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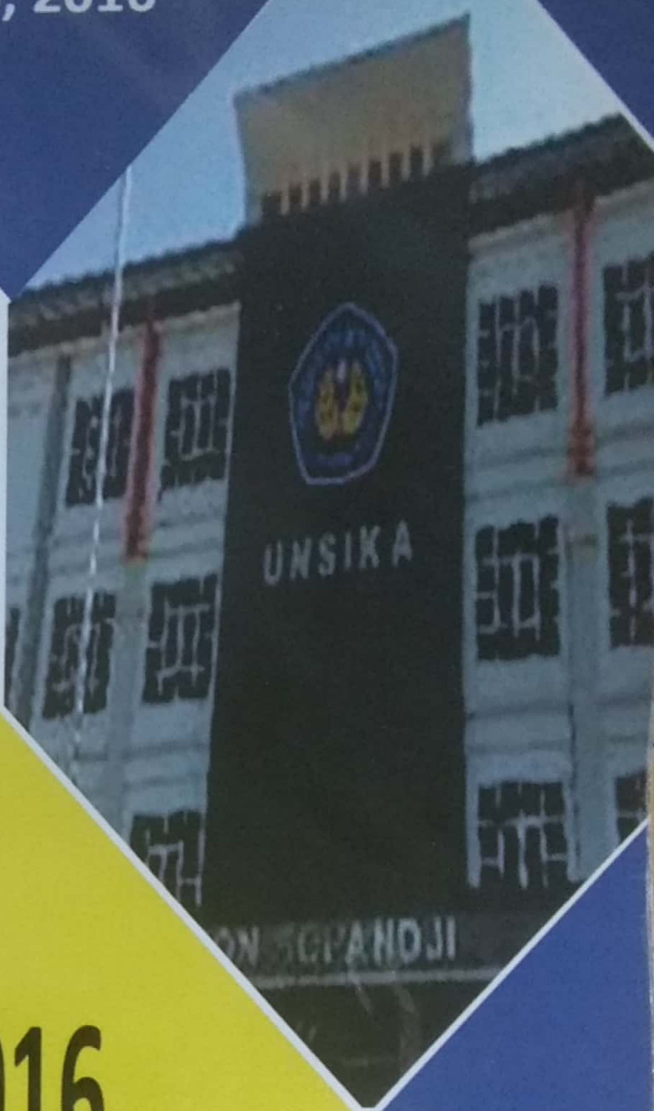

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RECTOR'S WELCOME

I am delighted to welcome you to ICAMESS 2016 and Jakarta, Indonesia. The purpose of ICAMESS is to bring together researchers and practitioners all over the world to share new ideas and present latest developments in the theoretical and practical areas of Accounting, Management, Economics, and Social Sciences. This year's conference brings together more than 100 presenters and practitioners to discuss the latest issues. ICAMESS is planned to be held continually every year in different place.

We are honored to have keynote speakers in the conference: Mrs. Rubi Ahmad from Universiti Malaya, and Amelia Fauzia from Islamic State University (UIN), Jakarta and NUS Singapore,.

We are hoping that all participants of the conference to take time not only for paper presentation, but also to actively engage one another and to take this opportunity to further develop your professional links.

The conference will not be possible to be organized without the dedicated efforts of many individuals who have contributed to the various process that make up this event. For their dedication, I sincerely convey my appreciation. My sincere gratitude also goes to our institutions' partners that provide their supports a co-hosts and sponsors in this conference.

