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Consequences of Going Concern Opinion for Financial Reports of Business Firms and Capital Markets with Auditor Reputation as a Moderation Variable: An Experimental Study

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Abstract:

This research aims to observe the consequences of going concern opinion (GCO) and examine the role of specialist accounting firms for the financial reports of business firms and capital markets. The research is based on an experimental study consisting of 107 undergraduate and graduate students who were asked to act as financial analysts.

The GCO consequence for the financial reports of business firms is that the stock price of the corresponding firms will decline, but the decline will be smaller if the financial reports are audited by specialist accounting firms. The GCO consequence for rival firms is that the stock prices of the rival firms will rise if other companies in the same industry receive GCO, but the increase will be smaller if the companies receiving GCO are audited by specialized accounting firms.

The GCO consequences of the capital markets is that the stock prices of all companies, the composite index and the market participants will increase, but the presence of a specialized accounting firm has not been proven to strengthen the market participants' willingness to participate further in the stock market.

Keywords: *Going concern opinion (GCO), financial reports, specialized industry auditor, stock price of firms, composite index, market participants.*

JEL Codes: *M41, M48*

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1. Introduction

In Indonesia, based on SA (Audit Standard) Section 570-Business Continuity (IAPI, 2013), auditors are allowed to publish an opinion that contains a description of the auditor's doubts on the ability of a company to maintain its viability. This opinion is known as going concern opinion (GCO). Conditions and events that trigger the auditor to issue GCO are also stated in SA 570. Research on the GCO usually focuses on (1) auditor judgment in determining whether the auditor needs to modify the audit opinion by giving an explanation about the viability, (2) errors that may occur in the issuance of GCO, (3) individual GCO consequences for companies receiving GCO (announcing firms), (4) GCO consequences for other companies in the same industry (rival firms).

There have not been many researchs studying the possibility of the GCO to play an important role in the stabilization of the stock price in a stock market or to play an important role in enhancing the credibility of financial statements for other companies which do not receive GCO (Tuttle and Vandervelde, 2009). There has been no study that simultaneously examines the consequences of GCO for announcing firms, rival firms, and the overall capital market using the same data source. Therefore, this study will examine the consequences of GCO for announcing firms, rival firms and the capital market as a whole.

Researches on the consequences of GCO for announcing firms generally show that according to investors the GCO is relevant to assess the companies' share price. O'Reilly (2010), who examined the consequences of GCO for announcing firms argues that announcing firms experienced a significant decline in stock prices. Stock-price estimation made by investors was much reduced when a company received GCO than when it received an unqualified opinion. This indicates that GCO is bad news for announcing firms.

GCO consequences for rival firms indicate one of two phenomena, namely competitive effect or contagion effect. Competitive effect occurs when rival firms get the positive impact from other companies in the same industry which receive GCO (indicated by an increase in the stock prices of rival firms). The contagion effect occurs when rival firms get the negative impact of the presence of other companies in the same industry which obtain GCO (indicated by a decrease in the stock prices of rival firms). Researches on the consequences of GCO for rival firms generally show support for competitive effect.

Elliott *et al.* (2006) show that at the moment when certain companies receive GCO in the real estate industry, investors will move their business and their holdings to rival firms. It can be stated that Elliott *et al.* (2006) show more support for the competitive

effect. This indicates that GCO is good news for rival firms. Coelho *et al.* (2012) show that rival firms experience positive abnormal returns and announcing firms experience negative abnormal returns on the date of the audit report. It can be concluded that Coelho *et al.* (2012) show more support for the competitive effect than the contagion effect. This indicates that GCO is good news for rival firms, but is bad news for announcing firms.The possibility as to whether the competitive effect can be turned into contagion effect has been rarely investigated. This study used an experimental method to manipulate the number of GCOs in every industry. Thus, the results should show whether at the time when the number of GCOs increases in an industry, the benefits gained by rival firms will decrease.

Research on the consequences of GCO for the stock market as a whole is still rarely conducted. This is due to the difficulty in obtaining the required data. Therefore, Tuttle and Vanderveldes (2009) used an experimental method to manipulate GCO by making two experimental markets (one with GCO and the other without GCO). The market with GCO was a capital market in which there was GCO, while the market without GCO was a capital market in which there was no GCO. In the market with GCO, only companies which received GCO experienced a stock price decline. This shows that GCO can play an important role in the stock price stabilization. On the other hand, in the market without GCO, all of the companies' stock prices declined, regardless of whether these companies deserved it to or not. This occurred because a market without GCO had a higher degree of uncertainty than a market with GCO.

Uncertainty in a market has been studied by Akerlof (1970) who proved that used-car buyers who were not able to differentiate between the quality of a good car and the quality of an inferior car tended not to be willing to buy a used car at a high price. The uncertain condition in this study can be said to be the same as the uncertainty in the market without GCO. If in a capital market, there is no GCO (assuming that there must be companies experiencing financial distress in the capital market), then investors have difficulty to distinguish between companies that are able to survive and companies that are not able to survive. Investors who are in condition of high uncertainty will potentially lower stock prices to protect themselves from unexpected events, particularly company bankruptcy. To know the consequences of GCO for the stock market as a whole, this present study observes three things. The first is whether company stock prices in the market with GCO are higher than those in the market without GCO. The second is whether the composite index in the market with GCO is higher than the composite index in the market without GCO. The third is whether the number of market participants in the market with GCO is higher than that of those in the market without GCO.

Researches on the consequences of GCO have rarely considered auditors' reputation, which might act as a moderating variable. Almutairi (2007) shows that companies audited by highly reputed accounting firms can reap high economic value. Clients

experiencing financial distress enjoy higher economic value than those not experiencing financial distress. Auditors' reputation in this study is proxied by the reputation of industry-specialist accounting firms.

This research is expected to contribute on theoretical and methodological benefits. First, this present study simultaneously examines the consequences of GCO for announcing firms, rival firms and the capital market as a whole using the same data source. Previous studies generally examined the consequences of GCO only for announcing firms and rival firms. Second, this study uses auditors' reputation as a moderating variable. Previous studies have not considered auditors' reputation as a moderating variable. Third, this study examines whether competitive effect can be turned into contagion effect.

This study uses an experimental method to manipulate the number of GCOs in every industry. Thus, it will be known whether at the time when the number of GCOs is higher in an industry, the benefits received by rival firms will decrease. The methodological contribution of this research is that it examines the consequences of GCO use an experimental method with two experimental markets, namely the market with GCO and the market without GCO. An experimental method can overcome the difficulty of finding a market without GCO, which is hard to find in the real world setting.

