# CORPORATE GOVERNANCE AND FIRMS VALUE: THE IMPACT OF IFRS CONVERGENCE
# EVIDENCE FROM FOUR ASEAN COUNTRIES

G. Prananingrum A

Unika Atma Jaya

gabriel.prananingrum@atmajaya.ac.id

## ABSTRACT

*This study investigate the impact of IFRS convergence on the relation between corporate governance and firm value. Using 324 public listed ASEAN company from 4 countries, we find evidence that convergence of IFRS significantly decreasing the positive relation of corporate governance and firm value. Low investor protection triggered company to implement corporrate governance mechanism. Therefore, increase of IFRS convergence among countries, play as subtitute for the relation.*

*Keywords: corporate governance, firm value, convergence of IFRS, ASEAN*

## 1. INTRODUCTION

Numerous studies have shown that corporate governance improve the likelihood of investment opportunities. Claessens and Yortoglu (2013) conducted survey from research papers for corporate governance in emerging market. It finds that better corporate governance benefit firms through greater access to financing, lower cost of capital, better performance, and more favorable treatment of all stakeholders. Asia's market has known with some characteristics, low investor protection and poor corporate governance (LaPorta et al, 2008); concentration ownership (Claessen et al, 1999) and have pyramid ownership structure. Therefore, corporate governance mechanism would substitute the low of investor protection. It means, the corporate governance became an important issue in Asia.

Asian Development Bank (ADB) has mandated ASEAN countries to improve corporate governance mechanism. As an assessment to that mandate, ADB in cooperation with ASEAN capital market foundation develop an ASEAN corporate governance scorecard (ACGS). These score card used by ADB to assess the corporate governance practices among companies in ASEAN countries. This practice increase question about the impact of the score for the firm. The effectiveness of corporate governance in emerging markets may be influenced by a set of factors different from those in Anglo-Saxon countries (Lazarides and Drimpetas, 2011). Because of the increasing flow of international capital into the developing world, it is important to understand corporate governance practices in these environments and how they affect accounting standards enforcement and financial reporting quality.

Prior research suggested that effective corporate governance and audit quality are positively correlated as complements. Lin and Liu (2009) argue that effective corporate governance, accompanied by high-quality auditing, helps reduce the cost of capital. On the other hand, inefficient corporate governance, accompanied by low-quality auditing, may enable management to reap the private benefits of weak corporate governance and less transparent financial reporting.

Prior research on financial and accounting implications of corporate governance in emerging markets has reported mixed results. For example, in Taiwan, foreign and family ownership is found to have a negative effect on financial reporting quality, while state and institutional ownership has a positive effect (Klai and Omri, 2011). However, no corporate governance factors, other than audit quality, have any effect on earnings manipulation in the Saudi market (Al-Abbas, 2009). For general financial performance, different governance variables (including board size and independence) are significantly related to firm performance variables in Pakistan (Abdullah, Shah, and Hassan, 2008), but none of these corporate governance variables (except government and foreign ownership) have any significant association with firm performance in Malaysia (Anum and Ghazali, 2010). None of the typical corporate governance factors is found significant in Kuwait (Al-shammari and Al-sultan,2010), while board size and composition are reported as main factors for effective corporate governance in the UAE (Adawiand Rwegasira, 2011). In Malaysia, only block ownership is found to deter financial statement misstatements, while other traditional corporate governance factors have no significant effect (Abdullah et al., 2008). In Greece, corporate governance mechanisms have no effect on earnings manipulation (Chalevas and Tzovas, 2010). In addition to financial reporting and earnings quality, corporate governance factors are found to have significant positive correlation with banks' performance and value in Taiwan (Huang, 2010), and financial distress in China (Hong-xia, Zong-jun, and Xiao-lan, 2008). IFRS adoption and compliance are also affected by a country's economic transition stage.

Development of institutional mechanisms like corporate governance structures and a reliable independent audit process serve to facilitate enforcement and compliance with IFRS (Hodgdon, Tondkar, Adhikari, and Harless, 2009). Such intertwined relation between progress of corporate governance structure, audit quality, and IFRS compliance and enforcement in emerging countries makes it necessary to examine the relation between these factors in individual emerging economies at different transition stages. With the increasing harmonization of global financial reporting standards and the global trend for both developed and emerging economies to adopt and enforce some version of IFRS, it is critical to examine how different corporate governance factors affect the initial adoption and enforcement of IFRS in individual emerging economies.