Rector,
Karawang Singaperbangsa University

Prof. Dr. H. M. Wahyudin Zarkasyi, CPA

CONFERENCE PROGRAM
Saturday, April 30, 2016

07.45-13.00	Registration
08.30-10.30	Concurrent sessions I
10.30-11.00	Coffee breaks
11.00-11.05	Opening speech by Dean
11.05-11.40	Keynote speech 1 by Rubi Ahmad Anggrek, Dahlia, Nusa Indah rooms (united)
11.40-12.15	Keynote speech 2 by Amelia Fauzia Anggrek, Dahlia, Nusa Indah rooms (united)
12.15-13.15	Lunch
13.15-15.15	Concurrent sessions II
15.15-15.25	Coffee breaks
15.25-17.10	Concurrent sessions III
17.10-17.15	Closing

LIST OF CONTENT

THE INFLUENCE OF CORPORATE GOVERNANCE ON THE VALUE RELEVANCE OF ACCOUNTING INFORMATION IN INDONESIA STOCK EXCHANGE

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Abstract

Purpose. This study aims to test whether the corporate governance, specifically internal mechanisms of corporate governance, affects the value relevance of accounting information of listed firms in the Indonesia Stock Exchange.
Methodology/approach. The sample covers manufacturing companies in the Indonesia Stock Exchange in 2009. The number of sample that fulfill of criteria is 55 companies and the sample period was 2009 to 2012. The Ohlson valuation model is used to measure the value relevance of accounting information. The interaction variables are used to capture the influence that corporate governance lends to the value relevance of these accounting measures of value. The regression variation approach is used to test the hypotheses.
Findings. Three main hypotheses are tested. The results of this study showed that the accounting information in terms of earnings and book value are value relevant. The evidence relating corporate governance variables to value relevance of accounting information show the mixed result. The book values of equity become relevant in the presence of corporate governance, whereas the significance of relevance of earnings information does not change but slightly increase.
Keywords: Value relevance, Corporate Governance, Accounting Information,

1.Background of the study

From an academic view, value relevance is an extensively researched area in the accounting literature (Cohen et al. , 2004). The value relevance literature is related to the usefulness of financial statement information in equity valuation. Francis and Shipper (1999) have documented four different approaches to study the value relevance of accounting information. These are the fundamental analysis view of value relevance, the prediction view of value relevance, the information view of value relevance and the measurement view of value relevance (Nilsson, 2003). This study uses fourth approach to study the value relevance of accounting information. The value relevance research has been tested in many issues. Some studies on value relevance have questioned the current financial reporting model such as Amir and Lev, 1996; Collins et al.,1997; Francis and Schiper, 1999; Lev and Zarowin,1999. Other studies compare the value relevance of accounting information among accounting standard regime such as Ely and Waymire,1999; Puspa F.D, 2005. Several studies investigated the role of corporate governance to enhance the financial reporting quality. Agency theory support the argument that better structured governance mechanisms should produce better quality financial reporting in the marketplace. Previous study documented a higher value relevance of accounting information for companies with strong governance mechanism. Although these studies documented mixed results such as Vafeas, 2000; Habib and Azim, 2008; Dimitropoulos and Asteriou 2010; Fiador V.O, 2013.

Economic and monetary crisis in 1998 that in Indonesia turned into a multidimensional crisis has caused the necessity to implement Good Corporate governance. The inconsistency of

GCG implementation by a number of companies was one of the main factors that have caused the crisis (NCOG, 2006). The National Committee on Corporate governance (NCCG) which was established by Decree of the Coordinating Minister for Economy, Finance and Industry Number: KEP/31/M.EKUIN/08/1999 issued the first Code of Good Corporate Governance in 1999. The Code has been revised several times. The Code of 2006 is the revision of the previous Code of 2001.

In November 2004, the Government has established the National Committee for Governance (NCG) by Decree of the Coordinating Minister for Economic Affairs Number: KEP/49/M.EKON/11/2004 consisting of Public Sub-Committee and Corporate Sub-Committee. The Decree on the establishment of NCG replaces the Decree of the Coordinating Minister for Economy, Finance and Industry Number: 10/M.EKUIN/08/1999 and the Decree of the Coordinating Minister for Economy, Finance and Industry Number: KEP/31/M.EKUIN/08/2000 regarding the establishment of NCCG. The government has transformed the National Committee for Corporate Governance in 2004 to become National Committee on Governance, which consists of Public Governance Sub-Committee and Corporate Governance Sub-Committee (NCOG,2006).Collectively, various policy taken by the government to improve GCG implementation may have had positive impact on the quality of financial reporting practice in Indonesia.