2. Overview Theory and Hypothesis Development

2.1 Overview Theory

The essence of signaling theory is how accounting can be used to give signals about the condition of a company. Managers of companies that perform well will try to show a good signal to stakeholders. On the other hand, managers of less well performing companies have an incentive to show unfavorable signal to stakeholders to maintain their companies' credibility in the capital market (Godfrey *et al.*, 2010). The signal responded by investors is reflected in an increase or decrease in the stock price of a company. In relation to a company's viability, an auditor may issue GCO if the audited client experiences the conditions and the events stated in the SA Section 570-Business Continuity. In these circumstances, GCO has the role as a signal which contains information about the doubtful company survival. According to O'Reilly (2010), GCO has the role as an informational signal if the auditor is in a position that is more competent to assess the viability of the company than other parties and if the auditor will have negative consequences if it does not publish GCO.

2.2 Hypothesis Development

2.2.1 GCO and Stock Price Announcing Firms

Based on the SA Section 570-Business Continuity, after taking into consideration the conditions and events experienced by an entity as well as other relevant factors, an auditor may issue GCO. Unlike an unqualified opinion that is expected by all parties, GCO is not expected because it reflects considerable doubt upon the entity's ability to maintain its viability. This causes the GCO to be responded negatively by stakeholders.

In general, announcing firms get negative consequences when they receive GCO (Elliott *et al.* 2006; Schaub, 2006; O'Reilly *et al.,* 2006; O'Reilly, 2010; Carson *et al.,* 2012; Coelho *et al.,* 2012; Amin *et al.,* 2014). O'Reilly *et al.* (2006) and O'Reilly (2010) shows that GCO negatively affect the stock-price estimation. Based on these studies, the stock price estimation of announcing firms made by the financial analysts is lower when the auditor issues GCO than when the auditor issues an unqualified opinion. Based on the above explanation, a hypothesis can be formulated as follows:

H_{1a}: Stock price estimation of announcing firms made by financial analysts is lower when the auditor issues GCO than when the auditor issues an unqualified opinion

2.2.2 GCO, Stock Price of Announcing Firms, and Auditors' Reputation

Based on research conducted by O'Reilly *et al.* (2006), the negative consequences of GCO to the stock price estimation can be reduced by the presence of an auditor as an insurer. The auditor as an insurer can be said to be able to guarantee the loss recovery. It can be argued that the loss recovery acts as a variable that can moderate the influence of GCO to the stock price. O'Reilly *et al.* (2006) conducted a study in countries that allow auditors to ensure the loss recovery, whose condition is different from that in Indonesia, where it can be said that there is no guarantee of loss recovery. Therefore, it is necessary to have another moderating variable that can minimize the negative consequences of GCO to the stock prices of announcing firms.

The moderating variable that is used in this study is the auditor reputation that is proxied by the reputation of industry-specialized auditors. Based on the research conducted by Almutairi (2007), specialist accounting firm clients can gain a greater economic value (higher credit rating and lower cost of debt) than non-specialist accounting firm clients. The economic value is higher for specialist accounting firm clients experiencing financial distress than that for specialist accounting firm clients who did not experience financial distress. Accordingly, specialized industry auditors are expected to provide economic value for announcing firms experiencing financial distress. In this case, economic value has the potential to minimize the negative consequences likely to be received by announcing firms. Based on the above explanation, the second hypothesis is formulated as follows:

H_{1b}: Industry-specialist accounting firms can reduce the negative effect of GCO on an announcing firm's stock price.

2.2.3 GCO and Stock Price of Rival Firms

GCO consequences for rival firms indicate one of two phenomena, namely competitive effect or contagion effect (Coelho *et al.,* 2012). Competitive effect occurs when rival firms get the positive impact from other companies in the same industry, which receive GCO (indicated by an increase in the stock prices of rival firms). The contagion effect occurs when rival firms obtain the negative impact from other companies in the same industry, which receive GCO (indicated by a decline in the stock price of rival firms).

Elliott *et al.* (2006) and Coelho *et al.* (2012) show that at the moment when companies receive GCO in an industry, investors will move their business and their holdings to rival firms. Thus, the rival firms' stock prices will increase. It can be said that Elliott *et al.* (2006) show more support to competitive effect than contagion effect. This indicates that GCO is good news for rival firms. Based on the above explanation, the next hypothesis is formulated as follows:

H_{2a}: The stock prices of companies that do not receive GCO (rival firms) increase if other companies in the same industry receive GCO

2.2.4 GCO, Stock Price of Rival Firms and Auditors' Reputation

In general, rival firms get positive consequences of GCO received by announcing firms as indicated by the increase in their stock prices (Elliott *et al.,* 2006; Coelho *et al.,* 2012). In this case, the competitive effect takes place. However, researches on the consequences of GCO for rival firms rarely consider the use of a moderating variable. A moderating variable that is used in this present study is auditors' reputation, which is proxied by specialized industry auditors. Based on the research conducted by Almutairi (2007), specialist accounting firm clients can obtain a greater economic value (higher credit rating and lower cost of debt) than non-specialist accounting firm clients. The economic value is higher for specialist accounting firm clients experiencing financial distress than that for specialist accounting firm clients who do not experience financial distress. Accordingly, specialized industry auditors are expected to provide economic value to announcing firms, which can potentially reduce the resulting competitive effect. In other words, the positive consequences to be received by rival firms will be reduced. Based on the above explanation, a hypothesis can be formulated as follows:

H_{2b}: Industry-specialist accounting firms can weaken the positive influence of GCO on rival firms' stock prices.

2.2.5 GCO and Stock Price of All Companies on a Capital Market

Research on the consequences of GCO for the stock market as a whole have been rarely conducted. This is due to the difficulty in obtaining the required data. Therefore, Tuttle and Vanderveldes (2009) used an experimental method to manipulate GCO by making two experimental markets (a market with GCO and a market without GCO). The market with GCO is a capital market in which there is GCO and the market without GCO is a capital market without any GCO. In their experiment, in the market with GCO only companies which received GCO experienced stock price decline. On the contrary, in the market without GCO, all companies experienced a stock price decline, regardless of the fact whether the companies deserved the stock price decline or not. This happened because of the uncertainty in the market without GCO was higher than the uncertainty in the market with GCO.

