

The Mediating Effect of Asymmetric Information on the Funding Decision to Firm Value

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Abstract—There are several opinions about corporate funding decisions based on company value. Information asymmetry between company management and investors will affect the company's performance and have an impact on the company's value. The purpose of this study is to find out how much influence the funding decisions mediated by asymmetric information on increasing company value. After reviewing some literature that reveals that asymmetric information is a key factor influencing the relationship between funding decisions and firm value. Data were collected as many as 140 samples from 20 property and real estate companies listed on the Indonesia Stock Exchange. While the data collection period was 7 years from 2010 to 2016, data analysis was carried out using Amos. The results of this study found that the high or low value of a company depends on management in making policies according to the state of the company. The results of this study indicate that corporate funding policies play a less role in increasing firm value while information asymmetry has a role in increasing firm value. The results of this study contribute to potential investors and company management. Research contributions can be used as a reference for policy decisions made by managers, shareholders, and investors so as to minimize the risks that may occur and can increase firm value.

Keywords—*financial decision, asymmetric information, firm value*

I. INTRODUCTION

Funding decisions have significance in the company because the results will affect the firm value. Funding decisions for companies using large leverage can be used by management as an optimistic signal for the future. Based on the theory that states that managers have better information so that the delivery of information to investors can be in the form of an increase the company's stock price. Funding companies can be grouped based on the source of funds from internal companies, namely retained earnings, and external companies, namely funding with debt. The results of subsequent studies stated that funding decisions have a positive effect on firm value. Investment decisions in the form of investment will affect the firm value because it is able to minimize information asymmetry [1].

Furthermore, corporate funding by increasing the proportion of debt incurred by the company will be more beneficial in increasing the maximum firm value, which means that the addition of company debt must be optimal

[2]. Further empirical evidence about funding policies found that the importance of corporate funding policies related to financial leverage depends on the type of industry being carried out because industry types provide fundamental differences and are sensitive to the level of profitability and company assets which will impact firm value [3]. Different empirical evidence found that irrelevant funding decisions affect the value of the company which means the value of the company is not affected by the amount of debt it has. Based on the relevant theory, the trade-off theory states that increasing debt will be beneficial if it can increase the value of the company. Funding policies that originate from loans have a negative but not significant effect on firm value. It is known that other insider ownership factors can change this finding [4].

Asymmetric information arises because investors are worried and difficult to access information related to company management policies, so company management uses financial reporting to align investor and company management objectives. Asymmetric information flows have a strong influence and are positively related to the dynamics of rising and falling trading of company shares [5]. Information asymmetry is studied by financial management after ownership allocation and after making investment policies. Managers reduce the risk of information related to company stock with management policies establishing information that provides support for stock price motivation [6].

Increasing the value of the company is a long-term goal of the company that must be achieved with funding decisions because every policy taken by the company must consider information related to the aim to increase the value of a company. Asymmetric information flow has a relationship to the dynamics of rising and falling trading of company shares. Asymmetric information between company management and investors will affect the size of the company's debt, as a form of funding decisions. Furthermore, information asymmetry will also affect the value of the company [7]. The company's goal to provide prosperity to shareholders through the company's value is also influenced by the information asymmetry between the management and investors. The purpose of this study is to find out how much influence the funding decisions mediated by asymmetric information on increasing firm value.

II. MATERIALS AND METHODS

The combination of financial management policies is a decision that is able to obtain optimal results. The company's objectives will be achieved if the company's performance increases resulting in the prosperity of shareholders, namely to maximize the value of the company. The value of the company is the current value of the company and therefore needs to consider the value of time and money. Consideration of time and money is used to assess expenses or income that will be received in the future, while evaluations and decisions must be made now. The value to be achieved by the company for the prosperity of shareholders [8]. Company value can also be interpreted as the present value of the expected value of free cash flow for the future for weighted average capital costs at a certain discount rate [9].

A. Funding Decisions

Funding decisions have significance in the company because the results will affect the value of a company. Funding decisions have a significant positive effect on firm value, this indicates the composition of funding used affects the value of the company as evidenced by increasing profits and an impact on the market value of the company's shares. The importance of corporate funding policies regarding financial leverage depends on the type of industry being run. Different types of industries provide fundamental differences and are sensitive to the level of profitability and company assets which will impact the company's value. The size of the debt used for business operations is influenced by the information asymmetry that occurs between shareholders and the company [10].

B. Asymmetric Information

Asymmetric information arises because there are differences in interests between the agent/company and the principal/shareholder. Based on the theory the manager has better information so that the delivery of information to investors can be in the form of an increase in the company's stock price [11]. The impact of asymmetric information will affect the company's debt and access arising in communities affected by market value [12]. There is evidence of a negative relationship between bid-ask spreads and company disclosure policies. Bid-ask spreads are one measure of market liquidity that is widely used in previous research as a measure of information asymmetry between management and corporate shareholders.

C. Firm Value

Company value is the market value of the company's equity and debt securities circulating in the market, meaning the price to be paid when the company is sold based on the market price on each share. This means that the value of the company is the perception of investors in a company that is associated with the price of shares offered. Another opinion related to the company's value is the actual value that will be received by the company and shareholders in each share if the company's assets are sold according to the company's stock price. Company value can also be interpreted as an investor's perception of the company, which is often associated with the company's market performance or the company's stock price. Market performance is a measure of company performance that combines return on investment and company risk, so market performance is more comprehensive than other performance measures.

