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Foreign Ownership Reactions to the Adoption of International Financial Reporting Standards (IFRS) in Public Companies on the Indonesia Stock Exchange

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This study aims to determine the reaction of foreign ownership on the Indonesia Stock Exchange to the adoption of International Financial Reporting Standards (IFRS). This study will examine the reaction of foreign ownership on the Indonesia Stock Exchange during the periods 2007-2010 and 2012-2015. The variables used in this study are IFRS and foreign ownership. It finds that the obligation of IFRS does not affect the development of foreign investment in Indonesia, because accounting standards in Indonesia have been adjusted to IFRS since 2008 and investment decisions are not only influenced by standard accounting policies, but also by other factors, such as the economic and political conditions of a country. This study is motivated by the results of previous studies regarding the reaction of foreign ownership of IFRS adoption, which is still controversial. Some studies suggest that IFRS adoption increases information appeal and can attract foreign investment, while other research states that IFRS adoption will not necessarily increase the number of shares held by foreign investors.

Key words: *Foreign ownership, IFRS adoption, Indonesia, Indonesia Stock Exchange, investor reaction*

Introduction

Since the end of the 1960s, developed countries have begun to spark the harmonisation of world accounting standards. This began with the establishment of the Accountants International Study Group, which was initiated by accounting professional institutions from the United Kingdom, Canada and America. Finally, in 1973 there were 10 countries, namely Britain,



Canada, America, the Netherlands, Mexico, Japan, France, Germany, Australia and New Zealand, which formed an International Accounting Standard Committee that published the International Accounting Standard. The International Accounting Standard, better known as the IAS, is the forerunner of the International Financial Reporting Standard (IFRS). The establishment of world accounting standards is expected to be the basis for harmonising accounting standards from various countries in the world. This harmonisation will facilitate the use of corporate financial reports in the world, in terms of decision making.

In Indonesia, the presentation of financial statements is based on the Indonesian Accounting Principles (PAI) compiled by the Committee on Accounting Principles in Indonesia. The PAI continued to grow, and in 1994, it was revised to become the Financial Accounting Standards (SAK) by the Financial Accounting Standards Board, and was harmonised with the International Accounting Standard (IAS). The purpose of harmonising the Financial Accounting Standards with the IAS, was that the comparability and quality of corporate financial reports in Indonesia is better and easier to understand by users of financial statements around the world.

Users of financial statements consist of internal and external parties, namely managers, employees, creditors, investors, governments, customers, suppliers and the general public. Users of financial statements related to this research are investors. Investors analyse financial statements published by the company, before investing in Indonesia. This aims to determine the prospects and risks that will be faced by the investment destination company. "Financial statements are structured presentations of financial position and financial performance of an entity," as stated by SAK (2004: 1). The company's financial statements are a form of corporate managers' responsibility to shareholders for funds managed for the sustainability of the company's activities. To realise the presentation of financial statements, that can be understood by various parties both locally and internationally, standards need to be used as guidelines.

The accounting standard used as a reference for financial reporting activities in the world is the International Financial Reporting Standard (IFRS). The IFRS is a ruling made by the International Accounting Standard Board, an accounting standard institution in London. The uniformity of accounting standards guidelines aims to make financial statements easier for users of financial statements to understand, especially by cross-border investors. This ease of understanding makes investors able to analyse the condition of the company well, and make it possible to anticipate the risks that will be faced in making investment decisions. According to Kieso et al. (2011: 46), "Enhancing characteristics are comparability, variability, timeliness and understandability." It can be said that financial statements, based on the IFRS, can provide information that can be measured in the same way, in different companies, but in one sector. In addition, the application of the same measurement method will produce the same results. Reporting can be seen at any time and easily understood by various parties.



Based on the benefits that will be obtained from the use of the IFRS, DSAK Indonesia adopts IFRS adoption of the Indonesian Financial Accounting Standards. This adoption aims to make the world interested in investing in Indonesia, which can have an impact on improving the Indonesian economy. Indonesia, which is a member of the G20 forum, conducted an agreement at the G20 forum meeting on November 15, 2008 at Washington D.C., regarding IFRS adoption.

