



Jurnal Keuangan dan Perbankan
UNIVERSITY OF MERDEKA MALANG

Article history:

Received: 2020-05-27

Revised: 2020-06-11

Accepted: 2020-07-02

Keywords:

Background; Compensation;

Fixed asset revaluation; Leverage

JEL Classification: M48, D72, G32

Kata Kunci:

Latar belakang; Kompensasi;

Revaluasi aset tetap; Leverage

✉ Corresponding Author:

Zaenal Fanani:

Tel.+62 31 5915551

E-mail: fanani@feb.unair.ac.id



This is an open access
article under the CC–BY-SA license

The background of board, compensation, leverage and fixed asset revaluation decision

Zaenal Fanani, Arika Kamelia

Department of Accounting, Faculty of Economics and Business, Airlangga University
Jl. Airlangga 4-6, Surabaya, 60286, Indonesia

Abstract

This research aims to obtain empirical evidence in Indonesia whether it is true that companies with boards of commissioners and directors with political, accounting, military background, and the amount of compensation received will affect the selection of revaluation methods to measure their fixed assets that revaluation is commonly used to facilitate the company in obtaining additional loan funds and attract investors to invest. This can occur because in the revaluation method, the company's fixed assets are presented under fair conditions. In addition, this study also wants to test whether a company with high debt levels will tend to revalue its fixed assets measured by the leverage of the company. This research used the entire company population in all types of industries listed on the IDX for the period 2016. The final sample used in this research was 458 using logistic regression analysis. In this research, it is found that political background and accounting background has no positive effect, military background had positive effect, and compensation and leverage had no negative effect on the asset revaluation decision remains.

Abstrak

Penelitian ini bertujuan untuk memperoleh bukti empiris di Indonesia apakah benar perusahaan dengan dewan komisaris dan direksi berlatar belakang politik, akuntansi, militer, dan besarnya kompensasi yang diterima akan mempengaruhi pemilihan metode revaluasi untuk mengukur aset tetapnya yaitu revaluasi, yang biasa digunakan untuk memudahkan perusahaan dalam memperoleh dana pinjaman tambahan dan menarik investor untuk berinvestasi. Hal ini dapat terjadi karena dalam metode revaluasi aset tetap perusahaan disajikan dalam kondisi wajar. Selain itu, penelitian ini juga ingin menguji apakah perusahaan dengan tingkat utang yang tinggi akan cenderung melakukan revaluasi aset tetap yang diukur dengan leverage perusahaan. Penelitian ini menggunakan seluruh populasi perusahaan di semua jenis industri yang terdaftar di BEI untuk periode 2016. Sampel akhir yang digunakan dalam penelitian ini adalah 458 dengan menggunakan analisis regresi logistik. Dalam penelitian ini ditemukan bahwa latar belakang politik dan latar belakang akuntansi tidak berpengaruh positif, latar belakang militer berpengaruh positif, dan kompensasi dan leverage tidak berpengaruh negatif terhadap keputusan revaluasi aset tetap.

How to Cite: Fanani, Z., & Kamelia, A. (2020). The background of board, compensation, leverage and fixed asset revaluation decision. *Jurnal Keuangan dan Perbankan*, 24(3), 282-296. <https://doi.org/10.26905/jkdp.v24i3.4220>

1. Introduction

The development of business currently makes the financial statement of company becomes the most important thing needed by financial statement users, especially foreign investors, to measure and analyze company performance before deciding to invest. While assessing a company, investors highly need information in financial statement that can describe the real financial condition of the company (Latifa & Haridhi, 2016). furthermore, This shifts the use of historical cost in accounting financial reporting because it is considered unable to provide relevant information for users of financial statements related to the fair value of a company's assets (Andison & Nasser, 2017; Hidayat & Hati, 2017; Margaretha, 2017; Latifa & Haridhi, 2016; Yulistia, 2015; Firmansyah & Sherlita, 2012).

Companies in developed countries have begun to leave historical cost model and they replace it to revaluation because they feel the benefits of revaluation are greater than the costs they incur. Besides, there is also a shift in the trend of accounting choices in their markets that have demanded the presentation of fixed assets at fair value compared to historical costs. Revaluation of Asset is a method used to reevaluate a company's fixed assets to be higher or lower, according to their fair value (2016a, 2016b). Research results of Yulistia (2015) found that there were only 8 companies that chose the revaluation method during 2008 to 2009. Whereas the 2016 data showed that of the 458 companies listed on the IDX, 376 companies used the revaluation method and 82 companies did not use the revaluation method.

Fixed asset becomes material because it is an account in financial statement that has big contribution as reference for calculating several company financial ratios that are then used to describe the company's financial condition. Meanwhile, the company's financial statements become a medium that represents the company's image and condition in front of users of financial statements. Therefore,

the company will try to provide a good image to users of financial statements. Because the users are the party that is needed by the company in maintaining its survival. One form of business that a company will undertake is to revalue the fixed assets. By revaluing its fixed assets, the company will be able to reach a point, in which the financial statements, especially the balance sheet, can be presented at a fair value that can't be met by the cost method. When fixed assets in the financial statements are presented at fair value, the financial statements meet the requirements of being relevant, informative, and reliable in providing accounting information because the financial statements reflect the current value or price of their fixed assets.

