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Accounting Conservatism and Domestic Market Obligation on Coal Company's Profitability: The Moderating Effect of Institutional Ownership Structure

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Abstract

This study aims to investigate the impact of conservative accounting practices and coal Domestic Market Obligation (DMO) on corporate profitability, while also examining how the institutional ownership structure moderates the relationship between conservative accounting, coal DMO, and corporate profitability. A sample of balanced data was collected from the 25 most active coal mining companies listed in Indonesia Stock Exchange (IDX) between 2019 and 2025 with 102 observations. The research employs quantitative methods to test the formulated hypotheses regarding the relationships among conservative accounting, coal DMO, institutional ownership, and corporate profitability. Panel regression models were used for data analysis. Accrual method is used as a benchmark for measuring accounting conservatism. The corporate performance indicators used in this study are return on assets (ROA) and return on equity (ROE) representing profitability. The results of the research show that accounting conservatism has no effect on profitability (ROA and ROE), coal DMO has a significant positive effect on profitability (ROA and ROE), and institutional ownership structure variables can moderate accounting conservatism and coal DMO on profitability (ROA and ROE). This research contributes to the existing literature by providing empirical evidence on the interplay between accounting practices, regulatory frameworks, and ownership structures within the coal mining sector. The findings underscore the importance of institutional ownership in shaping corporate strategies and financial outcomes, offering valuable insights for stakeholders in the industry, including investors and policymakers.

Keywords: Accounting Conservatism; Company's Profitability; Domestic Market Obligation; Indonesian Coal Mining Companies; Institutional Ownership Structure.

INTRODUCTION

In recent years, the intersection of accounting practices, resource management, and corporate governance has garnered significant attention from scholars and industry practitioners alike. The dynamic landscape of the coal mining industry, particularly in emerging markets, poses unique challenges and opportunities for corporate profitability.

Based on data from several coal mining companies listed on IDX, several companies have experienced a decline in profitability that can be seen in Figure 1 (Indonesia Stock Exchange, 2024). This is due to several challenges faced including: fluctuating coal prices depending on the world's coal needs so that supervision is needed regarding the amount of domestic production and securing the supply of national production for DMO needs, the right strategy is needed so that domestic coal absorption is optimal and evenly distributed (such as optimizing infrastructure and coal quality), so that profitability can increase every year (Directorate General of Mineral and Coal, 2023).

According to Ghazali & Chairiri (2014), profitability is accounting profit derived from the difference between revenue and cost measurements. The measurement of profit is determined by the profit recorded and then presented in the form of financial statements. While the profitability ratio is a tool to measure the level of business efficiency, the profit achieved by the company and the level of health of the company. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and basic earning power (Siswanto, 2021).

In the context of this industry, which is subject to volatile market conditions, regulatory changes, and environmental concerns, conservative accounting may serve as a strategic tool for firms

seeking to enhance their financial resilience and long-term profitability. By adopting conservative accounting practices, companies can mitigate the impact of potential losses and present a more stable financial outlook to stakeholders (El-Habashy, 2019; Fariz et al., 2020). Conservatism accounting is the measurement of assets and profits with the principle of prudence due to the existence of economic activity in the uncertainty reflected in the financial statements used in the prevention of overly optimistic decision-making actions (Savitri, 2016).

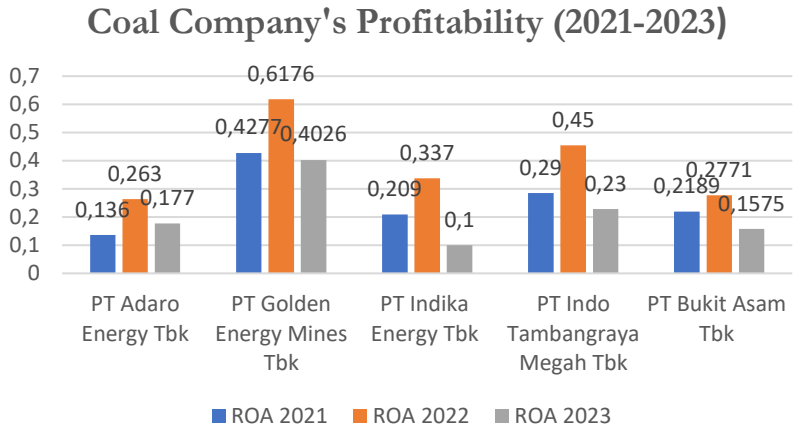

Figure 1. Coal Company's Profitability (ROA)

Research on accounting conservatism on profitability has been conducted several times with different results. The results of research conducted by El-Habashy (2019) & Fariz et al. (2020) state that accounting conservatism has a positive effect on profitability because conservative accounting policies will reduce the company's reported profit while cash flow remains constant so that what is reported is real profit which can help predict real profit in the future. Accounting conservatism can have a positive impact on company performance and strengthen the company's financial position because it can attract new investors and increase the company's ability to retain stakeholders and strengthen their trust in the company's financial position. Meanwhile, the results of other studies conducted by Nassar & Al Twerqi (2021) & Suwarno et al. (2022) state that accounting conservatism has a negative effect on profitability. This study indicates that the stricter the level of conservatism practiced by the company, the lower its profitability. However, on the other hand, there are still studies that state accounting conservatism has no effect on profitability, namely research conducted by (Al-Daoud et al., 2023).

