THE IMPACT OF INFORMATION ASYMMETRY TOWARDS THE QUALITY OF ACCRUAL EARNINGS WITH GOOD CORPORATE GOVERNANCE (GCG) AS MODERATING VARIABLE

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ABSTRACT

The research aims to examine the influence of information asymmetry on the quality of accrual earning, generated by a public company. The research was moderated by two variables of Good Corporate Governance (GCG) that managerial ownership and composition of the Board of Commissioners. Information asymmetry is an information gap between management and owners of the company. This affects quality accrual earning of information made by management, so it does not describe the actual condition of the company’s performance. The research objects were manufacture companies listed in Indonesia Stock Exchange for three years (2013-2015). The samples consisted of 72 companies selected using purposive sampling technique. The data were analyzed using SPSS 21.0 for windows program consisting of two types of analyses, i.e. simple regression analysis and different t-test analysis. The results of the research indicate that information asymmetry influence the quality of accrual earning and variable managerial ownership and composition of the Board of commissioners can moderate the Quality of Accrual Earning.

Keywords: Information Asymmetry, Quality of Accrual Earning

INTRODUCTION

The financial report is a means of communicating by the manager as the manager of the company to provide financial information to parties outside the corporation. The financial statements are expected to provide information to investors and creditors in making decisions related to their investment funds. Managers as corporate managers more aware of internal information and prospects of the company in the future than the owners (shareholders). Therefore, as the manager, the manager is obliged to provide a signal about the state of the company to the owner. However, sometimes
the information submitted is not acceptable according to the actual condition of the company. This condition is known as asymmetric information (Harris, 2004). Asymmetry information between management (agent) with the owner (principal) can provide an opportunity for managers to manage the earnings (earnings management) (Richardson, 1998). Information asymmetry is an information gap between the agent as the manager (manager) company and the principal, which in this case is the owner of the company. Information obtained by the manager, is a more in-depth information about the state of the company for both current conditions as well as for the prospect of a state company in the future. The gap between management (agent) with the owner (principal) provides the opportunity for managers to act optimistic, for the sake of personal gain (Ujiyanthro et al, 2007). Asymmetry of information is then used to trigger the onset of the practice of earnings management in a company. This information asymmetry can be reduced by transparency in the presentation of the financial statements of the principal. Behavioral manipulation by the manager who started such conflicts can be minimized through a monitoring mechanism that aims to alignment the various interests. First, by increasing the company’s share ownership by management (managerial ownership) (Jensen et al, 1976), so that the interests of the owners or shareholders will be aligned with the interests of the manager. Secondly, through the role of monitoring by the board of commissioners (board of directors). Dechow et al (1996) and Beasly (1996) found a significant relationship between board role to financial reporting. They found that the size and independence of the board of commissioners with their ability to monitor the financial reporting process.

Issues relating to the quality of financial reporting is often caused by a conflict of interest between management and stakeholder interests. Management does not always act in the interests of stakeholders, but often management acts to maximize their welfare and securing their positions regardless of the danger posed to other stakeholders, such as employees, investors, creditors and the public. The importance of the differences then this raises the asymmetry of information between the two sides. Information gap between the company and potential investors, will also increase the probability for the company to increase profits and this cannot have detected by the market. Research by Richardson (1998) proved that the higher the information the higher the income management so as to reduce the quality
of earnings information. Earnings information used as a basis for decision making for the company’s internal and external, then the earnings information can be referred to as a quality earnings information because it can affect the decisions that will be made for the parties concerned. Earnings quality in this case that, if the income can provide a response to the interested parties in decision-making about the condition of the company. Good Corporate Governance (GCG) is a key element in improving economic efficiency, which includes a set of relationships between the company’s management, board, shareholders and other stakeholders. Corporate governance also provides a structure that facilitates the determination of the objectives of a company, and as a means to determine the performance monitoring techniques (Deni et al, 2004).

