



UNIVERSITI PUTRA MALAYSIA

***EFFECTS OF ACCOUNTING AND CORPORATE
GOVERNANCE REFORMS ON INCOME SMOOTHING
PRACTICES BY INDONESIA LISTED FIRMS***

THERESIA TRISANTI

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**DOCTOR OF PHILOSOPHY
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BY INDONESIA LISTED FIRMS**



By
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**EFFECTS OF ACCOUNTING AND CORPORATE GOVERNANCE
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June 2012

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Recent accounting research reveals that income smoothing (IS) practices in developing and emerging economies are higher than in developed-country. As an emerging market, Indonesia has a high occurrence of IS practices since around 65% of Indonesian listed firms have committed to it (Damayanthi, 2002; Prasetyo & Astuti, 2002). Motivated by these facts, this study seeks an empirical investigation on the effectiveness of the accounting and corporate governance (CG) reforms from the perspective of IS practices in Indonesia.

Accordingly, four research objectives have been established. First is to investigate the effect of CG and accounting standard reforms on IS practices by Indonesian listed firms in the period from 1995 to 2009. Second is to verify the effect of two IS instruments: discretionary accounting changes (DAC) and non-recurring items to the IS practices. Third is to study the effects of selected Indonesian listed company

CG attributes to the IS practices and fourth is to investigate the effect of company's specific characteristic attributes on the IS practices.

The IS practice was measured with two models: the coefficient variation of sales to income index by Eckel (1981) and the smoothing behavior index by Moses (1987). A review of the Indonesian CG Codes revealed that there were two attributes that was expected to have impact on IS practices, the independent boards and the independent audit committee. Six company's specific characteristic attributes were also used to assess their impact to IS practices, institutional ownerships, company size, type of industry, debt financing, external auditor quality, and profitability.

The research sample was drawn from the DataStream and Indonesian Capital Market Directory (ICMD) database for the years of 1995 to 2009 and divided into three different periods. The first period was during the financial crisis (1995- 1999), the second was when the various corporate governance initiatives took place (2000-2004), and the third was when Indonesian general accounting principles converged to IFRS (2005-2009).

For the first research objective, the study concluded there was a significant difference of IS practices before and after the introduction CG codes and IFRS respectively. For the second research objective, the study found that Indonesian listed firms tend to use DAC and nonrecurring items to smooth their income figures.

For the third and fourth research objectives, the findings did not support the proposition that a higher proportion of independent directors and independent audit

committee would provide more effective monitoring mechanism in constraining IS practices. Type of industry was also negatively associated with the IS practices for three different periods. Meanwhile, institutional ownership and company size had also no significant relationship to IS practices during financial crisis period (1995-1999), but they were after the introduction of CG codes (2000-2004) and after the convergence to IFRS (2005-2009). For debt financing, profitability and external audit quality there were significant relationship to IS practices for all three different period.

Overall, the study concludes that IS practices decreased significantly among Indonesian listed firms after the introduction of CG Codes and IFRS but its percentage was still high. This suggests that although Public Interest Theory (PIT) lays foundation to government to introduce CG and IFRS but from Positive Accounting Theory (PAT) perspective, such initiative will constraint management to choose standards on accounting and governance that may contradict to maximize their benefits. Therefore, using Agency Theory perspective, the introduction of CG and accounting reforms should be equipped with a new model and framework to better manage the relationship among agents and principals that involve government, stakeholders and companies through some policies and regulations.

Tesis abstrak dikemukakan kepada Senat Universiti Putra Malaysia untuk
memperoleh Ijazah Doktor Falsafah

**KESAN REFORMASI PERAKAUNAN DAN TADBIR URUS KORPORAT
TERHADAP AMALAN PERATAAN PENDAPATAN OLEH FIRMA
TERSENARAI INDONESIA**

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Penyelidikan perakaunan terkini mendedahkan bahawa berbanding negara-negara maju, amalan perataan pendapatan (IS) dikalangan negara-negara ekonomi baru muncul adalah secara puratanya lebih tinggi. Sebagai satu pasaran baru muncul, Indonesia didapati mempunyai amalan IS yang sangat tinggi kerana dianggarkan sekitar 65% firma-firma tersenarai Indonesia telah mengamalkan amalan IS tersebut (Damayanthi, 2002; Prasetyo & Astuti, 2002). Dimotivasikan oleh fakta tersebut, kajian ini merupakan satu penyelidikan empirikal terhadap keberkesanan reformasi perakaunan dan tadbir urus korporat (CG) dari perspektif amalan IS di Indonesia.

