eliminate litigation risk, this risk can be minimized by improving the quality of accounting quality.

Empirical data is shown by Botosan and Plumlee, (2005) which shows a negative relationship between the cost of capital and information disclosure, this is determined by the level of annual earnings disclosure research. Previous research has shown that information gaps between executives and investors will lead to financing limitations and investment difficulties. Firms are forced to finance their investments using internal capital rather than external funds. As a result, for firms to make investments, they need money from their earnings. In order to use the money for future investment decisions, companies prefer the quality of accurate financial information over the quality of comprehensive accounting information.

Whenever there is a possibility of lawsuits, the high standard of data security related to the efficacy of staff instructions will deteriorate... For businesses with low litigation risk, the effectiveness of labor investment is largely unaffected by the integrity of accounting information. In contrast, when companies face high litigation risk, the impact of high-quality accounting information on labor investment efficiency will be huge.

H2 : Litigation risk will weaken the relationship between the accuracy of disclosed information and labor investment efficiency.

RESEARCH METHODS
Population and Sample

Samples were selected from the population of manufacturing companies listed on the IDX for the 2021-2022 period. Samples were collected using *purposive sampling* method in accordance with the following criteria:

1. Have audited financial statements issued as of December 31 of the previous fiscal year.
2. Manufacturing companies listed on the IDX for the period 2021-2022.
3. Listed in the manufacturing industry in accordance with the industrial sector classification in the Indonesian Capital Market Directory (ICMD) for the 2021-2022 period.
4. The financial statements are presented in Rupiah.
5. The financial statements presented have the necessary data for research.

Analysis Method

The regression analysis used in model 1 is multiple regression analysis to answer hypothesis 1 and model 2, namely moderation regression analysis, is to investigate the potential effect of moderating variables on the effect of independent variables on the dependent variable (Ghozali, 2016: 8). The second hypothesis of this study tests the function of moderating variables. Therefore, the following is how the linear regression model is created:

Model 1: EIT = α + β1KIA + ε
Model 2: EIT = α + β1CHIA + β2LITRISK + β3 (MCH*LITRISK) + ε

Description:

EIT	= Labor investment efficiency
α	= Constant
EIT	= Composition of labor investment efficiency in year t
KIA	= Composition of accounting information quality in year t
LITRISK	= Moderating variable in research
KIA*LITRISK	= Interaction of accounting information quality with litigation risk
ε	= Error

Model and Research Variables

According to Biddle *et al.* (2009), *Investment$_{i,t}$* as the dependent variable is the sum of *capital expenditure, research and development expenditure,* and *acquisition expenditure* minus cash receipts from the *sale of property, plant and* variables is formulated as follows:

$$Investment_{i,t} = \frac{[(capex + R\,\&\,D + acquire) - (PPE_{sales})]}{Total\ Assets} x100$$

Description:
Investment$_{i,t}$ = Labor investment efficiency
Capex (capital expenditure)   = Capital expenditure

R&D (Research and Development)	= Research and development
Acquire	= Asset acquisition
PPE_{sales}	= Fixed asset value of the company in period t
Total Assets	= Total assets of the company

The following study measures the quality of accounting information as an independent variable using earnings management, which is calculated using a cross-sectional version of the Cutillas Gomariz and Sánchez Ballesta, (2014) model. The updated Jones, (1991) model is a widely practiced strategy in the literature on accounting information quality (G. C. Biddle *et al.,* 2009).

1. Calculating Total Accruals (TA_{it})

   $TA_{it} = NI_{it} - CFO_{it}$

   Then, finding the Jones modern coefficient (α) is done with the formula:

   $TA_{it}/A_{it-1} = \alpha 1 (1/A_{it-1}) + \alpha 2 (\Lambda Rec_{it}/A_{it-1}) + \alpha 3 (PPE_{it}/A_{it-1}) + e$

   Description:

TA_{it}	= Total accruals of company i in period t
NI_{it}	= Net income of company i in period t
CFO_{it}	= Cash flow from operating activities of company i in period t
A_{it-1}	= Total assets of company i in period t-1
ΛRec_{it}	= Difference in changes in receivables of company I in period t
PPE_{it}	= The value of the company's fixed assets in period t
e	= error

2. Calculating *Non-Directionary Accrual* (NDA)

   $NDA_{it} = \alpha 1 (1/A_{it-1}) + \alpha 2 [(\Lambda Sales_{it} - \Lambda reci_{t})/A_{it-1}] + \alpha 3 (PPE_{it}/A_{it-1})$

   Description:

NDA_{it}	= Non Discretionary accruals of company i in period t
A_{it-1}	= Total assets of company i in period t-1
$\Lambda Sales_{it}$	= Difference or change in sales balance in period t
Λrec_{it}	= Difference in changes in company receivables I in period t
PPE_{it}	= The value of the company's fixed assets in period t

3. Calculating Discretionary Accruals (DA) can be calculated as follows:

   $DA_{it} = TA_{it}/A_{it-1} - NDA$

   Description:

