Effect of Quality of Financial Reporting to Asymmetry Information on Manufacturing Company in BEI

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Abstract—This study aims to explain the relationship between variable relevance value, timeliness and conservatism to asymmetry information. The population in this study is a manufacturing company listed on the Indonesia Stock Exchange from 2013 to 2015 with a sample selected by purposive sampling of 23 companies. The amount of data used in this study is 69 obtained from 23 x 3 (multiplication number of sample with the number of years of observation). Statistical analysis used is multiple regression. The hypothesis in the study consisted of the relevance of value, timeliness and information asymmetry. The results showed the relevance of values negatively affect the information asymmetry. The timeliness of the delivery of financial statements has a significant and negative effect on asymmetric information. Conservatism has a negative and significant effect on asymmetric information.

Keywords—asymmetric information; conservatism; timeliness; value relevance

I. INTRODUCTION

The financial statements contain company financial information addressed to people within the company (management and employees) and to communities outside companies such as banks, investors, suppliers and so on. The financial statements are designed to provide economic information and measurement of the resources and performance of a company as a basis for decision making.

Good and qualified financial reporting will provide a clear picture of the company's performance and future prospects to the investors. According to Francis et al attributes of market-based financial reporting quality consist of value relevance, timeliness and conservatism [1].

This study uses market-based financial reporting quality because the market base illustrates the reciprocal between the company's published financial statements with capital market performance as reflected by the variation in returns and stock prices associated with asymmetric information.

Asymmetric information is a condition where there is an imbalance of information acquisition between the management as a provider of information with the shareholders. Asymmetry information arises when more managers know the company's internal information and future prospects, while investors know little about information. Managers have access to information on prospects that are not owned by outsiders. Because it should be managers who work for the interests of these investors must provide a signal about the actual condition of the company to investors. So in this case it allows managers to make accurate predictions because they have more information, on the other hand managers can make an inaccurate prediction such as when a company incurs losses, managers have access to hide the information by manipulating the financial statements, so that information will occur Asymmetry between managers and investors. In this case, the quality of market-based financial reporting is needed in preparing financial statements so asymmetric information does not occur within a company.

The quality of financial reporting used in this study is market-based financial reporting quality. According to Francis et al attributes of market-based financial reporting quality consist of value relevance, timeliness and conservatism [1].

Francis et al explains that the relevance of values is essentially the ability of profit in explaining the variation in returns, with the expected earnings have greater ability to explain the variation of returns that occur [1].

The definition of timeliness is "explanatory power of reserve regression of earnings on return" or in other words as a force to explain the reserve regression of earnings against return [1].

Ahmad et al as supporters of conservatism argue that conservatism can reduce the conflict between bondholders-shareholders around the dividend policy. Excessive dividend payout will pose a threat to debtholders as it will reduce the assets that should be available for debt repayment. To overcome this problem, the usual action is to restrict the dividend based on the company's profit. Conservative earnings are required to provide an overview to debtholders about the availability of assets for debt repayment [2].

Other researchers supporting conservatism are LaFond and Watts arguing that the financial statements applying the conservatism principle may reduce the likelihood of managers
manipulating financial statements and reducing the deadweight loss that arises as a result of Information asymmetry [3].

The definition of asymmetric information by Fanani is asymmetric information as a condition in which an imbalance of information acquisition between management as a provider of information with stakeholders and stakeholders in general as users of information (user) [4].

Asymmetry information arises when there is a relationship between principal and manager (manager), where the principal (shareholder) delegates tasks and authority to managers. The existence of an important role of a manager in reflecting the company's circumstances in the form of financial statements, will lead to an imbalance of information between managers and stakeholders. This imbalance occurs because managers have enormous access to information in the company compared to stakeholders. This will create a company problem.

Khanagha defines value relevance as explanatory power of accounting information to stock price or return. Relevance value is a reflection of an accounting information in this case the financial statements in explaining the state of the company seen in the price or return of shares issued by the company. Seeing the explanation, in this case the manager as the maker of financial statements, which contains accounting information the company plays an important role to present the reflection and the real state of the company. So that later the stakeholders, especially the investors are not trapped in an information that is not in accordance with the actual circumstances of the company [5].

