



Stock Valuation: Corporate Governance Mechanism and Accounting Result as an Intervening Variable

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The growth of the property sector is shown by the construction of houses, apartments and offices, so that the property sector stocks is quite attractive and thus reflect an increase in the value of the condition of a company, which is a long-term goal. These conditions need the enforcement of corporate governance mechanism that can serve as the driving performance of a property company. This study aims to determine the effect of Corporate Governance Mechanism on Stock Valuation with Accounting Result as an intervening variable. The unit of analysis of this research is the companies from sector of the Property, Real Estate and Building Construction listed in Indonesia Stock Exchange 2010–2013. The sample data of this research is taken 45 data obtained through purposive sampling, and path analysis is used as the method of statistical analysis. The test results showed that simultaneous mechanism of corporate governance has a significant effect on the accounting result amounted to 28.6%. The element of corporate governance mechanism that partially affects the accounting result; (1) Ownership Managerial negatively affects Accounting Result, and (2) independent commissioner positively influences accounting result. While the accounting result negatively affects the stock valuation. This happens because of the characteristics of the property company's accounting profit recognition is based on the proportion of the completion of the construction. So, despite the negative accounting profit, the company's stock valuation positively affects property. The research novelty is the negative accounting result has a positive effect on stock valuation. This happens cause of the accounting treatment of income in the property industry differs from the business characteristics in general.

Keywords: Corporate Governance Mechanism, Accounting Result and Stock Valuation.

1. INTRODUCTION

The growth of the property sector can be seen from the increase in volume and value sales of shares. This sector requires an alternative external financing through the capital market.

Meanwhile, the company's objectives include maximizing profits for the welfare of shareholders, as shown by the increase in the stock price. Increasing the maximum value of the company is a long-term goal that should be achieved by the company.^{17,34} Valuation is observed in the movement of stock prices.³³

Maximizing the company's stock value could cause conflicts of interest which is often called agency problems. Agency conflict is a principal-agent problem, the agency problems arising from the separation of ownership and management control problems led to the asymmetry of information.^{19,38}

The asymmetry information resulting from the company's profit is not qualified (not a real profit), which would cause a decrease in the value of shares of the company.²⁷ Unqualified earnings are not a persistent income and cannot be used to forecast earnings in the future,^{13,36} so that it can impact on the share value.

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The agency problem could be reduced through the role of corporate governance. Corporate governance plays an important role in achieving the efficiency of control, so it can increase its profit and stock value.^{10,41}

The research motivation examines whether the corporate governance affects the accounting result and stock valuation. This research was conducted on the property sector on Indonesian Stock Exchange. Recognition of income and expense in the property sector is possible based on a percentage of completion.

2. LITERATURE REVIEW

Corporate governance refers to the rules, procedures and administration of the firm's contract with stakeholders.²⁵ Corporate governance is a set of mechanisms that induce the self-interest managers of a company to make decision that maximizes the company's performance to its shareholders.^{9,16} Corporate governance plays an important role in achieving efficiency through internal and external control.^{10,35,41} The element of corporate governance mechanisms that include the concentration of ownership and the composition of the board are determinant factors of financial performance.^{21,24,26} The financial performance is shown

by the accounting result which is measured from the profit or loss of the company.

2.1. Managerial Ownership and Accounting Result

Managerial ownership is one of corporate governance mechanisms to reduce agency conflict.³¹ Managerial ownership aligns management and owner interests affecting corporate profitability. Managerial ownership is one of corporate governance mechanisms to reduce agency conflict.^{15, 22, 35} Managerial ownership is a determinant factor of employee satisfaction, so as to improve performance.^{28, 37}

2.2. Institutional Ownership and Accounting Result

Owners institutionally led to higher profits, lower risk and benefit the other shareholders. Ownership control plays an important role in the firm’s Influence performance and for its growth.^{2, 8} Institutional shareholders significantly influence firm performance.^{23, 29}

2.3. Audit Committee to Accounting Result

Audit committee is a central pillar of effective corporate governance and in the best position to over effective oversight of the performance, independent and objectivity of the auditor and the quality of audit.³⁰ Audit committee plays a large role in consolidation of the financial control within a company.¹¹ The Audit committees are effective in reducing appearance of error in earning management, which many lead to in accurate financial statement.^{12, 14} Good characteristic of audit committee are positively associated with financial performance.^{1, 32}

2.4. Independent Commissioner to Accounting Result

The exercise of control is based on principles of the agency theory.³⁹ The aim of the Independent commissioner is to mitigate the moral hazard problem, the source of this problem, namely the pursuit of their own interests, thereby harming other stakeholders, particularly the minority shareholders.⁷ The independent commissioner serves to control agency problems, thus affecting the company’s operational efficiency. Thus, the independent commissioner improve company performance.^{4, 5}

2.5. Accounting Result to Stock Valuation

The concept of shareholder value creation reflects the fundamental principle of successful financial management.³ Managers should have a correct understanding of the influence of the resources which itself is a key factor in a company’s success in stock valuation.³³ This can be interpreted that managers who understand the management of resources orient to the efficiency of the company. Such conditions can fundamentally improve the profitability of the company.^{6, 40}

3. RESEARCH METHODOLOGY

This study is an explanatory research; corporate governance mechanisms describe accounting result and accounting result describes stock valuation. The operational variables of this research can be seen in the following table.