How relevant IFRS is depend on how country choose to harmonisize its local GAAP standard with IFRS. If a country chooses to use the "full IFRS" option for annual accounts of companies, will it improve the quality of information compared with country that chooses to use convergence method. The other consideration is to what extent national accounting standard setters take IFRS into consideration when setting standards for national Generally Accepted Accounting Practice (GAAP) and what choices of accounting principles companies can make within national GAAP. In substance the effects of IFRS depend on the degree at which national GAAP incorporates IFRS accounting principles. Therefore this study expected the IFRS adoption will strenghening the association between corporate governance and tax avoidance.

This paper will investigate the effect of international standards adoption, particularly OECD principles of corporate governance and IFRS, on firm's value. Studies on implemented corporate governance have been widely conducts by academics. While studies on IFRS adoption found: increase earnings quality when a country's investor protection regime provides stronger protection (Hougue et al 2012), increase information content by reducing reporting lag, increasing analyst following, and increasing foreign investment (Landsman et al, 2012) and facilitazion of cross-boarder financing (Eipstein, 2009).

The main contribution of this paper is investigating the effect of IFRS convergence to the relation between corporate governance and firm's value. The use of ACGS score will be the earlier empirical proxy for corporate governance at firm level.Whether the use of ACGS score have several issues. First, there is only company with higher capital market included in the model. It will be bias resulted, therefore I include non ACGS company in the model. Second, there is high differentiate between first rank and last rank. For this issue, I use mean of corporate governance country to control its impact.

The remainder of the paper proceeds as follows. Section 2 discusses the adoption of international standard, corporate governance and IFRS, to the improve quality of information. Section 3 describes data and sample of this study. Section 4 discusses research design and presents the primary empirical results and inferences. Section 5 provides concluding remarks.

## 2. LITERATURE REVIEW

### 2.1. Agency Theory

Jensen and Meckling (1976) proposed theory of the firm that explained the relation between agent and principal, widely known as agency theory. On the agency theoric view, the difference interest between principal and agent; asymetry information and the separation of control and right will create conflict between agent and principal. There are two tier agency problems. First between stockholder and manager, second between majority and minority interest.

Asymmetry information has been claim as the major problem. It creates poor quality information for principal (esp. Shareholder) to make decision. Similar to other investment decisions, unresolved agency problems can lead managers to select a level of decision that differs from what shareholders would prefer. This problem can be mitigate with corporate governane mechanism. Corporate governance enggaged with numerous variables to be implemented. There are transparancy, accountability, responsibility, independency and fairness.

The other tool for mitigate the agency problem is accounting standards that eliminate manager's ability to disclose its financial statement. There are two base accounting standard, rule based and principal based. Rules-based standards develop to meet the demand of major constituents, particularly management and auditors, who want a clear answer to each and every perceivable accounting issue. Benson et al (2006) argue that detailed rules and authoritative guidance also serve standard setters' and regulators' objective of reducing the opportunities of managers to use judgments to manage earnings (and of auditors to have to accept that practice). While the 'principles-only' standards, which it defines as 'high-level standards with little if any operational guidance' (SEC, 2003). It then dismisses the alternative, since 'principles-only standards typically require preparers and auditors to exercise judgment in accounting for transactions and events without providing a sufficient structure to frame that judgment. The Report does not further consider whether or to what extent the financial statements of different entities can be more or less meaningfully compared even when based on common rules or principles.

According to the theory and the note from the standards setter, it can be seen that the degree of IFRS convergence might affect the relation between corporate governance and firm's value. Corporate governance beliefs can eliminate the asymmetry information, at the end will increase firm's value. While convergence of IFRS that can be said as a principal based will impact the relation.

## 2.2. Corporate Governance Adoption

Prior to the Asian financial crisis of 1997, the macroeconomic policies of many East Asian countries were consistent with the liberalizing advice of the IMF and World Bank. Their fundamentals were strong, with high savings rates, low budget deficits, current account surpluses, low inflation, and high GDP growth rates. But these macro-level accomplishments hid numerous weaknesses at the microeconomic level. For example, banks were not liberalized and tended to operate as oligopolies with all the related problems due to the lack of competition. At the corporate level, ownership was concentrated in the hands of families who paid little attention to accountability and transparency. As a result, the macroeconomic fundamentals tended to hide many problems that persisted and even became worse with the passage of time.

