THE ANALYSIS OF CORPORATE GOVERNANCE ON VALUE RELEVANCE OF ACCOUNTING INFORMATION

THESIS

Presented as Partial Fulfillment of the Requirements for the Degree of Sarjana Ekonomi (S1) in Accounting Program Faculty of Economics Universitas Atma Jaya Yogyakarta

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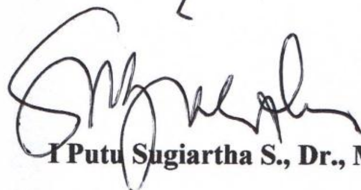

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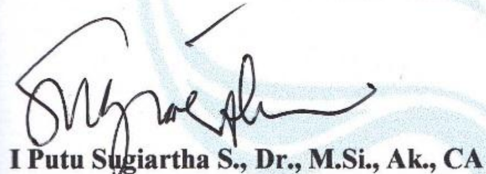	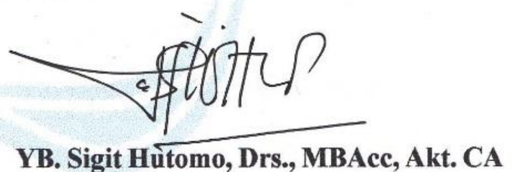
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Is really my own thinking and writing, I fully knowledge that my writings does not contain other or parts of others writing, except for those that have been cited and mentioned it in the references.

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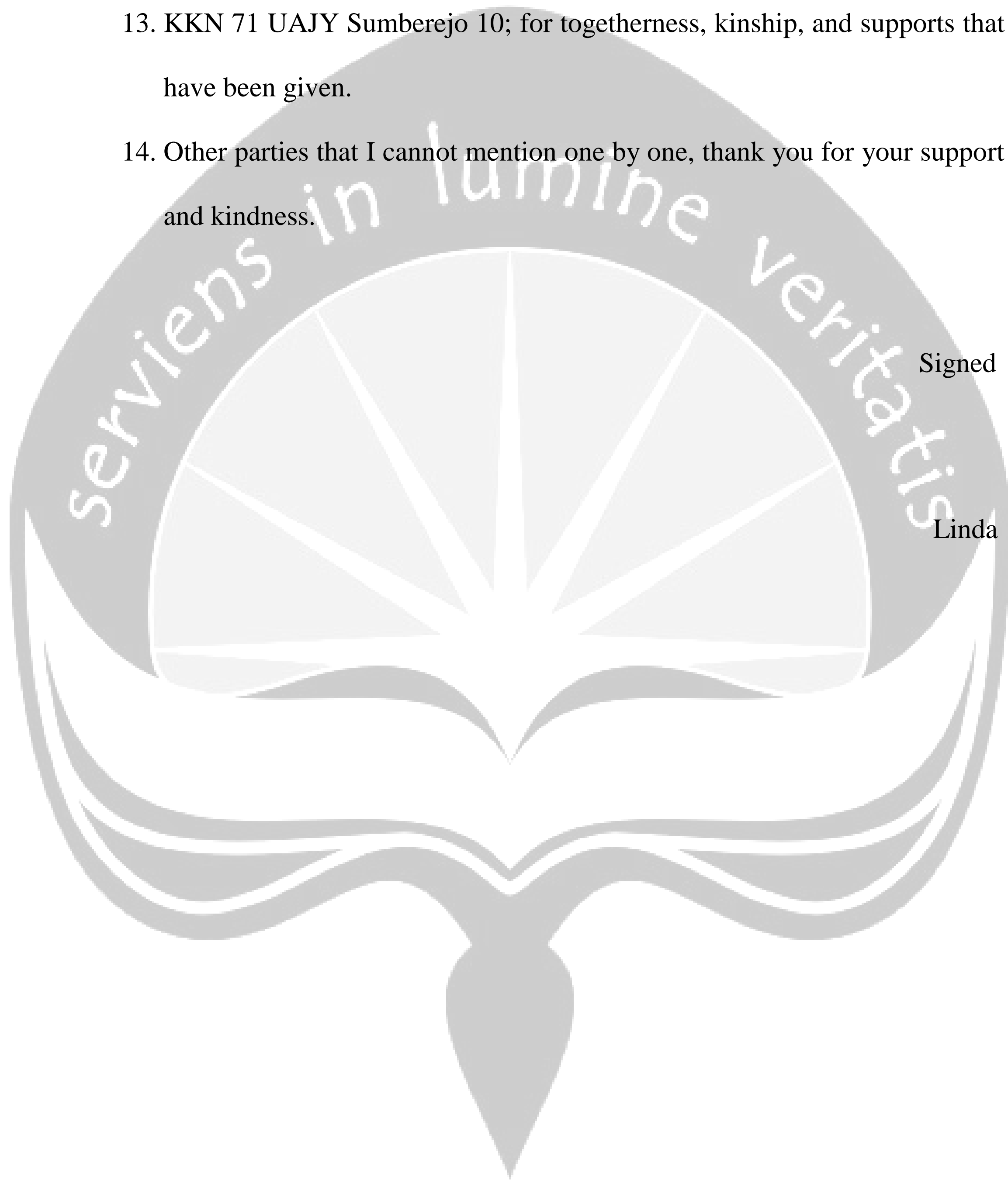

Signed

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THE ANALYSIS OF CORPORATE GOVERNANCE ON VALUE RELEVANCE OF ACCOUNTING INFORMATION IN INDONESIA

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Abstract

This research aims to analyse the effect of corporate governance on value relevance of accounting information. The sample used in this research is 164 non-financial companies that listed in Indonesia Stock Exchange in 5 years which 2012-2016. EPS and NAV are used as the reflection of accounting information needed by investors. Researcher employed Ohlson regression model that depend on shares price as its dependent variable. The proxies for corporate governance are size of board directors, the proportion of independent commissioners, managerial ownership and institutional ownership.

The finding from this research shows that corporate governance has impact on the value relevance of EPS and NAV in Indonesia, whether it is positively or negatively.

Keywords: corporate governance; value relevance; earning per share; net asset value; size of board directors; the proportion of independent commissioners, managerial ownership, institutional ownership.

CHAPTER I

INTRODUCTION

1.1. Background

In Indonesia, corporate governance starts to raise up in 1997-1998 as important aspect in business continuity, when the countries all over the world experienced global economy and social crisis. Siamat (2004) captures the phenomenon in Indonesia when economy crisis was aggravated by politic conjuncture. The fall of Soeharto's government was leading to economic damage. This is marked by the declining of the gross domestic product level in 1998 which is -13.68% rather than 4.65% in 1997. In addition, the effect of economy crisis is the inflation rate that increase to be 77.63% from 11.05%. Many companies are bankrupt and lost their business because of the weakened of Rupiah value.