The analysis unit of this study is companies of the sector of Property, Real Estate and Building Constructions listed in Indonesia Stock Exchange in 2010–2013. The date used is sample date taken with purposive sampling technique, where 45 companies were obtained.

Table I. Operationalization of variables.

| Variable | Indicator |
|--------------------------|--|
| Managerial ownership | % shares owned by managers from outstanding shares |
| Audit committee | Number of members of audit committee |
| Independent commissioner | % commissioners who are not affiliated with the company of the total board of commissioners |
| Accounting result | Earnings after tax |
| Stock valuation | $V = \frac{FCF_1}{(1+WACC)^1} + \frac{FCF_2}{(1+WACC)^2} + \dots + \frac{FCF_\infty}{(1+WACC)^\infty}$ |

Analysis method used is descriptive statistic and path analysis. The research model is as follow.

4. DISCUSSION

The result of descriptive analysis can be seen in Table II below.

- Table II shows the descriptive statistic results as follow:
- (1) Mean of managerial ownership is 4.2698, less than standard deviation of 6.91266; it means the managerial ownership of Property, Real Estate and Building Constructions sector varies.
 - (2) Mean of institutional ownership 67.2443 bigger than the standard deviation of 6.91266, it means that the institutional ownership of Property, Real Estate and Building Constructions sector ranges 67.244%.
 - (3) Mean of audit committee 3.07 is bigger than standard deviation of 0.255, it means that the number of audit committee ranges from 3–4 people, this is in accordance with the rule of Financial Service Authority Number 55/POJK.04/2015 on the Establishment and Implementation Guidelines of the Audit Committee.
 - (4) Mean of independent commissioner 42.3464 is less than the standard deviation of 10.77. This shows that the number of board of Commissioners varies in every company of the property sector. The lowest independent commissioner is 33.33% bigger than 30% as stated in the rule of Financial Service Authority No. 33/POJK/2014 on Directors and the Board of Commissioners of Issuers or Public Company Article 20 paragraph 3.
 - (5) Mean of accounting result proxied with net income of 155.040.620.481 is less than standard deviation of 229.566.754.427. It means that net income of companies varies; even there are some companies experiencing loss.
 - (6) Mean of stock valuation 208.613.624.420 is less than standard deviation of 424.974.902.604. it can be concluded that stock

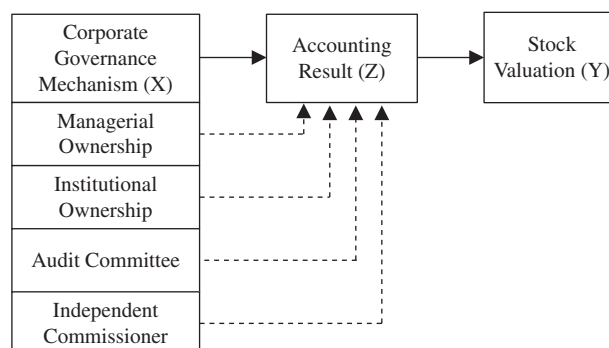


Fig. 1. Research model.

Table II. Descriptive statistic result.

| | N | Minimum | Maximum | Mean | Std. deviation |
|---------------------|----|--------------------|-------------------|------------------|-----------------|
| Manag. own | 44 | ,00 | 22,34 | 4,2698 | 6,91266 |
| Inst. own | 44 | 35,54 | 95,26 | 67,2443 | 19,13034 |
| Audit committee | 44 | 3 | 4 | 3,07 | ,255 |
| Indep. commissioner | 44 | 33,33 | 66,66 | 42,3464 | 10,77310 |
| Acc. result | 44 | -59.138.577.166 | 113.654.7541.000 | 155.040.620.481 | 229.566.754.427 |
| Stock valuation | 44 | -1.311.450.805.080 | 1.010.810.071.098 | -208.613.624.420 | 424.974.902.604 |
| Valid N (listwise) | 44 | | | | |

valuation varies. The minimum value stock valuation is IDR -1,311 trillion, which defines FCF (Free Cash Flow) with negative result, so that companies could not afford business expansion or development. Meanwhile, maximum value of stock valuation maximum with positive result is of IDR 1,010 trillion, it means that the company income can support the business. FCF and WACC is one measurement viewed by investors to measure the financial strength of a company to support its growth.

