ASSET SPECIFICITY AND CONSERVATISM ON MANUFACTURING COMPANY IN INDONESIAN

Muhammad Ferdian Furisanda*), Siti Zubaidah*)1, Dwi Irawan*)

*)Accounting Study Program, Faculty of Economics and Business, University of Muhammadiyah Malang
Jl. Raya Tlogomas 246 Malang, East Java, Indonesia

Abstract: The purpose of this study is to provide empirical evidence regarding the effect of Asset Specificity on conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019. Asset Specificity is an asset owned by a company that has its own characteristics that are not easily imitated by competitors. Assets that have certain characteristics are able to contribute to variations in conservative financial reporting practices. This study uses 210 data from manufacturing companies listed on the BEI, the sample was selected using the purposive sampling method for the period 2017-2019. The data of this research is in the form of panel data which is analyzed using a simple linear regression method which is processed using Stata15. The results of this study indicate that asset specificity has a negative effect on conservatism of manufacturing companies listed on the IDX in 2017-2019. The asset specificity owned by the company has not been able to make the company more conservative in preparing financial statements.

Keywords: asset specificity, conservatism, IDX, Manufacturing companies

Abstrak: Tujuan dari penelitian ini adalah untuk memberikan bukti empiris terkait pengaruh Asset Specificity terhadap konservatisme pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2017-2019. Asset Specificity merupakan aset yang dimiliki perusahaan yang memiliki karakteristik sendiri yang tidak mudah ditiru oleh kompetitor. Aset yang memiliki karakteristik tertentu mampu memberikan kontribusi pada variasi dalam praktik pelaporan keuangan konservatif. Penelitian ini menggunakan 210 data dari perusahaan manufaktur yang terdaftar di BEI, sampel dipilih menggunakan metode purposive sampling periode tahun 2017-2019. Data penelitian ini berupa data panel yang dianalisis menggunakan metode regresi linier sederhana yang diolah dengan menggunakan Stata15. Hasil penelitian ini menunjukkan bahwa aset spesifisitas berpengaruh negatif terhadap konservatisme dari perusahaan manufaktur yang terdaftar di BEI tahun 2017-2019. Asset Specificity yang dimiliki oleh perusahaan ternyata belum mampu membuat perusahaan lebih konservatis dalam menyusun laporan keuangan.

Kata kunci: aset spesifisitas, BEI, konservatisme, perusahaan manufaktur

---
1 Corresponding author:
 Email: zubaidah_fe@umm.ac.id

INTRODUCTION

Conservatism is the principle of prudence in preparing financial statements where companies are not easy to recognize and measure assets and profits but immediately recognize losses and debts that are not sure are paid off as quickly as possible (Holthausen and Watts, 2001). Conservatism is the company's reaction in recognizing the losses and income received The factors th affect conservatism are profitability, leverage ratios, and so on (Savitri, 2016).

Level High profitability in the company means that the company is able to compete with other companies. Setiawati and Lim (2018) state that profitability shows a company's ability to pay debts. High profitability provides an information signal for the company's future growth. during the period. The goals to be achieved by the company cause the company to make a strategy in recognizing revenue and losses. High profitability causes the company to have a profit on hold that many indicate application the principle of conservatism. Leverage ratio used to know the company's ability to pay debts it owns. The bigger the leverage ratio, the more likely the company will be use procedures that increase the current period's reported earnings or the financial statements are presented. The greater the possibility for management to reduce earnings or the financial statements tend to be conservative. Apart from profitability and leverage ratio there is also an asset specificity. An asset specificity is the development of a management strategy.

The strategy formulation of the company is able to apply the concept of strategic management. The concept of strategic management has two strategies, first with a market-based strategy and secondly with a resourcesbased strategy. The difference in the application of this strategy is that the market-based strategy is more focused on competition and changes in consumer behavior that are oriented towards anticipating and taking advantage of market opportunities. Meanwhile, the company's resources-based strategy focuses on developing existing resources within the company. An asset specificity in a company is included in a resource-based strategy . Assets that provide specific capabilities for the company must naturally have their own characteristics that are difficult for other competitors to imitate. Assets that are characteristics that are difficult for other competitors to imitate (Mingyue, 2011). The existence of competition between companies will force

entrepreneurs to be better, make them different from others and have their own charm (Iskandar et al. 2015). The assets having certain characteristics contribute to variations in conservative financial reporting practices. High specificity assets show the company's ability to outperform competitors.