Allegedly, bad corporate governance is the cause of politic and economy crisis. Furthermore, bad corporate governance had leaded the loss of many parties. One of the example of bad corporate governance is the case of PT. Kimia Farma in 2002, which manipulated their net income. It shows that PT. Kimia Farma has bad corporate governance in managing their reporting activity. Shareholders would consider their performance as disadvantage in doing investment.

Indonesia's government started to introduce the concept of corporate governance in order to prevent further negative effect that caused by the crisis.

From that on, management, government, and investors have serious concern toward corporate governance issues.

The development of global economy is increasing nowadays. Every company are demanded to be able to catch the national or international business opportunities. This phenomenon leads to more competition in business environment where the competitors must have the unique value as the advantage and good strategy in order to survive. Moreover, company should implement the management which has transparency, focuses on the alteration, gradually innovated, and be able to develop the leadership collectively (Barbey, 2000).

By looking to this crucial globalization, it is necessary to have a system which can control and manage the company because they have to be able to adjust themselves and ready to compete or even take challenge. Company need a good governance for organizationally maintaining the adapted value and attaining the goals.

Corporate governance is a set of system and structure for controlling company's business and problem, in order to improve the business prosperity and corporate accountability. The ultimate goal of corporate governance is actualizing shareholders' value in long-term and with regard to other stakeholders' interests. According to Warsono *et al*. (2009), corporate governance is a system that contains of functions run by major parties. Corporate governance is needed for maximizing the firm value creation as economy or social entity through the general accepted principal implementation.

Based on BPKP (*Badan Pengawasan Keuangan dan Pembangunan*), the needs of corporate governance are divided into two backgrounds, such as practically background and academically background. Practically background can be seen by looking backward when US had to do restructuration of their corporate governance as the cause of market crash in 1929. Second is the academically background, where the needs of corporate governance is related to the agency theory.

According to Jensen and Meckling (1976), agency theory is relationship that exist by the agreement between principal and agent. The conflict arises because of interest differentiation between principal and agent that must be managed to prevent loss on each parties. For instance, companies tend to not attentive about investors' interest. It can be said that the companies have a weak corporate governance if this agency problem happen.

According to National Committee of Corporate Governance, there are 5 principles about corporate governance, as follows; (1) transparency is about information honesty. To maintain the companies' objectivity, they must provide accessible and understandable relevance information for investors, creditors or other parties. (2) Accountability means the clarity of functions, structure, system, and performance responsibility. Companies must managed-well, measureable, and in accordance with companies' interest while considering shareholders' interest. (3) Responsibility is about how responsible the companies in obeying rule of laws, such as: industrial relation, pay taxes, health and safety insurance, and the others responsibility towards government, environment, and citizen. (4) Independency is about the companies must be

managed independently and professionally in order to avoid interests collision and intervened by other parties. (5) Fairness is a condition to fulfil the rights and to satisfy shareholders' interests based on the laws and regulations.

Variables used as corporate governance's proxies in this study are: size of board director, the proportion of independent commissioners, managerial ownership, and institutional ownership. Based on Daniri (2005), these proxies can describe the sense of corporate governance principals. The principle of transparency is related to the managerial ownership; responsibility is associated with the size of board directors; accountability and independency is associated with the independent commissioners; and also the fairness principle is related to institutional ownership.

The value relevance of accounting information measured by shares price through explanatory variable such as earning per share and net asset value. This is based on price model that developed by Ohlson. Price regression model has bigger explanatory power (R^2) than return regression model. It is because price regression model is reflecting the cumulative effect from accounting variables through shares price (Kothari & Zimmerman, 1995).

Corporate board of directors play a central role in the corporate governance of modern companies. Authors such as Anderson, Mansi, and Reeb (2004) state that boards of directors are responsible for controlling, evaluating, and disciplining the company's management and oversee the financial reporting is one of the most important responsibilities for the board from the point of view of creditors.

The proportion of independent commissioner captures the ratio of non-executive commissioners. Based on Yermack (1996), it is generally accepted that the board is more independent and efficient if there is higher ratio of external directors. In conclusion, if there are more external commissioners on corporate board, it will give more effectiveness in performing their duties in doing wealth maximization toward shareholders through its capacity to monitor and control inefficiency of managerial behaviour.

Managerial ownership and institutional ownership are one of the important pillars in corporate governance mechanism. Faizal (2011) states that managerial ownership is the level of shares ownership by management that actively take part in decision making process. Managerial ownership is measured by the proportion of shares own by companies' management in the end of period that stated in percentage. Based on Itturiaga and Sanz (2000), managerial ownership can be explained from two perspectives namely the agency approach, and the asymmetric information approach. Agency approach considers managerial ownership is tool to reduce the agency conflict between shareholders and companies. Asymmetric information approach is looking at mechanisms of managerial ownership structure as a way to reduce the imbalance between insider and outsider information through disclosure in capital markets.

H. Chung (2009) defines the institutional ownership as the fraction of a firm's shares that are held by institutional investors. Institutional investors can monitor and control the investment activities of the companies. By the existing of institutional ownership mechanism, it will minimize fraud in providing

financial information and automatically align the interest between management and shareholders.

Mensah *et al*. (2003) indicates that corporate governance facilitates development by ensuring the efficient allocation of economic resources. One of the pillars that supports corporate governance in the efficient allocation funds is adequate information, both financial and non-financial. Shareholders demand financial reporting in order to evaluate the performance of management. Nevertheless, because of the weak monitoring of managerial behaviour, management could mislead outsiders by providing accounting information that does not reflect the true condition (not transparent). In this case, the accounting information is useless for valuing the companies. Corporate governance is expected to reduce management opportunistic behaviour and hence, it leads to be more relevant and credible accounting information for outsiders.

The concept of value relevance of accounting information is emphasizing on how the accounting information has the value relevant for market participant. This concept explains the investors' reaction toward accounting information announcement. According to Suwardjono (2010), value relevance defined as the power of assistance of an information in assisting or explaining some alternative decision. So the user can make a decision easily.

This concept also associated with decision usefulness theory. The primary purpose of financial reporting is providing useful information for making investment decisions. The value relevance of accounting information is defined as the explanatory power of accounting information in explaining corporate

value based on market value that will be useful for investors in making investment decision.