The benefits of revaluation of fixed asset for company are as follow: being able to ease company in obtaining loans, companies can solve financial and funding difficulties, there is an increase in credit ratings, and have a greater chance of getting investment from domestic and foreign investors (Manihuruk & Farahmita, 2015)

This research examines the political, military, and accounting backgrounds of the board of commissioners and directors of the company as well as the compensation received by the board of commissioners and directors of the company. This research is the first research to examine the effect of political background, military, accounting, and compensation of the board of commissioners and directors toward the revaluation of fixed assets.

This variable is chosen because politic connection based on the research of Faccio (2006) can provide benefits or advantages to companies by providing or providing business opportunities, prioritizing access for companies when they need funds, lower interest rates, giving priority to access to government funding, the possibility of getting bailout funds. Harymawan (2018) also shows that companies connected to the military are treated preferentially by getting a lower loan interest rate when borrowing funds from a bank compared to compa-

nies that are not connected to the military. The educational background and experience possessed by the board of commissioners and directors of the company can affect the quality of decision making for the company, such as funding and investment policies.

Besides, this research also want to examine whether companies with a debt composition that is greater than their assets will tend to reevaluate their fixed assets. Because of the previous research conducted by Cotter & Zimmer (1995); Jaggi & Tsui (2001); Piera (2007); Iatridis & Kilirgiotis (2012) companies with a debt composition that is greater than their assets will tend to reevaluate their fixed assets in order to help them to solve the problem of funding difficulties.

2. Hypotheses Development

Conjunction theory is a connecting theory between variables. It explains that several objects can have a relation that operates on two logical values. It is usually the value of two propositions that results in a true value if and only if, if both are true. In the context of this research, conjunction theory is used to describe the relation between political background, military, accounting, and compensation of the board of commissioners and directors of the company with the decision to reevaluate fixed assets.

The background of the research is the results of previous research conducted by Brown, Izan, & Loh (1992); Whittred & Chan (1992); Cotter & Zimmer (1995); Aboody, Barth, & Kasznik, (1999); Jaggi & Tsui (2001); Piera (2007); Tay (2009); Iatridis & Kilirgiotis (2012); Manihuruk & Farahmita (2015); Latifa & Haridhi (2016); Hidayat & Hati (2017). It states that revaluation of fixed assets will ease companies to obtain additional loan funds, while the political and military backgrounds of the company's boards of commissioners and directors make it easier for companies to get additional loan funds.

Therefore, conjunction theory can be used to explain the relationship between political background, military, accounting, and compensation with revaluation of fixed assets.

Based on theory of Political favoritism effect and bureaucratic incentive effect (Karakose, 2014; Prendergast & Topel, 1996), companies that have political connections owned by the board of commissioners and directors will obtain preference or priority or priority by creditors than those who have no connection related to loans fund. Meanwhile, the bureaucratic incentive effect is described by the bureaucratic relationship of the commissioners and/or directors in a company that is politically connected to creditors. The people are in the ranks of a state-owned bank or private bank in which there are parties who can be easily influenced by background forces. political background which is owned by commissioners and directors in a company that is seeking funds.

The companies that have political connection to the board of commissioners to build political relationships to support their business, requires a lot of support for financial accessibility, diversification (product diversification), licensing and so on (Harymawan, 2018). Thus, political connections on the board of commissioners and directors cause companies to make policies that make it easier for companies to obtain Financial accessibility encourages companies to show a reasonable wealth position and improve the company's financial performance. This can be conducted by revaluing fixed assets. This revaluation does require a large cost, yet the benefits obtained by the company are much greater because if the business is managed properly, the financial performance and value of the company will also increase (Harymawan, 2018). The greater the effect of the political background that the board of commissioners and directors have in the company, the greater the possibility of the company to reevaluate its fixed assets.

The background of board, compensation, leverage and fixed asset revaluation decision

Zaenal Fanani, Arika Kamelia

H_1 : the political background possessed by the board of commissioners and/or company directors has a positive effect toward the fixed asset revaluation decision

According to rent seeking theory (Tollison, 2012), companies can seek loan funds from an individual (such as politicians, government employees, and so on) to obtain benefits (such as licenses, concessions and so on) from their connections to support their business (Harymawan, 2018). The board of commissioners and/or directors in a company with a military background tries to get loan funds from creditors (that is the benefit of the revaluation that many businesses are looking for) by using their connections in a way or way that is easier or faster because they already have the preference or favoritization of the creditor because of their connection. On the other hand, the company also applies a revaluation model whose application is aimed to ease companies to obtain funds. Therefore, companies with a military background tend to choose the revaluation method to measure their fixed assets, thus, the asset value to a relatively more realistic price can reduce the company's debt to equity ratio. Therefore, if the company will borrow debt from the bank, the bank can provide it easily, especially with the support of a military background. Benmelech & Frydman (2015); Lin et al. (2011) also suggested that the military background possessed by company executives affects the decisions and performance of the company. The greater the military background possessed by the board of commissioners and directors in the company, the greater the possibility for the company to choose the fixed asset revaluation method.

H_2 : military background possessed by the board of commissioners and/or company directors has a positive effect toward the fixed asset revaluation decision

Agency theory can explain why the companies that have the composition of the board of com-

missioners and/or directors with accounting background is a form of good corporate governance implementation. It means that the company has minimized the occurrence of conflicts between agents and principals. Board of commissioners and/or directors with accounting background understand better good corporate governance. This means that boards of commissioners and/or directors with accounting backgrounds better understand which ones are in the interests of the public and stakeholders compared to other backgrounds.