This advantage will cause the company will get a lot of profit. As the assetspecificity level of investment increases, it comes from debt financing companies will be more at risk (Khachaturyan, 2006). Because it is more risky, investors are entitled to supervise and know the operations and accounting operations of the company. Investors will tend to sue managers to apply conservatism in the preparation of financial statements. Assets specificity can led to reduced financial reporting conservatism for at least three reasons. First, given the use of fewer alternatives and / or greater uncertainty regarding the efficient use of assets, more specific assets have lower disposal values and are generally difficult to evaluate (Ronen & Sorter, 1972; Williamson, 1988). Therefore, having certain characteristics contribute to variations in conservative financial reporting practices. Human asset specificity is one form of asset specificity (Besanko et al. 2009). People who work have the skills, knowledge and information that are familiar with the culture within the company so that they become company assets.

Assets that provide specific capabilities for the company, by itself must have conditional conservatism can communicate low signals when in fact the future is favorable. For example, a company may experience unnecessary impairment of certain assets because of their low resale value in bad times while the asset value is much higher in operations. Apart from that, costs communication is also high for companies with more assets specific. Communication caused by conditional conservatism can lead to breach of agreement, unnecessary liquidation (for creditors) (Gigler et al. 2009). Given the lack of flexibility in adjusting business operations, unnecessarily tight agreements would limit investment and financing policies for companies with more assets specifically, increases the risk of bankruptcy (Klein et al. 1978; Vicente-Lorente, 2001). If the liquidation is triggered by misinformation, the creditors and shareholders of the company with a more specific asset will suffer heavy losses due to the low liquidation/abandonment value associated with the asset. Hence, because most likely signals caused by conditional conservatism and associated costs,

creditors and shareholders of companies with more specific assets may demand less conservatism.

Research by Kausar and Lennox (2017), discusses assets with characteristics contributing to conservative practice. Li and Xu (2018) in their research tested the effect manufacturers have a complete level of financial statements. Previous research measured the independent variables using the Basu method. The renewal in this study is a measurement of the independent variable using conacc . In addition, the reason the researchers conducted this research was because there were not many studies referring to it on conservatism by using asset specificity, because in Indonesia asset specificity is included in corporate strategy. This research is expected to be a reference in making good policies for corporate life. People who want to invest can choose a better company.

METHODS

The data used in this research is secondary data. This research data is in the form of financial statements of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. The source of this data comes from the Indonesia Stock Exchange through the IDX website, namely www.idx.co.id. The data collection method uses documentation, with documentation techniques to obtain data that has been finished and data that has been processed by other people. The data collection method in this research is using documentation. Documentation techniques are used to obtain data that has been finished and has been processed by others. Documentation can be done by re-recording, taking pictures, photocopying, or buying. The data used in this study are the company's annual financial statements. Annual financial report data used is the financial report of non-financial services companies through the Indonesia Stock Exchange website (www.idx.co.id).

Data was performed using statistical tools stata15. The stages of conducting data analysis in this study were: first, conducting descriptive statistical analysis. Annual financial report data used is the financial report done to see an overview of the processed data, with tables Statistical data is used to determine the mean, minimum, and maximum values. Second, perform an assumption test classic by doing autocorrelation test. This test is carried out to determine the effect of the

sample seen by cross section . The third performs a regression test using a simple regression test. Fourth by testing R^2 , Adj R^2 , and F test Test R^2 do if the value is> 0.5, it is considered strong if <0.5, then the variables are considered less powerful. The test was conducted to determine the effect and ability of the variables to explain the independent variables. The F test is carried out to measure the significance level of the influence of the dependent variable on the independent variable (Zulfikar & STp, 2019).

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2017-2019. The sampling technique for this research is by using purposive sampling, where the sampling method is based on criteria certain. The criteria for determining the sample in this study are as follows: Manufacturing companies listed on the IDX in 2017- 2019; Companies with shares that are not frozen by IDX; Manufacturing companies that have the complete data required by researchers.