REVIEW OF LITERATURE

Agency Theory
Agency theory can be regarded as a contractual model between two or more people (parties), and one of the parties referred to the agent (agent) and the other is called the principal (principal). Principal delegate responsibility for decision making to the agent, it can be said that the principal give a mandate to the agent to perform certain tasks in accordance with the employment contract has been agreed. Authority and responsibility as well as the principal agent stipulated in the employment contract by mutual consent. But on the one hand, agents have more information (full information) compared with the principal, causing their asymmetry information. More information held by managers may trigger to perform actions in accordance with the wishes and interests to maximize its utility. As for the owners of capital in this case the investor, it would be difficult to effectively control conducted by the management, because the information obtained is very minimal. Agency relationship is the basis used to understand corporate governance. Jensen and Meckling (1976) states that an agency relationship is a contract between the manager (agent) to the investor (principal). Conflicts of interest between owners and agents occurred because of possible agents do not always act in accordance with the interests of the principal, thus triggering the agency fee (agency cost). Jensen and Meckling (1976) states that if the two groups (the agent and principal) are people who seek to maximize their utility, it is reason to believe that the agent will not always act in the best interest of the principal. Jensen and Meckling (1976)
identifies boarding the agency into three groups, namely: 1) the monitoring of expenditure by the principal is boarding surveillance to be incurred by the owner; 2) the bonding costs, is boarding to be incurred as a result of monitoring costs to be incurred principal to the agent; 3) the residual loss is due to reduced prosperity sacrifice principal for the difference between the principal decisions with an agent

**RESEARCH QUESTION**

1. Is the information asymmetry can affect the quality of accrual earnings at companies listed on the Indonesian Stock Exchange (BEI)?
2. Is the managerial ownership structure in the mechanism of Good Corporate Governance (GCG), affect the relationship between information asymmetry with accrual earnings quality in manufacturing companies listed in Indonesia Stock Exchange (BEI).
3. Is the composition of the management structure of independent directors in the mechanism of Good Corporate Governance (GCG), affect the relationship between information asymmetry with accrual earnings quality in manufacturing companies listed in Indonesia Stock Exchange (BEI)?

**RESEARCH HYPOTHESIS**

This research will examine the effects of information asymmetry on the quality of earnings, and also to see the moderating influence of Good Corporate Governance (GCG) as one of the elements of financial statements to show the company’s operational performance. Information asymmetry is a situation where the information gap between the managers as manager of the company with the principals (the company owner). This is because since the management is a party that knows for sure about the company’s prospects for the current and for the future. The information gap between the two sides, then it can lead to the use of accounting methods which can increase profits. And will also be able to trigger high earnings management performed by the manager, so it can rise to the misleading information to users of financial statements. Jensen and Meckling (1976) adds that if the two groups (the agent and the principal) are people who seek to maximize their utility, then there is little reason to believe that the agent will not always act in the best interest of the principal. The principal can limit it by setting the right incentives for agents and do monitor that is designed to limit the activities of agents who deviate. The existence of information
asymmetry is considered as the cause of their earnings management (Richardson, 1998) examined the relationship asymmetry of information and earnings management in all companies listed on the NYSE (New York Stock Exchange) in the period ending June during 1988 - 1992. The research shows that there is a systematic relationship among magnitude asymmetry of information and the level of earnings management. So the quality of the resulting profit or related to the level of earnings management conducted by the management. From the description, it can be hypothesized as follows:

