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THE EFFECT OF ASYMMETRY INFORMATION ON THE INVESTMENT EFFICIENCY AND COST OF CAPITAL WITH INTEGRATED REPORTING AS THE MODERATING VARIABLE

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KeyWords
Information Asymmetry, Integrated Reporting, Investment Efficiency, Capital Costs.

ABSTRACT

This study aims to determine the effect of information asymmetry on investment efficiency and cost of capital with integrated reporting as a moderating variable. The research object is a manufacturing company listed on the Indonesia Stock Exchange. The study population was 164 companies in the period 2016-2018. Determination of the sample using nonprobability sampling technique, where data collection is carried out in documentation. The number of samples selected was 76 companies. The data used is panel data and obtained 228 firm years with the use of three years of observation time. However, the data that qualify for processing are 182 firm years. The data analysis technique used is regression analysis and moderation regression analysis.
The results showed that (1) information asymmetry has a negative effect on investment efficiency; (2) information asymmetry has a positive effect on the cost of capital; (3) integrated reporting moderates the effect of information asymmetry on investment efficiency; and (4) integrated reporting moderates the effect of information asymmetry on capital costs.

I. INTRODUCTION

Referring to agency theory, the existence of information asymmetry between principal agents who do not have the same incentives will result in inefficient investment decision making (Jensen & Meckling, 1976). Investment decision making by companies is very important, both for private companies and even more so for public sector companies. Good investment decisions can bring long-term benefits and determine the survival and growth of a company. Bad investment decisions, on the other hand, can jeopardize a company's future (Embong, 2018).

Investment activities will be efficient if the information obtained by the company management and shareholders is balanced. This causes little possibility for company management to manipulate company reports. This is in line with the results of research by Purba & Suaryana (2018) which states that one of the factors causing investment activities to be less efficient is due to information asymmetry which can cause differences in perceptions between company management and shareholders.

Some previous literature suggests that the existence of information asymmetry can reduce the level of investment efficiency for at least two reasons. First, deviations from investment efficiency are the result of agent-principal conflict, in which managers work for their own interests through suboptimal investment decision making when their incentives do not align with shareholders (Jensen & Meckling, 1976). Information asymmetry can limit the ability of shareholders to monitor managers and thereby increase the likelihood of over / underinvestment. Second, investment inefficiency is a consequence of the imperfection of the capital market where insiders and external capital providers have information asymmetry.

Other problems that arise due to information asymmetry besides investment efficiency are related to the cost of capital. When information asymmetry arises, disclosure decisions made by managers can affect share prices because information asymmetry between more informed and less informed investors creates transaction costs and reduces expected liquidity in the market for company shares (Indayani & Mutia, 2013) . According to Brigham & Houston (2006), the cost of capital is the rate of return on investment that causes firm value to increase. Capital costs relate to the risk of investing in company shares. The cost of capital is very important because it shows the rate of return that investors can get on the funds they have invested.

Evidence from several previous studies (Le, 2018; Lingmin, 2013) shows that narrowing the gap in information between company insiders and outsiders can have an impact on increasing investment efficiency and reducing the cost of capital (Diamond & Verrecchia, 1991; Mardiyah, 2002; Indayani & Mutia, 2013). In particular, providing more information to outsiders is a good step towards reducing the level of information asymmetry.

Since the bankruptcy of Lehman Brother in 2008 triggered the global economic crisis, users of information need information that provides an integrated picture of the company in terms of financial and non-financial aspects to increase corporate value both in the short and long term (Affan, 2019). This is reinforced by the results of research found by Fanani (2009) which states that financial information and non-financial information cannot be separated in terms of business decision making by investors.

Healy & Palepu (2001) show that to overcome agency problems can be overcome by disclosing relevant information by managers, so that company owners are able to evaluate whether their funding is well managed or not by management. Additional information in the form of non-financial information is proven to have relevant value and can be used by stakeholders as a consideration in terms of decision making (Dhaliwal et al. 2011).

Lobo & Zhou (2001) stated that to reduce the problem of information asymmetry, companies need to disclose non-financial information that creates an alignment of interests between managers, owners and minority interests. This is in line with the content of stakeholder theory which states that the company has stakeholders who will influence the decision-making process and the achievement of company goals so that the company must be able to identify stakeholder interests. Through increased disclosure, the company is expected to increase its value and meet stakeholder expectations.