Uncertainty in a market has been studied by Akerlof (1970) who proved that car buyers who were not able to differentiate between the quality of a good car and the quality of an inferior car tended to be more willing to buy a used car at a high price. The uncertainty condition can be said to be the same as the uncertainty in the market without GCO. If in a capital market, there is a GCO (assuming there must be companies experiencing financial distress in the capital markets), investors experience difficulty to distinguish between companies that are able to survive and companies that are not able to survive. Investors who are in a condition of high uncertainty will potentially lower stock prices to protect themselves from unexpected events, particularly company bankruptcy.

Researchers assume that in a capital market, there must be companies that experience financial distress as identified in various studies. Setyarno *et al.* (2006) suggest that 38.46% of manufacturing companies on the Indonesia Stock Exchange (IDX) experienced financial distress between the years 2000 to 2004. Similarly, Setyowati (2009) shows that 36.23% of manufacturing companies on the IDX experienced financial distress from the years 2001 to 2005. Widyantari (2011) states that 17.24% of manufacturing companies on the IDX also experienced financial distress from 2001 to 2009. Amin *et al.* (2014) write that 5,457 non-financial companies experienced financial distress from 2000 to 2010, while Myers *et al.* (2014) report that 17,259 companies experienced financial distress from 2000 to 2006.

Although there are always companies experiencing financial distress in a capital market, it does not necessarily mean that the companies receive GCO (Setyarno *et al.*, 2006; Setyowati, 2009; Widyantari, 2011). According to Blay *et al.* (2001), GCO serves as a tool for communicating the risk of companies in financial distress. If in a stock market, there is no GCO, the risk of companies in financial distress is less adequately communicated. Investors with high uncertainty of the capital market will potentially decrease the stock prices to protect themselves from unexpected events,

particularly company bankruptcy. Based on the above explanation, a hypothesis is formulated as follows:

H_{3a}: The stock price of a company on the market with GCO is higher than the stock price on the market without GCO.

2.2.6 GCO, Stock Price of All Companies on a Capital Market and Auditors' Reputation

The presence of GCO can minimize uncertainty in the capital markets. This allows investors to identify companies that deserve investment. In the market with GCO, only companies with GCO will potentially experience a stock price decline. On the other hand, in the market without GCO, stock prices of all companies will decline, regardless of whether the companies deserve the stock price decline or not (Tuttle and Vandervelde, 2009).

The research conducted by Tuttle and Vandervelde, (2009) has not considered a potential moderating variable that strengthens the ability of GCO in stabilizing stock prices. The moderating variable that is used in this present study is auditors' reputation that is proxied with specialized industry auditors. Based on the research conducted by Almutairi (2007) specialist accounting firm clients can obtain a greater economic value than non-specialist accounting firm clients. Accordingly, specialized industry auditors are expected to provide economic value for a stock market. Based on the above explanation, a hypothesis is formulated as follows:

H_{3b}: Industry-specialist accounting firms can strengthen the positive influence of GCO on stock prices in the stock market.

2.2.7 GCO and the Composite Index

The composite index covers overall movements of the prices of common stocks and preferred stocks (Susanto and Sabardi, 2010). In a capital market with lower uncertainty, the stock prices in a market with GCO will be higher than the stock prices in a market without GCO. This is consistent with the result of the research of Akerlof (1970) which states that market participants in conditions of high uncertainty tend not to be willing to buy products at high prices. It can be said that the movements of stock prices in a market with GCO will be safer than the stock price movements in a market without GCO. In other words, a market with GCO has a higher composite index than a market without GCO. Based on the above explanation, a hypothesis can be formulated as follows:

H_{3c}: The composite index in the market with GCO is higher than the composite index in the market without GCO

2.2.8 GCO, Composite Index, and the Auditor Reputation

Based on the research conducted by Tuttle and Vandervelde (2009) in the market with GCO only companies with GCO experience stock price decline. On the contrary in a market without GCO stock prices of all companies experience a stock price decline regardless of whether they deserve the decline or not. It shows that the movements of stock prices in a market with GCO will be safer than the stock price movements in a market without GCO. In other words, a market with GCO has a composite index that is higher than that in a market without GCO.

The research conducted by Tuttle and Vandervelde (2009) has not considered a potential moderating variable which can strengthen the ability of GCO in stabilizing stock prices. A moderating variable that is used in this study is auditors' reputation that is proxied with specialized industry auditors. Based on the research conducted by Almutairi (2007) specialist accounting firm clients can obtain a greater economic value than non-specialist accounting firm clients. Accordingly, specialized industry auditors are expected to provide more economic value for a stock market. The economic value can potentially produce a higher composite index in a market with GCO. Based on the above explanation, a hypothesis is formulated as follows:

H_{3d}: Industry-specialist accounting firms can strengthen the positive influence of GCO on the composite index

2.2.9 GCO and Market Participants

The uncertainty in a market without GCO is higher than that in a market with GCO (Tuttle and Vandervelde, 2009). If in a stock market no companies receive GCO, investors will find difficulty in identifying companies with doubtful survival. Investors have different risk preferences, so the willingness of investors to participate in an uncertain capital market also varies. Based on the research conducted by Tuttle and Vandervelde (2009) market participants may decline if the uncertainty is higher. This indicates that a market with GCO will potentially have a higher number of participants than a market without GCO. Based on the above explanation, a hypothesis is formulated as follows:

H_{3e}: Market participants' willingness to participate further in the market with GCO is higher than the willingness of those in a market without GCO.

2.2.10 GCO, Market Participants, and Auditors' Reputation

Based on the research conducted by Tuttle and Vandervelde (2009) uncertainty in a market without GCO is higher than that in a market with GCO. The conditions of high uncertainty lead to market participant decline. It can be argued that market participants are not willing to participate in a capital market that does not allow them to identify companies with doubtful survival.

The research conducted by Tuttle and Vandervelde (2009) has not considered a potential moderating variable that can strengthen the ability of GCO in stabilizing stock prices. The moderating variable used in this present study is the auditors' reputation that is proxied with specialized industry auditors. Based on the research conducted by Almutairi (2007), specialist accounting firm clients can obtain a greater economic value than non-specialist accounting firm clients. Accordingly, specialized industry auditors are expected to provide economic value for a capital market by increasing market participants' willingness to participate further in the market with GCO. Based on the above explanation, a hypothesis can be formulated as follows:

H_{3f}: Industry-specialist accounting firms can strengthen the positive influence of GCO on market participants.