Therefore, the author assumes that companies that have boards of commissioners and directors with accounting backgrounds are considered to have implemented good corporate governance and would prefer the revaluation method as a measurement of their assets. Because in this case, revaluation is considered as a method capable of making financial statements more relevant because fixed assets are presented in fair value, than those who do not have a board of commissioners and directors with no accounting background. The greater the composition of the board of commissioners and/or directors in a company with an accounting background, the more likely the company will choose the revaluation method.

H_3 : accounting background owned by the board of commissioners and/or company directors has a positive effect toward the fixed asset revaluation decision.

Goal setting theory can explain why the good potential of companies for the board of commissioners and directors can affect them to choose the fixed asset revaluation method. The goal of the board of commissioners and directors is to obtain good compensation by giving good performance and realizing everything desired by shareholders which aims to increase company value. Meanwhile, the goal of shareholders is to obtain good returns that can only be obtained when the company performs well and generates the best profit.

In this research, the context of the goals to be achieved is in the form of good compensation from the company for the board of commissioners and directors. The reciprocity to the company is that the board of commissioners and directors will provide good performance for the benefit of the company, such as to obtain additional loan funds easier and increase the number of investors who invest (in this research, the objective is the benefits and advantages of applying the revaluation method. in measuring fixed assets). Therefore, the researcher assumes that the higher the compensation received by the commissioners and directors of the company, the more likely the company will choose the revaluation method as the measurement of the assets.

H_4 : the compensation received by the board of commissioners and/or company directors has a positive effect toward the fixed asset revaluation decision

Januarti (2004) explained one of the hypotheses in Positive Accounting Theory formulated by (Watts & Zimmerman, 1986) is in the form of “opportunistic” that is often interpreted, namely the debt covenant hypotheses (Debt Convenat Hypotheses), in ceteris paribus the manager of a company that has a leverage ratio (debt/equity) large companies will prefer to choose accounting procedures that can replace earnings reports for future periods to the current period. Based on these arguments, the researcher develops a hypotheses that the higher the level of corporate leverage, the more likely the company will choose a revaluation model.

H_5 : leverage has a positive effect toward fixed asset revaluation decisions

3. Method, Data and Analysis

Data used in this research are secondary data. Sources of research data are from the 2016 annual financial reports and annual reports obtained from the Indonesia Stock Exchange through the website www.idx.co.id and official websites of related companies. Closing stock price data as of December 31, 2016 to measure the value of share ownership as a component of compensation for the company’s board of commissioners and directors accessed through www.finance.yahoo.com, www.duniainvest.com/bei, and www.ksei.co.id/services/registered-securities/shares/lc. The background data for the company’s boards of commissioners and directors are accessed through the websites www.bloomberg.com, www.reuters.com, and www.idnfinancials.com.

Variable measurement

Political background (*POL*)

Political background is a person on the board of commissioners and directors in a company who currently has or has ever had public authority including state administrators as referred to in the laws and regulations governing state administrators, and/or persons registered as members of political parties, whether those who are be Indonesian and foreign citizens (Bank Indonesia, 2010). The measurement of this variable is if one of the board

Table 1. Sample selection

Information	2016
Population Target:	
Company listed in IDX IN 2016	567
Non-Criteria:	
Financial services sector companies	(94)
There is no data regarding total assets/total debt/compensation of commissioners and company directors	(15)
Total	458

The background of board, compensation, leverage and fixed asset revaluation decision

Zaenal Fanani, Arika Kamelia

of commissioners and board of directors in the company meets the requirements mentioned above, the company has a value of 1, which means that the company has a board of commissioners and directors with a political background, whereas if the company has a score of 0 then the company cannot be said to have a board of commissioners and directors with political backgrounds. The source of this data can be seen from the profiles of the board of commissioners and directors of the company in the annual report on the profile section of the board of commissioners and directors and on the websites www.bloomberg.com, www.reuters.com, and www.idnfinancials.com data related to the background of the board of commissioners. and company directors.

Military background (*MIL*)

Military background is an individual in board of commissioners and/or board of directors who have served in the military field Harymawan (2018). Thus, if one of the commissioners and/or board of directors in the company has a military background, the company is worth 1. It means the company has a military background, while if the company has a score of 0 then the company can't be said to have a military background. The source of this data can be seen from the personal data of the board of commissioners and the board of directors in the annual report of the profile section of the board of commissioners and directors of the company as well as on the websites www.bloomberg.com, www.reuters.com, and www.idnfinancials.com related to the background of the company's board of commissioners and directors.

Accounting background (*LAK*)

Background of accounting is an individual in board of commissioners and directors with formal education background, courses, professional expertise certification and work experience in accounting

(Hu et al., 2017). Accounting background is measured by using the proportion of the number of commissioners and directors with accounting background divided by the number of commissioners and directors in a company. The source of this data can be obtained from the personal data of the board of commissioners and the board of directors in the annual report of the profile section of the board of commissioners and directors of the company, as well as on the sites www.bloomberg.com, www.reuters.com, and www.idnfinancials.com that are also available related to the background of the company's board of commissioners and directors.