The objective of this study is to examine how corporate governance, especially internal mechanisms of corporate governance, influence on the value relevance of accounting information of listed firms on the Indonesia Stock Exchange. Corporate governance defined as a set of internal and external mechanisms that exist to align corporate management interests with those of shareholders (Fama and Jensen, 1983a; Bushman et al. (2004)). Reported accounting information is one of the main pillars that support corporate governance to allocate efficiently investable funds. Sound corporate governance may improve the quality of financial statement information with making less distortion, reducing earnings management and increasing its relevance.

The rest of the paper is structured as follows: the next section present literature review and hypotheses development, the methodology employed, the results of the study and the conclusion and policy implications.

2.Literature Review and Hypotheses

2.1.Literatur Review

2.1.1.Value Relevance

The test of value relevance represent one approach to operationalize the relevance and reliability criteria as specified in the conceptual framework. Value relevance is operationalization of these criteria because an accounting amount will be value relevant, only if the amount reflects information relevant to investors in valuing the firm and is measured realiably enough to be reflected in share price (Barth et al., 2001). In this study value relevance defined as measurement of the ability of financial statement information to capture or summarize information, regardless of source, that affects share values (Francis and Schipper, 1999). This concept is consistent with a measurement perspective on accounting (Nilsson, 2003). These studies use association models that relate the accounting metric and market metric. Collins et al. (1999) documented evidence that book value of equity considered both as a proxy for expected future normal earnings and liquidation value.

Value-relevance research based on direct valuation and inputs-to-equity valuation theory (Holthausen and Watts, 2001). Under the direct valuation theory approach accounting, earnings and equity book-values are intended to be highly associated with equity market value. In the alternative approach, accountants provide information on inputs to valuation models that investors use in valuing firms'equity.

2.1.2. Efforts in enhancing the quality of financial reporting in Indonesia

The Indonesia Institute of Accountant and Government have developed accounting standard and issued some accounting regulations to tighten the financial reporting requirement. Based on the history, development of accounting standards in Indonesia can be divided into three regimes namely the Indonesian Accounting regime (IAPs), Financial Accounting Standard regime (FASs) and Financial Accounting Standard based on International Financial Reporting Standards. According to Van Greuning, (2009), compliance with the International Financial Reporting Standards ensures that the accounting amount are relevant, have predictive value, constitute a faithful representation of material facts, are free from bias, and are verifiable (Van Greuning, 2009).

2.1.3. Corporate Governance

Following Almeida et al.(2009) this study defined corporate governance as a set of internal and external mechanisms to avoid shareholder expropriation by managers, to improve earnings quality and to protect the return of capital borrowed by lenders (Shleifer and Vishny (1997), Bushman and Smith (2001) and Bushman et al. (2004).

To improve corporate governance regimes within the capital market, the Indonesia government has issued rules, including a regulation requiring public companies to have independent commissioners and comprehensive rule on responsibilities for board of directors and independent auditors with regard to financial reporting and penalties for non-compliance. Independent commissioners defined as those had no connections to majority shareholders, other directors or other companies within the group (Rosser, 1999; Indriantoro et al.,2000).

The management of a limited liability in Indonesia is adapting a two board system, namely the Board of commissioners and the Board of Directors, each of which has a clear authority and responsibility based on their respective functions as mandated by the articles of association and lows and regulations (NCOG,2006).