On the other hand, coal DMO policies, which mandate that coal producers allocate minimum 25% of the annual coal production plan for domestic consumption and if it does not meet the minimum percentage, it will be subject to a fine or compensation fund for the amount of coal DMO sales shortfall and sets the coal selling price at USD 70/ton Free on Board (FOB) Vessel (The Ministry of Energy and Mineral Resources of the Republic of Indonesia, 2022). While these regulations aim to ensure energy security and stabilize domestic markets, they can also impose constraints on profit margins for coal mining companies (Amri & Khajar, 2023).

Research on coal DMO (Domestic Market Obligation) policies on profitability has been conducted by Amri & Khajar (2023) which states that DMO has a significant negative effect on the profitability of coal mining companies listed on the IDX in 2017-2021. The study indicates that the company's profitability level decreasing. This research is supported by Safitri et al. (2021) which states that at the time of the announcement of the coal DMO policy there was a significant market reaction characterized by a negative abnormal return. Meanwhile, other research on DMO conducted by Natalia et al. (2022) states that DMO is a policy of prohibiting exports and securing domestic coal supply reserves which provides a response from various parties to the policy and affects the dynamics of national defense related to national energy security. Based on other research conducted by Fahmi et al. (2022), the DMO policy is a strategic step and has a positive effect on the level of energy security, defense and national security because the policy can guarantee electricity supply through meeting the needs of coal supply in the domestic market.

Institutional ownership structure is another crucial factor that warrants examination in this study. The motivation of this research is to modify the research conducted by El-Habashy (2019), Fariz et al. (2020) & Amri & Khajar (2023) by adding moderating variables of ownership structure between independent variables (accounting conservatism, coal DMO) and dependent variables (profitability). Based on the data obtained in Pamungkas (2024), the completeness of the institutional ownership structure data is more complete than the managerial ownership structure, so researchers will add moderating variables (institutional ownership structure) between the independent variables (accounting conservatism and coal DMO policy) to the dependent variable (profitability). Institutional share ownership in the ownership structure is a form of monitoring management and decision makers because shareholders dominate and control management performance in the company's financial policies. Institutional ownership structure will improve oversight, report quality, and risk management, which contributes to better profitability (Yeni & Hady, 2024).

The coal mining sector, particularly in Indonesia, serves as an ideal context for this investigation. The country is one of the largest producers and exporters of coal globally, with a burgeoning domestic market that has prompted the government to implement DMO policies to ensure adequate supply for local consumption. The interplay between these policies and corporate profitability is particularly salient in Indonesia, where economic growth and energy demands are closely linked to the performance of the coal mining industry. Additionally, the institutional ownership landscape in Indonesia has evolved in recent years, with a growing presence of both domestic and foreign institutional investors, making it imperative to understand their role in moderating the effects of accounting practices and regulatory frameworks on corporate profitability.

Accordingly, this study is primarily aiming at studying the effect of accounting conservatism and domestic market obligation on a company's profitability using ROA and ROE in coal mining companies listed in IDX over the period 2019-2023. Furthermore, the study intends to examine the moderating role of institutional ownership structure.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Accounting Conservatism

Accounting conservatism is the principle of caution and vigilance in situations of uncertainty that risk disaster or anticipation of no profit and prepare for any eventuality, including loss. This concept is applied in situations that contain reasonable doubt (Hoesada, 2022).

Givoly & Hayn (2000) model focuses on the effect of conservatism on the income statement over several years so that conservatism results in continuous negative accruals. Accruals are the difference between net income before depreciation/amortization and cash flow from operating activities. The larger the negative accruals, the more conservative the accounting will be. Depreciation is excluded from net income in the CONACC calculation because depreciation is an allocation of the cost of assets owned by the company because when purchasing assets, the cash paid includes cash flow from investment activities, not from operating activities.