Compensation (*KOMP*)

Compensation is reward given by companies to individuals as compensation in the form of cash and non-cash compensation, such as salary, allowances, bonuses, incentives, short-term benefits, long-term rewards, share ownership and other compensation (Conyon & He, 2012; Ozkan, 2011). In this research, compensation is measured using the natural logarithm (\ln) of the total compensation received by the board of commissioners and directors of the company. This variable can be seen in the company's Notes to Financial Statements (*CALK*), www.bloomberg.com, www.reuters.com, and www.idnfinancials.com to find out data on compensation for boards of commissioners and directors.

$$\text{Compensation} = \ln (\sum \text{Compensation}) \quad (1)$$

Leverage (*LEV*)

Leverage is ratio showing part of the source of funding for operations and investments that come from outside the company. The debt to asset ratio is used as a measurement for leverage. A measurement of the leverage variable as measured by the debt to asset ratio in this study is according to those used by (Lang, Ofek, & Stulz, 1996; Piera, 2007;

Manihuruk & Farahmita, 2015; Margaretha, 2017), in which leverage is measured using debt to assets.

$$Debt\ to\ Asset = \frac{Total\ Debts}{Total\ Assets} \quad (2)$$

Fixed asset revaluation decision (REV)

Fixed asset revaluation decision is a decision to use or not use revaluation model over fixed asset in company. The measurement of the revaluation decision variable in this research is in accordance with variable used by previous research, in which the revaluation decision is measured by giving a value of 1 if the company uses the revaluation model in the current year and gives a value of 0 if the company does not revalue (Margaretha, 2017). Data regarding whether a company applies the revaluation method can be seen in the company’s financial statements.

Technique of data analysis used in this research was binary logistic regression analysis using SPSS 22 for 64 bit windows.

4. Results

Descriptive statistic

Descriptive statistic will give depiction about condition of independent and dependent variables

that includes the minimum, maximum, average and standard deviation values. Descriptive statistics are shown in Table 2. This research has independent variables in the form of political background, military background, accounting background, compensation, and leverage. While the dependent variable in this study is the decision to revalue fixed assets. Table 3 shows the relation between variables while Table 4 is the result of the independent t test difference between companies that conduct and do not conduct asset revaluation.

Hypotheses test

Analysis test used in this research was multiple logistic regression analysis with revaluation decisions as the dependent variable (Y) and political background (X₁), military background (X₂), accounting background (X₃), compensation (X₄), and leverage (X₅) as independent variables.

The first hypotheses (H₁) in this research reveals that political background owned by Board of commissioners and/or company directors have a positive effect on fixed asset revaluation decisions. The results showed that political background did not affect the fixed asset revaluation decision. This is based on the results of logistic regression testing

Table 2. Descriptive statistic

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
LAK	458	0.000	0.750	0.166	0.147	0.022
REV	458	0.000	1.000	0.180	0.384	0.147
MIL	458	0.000	1.000	0.190	0.391	0.153
POL	458	0.000	1.000	0.420	0.495	0.245
LEV	458	0.001	16.834	0.605	1.084	1.176
KOMP	458	8.485	34.624	23.579	2.359	5.569

Notes: POL= political background is the dummy variable for 1 = the commissioners and/or board of directors has a political background, 0 = the commissioners and/or board of directors hasn’t a political background; MIL= military background is the dummy variable for 1 = the commissioners and/or board of directors has a military background, 0 = the commissioners and/or board of directors hasn’t a military background; LEV=leverage is the ratio of total debts to total assets; LAK= accounting background is the proportion of the number of commissioners and directors with accounting background divided by the number of commissioners and directors in a company; KOMP= compensation is measured using the natural logarithm (Ln) of the total compensation received by the board of commissioners and directors; REV= fixed asset revaluation decision is the dummy variable for 1 = the company uses the revaluation model, 0 = the company does not revalue.

The background of board, compensation, leverage and fixed asset revaluation decision

Zaenal Fanani, Arika Kamelia

with a probability value (Sig.) of 0.668 that is greater than $\alpha = 0.10$. Thus, it can be concluded that H_1 that states the political background of the board of com-

missioners and/or company directors has a positive effect on fixed asset revaluation decisions is rejected.

Table 3. Correlation between variables

	<i>POL</i>	<i>MIL</i>	<i>LEV</i>	<i>LAK</i>	<i>KOMP</i>	<i>REV</i>
<i>POL</i>						
<i>MIL</i>	0.561***					
<i>LEV</i>	-0.054	-0.020				
<i>LAK</i>	-0.108*	-0.019	-0.049			
<i>KOMP</i>	0,134***	0.109**	-0.037	-0.099**		
<i>REV</i>	0,072	0.111**	-0.043	0.058	-0.022	

Notes: *POL*= political background is the dummy variable for 1 = the commissioners and/or board of directors has a political background, 0 = the commissioners and/or board of directors hasn't a political background; *MIL*= military background is the dummy variable for 1 = the commissioners and/or board of directors has a military background, 0 = the commissioners and/or board of directors hasn't a military background; *LEV*=leverage is the ratio of total debts to total assets; *LAK*= accounting background is the proportion of the number of commissioners and directors with accounting background divided by the number of commissioners and directors in a company; *KOMP*= compensation is measured using the natural logarithm (Ln) of the total compensation received by the board of commissioners and directors; *REV*= fixed asset revaluation decision is the dummy variable for 1 = the company uses the revaluation model, 0 = the company does not revaluate. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively

Table 4. The difference test result using independent sample t test

Observation Period	N	Mean	Std Dev	t _{count}	P
<i>POL</i>					
Conducting fixed asset Revaluation	82	0.500	0.503	1.546	0.123
Not Conducting fixed asset Revaluation	376	0.407	0.491		
<i>MIL</i>					
Conducting fixed asset Revaluation	82	0.280	0.452	2.382	0.018**
Not Conducting fixed asset Revaluation	376	0.168	0.373		
<i>LEV</i>					
Conducting fixed asset Revaluation	82	0.505	0.222	-0.925	0.356
Not Conducting fixed asset Revaluation	376	0.627	1.191		
<i>LAK</i>					
Conducting fixed asset Revaluation	82	0.184	0.134	1.243	0.215
Not Conducting fixed asset Revaluation	376	0.161	0.149		
<i>KOMP</i>					
Conducting fixed asset Revaluation	82	23.469	2.669	-0.463	0.644
Not Conducting fixed asset Revaluation	376	23.603	2.290		

Notes: *POL*= political background is the dummy variable for 1 = the commissioners and/or board of directors has a political background, 0 = the commissioners and/or board of directors hasn't a political background; *MIL*= military background is the dummy variable for 1 = the commissioners and/or board of directors has a military background, 0 = the commissioners and/or board of directors hasn't a military background; *LEV*=leverage is the ratio of total debts to total assets; *LAK*= accounting background is the proportion of the number of commissioners and directors with accounting background divided by the number of commissioners and directors in a company; *KOMP*= compensation is measured using the natural logarithm (Ln) of the total compensation received by the board of commissioners and directors; *REV*= fixed asset revaluation decision is the dummy variable for 1 = the company uses the revaluation model, 0 = the company does not revaluate. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively

The second hypotheses (H_2) in this research states that the military background of the company's board of commissioners and/or directors has a positive effect on the decision to reevaluate fixed assets. The results showed that military background had a positive effect on fixed asset revaluation decisions. This was based on the results of logistic regression testing with a probability value (Sig.) of 0.093 that was smaller than $\alpha = 0.10$. It means that the military background affects the decision to reevaluate fixed assets with the coefficient value it can be seen that the effect shown is positive (0.599). Thus it can be concluded that H_2 that states that the military background of the board of commissioners and/or company directors has a positive effect on fixed asset revaluation decisions is not rejected.

The third hypotheses (H_3) in this research reveals that accounting background owned by Board of commissioners and/or company directors have a positive effect on fixed asset revaluation decisions. The results showed that the accounting background had no effect on the fixed asset revaluation deci-

sion. This was based on the results of logistic regression testing with a probability value (Sig.) of 0.222 that was greater than $\alpha = 0.10$. Therefore, it can be concluded that H_3 which states that the accounting background of the board of commissioners and/or company directors has a positive effect on fixed asset revaluation decisions is rejected.

The fourth hypotheses (H_4) in this research states that the compensation received by the board of commissioners and/or company directors has a positive effect on fixed asset revaluation decisions. The results showed that compensation had no effect on fixed asset revaluation decisions. This was based on the results of logistic regression testing with a probability value (Sig.) of 0.508 that was greater than $\alpha = 0.10$. Thus, it can be concluded that H_4 that states that the compensation received by the board of commissioners and/or company directors has a positive effect on fixed asset revaluation decisions is rejected.

The fifth hypotheses (H_5) in this research states that leverage of company affects positively toward

Table 5. Logistic regression test in partial

Variable	Coefficient	Sign
<i>POL</i>	0.135	0.668
<i>MIL</i>	0.599	0.093*
<i>LAK</i>	1.014	0.222
<i>KOMP</i>	-0.034	0.508
<i>LEV</i>	-0.210	0.406
Constant	-0.967	0.441
Chi-square	2.550	
Sign	0.959	
Cox & Snell R Square	0.019	
Nagelkerke R Square	0.030	

Notes: *POL*= political background is the dummy variable for 1 = the commissioners and/or board of directors has a political background, 0 = the commissioners and/or board of directors hasn't a political background; *MIL*= military background is the dummy variable for 1 = the commissioners and/or board of directors has a military background, 0 = the commissioners and/or board of directors hasn't a military background; *LEV*=leverage is the ratio of total debts to total assets; *LAK*= accounting background is the proportion of the number of commissioners and directors with accounting background divided by the number of commissioners and directors in a company; *KOMP*= compensation is measured using the natural logarithm (Ln) of the total compensation received by the board of commissioners and directors; *REV*= fixed asset revaluation decision is the dummy variable for 1 = the company uses the revaluation model, 0 = the company does not reevaluate. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively

fixed asset revaluation decision. The results showed that leverage has no effect on fixed asset revaluation decisions. This was based on the results of logistic regression testing with a probability value (Sig.) of 0.406 that was greater than $\alpha = 0.10$. Thus, it can be concluded that H_5 that states that company leverage has a positive effect on fixed asset revaluation decision is rejected.

5. Discussion

Political background and fixed asset revaluation decision

Empirical research reveals that political background do not affect fixed asset revaluation decision. The results of this research are consistent with the argument of Cotter (1999) in Australia. Cotter (1999) found that asset revaluation in Australia can no longer affect or it is no longer as a signal or incentive to increase borrowing capacity or a tool that is usually used to deal with problems in corporate debt ownership contracts. This is due to a shift from loans that were originally public (on behalf of the company) to loans that are private in nature (on behalf of each executive) to meet the company's funding needs. This change occur because of the finding that company executives had close relationships with bankers or creditors or lenders (there were political connections), then diminished the benefits of asset revaluation in Australia.