2.2. Hypotheses Development

Value-relevant accounting information becomes a desirable attribute of financial reporting quality (Habib and Azim (2008). A key role of financial statement is to summarize business transactions and other events. It is assumed that financial statements enable investors in determining firm value and because of that investors demand value-relevant information from financial statement (Nilsson,2003). An extensive body of empirical literature documents that accounting earnings and book value of equity are value-relevant such as Joo and Lang (1994); Collins et al (1997); Francis and Schipper (1999); Lev and Zarowin (1999); Chen et al (2001);Puspa (2005); Habib and Azim (2008). These studies used price model based on Ohlson (1995) to measure the value relevance. A firm's corporate governance mosaic composed of the board of directors, Audit Committee members, and institutional ownership, is a mechanism for providing high quality accounting information by constraining managerial-earnings management activities Habib and Azim (2008).

In this study the interaction terms between accounting variables and corporate governance variables are included in this price model to capture the influence that corporate governance contributes to the value relevance of these accounting information. According to Sloan (2001) corporate governance and financial accounting are inexorably linked (Sloan ,2001) while Collins and DeAngelo (1993) affirm that accounting information plays a role in the corporate governance process through which managerial inefficiency is discovery and punished. Habib and Azim (2008) states a firm's corporate governance mosaic composed of the board of directors, Audit Committee members, and institutional ownership, is a mechanism for providing high quality accounting information by constraining managerial-earnings management activities. Accounting measure plays a role to reduce informational asymmetry between firm and market, thus corporate governance may improve the informativeness of reported accounting information with less distortion, prevailing conservatism, reducing earnings manipulation and increasing its relevance Almeida et al.(2009). Value-relevant accounting information becomes a desirable attribute of financial reporting quality (Habib and Azim (2008).

Previous research have provided evidence that the impact of corporate governance variables on value relevance are not consistent across studies. Larger Board have a positive impact on market valuation (Habib and Azim, 2008; Fiador V.O, 2013) while other studies found larger boards are associated with smaller market valuations (Yermack,1996; Eisenberg et al. 1998). Previous studies documented that having more independent board have no impact on share price and having no benefit (Vafeas, 2000; Adams and Mehran, 2008; Habib and Azim, 2008; Fiador V.O, 2013).

Habib and Azim (2008) reported that audit committee size have a positive and significant impact on market valuation. Others studies showed evidence that Audit committee have no influence on reporting quality (Xie et al., 2003; Abbott, 2004). Based on the argument above, the following testable hypotheses are developed:

H1: Corporate governance variables and accounting information have influence on share price.
H2: Interaction between corporate governance variables and accounting earnings information have influence on share price
H3: Interaction between corporate governance variables and book value of equity information have influence on share price.

3.Research Methodology

3.1.Sample and Data Source

Sample covers all manufacture companies listed in Indonesia Stock exchange in 2009. The number of companies that fulfill the criteria is 55 companies. The sample period is 2009 to 2012. The data was obtained from company annual report and Indonesian capital market directory.

3.2. Corporate governance variables

3.2.1. The Composition of Independent commissioners

Independent commissioners are who are not originated from an affiliated party. Affiliated means having business and family relations with the controlling shareholders, members of the Board od Directors and other members of the Board of Commissioners, and with the company it self (NCOG, 2006). Independent commissioner composition measured as the ratio of number of independent commissioner members to board of commissioner size (BC).

3.2.2.Board of Director size

Board of director defined as a company organ shall function and be responsible collegially for the management of the company (NCOG,2006). Board size is measured as the actual number of board members.

3.2.3.Audit Committee size.

Audit Committee shall function to assist the Board of Commissioners to ensure that (i) financial reports are presented appropriately in accordance with the generally accepted accounting principles; (ii) internal control structure is adequate and effective, (iii) internal and external audits are conducted in accordance with the applicable audit standards, and (iv) audit findings are followed up by management (NCOG, 2006). Audit Committee size is the actual number of AC members.