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The adoption of the IFRS in Indonesia is carried out in stages, starting in 2008 and valid and effective until 2012. The initial stage of adopting the IFRS in Indonesia, according to Aprilicia (2013: 62), occurred during 2008-2010. At this stage the IAI DSAK evaluates the impact of IFRS adoption on PSAK. The second phase was carried out in 2011, which was the stage of implementing new accounting standards that were aligned with the IFRS. At this stage, around 35 IAS/IFRS have been adopted by the DSAK IAI, from a total of 37 IASB/IASB published. The last stage was carried out, starting in 2012, to fully implement the IFRS and a comprehensive evaluation of its implementation. The obligation to use the IFRS in financial reporting began in 2012. All companies in Indonesia listed on the Indonesia Stock Exchange are required to issue financial reports based on the latest SAK principles that have adopted the IFRS.

The obligation to implement the IFRS increases the amount of investment into Indonesia both internationally and locally. The level of investment obtained by Indonesian companies can be seen from the number of share ownership shares in the company's financial statements. Foreign share ownership (foreign ownership) is valued from the percentage of shares of companies owned by foreigners. Whereas local share ownership can be seen from the percentage of shares owned by the public, or the people of Indonesia. Investors respond to the implementation of the IFRS obligations in Indonesia, in accordance with signal theory, which states that every action and activity carried out by the company and publicly published will get a reaction from users of financial statements, namely investors. Investors will invest or withdraw investment funds when getting information signals about the company's financial situation. The financial situation of the company is chosen by investors through the stability of stock prices.

Research on the impact of the IFRS on investment has been carried out in several countries in the world. In Indonesia this study was conducted by Nugrahanti and Murtaziqoh (2014), which showed that foreign ownership increased after the implementation of IFRS. In addition to Indonesia, many similar studies have been conducted. Defond et al. (2011) conducted research in Europe and concluded that foreign ownership increased after IFRS adoption, with the condition that the country had credible implementation strength. Florou and Pope (2012) say that IFRS adoption obligations affect the level of investment in foreign institutions. Garrouch et al. (2016) examined that harmonisation of international accounting attracted foreign capital



into France, because investors believed more financial transactions being carried out was more transparent, so that it could be considered in decision making. On the other hand, similar research conducted by Sherman and Klerk (2015) shows that there is no significant relationship between the IFRS and foreign ownership, because the South African local accounting standards are in line with international standards.

Some of the results of these studies still produce inconsistent findings. This means that there is still an empirical account regarding the reaction of foreign investors to IFRS adoption in the capital market. In addition, previous research was mostly carried out in developed country capital markets, with the possibility that the findings differed from the conditions of developing country capital markets. This study aims to examine the reaction of ownership of foreign investors in the Indonesian Stock Exchange market after IFRS adoption.

Prior Studies

Amiram (2012) proves that foreign portfolio capital investment is increasing in countries that adopt international standards. This is because there is a uniformity of accounting in terms of language, regulations, culture and territory. Amiran (2012), in his research, conducted a test using 105 countries, consisting of 60 countries adopting the IFRS and 45 countries not adopting the IFRS.

Klerk and Sherman (2015) examine the impact of applying local standards that are aligned with the IFRS on the level of foreign ownership. The research focus was conducted in South Africa, with data from the Johannesburg Stock Exchange. The results of the study indicate that harmonising local standards with international standards does not have a positive relationship with foreign ownership. This is because the local standards of South Africa are aligned with the IFRS before the IFRS obligation is carried out.

Garrouch and Zinlabdine (2016) examined the reaction of investors with the mandate to adopt IFRS. The results of their research proved that the policy of harmonising international standards triggered an increase in foreign capital into France. Increased foreign capital occurs because investors are more confident, and financial transactions are more transparent and facilitate stakeholders' decision making.

The equation of this research, with previous research, is to use IFRS independent variables that are measured using dummy variables, with control variables including firm size, ROE, dividend yield, leverage, stock return, book-to-market and the price earnings ratio. The difference in this research can be seen from the object of research, which focuses on companies going public in Indonesia and also does not use audit quality variables to moderate IFRS variables.



Signal Theory in Relation to Information Asymmetry and Investment Decisions

Signal theory was coined in 1970 by Akerlof, Spence and Stiglitz. According to Akerlof (1970), an important basis for signal theory is the existence of information asymmetry between internal parties and external parties. Based on his research entitled "The Market for Lemons", it is said that the internal parties of the company better understand the condition of the company compared to external parties. Akerlof's opinion (1970) was developed by Spence and Stiglitz, who explained that the occurrence of information asymmetry had an impact on the relationship between the internal parties of the company and external parties. Internal parties need to provide information, or signals, about the state of the company to other parties, and the signal will be responded to both positively and negatively.