In addition, Faccio (2010) stated that political connection will affect significantly in countries with high levels of corruption. Dirty political practices in Indonesia are no longer able to affect business activities. Political connections are unable to affect or provide benefits to business people in Indonesia. The transparent democratic system in the Indonesian government system since the fall of the New Order has also brought fresh air to the Indonesian economic system. The level of corruption in Indonesia has begun to decline and there has been an increase in effectiveness and efficiency in the gov-

ernment and economic system in each era of his presidential administration, up to the current Jokowi administration. During the Jokowi administration, Indonesia has an increase in system effectiveness, efficiency and transparency, the KPK (Corruption Eradication Commission) and the Government also continue to work together to eradicate the practice of KKN (corruption collusion nepotism) in Indonesia. Mauliana (2018); Mediani (2018); Us (2018) stated that Indonesia's corruption perception index at the end of 2017 was 37 with a ranking of 96 out of 180 countries in the world, this has improved in the last 5 years. The 37 GPA and the 96th rank obtained by Indonesia are also the same as the numbers and ratings obtained by Thailand, Brazil, Colombia, Panama, Peru, and Zambia.

Military background and fixed asset revaluation decision

Empirical results explains that military background affects positively toward fixed asset revaluation decision. It is because TNI (Indonesian national army) and POLRI (Indonesian National Police) retirees have careers as boards of commissioners and directors in companies using their strong, absolute power and can make all the desires or goals they want to achieve (Harymawan, 2018). Furthermore, explained that military background has a huge affect and role in the world of politics, especially in developing countries like Indonesia. Indonesia was once led by a president who was a former military general for 32 years, and in 1957, the Government of Indonesia issued a regulation supporting and strengthening the involvement of military personnel in economic activities in Indonesia. Since that year, military business activities have emerged as an important player in the Indonesian economy. Benmelech & Frydman (2015); Lin et al. (2011) also suggested that the military background possessed by company executives affects the decisions and performance of the company.

Boards of commissioners and directors that have military backgrounds are able to obtain additional funds and attract investors (which are the benefits of implementing fixed asset revaluation) in various ways, such as through fixed asset revaluation. Revaluation of fixed assets that is considered to be complex and incurring high costs will be able to handle them easily and cheaply because of the power and military strength they have (Tollison, 2012). Companies with a military background tend to choose the revaluation method to measure their fixed assets. Thus, the asset value to a relatively more realistic price can reduce the company's debt to equity ratio. Furthermore, if the company will borrow debt from the bank, the bank can provide it easily, especially with the support of a military background. Their military background is able to facilitate the asset revaluation process within the company.

The accounting background and fixed asset revaluation decision

Empirical results explain that accounting background do not affect fixed asset revaluation decision in Indonesia. The results of this research are in line with Hu et al. (2017) who revealed that CEOs with accounting background in China are likely not to be involved in revenue manipulation in revenue management and tend to report conservatively. When asset revaluation is used to provide good financial statement information to users (then classified as manipulative action or windows dressing), companies that have a board of commissioners and/or directors with an accounting background will certainly not evaluate their assets, or they will conduct revaluation their assets but with different objectives, such as research by Lopes & Walker (2012) which suggests that companies do revaluation their assets to increase the equity position reported in financial statements. They conduct revaluation their fixed assets for the purpose or internal interests of the company. Thus, they can really see the actual

performance of the company through the fair value of their fixed assets to improve the quality and internal performance of the company and motivate the internal company to provide better performance. Therefore, the accounting background of the board of commissioners and directors of companies in Indonesia can't affect the fixed asset revaluation decision due to several factors described above.

Compensation and fixed asset revaluation decision

Empirical results showed that compensation did not affect fixed asset revaluation decision as explained in goal setting theory in theoretical basis of this research. The goal of the board of commissioners and directors is to obtain good compensation by providing good performance and realizing everything desired by shareholders which aims to increase company value. Meanwhile, the goal of shareholders is to obtain good returns that can only be obtained when the company performs well and generates the best profit. In the end, in the empirical results of this research, the compensation given by the company to the board of commissioners and directors is not able to make them choose to revalue their fixed assets. Therefore, the motive of the company to do revaluation its assets is not to make it easier to obtain a loan and increase investor interest, but other motives that are certainly outside. From the context of this research, or on the other hand, it can be considered that companies can benefit from fixed asset revaluation through other means, no need to use revaluation. Thus, revaluation is not the main and only thing that companies must do when they are faced with difficulties in raising funds or getting investors or to improve company performance.

Leverage and fixed asset revaluation decision

Leverage can't affect fixed asset revaluation decision. The results of this research support the research of Tay (2009) and Baraæ & Šodan (2011)

who found that leverage as measured by debt to assets has no effect toward fixed asset revaluation decisions. This is because company managers with large leverage (debt/equity) ratios do not choose accounting procedures that can replace earnings reports for future periods to the current period.

The results of this research differed from those of Cotter (1999); Jaggi & Tsui (2001); Piera (2007) that showed that leverage as measured by the debt to asset ratio has a positive effect on revaluation decisions and (Farahmita & Siregar, 2014) showed that leverage as measured by the debt to asset ratio has a negative effect on fixed asset revaluation decisions.