Based on Ball and Brown (1968), accounting information is reflected on shares price. Accounting information is very important particle in decision making process. Companies with high quality accounting information will positively affect the capital providers and other shareholders. Financial reporting should be prepared with high quality and integrity. Based on Alkdai and Hanefah (2012), company exhibits high quality of accounting when they provide information with less earnings management, more conservatism accounting, and more value relevance of accounting information.

The issues of value relevance become an important factor. It is worth to be researched because of the importance of financial statements in communicating firm details to the shareholders and public at large.

1.2.Research Question

Corporate governance tends to point out the system of rules, practices, and process done by company, in order to attain their goals while regarding the major parties in company. By having good corporate governance, hopefully it will be align the interest of shareholders and management.

Together with corporate governance mechanism, the study about value relevance of accounting information such as earning per share and net asset value are seeking a safe environment for shareholders, investors, creditors, and other parties through transparency code. The formulation of the research

problem to be studied related to corporate governance and value relevance of accounting information stated in the question:

1. Does the size of board directors significantly influence the value relevance of earning per share (EPS) and net asset value (NAV)?
2. Does the proportion of independent commissioners significantly influence the value relevance of earning per share (EPS) and net asset value (NAV)?
3. Does the managerial ownership significantly influence the value relevance of earning per share (EPS) and net asset value (NAV)?
4. Does the institutional ownership significantly influence the value relevance of earning per share (EPS) and net asset value (NAV)?

1.3. Research Objectives

This study aims to provide empirical evidence related to corporate governance on value relevance of accounting information; and determine whether the size of board directors, the proportion of independent board, managerial ownership also institutional ownership influence the value relevance of accounting information especially earning per share (EPS) and net asset value (NAV) for non-financial companies listed in Indonesia Stock Exchange in the year 2012 - 2016.

1.4. Research Contribution

Hopefully, this research will be useful for:

1. Investor

   To provide information for investor about the effect of good corporate governance on value relevance of accounting information. This study is expected to be used as a base for decision making in trading process.

2. Companies' management

   To provide information about good corporate governance affect the value relevance of accounting information and as a measurement whether companies have provide relevance financial statement.

3. Further research

   To provide financial information for adding knowledge and supporting further research related to this study.

1.5. Writing Structure

CHAPTER I	INTRODUCTION This first chapter includes research background, research question, research objectives, research contribution, steps in analysing the data, and writing structure.
CHAPTER II	LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter contains theories, relevant concepts, previous study, theoretical framework, also the development of hypothesis.

CHAPTER III RESEARCH METHODOLOGY

This chapter reveals about the data used in this study like research type, population and sample, data collection method, variables measurement, data analysis and research models.

CHAPTER IV DATA ANALYSIS AND DISCUSSION

This chapter consists of the result of research and the discussion whether the result in accordance with the criteria and proved the hypothesis.

CHAPTER V CONCLUSION

This final chapter includes the conclusion, suggestion for further research, and limitation of this research.

CHAPTER II

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Theoretical Framework

2.1.1. Agency Theory

Corporate governance is a concept based on agency theory. Agency theory is business relationship between agent (management) and principal (shareholders) that conducted by the existence of contract (Jensen and Meckling, 1976). Based on this relationship, agency theory is concerning to solve problem that exists because of unaligned goals or desires between these two parties. The agent is entrusted by principal to manage the usage and control the resources. Agent is expected to be able in optimizing profits for principal, in order to obtain compensation according to the contract.

The application of agency theory can be realized in the business contract that will organize the proportion of right and obligation between principal and agent while considering the overall profits. Business contract must contain the fairness in balancing the right and obligation for every party. Based on Scott (1997), the conclusion of agency theory is design of good contract in aligning interest of principal and agent.

Eisenhard (1989) conveys there are three assumption as the base of agency theory:

a. Humanity assumption

The human nature assumption emphasizes about the characteristic human that prioritize self-interest, own bounded rationality, and mostly risk aversion.

b. Organizational assumption

Organizational assumption emphasizes on the existence of: (a) conflict among organization member, (b) efficiency as the criteria of productivity, and (c) asymmetry information between agent and principal.

c. Informational assumption

This assumption assumes that information is a commodity that can be traded.

Shareholders as the principal have the right to access the company's internal information. Agent who operates the company have the overall information about operational and performance of the company in real term, but they do not have absolute authority in making decision. Especially the decisions that concerned about strategically, globally, and long-term affected.

Management have to give information about companies' condition, for instance through accounting information disclosure which is financial report. External information users really need financial report because it is very important for them as signal of companies' condition. Imbalance information distribution will triggered asymmetry information. Together with high level of asymmetry information between agent and principal, the external

parties dependency toward accounting numbers and management tendency to earn their own advantage, will cause a great desire for managers to manipulate the work reported for self-interest.

Fama and Jensen (1983) said that corporate governance is one of the major tools that used in aligning management interest with those shareholders. If corporate governance could be implemented well in companies, it will reduce agency cost. Agency cost is paid by management nor do shareholders, which is happen because of agency conflict exist.

2.1.2. Corporate Governance

The term of good corporate governance firstly was discussed in the year of 1992 by Cadburry Committee, which this term are used in their report (known as Cadburry Report). Then this report was a great turning point in corporate governance discussion all over the world.

Corporate governance is raise in the year of 90's when the global economy crisis happen in almost all over Asia and America. This is caused by the bad corporate governance that can be seen in that time about bad system of law, inconsistency of audit and accounting standard, low banking practices and the careless situation of boards of directors to minority shareholders.

Since it becomes polemic in business field, corporate governance has been studied by a lot of academicians. They do

research and give evidence and new concept. According to Shleifer and Vishny (1997), corporate governance is relating to the way in convincing the shareholders to obtain appropriate return towards the planted investment.

The Organization for Economic Cooperation and Development states that corporate governance tends to organize the duties segregation in a company, manages the rights and obligations of those who concerned to the life of the company (shareholders, board of committee and managers). Okeahalan and Akinboade (2003) revealed about the goals of corporate governance are the search to create a balance between individual and general goals, to ensure the efficiency in allocating the resources, accountability in the use of power, also aligning the interest of individuals, corporations and society.

Based on National Committee on Corporate Governance, there are five codes in implementing good corporate governance such as transparency, accountability, responsibility, independency, and fairness. Company which emphasize these codes is believed will has good corporate governance. Empirically by Lukuhay (2002), investor is willing to give high premium to the company that employ corporate governance codes well.