**H1: Information asymmetry affects the quality of accrual earnings**

The company's management as the manager, managers more aware of internal information and future prospects of the company that comes compared with the owners (shareholders). Therefore, managers should be obliged to provide a signal about the state of the company to the owner. But sometimes the information submitted does not comply with conditions of actual companies and known by information asymmetry (asymmetric information). The asymmetry between the management (agent) and the owner (the principal) will give managers the opportunity to perform earnings management (earnings management) (Richardson, 1998). Good Corporate governance consists of managerial ownership, the proportion of independent board. Schleifer and Vishny (1986) indicates that that the greater share of the ownership in terms of economic value of the incentives to monitor. Management ownership of the shares of companies seen to align the potential difference between the interests of shareholders with management (Jensen & Meckling, 1976). So the agency issues were assumed to be lost if a manager is also as an owner. Research Warfield et al (1995), which examines the relationship of managerial ownership with discretionary accrual and profit information content found evidence that managerial ownership is negatively related to discretionary accrual. The results of this study also states that the quality of earnings increases when managerial ownership is also increasing. Based on the results of the previous studies, the research hypothesis is:

**H2: Managerial ownership is able to moderate the relationship between information asymmetry with accrual earnings quality.**

The composition of independent directors is a party that can help to monitor and control behavior management in running the company's operations. So that the financial statements presented in particular can profit or quality
Research Beasley (1996) examined the relationship between the proportion of commissioners with fraudulent financial statements. By comparing companies that commit fraud by companies that did not commit fraud, they found that companies that commit fraud have external commissioner’s percentage significantly lower than the corporation that is not cheating. With the composition of the independent directors can also monitor and control the behavior of the management not to abuse the information held. Brown and Caylor (2004) also found that companies that independent boards have a return on equity, profit margins and a higher dividend yield. From the description, it can be hypothesized as follow

**H3: The composition of independent directors was able to moderate the relationship between information asymmetry with accrual earnings quality.**

**RESEARCH METHODS**

**Location and Design Research**

The research was conducted at the Indonesian Stock Exchange. By analyzing empirically, the influence of asymmetry of information on the quality of earnings accrued by good corporate governance as a moderating variable. This study uses panel data (pooled data).

**Population and Sample**

The population in this study are listed companies in Indonesia Stock Exchange in the period 2013-2015. Of 168 manufacturing companies listed on the Stock Exchange, several companies had to be removed because of problems related to the availability, condition, and completeness of the information required in testing so the final sample to 24 firms.

**Data Collection and Analysis**

Data collection methods used in the form of data files or secondary data obtained from the annual financial statements of companies listed on the Stock Exchange and are available at (http://www.idx.co.id/) and the Indonesian capital market directory (ICMD) in 2013 - 2015. Study using two models, the first model to examine the effect of information asymmetry on earnings quality through multiple regression analysis (multiple linear regression) and the second model to test the effect of information asymmetry after moderated by good corporate governance (GCG) which consists of managerial ownership and the composition of independent
directors. by using different test t-test. Using SPSS 21.0 for Windows. The results in the form of descriptive statistical analysis and hypothesis testing techniques

ANALYSIS AND INTERPRETATION

Descriptive Statistical Analysis

Based on the results of a descriptive analysis of Table 1 and 2 shows that the number of samples (n) of the study there were 24. Of the number of samples (n), the discretionary accruals variable has a minimum value and a maximum -0.509 -11. With an average standard deviation of 1.04801-2.6421dan. As well as the number of observations as much as 72. This shows a sample enterprise data quality tends to show quality of the profit. Information asymmetry has a minimum value of 4:03 and a maximum value of 8.99 with an average of 5.9252 and a standard deviation of 1.20967 72 as well as the number of observations. This shows sample data company, has a fairly high information asymmetry. Managerial ownership has a minimum value and a maximum value of 23.0800 0.0010 with an average of 3.189972 and the standard deviation of 5.7944661. As well as the number of observations as much as 72. This means that stock ownership by management and directors of the average taken 10 percent. independent of board director has a minimum value and a maximum value of 0.2500 with an average of 60.0000 37.895556 and standard deviation of 9.8154470. As well as the number of observations as much as 72. This means that the number of independent board directors appointed by the parties outside the company more than 25 percent of its commissioners.