Coal Domestic Market Obligation

According to ESDM (2009), Domestic Market Obligation is a Government Policy that regulates that mineral and coal Mining Business Entities must prioritize the supply of mineral and coal needs for domestic interests, namely the obligation to sell minerals or coal produced to mineral users or coal users. The obligation to sell minerals or coal is determined based on a minimum percentage of sales determined by the Minister of Energy and Mineral Resources and set forth in a mineral or coal sale and purchase agreement between the Mining Business Entity and the mineral user or coal user.

Company's Profitability

Profitability ratio as an indication of how a company's profit margin relates to sales, average capital, and average common stock equity. For the purposes of this study, return on asset and return on equity is utilized to measure firm's profitability (Setiawan, 2022).

According to Siswanto (2021), in calculating profitability ratios, a reciprocal relationship is usually sought between items contained in the bank's income statement and items on the bank's balance sheet in order to obtain various indications that are useful in measuring the level of efficiency and profitability of the bank concerned. Profitability ratios measure the company's ability to generate profits using owned resources such as assets, capital or sales. The profitability ratios used in this study are return on assets (ROA) and return on equity (ROE).

Institutional Ownership Structure

Institutional ownership structure refers to shareholding in a company that is owned by financial institutions or entities such as investment companies, insurance companies, banks, and aims for long-term investment portfolio diversification or taking control over the company's management. Institutional shareholding has an influence on corporate decisions and the capital market as a whole (Yeni & Hady, 2024).

The existence of an institutional share ownership structure in a company will encourage increased monitoring so that it is more optimal for management performance. This is because share ownership represents power. The greater the institutional share ownership, the greater the power of the voice and the encouragement of the institution to supervise management so that it provides a greater impetus to optimize company value and company performance to be higher (Sudaryono & Kusumawardani, 2020).

Compliance Theory

According to Lunenberg (2012), compliance theory is an approach to organizational structure that integrates ideas from classical models and management participation. Meanwhile, according to (C. Kelman, 1958) compliance is defined as an adherence based on the expectation of a reward and an attempt to avoid punishment that may be imposed.

Compliance theory can encourage someone to better comply with applicable regulations, as well as companies that strive to submit reports on the realization of meeting domestic coal needs in a timely manner because in addition to being a company obligation to submit financial reports on time, it will also be very useful for users of financial statements (Yeni & Hady, 2024).

The demand for compliance with timeliness in submitting reports on the realization of the fulfillment of domestic coal needs that have been regulated in the Decree of the Minister of Energy and Mineral Resources of the Republic of Indonesia concerning the fulfillment of domestic coal needs which states that Holders of Mining Business Licenses in the Coal Production Operation stage, Special Mining Business Licenses in the Coal Production Operation stage, Coal Mining Concession Work Agreements in the Production Operation stage, Special Mining Business Licenses as Continuation of Contract Operations / Coal commodity agreements must submit reports on the realization of the fulfillment of domestic coal needs no later than 10 days after the end of each month in accordance with the format as listed. If the percentage of domestic coal sales is not met, it will be subject to payment of fines and/or compensation funds (ESDM, 2022). This regulation requires the compliance of every individual and organizational actor (coal mining company) in Indonesia to submit a report on the realization of the fulfillment of domestic coal needs to ESDM. This is in accordance with compliance theory.

Agency Theory

According to Scott (2015), agency theory is a relationship or contract that arises between the owner of the investor (principal) and the manager (agent), where the principal is involved with the agent in running the company and authorizes the agent to make decisions. Information asymmetry occurs when there is a relationship between the principal and the agent. In agency theory, principals and agents have their own interests, so there are two different interests in a company, and each party tries to maximize its own interests. This conflict of interest can lead to agent behavior that does not benefit the principal, such as the use of company resources for personal gain or excessive risk taking. In agency theory, efforts are made to minimize conflicts of interest and optimize organizational

performance through incentive alignment and monitoring. In practice, agency theory can help companies to minimize the risk of losses due to agent actions that do not benefit the principal, and improve organizational efficiency and effectiveness through regulators. The existence of this agency conflict can cause problems caused by differences in information obtained by owners and management. Managers often have more information about the condition and performance of the company than the principal. This is what is then referred to as information asymmetry.

Agency theory is used in this study because it is related to accounting conservatism. Agency theory and accounting conservatism are interconnected in an attempt to overcome information problems and self-interest in the relationship between owners and managers. Accountants must choose methods that tend to produce lower profits and be more careful in recording income and assets, and faster in recording expenses and liabilities so that the resulting financial statements are more reliable and reflect more realistic financial conditions. The main objective of accounting conservatism is to reduce the risk of overstatement of profits and assets by managers. It can also reduce the likelihood of conflict between owners and managers related to performance assessment and profitability.