Fanani provides findings of a negative influence on the relevance of value to information asymmetry [4]. Based on the above explanation it can be seen that the higher the level of relevance of the value of profit or ability to explain accounting information to the price or stock return in the financial statements, the lower the asymmetry information that arises between managers with outside investors.

Financial information is useful when it has the qualities to influence investor decisions. The quality of information may increase if the level of asymmetric information is low. Investors can observe any management policies as well as internal company information. Ideal conditions are difficult to create, but pursued through regulations to protect investors who are in a situation of lack of information [6].

Timeliness as one of the supporting criteria of the nature of relevance must be owned by financial information. The timely presentation of financial information is one of the important elements that can benefit investors in making investment decisions. But in some research, timeliness is often overlooked in research related to the relevance of financial information [6].

Fanani found a negative relationship between timeliness as a proxy of financial reporting quality with economic consequences as a proxy of asymmetric information [4]. Based on the above explanation it can be seen that the higher the level of timeliness, the lower the asymmetry information that arises between managers and outside investors.

Information asymmetry arising between the manager and the investor lets managers use private information they have to transfer the wealth of the investor to themselves by the way exaggerate (overstatement) financial performance in the financial statements so that the company's stock price also rose during their managing companies [3].

Associated with the tendency of managers to manipulate the financial statements, then LaFond and Watts give an opinion that conservatism is a corporate governance mechanism that can reduce the ability of managers to manipulate and overstatement of financial statements, especially regarding financial performance, thereby increasing the flow Cash and corporate value [3]. Conservatism reduce information asymmetry and manipulation of financial statements by limiting the presentation of earnings that are not verified and ensure all the losses have been included in the financial statements. In addition conservatism also verifying the net assets contained in balance to prevent exaggerate asset management [7].

Based on the above explanation it can be seen that the higher the level of conservatism in the financial statements, the lower the asymmetry information that arises between managers and outside investors. So it can be concluded that conservatism can overcome the problems arising from asymmetric information, such as overstatement of financial statements and the emergence of agency cost.

In this study the authors focus the research on three attributes, namely the relevance of value, timeliness, and conservatism to measure the quality of financial reporting. Fanani found that when the quality of accounting information has increased, the asymmetry information will decrease or in other words the quality of accounting information submitted through financial reporting has a negative effect on information asymmetry [4].

Then strengthened by the Chen et al study that examined the effect of second order reporting quality on accounting information and revealed that the quality of accounting-based financial reporting has significant effect on asymmetric information [8]. In addition, Kazemi et al also tested the quality of reporting using several conservatism models and revealed the results obtained that conservatism has a negative and significant influence on asymmetric information [7].

Fanani examine the effect of financial reporting quality attributes consisting of value relevance, timeliness and conservatism to information asymmetry and ensuring no overlap between these attributes. The results show that there is no overlap between the three variables. In addition, it was found that the quality of financial reporting had an insignificant positive impact on the economic consequences [4].

Rezaei and Shabani examines the effect of quality reporting on information asymmetry with firm size variables as moderators. The results showed that the coefficient of positive value is insignificant, which means that variable value variables moderated with firm size have no significant effect on asymmetry information [9].

Nurcholishah also examined the effect of financial reporting quality (value relevance) on asymmetric information. The results of the study showed a significant negative influence
between the relevance of values to asymmetric information (SPREAD) [10].

Based on previous theories and research, the hypothesis is proposed:

H1: Value relevance negatively affects the asymmetric information.

H2: Timeliness negatively affects information asymmetry.

H3: Conservatism negatively affects asymmetric information.