Walter (2008) reports that following the 1997 crisis, Indonesia, the Republic of Korea, Malaysia, and Thailand imported international standards of many kinds into domestic legislation and administrative frameworks, including special data dissemination standards (SDDS) in the area of macroeconomic data transparency, as well as banking supervision, corporate governance, and accounting, among others. In most cases these international standards were drawn directly from those promulgated by the main international standard-setting bodies, including the IMF, Basle Committee, OECD, and the International Accounting Standards Board IASB. Despite this clear movement in the direction of regulatory neoliberalism, the quality of compliance since the crises has varied considerably over time, across standards, and across countries (e.g.,Arner, Lejot and Wang 2009). Compliance has been more successful in SDDS and banking than in corporate governance and accounting; Walter (2008) points to private sector opposition in the latter two areas as the chief obstacle.

The 2008 crisis has also reminded many policymakers that implementing Anglo-American corporate governance reforms and improving financial markets would help to attract foreign direct investment, especially during economic downturns. As Estanislao (2001: 4) remarks, "when stock markets are down, and there is little confidence by either local or foreign investors, if the former flee the local markets, so do foreign investors. If foreign investors come, then the locals also invest. Globalization means there is now very little distinction between foreign investor sentiment and domestic investor sentiment as both are attracted or diverted by the same considerations." Thus, in a world of mobile capital, sincere adherence to Anglo-American corporate governance rules can help to attract much-needed foreign investment.

The reason for corporate governance reforms stems from the need for private sector companies to finance large-scale infrastructure projects, which would involve raising funds through capital markets (Plummer 2010). The development of railroads in the US and Europe was a central reason for the development of their equities markets in the nineteenth century.

According to numerous recent studies, including those conducted by the Asian Development Bank (ADB) Institute in Tokyo, ADB in Manila, and the Asia-Pacific Economic Corporation, much remains to be done in strengthening local markets (Plummer 2010). To summarize briefly some of the findings from these reports, market impediments encompass a range of issues that could be addressed through corporate governance reforms, including: lack of reliable yield curves and liquidity in the markets; lack of local institutional investors that are active in the market; underdeveloped clearing and settlement systems; weak protection of intellectual property; and insufficient protection and fiduciary responsibilities.

Personal capitalism remains triumphant in Indonesia as it has been for much of the modern period. That triumph has not been disturbed, despite the emergence by the 1970s of state and institutional share ownership. Scale and scope of industrial production, too, has conformed to this continuity in personal capitalism. This is not a culturally induced differentiation but a development shaped by complex interactions between these business dynasties, the state and foreign capital, in a resource-rich environment where no constellation or web of institutional investors can usurp the pre-eminence of these capitalist barons. The commitment to personal capitalism is, ironically, assisted by the state, institutional shareholders and foreign multinationals. Thus, the adoption of corporate governance mechanism will increase foreign investment and strengthen the capital market.

*H1: The adoption of corporate gavernance mechanism would increase firm's value*

## 2.3. IFRS Adoption

Flurou and Pope (2012) examine the mandatory introduction of International Financial Reporting Standards leads to an increase in institutional investor demand for equities. Using a large ownership database covering all types of institutional investors from around the world, they find that institutional holdings increase for mandatory IFRS adopters. Changes in holdings are concentrated around first-time annual reporting events. Second, they document that the positive IFRS effects on institutional holdings are concentrated among investors whose orientation and styles suggest they are most likely to benefit from higher quality financial statements, including active, value, and growth investors. These results are consistent with holdings changes being associated with the financial reporting regime change. The study show increased institutional holdings are concentrated in countries in which enforcement and reporting incentives are strongest, and where the differences between local GAAP and IFRS are relatively high.

Bae et al (2008) investigated the relation between differences in accounting standards across countries and foreign analyst following and forecast accuracy. They used sample that covers 6,888 foreign analysts making a total of 43,968 forecasts for 6,169 firms from 49 countries during 1998–2004. They found that GAAP differences are associated with economic costs for financial analysts.

Bushman and Smith (2001) argue that there are three channels through which financial accounting information affects economic performance: 1) Better identification of good versus bad projects by managers and investors, 2) Discipline in project selection and expropriation by managers and 3) Reduction of information asymmetries between investors. Young and Guenter (2003) focus on the third channel. They are the first authors that document the relationship between differences in financial reporting and differences in international capital mobility between countries. Countries where financial accounting environments lead to greater disclosure (lower information asymmetries among investors) are more likely to have higher international capital mobility. In addition, accounting theory argues that financial reporting reduces information asymmetry by disclosing relevant and timely information (e.g. Frankel and Li, 2004).