Signaling Theory

According to Yeni & Hady (2024), signal theory is an activity carried out by business entities to provide direction to investors about how management views the potential of the organization and provides data to parties who have a stake in it on the condition of the organization or company. Signaling theory is used in this study because it relates to accounting conservatism which refers to how conservative accounting policies can affect the signals or information sent to shareholders and other stakeholders regarding company performance which is closely related to company profitability. Signaling theory in accounting conservatism suggests that the application of conservative policies can provide stronger and more reliable signals to the market regarding the quality, stability, and profitability of the company. Although reported profits may be lower, this is done in order to provide long-term benefits in building trust and company value.

Hypothesis Development

The Effect of Accounting Conservatism on Profitability

Agency theory and accounting conservatism are interconnected in an attempt to overcome information problems and self-interest in the relationship between owners and managers. Accounting conservatism can also be explained through signaling theory because it relates to how conservative accounting policies can affect the signals or information sent to shareholders and other stakeholders regarding company performance. Research on conservatism on profitability has been conducted by El-Habashy (2019) & Fariz et al. (2020) which states that accounting conservatism has a positive effect on profitability. Other research results conducted by Nassar & Al Twerqi (2021) & Suwarno et al. (2022) state that accounting conservatism has a negative effect on profitability. However, on the other hand, there are still studies that state accounting conservatism has no effect on profitability, namely research conducted by (Al-Daoud et al., 2023). Based on the explanation above, a hypothesis is built:
H1: There is a positive effect of accounting conservatism on a company's profitability.

The Effect of Domestic Market Obligation on Profitability

Compliance theory in the coal DMO is related to compliance with timeliness in submitting reports on the realization of the fulfillment of domestic coal needs which have been regulated in ESDM. This regulation requires the compliance of every individual and organizational actor (coal mining company) in Indonesia to submit reports on the realization of the fulfillment of domestic coal needs to ESDM in a timely manner. Research on the effect of coal DMO on profitability has been conducted by Amri & Khajar (2023) which states that the coal DMO policy has a significant effect on the profitability of coal mining companies listed on the IDX in 2017-2021. This research has not been reviewed again so that researchers believe that there is an influence between domestic market obligation and coal company's profitability. Based on the explanation above, a hypothesis is built:

H2: There is a positive/negative effect of domestic market obligation on a company's profitability.

The Effect of Institutional Ownership Structure Moderating Accounting Conservatism on Profitability

Yeni & Hady (2024) stated that Institutional ownership structure is a party that provides control over management in the company's financial policy. Institutional ownership structure will improve supervision, report quality, and risk management which contribute to better profitability. In other words, institutional ownership structure strengthens or increases the impact of accounting conservatism on profitability because institutional ownership structure supports the application of accounting conservatism more effectively. If the company consistently applies accounting conservatism, it can reduce profit fluctuations and provide a more stable picture of the company's financial performance. In this case, the company's profitability can increase due to better financial management and higher market confidence. Based on the explanation above, a hypothesis is built:
H3: Institutional ownership structure plays a moderating role in the positive effect of accounting conservatism on a company's profitability.

The Effect of Institutional Ownership Structure Moderating Domestic Market Obligation on Profitability

Yeni & Hady (2024) stated that the institutional ownership structure is a form of monitoring management and the most influential party in decision making because it dominates the shareholders. Institutional ownership structure encourages better management, operational efficiency and compliance as well as access to more stable resources and funding. This allows coal companies to take advantage of DMO obligations in a way that supports the profitability and sustainability of the company. Institutional ownership structure strengthens or changes the DMO relationship to be more positive towards profitability because with institutional oversight, companies will be more proactive in complying with domestic market obligations and seek strategies in utilizing DMO obligations as opportunities to improve operational efficiency and profitability. Good compliance with the DMO can mean that companies do not face fines or payment of compensation funds or the opportunity to stop production and export of coal which can reduce profitability. Institutional ownership structures can encourage better transparency, accountability and risk management so that they can contribute to increased profitability. Based on the explanation above, a hypothesis is built:
H4: Institutional ownership structure plays a moderating role in the positive effect of domestic market obligation on a company's profitability.

METHODS

The purpose of the current study is to demonstrate the effect of accounting conservatism and domestic market obligation on the company's profitability, moderated by institutional ownership structure. Thus, the independent variable of the study is accounting conservatism and domestic market obligation, while the dependent variable is company's profitability (ROA and ROE) and the moderating variable is institutional ownership structure. Figure 2 represents the study model.

The current study used the descriptive and analytical methodologies. In the descriptive methodology, the researchers reviewed the relevant literature in order to make up the theoretical framework of the study and was extract the measurements. In the analytical methodology, the required data was obtained from the actual financial statements disclosed on Indonesia Stock Exchange site. Then, the researchers used statistical techniques to analyze the collected data.