6. Conclusion

This research shows that companies that have the board of commissioners and directors with political and accounting backgrounds do not affect the fixed asset revaluation decision. Compensation received by the board of commissioners and directors of the company and leverage does not affect the fixed assets revaluation decision. However, companies with boards of commissioners and directors with military backgrounds have a positive effect on fixed asset revaluation decisions in Indonesia. This shows that the political and accounting backgrounds possessed by the board of commissioners and directors in the company is not able to make the company to obtain additional loans more easily through revaluation of its fixed assets and can't make the

company prefer this method to increase the value of the company's fixed assets even though the company has a composition of boards of commissioners and directors with more accounting backgrounds. The high level of leverage does not make companies in Indonesia evaluate their fixed assets. It proves that companies with a larger debt composition have not become a stimulus to do revaluation their fixed assets. The amount of compensation received by the board of directors and commissioners of the company is not able to trigger the company to do revaluation its fixed assets in obtaining additional loan funds.

This research has limitations as follow. First, the efficiency of research on companies that are militarily and politically connected to companies listed on the IDX is only based on the connection of the board of commissioners and directors. Further research can be conducted by using the company connection information that is connected militarily and politically by looking at the profile of investors and company managers. Second, this research recognizes that the sample of companies connected militarily is relatively small because of the appointment of militarily connected boards of commissioners and directors or because of the preference of connected companies to remain private companies to avoid public scrutiny. The suggestion of this research is to expand the research period in order to obtain more data on companies that have boards of commissioners and directors connected with the military and politics.

References

- Aboody, D., Barth, M. E., & Kasznik, R. (1999). Revaluations of fixed assets and future firm performance: Evidence from the UK. *Journal of Accounting and Economics*, 26(1-3), 149–178.
[https://doi.org/10.1016/s0165-4101\(98\)00040-8](https://doi.org/10.1016/s0165-4101(98)00040-8)
- Andison, A., & Nasser, E. M. (2017). Operating cash flow, earning response coefficient, and fixed asset revaluation: study on manufacturing company. *Etikonomi*, 16(1), 93–102.
<https://doi.org/10.15408/etk.v16i1.4820>

- Baraæ, A. Ź., & S. Źodan. (2011). Motives for asset revaluation policy choice in Croatia. *Croatian Operational Research Review*, 2(1), 60-70.
- Benmelech, E., & Frydman, C. (2015). Military CEOs. *Journal of Financial Economics*, 117(1), 43–59. <https://doi.org/10.1016/j.jfineco.2014.04.009>
- Brown, P., Izan, H. Y., & Loh, A. L. (1992). Fixed asset revaluations and managerial incentives. *Abacus*, 28(1), 36–57. <https://doi.org/10.1111/j.1467-6281.1992.tb00268.x>
- Canyon, M. J., & He, L. (2012). CEO compensation and corporate governance in China. *Corporate Governance: An International Review*, 20(6), 575–592. <https://doi.org/10.1111/j.1467-8683.2012.00935.x>
- Cotter, J. (1999). Asset revaluations and debt contracting. *Abacus*, 35(3), 268-285. <https://doi.org/10.1111/1467-6281.00046>
- Cotter, J., & Zimmer I. (1995). Asset revaluations and assessment of borrowing capacity. *Abacus*, 31(2), 136-151. <https://doi.org/10.1111/j.1467-6281.1995.tb00359.x>
- Faccio, M. (2006). Politically Connected Firms. *American Economic Review*, 96(1), 369-386. <https://doi.org/10.1257/000282806776157704>
- Faccio, M. (2010). Differences between politically connected and nonconnected firms: A cross-country analysis. *Financial Management*, 39(3), 905-928. <https://doi.org/10.1111/j.1755-053x.2010.01099.x>
- Farahmita, A., & Siregar, S. V. (2014). Faktor–faktor yang mempengaruhi kemungkinan perusahaan memilih metode nilai wajar untuk properti investasi. *Working Paper*. Simposium Nasional Akuntansi (SNA), 17, 1-21.
- Firmansyah, E., & Sherlita, E. (2012). Pengaruh negosiasi debt contracts dan political cost terhadap perusahaan untuk melakukan revaluasi aset tetap. *Working Paper*. Seminar Nasional Akuntansi dan Bisnis 2012 Perkembangan Peran Akuntansi Dalam Bisnis yang Profesional, Bandung.
- Harymawan, I. (2018). Why do firms appoint former military personnel as directors? Evidence of loan interest rate in militarily connected firms in Indonesia. *Asian Review of Accounting*, 26(1), 2-18. <https://doi.org/10.1108/ara-07-2016-0086>
- Hidayat, M., & Hati, R. P. (2017). Pemilihan model revaluasi aset tetap dan dampaknya terhadap nilai perusahaan pada sektor perbankan. *Jurnal Dimesi*, 6(3), 362-379. <https://doi.org/10.33373/dms.v6i3.1116>
- Hu, N., Huang, R., Li, X., & Liu, L. (2017). The impact of CEOs' accounting backgrounds on earnings management and conservatism. *Journal of Centrum Cathedra*, 10(1), 4-24. <https://doi.org/10.1108/jcc-10-2016-0016>
- Iatridis, G. E., & Kilirgiotis, G. (2012). Incentives for fixed asset revaluations: The UK evidence. *Journal of Applied Accounting Research*, 13(1), 5-20. <https://doi.org/10.1108/09675421211231871>
- Jaggi, B., & Tsui, J. (2001). Management motivation and market assessment: Revaluations of fixed assets. *Journal of International Financial Management and Accounting*, 12(2), 160–187. <https://doi.org/10.1111/1467-646x.00070>
- Januarti, I. (2004). Pendekatan dan kritik teori akuntansi positif. *Jurnal Akuntansi dan Auditing (JAA)*, 1(1), 83-94.
- Karakose, T. (2014). The effects of nepotism, cronyism and political favoritism on the doctors working in public hospitals. *Studies on Ethno-Medicine*, 8(3), 245-250. <https://doi.org/10.1080/09735070.2014.11917640>