Integrated reporting is the latest corporate reporting format that prioritizes transparency in reporting company performance. Integrated reporting provides financial and non-financial information such as economic, financial, governance, environmental, intangible, and social issues that are clear and integrated on how an organization creates added value (Azam et al, 2011; Eccles et al, 2015; Morros, 2016; Soyka, 2013). Integrated reporting has the benefit of increasing transparency in company operations, with increased transparency it will increase stakeholder trust (Azam et al. 2011; Serafeim 2015; Cheng et al. 2014).

The concept of integrated reporting describes the relationship between corporate strategy, governance, financial performance, and CSR in the economic context of the company's operations. By emphasizing this relationship, integrated reporting is expected to describe the actual company performance and not cause information asymmetry and also to assist stakeholders in the decision-making process. Due to its holistic and integrated scope, many companies have implemented integrated reporting. However, the use of integrated reporting is not mandatory in Indonesia, so integrated reporting is still categorized as voluntary disclosure.

II. Literature Review

Agency Theory

Agency theory explains the agency contractual relationship that occurs on two parties between the principal and the agent (Jensen & Meckling, 1976). This relationship arises when one or more principals employ another person called an agent to provide services in managing the company on behalf of the principal. In this contractual relationship the principal (owner) delegates decision-making entirely to the agent (manager).

This theory argues that problems occur when stakeholders and management do not have the same incentives and interests and stakeholders cannot monitor management behavior. Disclosure of information is one of the important tools to solve agency problems between management and owners, because it is seen as an attempt to reduce information asymmetry. Disclosure of company information must be adequate for all types of company stakeholders so that it is expected that there will be an integrated disclosure of reporting for all types of stakeholders.

Legitimacy Theory

Legitimacy theory states that companies will try to ensure that the company's actions are in accordance with public expectations, as according to Suchman (1995) which states that: "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."

According to this theory, there is a social contract between the company and the public so that the company is obliged to realize public expectations. Voluntary corporate disclosure depicting sustainable corporate action is one way that can strengthen public legitimacy. This is because when the company's actions are not in accordance with the public's expectations during an operating period, it can be equipped with a strategic plan and the company's ability to meet future public expectations.

Stakeholder Theory

According to this theory, companies have stakeholders, both groups and individuals who get benefits or gains or losses from corporate action. Freeman (1983) states that companies must be able to identify stakeholder interests that can influence and be influenced in achieving company goals.

Investment Efficiency

Biddle et al. (2009) stated that a company can be said to make an efficient investment if the company carries out only on projects with a positive NPV (Net Present Value) assuming there are no market frictions such as adverse selection and agency costs. Investments that are classified as inefficient include underinvestment when a company misses investment opportunities that have a positive NPV and also overinvestment when the company invests in projects with negative NPV values.

In investment decisions, companies can experience inefficiency problems. The tendency to overinvest will lead to excess investment if the company has the resources to invest. Jensen (1986) predicts that managers have an incentive to increase their income and make company growth beyond the optimal size (Blanchard et al, 1994). On the other hand, the capital supplier will see this problem so that it will limit their capital which will trigger underinvestment.

Capital Costs

The cost of capital is the cost incurred to finance the source of financing (Modigliani & Miller, 1959). According to Sudana (2003) the cost of capital is the minimum level of income required by the owner of capital. From the perspective of the company that receives the funds, the required level of income is the cost of the funds obtained by the company. Khomsiyah & Susanti (2003) stated that the cost of capital is the rate of return desired by fund providers, both investors (cost of equity) and creditors (cost of debt). The cost of capital relates to the risk of investing in company shares.

Information Asymmetry

Information asymmetry is the difference in information obtained by each party relating to business transactions (Scott, 2015). According to Jogiyanto (2010) information asymmetry is a condition that shows some investors have information and others do not. Komalasari and Baridwan (2001) state that information asymmetry is a condition in which managers have access to information on company prospects that are not owned by outsiders.