Information asymmetries play an important role in equity flows (Portes and Rey, 2005), and also in foreign investments and trade (Guerin, 2006). The information asymmetries arising from differences in financial reporting influence foreign investments since they affect the firms' performance to locate and invest abroad. Otherwise, the relationship through which financial accounting information matters on trade is not so straightforward, and is related to the fact that exporting firms face large fixed costs. Exporting activities involve investment that cannot be financed internally. Thus, there is a need for outside finance. Nonetheless, exporting costs are difficult to finance since investments are made long before any export revenue is collected, and they provide limited collateral. For outsiders, revenues from abroad may be difficult to verify, and are more difficult to extract from the firm. Finally, export revenues may be volatile and difficult to predict (Becker and Greenberg, 2003). Making access to relevant and timely information easier means that contracts are enforced more reliably, and financial intermediaries are more capable of assessing potential risks and rewards. An example of how financial accounting information affects trade is the case of "factoring". In this case, trade is related to the quality of financial reporting, since large institutions deliver credit to firms and they focus on the quality of the accounts receivable (Berger and Udell, 2006).

To sum up, accounting harmonisation between countries may be considered as a way of increasing financial transparency and comparability. Moreover, in the long term, the harmonisation of the accounting standards would improve trust and familiarity, improving investor confidence, enhancing market liquidity and reducing the cost of capital and hence increasing flows of foreign investment and trade between countries. In this line, the adoption of a high quality set of harmonised accounting standards in transition countries may have important consequences on foreign activities and, therefore, the IFRS adoption will improve the investment opportunity in Indonesia.

*H2: The adoption of IFRS would strengthen the relation between corporate governance and firm's value.*

## 3. METHODOLOGY

### 3.1. Data and Sample

Our sample selection starts with all publicy listed company (PLC's) in ASEAN corporate governance scorecard (ACGS) and non-ACGS Company for the period 2010-2015. The reason why we use this period because the ACGS score published on 2013 until 2015 theefore the lead and lag is 3 years. This company will use as comparation between companies with higher market capitalization and corporate governance; and otherwise. This study use IFRS adoption in Mita (2015). The selected country will be based on its study.

Those sample selection resulting 200 PLC's from 4 countries (Indonesia, Malaysia, Philippine and Singapore) as the top 50 PLC's from ACGS scorecard from each country. Also 200 non ACGS PLC's for the comparison. We use DataStream to complete the data. We deleted uncomplete data. The final result of the sample is 324 PLC's for 6 years observation (1.944 firms year observation). The data needed in this research are:

1. Financial data from DataStream (total asset, total market value, GDP) for period 2010-2015
2. CG score from ACGS for period 2010-2015
3. Growth GDP from IMF for period 2010-2015
4. Convergence of IFRS from Mita (2015) for period 2010-2015

The final sample is 1,944 firm year from 4 countries; Indonesia, Malaysia, Philippine and Singapore. These four selected countries based on the availability of IFRS convergence in Mita (2015). The sample selection showed in Table 1.

Table 1. Sample Selection

| No | Description | Number of ASEAN PLC's |
|---|---|---|
| 1. | Total Top 50 from 4 countries | 200 |
| 2. | Other PLC's not asses by ACGS | 200 |
| 3. | Uncompleted data | (76) |
| 4. | Sample | 324 |
| 5. | Period | 6 years |
| 6. | Data | 1,944 firm years observations |

### 3.2. Empirical Model

To test first hypotheses, we used Tobin's q as proxy for firm's performance.

$$Tobin's\ Qit = \alpha_0 + \alpha_1 ACGSit + SIZEit + GDPit + \varepsilon it$$

Where $ACGS_{ijt}$ derived from ACGS report for the firm i in country j at the time t; and we used $SIZE_{ijt}$ and $GDP_{ijt}$ for controlling firm level and country level effect.

To test second hypotheses, we multiplied the ACGS to main variable, ADOPT. We expected positive value for $\alpha_2$.

The empirical model is:

$$Tobin's\ Qit = \alpha_0 + \alpha_1 ACGSit + \alpha_2 ACGSijt * ADOPTijt + \alpha_3 SIZEijt + \alpha_4 GDPijt + \varepsilon ijt$$

## 4. EMPIRICAL RESULT AND DISCUSSION

### 4.1. Empirical Result

#### 4.1.1 Descriptive Statistic

Table 2 presents the descriptive statistics of the variables used for the observations period. Corporate governance become more robust, presented by the increase of mean country corporate governance score. Degree of IFRS become more convergence in ASEAN country. Philippine which choosed the big bang (full adoption) lead the harmonization process. It followed by Singapore and Malaysia. Indonesia become the lasted among four country. .