The dependent variable in this study is conservatism. Conservatism is In the explanation of the contract, conservatism occurs because it reduces agency costs associated with (1) the asymmetry of information and the loss function between the parties that enter into contracts; and (2) the inability to verify the personal information of the more informed party (lafond). This study uses measurements on an accrual basis as done (Givoly and Hayn, 2000) with measurements as follows:

The Conservatism Model

The formulaused:

$$CONACC = ((NIO+DEP-CFO)\times(-1))/ TA$$

description: CONACC(Earnings Conservatism based on accrued items); NIO (Operating Profit of current year); DEP (Depreciation of fixed assets of current year); CFO(Net amount of cash flow from operating activities of current year); TA(Book value of closing total asset).

Asset specificity is an asset that has a unique character so that it has a competitive advantage for companies that own it (De Vita et al. 2011). Asset specificity has many meanings which explain the specificity of a combined asset of the four things that cause an asset

to be unique, namely physically, operating procedures, place and, supporting human resources. According to Wibowo (2016), in measuring the specificity asset value that has been developed, there are 3 measurement tools, namely, first, the ratio of internal R&D expenses to total sales, secondly the ratio of salary costs to total operating costs of the company, and finally marketing costs to net sales.

Aset Spesifisitas = salary expense/ total operating cost

Effect of Asset Specificity on Conditional Conservatism

Asset Specificity Li and Xu (2018) stated that conservatism has a corporate liquidation trigger. Specific assets are not easy to transfer because the function of these assets is only focused on company objectives. Investors as well as creditors always weigh the benefits and costs of conservative reporting. To reduce agency costs, investors and creditors can request a more conservative income and net assets. The level of asset specificity will affect the application of accounting conservatism.

Myers and Rajan (1998) hypothesized that asset specificity can reduce managerial discretion costs , which means that managers can sell assets and transfer making asset specificity very expensive. Asset specificity reduces the expected value of shareholding, which can reduce the risk of takeover assets. In other words, asset specificity can indeed reduce agency costs between agent and principal. Company value away from bondholders and equity investors, and managers tend not to be aware of changes in specific assets, when compared to companies with general asset ownership, the market for specific assets is less active. Auditors are able to postpone the impairment of both until they get verifiable information. From these explanations there are conflicting predictions about the direction of the relationship between asset specificity and conditional conservatism. So in this study, researchers refer to research conducted by Li and Xu (2018) which is supported by Kausar and Lennox (2017) hypothesizes: **H1** : Asset Specificity Affects Conservatism

From the Figure 1, it is known that this study aims to determine the effect of asset specificity on prevailing conservatism.
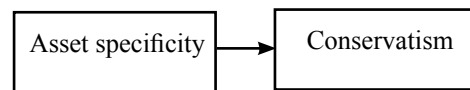

Figure 1. Reseacrh framework

RESULTS

Research Sample Distribution

The samples taken in this study were 210 companies listed on the IDX for the 2017-2019 period (Table 1). This company consists of the basic industrial sector and chemicals, various industrial sectors and the consumer goods industry sector. Based on Table 2, the asset specificity has a minimum value of 0.0074826 and a maximum value of 0.7888945. The average value of the specificity asset of 0.2703514, this result is higher than the standard deviation of 0.1545176. The high value of specificity assets proves that the company already has specificity assets in the form of human resources. The minimum value of conservatism is -3861909 and the maximum value is 4105840. The average conservatism value is 103409.2, this result is lower than the standard deviation of 830962.3.

Autocorrelation Test

In this study using the Durbin-Watson measurement to produce data. Derived from the Table 3 states that the autocorelium test results using the Durbin Watson test obtained a DW value of 0.995. The DL and DU values at k1 n210 are 1.758 and 1.778. Because the value of DW is below that of DL and DU, it becomes positive autocorrelation.