According to Rokhlinasari (2016: 8) in signal theory, information conveyed by companies is very important for investors to make investment decisions. Information about the state of the company can be seen in published financial statements. This theory is used as the basis of mutual relations between companies and stakeholders, especially shareholders. Share owners need company information in full detail and are easily understood as a reference in determining their investment actions. The shareholders' response to company information signals can be seen from changes in the company's stock price. When the company provides information that the company's future prospects are good, then the stock price will move up as a positive response to the signal. On the contrary, if the results of the analysis of the information provided by the company show a setback, then the investor (shareholder) will withdraw their share investment and cause the company's stock price to decline.

Hypotheses

The Adoption of IFRS Affects the Development of Foreign Investment in Indonesia

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International Accounting Standards, or better known International Financial Reporting Standards initiated by international accounting institutions in London, England, aim to create harmonisation of accounting and financial reporting standards. Purba (2010: 8-9) said that with the harmonisation of standards, understanding financial statements by users of financial statements from various countries would be better, thus facilitating the sale of shares across countries.

This situation is in accordance with the signal theories of Akerlof, Spence and Stiglitz. Information asymmetry occurs when internal parties better understand and know the condition of the company compared to external parties. The company management will provide information on the company's condition in the form of financial statements that can be seen and analysed by external parties. Investors as stakeholders will respond to company



information and make investment decisions. If the signal given by the company management shows the company is in a good condition, foreign investors will buy the company's shares. Conversely, if the company's management signal is considered bad, investors will sell the shares they have.

Sherman and Klerk (2015) tested and proved that alignment of international standards and local standards did not have a significant effect on foreign ownership, as the local standards in South Africa before IFRS did not differ from local standards after harmonising with the IFRS. The results of this study, contrary to the research of Garrouch and Zinelabdine (2016), indicate that the policy of harmonising international standards triggers an increase in foreign capital into France. Because there are differences in the results of research regarding the effect of IFRS adoption policy on foreign investment in shares, the hypothesis formulated in this study is:

H1. The adoption of the IFRS affects the development of foreign investment in Indonesia.

Foreign Share Investment in Indonesia Increased after IFRS Adoption

Since 2012, the DSAK (Financial Accounting Standards Board) requires companies to go public in Indonesia to implement IFRS in reporting on the state of the company. The policy adopted by the DSAK is the implementation of the results of the G-20 forum agreement on 15 November 2008 in Washington DC. Countries that are members of the G-20 forum agreed to carry out IFRS adoption into their accounting standards. Uniformising international accounting standards can increase comparability, thereby reducing financial reporting costs and can attract foreign investors to allocate investment funds (Defond, et al., 2010).

Amiram (2012) examined the impact of globalisation of financial information on investment decisions and showed that foreign portfolio investment increased in countries that adopted the IFRS. This is because investors can more easily compare company financial information between countries and understand the performance of investment destination companies. Easy understanding of reporting helps investors take decisions on allocation of investment funds. Based on the description and results of previous research, the second hypothesis of this study is formulated as follows:

H2: Foreign share investment in Indonesia increased after IFRS adoption.

Research Design

This research approach is an associative quantitative approach. Associative quantitative research is structured research, quantifying data to be generalised and to understand the relationship between two variables or more (Anshori and Iswati, 2009: 3). Philosophically,



quantitative research aims to predict and explain the phenomenon under study. This study will examine the effect of IFRS adoption in Indonesia on foreign investment (foreign ownership).

Data Samples

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This research was conducted on all companies listed on the Indonesia Stock Exchange during the period 2007-2015 without observing the 2011 period, which was the year of transition for IFRS adoption. Defond, et al. (2010) conducted the same method in their research to avoid the effects of intermingling during the year.

Operational Definition and Measurement of Research Variables

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IFRS (International Financial Reporting Standard) is an international accounting standard, the result of a restructuring of the International Accounting Standard Committee (IASB) (Purba, 2010: 3). The IFRS is measured using dummy variables, giving a value of '1' for the period after IFRS adoption and '0' for the period before IFRS adoption.

