

Effect of Corporate Governance and Financial Reporting Quality on Asymmetry Information

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Abstract—This study aims to examine the effect of corporate governance and profitability on earnings management in manufacturing companies listed in BEI and SGX period 2011-2014. The data used is secondary data derived from company financial reports published through the website www.idx.co.id and PDEB UI with a total population of 243 companies. Selection of the sample is done by using purposive sampling method. Obtained a total sample 950 observation data as the unit of analysis. The method of analysis used in this study were multiple linear regression and for processing the data using SPSS version 20.0. The result of research show that corporate governance firm is proxy by the direction board, BOD meeting, BOC meeting, audit committee meeting, size of board and auditor quality had significant influence on asymmetry information. Corporate governance country is proxy by the direction board, BOD meeting, BOC meeting, audit committee meeting, size of board and auditor quality had not significant influence on asymmetry information. While financial reporting quality had significant influence on asymmetry information.

Keywords—*asymmetry information; corporate governance; financial reporting quality*

I. INTRODUCTION

One of the implementation of financial statements in the company aims to improve business decisions. Meanwhile, investors and creditors use the financial statements as a reference to make investment decisions and loans. The financial statements discuss how the company obtains its resources (funding), where and how the resources are used (investments), and how effective the use of those resources (profitability of operations).

Quality financial reports provided by the company are needed, so investors and creditors are not wrong in taking action. Research found that when the quality of accounting information has increased, the asymmetry information will decrease. In other words, accounting information contained in financial reporting of good quality will negatively affect the information asymmetry [1]. The board of directors uses financial statements to monitor management decisions and actions. This raises the question of whether all directors (management) are actually performing their duties, using financial statements to make decisions for the benefit of investors and owners. Present agency theory is said where the

point of view between management (agent) and the owner of the company (principal) [2]. According to Jensen and Mekling state that agency relationships are a contract that occurs between the manager (agent) and the company owner (principal) [3]. So with the separation of functions between the principal (shareholders) and agents (management). Thus the possibility of the emergence of a problem agency can lead to agency conflict, i.e. conflicts arising from the sacrifice of the interests of shareholders (principal) by the desire of the management (agent).

A. Theoretical Framework

1) Effect corporate governance on information asymetry

Biddle et al defines the quality of financial reporting as a precision of financial reporting in conveying information about the company's operations, in particular the expected cash flow, informing investors' equities [4]. According to Cohen et al high quality financial reporting can reduce the information asymmetry that emerges in the agency relationships undertaken by management [5]. So that required a mechanism for the management action known as Corporate Governance. Corporate Governance is an important aspect in business not only in the company but in every country. Basically, the objective of Corporate Governance is to create a system of checks and balances to prevent misuse of corporate resources and promote corporate growth [6]. In line with Solomon according to Ujiyanto and Bambang corporate governance, which is a concept based on agency theory, is confronted to serve as a tool to give investors' confidence that they will receive return on funds already invested [7, 8]. With other corporate governance can reduce the asymmetry between principal and agent. Thus users of financial statements such as shareholders, creditors will not be wrong to take decisions on information obtained from the published financial statements. Hence, there is an indication that the better implementation of corporate governance will reduce the risk of imperfect information in a financial linguist or information asymmetry.

H1a: Corporate Governance firm level directly affects information asymmetry.

H1b: Corporate Governance country level directly affects information asymmetry.

2) *Effect financial reporting quality on information asymetry*

The Financial Report is a communication tool to convey financial information from management as an agent to parties outside the corporation. So investors and creditors need quality financial reports, which are expected to provide information that ends in the right decision. The existence of information asymmetry between manager as agent and owner (in this case is shareholder) as principal. Asymmetry arises when managers know more about internal information and future prospects than shareholders and stakeholders. This condition has provided an opportunity for the management to use the information in knowing to manipulate the company's finances in order to maximize its prosperity. According to [5] high quality financial reporting can reduce the information asymmetry that emerges in the agency relationships undertaken by management. Unconsciously the existence of corporate governance is very helpful in the activities of the company. Essentially good corporate governance implementation is expected to serve as a control tool that can help minimize the occurrence of conflict of interest between owner and manager [9]. So that supervision conducted within the company is expected to bring a healthy company.

H2: Financial Reporting Quality directly affects information asymmetry.

II. METHOD

In this study, researchers used quantitative descriptive research strategies. The research used in this study consists of 2 (two) variables, namely independent variables, dependent. The independent variables are corporate governance and financial reporting quality, the dependent variable is information asymmetry. In addition to independent variables and dependent variables, researchers also use control variables in this study, namely leverage, size, growth, and GDP.