DA_{it}	= Discretionary accruals of company i in period t
TA_{it}	= Total accruals of company i in period t

Juanda (2007) states that lawsuits are defined as risks that burden the company and increase the likelihood of a lawsuit being filed by a group of people who have the goal of a company experiencing financial difficulties. These parties include creditors, investors, and regulators. Reporting lower assets can conservatively reduce litigation risk. The favorable findings mentioned above resemble legal precedents (litigation). In the following study, litigation is compared with firm size based on asset growth. The higher the asset growth, the lower the litigation risk and the lower the asset growth, the higher the litigation risk.

$$Asset\ growth = Total\ asset(t) - Total\ asset(t-1) / Total\ asset(t-1).$$

Description:

Asset growth	= Asset growth in the company
Total Asset	= Total Assets of the company

6

RESEARCH RESULTS AND DISCUSSION
Descriptive Statistics

In descriptive statistical analysis, the maximum, minimum, standard, and average values are used to explain the research data.

Table 1
Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Investmenti,t	112	-6.99	18.67	5.2861	5.53029
Kualitas Informasi Akuntansi	112	.00	.41	.1233	.09763
Risiko Litigasi	112	-.17	.23	.0326	.08471
Valid N (listwise)	112				

Source: SPSS 2024 Output

Classical Assumption Test

Normality, multicollinearity, autocorrelation, and heteroscedasticity tests are classic assumption tests used in this study. Normality test is used to determine whether the data distribution follows a normal pattern or not, a normality test is carried out. The approach that is often used is the Kolmogorov- Smirnov non-parametric test. According to Ghozali (2016), the data is assumed to be normally distributed if the Asymp Sig value is higherthan 0.05.

Table 2

Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		112
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	5.52194579
Most Extreme Differences	Absolute	.076
	Positive	.076
	Negative	-.052
Test Statistic		.076
Asymp. Sig. (2-tailed)		.133
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: SPSS 2024 Output

The multicollinearity test seeks to find meaningful correlations among the independent variables. The independence of the variables in the regression model is a good indicator of the quality of the model. To test for multicollinearity, use *tolerance* and*Variance Inflation Factor* (VIF). The test findings show that the research regression model does not show multicollinearity, meaning that when the tolerance value is greater than 0.1 and the VIF value is less than 10, the model is considered good. The complete multicollinearity test findings can be seen in the table below.

Table 3

Multicollinearity Test

		Collinearity Statistics	
Model		Tolerance	VIF
1	Kualitas Informasi Akuntansi	.903	1.107
	Risiko Litigasi	.903	1.107
a. Dependent Variable: Investmenti,t			

Coefficients^a

Source: SPSS 2024 Output

The autocorrelation test is used to determine whether the residual error between periods t in t-1 shows a correlation (Ghozali 2016). Autocorrelation does not exist in a well-designed regression model. The DW (DurbinWatson) value is seen as part of the commonly used autocorrelation test. When the DW value of a regression model is between the dU and (4-Du) table values, it is said that there is no autocorrelation.

Table 4

Autocorrelation Test

Model Summary^b

Model	Model	Model	Model	Model	Model
1	1	1	1	1	1
a. Predictors: (Constant), Risiko Litigasi, Kualitas Informasi Akuntansi					
b. Dependent Variable: Investmenti,t					

Source: SPSS 2024 Output

Heteroscedasticity test as a condition that indicates that the regression model is not working properly. If a significant finding greater than 0.05 is obtained, then the regression model is considered free from heteroscedasticity.

Table 5

Heteroscedasticity Test

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.068	.488		8.338	.000
	Kualitas Informasi Akuntansi	3.562	3.270	.109	1.089	.278
	Risiko Litigasi	-.523	3.768	-.014	-.139	.890
a. Dependent Variable: Abs_RES						

Source: SPSS 2024 Output

Hypothesis Test

Once the classical assumption tests are met, hypothesis testing can begin. When no disturbance is detected by the regression model in any of the assumption tests, the traditional assumption tests are considered fulfilled. In this study, multiple linear regressionanalysis and moderation regression analysis were used to test the proposed hypotheses.

Table 6

Test Coefficient of Determination Equation 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.308ᵃ	.095	.078	.94730

a. Predictors: (Constant), Risiko Litigasi, Kualitas Informasi Akuntansi

Source: SPSS 2024 Output

Table 6, shows the *Adjusted R Square* value of 0.078, meaning that 7.8% of the variation in labor investment efficiency (EIT) can be explained by variations in the quality of accounting information, litigation risk, while the remaining 92.2% is explained by other factors not included in the regression model.

Table 7

Test Coefficient of Determination Equation 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.308ᵃ	.095	.070	.95167

a. Predictors: (Constant), Kualitas Informasi Akuntansi*Risiko Litigasi,

Kualitas Informasi Akuntansi, Risiko Litigasi

Source: SPSS 2024 Output

Based on table 7, after adding the moderation variable, namely litigation risk, it can be seen that the Adjusted R Square value is 0.070 or 7%. Variations in labor investment efficiency (EIT) can be explained by variations in the quality of accounting information, litigation risk, while the remaining 93% is represented by other factors not included in the regression model.