'Foreign Ownership' is used as an indicator that shows the level of foreign investment in Indonesia. Defond, et al. (2011) measured foreign ownership by dividing the number of shares held by foreigners with the number of shares in the company circulating multiplied by 100%. The foreign ownership formula is as follows:

$$FO = \frac{\Sigma \text{ saham asing}}{\Sigma \text{ saham beredar}}$$

'Firm Size' is an indicator of the size of the company by assessing the level of sales, equity or total assets of the company and its stock market capitalisation (Kusumawardhani, 2012). This study uses firm size, which is measured naturally by the logarithm of total assets, according to the research of Garrouch and Zinelabidine (2016).

$$\text{Firm Size} = \ln (TA)$$

'ROE' is an indicator to measure the value of refunds obtained by investors from the amount of investment funds (Brigham and Houston, 2001: 91).

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$$ROE = \frac{EAT}{T. \text{Equity}} \times 100\%$$



Dividend Yield indicates the rate of return of shares, seen from dividends received. Garrouch and Zinelabidine (2016) measure dividend yield using the following formula:

$$DY = \frac{\text{Total Dividend}}{\text{Market Value of Equity}}$$

Brigham and Houston (2001: 84) say that leverage is a ratio that measures the use of corporate debt as a source of funding.

$$Lev = \frac{T. Liabilities}{T. Asset}$$

Stock returns interpret the profits obtained by investors for stock investments made. This profit is the result of returning investment in investor shares. According to Jones (2010: 10), returns are the result of returns on investor investment in the previous period, which is widely accepted at this time.

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

'Book-to-Market Ratio' is a ratio used as an indicator to measure company performance. The higher the ratio, the lower the company is judged by investors (Ang, 1997 in Harsalim, 2013: 4).

$$BtM = \frac{BV \text{ of Equity}}{MV \text{ of Equity}}$$

'Earning Price Ratio' (E/P) is part of the market value analysis ratio. Gibson (2009: 339) states that the E/P ratio expresses the relationship between market prices per share with current earnings per share.

$$EPR = \frac{\text{Laba per lembar saham}}{\text{Harga per lembar saham}}$$

Research Population

'Population' is an object that has the same characteristics, and will be examined to draw conclusions by researchers (Sugiyono, 2015: 61). The population of this research is companies listed on the Indonesia Stock Exchange during the period 2008-2015.



Sample Collection Method

The sample collection method withdraws research samples using a purposive sampling method. According to Sugiyono (2015: 16), the purposive sampling method determines samples based on consideration of the criteria needed in the study.

Model 1: Influence of the IFRS on foreign investment in shares.

The first research model aims to find out how much the independent variable influences the dependent variable. Therefore a regression equation is needed as follows:

$$FO = \beta_0 + \beta_1(IFRS) + \beta_2(SIZE) + \beta_3(ROE) + \beta_4(DY) + \beta_5(Lev) + \beta_6(SR) + \beta_7(Btm) + \beta_8(EPR) + \varepsilon \dots \dots \dots 1$$

Information:

- IFRS: The obligation of the IFRS, using dummy variables.
- SIZE: Company size, using Ln total assets.
- ROE: Value of return on investor capital.
- DY: Dividend yield.
- Lev: Leverage.
- SR: Stock return – the rate of return on shares. The stock price used in this study uses the average closing price of ordinary shares at the end of the year.
- BtM: Share book value divided by stock market value.
- EPR: Earnings per share divided by price per share.

After multiple linear regression tests, the effect of each independent variable on the dependent is measured by the coefficient of determination and a simultaneous significance test (F test).

Model 2: Increasing foreign ownership post-IFRS.

Model 2 was tested to determine the increase in foreign ownership after the IFRS period. Improvement is revealed by comparing the adjusted R2 values before and after the implementation of IFRS from the results of multiple linear regression. If the adjusted R2 value in the period after the introduction of IFRS (2012-2015) shows a value greater than the adjusted R2 in the period before the IFRS, it is concluded that foreign investment in shares has increased after the obligations of IFRS. The regression equation used in model 2 is as follows:

$$FO = \beta_0 + \beta_1(SIZE) + \beta_2(ROE) + \beta_3(DY) + \beta_4(Lev) + \beta_5(SR) + \beta_6(Btm) + \beta_7(EPR) + \varepsilon \dots \dots \dots 2$$



Information:

SIZE: Company size, using Ln total assets.

ROE: Value of return on investor capital.

DY: Dividend yield.

Lev: Leverage.

SR: Stock return, the rate of return on shares. The stock price used in this study uses the average closing price of ordinary shares at the end of the year.

BtM: Share book value divided by stock market value.