Table 2. Descriptive Statistic

| Variable | N | Mean | Std. Dev | Min | Max |
|---|---|---|---|---|---|
| Q | 1,944 | 0.0019 | .0067 | 2.86e-07 | .2425 |
| CG_Score | 1,944 | .5 | .5001 | 0 | 1 |
| IFRS_Conv | 1,944 | .8347531 | .1971 | .3 | .99 |
| D_PLC | 1,944 | .5 | .5001 | 0 | 1 |
| Mean_CG | 1,944 | 47.0659 | 19.3602 | 7.64 | 87.69 |
| SIZE | 1,944 | 18.3947 | 3.7504 | 7.9374 | 27.5315 |
| GDP | 1,944 | 5.8699 | 1.5991 | 1.3 | 14.8 |

Variable definitions: N is the number of firm-year observations; Q is Tobin's Q that measured firm value; CG_Score is corporate governance at country level as in ACGS; Con_IFRS is degree of convergence as in Mita (2015); D_PLC is variable dummy for PLC's (1) and Non PLC's (0); Mean_CG is average mean CG score for each country for controlling difference CG between countries; SIZE is natural logaritm of total asset; and GDP is gross domestic product from IMF website.

While the correlation across variable shows at Table 3. Correlation matrix presented shows if there is correlation between the variables used. As expected, there is significant correlation between some of the variables used. There is a positive correlation between corporate governance and firm's value. Surprisingly, there is no correlation between convergence of IFRS with corporate governance. It can be argued that for the company which have good corporate governance, the convergence does not necessarily important.

Table 3. Pearson Correlation

| | Q | CG_Score | IFRS_Conv | SIZE | GDP | TIME |
|---|---|---|---|---|---|---|
| Q | 1.000 | | | | | |
| CG_Score | 0.885* | 1.000 | | | | |
| IFRS_Conv | 0.0049 | 0.0000 | 1.0000 | | | |
| SIZE | -.1265* | 0.2474 | -0.7178 | 1.000 | | |
| GDP | 0.0026 | -0.0036* | -0.2310* | 0.2022 | 1.000 | |
| TIME | 0.0395 | 0.1876* | 0.1876* | 0.0548* | -0.0404* | 1.000 |

Variable definitions: N is the number of firm-year observations; Q is Tobin's Q that measured firm value; CG_Score is corporate governance at country level as in ACGS; Con_IFRS is degree of convergence as in Mita (2015); D_PLC is variable dummy for PLC's (1) and Non PLC's (0); Mean_CG is average mean CG score for each country for controlling difference CG between countries; SIZE is natural logaritm of total asset; and GDP is gross domestic product from IMF website.

### 4.1.2 Regression Model

**a. Regression Model of IFRS Convergence**

Table 4 present result for Model 1 which regress the impact of IFRS convergence on tobin's q. Our hypotheses predict that IFRS convergence will increase the firm's value. Model 1 present the basic model. Model 2 present model 2 for interaction of IFRS convergenec with corporate governance on firm's value.

The result of Model 1 shows that corporate governance has positive significant impact on firm's value. While GDP does not impact firm's value. This can be the issue of earnings opacity. The result support the hypotheses that IFRS convergence significantly increase firm. Result of Model 2 show the interaction of IFRS convergence in the relation between corporate governance and firm's value. There is negative interaction, means that convergence of IFRS decreasing the relation of corporate governance and firm's value. It can be argued that for the company with good corporate governance, IFRS play as subtitute role.

Tabel 4. Result from Model 1

| | Model 1 | | Model 2 | |
|---|---|---|---|---|
| Dep.Var | Tobin's Q | | Tobin's Q | |
| Adj. R Square | 0.0195 | | 0.0298 | |
| Variable | Coef. | Prob. | Coef. | Prob. |
| Intercept | 0.0052 | 0.000 | .0072 | 0.000 |
| CG_Score | 0.0007 | 0.030 | .0058 | 0.000 |
| D_PLC | 0.0008 | 0.008 | .0015 | 0.000 |
| Mean_CG | -0.0006 | 0.000 | -.0005 | 0.000 |
| SIZE | -0.0003 | 0.000 | -.0040 | 0.000 |
| GDP | 0.0002 | 0.130 | .0002 | 0.248 |
| TIME | 0.0006 | 0.030 | .0009 | 0.003 |
| IFRS_Conv | - | - | -.0078 | 0.000 |
| CG_Score*IFRS_Conv | - | - | -.0035 | 0.034 |

Variable definitions: N is the number of firm-year observations; Q is Tobin's Q that measured firm value; CG_Score is corporate governance at country level as in ACGS; Con_IFRS is degree of convergence as in Mita (2015); D_PLC is variable dummy for PLC's (1) and Non PLC's (0); Mean_CG is average mean CG score for each country for controlling difference CG between countries; SIZE is natural logaritm of total asset; and GDP is gross domestic product from IMF website.