Table 8

Statistical T Test Equation 1

Coefficientsᵃ

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.014	.148		33.961	.000
	Kualitas Informasi Akuntansi	2.206	.940	.218	2.346	.021

a. Dependent Variable: Investmenti,t

Source: SPSS 2024 Output

According to table 8, that the Statistical T Test Equation 1 can be formulated, namely: Model 1: EIT = 5.014 + 2.206 MCH + ε

As shown in table 4.9, the independent variable accounting information quality has a t-value of 2.346 and a significance value, or p-value, of 0.021, which is smaller than the α = 0.05 level.

quality of accounting information. The coefficient of the independent variable is 2.206, indicating that the quality of accounting information has a favorable impact on investment. More precisely, for every one unit increase in accounting data on investment. More specifically, investment will increase by 2.206 units for every one unit increase in the quality of accounting information.

Table 9

Statistical T Test Equation 2

Coefficients[a]					
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.010	.152		32.908	.000
	Kualitas Informasi Akuntansi	2.947	1.103	.292	2.671	.009
	Risiko Litigasi	-2.583	2.053	-.222	-1.258	.211
	Kualitas Informasi Akuntansi*Risiko Litigasi	-.496	11.341	-.008	-.044	.965
a.	Dependent Variable: Investmenti,t					
b.	Predictors: (Constant), KIA, LITRISK, KIA*LITRISK					

Source: SPSS 2024 Output

In table 4.10, the equation for Statistical T Test Equation 2 can be explained, namely: Model 2: EIT = 5.010 + 2.947 MCH - 2.583 LITRISK -0.496 MCH*LITRISK + ε

The table shows that the independent variable accounting information quality has a t-value of 2.671 and a significance level (p-value) of 0.009 which is smaller than the α = 0.05 level, after taking into account the interaction between the accounting information quality variable and litigation risk. This indicates that the investment variable is significantly influenced by the quality of accounting information. The coefficient of the independent variable is 2.947, indicating that investmenti,t is positively affected by the quality of accounting information. Specifically, for every one unit increase in the quality ofaccounting information on the investment variable-t. More specifically, investment will increase by 2.947 units for each unit increase in the quality of accounting information.

With a significance level of 0.211 and a t-value of -1.258, the moderating variable of lawsuit risk is shown to be greater than the α = 0.05 level. This indicates that there is not enough data to conclude that litigation risk has a large impact on investment.

The t-value of -0.044 and the significance level of 0.965 are obtained from the interaction between the independent variable of information quality and the moderating variable of litigation risk, which is greater than the limit of α = 0.05. Based on these findings, there is no significant effect of the independent variable of accounting information quality with the moderation variable of litigation risk on investmenti,t.

Table 10

Statistical F Test Equation 1

		ANOVA[a]				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.233	2	5.117	5.702	.004[b]
	Residual	97.815	109	.897		
	Total	108.048	111			
a. Dependent Variable: Investmenti,t						
b. Predictors: (Constant), Risiko Litigasi, Kualitas Informasi Akuntansi						

Source: SPSS 2024 Output

The table above shows that the p-value is smaller than α, which indicates that the regression significance / p-value of 0.004 with α (0.05). Thus, it can be said that this research model has a substantial effect simultaneously (together) the quality of accounting information, litigation risk, on investmenti,t.

Table 11

Statistical F Test Equation 2

		ANOVA[a]				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.235	3	3.412	3.767	.013[b]
	Residual	97.813	108	.906		
	Total	108.048	111			
a. Dependent Variable: Investmenti,t						
b. Predictors: (Constant), Kualitas Informasi Akuntansi*Risiko Litigasi, Kualitas Informasi Akuntansi, Risiko Litigasi						

Source: SPSS 2024 Output

Based on the table above after adding the interaction variable, it shows that the p-value is smaller than α, which indicates that the regression significance / p-value is 0.013 with α (0.05). Thus, it can be said that this research model has a substantial influence simultaneously (together) the quality of accounting information, litigation risk, on investmenti,t.

Interpretation of Results

Table 12

Hypothesis TestResults

	Hypothesis	**Conclusion**
H1	The quality of accounting information has a positive effect on labor investment efficiency	**Accepted**
H2	Litigation risk will weaken the relationship between the accuracy of disclosed information and labor investment efficiency.	**Rejected**

CONCLUSIONS

The ratio of accounting information quality to labor investment efficiency is positively correlated. The findings of this study suggest that effective labor investment management can be enhanced by high quality accounting data. That is, labor investment can be managed more effectively the higher the quality of accessible accounting data. This study shows that managers or other decision makers can make more informed choices on how best to manage human capital investment when they have access to high quality accounting data. The relationship between the efficiency level of labor investment in manufacturing companies and the quality of accounting information cannot be moderated by litigation risk variables.

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