III. Research Methodology

3.1 Experiment

This present research was a laboratory experiment because undergraduate and graduate students who were subjects in the experiment were required to act as financial analysts. Each experiment subject was asked to fill one of the four cases presented randomly. The experiment was carried out with a 2 x 2 factorial design between the subjects, which allowed testing the main effects and interaction effects (Zikmund, 2003). The design of the experiment was presented in Table 1. This study modified the experiment instrument developed by O'Reilly *et al.* (2006), O'Reilly (2010), and Tuttle and Vandervelde (2009). The experimental subjects were asked to estimate the stock prices of 40 fictional companies that were grouped into four industries (Industries 1, 2, 3, and 4). The subjects were asked to estimate the stock prices at Time 1 (after being given information about the type of audit opinion and about the firms which audited the fictional companies) on a scale of 10. After comprehending the experimental instruments, the experimental subjects were asked to answer manipulation check questions to determine their understanding of the cases presented to them. There were two manipulation checks, namely the question of the level of uncertainty in the capital markets and the question of the level of the accounting firm's reputation.

Table 1. *2 x 2 Between Subject Factorial Designs*

Treatments		**GCO**	
		No	**Yes**
Specialized industry accounting firms	No	Case 1	Case 2
	Yes	Case 3	Case 4

3.2 Research Model, Operational Definition and Measurement of Variables

Figure 1 shows the research model used to test the consequences of GCO for announcing firms.

Figure 1. *Research Model to Test GCO Consequences for Announcing Firms*

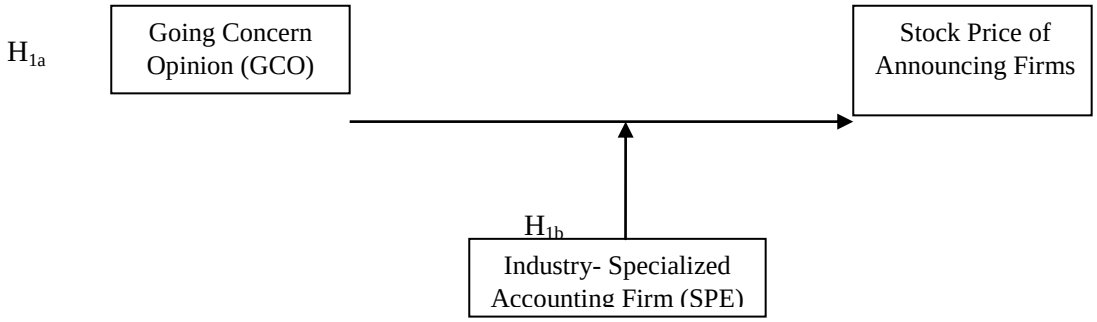

Table 2 shows the variables, operational definitions of variables and variable measurements to test the consequences of GCO for announcing firms.

Table 2. *Variables, Operational Definition and Measurement*

Variable	Operational Definition	Measurement
GCO	Opinion issued when the auditor doubts the viability of the entity	Code 1 if the company receives GCO and code 0 if the company receives an unqualified opinion
SPE	Accounting firm with specific expertise in a particular industry	Code 1 if there is a specialist accounting firm and code 0 if there is no specialist accounting firm
HSA	The stock price of the company which receives GCO (announcing firms)	Scales of 1 to 10. Scales of 1 to 5 shows a decline in stock prices, while the scales of 6 to 10 show an increase in stock prices

Figure 2 shows the research model used to test the consequences of GCO for rival firms.

Figure 2. Research Model to Test GCO Consequences for Rival Firms

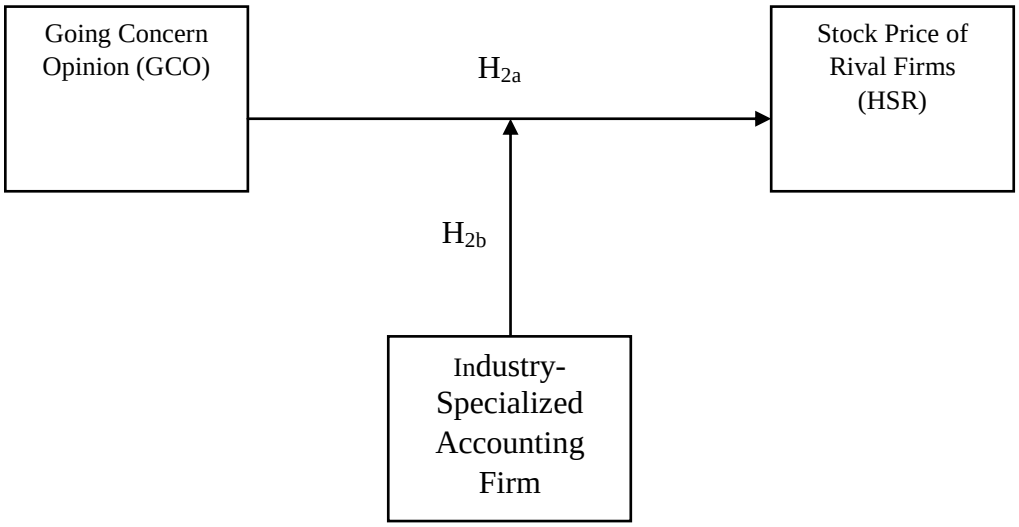

Table 3 shows the variables, operational definitions of variables and variables measurement to test the consequences of GCO for rival firms.

Table 3. *Variables, Operational Definition and Measurement*

Variables	**Operational Definition**	**Measurement**
GCO	Opinion issued when the auditor doubts the viability of the entity	Codes 1, 2, 3, and 4 if the industry there are 2, 4, 6, and 8 GCOs.
SPE	Accounting firms with specific expertise in a particular industry	Code 1 if there is a specialist accounting firm and code 0 if there is no specialist accounting firm
HSR	The stock price of companies which do not receive GCO (rival firms)	Scales of 1 to 10. Scales of 1 to 5 show a decrease in stock prices, while scales of 6 to 10 show an increase in stock prices

Figure 3 shows the research model used to test the consequences of GCO for the capital market.