Sehubungan dengan itu, empat objektif kajian telah direka. Pertamanya, kajian bertujuan menyiasat kesan reformasi CG dan piawai perakaunan ke atas amalan-amalan IS oleh firma-firma tersenarai Indonesia dari tahun 1995 sehingga 2009. Objectif kedua ialah untuk mengesahkan kesan dua instrumen IS: perubahan

perakaunan budi-bicara (DAC) dan item tidak berulang bagi amalan-amalan IS. Ketiga ialah untuk menyiasat kesan ciri-ciri urus tadbir korporat syarikat tersenarai Indonesia terpilih terhadap amalan-amalan IS dan objektif keempat ialah untuk menyiasat kesan ciri-ciri khusus syarikat terhadap amalan-amalan IS.

Amalan-amalan IS diukur menggunakan dua model. Model pertama ialah variasi pekali jualan untuk indeks pendapatan yang diperkenalkan oleh Eckel (1981) dan keduanya ialah indeks tingkah laku perataan oleh Moses (1987). Kajian ke atas kod CG Indonesia mendedahkan bahawa terdapat dua ciri-ciri yang dijangka memberi impak ke atas amalan-amalan IS iaitu kebebasan lembaga pengarah dan jawatankuasa audit. Enam sifat-sifat khusus syarikat juga diambil kira di dalam kajian ini bagi menilai kesan mereka ke atas amalan-amalan IS. Sifat-sifat khusus syarikat tersebut adalah pemilikan institusi, saiz syarikat, jenis industri, pembiayaan hutang, kualiti juruaudit luar dan keuntungan.

Sampel penyelidikan diambil dari pangkalan data DataStream dan Direktori Pasaran Modal Indonesia (ICMD) bagi tahun 1995 hingga 2009 dan dibahagikan kepada tiga tempoh masa yang berbeza. Tempoh pertama ialah semasa krisis kewangan Asia (1995-1999) manakala tempoh kedua ialah semasa berlakunya pelbagai inisiatif reformasi urus korporat tadbir (2000-2004). Tempoh ketiga pula ialah apabila prinsip-prinsip perakaunan am Indonesia menumpu kepada IFRS (2005-2009).

Bagi objektif penyelidikan pertama, kajian menyimpulkan bahawa terdapat perbezaan ketara bagi amalan-amalan IS selepas pengenalan kod CG dan penumpuan kepada IFRS berbanding dengan tempoh sebelumnya. Bagi objektif

penyelidikan kedua, penemuan penyelidikan menunjukkan bahawa syarikat-syarikat tersenarai Indonesia cenderung untuk menggunakan instrumen DAC dan item-item tidak berulang sebagai instrumen perataan angka-angka pendapatan mereka. Hasil kajian tidak menyokong usul yang menyatakan bahawa kadar pengarah-pengarah bebas dan jawatankuasa audit bebas yang lebih tinggi akan memberikan mekanisme pengawasan yang lebih berkesan dalam mengawal amalan-amalan IS. Jenis industri juga dikaitkan secara negatif dengan amalan-amalan IS bagi ketiga-tiga tempoh berbeza yang telah direka. Sementara itu, pemilikan institusi dan saiz syarikat juga tidak memberi kesan ketara kepada amalan-amalan IS semasa tempoh krisis kewangan (1995-1999), tetapi terdapat hubungan ketara selepas pengenalan kod CG (2000-2004) dan selepas penumpuan kepada IFRS (2005-2009). Bagi pembiayaan hutang, keuntungan dan kualiti audit luaran, terdapat hubungan ketara dengan amalan-amalan IS bagi kesemua tiga tempoh yang direka.