EPR: Earnings per share divided by price per share.

Result

Overview of Research Objects

The object of the research used in this study were all publicly listed companies listed on the Indonesia Stock Exchange during 2008-2015. The objects of this study were selected based on the criteria, in accordance with the research. The following are the criteria of research objects.

Table 1: Sample Criteria CRITERIA

	YEAR							
	2008	2009	2010	2011	2012	2013	2014	2015
Registered on the Indonesian Stock Exchange in 2015	525	525	525	525	525	525	525	525
IPO after 2008	-160	-160	-160	-160	-160	-160	-160	-160
Incomplete financial statements & financial data	-67	-62	-59	-59	-60	-60	-62	-62
There is no FO	-126	-129	-122	-118	-119	-117	-124	-128
Report period changed	-2	-2	-2	-2	-2	-2	-2	-2
N Per Year	170	172	182	186	184	186	177	173
N Total	430							

Based on Table 1 in 2015, there are 525 companies listed on the IDX that are the object of research. Of the 525 listed companies, 160 companies conducted IPOs after 2008 and two companies made changes to their financial statement reporting period. In 2008, a number of 67 companies did not have complete financial reports and data and 126 companies did not have FO. In 2009, 62 companies did not have complete financial reports and data and 129 companies did not have FO. In 2010, 59 the company did not have complete financial reports and data and 122 companies did not have FO. In 2011, 59 companies did not have complete financial reports and data and 118 companies did not have FO.



In 2012, a total of 60 companies did not have complete financial reports and data and 119 companies did not have FO. In 2013, 60 companies did not have complete financial reports and data and 117 companies did not have FO. In 2014, a total of 62 the company did not have complete financial reports and data and 124 companies did not have FO. In 2015, a total of 62 companies did not have complete financial reports and data and 128 companies did not have FO. So the total sample total is 1430 companies.

Descriptive Statistics

This study uses descriptive statistics to describe the object of research using various research variables related to the research objectives. The following is presented in the research statistical description table:

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FO	1430	.76	99.80	46.3312	26.97201
IFRS	1430	0	1	.50	.500
FZ	1430	19.00	39.57	28.2954	1.94210
ROE	1430	-2442.22	13550.62	37.5192	529.51175
DY	1430	-.66	27341.77	21.6586	723.10928
LEV	1430	-5.35	6609.94	5.1879	174.78120
SR	1430	-9837.84	131566.27	1970.8600	10276.10380
BTM	1430	-1083.18	25314.92	20.1360	670.87599
EPR	1430	363.59	167.90	-.1556	11.14720
Valid N (listwise)	1430				
FO_before	710	1.98	99.80	46.2891	26.83071
FO_after	720	.76	99.08	46.3727	27.12921
Valid N (listwise)	709				

Source: Data processed, 2017

Based on descriptive statistical Table 2, Model 1, FO has the lowest value of 0.76 and the maximum value of 99.8, which is owned by PT. Permata Prima Sakti. Tbk in 2015 and PT.XL Axiata. Tbk in 2009. The average value of data is 46.3312 and the value of standard deviation



is 26.97021. IFRS has the lowest value of 0, the maximum value of 1 with an average data of 0.5 and a standard deviation of 0.500. The maximum and minimum values of the IFRS are dummy variables, the value of 0 means the period before the implementation of IFRS and the value of 1 means the period after its implementation. The FZ has the lowest value of 19.00, the maximum value of 39.57, which is owned by PT. Petrosea. TBK in 2008 and PT. Astra International Tbk in 2011. The average value of the data is 28.2954 and the value of standard deviation is 1.94210. ROE has the lowest value of -2442.22, the maximum value of 13550.62, which is owned by PT. Barito Pacific. Tbk in 2013 and PT. Clipan Finance Indonesia in 2010. The average value of the data is 37.5192 and the standard deviation is 529.51175. DY has the lowest value of -66, the maximum value of 27341.77, which is owned by PT. Indomobil Sukses Internasional. Tbk 2015 and PT. Astra Internasional. Tbk in 2011. The average value of the data is 21.6586 and the standard deviation is 723.10928. LEV has the lowest value of -5.35, the maximum value of 6609.94, which is owned by PT. WHEELS in 2011 and PT. Petrosea. TBK in 2008. The average value of the data is 5.1879 and the standard deviation is 174.7812. SR has the lowest value of -9837.84, the maximum value of 13166.27, which is owned by PT. Multi Bintang Indonesia. TBK in 2013 and PT. Mitra Investindo. Tbk in 2013. Average data values of 1970.86 and standard deviation values of 10276,1038. BTM has the lowest value of -1083.18, the maximum value of 25314.92, which is owned by PT. J Trust Bank Indonesia. TBK in 2008 and PT. Astra International Tbk in 2011. The average value of the data is 20.136 and the standard deviation value is 670.87599. EPR has the lowest value of -363.59, the maximum value of 167.9, owned by PT. Darma Henwa. TBK in 2012 and PT. Dharma Henwa. TBK in 2008. The average value of the data is -0.1556 and the standard deviation value is 11.1472.