Figure 3. *Research Model to Test GCO Consequences for Capital Market*

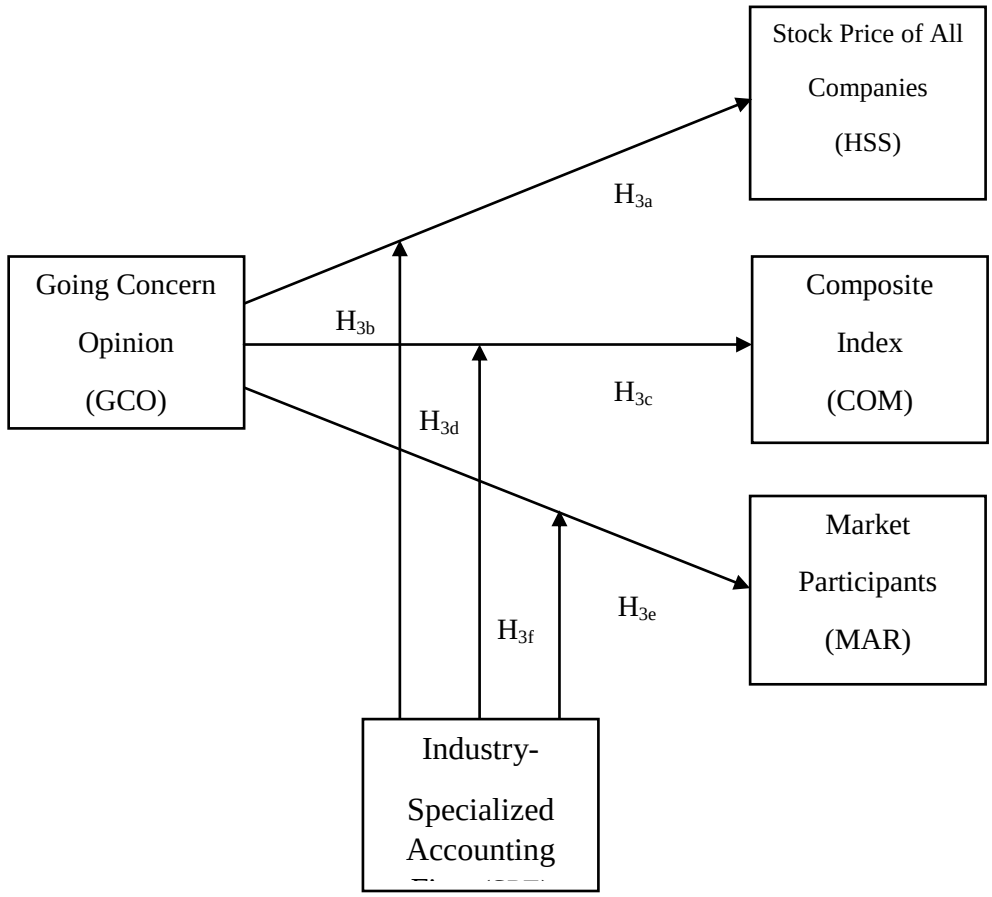

Table 4 shows the variables, operational definitions of variables and variable measurements to test the GCO consequences for capital markets.

Table 4. *Variables, Operational Definition and Measurement*

Variable	Operational Definition	Measurement
GCO	Opinion issued when the auditor doubts the viability of the entity	Code 1 if there is a GCO in the capital market and the code of 0 if there is no GCO in the capital market
SPE	Accounting firms with specific	Code 1 if there is a specialist accounting firm

	expertise in a particular industry	and code 0 if there is no specialist accounting firm
HSS	Stock prices across the enterprises in both experimental markets	Scales of 1 to 10. Scales of 1 to 5 shows a decline in stock prices, while scales of 6 to 10 show an increase in stock prices
COM	The movement of all stock prices	$LN\{CSPI_t = \frac{\text{Market Value}_t}{\text{Base Value}} \times 100\%\}$
MAR	The parties participating in a capital market	Scales of 1 to 10. Scales of 1 to 5 shows an unwillingness to participate, while scales of 6 to 10 shows a willingness to participate in capital markets.

CSPI= Composite Stock Price Index

3.3 Data Analysis Methods

The methods of analyses used in this research were a descriptive statistical analysis, ANOVA with Two-Way Interaction, and MANOVA with Interaction. The ANOVA analysis was used to test H_{1a}, H_{1b}, H_{2a} and H_{2b}, while the MANOVA analysis was used to test H_{3a} up to H_{3f}.

IV. Discussion

4.1 Results of Pilot Test

The pilot test in this present study involved three undergraduate students and nine graduate students of STIE YKPN (YKPN Business School), Yogyakarta. After the subjects finished working on the cases, the subjects were asked to rate the clarity level of the presentation of the cases (scales of 1 to 10). Measuring the clarity level of the presentation of an experimental case like this was also conducted by Qimyatussa'adah et al. (2013). On the average, the subjects of the pilot test gave a value of 8, meaning that the presentation of the cases of the experiment was clear.

4.2 Demographic Characteristics of the Experiment Subjects

In all, 107 students of YKPN Business School participated in this experiment: 38 males and 69 females. The average age of the subjects of the experiment was 22.8 years. Cases 1, 2, 3, and 4 were filled by the subjects of the experiment with comparable numbers.

4.3 Results of Manipulation Check

In answering the manipulation check, 107 experimental subjects did it correctly, while 15 subjects did not answer correctly, and thus they were excluded in the further tests.

4.4 Descriptive Statistical Analysis

The descriptive statistical analysis of this present study consisted of the minimum value, maximum value, and the average (presented in Table 1). Based on the results of the descriptive analysis, the average stock price of announcing firms was higher if announcing firms were audited by specialist accounting firms. The rival firms' stock price was lower if other companies in the same industry were audited by a specialist accounting firm. In addition, the average stock price of all companies, the average composite index, and the average number of the market participants in the market with GCO were higher than those in the market without GCO.

Based on the results of the descriptive analysis, the average stock price of announcing firms was lower if the announcing firms were audited by specialist accounting firms. The rival firms' stock price was higher if the companies that received GCO were audited by specialist accounting firms. In addition, the average stock price of all companies, the average composite index, and the average number of the market participants in the market with GCO were higher than those in the market without GCO. The descriptive statistics are presented in Table 5.

Table 5. *Descriptive Statistics*

Variable		**Experimental Market**					
		Market With GCO			**Market Without GCO**		
		Min	**Max**	**Mean**	**Min**	**Max**	**Mean**
HSA (Rp)	All Accounting Firms	32	9,600	793	-	-	-
	Specialist	32	9,600	782	-	-	-
	Non-Specialist	32	9,000	805	-	-	-
HSA (%)	All Accounting Firms	-36	36	-14	-	-	-
	Specialist	-36	36	-16	-	-	-
	Non-Specialist	-36	28	-11	-	-	-
HSR (Rp)	All Accounting Firms	115	13,600	3,137	-	-	-
	Specialist	115	13,600	3,256	-	-	-
	Non-Specialist	130	13,600	3,019	-	-	-