**b. Robustness Test**

First, this study highlighted the endogeneous relationship among corporate governance and performance. It is possible that performance is also endogeneous. To address this issue, this study replace Q with earnings per share (EPS) as proxy for performance and then test the model 2. The result show in Table 5. The result support the hypotheses that IFRS convergence strengthen assosiation between corporate governance and firm value.

Table 5. Regression Model 2

| | | |
|---|---|---|
| Dep.Var | EPSit | |
| Adj. R Square | 0.1806 | |
| Variable | Coef. | Prob. |
| Intercept | -2679.772 | 0.000 |
| CG_Score | 5783.71 | 0.000 |
| IFRS_Conv | -5904.455 | 0.000 |
| D_PLC | 1329.063 | 0.000 |
| Mean_CG | -1.6831 | 0.000 |
| SIZE | 285.225 | 0.000 |
| GDP | 41.5025 | 0.698 |
| CG_Score*IFRS_Conv | -5702.78 | 0.000 |

Variable definitions: N is the number of firm-year observations; EPSit is earnings per share as other measure of firm value; CG_Score is corporate governance at country level as in ACGS; Con_IFRS is degree of convergence as in Mita (2015); D_PLC is variable dummy for PLC's (1) and Non PLC's (0); Mean_CG is average mean CG score for each country for controlling difference CG between countries; SIZE is natural logaritm of total asset; and GDP is gross domestic product from IMF website

Second, due to data limitation the sample period and sample sizes for difference rank of corporate governance score by ACGS. I used CLSA ranking for corporate governance measurement. This rank tested for investigate the country level governance. The result show on table 6.

Table 6. CLSA Score

| | | |
|---|---|---|
| Dep.Var | Qit | |
| Adj. R Square | 0.1290 | |
| Variable | Coef. | Prob. |
| Intercept | -6696.473 | 0.000 |
| CLSA_Score | 1233.08 | 0.000 |
| IFRS_Conv | -391.726 | 0.068 |
| D_PLC | 1329.063 | 0.000 |
| SIZE | 423.682 | 0.000 |
| GDP | 78.900 | 0.043 |
| CG_Score*IFRS_Conv | -346.78 | 0.027 |

Variable definitions: N is the number of firm-year observations; Q is Tobin's Q that measured firm value; Con_IFRS is degree of convergence as in Mita (2015); CLSA_Score is corporate governance at country level as in ACSL; SIZE is natural logaritm of total asset; and GDP is gross domestic product from IMF website.

### 4.2. Discussion

Model 1 and Model 2 shows that corporate governance has statistically impact firm value, even on the emerging market which have low investor protection and pyramid ownership. With this setting, convergence of IFRS plays as subtitute for the company with good corporate governance. We also find that for the country level corporate governance, the positive significant impact has higher coefficient. It show that corporate governance at country level plays important role for investor in decision making.

The sample used in this research consists of 1944 firm year's observation from ASEAN public listed company. The result show that IFRS adoption significantly decreasing relation between corporate governance and firm's value. The IFRS adoption increase the fair value of accounting numbers. Principle based method which eliminate manajer's accounting choice subtitute corporate governance.

Robustness check support the main result of this study and also reveal that financial performance affected by corporate governance mechanism of the company. Also, corporate governance at coutry level also an important role for increase of firm value.

## 5. CONCLUSION

This study investigate the interaction of IFRS convergence on the relation between corporate governance and firm's value. The result support the hypotheses and present the evidence that IFRS act as subtitute when company has good corporate governance.

From theoritical implication perspectives, the findings of this study may be of interest to institutional theorist and accounting researchers. Previous institutional research focussed on the influences of institutional isomorphim on the IFRS adoption at the national level perspective (Judge et al, 20120; Irvine, 2008; Hassan, 2008). This study shows that the convergence affected by country level governance.