3.3.Valuaotion Model

The valuation model used in this study is price model. The pooled regressions analysis are employed to test the influence of corporate governance on value relevance of accounting measure. Price model based on Ohlson (1995) show how a firm's market value is related to both book values of equity and accounting earnings. Since these two components of accounting information play different roles in security pricing, the use of Ohlson model will expands the scope of value relevance research (Chen et al., 2001). Based on the price model developed by Ohlson (1995), the value of a firm's equity can be expressed as a function of its earnings and book value. Therefore this study uses regression model that take the following form:

$$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2_{it}+ \beta_6 BOD_{it} + \beta_7\ BOD^2_{\ it} +\mu it\ldots\ldots.(1)$$

$$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2_{it}+ \beta_6 BOD_{it} + \beta_7\ BOD^2_{\ it} + \beta_8 EPS*IO_{\ it} + \beta_9 EPS*BC_{\ it} + \beta_{10} EPS*AC_{\ it} + \beta_{11} EPS*\ AC^2_{\ it} + \beta_{12} EPS*BOD_{\ it} + \beta_{13} EPS*\ BOD^2_{\ it}+ \mu it\ldots\ldots.(2)$$

$$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2_{it}+ \beta_6 BOD_{it} + \beta_7\ BOD^2_{\ it} + \beta_8 BV*IO_{\ it} + \beta_9 BV*BC_{\ it} + \beta_{10} BV*AC_{\ it} + \beta_{11} BV*\ AC^2_{\ it} + \beta_{12} BV*BOD_{\ it} + \beta_{13} BV*\ BOD^2_{\ it}+ \mu it\ldots\ldots.(3)$$

Where

P_{it} = Market value per share of firm i at year t. EPS_{it} = Reported fiscal year accounting earnings per share. IO_{it} = Percentage of Institutional ownership of firm i at year t. BC_{it}= the percentage of external on the commissioner board of firm i at year t. AC_{it}= Committee Audit size of firm i at year t. AC^2= Committee Audit size is squared to capture its posited non-linear behavior. BODit= Board of Director size of firm i at year t. BOD^2 = Director size is also squared to capture its posited non-linear behavior.

The interaction terms are included to capture the influence that corporate governance contributes to the value relevance of these accounting information. Price, EPS and net asset value per share were logged for standardisation.

4.Results and Discussions

This section presents results and the discussion of finding. The sections consist of statistic descriptive of variables under study and the regression results.

4.1. Descriptive Statistics

Tabel 1 reports the descriptive statistics for the variables used in this study.

Table 1: Descriptive Statistics of Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Price	7.39	2.01	3.91	13.71
EPS	4.9	1.98	0.49	10
BV	6.9	1.55	3.59	10.51
IO	0.71	0.18	0.3	1.41
BC	0.38	0.10	0.11	0.6
AC	3.05	0.40	1.00	4.00
AC^2	9.49	2.32	1.00	16.00
BOD	5.19	2.23	2.00	11.00
BOD^2	31.9	27.28	4.00	121.00

Tabel 1 shows that the mean for price, EPS and BV over the four-year period from 2009-2012 are 7.39 ,4.9 and 6.9, respectively. The mean for Institutional ownership, the independent commissioners composition, audit committee size and board size are 0.71,0.38 3.05 and 5.19 respectively while square of audit committee size and square of board size are 9.49 and 31.9 respectively.

4.2. Regression results

4.2.1.POOLED REGRESION 1

.Tabel 2 summarizes the output of regression 1. Tabel 2 reveals that coefficient both the earnings and book value of equity are positive and significant at 0.01 level. The findings show that accounting variables are perceived as value relevant by investor. This results are consistent with those reported in Collins et al. (1997) ; Graham et al (2000); Chen et al. (2001); Puspa (2005); and Habib and Azim (2008).