HSR (%)	All Accounting Firms	-28	36	3	-	-	-
	Specialist	-36	36	5	-	-	-
	Non-Specialist	-28	36	0,08	-	-	-
HSS (Rp)	All Accounting Firms	2,037	2,779	2,421	1,485	2,176	1,835
	Specialist	2,379	2,596	2,517	1,740	2,176	2,021
	Non-Specialist	2,037	2,779	2,325	1,485	1,938	1,651
COM	All Accounting Firms	95	134	119	67	101	85
	Specialist	117	129	126	75	101	93
	Non-Specialist	95	134	112	67	93	77
MAR	All Accounting Firms	5	10	7	1	7	4
	Specialist	7	10	8	1	6	4
	Non-Specialist	5	8	6	1	7	3

Source: *The data processing*

4.5 Testing Assumptions in the Analyses of Two-Way ANOVA with Interaction and MANOVA with Interaction

The testing of the assumption of variance homogeneity using Levene's Test shows that the variance was not homogeneous (Gastwirth *et al.*, 2009). According to Frutos (2009), Gastwirth et al. (2009), Osborne (2010), and Ghozali (2011), although it did not meet the assumption of variance homogeneity, an ANOVA analysis was still possible to be run because ANOVA is quite robust for the irregularities of the assumption of homogeneity from small to moderate levels. The test results of covariance matrix using Box'M Test show that the covariance matrix was homogeneous. The results of the variance error homogeneity testing using Levene's test indicate that the variance errors of all groups were homogeneous. The test data normality measurement using the Shapiro-Wilk indicates that the data were not normally distributed. According Ghozali (2011), although the data of this present study did not meet the assumptions of data normality, analysis of ANOVA and MANOVA were still possible to be conducted because of ANOVA and MANOVA analysis are robust for deviations of normality assumption from small to moderate levels.

4.6 Hypothesis Testing and Discussion

4.6.1 GCO Consequences for Announcing Firms

Hypothesis 1a that states that the stock-price estimation of announcing firms made by the financial analysts is lower when the auditor issues GCO than when the auditor issues an unqualified opinion is accepted as the significance of the F value is 0.000 (less than 5%). This suggests that announcing firms bear the negative consequences of the GCO they receive. The results of this study are consistent with the results of the research conducted by Elliott *et al.* (2006), Schaub (2006), O'Reilly *et al.* (2006), O'Reilly (2010), Carson *et al.* (2012), Coelho *et al.* (2012) and Amin *et al.* (2014).

The comparison of the average change in the stock price and the average stock price of Time 1 is presented in Table 6. Based on these tables, the companies with GCO experienced the decrease of their average stock price as much as 13.63%. On the other hand, companies with an unqualified opinion experienced an increase of their average stock price as much as 10.05%. Based on the table, the average stock-price estimation of Time 1 made by the experimental subjects was higher when a company received an unqualified opinion (Rp4,020) than when the company received GCO (Rp793).

Table 6. *Average Stock Price Change and Average Stock Price of Time 1*

Audit Opinion	**Accounting Firms**	**Average Stock Price Change (%)**	**Average Stock Price of Time 1 (Rp)**
Unqualified Opinion	All Accounting Firms	10,05	4.020
	Specialist	14,76	4.205
	Non-Specialist	5,35	3.836
GCO	All Accounting Firms	-13,63	793
	Specialist	-16,4	782
	Non-Specialist	-10,85	805

Hypothesis 1b which states that the specialized industry accounting firms can weaken the negative effect of GCO on the stock prices of announcing firms is unacceptable. Although the significance of the value of F at the GCO*SPE is 0.000 (less than 5%), the percentage decline in the stock prices of announcing firms audited by specialist accounting firms is higher than the percentage decline in the stock prices of announcing firms audited by non-specialist accounting firms. This suggests that the presence of specialist accounting firms has no role in weakening the negative consequences of the GCO to announcing firms' stock prices. In other words, the hypothesis testing results prove that the presence of specialist accounting firms had a

significant role in strengthening the negative consequences of the GCO on the stock prices of announcing firms.

Based on Table 6, announcing firms audited by the specialist accounting firms experienced a bigger decline in their stock prices than announcing firms audited by non-specialist accounting firms. The average decline in stock prices of announcing firms audited by specialist accounting firms was 16.4%, while the average decline in stock prices of announcing firms audited by non-specialist accounting firms were only 10.85%. In addition, the average stock price of Time 1 announcing firm audited by specialist accounting firms was lower than the average stock price of Time 1 announcing firm audited by non-specialist accounting firms. The average stock price of the Time 1 announcing firm audited by the specialist accounting firm was Rp782, while the average stock price of Time 1 announcing firm audited by non-specialist accounting firms was Rp805.

The table indicates that the presence of a specialist accounting firm increased the negative consequences of GCO to announcing firms' stock prices. This happened possibly because the GCO issued by well-reputed accounting firms were considered to have a higher accuracy than the GCO issued by the accounting firm whose reputation is lower (DeAngelo, 1981; Geiger and Rama, 2006; Hapsoro and Aghasta, 2013; Myers *et al.*, 2014). In other words, specialist accounting firms are considered capable of providing better audit quality than non-specialist accounting firms (Balsam, 2003; Lim and Tan, 2009). Accounting firms specializing in a particular industry are seen as highly reputable accounting firms because they have a deeper understanding of the business and industry clients. GCO that has a high degree of accuracy can be an early warning for company bankruptcy. It is then reacted against negative by the stock price decline.

The results of hypothesis testing 1 (GCO consequences for announcing firms) are shown in Table 8.

Table 8. Results of Hypothesis Testing 1 (GCO Consequences for Announcing Firms)

Dependent Variable: HSA

Source	**Type III Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Corrected Model	33,672[a]	3	11,224	380,222	,000
Intercept	,659	1	,659	22,336	,000
GCO_1	28,983	1	28,983	981,800	,000

SPE_1	,192	1	,192	6,513	,011
GCO_1 * SPE_1	2,891	1	2,891	97,938	,000
Error	61,283	2076	,030		
Total	95,565	2080			
Corrected Total	94,955	2079			

4.6.2 GCO Consequences for Rival Firms

Hypothesis 2a which states that the stock prices of companies which did not receive GCO (rival firms) increase if other companies in the same industry receive GCO is accepted because the significance F value of the GCO is 0.000 (less than 5%). The results are consistent with research conducted by Elliot *et al.* (2006) and Coelho *et al.* (2012). The experimental market in this study consisted of four industries (Industry 1, Industry 2, Industry 3, and Industry 4). Every industry consisted of 10 fictional companies. The numbers of announcing firms in each industry were respectively two, four, six, and eight, while the numbers of the rival firms in each industry were eight, six, four and two. The comparison of the average change in the stock price and the average stock price of Time 1 is presented in Table 7.