II. METHOD

The type of research used in this study is quantitative research that is the result of research which then processed and analyzed to be taken conclusion. Testing the truth of the research hypothesis is done through testing the regression model and testing the partial influence of each independent variable. The regression model test is intended to test the effect simultaneously of all independent variables. The regression model test is done by F test, while the partial effect test is done by t test. The functional relationship between one dependent variable and the independent variable can be done by multiple linear regression. The multiple linear regression model used in this analysis is as follows:

\[ AI = \alpha + \beta_1 \text{VR} + \beta_2 \text{TL} + \beta_3 \text{CV} + \varepsilon \]  

The population used in this study is a Manufacturing company listed on the Indonesia Stock Exchange (IDX) period 2013-2015. The sample is chosen by the method of selecting the sample using purposive sampling, in which the sample is selected based on certain criteria which have been predetermined by judgment sampling [11].

Objects that become population in this study are manufacturing companies listed in the Indonesia Stock Exchange (BEI) period 2013-2015 as many as 135 companies. The samples used in this study were chosen based on purposive sampling method. The samples researched were 23 companies as according to the criteria selected in the sample determination. The amount of data used in this research is as much as 69 data obtained from 23 × 3 (multiplication between the number of samples with the number of years in observation). The following is the name of the company to be sampled in this study:

The data obtained were processed using a computer with the software program SPSS version 23. While testing the hypothesis in this study used the analysis stage as follows:

- Measure the relevance of the value by using a return model that examines the relationship between stock returns with earnings and earnings changes with the following formula:

\[ \text{RET}_{jt} = \beta_0 + \beta_1 \text{EPS}_{jt} + \beta_2 \text{BVPS}_{jt} + \varepsilon. \]  

- Measure the timeliness of financial reporting based on the delay in corporate financial reporting. Timeliness is measured by dummy variables, where category 1 is for companies on time and category 0 for companies that are not on time. Companies categorized on time are companies that submit financial statements before March 31, while companies are categorized late if the financial statements are reported after March 31.

- Measure the level of conservatism by using Net Asset Measure approach with the following formula:

\[ \text{Market to book Ratio} = \frac{\text{Market Value of Common Equity}}{\text{Book Value of Common Equity}} \]

Market to Book Ratio is the ratio between market value of equity and book value of equity. Ratios with a value greater than one (> 1) indicate the application of conservative accounting because the company recognizes that the book value of the equity is smaller than the market value of the firm's equity.

- The way of data presentation using the table by using the formulas according to the variables studied.

- Classical assumption test, after which do hypothesis test that is doubled linear regression analysis, which must fulfill criterion that is R2 test, F-test test, and T-test test.

III. RESULTS AND DISCUSSION

Variables used in this study include relevance of value, timeliness, conservatism and asymmetry of information with the results of data descriptive can be seen below:

A. Value Relevance or VR

The lowest value of VR is -9170.30 owned by PT Merck Tbk (MERK) in 2015. It indicates that the relevance of value to PT Merck Tbk (MERK) in 2015 is the lowest compared to other companies. On the other hand, the highest value is 37179.89 owned by PT Merck Tbk (MERK) in 2013. It indicates that PT Merck Tbk (MERK) in 2013 has high value relevance compared to other companies. Then, the value of the value relevance yields an average of 1507.9464. Value relevance data has a large enough data distribution because the standard deviation of 7338.32444 is higher than the average value.

B. Timeliness or TL

The lowest value of TL is 0, which means that the date of issuance of financial statements of companies that are not on time is small enough. While the highest value is 1, which means that the date of publication of the company's financial statements on time large enough. Then, the Timekeeping value has an average value of 0.3913. This shows that there are still some companies that publish their financial statements have not been timely. Timekeeping data has a fairly large distribution because the standard deviation of 0.49162 is greater than the average value.

C. Conservatism or CV

The lowest value of CV is 0.01 owned by PT Charoen Pokphand Indonesia Tbk (CPIN) in 2015. This indicates that the level of Conservatism of PT Charoen Pokphand Indonesia Tbk (CPIN) is the lowest compared to other companies. On the
other hand, the highest value is 2.23 owned by PT Merck Tbk (MERK) in 2014. This indicates that the level of Conservatism of PT Merck Tbk (MERK) in 2014 is the highest compared to other companies. Then, the value of Conservatism has an average value of 0.2445. Conservatism data has a fairly large distribution because the standard deviation value of 0.41381 is greater than the average value.