The type of data used in this study is secondary data. Secondary data is data that has been collected by other parties and published to the public data users.

The sample is part of the number and characteristics possessed by the population. The sample used in this study should publish the financial statements as of December 31. This research uses purposive sampling method. Purposive sampling is a method of determining samples with particular consideration, in which the sample members will be chosen so that the formed sample can represent the properties of the population [10].

Hypothesis testing model in this research is multiple linear regression. The regression model form systematically as follows:

$$AI_{i,t} = \alpha + \beta_1 CGFirm_{i,t} + \beta_2 CGCountry_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Size_{i,t} + \beta_5 Growth_{i,t} + \beta_6 GDP_{i,t} + \epsilon \tag{1}$$

III. RESULTS AND DISCUSSION

TABLE I. HYPOTHESIS TEST RESULTS

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	-1,581	,194		-8,134	,000
CG_FIRM	,137	,047	,077	2,909	,004
CG_COUNTRY	-,037	,298	-,021	-,125	,900
FRQ	,193	,464	,011	,415	,678
LEV	,146	,010	,502	14,174	,000
SIZE	,002	,003	,038	,863	,388
GROWTH	,004	,033	,003	,119	,906
GDP	,357	,074	,809	4,808	,000

A. Hypothesis Testing 1a

Based on the research results listed in the table above, the coefficient for corporate governance firm level is 0.137 with a significant value of $0.04 < \alpha (0.05)$. This signifies significant because it is smaller than 0.05. So these results indicate that corporate governance firm level has a significant direct effect on information asymmetry. This shows that this hypothesis states that corporate governance firm level has a positive effect on information asymmetry.

From the results of this study, it can be seen that the higher the corporate governance will reduce the asymmetry that occurs. Good governance will affect the financial statements that are issued. Financial statements are a means for investors to view information that can be used as a reference in making decisions. So that investors can trust the funds to be invested in the company concerned.

The results in this study are supported by Meilani research which states in his research there is a relationship between corporate governance index and information asymmetry [11]. This means that with a higher corporate governance index, it will reduce information asymmetry. This is consistent with the prediction that corporate governance is an attempt to protect investors from information asymmetry [12].

Contrary to the previous explanation, Pratiwi et al stated that corporate governance does not significantly influence information asymmetry [13].

B. Hypothesis Testing 1b

The calculation of the data listed in the table above for state corporate governance country level is different from corporate governance firm level. The results show a coefficient value of -0.037 with a significant value of $0.900 > \alpha (0.05)$. This means not significant because it is greater than 0.05. So these results indicate that state corporate governance has a direct and insignificant effect on information asymmetry. This also shows

that the first hypothesis which states that state corporate governance has no effect on information asymmetry is rejected.

The results of this study indicate that information asymmetry cannot be seen from the country's corporate governance index or score. Countries that have a high or small corporate governance index or score cannot significantly influence information asymmetry. This could be due to the country's index or corporate governance is the average accumulation of the implementation of governance within the company. So that it cannot reflect the perceived asymmetry of investors, and their influence in making decisions.

The results in this study have not been specifically supported by previous research. Researchers found almost identical research results Aswindar board independence is a corporate governance mechanism applied by the company but does not affect product disclosure [14]. State variables do not affect the level of product disclosure. Classification differences between developing countries (Indonesia) and developed countries (Singapore) proved to have no effect on the magnitude of the disclosure of company products in Indonesia and Singapore. In this hypothesis Indonesia and Singapore do not influence the magnitude of information asymmetry.

C. Hypothesis Testing 2

Based on the research results listed in the table above, the coefficient for financial reporting quality (FRQ) of 0.193 and a significant value of 0.678. Significant value of $0.678 > \alpha (0.05)$, this means that it is not significant because it is greater than 0.05. So from these results indicate that the quality of financial reporting has no effect on information asymmetry rejected.

This can occur because financial reporting is a reflection of the company. So that it will be much better, if you examine how well governance is done by the company. Thus affecting the output or means of information presented to investors.

The results of this study were supported by Indriani and Khoiriyah who stated that the quality of financial reports on the economic consequences of information asymmetry showed insignificant and positive results [15].

The results of this study are not in line with Setiany and Wulandari which states that the quality of financial reporting (value relevance) has a significant negative effect on information asymmetry (SPREAD) [16].

IV. CONCLUSION

Based on testing, processing, and analysis that have been done can be drawn conclusion as follows:

- Corporate governance firm level effect on information asymmetry.
- Corporate governance country level has no effect on information asymmetry.

Financial reporting quality has no effect on information asymmetry.

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