Descriptive statistics for Model 2, the FO variable before IFRS has the highest value of 99.8 and the lowest value of 1.98, owned by PT XL Axiata. TBK Tahuun 2009 and Jasa Marga. TBK in 2011. The average value and standard deviation is 46,2891 and 26,83071. Whereas, the FO variable after the introduction of the IFRS has the highest value of 99.08 and the lowest value of 0.76, owned by PT Kokoh Inti Arebama. Tbk in 2012 and PT. Permata Prima Sakti Tbk in 2012. The average value and standard deviation is 46.3727 and 27.12921.

Model Analysis and Result

The results, through multiple linear regression equations, show that the regression equation does not pass the test. In order for regression to pass the classic assumption test, the initial equation of multiple linear regression is converted into semi-functional regression (Ghozali, 2013: 193). Then, the classical assumption test is done with the semi log regression equation model.



The normality test is done by one sample Kolmogorov-Smirnov test, with a significance level of 5%, so that the research data does not experience bias, because there are disturbing variables. Data is said to be normally distributed if the significance value of the Kolmogorov-Smirnov one-sample test shows a sig value > 5%.

Table 3: Kolmogorov-Smirnov Z Normality Test

		Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)	Result
H1		1.190	.118	Normal Distributed
H2	FO before IFRS	2.153	.000	Not Normal Distributed
	FO after IFRS	2.099	.000	Not Normal Distributed

Source: Data processed, 2017

Based on Table 3, the results of the H1 normality test have a significance value of >0.05, which means the data is normally distributed. The test results for H2 show the significance value of FO before and after the IFRS of 0.000 or <0.05, which means that the data is not normal.

According to Ghozali (2013: 105), the multicollinearity test aims to test whether there is a correlation between the independent variables in the regression model. A good regression model should not have correlation between independent variables. A regression model is said to be free from multicollinearity if the tolerance value is >0.10 and the Variance Inflation Factor/VIF value is <10.

Table 4: H1 Multicollinearity Test

	Model	Tolerance	VIF	Result
H1	IFRS	.905	1.105	Non Multicollinearity
	LnFZ	.854	1.170	
	LnROE	.677	1.477	
	LnDY	.833	1.201	
	LnLEV	.885	1.129	
	LnBTM	.557	1.795	
	LnEPR	.755	1.325	
	LnSR	.905	1.105	

Source: Data processed, 2017

Based on Table 4, the test results on all Model 1 variables produce tolerance values <10 and VIF values >0.1, which means that this model does not experience multicollinearity.



The autocorrelation test was used in the regression analysis, testing whether there was a confounding error in period t with a confounding error in the $t-1$ period or before. This study, carried out the autocorrelation test using the Durbin Watson test approach (DW test). The regression model is free from positive and negative autocorrelation, if the DW test value is between du and $4-du$ ($du < dw < 4-du$).

Table 5: Autocorrelation Test

	dU	dW	4-dU	Result
H1	1.86683	1.974	2.13317	Non Autocorrelation

Source: Data processed, 2017

Based on Table 5, Durbin Watson values are between DU and $4-du$ values ($1.86683 < 1.974 < 2.13317$), which means that Model 1 is free from both positive and negative autocorrelation.

Heteroscedasticity tests aim to test whether, in the regression model, variance from residual inequality occurs one observation to another (Ghozali, 2013: 139). The regression model does not occur heteroscedasticity if the graph does not show a particular pattern and the points spread above and below the number 0 of the Y axis.