Table 1. Distribution of Research Samples

Research Sample Criteria	Total
Manufacturing companies listed on the IDX for the 2017-2019 period	166
The company does not have the necessary data for research	(96)
Company Samples	70
Observations (Samples × 3 years)	210

Table 2. Statistics description of research variables

	N	Mean	Std. Dev.	Min	Max
Conservatism	204	103409.2	830962.3	-3861909	4105840
Asset Specificity	204	0.270351	0.154517	0.007482	0.788894

Table 3. Durbin watson test results

Durbin Watson
0.995319

Panel Data Regression Results

The common effect model of panel data regression analysis is conservatism. From the Table 4, the adj R^2 results are 0.014 or 1.4%. This means that 1.4% of conservatism is affected by asset specificity. Meanwhile, the other 99.6% are influenced by other variables which are not discussed in this study. The F test results from the significance at the 5% level resulting in a value of 0.048 below 0.05. The results of this regression measure the specificity of assets against conservatism, showing negative results, this is known based on the coefficient value of -1.99. So the hypothesis in this study is that asset specificity has a negative effect on conservatism. These results are in line with research conducted by Li and Xu (2018) which states that asset specificity has a negative effect on conservatism.

The researcher tested the hypothesis regarding the effect of asset specificity on conservatism. The emergence of new companies that enter into market competition requires companies to remain competitive and be able to outperform the market. Large companies have their own strategies to win market competition. The strategy formulation of the company is able to apply the concept of strategic management. The concept in strategic management consists of two strategies, first with a market-based strategy and secondly with a resources-based strategy. The difference in the application of this strategy is that the market-based strategy is more focused on competition and changes in consumer behavior that are oriented towards anticipating and taking advantage of market opportunities. Meanwhile, the company's resources-based strategy focuses on developing existing resources within the company. An asset specificity in a company is included in a resources-based strategy. Assets that provide specific capabilities for the company must naturally have their own characteristics that are difficult for other competitors to imitate. Assets that have certain characteristics contribute to variations in conservative financial reporting practices. Human asset specificity is a form of asset specificity (Besanko et al. 2009). People who work have the skills, knowledge and information that are familiar with the culture within the company so that they become company assets.

Based on the results of hypothesis testing, the output of stata 15 shows that asset specificity has a negative effect on conservatism. These results indicate that companies that have asset specificity affect the company's conservatism practice, but in this study asset specificity has a negative effect on conservatism practice, this is in line with the research conducted (Li & Xu, 2018). The higher the human resources, the higher the education of the working employees. The higher education of employees, the cost of salaries to employees also increases. Because the increase in employee salary costs will cause a decrease in the profit received by the company, this is because the salary will reduce the profit generated by the company. The profit generated by small companies causes the company's conservatism to decrease.

Managerial Implication

Based on the results and discussion, the managerial implication of this research is that the company must be able to manage its specificity assets. Specific assets here are related to human resources, having human resources who have the skills, knowledge and information in accordance with the culture within the company will be able to minimize conservatism in financial statements. When conservatism in the company can be suppressed, then the profits presented in the financial statements are more reliable and free from material misstatement. Companies need to invest in competency development through human resource training and certification.

Tabel 4. Common effect model

Conservatism	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval
Asset Specificity	-743979.7	374741.2	-1.99	0.048	-1482886	-5073.603
Prob > F	0.0485					
R-squared	0.0191					
Adj R-squared	0.0143					

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Manufacturing companies in Indonesia have human resources who already have their own advantages. The specificity of assets owned by the company reduces the practice of accounting conservatism. The results of panel data analysis on manufacturing companies listed on the IDX in 2017-2019 show that asset specificity has a negative relationship to conservatism in Indonesia. The results showed that the R^2 coefficient was 1.4%, which means that there were other factors that influenced conservatism by 99.6%.

Recommendations

Further research can add variables that have a relationship with conservatism or by adding variables that moderate asset specificity towards conservatism. In addition, further research can add samples by including companies engaged in other business fields besides manufacturing companies.

REFERENCES

Besanko D, Dranove D, Shanley M, Schaefer S. 2009. *Economics of Strategy:* John Wiley & Sons.