Tabel 2: Regression 1 output

$$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2_{it}+ \beta_6 BOD_{it} + \beta_7 BOD^2{}_{it} +\mu it\text{.......}(1)$$

Variable	Coefficient	t-Statistic	Probability
EPS	0.753	15.406	0.000
BV	0.211	3.361	0.000
IO	0.402	1.611	0.108
BC	1.513	3.627	0.000
AC	0.088	0.313	0.754
AC^2	0.027	0.469	0.639
BOD	0.289	2.883	0.004
BOD^2	-0.021	-2.585	0.010

Regarding the corporate governance variables, reported results reveal that the coefficients on independent commissioners composition and the board size are positive and significant at 0.01 level meanwhile those on audit committee and institutional ownership are not significant. These results are in support of findings by Habib and Azim (2008); Fiador V.O (2013) who reported that board size has impact on market valuation. This finding supports the proposition as suggested by Dalton et al. (1999) that larger boards produce diverse expertise and efficient decisions, thus leading to higher performance and ultimately higher share. However, this evidence is not consistent with those documented by Yermack,(1996); Eisenberg et al. , (1998). They reported that larger boards are associated with smaller market valuations.

Reported results show the composition of independent commissioners have influence on market valuation. The Indonesia's Code of Good Corporate Governance encourages to have independent commissioners. Board of commissioners as an organ of the company shall function and be responsible collectively for overseeing and providing advice to the Board of Director. Independent commissioners represent who are not originated from an affiliated party (NCOG, 2006). The commissioners independent who is entirely not affiliated with board of director is expected to ensure that control mechanism runs effectively and offer the most protection to shareholders. This result is not consistent with those reported by Habib and Azim (2008) and Fiador V.O (2013). Habib and azim (2008) documented that independent director and audit committee have no influence on market valuation. Meanwhile, Fiador V.O (2013) provide evidence that the composition of the board in listed company in Ghana have no impact on share price. Others studies also reported that no benefits from having non-executive director dominance on corporate boards (Adams and Mehran (2008) and Belkhir (2006).

Audit Committee is insignificant as seen in Table 2. This result is not consistent with previous study done by Habib and Azim (2008) that provide evidence that structural dimensions of corporate governance including board size, audit committee size and audit committee meeting have a positive and significant impact on market valuation. Others studies documented no effect of Audit committee on reporting quality (Xie et al., 2003; Abbott, 2004). Institutional Ownership is insignificant as reported in Table 2.

4.2.2 POOLED REGRESION 2

Table 3: Regression 2 output

$$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2_{it}+ \beta_6 BOD_{it} + \beta_7\ BOD^2_{\ it} + \beta_8 EPS*IO_{\ it} + \beta_9 EPS*BC_{\ it} + \beta_{10}EPS*AC_{\ it} + \beta_{11}EPS*\ AC^2_{\ it} + \beta_{12}EPS*BOD_{\ it} + \beta_{13}EPS*\ BOD^2_{\ it}+ \mu it\ldots\ldots..(2)$$

Variable	Coefficient	t-Statistic	Probability
EPS	0.477	2.151	0.032
BV	0.264	4.155	0.000
IO	0.280	0.391	0.696
BC	-0.715	-0.637	0.524
AC	2.727	3.026	0.002
AC^2	-0.425	-1.943	0.053
BOD	-0.813	-2.308	0.022
BOD^2	0.070	2.197	0.029
EPS*IO	0.024	0.177	0.859
EPS*BC	0.469	2.407	0.016
EPS*AC	-0.434	-2.162	0.031
EPS* AC^2	0.072	1.844	0.066
EPS*BOD	0.239	3.501	0.000
EPS* BOD^2	-0.019	-3.237	0.001

Table 3 summarizes regression result of second equation. Table 3 reports coefficient estimates on EPS, book values and coefficient interaction of corporate governance variables. Equation 2 as shown on Table 3 incorporated the interaction term between accounting earnings variable and corporate governance variable. The interaction terms are used to capture the influence of corporate governance on the value relevance of these accounting information. As shown on Table..interaction coefficient between earnings per share and composition of commissioners show that earnings per share has more value relevant in the presence of corporate governance variable namely independent commissioner. Earnings per share become value relevant in the presence of audit committee , albeit with a negative sign of coefficient. This result implies that as the audit committee gets larger earnings per share loses its value relevance. On the other hand, earnings per share relate positively to share price when the audit committee variable is squared. The square o f the board size was included to capture its posited non- linear effect (Fiador V.O (2013). Regarding the board size, regression results show that the value relevance of Earnings per share is improved in the presence of larger board. Table 3 reported interaction between Institutional ownership and EPS are insignificant.