Klai (2011) found that there is relationship between corporate governance and financial reporting quality of Tunisian companies. The research reveals the variables of corporate

governance which are board of directors and the ownership structure, is related to the quality of financial reporting. According to Gjorgieva-Trajkovska and Kostadinovski (2011), the importance in providing high quality financial information is capital providers and other stakeholders will make investment, credit, and resource allocation decisions that enhance overall market efficiency.

2.1.3. Financial Reporting and Value Relevance

Indonesian market Based on SFAC No. 8, the objective of financial reporting is provide high quality accounting information that is useful to present and potential investors, creditors and other users in making rational investment, credit, and similar decisions. Other than that, financial reporting is expected to help the users to assess the amounts, timing, and uncertainty of prospective cash receipts.

Financial information plays a vital role in economic cycle. Greuning (2009) posits that financial data has purpose:

1. Provide information to facilitate capital flow from international investors
2. Show management's stewardship of the resources entrusted to it.

Financial reporting is the important key for investors, creditors, and other users for evaluating the company' or even manager' performance. Financial reporting should be relevant

because it is one of measurement tool for decision making process. According to Beaver (2001), value relevance approach can measure the relevance of accounting information because it is reflected shares price.

Ohlson (1995) found that earning as variable is triggered has a relevant value because it has statistics relation with shares price which is reflects firm value. By this findings, it can be concluded that value relevance shows how well the earnings information can represent the information used by users in valuing the company.

The essence of value relevance of accounting information is the capability in explaining the value of a company through shares price. So, value relevance is directed to investigate the empirical relationship between shares price and those accounting numbers. The study of value relevance is developed to set the advantage of accounting values towards the valuation of company's equity. According to Francis and Schipper, there are four approaches used to understand about the value relevance of accounting information, among than others:

1. Fundamental analysis, that accounting information affects the shares price changes and detects the existence of shares price deviation.
2. Prediction, that accounting information can be classified as relevant if there is ability to predict the prospect of company performance in the future.

3. Embodiment of value relevance information, that accounting information can be classified as relevant if investors can use accounting information for setting the shares price.
4. Value relevance measurement, that the value relevance of accounting information is measured toward the ability in understanding and summarizing business activity and similar activity.

According to Fiador (2013), corporate governance and financial reporting standard seek to create a safe environment for stakeholders through a culture of transparency. Gabriel (2011) demonstrates that the structure of corporate governance can positively influence the quality of accounting information produced by a company and disclosed to stockholders. Corporate governance mechanisms are assumed to reduce management opportunistic earnings behaviour, so it automatically leads to create the accounting information more credible and relevant to outsiders.

2.2. Previous Research

There are several previous studies related to corporate governance and value relevance on financial information, such as:

1. Habib and Azim (2008) found that firms with strong governance structure exhibit higher value relevance of accounting information. The result show that firm-specific economic

variables are important determinants of the value relevance of accounting information.

2. Lim (2011) stated that corporate governance on companies' performance. The proxies of corporate governance which is managerial ownership, institutional ownership, size of boards, and the independents commissioners. This research document managerial ownership, institutional ownership, and the increase of proportion of independent commissioner can improve companies' performance (ROE). Size of boards does not affect the companies' performance.
3. Where Alkdai and Hanefah (2012) examined the relationship between some boards of director characteristics. The result shows that the board size is not an important factor to affect the value relevance of accounting information. It was revealed that there is a positive but non-significant relationship between the board independency and value relevance of accounting information but this research failed to find that splitting the roles of CEO from that of the board chairman increases value relevance of accounting information. The result also indicates that there is not strong influence for availability of Muslims in board of director on value relevance of accounting information.
4. Subekti (2012) investigated the usefulness of accounting information for Indonesia listed companies in IDX in 2007 to 2010 and resulted that institutional equity ownership (a proxy for

monitoring effect) positively affects the value relevance of accounting information.

5. Fiador (2013) documented this relationship on listed companies in Ghana Stock Exchange by the year of 1997 to 2006. She found that net asset value per share is value relevant on the Ghanaian market, and even more so when the board size is small or the CEO also doubles as the board chair. But for the board independence is relatively irrelevant in the market valuation of shares, and when relevant has a negative effect.
6. Ikram (2016) has done research about corporate governance and value relevance of accounting information in Pakistan. He used board independency, board size and audit quality as a proxy of corporate governance. His finding in this research revealed that corporate governance have significant effect on value relevance of accounting information, especially for board independence and board size have positively and significant impact on earnings per share. Audit quality have insignificant impact on earnings per share while the board independence, board size and audit quality have insignificant effect on book value per share.
7. Sukmono (2015) examined the effect of the commissioners on firm value through financial reporting quality. The results showed a significant positive effect commissioners through the quality of financial reporting.

2.3. Hypothesis Development

Corporate governance is emphasizing on the transparency, accountability, responsibility, independency, and fairness of the company in managing and controlling all of the internal and external activities. Corporate governance is expected to be able allocate the investable funds by investors and provide relevant financial and non-financial information. Accounting information that produced by the company must reflects the real condition of the company. Based on de Almeida *et al*. (2009), corporate governance seeks to improve the accounting information value. Supported by the research of Malik and Shah (2013), they found the quality of corporate governance and earnings per share and book value are positively and has significant impact on stock price.

This research uses variable as the proxies of corporate governance are: size of board directors, proportion of independent commissioners, managerial ownership, and institutional ownership. As the background has been explained, these variables are reflected to the five corporate governance code in Indonesia.

This research complements many extant research about corporate governance influences the value relevance of accounting information that have different result; based on the effectiveness of larger and smaller of board of directors in minimizing the agency cost among companies. Some researcher believes that smaller board of directors are more effective in doing coordination and communication rather than larger board. Thus, larger board is assumed to lead to more complicated in making decision.

Some of them gives evidence that larger board are associated with smaller market valuations (Yermack, 1996 and Eisenberg *et al*., 1998). This is consistent with the view that coordination problems as well as agency problems become more acute as a board grows larger. Cheng (2007) in Habib and Azim (2008) reports that larger board are associated with less variable operating performances. Cheng argues that larger board require more compromises among the members to reach consensus and, therefore, decisions of larger board are less extreme.

On the other hand, some of extant studies found that the larger and powerful board help to strengthen the link between corporations and their environments, also provide counsel and advice regarding strategic options for the firm and play a crucial role in creating corporate identity (Zahra and Pearce, 1989 and Rahman and Ali, 2006). According to Isshaq *et al*. (2009), as larger size of board directors is effective in doing monitoring and coordinating that will boost up the value of the company.