Figure 1: H1 Heteroscedasticity Test

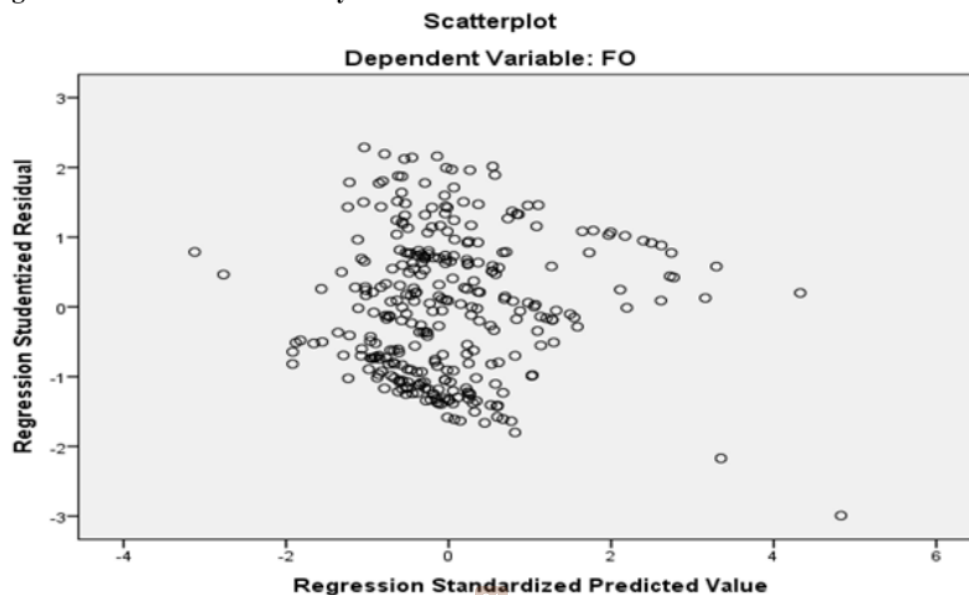


Figure 1 shows the pattern of data points that spread above and below the number 0 Y axis, so that it does not form a certain pattern. This means that Model 1 data is free from heteroscedasticity.



Hypothesis Discussion

Model 1: Effect of IFRS Obligations on the Development of Foreign Stock Investments in Indonesia.

Model 1 in this study was developed to examine the effect of implementing IFRS obligations on the development of foreign investment in companies going public in Indonesia. The Model 1 hypothesis is tested using multiple regression analyses by looking at how much influence the IFRS has on foreign investment. In addition, Model 1 also adds control variables that can influence the level of foreign investment in shares.

Multiple linear regression tests were conducted to determine the adjusted r2 value (coefficient of determination), which is then used to analyse how much influence the IFRS has had on foreign ownership. In addition, an F test was also conducted to find out the effect of the IFRS and control variables on the level of investment by foreigners. Based on the results of the classic assumption test, multiple linear regression equations did not pass the test. In order for regression to pass the classic assumption test, the initial equation of multiple linear regression is converted into semi-functional regression (Ghozali, 2013: 193). Following are the forms of the semi log models regression equation:

$$FO = \beta_0 + \beta_1 \ln(IFRS) + \beta_2 \ln(SIZE) + \beta_3 \ln(ROE) + \beta_4 \ln(DY) + \beta_5 \ln(Lev) + \beta_6 \ln(SR) + \beta_7 \ln(Btm) + \beta_8 \ln(EPR) + \varepsilon \dots \dots \dots 1$$

The coefficient of determination is used to determine the influence of the IFRS and control variables on the value of foreign investment in shares. The greater the coefficient of determination, the stronger the independent variables of foreign investment are influenced by IFRS policies and control variables observed in this study.

Table 6: Coefficient of Determination

Model	R	R Square	Adjusted R Square
1	.299 ^a	.090	.065

Source: Data processed, 2017

Based on Table 6, the coefficient of determination produced is 6.5%. This shows that the IRRS and control variables in the study affect investment by foreign shares insignificantly – only 6.5%.

The F Statistic Test aims to examine the effect of IFRS and control variables in a joint research on stock investment by foreign parties. If the significance value produced <0.05, it means that



the IFRS and control variables jointly affect stock investment by foreign parties. The results of the statistical F-test are presented as follows:

Table 7: F-Test

Model	F	Sig.
1	3.667	.000 ^b

Source: Data processed, 2017

Based on Table 7, the calculated F value is 3,667 with a significance level of .000. The significance value is <0.05, so it can be concluded that the IFRS and research control variables jointly affect the level of stock investment by foreign parties.