This finding is supported by Habib and Azim (2008) that documented that interaction between structures and independent dimensions of corporate governance and earnings have positive and significant impact on market valuation. Structural dimensions of corporate governance consist of board size, audit committee size and audit committee meeting while independent dimension of corporate governance capture board and audit committee independent. Fiador V.O (2013) found that interaction between board size and earnings per share have negative and significant impact on share price. Further more, Fiador V.O (2013) demonstrated that the composition of the board is only marginally negatively related at 10 per cent to share prices.

4.2.3.POOLED REGRESION 3

Table 4: Regression 3 Output

$P_{it}= \beta_{0+}\beta_1 EPS_{it}+\beta_2 BV_{it}+\beta_3 IO_{it}+\beta_4 BC_{it}+\beta_5 AC_{it}+\beta_6 AC^2{}_{it}+ \beta_6 BOD_{it} + \beta_7\ BOD^2{}_{it} + \beta_8 BV{*}IO_{it} + \beta_9 BV{*}BC_{it} + \beta_{10} BV{*}AC_{it} + \beta_{11} BV{*}\ AC^2{}_{it} + \beta_{12} BV{*}BOD_{it} + \beta_{13} BV{*}\ BOD^2{}_{it}+ \mu it$……..(3)

Variable	Coefficient	t-Statistic	Probability
EPS	0.691	13.843	0.000
BV	0.111	0.915	0.361
IO	-0.361	-0.335	0.737
BC	-3.176	-1.752	0.081
AC	5.063	3.645	0.000
AC^2	-0.806	-2.604	0.009
BOD	-1.611	-2.839	0.005
BOD^2	0.135	2.726	0.006
BV*IO	0.096	0.627	0.531
BV*BC	0.691	2.843	0.004
BV*AC	-0.633	-3.142	0.001
BV* AC^2	0.104	2.517	0.012
BV*BOD	0.279	3.505	0.000
BV* BOD^2	-0.022	-3.355	0.000

Table 4 reveals that variables of corporate governance namely independent commissioners size, board size, audit committee size improve the value relevance of book value equity. The coefficient estimates on independent commissioners size, board size, audit committee size are positive and significant but coefficient estimate on square of board size have negative sign. Institutional Ownership does not help the value relevance of book value of equity. Previous studies documented the positive effect of large Audit Committee on financial reporting quality (Yang and Krishnan, 2005; Lin et al., 2006).

5.Conclusion

From the findings of this study, it can be concluded that interaction between corporate governance mechanism and accounting information may improve the value relevance of accounting measure of value. Book value of equity become value relevant in the presence of Board size, audit committee size and independent commissioner. On the other hand earnings per share have more value relevance in the presence of corporate governance variables. However institutional ownership in three regression results have no impact on value relevance of accounting measures of value.

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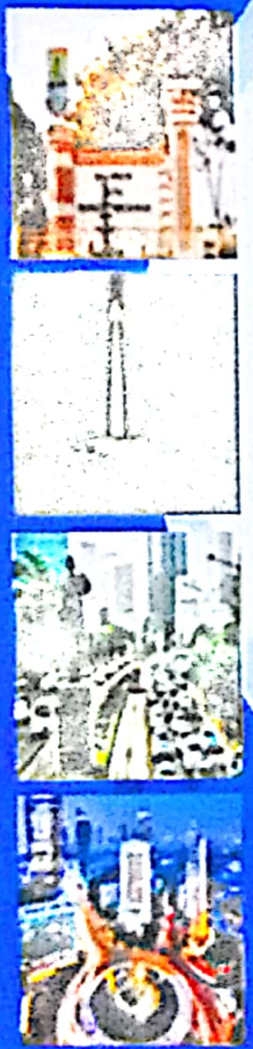

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