Table 7. *Average Stock Price Change and Average Stock Price Time 1*

Industry	**The Number of GCO**	**Accounting Firms**	**Average Stock Price Change (%)**	**Average of Stock Price Time 1 (Rp)**
1	2 GCO	All Accounting Firms	21,39	6.643
		Specialist	27,79	6.973
		Non-Specialist	15	6.314
2	4 GCO	All Accounting Firms	15,96	2.485
		Specialist	23,09	2.621
		Non-Specialist	8,83	2.349
3	6 GCO	All Accounting Firms	-7,36	2.694
		Specialist	-5,21	2.746
		Non-Specialist	-9,5	2.642
4	8 GCO	All Accounting Firms	-18,86	726
		Specialist	-23,71	683

		Non-Specialist	-14	769

Based on Table 7, Industry 1 that had 2 GCOs experienced a stock price increase of 21.39%, while Industry 2 that had 4 GCOs experienced a stock price increase of 15.96%. It can be said that Industry 1 and Industry 2 experienced the competitive effect because the rival firms' stock prices rose. Industry 3 that had 6 GCOs experienced a stock price decline of 7.36%, while Industry 4 that had 8 GCOs experienced a stock price decline of 18.86%. It can be said that Industry 3 and Industry 4 experienced the effect because the rival firms experienced a decline in stock prices. The results of this study prove that competitive effect can be turned into contagion effect if the number of the announcing firms is higher than the number of the rival firms.

Hypothesis 2b which states that the specialized industry accounting firms can weaken the GCO positive influence on the rival firms' stock prices cannot be accepted. Although the significance of the value of F at the GCO*SPE is 0.000 (less than 5%), the percentage increase in the stock prices of the rival firms is higher when announcing firms are audited by specialist accounting firms than when announcing firms are audited by non-specialist accounting firms.

This suggests that the presence of specialist accounting firms does not weaken the positive consequences of GCO on announcing firms' stock prices. In other words, the hypothesis testing results prove that the existence of specialist accounting firms has a significant role in strengthening the positive consequences of GCO to the rival firms' stock prices.

Based on Table 7, in Industry 1 and Industry 2 the increase of the rival firms' stock prices was higher when the announcing firms were audited by specialist accounting firms than when they were audited by non-specialist accounting firms. The increases of rival firms' stock prices in Industry 1 and Industry 2 for specialist accounting firms were respectively 27.79% and 23.09%, while the increases of the rival firms' stock prices in Industry 1 and Industry 2 for non-specialist accounting firms were respectively 15 % and 8.83%. On the other hand, the decline in the rival firms' stock prices in Industry 3 and Industry 4 for specialized industry accounting firms was respectively 7.36% and 18.86%, while the decline in the rival firms' stock prices in Industry 3 and Industry 4 for non-specialist accounting firms was respectively 9.5% and 23.71%.

Table 7 indicates that the presence of a specialist accounting firm can strengthen the positive consequences of GCO to the rival firms' stock prices. This is because GCO issued by well-reputed accounting firms have a higher accuracy rate than the GCO issued by the firm whose reputation is lower (DeAngelo, 1981; Geiger and Rama,

2006; Hapsoro and Aghasta, 2013; Myers *et al.*, 2014). GCO that has a high degree of accuracy can be an early warning for company bankruptcy. Then, stakeholders of companies with potential bankruptcy (announcing firms) will be more motivated to move the focus of their business to other companies in the same industry (rival firms).

The results of hypothesis testing 2 (GCO consequences for rival firms) are shown in Table 9.

Table 9. Results of Hypothesis Testing 2 (GCO Consequences for Rival Firms)

Dependent Variable: HSR

Source	**Type III Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Corrected Model	25,827[a]	7	3,690	271,031	,000
Intercept	,616	1	,616	45,262	,000
GCO_2	21,309	3	7,103	521,790	,000
SPE_2	,580	1	,580	42,595	,000
GCO_2 * SPE_2	1,381	3	,460	33,814	,000
Error	14,049	1032	,014		
Total	51,008	1040			
Corrected Total	39,876	1039			

4.6.3 GCO Consequences for Capital Market

Hypothesis 3a which states that the stock price on the market of a company with GCO is higher than the stock price on the market of a company without GCO is accepted because the significance value of F at HSS is 0.000 (less than 5%). The comparison of the average stock prices of all companies in both experimental markets is presented in Table 5. Based on this table, the average stock price of all companies in the market with GCO is higher than the average stock price of all companies in the market without GCO. The average stock price of all companies in the market with GCO was Rp2,421, while the average stock price of all companies in the market without GCO was only Rp1,835. This suggests that the presence of GCO in a capital market can make the stock prices of all companies higher. The existence of GCO can minimize the uncertain condition in a capital market.

Hypothesis 3b which states that the specialized industry accounting firms can strengthen the positive impact of GCO to the stock price on a stock market is accepted as the significance of the value of F at the GCO*SPE for the dependent variable HSS (the average stock price of all companies) was 0,000 (less than 5%). These results indicate that the stock price in the market of companies with GCO is higher than the stock price in the market of companies without GCO. Thus, the presence of specialist accounting firms can strengthen the positive effect of the GCO on stock prices in a capital market.

Table 5 illustrates the role of the specialist accounting firm in a capital market. The average stock price of all companies will be higher in the capital market with specialist accounting firms than the average stock price of all companies in the stock market without specialist accounting firms. The average stock price of all companies in the market with GCO audited by specialist accounting firms was by Rp2,517, while the average stock price of all companies in the market with GCO audited by non-specialist accounting firms were Rp2,325. The average stock price of all companies in the market without GCO audited by the specialist accounting firm was by Rp2,021, while the average price of all companies in the stock market without GCO audited by non-specialist accounting firm was only Rp1,651. It can be said that specialist accounting firms can strengthen the positive consequences of GCO in a capital market.

Hypothesis 3c which states that the composite index is higher in the market with GCO than the composite index in the market without GCO is accepted as the significance value of F at the GCO for the dependent variable COM (composite index) is 0.000 (less than 5%). The comparison of the average composite indexes in both experimental markets is presented in Table 5. Based on this table, the average composite index in a market with GCO is higher than the average composite index in the market without GCO. The average composite index in the market with GCO was119 while the average composite index on the market without GCO was only 85. This shows that the presence of GCO in a capital markets may lead to higher composite index.

Hypothesis 3d which states that the specialized industry accounting firms can strengthen the positive influence of the GCO on the composite index is accepted because the significance value of F at the GCO*SPE for the dependent variable COM (composite index) is 0.000 (less than 5%). These results indicate that the composite index in a market with GCO is higher than the composite index on the market without GCO. Thus, the presence of specialist accounting firms can strengthen the positive influence of GCO on the composite index in a capital market.