De Vita G, Tekaya A, Wang CL. 2011. The many faces of asset specificity: A critical review of key theoretical perspectives. *International Journal of Management Review* 13(4):329-348. https://doi.org/10.1111/j.1468-2370.2010.00294.x

Gigler F, Kanodia C, Sapra H, Venugopalan R. 2009. Accounting conservatism and the efficiency of debt contracts. *Journal of Accounting Research* 47(3):767-797. https://doi.org/10.1111/j.1475-679X.2009.00336.x

Givoly D, Hayn C. 2000. The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative?. *Journal of Accounting and Economics* 29(3):287-320. https://doi.org/10.1016/S0165-4101(00)00024-0

Holthausen RW, Watts RL. 2001. The relevance of the value-relevance literature for financial accounting standard setting. *Journal of Accounting and Economics* 31(1-3): 3-75. https://doi.org/10.1016/S0165-4101(01)00029-5

Iskandar D, Nurmalina R, Riani E. 2015. The effect of service, product quality, and perceived value on customer purchase intention and satisfaction. *Indonesian Journal of Business and Entrepreneurship* 1(2):51–62.

James C, Kizilaslan A. 2014. Asset specificity, industry-driven recovery risk, and loan pricing. *The Journal of Financial and Quantitative Analysis* 49(3):599-631. https://www.jstor.org/stable/43303961

Jensen MC, Meckling WH. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(4):305-360. https://doi.org/10.1016/0304-405X(76)90026-X

Kausar A, Lennox C. 2017. Balance sheet conservatism and audit reporting conservatism. *Journal of Business Finance and Accounting* 44(7-8):897-924. https://doi.org/10.1111/jbfa.12256

Khachaturyan A. 2006. The one-share-one-vote controversy in the EU. *European Business Organization Law Review (EBOR)* 8:335-367.

Klein B, Crawford RG, Alchian AA. 1978. Vertical integration, appropriable rents, and the competitive contracting. *The Journal of Law and Economics* 21(2):297-326.

Li Q, Xu, L. 2018. Asset specificity and conditional accounting conservatism. *Journal of Business Finance & Accounting* 45(7-8):839-870. https://doi.org/10.1111/jbfa.12308

Mingyue F. 2011. Asset Specificity, Financing Capacity and Companies M&A: Evidence from Chinese A-share Industrial Listed Companies. *Journal of Financial Research* 5.

Myers SC, Rajan RG. 1998. The paradox of liquidity. *The Quarterly Journal of Economics* 113(3):733-771. https://doi.org/10.1162/003355398555739

Ronen J. Sorter GH. 1972. Relevant accounting. The

Journal of Business 45(2):258-282.

Savitri E. 2016. *Konservatisme Akuntansi.* Yogyakarta: Pustaka Sahila Yogyakarta.

Setiawati LW, Lim M. 2018. Analisis pengaruh profitabilitas, ukuran perusahaan, leverage, dan pengungkapan sosial terhadap nilai perusahaan pada perusahaan manufaktur yang terdaftar di bursa efek Indonesia periode 2011-2015. *Jurnal Akuntansi* 12(1): 29-57.

Shou Z, Yang L, Zhang Q, Su C. 2013. Market munificence and inter-firm information sharing: The moderating effect of specific assets. *Journal of Business Research* 66(10):2130-2138. https://doi.org/10.1016/j.jbusres.2013.02.039

Vicente☐Lorente JD. 2001. Specificity and opacity as resource☐based determinants of capital structure: Evidence for Spanish manufacturing firms. *Strategic Management Journal* 22(2):157-177. https://doi.org/10.1002/1097-0266(200101)22:2<157::AID-

SMJ152>3.0.CO;2-2

Wibowo B. 2016. Kepemilikan aset spesifik, keunggulan kompetitif, dan struktur modal perusahaan: Studi kasus perusahaan publik di Indonesia. *Jurnal Siasat Bsinis* 20(2):115–129. https://doi.org/10.20885/jsb.vol20.iss2.art2

Williamson OE. 1988. Corporate finance and corporate governance. *The Journal of Finance* 43(3):567-591. https://doi.org/10.1111/j.1540-6261.1988.tb04592.x

Zulfikar R, STp M. 2019. Estimation model and selection method of panel data regression: an overview of common effect, fixed effect, and random effect model. https://www.researchgate.net/publication/326142125_Estimation_Model_And_Selection_Method_Of_Panel_Data_Regression_An_Overview_Of_Common_Effect_Fixed_Effect_And_Random_Effect_Model