The background of board, compensation, leverage and fixed asset revaluation decision

Zaenal Fanani, Arika Kamelia

- Lang, L., Ofek, E., & Stulz, R. (1996). Leverage, investment, and firm growth. *Journal of Financial Economics*, 40(1), 3–29. [https://doi.org/10.1016/0304-405x\(95\)00842-3](https://doi.org/10.1016/0304-405x(95)00842-3)
- Latifa, C. A., & Haridhi, M. (2016). Pengaruh negosiasi debt contracts, political cost, fixed asset intensity, dan market to book ratio terhadap perusahaan melakukan revaluasi aset tetap (Studi pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2010-2014). *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, 1(2), 166-176.
- Lin, C., Ma, Y., Officer, M. S., & Zou, H. (2011). CEOs' military experience and acquisition decisions. *Working Paper*. Chinese University of Hong Kong, City University of Hong Kong and Loyola Marymount University, Hong Kong.
- Lopes, A. B., & Walker, M. (2012). Asset revaluations, future firm performance and firm-level corporate governance arrangements: New evidence from Brazil. *The British Accounting Review*, 44(2), 53-67. <https://doi.org/10.1016/j.bar.2012.03.007>
- Manihuruk, T. N. H., & Farahmita, A. (2015). Analisis faktor-faktor yang mempengaruhi pemilihan metode revaluasi aset tetap pada perusahaan yang terdaftar di bursa saham beberapa negara ASEAN. *Paper presented at the Simposium Nasional Akuntansi 18 Universitas Sumatera Utara, Medan 16-19 September 2015, Medan*. Retrieved from: <http://lib.ibs.ac.id/materi/Prosiding/SNA%20XVIII/makalah/055.pdf>
- Margaretha, M. A. L. (2017). Determinan kebijakan revaluasi aset tetap di Indonesia. *Thesis*. Airlangga University, Indonesia.
- Martani, D. (2016a). Revaluasi aset tetap. *Dwi Martani Accounting & Finance Corner*. Retrieved from: <https://staff.blog.ui.ac.id/martani/about/pemikiran-yang-disajikan-dalam-koranmajalah-populerumum/kasus-revaluasi-aset-tetap/>
- Martani, D. (2016b). Revaluasi aset tetap. *Dwi Martani Accounting & Finance Corner*. Retrieved from: <http://dwimartani.com/revaluasi-aset-tetap/>
- Mauliana, V. A. (2018). Skor Indonesia membaik di indeks persepsi korupsi dalam 5 tahun, (online). *Liputan6*. Retrieved from: <https://www.liputan6.com/bisnis/read/3313462/skor-indonesia-membaik-di-indeks-persepsi-korupsi-dalam-5-tahun>
- Mediani, M. (2018). Indeks persepsi korupsi mandek, politikus tak banyak upaya, (online). *CNN Indonesia*. Retrieved from: <https://www.cnnindonesia.com/nasional/20180222181804-12-278132/indeks-persepsi-korupsi-mandek-politikus-tak-banyak-upaya>
- Ozkan, N. (2011). CEO compensation and firm performance: An empirical investigation of UK panel data. *European Financial Management*, 17(2), 260-285. <https://doi.org/10.1111/j.1468-036x.2009.00511.x>
- Piera, F. M. (2007). Motives for Fixed-Asset Revaluation: An empirical analysis with Swiss data. *The International Journal of Accounting*, 42(2), 186-205. <https://doi.org/10.1016/j.intacc.2007.04.006>
- Prendergast, C., & Topel, R. H. (1996). Favoritism in organizations. *Journal of Political Economy*, 104(5), 958-978. <https://doi.org/10.1086/262048>
- Tay, I. C. (2009). Fixed asset revaluation: Management incentives and market reactions. *Thesis*. Lincoln University, New Zealand.
- Tollison, R. D. (2012). The economic theory of rent seeking. *Public Choice*, 152(1-2), 73-82. <https://doi.org/10.1007/s11127-011-9852-5>

- Watts, R. L., & Zimmerman, J. L. (1986). Positive accounting theory. *Working Paper*. Prentice Hall, Inc., Englewood Cliffs.
- Whittred, G., & Chan, Y. K. (1992). Asset revaluations and the mitigation of underinvestment. *Abacus*, 28(1), 58-74. <https://doi.org/10.1111/j.1467-6281.1992.tb00269.x>
- Yulistia, R. (2015). Pengaruh leverage, arus kas operasi, ukuran perusahaan dan fixed asset intensity terhadap revaluasi aset tetap. *Working Paper*. Simposium Nasional Akuntansi XVIII, USU Medan.
-