Integrated Reporting

The definition of Integrated Reporting based on the Integrated Reporting Framework published by IIRC in 2013 is a brief communication about how the organization's strategy, governance, performance and organizational prospects, in the context of the external environment, can create short, medium and long term value. Apart from containing financial information, integrated reporting also contains other information relevant to the organization.

The objective of integrated reporting as stated in the Integrated Reporting Framework is to provide insight into: (1) the external environment that affects an organization (2) the resources and relationships used by the organization; (3) how the organization interacts with the external environment and capital to create short, medium and long term value. Integrated Reporting is intended to provide benefits to various stakeholders and in particular to providers of financial capital allocation or investment decisions (IIRC, 2013).

Research Hypothesis

H1: Information asymmetry has a negative effect on investment efficiency
H2: Information asymmetry has a positive effect on the cost of capital
H3: Integrated reporting moderates the effect of information asymmetry on investment efficiency
H4: Integrated reporting moderates the effect of information asymmetry on the cost of capital.

III. Research Methodology

Types Of Research

This type of research is an association research which is a type of research with problem characteristics in the form of a relationship between two or more variables.

Data types and sources

In this study, the type of data used is quantitative data, using panel data by combining time series and cross section data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id), and www.financeyahoo.com. . The data collected is in the form of financial reports, daily stock prices, and company annual reports from 2015-2018.

Method of collecting data

The data collection technique used is documentation technique. The data collected in this study are secondary data from manufacturing companies listed on the Indonesia Stock Exchange during the study period.

Population and Sample

The population in this study are companies that are classified as companies engaged in manufacturing and listed on the IDX from 2015 to 2018.

Data analysis technique

The data anlalysis technique used in this study is the statistical analysis method using SPSS Statistics 25. Data analysis in this study using regression analysis.

Normality test

According to Ghozali (2011), "The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution." The normality test in this study was carried out using the Kolmogorov Smirnov test with a significant level of 0.05 or 5%. The data is said to be normally distributed if the resulting significance is> 0.05.

Heteroscedasticity Test

According to Nawari (2010), "The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another." There are several ways that can be done to carry out heteroscedasticity tests, namely plot graph tests, Park tests, Glejser tests, and white test. The basis for decision making is that if there is a certain pattern such as the existing dots forming a certain pattern that is drawn (wavy, widened then narrowed) then heteroscedasticity occurs and if there is no clear pattern such as dots spreading above and below the number 0 on the Y axis there is no heteroscedasiticity.

Multicolonierity Test

According to Sugiyono (2013), "Multicolonierity test is a linear relationship between independent variables in multiple regression." There are several methods to detect the presence or absence of multicolonierity problems in a multiple regression model. The method is the correlation test, auxiliary regression and the client method. In multicolonierity test research using the correlation test method. Multicolonierity test can be detected by looking at the linear correlation between the independent variables in the regression. If the correlation coefficient is high enough, which is above 0.85, then it is assumed that there is multicolonierity in the model and vice versa.

Hypothesis test

Simple Regression Analysis

According to Ghozali (2011) simple linear regression analysis is based on the causal or functional relationship of one independent variable with the dependent variable. In this study, simple regression analysis was used to test the first and second hypotheses. The equation model can be seen as follows:

$$Y = \alpha + \beta_1 X_1 + \varepsilon$$

Moderated Regression Analysis

To test the interaction effect of the moderating variable, Moderated Regression Analysis (MRA) is used, which is a special application of multiple linear regression where the equation contains an element of interaction (Ghozali, 2011). The statistical equations used to test the third and fourth hypotheses are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 (X_1 * X_2) + \varepsilon$$

IV. Results

Normality test

Based on normality testing using the Kolmogorov Smirnov test with a significant level of 0.05 or 5%, a significant value of 0.00 is obtained, where the limit of significance for the data stated to be normally distributed is <0.05. This can happen due to the use of data whose value is too extreme. Therefore, to normalize the data, an outlier was issued on the existing data by 20% and a significance result was obtained of 0.200> 0.05. Thus it can be stated that the data used are normally distributed.

Heteroscedasticity Test

Based on the scatterplot graph, it can be seen that the data (dots) spread out on the zero line and without forming a certain pattern, the data can be said to be free of heteroscedasticity.