The targeted population of this study included all industrial and service companies listed in IDX, equaling 25 coal companies with 102 observations for the period that extended from 2019 to 2023. The study utilized several statistical techniques to analyze the data after the processes of collecting, filtering, confirming and entering the data into the SPSS. The analysis techniques included descriptive statistics to describe the sample, which involved the arithmetic mean, standard deviations and the highest and lowest values. The second technique was the correlation analysis between the study variables. Third, multicollinearity tests were conducted to test for high correlation between the

independent variables of the research. Fourth, multiple regression was used to test the study hypotheses to find out the effect of accounting conservatism on a company's profitability and the moderating role of ownership concentration in the industrial and service sectors. Research framework of this study shown in the following Figure 2 and the measurement of this study shown in the following Table 1.

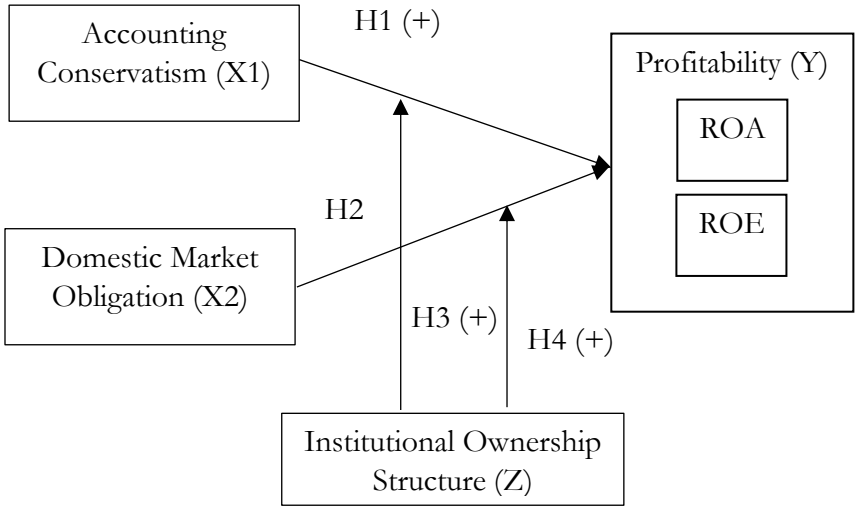

Figure 2. Research framework

Table 1. Summary of study variables and measurement.

Variable Code	Description	Measurement
CONACC	Accounting Conservatism	$CONACC = \frac{(NI + DEP - CFO) \times (-1)}{TA}$
DMO	Domestic Market Obligation	$DMO = \frac{Domestic\ coal\ sales}{\text{Coal production in 1 year}}$
IOWN	Institutional Ownership Structure	$IOWN = \frac{Number\ of\ institutional\ shares}{Total\ shares\ outstanding}$
ROA	Return on Assets	$ROA = \frac{Net\ profit\ after\ tax}{TA}$
ROE	Return on Equity	$ROE = \frac{Net\ profit\ after\ tax}{Shareholder\ equity}$

CONACC = Accounting conservatism with the accrual-based approach
NI = Net income
DEP = Depreciation
CFO = Cash flow operation
TA = Total asset

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistical data to describe the sample, which involved arithmetic means, standard deviations and the highest and lowest values, are represented in Table 2. The descriptive analysis illustrates that the mean value of the dependent variable ROA is about 14% and ROE is about 20% which reveals that the sampled firms achieve relatively ideal profits through their management ability to effectively generate earnings using money invested by shareholders. In addition, the standard deviation of the ROA is about 18% and ROE is about 50%, which indicates the convergence of the results of the studied sample. Furthermore, the maximum value observed was 74% while the minimum

value was –32% for ROA and the maximum value observed was 125% while the minimum value was –254% for ROE. Table 2 also demonstrates that the mean value of conservatism accounting is about -17%, which may indicate the implementation of accounting conservatism. In other words, companies use more conservative accounting policies valuing their equity in financial reports. The standard deviation of conservatism accounting is 28%, implying that, in general, the majority of the studied firms implement a prudent level of conservative accounting standards. The maximum amount observed is 117% while the minimum amount is -124%, implying that there is a variation among firms in applying conservative policies. Table 2 also demonstrates that the mean value of domestic market obligation is about 25%, which may indicate the implementation of domestic market obligation. The standard deviation of conservatism accounting is 12%. The maximum amount observed is 61% while the minimum amount is 0%. Institutional ownership structure as moderating value also demonstrated at Table 2, the mean value of institutional ownership structure is about 67%, which may indicate the implementation of institutional ownership structure. The standard deviation of conservatism accounting is 27%. The maximum amount observed is 100% while the minimum amount is 1%.