Based on these findings, it can explain the positive effect of board size on earnings and net asset value.

H1a : the size of board directors has positive effect on the value relevance of earnings per share

H1b : the size of board directors has positive effect on the value relevance of net asset value

Independent commissioners defined as the commissioners who have no affiliation relationship with the company, commissioners, directors, or the main shareholders in that company and have no business relationship with the company, directly or indirectly. Independent commissioners is believed to be more wary in monitoring decision making by management also the managerial behaviour.

Based on Amri (2011), independent commissioners has the power to encourage the implementation of good corporate governance in company through the empowerment of board commissioners' function, in order to effectively monitor and give advice to directors also adding the firm value.

Company needs the role of independent commissioners who monitor the activity without any influence of other party. The effective supervision of independent commissioners will decline the possibility of agency problem arise.

Independent commissioners are more effective in exercising their control function because they are less influenced by management (Fama and Jensen, 1983). Beasley (1996) states that monitoring of the quality of financial reporting by independent boards reduces the likelihood of financial fraud. Firth *et al.* (2007) indicate that the presence of independent commissioners improves the earnings quality of Chinese firms. Dimitropoulos and Asteriou (2010) confirm the same result in their finding for a sample of Greek firms.

H2a : the proportion of independent commissioners has positive effect on the value relevance of earnings per share

H2b : the proportion of independent commissioners has positive effect on the value relevance of net asset value

Based on research done by Jensen and Meckling (1976), agency theory posits that managerial ownership and institutional ownership are the main mechanism of corporate management that help to control agency problem. Research done by Lim (2011) provides evidence that managerial ownership and institutional ownership influence company performance.

Managerial ownership emphasizes on the percentage of ownership that owned by management of that company. Managerial ownership is expected to be able reducing the opportunistic managers' behaviour because they directly feel the effect of the decision.

Based on Chen and Yuan (2004), the mechanism of managerial ownership motivates managers to minimize the agency cost. They also found that managerial ownership influence the firm in maximizing the profitability. Ahmed (2008) documents his research about high managerial ownership is a positive internal monitor that will reduce the existence of agency conflicts.

Based on good corporate governance codes, the existence of managerial ownership emphasize about the responsibility. As management which also the shareholders, will do their job perfectly and responsible to the obligations. Managerial ownership will increase the

company performance (Lim, 2011). Alves (2012) found that the quality and credibility of financial reporting is increase by having the managerial ownership.

H3a : managerial ownership has positive effect on the value relevance of earnings per share

H3b : managerial ownership has positive effect on the value relevance of net asset value

Whether institutional ownership is percentage of shares of company that owned by institution such as insurance company, banks, investment company, or other company. Institutional ownership mechanism can be used as an efficient controlling and monitoring tool in allocating resources by managers.

The existence of institutional investors is assumed to be effective monitor in every decision making process. If the percentage of institutional ownership is high, the level of monitoring in that company is stricter. Institutional ownership tends to emphasize the accountability and fairness of corporate governance mechanism.

Based on the study of Laila (2011), institutional ownership has positive relationship with firm value. Whether Sasan, Ali and Mohammad (2013) shows there are relationship between institutional ownership and value relevance of accounting information. They found that the increase in institutional ownership reduces the value relevance of balance sheet

information, but it increases the value relevance of income statement information.

H4a : institutional ownership has positive effect on the value relevance of earnings per share

H4b : institutional ownership has positive effect on the value relevance of net asset value

CHAPTER III

RESEARCH METHODOLOGY

3.1. Research Type

The type of this study is an empirical research. The hypothesis testing is performed in order to find evidence regarding the impact of corporate governance on value relevance of accounting information.

3.2. Population and Sample

The population in this research is all companies listed in Indonesia Stock Exchange in the year of 2012 – 2016. This period are chosen because of prior to 2012 was reported using the US GAAP which differ to IFRS, that was implemented on that year.

By using purposive sampling method, the sample in this research is taken base on the established criteria in order to avoid some error that will affect the result. The criterias are:

1. Companies listed in IDX for the year 2012 until 2016
2. Companies that provide complete audited financial statement
3. Companies have positive earnings value and positive total equity
4. Companies with complete data needed in this research.

3.3.Data Collection Method

This research uses secondary data that obtained from the website of IDX (www.idx.com) and Yahoo Finance (www.finance.yahoo.com).

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3.4. Measurement of Variables

1. Dependent Variable

Dependent variable in this study is **Shares Price (P_{it}).**

Shares price used for this financial research is **closing price at the-end-of-year of firm (i) in period (t)**. The data of shares price is obtain from the website of Yahoo Finance (www.finance.yahoo.com). The closing date are:

Table 3.1
Closing Date for Research Period

Year	Closing Date
2012	December 28th
2013	December 30th
2014	December 30th
2015	December 30th
2016	December 30th

2. Independent Variable

a. Earnings per share (EPS)

Earnings per share is capturing in the income statement which is the important key for investors. EPS breaks down a company's profits on a per-share basis, which is especially useful for tracking performance over long time periods. So, investors can make decision based on this information.

$$EPS = \frac{\textbf{net income}}{\textbf{shares outstanding}}$$

b. Net asset value (NAV)

Net asset value as known as book value is capturing the status of the balance sheet. The balance sheet portrays the financial strength of the company by showing what the company owns and what it owes on a certain date.

$$NAV = \frac{\textbf{total equity}}{\textbf{shares outstanding}}$$

c. Size of board directors

Size of board directors refers to the numbers of members constituting the directorship board. This will include all directors in a company.

$$\textbf{Size of BoD (BS)} = \textbf{Total of board directors}$$

d. The proportion of independent commissioners

The proportion of independent commissioners, usually used as a measure of board independence, is the percentage of external commissioners on the board (Fiador, 2013). This variable is using ratio scale:

$$\textbf{Proportion of Independent Commssioners}$$

$$\textbf{(IND)} = \frac{\textbf{numbers of independent board commissioners}}{\textbf{total of board commissioners}}$$

e. Managerial ownership

Managerial ownership is the amount ownership of company as measured by percentage of shares owned by the company's management.

$$\% \, \textbf{\textit{Managerial Ownership}} \, (\textbf{\textit{MO}}) = \frac{\textbf{\textit{shares owned by managerial}}}{\textbf{\textit{total company's shares}}} \, \textbf{\textit{X}} \, \mathbf{100}\%$$

f. Institutional ownership

Institutional ownership refers as ownership of company as measured by percentage of shares owned by the institutional investors.

$$\% \, \textbf{\textit{Institutional Ownership}} \, (\textbf{\textit{IO}}) = \frac{\textbf{\textit{shares owned by institutional investors}}}{\textbf{\textit{total company's shares}}} \, \textbf{\textit{X}} \, \mathbf{100}\%$$

3. Control Variable

a. Firm Size

Firm size as the control variable is used for controlling the influence of independent variable which is corporate governance, towards the dependent variable which is value relevance of accounting information. Firm size is scale about the size of a company that can be described by the total assets of the company and it is related to

the value of the company. The calculation of firm size is the natural logarithm of total assets.

$$SIZE = \ln Total\ Asset$$

3.5. Data Analysis

3.5.1. Descriptive Statistics

Descriptive statistics analysis gives information about the basic features of the data in this research, such as the value of average, maximum, minimum, and standard deviation.