Table 1. Details of Sampling Data

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Manufacturing Companies listed on the Stock Exchange in 2015 till 2015</td>
<td>168</td>
</tr>
<tr>
<td>2.</td>
<td>Not present the full report</td>
<td>-96</td>
</tr>
<tr>
<td>3.</td>
<td>Do not have information GCG</td>
<td>-47</td>
</tr>
<tr>
<td>4.</td>
<td>Fiscal year not ended 31 December</td>
<td>-1</td>
</tr>
<tr>
<td></td>
<td>The sample of the company</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Number of observations (24x3 observation period)</td>
<td>72</td>
</tr>
</tbody>
</table>

Table 2. Descriptive Statistics
### Description

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning of Accrual</td>
<td>72</td>
<td>-5.09</td>
<td>-11</td>
<td>-2.6421</td>
<td>1.04801</td>
</tr>
<tr>
<td>Asymmetry Information</td>
<td>72</td>
<td>4.03</td>
<td>8.99</td>
<td>5.9252</td>
<td>1.20967</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>72</td>
<td>.0010</td>
<td>23.0800</td>
<td>3.18972</td>
<td>5.7944661</td>
</tr>
<tr>
<td>Board Of Commissioners Comp.</td>
<td>72</td>
<td>.2500</td>
<td>60.0000</td>
<td>37.89556</td>
<td>9.8154470</td>
</tr>
</tbody>
</table>

Table 3. Coefficient of Determination Before Moderation

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std Error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.367a</td>
<td>.135</td>
<td>.122</td>
<td>.98179</td>
</tr>
</tbody>
</table>

Table 4. Coefficient of Determination After Moderation

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std Error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.500a</td>
<td>.220</td>
<td>.193</td>
<td>.94118</td>
</tr>
</tbody>
</table>

Based on Table 3 and Table 4, it can be seen the coefficient of determination for moderation in the adjusted R square value is equal to 0.122 means that variations in the quality of earnings is the dependent variable can be explained by variation in the independent variable by 12% and the remaining 88% is explained by other variables. Once the data is entered moderating variable of good corporate governance, the adjusted R square value increased to 0.193 means that earnings quality variations dependent variable that can be explained by the independent variables by 19% and the remaining 89% is explained by other variables.

**T-Test Results**

Based on a statistical test t can be seen in Table 5 asymmetry variable has a negative and significant relationship to the quality of earnings. And when moderated by managerial ownership and composition of independent directors has a significant connection.
Table 5. Result of statistical test (t)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unst. Coefficient</th>
<th>Statistic Value (t)</th>
<th>Significance</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>8.714</td>
<td>2.764</td>
<td>0.007</td>
<td></td>
</tr>
<tr>
<td>Lnabsinf_asym</td>
<td>-1.723</td>
<td>-3.3567</td>
<td>0.001</td>
<td>Accepted</td>
</tr>
<tr>
<td>Lnabsinf_asym* man</td>
<td>-1.757</td>
<td>-3.33</td>
<td>0.001</td>
<td>Accepted</td>
</tr>
<tr>
<td>Lnabsinf_asym* Board of Comm.</td>
<td>0.036</td>
<td>2.898</td>
<td>0.005</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