Measurement of market performance is the value of the company can use price to book value (PBV) [9].

III. RESEARCH FRAME WORK

Companies with high levels of information asymmetry tend to use more debt capital but less long-term debt, this is due to the different effects of asymmetric information about the costs of various types of capital [13]. The research framework model in this study illustrates the model of the relationship between funding decisions with firm value as well as information asymmetry on firm value. The asymmetry information that appears to shareholders relating to the decision to invest will be done by investors will also affect the value of the company.

IV. DATA COLLECTION PROCEDURE

The stages of determining the data begin with determining the number of the study population. It is known that the total population in this study there are 53 property and real estate companies that have been listed on the Indonesia Stock Exchange. Companies that qualify as members of the study sample were obtained as many as 20, with an observation period of 7 years. So that the research data obtained as many as 140 on the basis of the calculation of the number of samples obtained multiplied by 7 periods of research observations, namely the years 2010-2016. Structural equation modeling in this study uses AMOS to analyze data.

V. RESULTS AND DISCUSSION

A. Results

The research model was declared feasible after the model feasibility test was carried out because it had fulfilled several model eligibility criteria. While the results of the analysis test using Amos looks as follows:

TABLE I. ANALYSIS TEST RESULTS

Variable		Direct	Indirect	Total	P
ASYM	← FIN	0.190	0.000	0.190	0.023
FV	← ASYM	0.190	0.000	0.190	0.020
FV	← FIN	-0.314	0.036	-0.278	0.000

Source: processed data

The results of the above analysis can be interpreted that the magnitude of the influence of funding decisions on company value is -0.314, while the effect of funding decisions on positive asymmetric information is 0.190. The value of the influence of asymmetric information on firm value also shows a positive 0.190. However, the total influence between funding decisions through asymmetric information on company value shows an effect of -0.278. All three variables have significant influence values and have different directions.

The first research results show the relationship between funding decisions and positive and significant asymmetric information. This means that the results of the analysis show the influence of a positive and significant funding decision on asymmetric information. The second research result is to show the relationship between asymmetric information and positive and significant company value. This means that the results show a positive and significant effect between asymmetric information and firm value. While the results of the third study showed a significant and negative

relationship between funding decisions and the value of property and real estate companies. This means that the results show a negative and significant effect between the funding decisions made by the company's management on firm value.

B. Discussions

The results of the analysis with AMOS are seen to have significant positive and negative influence values where the value ($p \leq 0.05$) between the funding decision variable and asymmetric information on firm value. Based on the analysis that has been done, it can be seen that the funding decisions made by the company's management with funding decisions from external parties have a positive and significant influence on asymmetric information. The meaning is that corporate funding decisions with debt will have an influence and increase the value of asymmetric information for investors. Investors believe that company policy and decision making by adding debt raises a signal that the company is making decisions that will have an impact on returns for investors. So that the situation of the company with a financing decision in the form of debt will have an increasingly wider impact on the occurrence of asymmetric information. But conversely, the widening or expanding asymmetric information has a significant effect on firm value. This means that information asymmetry that develops further increases the value of the company because the information is also captured by new investors as a challenge to invest their capital and hope to benefit from the information asymmetry that is developing.

The results of the study show that the direct influence between the variable of funding decisions with the value of the company has a negative and significant influence, this identifies that the debt decision made by the company's management will have an impact on the decline in the value of the company. This means that if management takes a debt decision as corporate funding it will affect the decline in profits and further increase the obligations that must be borne by the company. The high liability borne by the company creates a risk of decreasing the value of profits which has an impact on the long term that is reflected in the decline in the firm value.

The Figure above is able to explain the results of the study that the higher the company is financed from debt, it will increase and expand the emergence of asymmetric information, which in turn will reduce the value of the company.

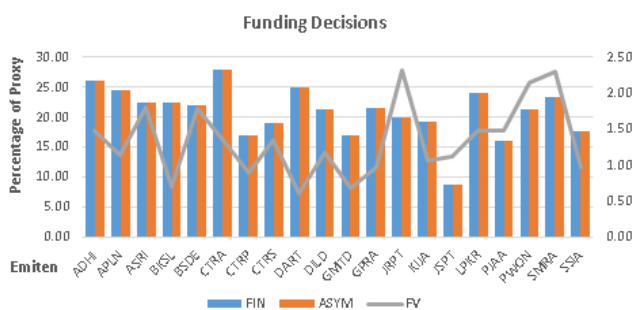


Fig. 1. Funding decisions affect asymmetric information and firm Value

The fig. 1, above shows the state of the company when determining financing decisions with debt. The results of this

study support research conducted by Fama and Fench in 2007 which stated that debt creates risks and influences company performance so that it will also reduce the value of the company. The company's external capital obtained by management in the form of debt will give a signal or information to investors that the action will give investors an unfavorable financial situation. High debt reflects the state of the company is not good in finance so it needs debt as corporate funding [14]. Corporate funding decisions with debt will add to the burden of the company while the benefits of the loan are apparently smaller than the risks faced [15] and [16].

VI. CONCLUSION

The conclusion from the results of the analysis and research that has been done is that debt as a funding option in property and real estate companies has an influence on the high information asymmetry and firm value. The company is able to increase the value of the company if the debt has benefits that are greater than the risk posed.

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