3.5.2. Classic Assumption Test

The test aims to give assurance whether the data used are met the requirement in regression model.

a. Normality Test

Normality test are used for determining the collected data normally distributed or not. This research uses Kolmogorov-Smirnov type of normality test. The data is normally distributed if the value of Asymp-Sig more than 0.05, and vice versa, the data will categorized as abnormally distributed if the value less than 0.05.

b. Multicollinearity Test

One of the requirement in doing regression model is free from multicollinearity. Multicollinearity test used for knowing the

presence deviation of multicollinearity, which is linear relationship among independent variables in regression model. This research performs VIF (variance inflation factor) for detecting the presence of multicollinearity.

- If the tolerance < 0.1, VIF > 10, there is existence of multicollinearity.
- If the tolerance > 0.1, VIF < 10, there is no multicollinearity.

c. Heteroskedasticity Test

Heteroskedasticity test is used for knowing the existence of inequality variance in the regression model. Good regression model should not meet heteroskedasticity (Santoso, 2010 in Lim, 2011). To detect heteroskedasticity, there are several ways can be perform, one of them is using Park Test, that done by transforming the square of residual value to log natural ($LN[RES^2]$). Afterwards, it will be the dependent variable in regressing with the variable independent.

d. Auto-correlation Test

Auto-correlation test aims to detect the correlation between the residual values of one observation to other observation in the regression analysis. The method used in this research is Durbin Watson (DW) test by doing comparison between DW's table and the resulted table.

3.5.3. Hypothesis Testing

Hypothesis in this research employ a modified Ohlson (1995) earnings model of stock valuation. In this model, EPS and NAV used as the crucial indicators of firm value. In line with current value relevance research where the shares price is regressed on earnings and net asset value. It leads in determining the relationship between shares price and accounting information. The model for this study is given as:

$$\begin{aligned} \boldsymbol{P_{it}} = {} & \boldsymbol{\beta_0 + \beta_1 EPS_{it} + \beta_2 NAV_{it} + \beta_3 BS_{it} + \beta_4 IND_{it} + \beta_5 MO_{it} + \beta_6 IO_{it}} \\ & \boldsymbol{+ \beta_7 BS * EPS_{it} + \beta_8 IND * EPS_{it} + \beta_9 MO * EPS_{it}} \\ & \boldsymbol{+ \beta_{10} IO * EPS_{it} + \beta_{11} BS * NAV_{it} + \beta_{12} IND * NAV_{it}} \\ & \boldsymbol{+ \beta_{13} MO * NAV_{it} + \beta_{14} IO * NAV_{it} + \beta_{16} SIZE_{it} + \mu_{it}} \end{aligned}$$

Where,

P : Shares price

EPS : Earnings per share

NAV : Net asset value

BS : Size of board director

IND : Proportion of independent commissioners

MO : Managerial ownership

IO : Institutional ownership

SIZE : Firm Size

i : Company

t : Period

Significance level for testing the hypothesis is α=10% with the level of confidence of 90%. Thus, the hypothesis is:

- Accepted; if the significance value is $< 0,1$
- Not accepted; if the significance value is $\geq 0,1$

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

4.1. Sample Selection

Based on sample criteria for this research, 164 companies have been selected through the process as follows:

Table 4.1
Sample Selection Process

Public listed companies in IDX 2012 until 2016	**452**
Eliminated:	
1. Financial Companies	(82)
2. Companies experienced loss in research period (negative earnings)	(160)
3. Companies with equity deficiency	(4)
4. Incomplete data	(29)
5. Unavailability of data	(13)
Total sample	**164**
Total observation year	**5**
Total number of sample during research period	**820**

4.2. Descriptive Statistics

In this study, descriptive statistics output are needed for explaining and describing about the frequency distribution. It consists of the minimum

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value, maximum value, average value, and standard deviation from each variable. The results by using SPSS are:

Table 4.2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SHARES_PRICE	820	35.00	63900.00	2674.3426	6205.93273
EPS	820	.02	17621.00	330.5952	1311.37157
NAV	820	1.39	48307.94	1952.3346	4638.92439
BS	820	2.00	14.00	5.1780	1.97914
IND	820	.00	1.00	.3701	.13040
MO	820	.0000	.9200	.048261	.1205816
IO	820	.0000	.9897	.645332	.1962127
SIZE	820	22.29	33.20	28.7182	1.69913
Valid N (listwise)	820				

Shares price has Rp. 35 and Rp. 63.900 for the minimum and maximum value, respectively; mean value for this variable is Rp. 2674,34 and the standard deviation is 6205,93. Earnings per share has minimum value Rp. 0, 02 and maximum value Rp. 17.621; average value Rp. 330,6 and the standard deviation is 1311,37. The lowest net asset value is Rp. 1,39 and Rp. 48.307,94 for its highest value; reach Rp. 1952,34 for the average and 4638,93 for its standard deviation.

The lowest value in board size is 2 person and maximum value stands on 14 person; mean value for this variable is 5,17 and the standard deviation is 1,98. The highest proportion of independent commissioners is

1 and the lowest is 0 (there is no corporate commissioners from outsiders); it has the mean value of 0,37 and the standard deviation is 0,13.

The maximum value of managerial ownership variable is 0,92 and the minimum is 0 (no managerial ownership); whether the average value is 0,048 and 0,12 for the standard deviation. On the other hand, institutional ownership has the highest value in 0,98 and the lowest is 0 (full managerial ownership), reach 0,64 for the average value and the standard deviation is 0,19. Size of firm as the control variable has the lowest value in 22,29 and the highest value is 33,2; whether the mean value is 28,71 and standard deviation value is 1,7.