From practical standpoint, this study pin point the important roles of national accounting regulators in influencing the degree of preparedness for IFRS convergence.

Finally, we noted that future research can focus on a more comprehensive perspective that includes the political, culture and economic perspectives of the nation as well as the behavioral perspective of organizations to adopt new practices. In addition, the mixed method approach of survey, interviews and case study would help to enhance the findings.

## 6. REFERENCES


Abdelsalam O.H and Weetman, P. (2003). Measuring accounting disclosure in a period of complex changes: The case of Egypt. *Advances in International Accounting, 20:75-104.*

Adhikari, A., and Tondkar, R.H., (1992). Environmental factors influencing accounting disclosure requirementsof global stock exchanges. *Journal of International Financial Management and Accounting,* 4(2), 75-105.

Arner, D.P., Lejot and W. Wang. (2009). "Assessing East Asian Financial cooperation and integration". *Asian Institute of Financial Law Working Paper 5*

Bae, K.H., H. Tan and M. Welker. (2008). "International GAAP differences: the impacts of foreign analysist". *The Accounting Review.*

Ball, R., A. Robin and J Wu. (2003). Incetives versus standards: Properties of accounting income in foru East Asian countries. *Journal of Accounting and Economics 36:235-270.*

Barth, M.E., Landsman, W.R., and Lang, M.H., (2008). International accounting standards and accounting quality. *Journal of Accounting Research, 46, 467-498.*

Beatty, A., S. Chamberlain., and J. Magliolo. (1996). An empirical analysis of the economis implications of fair value accounting for investment securities. *Journal of Accounting and Economics 22:43-77.*

Becker, B and Greenberg, D. (2003). "The real effects of finance: evidence from exports",. mimeo

Belkaoui. A.R., (2004). *Accounting Theory,* .London, Thomson.

Berger, A.N. and Udell, G.F. (2006). "A more complete conceptual framwork for SME finance". *Journal of Banking and Finance* 30(11), 2945-2966.

Blodgett, Hoitash, and Markelevich, (2014). Sustaining the financial value of global CSR: Reconciling corporate and stakeholder interests in a less regulated environment. *Business and Society Review, 119(1), 95-124.*

Burchell, S., Clubb, C., Hopwood, A., Hughes J., and Nahapiet, J., (1980). The roles of accounting in organizations and society. *Accounting Organizations and Society, 5(1), 5-27.*

Bushman. R and Smith, A. (2001). "Financial accounting information and corporate governance", *Journal of Accounting and Economics* 32, 237-333

Chamisa, E. (2000). The relevance and observance of the IASC standards in developing countries and the particular case of Zimbabwe. *The International Journal of Accountiing,* 35(2), 267-286.

Dahawy, K., Merino, B.D., and Conover, L.T., (2002). The conlict between IAS disclosure requirements and the secretive culture in Egypt. *Advances in International Accountin, 15, 203-238.*

Daske, H., L. Hail. C. Leuz., and R. Verdi. (2007). Adopting a label: Heterogenity in the economic consequences of IFRS adoptions. Working paper, University of Frankfurt.

DeFond, M., Hung, M., and Trezevant R., ( 2007). Investor protection and the information content of annual earnings announcements: international evidence. *Journal of Accounting and Economics 43, 37-67.*