Path analysis result can be seen in Tables III and IV below.

From Tables III and IV, it can be seen that managerial ownership, institutional ownership, audit committee and independent commissioner simultaneously affect accounting result as much as 28.6%. The path model is relatively sufficient to meet the goodness of fit criteria.

Table V shows that managerial ownership can partially describe accounting result, but the effect is negative. This research result does comply with studies by Refs. [28, 37], that state that managerial ownership is able to increase the company performance (which in this study was measured with accounting result). This finding suggests that the alignment through company

Table III. Model summary.

| Mode | R | R square | Adjusted R square | Std. error of the estimate |
|------|-------------------|----------|-------------------|----------------------------|
| 1 | ,535 ^a | ,286 | ,213 | 2,036E + 11 |

Notes: ^aPredictors: (Constant), ind. com, audit. com, ins. own, man. own KOMIND, KOMDIT, KEPINS, KEPMAN.

Table IV. ANOVA.^a

| Model | Sum of squares | df | Mean square | F | Sig. |
|--------------|----------------|----|-------------|-------|-------------------|
| 1 Regression | 6,490E + 23 | 4 | 1,622E + 23 | 3,913 | ,009 ^b |
| Residual | 1,6171E + 24 | 39 | 4,14 + E22 | | |
| Total | 2,266E + 24 | 43 | | | |

Notes: (a) Dependent variable: Acc. result. (b) Predictors: (Constant), ind. com, audit. com, ins. own, man. own.

Table V. Coefficients.^a

| Model | Unstandardized coefficients | | Standardized coefficients | | t | Sig. |
|--------------|-----------------------------|-------------|---------------------------|--------|---|------|
| | B | Std. error | Beta | t | | |
| 1 (Constant) | 5.858E + 11 | 5324E + 11 | | 1.100 | | .278 |
| Man. own | -2.848E + 10 | 7432554393 | -.858 | -3.832 | | .000 |
| Ins. own | -4360179652 | 2330534089 | -.363 | -1.871 | | .069 |
| Aud. com | -8.079E + 10 | 1.378E + 11 | -.090 | -.586 | | .561 |
| Indp. com | 4947044727 | 2010650509 | .430 | 2.460 | | .018 |

Note: ^aDependent variable: Accounting result.

Table VI. Model summary.^b

| Model | R | R square | Adjusted R square | Std. error of the estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | ,098 ^a | ,010 | -,014 | 4,27938E + 11 |

Notes: ^aPredictors: (Constant), ACCOUNTING RESULT. (b) Dependent variable: STOCK VALUATION.

Table VII. Anova.^a

| Model | Sum of squares | df | Mean square | F | Sig. |
|--------------|----------------|----|-------------|------|-------------------|
| 1 Regression | 7,446E + 22 | 1 | 7,446E + 22 | ,407 | ,527 ^b |
| Residual | 7,691E + 24 | 42 | 1,831E + 23 | | |
| Total | 7,766E + 24 | 43 | | | |

Notes: ^aDependent variable: Stock valuation. ^bPredictors: (Constant), accounting result.

ownership is unable to improve accounting result, but has an indication of suppressing the practice of earnings management.

Independent commissioner positively affects accounting result. Independent commissioner performs their function, control agency problem, therefore affect operation efficiency, so that improve company performance.^{4,5} Other exogenous factors than managerial ownership and independent commissioner are not as explanatory factors towards accounting result.

Tables VI and VII are the analysis results of accounting result effect towards stock valuation.

From Tables VI and VII, it can be known that accounting result does not affect stock valuation. If it is associated with descriptive statistic, the data distribution of accounting result and stock valuation relatively varies. However, if it is associated with business characteristic of the Property, Real Estate and Building Construction sector, where profit recognition is based on the proportion of work completion, accounting result stands as fundamental factor for stock valuation.

5. CONCLUSION, LIMITATION AND RECOMMENDATION

Factors affecting accounting result include managerial ownership and independent commissioner. The effect of negative managerial ownership towards accounting result shows that the role of dual function of managerial ownership as both management and owner is able to suppress the opportunistic attitude of management in “playing” the company profit. Management needs to be more careful, so that the side of corporate governance mechanism shows more of quality profit than plan orientation bonus.

Independent commissioner positively affects accounting result, showing its role in protecting minority shareholder, so as to perform its monitoring role to improve company performance through accounting result.

Limitation of this study is shown by the number of data, where there is only 45 data and there is an outlier that disturbs model 1, therefore the number of data decreased to 44.

Recommendation for future researchers is to analyze public companies that have a unique profit recognition that is not in according to general condition, in order to enrich the model of corporate governance mechanism and its impact on stock valuation.

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