From the table above, the mean of shares price, EPS, NAV, and managerial ownership are lower than their standard deviation. It means that they are fluctuated not in significant amount in samples companies. Whether the average value of size of board directors, the proportion of independent commissioners, institutional ownership, and firm size are higher than their standard deviation. It represents that they are fluctuated in significant amount in samples companies.

4.3. Classic Assumption Test

Classic assumption test is used for determining the validity of the regression model that have to meet the normality, free from multicollinearity, heterocedasticity also autocorrelation. Regression model for this test is:

$$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 NAV_{it} + \beta_3 BS_{it} + \beta_4 IND_{it} + \beta_5 MO_{it} + \beta_6 IO_{it} + \beta_7 SIZE_{it} + \mu_{it}$$

4.3.1. Normality Test

Normality test is obtained by using Kolmogorov Smirnov with the 5% significance level. The basis to decide whether the data were normally distributed, if the significant value is equal or more than 0,05. The result of normality test is shown on the table below:

Table 4.3
Normality Test Before Modification

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		820
Normal Parameters[a,,b]	Mean	.0000000
	Std. Deviation	5.34364962E3
Most Extreme Differences	Absolute	.233
	Positive	.233
	Negative	-.175
Kolmogorov-Smirnov Z		6.662
Asymp. Sig. (2-tailed)		.000

From the table 4.3, it shows that the value of Asymp. Sig. (2-tailed) is 0,000 which lower than 0,05. It indicate the data were not normally distributed. To fulfil the regression model, the data were transformed to Log Natural (LN) on the variable of Shares Price,

Earning Per Share and Net Asset Value to simplify their value. The regression model after modification is:

$$LnP_{it} = \beta_0 + \beta_1 LnEPS_{it} + \beta_2 LnNAV_{it} + \beta_3 BS_{it} + \beta_4 IND_{it} + \beta_5 MO_{it} + \beta_6 IO_{it} + \beta_7 SIZE_{it} + \mu_{it}$$

This new regression model will be employed in doing classic assumption test. The result of normality test after modification is shown on the table 4.4.

Table 4.4
Normality Test After Modification

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		820
Normal Parameters[a,,b]	Mean	.0000000
	Std. Deviation	.88982560
Most Extreme Differences	Absolute	.032
	Positive	.032
	Negative	-.031
Kolmogorov-Smirnov Z		.903
Asymp. Sig. (2-tailed)		.389

After the modification, the significant value is 0,389 which more than 0,05. It concludes that the data are normally distributed.

4.3.2. Multicollinearity Test

Regression model are free from multicollinearity if the tolerance value is more than 0,01 and the Variance Inflation Factor (VIF) is less than 10. From table 4.5, as the result of multicollinearity test, all of the independent variables are free from multicollinearity because the VIF are less than 10 and the tolerance value are more than 0,01.

Table 4.5
Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	LN_EPS	.576	1.736
	LN_NAV	.588	1.701
	BS	.688	1.454
	IND	.983	1.017
	MO	.684	1.463
	IO	.701	1.426
	SIZE	.587	1.702

4.3.3. Heteroskedasticity Test

Heteroskedasticity in this study is tested by using Park Test. The requisite to be stated free from heteroskedasticity is the significant value must be equal or more than 0,05 and the test result is shown on the table 4.6. The regression model is free from

heteroskedasticity because the significant value from each of variables in this study is more than 0,05 and indicates that the regression model is efficient to test the hypothesis.

Table 4.6
Heteroskedasticty

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.198	1.665		-.719	.472
LN_EPS	-.015	.055	-.012	-.265	.791
LN_NAV	.106	.077	.063	1.386	.166
BS	.086	.048	.076	1.796	.073
IND	.753	.605	.044	1.244	.214
MO	.512	.785	.028	.653	.514
IO	.493	.476	.043	1.036	.301
SIZE	-.075	.060	-.057	-1.252	.211

4.3.4. Autocorrelation Test

Autocorrelation test in this study is tested using Durbin-Watson test. The decision basis is dU<DW<4-dU so that the regression model is free from autocorrelation. The result is shown on the table 4.7:

Table 4.7
Autocorrelation
Durbin-Watson Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.792[a]	.627	.624	.89365	.627	194.947	7	812	.000	1.940

DW from this regression model is 1,94 which is to be between dU 1,898 and 4-dU 2,101. It can be concluded that the regression model is free from autocorrelation.

4.4. Hypothesis Testing

To test the hypothesis of this study, the researcher uses multiple regression analysis in obtaining the F statistics value, adjusted R Square value, coefficient value, and the significant value. Table 4.8 shows the result of hypothesis testing by using multiple regression analysis.

Table 4.8

Result: Hypothesis Testing

Variables	N	Unstandardized Coefficients B	T	Sig. *
1 (Constant)	820	-3,496	-3,053	0,002
LN_EPS	820	0,570	5,295	0,000
LN_NAV	820	-0,043	-0,260	0,795
BS	820	0,188	2,347	0,019
IND	820	-1,649	-1,515	0,130
MO	820	1,544	1,213	0,226
IO	820	-0,537	-0,514	0,607
BS_EPS	820	0,054	5,005	0,000
IND_EPS	820	-0,682	-5,147	0,000
MO_EPS	820	-0,945	-7,515	0,000
IO_EPS	820	-0,180	-1,618	0,106
BS_NAV	820	-0,057	-3,997	0,000
IND_NAV	820	0,665	3,224	0,001
MO_NAV	820	0,461	2,433	0,015
IO_NAV	820	0,306	1,763	0,078
SIZE	820	0,261	11,440	0,000
F Statistics = 111,398 (Sig. = 0,000)				
Adjusted R Squared = 66,9%				

*Significance Level = 10%

From the table above, the value of F is 111,398 with the significance 0,000 indicates that the regression model is fit in answering the research problems. The adjusted R squared is 66,9% which indicates the percentage of independent variables can explain and describe the dependent variable. The significant value of EPS is 0,000 that means EPS is positively affect the shares price, while NAV does not affect shares price because the value shows insignificant and negatively related.