Multicolonierity Test

Based on the results of the multicolonierity test, it can be seen that the tolerance on the independent variables (Information Asymmetry and Integrated Reporting) shows the values of 0.180 and 0.197 which are above the value of 0.01 (tolerance> 0.01), so it can be said that there is no multicolonierity of data on the variables. Information Asymmetry and Integrated Reporting. Furthermore, the Variance Inflation Factor (VIF) value in the operating cash flow and net income variables shows the numbers 5.016 and 5.083 which are above the value of 10 (VIF <10), so it can be said that there is no multicolonierity of data on the independent.

Simple Regression Analysis

a. The effect of information asymmetry on investment efficiency

In the information asymmetry variable, a probability value of 0.000 is less than 5% (0.000 <0.050), so it can be stated that the information asymmetry variable has a significant effect on the investment efficiency variable. Based on the coefficient value of -1,762, it shows a negative value which indicates that the information asymmetry variable has a negative effect on the investment efficiency variable. This means that the higher the level of information asymmetry, the lower the level of investment efficiency made by the company. Conversely, the lower the level of information asymmetry, the higher the level of investment efficiency made by the company.

b. The effect of information asymmetry on the cost of capital

In the information asymmetry variable, the probability value is 0.000. Because the probability value is less than 5% (0.000 <0.050), it can be stated that the information asymmetry variable has a significant effect on the capital cost variable. Based on the coefficient value of 5.005, it shows a positive value which indicates that the information asymmetry variable has a positive effect on the variable cost of capital. This means that the higher the level of information asymmetry, the higher the capital costs incurred by the company. Conversely, the lower the level of information asymmetry, the lower the capital costs incurred by the company.

Moderated Regression Analysis

a. The effect of information asymmetry on investment efficiency, moderated by integrated reporting

Based on the test results, the information asymmetry variable after interacting with the integrated reporting variable has a probability value of 0.019 and is below the standard significance value of 0.05. This indicates that integrated reporting moderates the effect of information asymmetry on investment efficiency.

b. The effect of information asymmetry on capital costs moderated by integrated reporting

Based on the test results, the information asymmetry variable after interacting with the integrated reporting variable has a probability value of 0.011 and is below the standard significance value of 0.05. This suggests that integrated reporting moderates the effect of information asymmetry on the cost of capital.

V. Discussion

Information asymmetry has a positive effect on investment efficiency.

The first hypothesis based on the test results is accepted. Thus the hypothesis which states that information asymmetry has a positive effect on investment efficiency can be proven in the companies that are the samples in this study, namely manufacturing companies listed on the IDX. This means that the higher the level of information asymmetry, the lower the level of investment efficiency made by the company.

Referring to agency theory, the existence of information asymmetry between principal agents who do not have the same incentives will result in inefficient investment decision making (Jensen & Meckling, 1976). According to Myers (1984), investment inefficiency is a consequence of capital market imperfections where there is information asymmetry between insiders and capital providers. One example is the case of “lemon's problem”, which sells overpriced securities, which leads to over-investment (Baker et al, 2003). In other words, the existence of information asymmetry can result in errors in investment decision making which will result in investment inefficiency.

The results of this study also support research conducted by Purba & Suaryana (2018), Le (2018), Lingmin (2013), Biddle et al. (2009), and Blanchard et al. (1994) which states that information asymmetry has a positive effect on investment efficiency. Le (2018) in the results of his research stated that information asymmetry creates favorable conditions for managers with bad value projects to deceive providers of capital about the benefits of unreal investment. As a result, investors who are weak in project appraisal tend to miss good projects and tend to fund bad projects.

Information asymmetry has a positive effect on the cost of capital.

The second hypothesis based on the test results is accepted. Thus the hypothesis which states that information asymmetry has a positive effect on the cost of capital can be proven in the companies that are the samples in this study, namely manufacturing companies listed on the IDX. This means that the higher the level of information asymmetry, the higher the capital costs that need to be incurred by the company. Conversely, the lower the level of information asymmetry, the lower the capital costs that need to be incurred by the company.

Agency theory argues that problems occur when stakeholders and management do not have the same incentives and interests and stakeholders cannot monitor management behavior. Where the company management knows more about internal information (asymmetry information) and the company's prospects for the company in the future compared to stakeholders. Where there is asymmetry of information, decisions made by managers can affect stock prices because asymmetry of information between more informed investors and less informed investors will result in transaction costs and increase the cost of capital of a company (Nurjanati & Rodoni, 2015).