Model 2: Increased Investment in Foreign Shares due to IFRS Obligations.

Model 2 research aims to determine the increase in the value of foreign investment in Indonesian public companies after the implementation of IFRS obligations in 2012. Increasing the value of investment by foreigners is determined by looking at the results of different tests conducted on foreign ownership before and after the introduction of IFRS obligations. Based on the foreign ownership data normality test, it is concluded that the data is not normally distributed. Therefore, different tests were carried out by the Wilcoxon Signed Rank test.

The Wilcoxon Signed Rank test is used to test the difference in foreign investment before and after the IFRS liability policy on companies going public in Indonesia. If the results of different tests have a significance value of <0.05, then the tested data shows a difference before and after IFRS policy. This difference can increase or decrease. The results of the different tests carried out are presented as follow:

Table 8: Hypothesis 2 Test Results

	FO_before - FO_after
Z	-.348 ^b
Asymp. Sig. (2-tailed)	.728

Source: Data processed, 2017

The Wilcoxon test results, based on Table 8, produce a significant value of 0.728 > 0.05, which means the level of foreign investment in the period before and after IFRS remains the same, or does not experience an increase or decrease.



Discussion of Hypothesis Test Results

The one hypothesis in the study states that the obligation to implement an IFRS will affect the development of foreign investment in Indonesia. However, this hypothesis was rejected because IFRS did not statistically significantly influence companies' foreign ownership in Indonesia. The coefficient of determination (adjusted r^2) generated from the regression test is only 6.5%. These results indicate that IFRS obligations and research control variables influence investment by foreign parties insignificantly. The results of this study are in line with the research conducted by the research of Sherman and Klerk (2015), which shows that alignment of local standards with international standards does not have a positive relationship with foreign ownership.

The policy for harmonising local accounting standards in Indonesia has begun to be carried out in stages, from 2008 to being fully mandatory in early 2012. This has made the presentation of financial statements of companies going public in Indonesia in accordance with the IFRS since 2008. During the standard alignment phase for the mandatory IFRS in Indonesia, investors can assess that financial statements in Indonesia have not experienced major changes. So the decisions of foreign and local investors are not directly affected by the implementation of IFRS obligations in 2012. In addition, in making investment decisions, investors do not only consider applicable accounting standards, but also economic and political factors of the country that their investment is destined for.

On the other hand, the results of this study contradict the research conducted by Amiram (2012) and Garrouch and Zinelabidine (2016). Both of these studies indicate that alignment of local accounting standards with international standards can have an influence on the level of foreign capital investment in a country.

Increased Investment in Foreign Shares Due to IFRS Obligations

The second hypothesis in the study states that the obligation to implement the IFRS will affect the development of foreign investment in Indonesia. However, this hypothesis was rejected, because statistically, the Wilcoxon signed rank test results in a significant value of 0.728 ($\alpha > 0.05$), which means that the level of foreign investment in the period before and after IFRS remains the same or does not increase or decrease.

Statistically the mean foreign ownership (indicator of foreign investment) before and after IFRS obligations does not experience significant changes. The mean value of ownership before IFRS is 46.2891, while the mean value of ownership after IFRS obligations in 2012 only changes to 46.3727. These results indicate that the value of foreign investment before IFRS obligations (2008-2011) and after IFRS obligations (2012-2015) did not increase. The majority



of shares of companies in Indonesia held by foreign parties are permanent forms of acquisition, with a share value of more than 10% and have been owned by foreigners since 2008 or earlier (before there were IFRS obligations).

The results of the study are in line with research conducted by Sherman and Klerk (2015), showing that alignment of local standards with international standards does not have a positive relationship with foreign ownership and cannot increase share investment by foreign parties. However, research conducted by Amiram (2012) and Garrouch and Zinelabdine (2016) provides conflicting results. This earlier study stated that the policy of harmonising international standards of foreign capital increased in countries that adopted the policy of adopting or harmonising international standards into local accounting standards.

Conclusion

Based on the results of the test and data analysis that has been explained, it can be concluded that IFRS obligations do not affect the development of foreign share investment in Indonesia, because accounting standards in Indonesia have been adjusted to the IFRS since 2008, and investment decisions are not only influenced by accounting standard policies, but also other factors, such as the economic and political conditions of a country.

In addition, the level of share investment by foreign parties has not increased because foreign ownership of shares has been held since before the implementation of IFRS obligations in Indonesia.



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