For the purpose of this study, Ohlson regression model incorporates the interaction terms between corporate governance variables and the accounting measures of value. The hypothesis testing result shows that the value of BS*EPS which 0,000 < 0,1 and the coefficient is 0,054, indicates that size of board directors is positively affecting the value relevance of EPS, it means **H1a is accepted**. Moreover, value of BS*NAV 0,000 < 0,1 with -0,057 as the coefficient value, indicates that the size of board directors has negative effect on value relevance of NAV; it means **H1b is not accepted.**

IND*EPS has the significance value which 0,000 < 0,1 and the coefficient value is -0,682. It shows that the proportion of independent commissioners has negative effect on value relevance of EPS, it means **H2a is not accepted**. However, the proportion of independent commissioners has positive effect on value relevance of NAV. Value IND*NAV from hypothesis testing shows the

significance value is 0,001 < 0,1 with coefficients value 0,665. So it means **H2b is accepted**.

MO*EPS shows managerial ownership has significance value which 0,000 < 0,1 with coefficient of -0,945. It indicates managerial ownership is negatively affecting the value relevance of earnings per share, and it means **H3a is not accepted**. MO*NAV has 0,015 < 0,1 and its coefficient is 0,0461. It indicates managerial ownership has positive effects on value relevance of NAV. It means **H3b is accepted**.

IO*EPS has 0,106 > 0,1 and -0,180 as its coefficient. It reveals institutional ownership has a negative and insignificance toward value relevance on earning per share, so that means **H4a is not accepted**. In contrast, for the result of institutional ownership and net asset value, 0,078 < 0,1 with 0,306 as the coefficient and so this interaction term is positive and significant. It indicates **H4b is accepted.**

4.5. Discussion

From the output has been described, larger size of board directors increase the value relevance of EPS. But on the other hand, it will decrease the value relevance of NAV. This result is not consistent with the hypothesis. Larger size of board directors is believed can lead a better control for operational activity also increases company's performance. Operational activity in the financial statements are indicated by the

achievement of net income which contains earnings information (Lim, 2011). So as the size of board director get larger, investors rely more on earnings information rather than book value information in evaluating company's performance as the base of investment decision.

The proportion of independent commissioners has negative effect to value relevance of EPS. The result indicates as the proportion of independent commissioners get higher, earnings per share loses its value relevance. However, the proportion of independent commissioners positively affects the value relevance of net asset value. Independent commissioners have obligation to independently monitor the overall management performance and participate in making long-term decision. Especially about the management of company's funding and equity.

From net asset value, investor get the information about the source of company's asset. Investors can gain information about the company's financial condition, is it worth to be invest or not. Based on the result, by having higher percentage of independent commissioners, investors use more net asset value information that stated in statement of financial position to evaluate company rather than earnings information, because it gives on the whole description of financial condition. This finding in line with the study by Boediono (2005), Siregar and Utama (2008), and Ismail et al. (2010) that found there is negative relationship between independent commissioners with earnings management that resulted bad quality earnings.

Managerial ownership is hypothesized has positive effect on value relevance of EPS and NAV. The result does not really uphold the hypothesis. EPS is negatively associated to shares price as the percentage of managerial ownership higher. But, managerial ownership has positive effect to the value relevance of NAV. This is because of big numbers of managers who owned the company tends to do more earnings manipulation. This findings in line with the study of Suartana et al. (2014) that managers have their own interest to be fulfilled rather than attain company's goals. Then, investors rely more on net asset value information. This result consistent with the finding of Lim (2011) that the value relevance of equity increase as the percentage of managerial ownership bigger.

Whether institutional ownership is positively affect the value relevance of net asset value, but in contrast, it does not influence the value relevance of earning per share. It is because of institutional shareholders have a control toward company's management so they may have alliance strategy to manipulate the earnings in order to fulfilled their own interest. So institutional ownership is not be able to influence the value relevance of EPS. It may be the reason why the information of NAV is used as corporate development indicators for investors in making decision. This finding in line with the study by Sofwan (2015) that institutional shareholders has insignificance relationship with earnings information.

According to the explanation above, it can be summarized that EPS is become more value-relevant with the presence of larger board of directors, smaller proportion of independent commissioners, and smaller

percentage of managerial ownership. NAV is become more value-relevant by the existence of smaller board of directors and composed of mostly independent commissioners. Percentage of managerial ownership and institutional ownership also become important aspects toward value relevance of NAV.

The usage of accounting information to evaluate the company is also based on the consideration what information the investors want to seek out and the company's condition on business environment. This study gives empirical evidence about the effect of corporate governance to value relevance of accounting information that usually used by investors or market participant, which are EPS and NAV.

CHAPTER V

CONCLUSION

5.1. Conclusion

The objectives of this research is to analyse and give empirical evidence about the influence of corporate governance towards value relevance of accounting information such as earning per share (EPS) and net asset value (NAV). This study employed Ohlson regression model which incorporates the proxies of corporate governance that are size of board directors, the proportion of independent commissioners, the percentage of managerial and institutional ownership, which are believed suit with the code of good corporate governance. The sample used in this study are 164 non-financial companies, with the research period is 2012 up to 2016. The total sample is 820 companies.

The result of analysis shows that:

- **H1a is accepted**, it means that size of board directors has positive effect on the value relevance of earning per share (EPS); **H1b is not accepted**, it means that size of board directors does not has positive effect on the value relevance of net asset value (NAV).
- **H2a is not accepted,** it means that the proportion of independent commissioners does not has positive effect on the value relevance of earning per share (EPS); **H2b is**

accepted, it means that the proportion of independent commissioners has positive effect on the value relevance of net asset value (NAV).

- **H3a is not accepted,** it means that managerial ownership does not has positive effect on the value relevance of earning per share (EPS); **H3b is accepted**, it means that managerial ownership has positive effect on the value relevance of net asset value (NAV).
- **H4a is not accepted,** institutional ownership does not affect the value relevance of earning per share (EPS); **H4b is accepted**, it means that institutional ownership has positive effect on the value relevance of net asset value (NAV).

This research concludes that in Indonesia, EPS positively related to shares price when the corporate have larger size of board directors and smaller proportion of independent commissioners. The market has a higher valuation of shares when the EPS reported also tie in having lower percentage of managerial ownership. NAV positively related to shares price when the corporate have smaller size of board directors and higher proportion of independent commissioners. Higher managerial ownership improves the value relevance of NAV. In addition, institutional ownership only improves the value relevance of NAV.

5.2. Limitations and Suggestions

This research has several limitations, therefore some suggestion are made for future research related to this kind of topic:

1. Future research can use the variables of corporate governance as addition or new proxy such as audit committee, CEO duality, and corporate secretary and so on.
2. Further research may choose longer research period in order to provide better and more complete analysis; also choose other sector companies such as banking or manufacturing that have specific different business environment.
3. This research uses Ohlson regression model. The application of other model of value relevance might give different insight and results of corporate governance in Indonesia.

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