**DISCUSSION**

This Research suggests that information asymmetry has effect significant negative on the quality of earnings. The statistical results showed that the variables significantly the second hypothesis (H1) which states that information asymmetry affects the quality of earnings, is acceptable. Substantial regression of variable asymmetry coefficient is negative indicates that there is a negative relationship between the value of information asymmetry discretionary accrual, where the greater the higher the value of the information asymmetry, discretionary accrual will be smaller, and vice versa. Results of this study are consistent with results of previous studies (Richardson, 1998) which found that there is a systematic relationship between magnitude of information asymmetry and the level of earnings management. So the quality of the resulting profit associated with the level of earnings management undertaken by management. Information gap between the two sides, it will be able to lead to the use of accounting methods which can improve the bottom line. And will also be able to trigger high earnings management undertaken by the manager, so it can rise to the misleading information to users of financial statements. Managerial ownership may moderate the relationship asymmetry of information on the quality of the earnings accrual, the second hypothesis (H2) is acceptable. The results support the research by Jensen et al, 1976. Theoretically when managerial ownership is high, then the incentive to the possibility of opportunistic behavior of managers will decline. With higher agency problems of managerial ownership is assumed to be on the wane. Fidyati (2004) find evidence that earnings management is conducted has a negative
relationship with managerial ownership. This means that the higher the shares owned by management, the higher the quality of earnings. Siallagan and Machfoedz (2006) states that the greater the discretionary accruals making managerial ownership is low. The results support the evidence that managerial ownership reduces the urge manager’s opportunistic behavior. Composition of independent board directors are able to moderate the relationship between information asymmetry on the quality of that accrual earnings. The third hypothesis (H3) is acceptable. The role of the board of commissioners will have an impact on earnings management because the commissioners oversee the balancing of the interests of management that earnings management is not going to happen. Commissioners can also impact the performance of the company as if the commissioners carry out their duties properly, it can increase the confidence of investors that they would receive a return on the funds they have invested. Results of this study support the results of research conducted by Brown et al (2004) that examined the relationship between the proportion of the board of commissioners with the company’s performance in generating earnings quality and found that companies with a high commissioner will have a return on equity yield, profit margin and dividend higher yields.

**IMPLICATIONS**

**Practical**

The existence of information asymmetry is considered as a cause of earnings management in all companies listed in Indonesia Stock Exchange during the period 2013-2015. The research data showed a negative and significant, high asymmetry information it will degrade the quality of earnings listed in the company, for their earnings management conducted by the management. The more aggressive accounting methods applied by management, the lower the earnings quality is also generated. In this research examines the relationship between information asymmetry with earnings quality, with moderation managerial ownership by using stock market data on manufacturing companies listed in Indonesia Stock Exchange during the period 2013-2015, found a negative but significant relationship between managerial ownership with earnings quality, and this reflects that if the lower managerial ownership in a company, then the earnings quality that is reflected in the presentation of financial statements will also be low, because there is profit management is done by the management, so that the earnings information cannot be used as a decision-making tool for third parties
Independent Commissioner Board size at companies listed on the Indonesia Stock Exchange Capital Market during the period 2013-2015, show that has a positive and significant, and it is concluded that the greater the existence of an independent commissioner in a company, the better the process of monitoring the management of the company.

Theoretical

Information Asymmetry affect the quality of the profit generated by the company, the information asymmetry, management tends to be earning management, by implementing aggressive accounting methods. The more aggressive accounting method is applied, the lower the earnings quality is also produced; and the lower the quality of the earnings, the higher the risk to the determination of the stakeholders, because the other side of investors (stakeholders) to focus on the income statement as investors found earnings stability will affect the stability of dividends. The quality of earnings is presented in the financial statements of the company, can be influenced by managerial ownership. There is pressure from the investors in the capital market which wants good information about the state of a company, leading company that has ownership of the company is low, will choose the accounting method that can increase profits and the earnings management is greater done by managers, it can causing misleading information to third parties primarily to their shareholders (stakeholders). In general it can be said that the existence of a certain percentage of stock ownership by management will also tends to affect earnings management actions to be taken by the management, With the independent commissioner then also be able to monitor and control the behavior of management in managing an enterprise.

CONCLUSION AND RECOMMENDATION

Based on the findings in this study that specifically examined the manufacturing company that, the result that information asymmetry significant effect on earnings quality. Managerial ownership and the moderating variable composition of independent board directors is a variable that may moderate the relationship between information asymmetry with accrual earnings quality. Advisable for the practitioner, or the management as the decision maker needs to put quality information generated company profits. Because earnings information will be used as a basis for decision making for interested parties (stakeholders). Besides, the
implementation of Good Corporate Governance (GCG) should also be considered optimal, in order to achieve corporate governance better.

REFERENCES