Eipstein, J. (2009). "Economic effects of IFRS adoption". *The CPA Journal.*
Estanislao, J. (2001). "East Asia's Financial metldown: why corporate governance matters". Center for International Private Enterprise.
Flurou and Pope (2012). "Mandatory IFRS adoption and institutional investment decision". *The Accounting Review*
Frank, W.G., (1979). An empirical analysis of international principles. *Journal of Accounting Research, 17: 593-605.*
Frankel, R. and Li, X. (2004). "Characteristic of a firm's information environment and the informaion asymmetry between insiders and outsiders", *Journal of Accounting and Economics* 37 (2), 229-259.
Garcia-Sanchez, I.M., Rodriguez-Ariza, L., Frias-Aceituno, J.V., (2013). The cultural system and integrated reporting. *International Business Review, 22(5), 828-838.*
Guerin, S.S. (2006). "The role of geography in financial and economics integration: A comparative analysis of foreign direct investment, trade and portfolio investment flows", *The World Economy* 29(2), 189-209.
Hamidah., Iwan, T., Eko G, S., and Ali D., (2015). The hegemony of international interest on IFRS adoption in Indonesia: an accounting ecology perspective. *Procedia Social Behavioral Science, 211: 104-110.*
Hofstede, G. (2001). *Culture's consequences: Comparing value, behaviors, institutions and organizations across nations, Abascus, 38(3): 317-350.*
Hope O., J Jin and T Kang. (2006). Empirical evidence on jurisdiction that adopt IFRS. *Journal of International Accounting Research 5:1-20.*
Horton, J., and Serafiem I (2013). Does mandatory IFRS adoption improve the information environment? *Journal of Financial Economics 88, 216-244.*
Houge. M.N., T. Van Zijl and K. Dunstan. (2012). The effect of IFRS adoption and investor protection on earnings quality around the world. *The International Journal of Economics.*
Hove, M. (1986). The Anglo-American influence on international accounting standards of th international accounting standards commitee. *Research in Third World Accounting, 1:55-66.*
IFRS Foundation. (2013). 2013 Report.
IOSCO. (2005). Development and use of international reporting standard in 2005.
Karamanou and Nishiotis (2005). The effects of accounting diversity: Evidence from the European Union. *Journal of Accounting Research 32 (supplement): 141-168.*
Landsman, W.R., E.L. Maydew., and J.R. Thornock. (2012). "The information content of annual earnings announcement and mandatory adoption of IFRS". *Journal of Accounting and Economics.*
Landsman, Wayne R; Edward L Maydew and Jacob R Thornock. 2012. The Information Content of Annual Earnings Announcements and Mandatory Adoption of IFRS. *Journal of Accounting and Economics,* p34-54.
Lin Z.J., and Johnson, S., (2004). An exploratory study on accounting for quality management in China. *Journal of Business Research, 571(6); 620-632.*
Luzi Hail, Christian Leuz, and Peter Wysocki (*2010*) Global Accounting Convergence and the Potential Adoption of IFRS by the U.S. (Part I): Conceptual Underpinnings and Economic Analysis. Accounting Horizons: September 2010, Vol. 24, No. 3, pp. 355-394
McGee, R., (1999). The problem of implementing international accounting standards: A case study of Armenia. *Journal of Accounting Ethics and Public Policy, 2(1), 38-44.*
Mita, Aria Faramita. (2015). *The direct effect of the IFRS adoption on home-country bias and the indirect effect through comparability of financial statements.* Dissertation.
Mustafa, G and Lines, R. (2013). The triple role of values in culturally adapted leadership style. *International Journal of Cross Cultural Management, 13(1), 23-46.*

Nobes, C., (1998). Towards a general mdoel of the reasons for international differences in financial reporting. *Abascus, 34(2), 162-185.*

Nurunnabi, M. (2015). The impact of cultural factors on the implementation of global accounting standards (IFRS) in a developing country. *Advances in Accounting, incorporating Advances in International Accounting 31, 136-149*

Perera, H. (1989). Towards a framework to analyze the impact of culture on accounting. *The International Journal of Accounting, 24:42-56.*

Plummer, M.G. (2010). "Regional monitoring capital flows and coordination of financial regulation: Stakes and option for Asia". Asian Development Bank Institute Working Paper Series, No 201.

Portes, R. and Rey, H. (2005). "The determinants of cross-boarder equity flows", *Journal of International Economics* 65(2), 269-296.

Samuel, S., and Manassian, A., (2011). The rise and coming fall of international accounting research. *Critical Perspective on Accounting, 22(6), 608-627.*

Siregar. S.V and S. Utama. (2008). "Type of earnings management and the effect of ownership structure, firm size and corporate-governance practices: Evidence from Indonesia". *The International Journal of Accounting.*

Tyrall, D., Woodman, D., and Rakhimbekova, A., (2007). The relevance of international financial reporting standards to developing country: Evidence from Kazakhstan. *The International Jorunal of Accountancy, 42, 82-110*

Walter, Andrew. (2008). "Governing Finance: East Asia's Adoption of IFRS". *Journal of Management Studies* 414, 693-723

Wickramasinghe, D., and Hopper, T. (2005). A cultural political economy of management accounting controls: A case study of a textile mill in a traditional Sinhalese village. *Critical Perspective on Accounting, 16(4), 473-503.*

Young, D. and Guenter, D.A. (2003). "Financial reporting environments and international capital mobility"., *Journal of Accounting Research* 41(3), 553-579.

Zeghal, D., and Mhedhbi, K. (2006). An analysis of the factors affecting the adoption of international accounting standards by dveloping countries. *The International Jorunal of Accounting, 41(4), 373-386.*