Table 2. Descriptive statistics for the dependent, independent and moderating variables

Dependent Variable	**Observation**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Profitability (ROA)	102	-0,32	0,74	0,14	0,18
Profitability (ROE)	102	-2,54	1,25	0,20	0,50
Independent Variable	**Observation**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Conservatism Accounting	102	-1,24	1,17	-0,17	0,28
Domestic Market Obligation	102	0,00	0,61	0,25	0,12
Moderating Variable	**Observation**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Institutional Ownership Structure	102	0,01	1,00	0,67	0,27

Source: SPSS output

Normality Test

The normality test aims to test whether the multiple linear regression model formed from the dependent and independent variables has a normal distribution or not. A good regression model is one that has a normal or near normal residual data distribution. Normal distribution in this study was detected using the Kolmogorov-Smirnov (K-S) test. K-S sample has a basic decision, namely a data that is said to be normally distributed if the Asymp. Sig (2-tailed) > 0.05 (Ghozali, 2019). The calculation results are in Table 3 below:

Table 3. Normality Test

Model 1	**Sig**	**Limit**	**Description**
Unstandardized Residual	0,054	> 0,05	Normal
Model 2	**Sig**	**Limit**	**Description**
Unstandardized Residual	0,103	> 0,05	Normal

Source: SPSS output

Based on Table 3, it can be seen that the Asymp. Sig value of Model 1 and Model 2 is greater than 0.05, so it can be concluded that the data is normally distributed.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in a regression model there is an inequality of variance from the residuals of one observation to another. If the independent variable has a sig value <0.05, then there are symptoms of heteroscedasticity in the regression model built. If the sig value is> 0.05, there is no heteroscedasticity problem (Ghozali, 2019).

Table 4. Heteroscedasticity Test

Model 1	Sig.	Limit	Description
Conservatism Accounting	0,880	>0,05	No heteroscedasticity
Domestic Market Obligation	0,458	>0,05	No heteroscedasticity
Institutional Ownership Structure	0,752	>0,05	No heteroscedasticity
Model 2	**Sig.**	**Limit**	**Description**
Conservatism Accounting	0,976	>0,05	No heteroscedasticity
Domestic Market Obligation	0,091	>0,05	No heteroscedasticity
Institutional Ownership Structure	0,142	>0,05	No heteroscedasticity

Source: SPSS output

Based on Table 4, it can be seen that the probability value is greater than 0.05, thus the variables proposed in the study do not occur heteroscedasticity.

Autocorrelation Test

The autocorrelation test aims to test whether or not there is a correlation between the residual values in the regression model of one observation with another observation (Ghozali, 2019). The autocorrelation test used by researchers is the Durbin Watson test. Table 5 presents the results:

Table 5. Autocorrelation test

Model 1			
DU	**DW**	**4-DU**	**Description**
1,738	1,890	2,262	No autocorrelation
Model 2			
DU	**DW**	**4-DU**	**Description**
1,738	1,996	2,262	No autocorrelation

Source: SPSS output

Based on Table 5 shows the Durbin-Watson Test with a significance level of 5% and a sample size of 102, independent variable 2 and moderation variable 1, it is known that:

1. Model 1 : DU < DW < (4-DU) or 1,738 < 1,890 < 2,262
2. Model 2 : DU < DW < (4-DU) or 1,738 < 1,996 < 2,262

So, it can be concluded that there is no autocorrelation problem in the regression model.

Multicollinearity Test

The purpose of the multicollinearity test is to test whether the regression model found has a correlation or relationship between the independent variables. The way to determine the presence or absence of multicollinearity in the regression model is to look at the tolerance value and variance inflation factor (VIF). If the VIF value > 10, the regression model shows that there is multicollinearity, otherwise if the VIF value < 10, the regression model does not have multicollinearity Seeing that the tolerance value < 0.10, it can be stated that there is multicollinearity However, if the tolerance value > 0.10, it is stated that there is no multicollinearity (Ghozali, 2019).

Table 6. Multicollinearity test

Model 1	Tolerance	VIF	Description
Conservatism Accounting	0,990	1,010	No multicollinearity
Domestic Market Obligation	0,532	1,881	No multicollinearity
Institutional Ownership Structure	0,532	1,881	No multicollinearity
Model 2	**Tolerance**	**VIF**	**Description**
Conservatism Accounting	0,966	1,035	No multicollinearity
Domestic Market Obligation	0,777	1,287	No multicollinearity
Institutional Ownership Structure	0,764	1,309	No multicollinearity

Source: SPSS output

In reviewing the existence of multicollinearity in the current study, the regression table (Table 6) include the VIF statistics. Since the VIF value < 10, this study's results display no indications of multicollinearity. Tolerance another test is used to show whether there is a multicollinearity problem or not; the general rule of tolerance is that a tolerance > 0,10, no indications of multicollinearity.