Secara keseluruhan, kajian menyimpulkan bahawa walaupun amalan IS dikalangan firma-firma tersenarai Indonesia telah berkurang secara ketara selepas pengenalan kod CG dan penumpuan GAAP Indonesia kepada IFRS, peratusannya masih tinggi berbanding dengan negara-negara lain. Ini mencadangkan bahawa walaupun Teori Kepentingan Awam (PIT) meletakkan asas kepada kerajaan untuk memperkenalkan reformasi ke atas CG dan piawaian perakaunan, tetapi Teori Perakaunan Positif (PAT) mencadangkan bahawa inisiatif-inisiatif tersebut akan mengekang pihak pengurusan untuk memilih piawaian perakaunan dan tadbir urus yang mungkin bercanggah bagi tujuan memaksimumkan manfaat peribadi mereka. Oleh itu, berdasarkan perspektif Teori Agensi, pengenalan reformasi CG dan piawaian perakaunan perlu dilengkapi dengan model baru dan rangka kerja untuk

menguruskan dengan lebih baik hubungan dikalangan ejen dan prinsipal yang melibatkan kerajaan, pihak-pihak berkepentingan dan syarikat melalui beberapa dasar dan peraturan-peraturan.



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I certify that an Examination Committee met on 21 June 2012 to conduct the final examination of Theresia Trisanti on her Doctor of Philosophy thesis entitled “Effect of Accounting and Corporate Governance Reform on Income Smoothing Practices by Indonesia Listed Firms” in accordance with Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U. (A) 106] 15 March 2008. The Committee recommends that the candidate be awarded the Doctor of Philosophy degree. Members of the Examination Committee are as follows:

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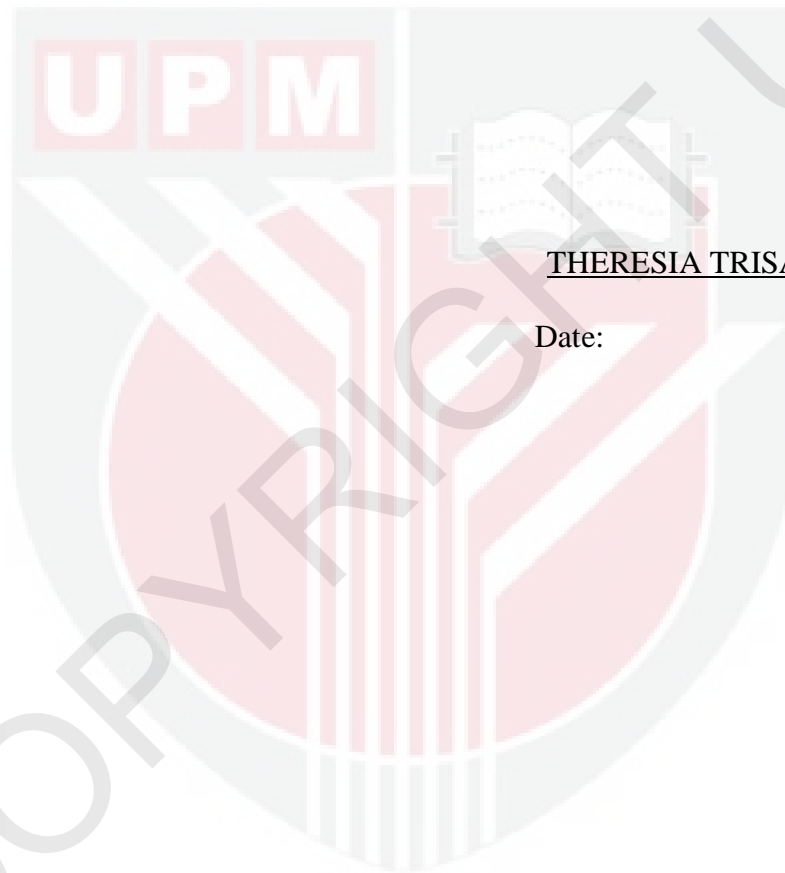
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