D. Asymmetry Information or AI

The lowest value of Asymmetric Information is 1.03 owned by PT Merck Tbk (MERK) in 2014 indicates that PT Merck Tbk (MERK) in 2014 has asymmetric information that is smaller than other companies. The highest value of Asymmetric Information is 162.09 owned by PT Kabelindo Murni Tbk (KBLM) in 2015 indicating that PT Kabelindo Murni Tbk (KBLM) in 2015 has asymmetric information that is high compared to other companies. Then, the value of Asymmetric Information has an average value of 50.2145. Asymmetric Information Data has a rather large distribution because the standard deviation value of 26.25502 is smaller than its average value.

The statistical test t is basically used to show how far the influence of one independent variable individually in explaining the variation of the dependent variable. In this research will be tested the influence of independent variables namely the relevance of values, timeliness, and conservatism individually to the dependent variable that is information asymmetry. The following is the result of t test conducted with SPSS 21:

1) Test of hypothesis 1 (H1): Relevance value negatively affects the asymmetric information.

Based on the calculation using SPSS 21 program, the relevance variable has t value equal to (-2.743) and significant value 0.008. The decision-making provisions of the hypothesis are accepted or rejected based on the magnitude of the significance value. If the significance is smaller or equal to 0.05 then the hypothesis is accepted. The results obtained significant value 0.008 <0.05, then H0 rejected and H1 accepted, so the hypothesis (H1) which states the relevance of values negatively affect the information asymmetry, received.

2) Hypothesis 2 (H2) test: Timeliness negatively affects asymmetric information.

The variable of timeliness has t count equal to (-3.733) and significant value 0.000. Significant value 0.000 <0.05, then H0 is rejected and H2 is accepted, so hypothesis (H2) which states the timeliness negatively affects the asymmetric information, is received.

3) Hypothesis 3 (H3) test: Conservatism negatively affects asymmetric information.

Conservatism variable has t count equal to (-2.815) and significant value 0.006. Significant value 0.006 <0.05, then H0 rejected and H3 accepted, so the hypothesis (H3) which states conservatism negatively affect the information asymmetry, accepted.(R²) is 0.378 or 37.8%. By looking at these values it can be concluded that the relevance of value, timeliness, and conservatism able to explain or influence asymmetric information of 37.8%. While the rest is influenced by other variables outside the study.

IV. CONCLUSION

Based on the results of research on the effect of value relevance, timeliness, and conservatism to asymmetry information on manufacturing companies listed on the Indonesia Stock Exchange in 2013-2015 can be concluded as follows:

The relevance of values negatively affects asymmetric information. The low value of high firm relevance affects the level of information gap large or small between management and investors (information asymmetry). Quality of financial reporting such as value relevance increases, asymmetric information will decrease or in other words the quality of accounting information submitted through financial reporting has a negative impact on asymmetric information. This is supported by Fanani which shows the relevance of values that negatively affect asymmetric information [4].

The timeliness of the delivery of financial statements has a significant and negative effect on asymmetric information. Companies that submit financial reports in a timely manner affect the high or low levels of information gaps or asymmetric information. The more timely the financial statements are reported, the lower the level of asymmetric information generated. In line with Fanani which reveals timeliness has a significant negative effect on asymmetric information [4].

Conservatism has a negative and significant effect on asymmetric information. High asymmetric information is dependent on conservatism. A large conservatism value will also improve the quality of good financial reporting so as to decrease asymmetric information (the gap between the management and the investors). Companies that have a high conservatism value can also affect the value of asymmetric information that occurs between the management and the investors. In contrast to Fanani which reveals conservatism has a positive and insignificant effect on asymmetric information [4], this difference can be due to the calculation of conservatism by Indrani using market-based as used by Fanani [4], while this study uses conservatism based on Net assets such as those used by Nurcholisah [10].

REFERENCES