Regression Analysis

The following section presents the results of multiple regression analysis with an interpretation of these results for each study model. Then, the results are compared with those in the literature and previous studies.

Model 1:

$$ROA = a + \beta_1 CONACC + \beta_2 DMO + \beta_3 IOWN + \beta_4 IOWN * CONACC + \beta_5 IOWN * DMO + e$$

The first model was designed to examine the effect of accounting conservatism and domestic market obligation on the company's profitability, measured by ROA, moderated by institutional ownership structure. Table 7 presents the results of testing the first model.

Table 7. Model (1) analyzing the effect of the independent variable (accounting conservatism) and moderating variables on the dependent variable (ROA)

ROA = -0,021 + 0,072 CONACC + 0,170 DMO + 0,267 IOWN + 0,434 CONACC*IOWN + 0,201 CONACC*DMO + e

Variable	B	T- value	Sig t	Description
(Constant)	-0,021			
Conservatism Accounting	0,072	1,423	0,158	No Significant
Domestic Market Obligation	0,170	2,135	0,035	Significant
Institutional Ownership Structure	0,267	3,141	0,002	Significant
Conservatism Accounting * Institutional Ownership Structure	0,434	4,273	0,000	Significant
Domestic Market Obligation * Institutional Ownership Structure	0,201	3,174	0,002	Significant
F-Model	87,247			
Sig F	0,000			
Adjusted R Square	0,810			

1. The significance test results show that there is a probability value of 0.158 > 0.05. This value can state that "accrual-based accounting conservatism has no effect on profitability as measured using ROA".
2. The significance test results show that there is a probability value of 0.035 ≤ 0.05. This value can prove that "DMO coal has an effect on profitability as measured using ROA".
3. The significance test results show that there is a probability value of 0.002 ≤ 0.05. This value can prove that "institutional ownership structure affects profitability as measured by ROA".
4. The significance test results show that there is a probability value of 0.000 ≤ 0.05. This value can prove that "institutional ownership structure moderates the effect of accrual-based accounting conservatism on profitability as measured by ROA".
5. The significance test results show that there is a probability value of 0.002 ≤ 0.05. This value can prove that "institutional ownership structure moderates the effect of coal DMO on profitability as measured using ROA".

Based on the results of the Model 1 F test in Table 7, the F count is 87.247 and the probability is 0.000. Because sig 0.000 < 0.05, it can be concluded that the variables of accrual-based accounting conservatism, coal DMO, institutional ownership structure, accrual-based accounting conservatism * institutional ownership structure and coal DMO * institutional ownership structure jointly affect profitability as measured using ROA.

Based on the test results of Model 1 in Table 7, the coefficient of determination (Adjusted R2) = 0.810, meaning that the accrual-based accounting conservatism variable, coal DMO, institutional ownership structure, accrual-based accounting conservatism * institutional ownership structure and coal DMO * institutional ownership structure jointly affect the profitability variable measured using ROA by 81.0%, the remaining 29.0% is influenced by other variables not included in this research model.

The results of this study are the same as research conducted by Al-Daoud et al. (2023) which states that accounting conservatism has no effect on profitability (ROA).

Model 2:

$$\boldsymbol{ROE = a + \beta_1 CONACC + \beta_2 DMO + \beta_3 IOWN + \beta_4 IOWN * CONACC + \beta_5 IOWN * DMO + e}$$

The second model was designed to examine the effect of accounting conservatism measured by accrual-based approach and domestic market obligation on the company's profitability, measured by ROE, moderated by institutional ownership structure. Table 8 presents the results of testing the second model.

Table 8. Model (2) analyzing the effect of the independent variable (domestic market obligation) and moderating variables on the dependent variable (ROE)

ROE = -0,129 + 0,041 CONACC + 0,322 DMO + 0,234 IOWN + 0,626 CONACC*IOWN+ 0,219 DMO*1OWN+ e

Variable	B	T- value	Sig t	Description
(Constant)	-0,129			
Conservatism Accounting	0,041	0,935	0,352	No Significant
Domestic Market Obligation	0,322	3,521	0,0001	Significant
Institutional Ownership Structure	0,234	2,702	0,008	Significant
Conservatism Accounting * Institutional Ownership Structure	0,626	6,131	0,000	Significant
Domestic Market Obligation * Institutional Ownership Structure	0,219	1,992	0,049	Significant
F-Model	60,130			
Sig F	0,000			
Adjusted R Square	0,745			

1. The results of significance testing show that there is a probability value of 0,352> 0,05. This value can state that "accrual-based accounting conservatism has no effect on profitability as measured using ROE".
2. The results of significance testing show that there is a probability value of 0,0001 ≤ 0,05. This value can prove that "DMO coal has an effect on profitability as measured using ROE".
3. The results of significance testing show that there is a probability value of 0,008 ≤ 0,05. This value can prove that "institutional ownership structure affects profitability as measured by ROE".