Table 5 illustrates the role of the specialist accounting firms in a capital markets. The average composite index will be higher in the capital market in which there is

specialist accounting firms than the average composite index in the capital market without any specialist accounting firms. The average composite index in a market with GCO audited by the specialist accounting firm was 1,126, while the average composite index in a market with GCO audited by non-specialist accounting firm was only 112. On the other hand, the average composite index on the market without GCO audited by specialist accounting firms was 93, while the average composite index on the market without GCO audited by non-specialist accounting firms was only 77. It can be said that the specialist accounting firm can strengthen the positive consequences of GCO on a capital market.

Hypothesis 3e, which states that the number of market participants in a market with GCO is higher than the number of market participants in a market without GCO is accepted because the significance value of F at the GCO for the dependent variable MAR (market participant) was 0.000 (less than 5%). The level of uncertainty in the market without GCO is higher than the level of uncertainty in the market with GCO. If in a stock market there are companies that acquire GCO, investors will find it difficult to identify companies with doubtful survival. Based on these results, the market participants are more willing to participate in the capital market with GCO because the uncertainty is lower.

The comparison of the average level of willingness of the market participants in both experimental markets is presented in Table 5. The market participants' willingness level was measured using a scale of 10 points. The lowest figure 1 shows that after observing the condition of the capital markets, market participants are not willing to participate in the capital market. The highest figure, 10, shows that after observing the condition of the capital markets, market participants are willing to participate in the capital market. Based on the table, the average level of willingness to participate in a market without GCO was 4 and the average level of willingness to participate in a market with GCO was 7. This suggests that the presence of GCO in a capital market can increase market participants' willingness to participate in the capital market. The existence of GCO can minimize uncertainty in the capital markets so that market participants' willingness to participate in the market with GCO is higher than their willingness to participate in the market without GCO.

Hypothesis 3f which states that the specialized industry accounting firms can strengthen the GCO positive influence on the market participants in a capital market is accepted because the significance of the value of F at the GCO*MAR for the dependent variable SPE (market participant) was 0.000 (less than 5%). Based on these results, it can be concluded that market participants are willing to participate in a capital market with GCO because the uncertainty is lower. Thus, the presence of specialist accounting firms can strengthen the positive effects of GCO on market participants in a capital market.

Table 5 illustrates the role of the specialist accounting firms in a capital markets. Market participants' average level of willingness to participate in a capital market in which there are specialists accounting firms was higher than that in the capital market without any specialist accounting firm. The average level of willingness to participate in the market with GCO audited by specialist accounting firms was 8, while the average level of willingness to participate in the market with GCO audited by non-specialist accounting firm was only 6. Similarly, the level of willingness to participate in the market without GCO audited by specialist accounting firms was 4, while the average level of willingness to participate in the market without GCO audited by non-specialist accounting firm was 3. It can be said that the specialist accounting firms can strengthen the positive consequences of GCO on a capital market.

The results of hypothesis testing 3 (GCO consequences for capital markets) are shown in Table 10.

Table 10. *Results of Hypothesis Testing 3 (GCO Consequences for Capital Markets)*

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	HSS_LN	2,683[a]	3	,894	408,734	,000
	COM_LN	3,568[b]	3	1,189	417,550	,000
	MAR	462,323[c]	3	154,108	93,425	,000
Intercept	HSS_LN	6236,245	1	6236,245	2850040,144	,000
	COM_LN	2263,841	1	2263,841	794873,811	,000
	MAR	3140,823	1	3140,823	1904,073	,000
GCO_3	HSS_LN	2,103	1	2,103	961,194	,000
	COM_LN	3,031	1	3,031	1064,079	,000
	MAR	340,907	1	340,907	206,669	,000
SPE_3	HSS_LN	,534	1	,534	243,826	,000
	COM_LN	,597	1	,597	209,444	,000
	MAR	3,995	1	3,995	2,422	,123
GCO_3* SPE_3	HSS_LN	,098	1	,098	44,984	,000
	COM_LN	,031	1	,031	10,890	,001

	MAR	102,766	1	102,766	62,300	,000
	HSS_LN	,225	103	,002		
Error	COM_LN	,293	103	,003		
	MAR	169,901	103	1,650		
	HSS_LN	6256,790	107			
Total	COM_LN	2270,837	107			
	MAR	3787,000	107			
	HSS_LN	2,908	106			
Corrected Total	COM_LN	3,861	106			
	MAR	632,224	106			

V. Closing

5.1 Conclusion

The GCO consequence for announcing firms is that the stock prices of announcing firms will decline. The decline will be greater if they are audited by specialist accounting firms. The GCO consequence for rival firms is that their stock prices will increase if other companies in the same industry receive GCO. Such increase will be greater if they receive GCO from a specialist accounting firm. The GCO consequence for capital markets is that the stock prices of all companies, the composite index, and the market participation will be higher. The presence of a specialist accounting firm is proven to strengthen the positive consequences.

5.2 Limitations and Suggestions

This study at least has four limitations. First, the subjects of this experiment were not financial analysts, but students who were asked to act as financial analysts. Future studies are expected to use real financial analysts as the subjects of experiments so that the results of the stock price estimation can be more reliable Second, the preparation of the experimental instruments was quite difficult because there had been no previous studies that simultaneously observed the consequences of GCO for announcing firms, rival firms, and capital markets. Future studies are expected to include more consultation with the parties who have expertise in the preparation of the experimental instruments. Third, there was only one auditor reputation proxy used in this study, namely industry specialization. Future studies are expected to add other proxies for auditor reputation such as the size and age of the accounting firms.

Fourth, the industry specialization analysis unit used in this study was only at the office level.

Future studies are expected to simultaneously use the unit analyzes for industry specialization in the office level and at the partner level (Obbens 2010; Karjalainen, 2011; Jiang *et al.,* 2012) so that the role of industry specialization at each level can be discussed in more depth.

5.3 Implications

Unlike an unqualified opinion, which is expected by of all parties, GCO is an unpopular opinion because it reflects considerable doubt upon the entity's ability to maintain its viability. However, if there is no GCO in a stock market, companies' stock price, composite index, and the market participation in the capital markets will tend to be low. This shows that GCO is good news for a stock market. The presence of specialized accounting firms in the capital markets can increase the average stock price of all companies, the composite index, and market participation. This suggests that the presence of a specialist accounting firm can strengthen the positive consequences of GCO for capital markets.

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