4. The results of significance testing show that there is a probability value of 0,000 ≤ 0,05. This value can prove that "institutional ownership structure moderates the effect of accrual-based accounting conservatism on profitability as measured by ROE".
5. The results of significance testing show that there is a probability value of 0,049 ≤ 0,05. This value can prove that "institutional ownership structure moderates the effect of coal DMO on profitability measured using ROE".

Similarly, the results of the Model 2 test in Table 8 obtained an F count of 60,130 and a probability of 0,000. Because sig 0,000 < 0,05, it can be concluded that the variables of accrual-based accounting conservatism, coal DMO, institutional ownership structure, accrual-based accounting conservatism * institutional ownership structure and coal DMO * institutional ownership structure jointly affect profitability as measured using ROE.

The test results of Model 2 in Table 8 show the coefficient of determination (Adjusted R2) = 0,745, meaning that accrual-based accounting conservatism variables, coal DMO, institutional ownership structure, accrual-based accounting conservatism * institutional ownership structure and coal DMO * institutional ownership structure jointly affect profitability variables measured using ROE by 74,5%, the remaining 25,5% is influenced by other variables not included in this research model.

The results of research on coal DMO (Domestic Market Obligation) policies on profitability are not in line with the results of research by Amri & Khajar (2023); Safitri et al. (2021) which state that DMO has a negative effect on profitability While research in line with the regression results says DMO has a positive impact conducted by Natalia et al. 2022) states that DMO is a policy of prohibiting exports and securing domestic coal supply reserves which provides a response from various parties to the policy and affects the dynamics of national defense related to national energy security. National energy security includes 4A + 1S: Availability, Accessibility, Affordability, Acceptability, and Sustainability. Other research that supports DMO has a positive effect conducted by Fahmi et al. (2022), the DMO policy is a strategic step and has a positive effect on the level of energy security, defense and national security because the policy can guarantee electricity supply through meeting coal supply needs in the domestic market.

CONCLUSION

In conclusion, this study embarks on an exploration of the multifaceted relationships between conservative accounting, coal DMO, institutional ownership, and corporate profitability within the coal mining industry. By focusing on the most active coal mining companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2025, the research aims to provide empirical evidence that elucidates these complex interactions. As the global energy landscape continues to evolve and the coal industry faces increasing scrutiny over its environmental impact, understanding the financial dynamics at play becomes all the more critical.

1. Accounting conservatism has no effect on profitability either using ROA or ROE measurements (Sig. t Model 1 is 0,158 and Sig.t Model 2 is 0,352)
2. Coal DMO policy has a significant (positive) effect on profitability (Sig. t Model 1 is 0,035 and Sig.t Model 2 is 0,0001). Through the DMO policy, companies will be more directed in managing their environmental and social impacts. Good management of this obligation can avoid fines or unexpected costs, as well as build a good reputation in the domestic market, which will support better profitability and increase the value of ROA and ROE.
3. Institutional ownership structure moderates accounting conservatism on profitability (Sig. t Model 1 is 0,000 and Sig.t Model 2 is 0,000). Institutional ownership structure strengthens the impact of accounting conservatism on profitability because institutional ownership structure supports the application of accounting conservatism more effectively. When companies consistently apply accounting conservatism, it can reduce profit fluctuations and provide a more stable picture of the company's financial performance. In this case, the company's profitability can increase due to better financial management and higher market confidence.

4. Institutional ownership structure moderates the coal DMO policy on profitability (Sig. t Model 1 is 0,002 and Sig.t Model 2 is 0,049). The institutional ownership structure strengthens or increases the impact of coal DMO on profitability because with institutional oversight, companies will be more proactive in complying with domestic market obligations and look for ways to utilize these obligations as opportunities to improve operational efficiency and profitability. Good compliance with the DMO means that companies do not face fines or compensation fund payments or the possibility of coal production and export stoppages that could reduce profitability. Institutional ownership structures can promote transparency, accountability and better risk management, all of which can contribute to profitability.

Ultimately, this research seeks to contribute to the ongoing dialogue surrounding corporate governance, accounting practices, and resource management, offering insights that may guide future research and inform practice in the coal mining sector and beyond.

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