In line, the results of this study support research conducted by Murni (2004), Komalasari (2000), Diamond & Verrecchia (1991), and Myers & Majluf (1984) which state that information asymmetry has a positive effect on capital costs. This result is in accordance with agency theory which states that the more information is hidden by the agent, the higher the risk that must be borne by the owner of the capital.

The results of this study are also in line with the results of research conducted by Mardiyah (2002). According to the results of his research, Mardiyah (2002) found that the smaller the information asymmetry that occurs among capital market participants, the smaller the cost of capital that is borne by the company. In line, Komalasari & Baridwan (2001) also revealed in their research results that there was a positive relationship between information asymmetry and the cost of equity capital.

Integrated reporting moderates the effect of information asymmetry on investment efficiency.

The third hypothesis based on the test results is accepted. Thus the hypothesis which states that integrated reporting moderates the effect of information asymmetry on investment efficiency can be proven in the companies that are the samples in this study, namely manufacturing companies listed on the IDX.

Disclosure of information is one of the important tools to solve agency problems between management and stakeholders, because it is seen as an effort to reduce information asymmetry. Integrated reporting is the latest corporate reporting format that prioritizes transparency in corporate performance reporting which not only presents financial information but also prioritizes the presentation of company non-financial information.

Previous literature agrees that with more information available to investors, managers are less likely to invest in projects that could harm investors 'wealth, because managers' activities are monitored. The argument is that the increased level of disclosure provides investors with a monitoring tool to control managers' investment decisions (Bens & Monahan, 2004; Biddle et al., 2009; Healy & Palepu, 2001; Lai et al., 2014). The explanation is that on the one hand, shareholders who are provided with more information have a greater ability to analyze investment decisions. This strengthens shareholders' right to make decisions and prevents loss of their wealth if they identify managers who wish to undertake suboptimal projects.

On the other hand, after the increased disclosure regulations were issued, managers' investment choices were clearly exposed to the capital market, under greater scrutiny from external market and financial experts (Kanodia & Lee, 1998). In this situation, it is difficult for managers to waste their company's financial resources. Therefore, managers who make investment choices irrespective of the interests of providers of capital tend to reduce the cash flow of shareholders appropriate to improve their own welfare. Furthermore, the more project information the provider of capital has, the more efficient project investment will be.

The results of this study also support the research conducted by Healy & Palepu (2001) which shows that to overcome agency problems can be overcome by disclosing relevant information by managers, so that company owners are able to evaluate whether their funding is well managed or not by management. . In line, the results of this study are also in accordance with the results of research by Le (2018), which in their research results reveal that in a high disclosure environment, companies with positive net present value projects have sufficient capital to finance their investments while companies with negative net present value projects facing capital constraints. The reason is that investors with transparent project information can estimate potential benefits accurately, and then require a reasonable rate of return. Managers are no longer in a position to hide the real project value from investors. Thus, an increase in the level of disclosure can reduce overinvestment and underinvestment, leading to increased investment efficiency.

Integrated reporting moderates the effect of information asymmetry on the cost of capital.

The fourth hypothesis based on the test results is accepted. Thus the hypothesis which states that integrated reporting has an effect on moderating the effect of information asymmetry on capital costs can be proven in the companies that are the samples in this study, namely manufacturing companies listed on the IDX.

The integrated reporting element consists of several elements that are presented in an integrated manner to minimize information asymmetry between managers and stakeholders and is a response to the desire for transparency reporting to build public trust (Krzus, 2011). Reduced information asymmetry due to the extent of disclosure, has an impact on reducing agency risk faced by investors which in turn will influence investors to reduce the expected return on the company. The expected reduction in the cost of corporate capital stems from two different effects brought about by integrated reporting: (i) the adoption of a sustainable business model due to integrated thinking and (ii) a reduction in information asymmetry due to greater transparency, which allows more information estimation.

The results of this study are in line with research conducted by Leuz & Wysocki (2008), Biddle & Hilary (2006), Mardiyah (2002) and Diamond & Verrecchia (1991). In the results of his research, Mardiyah (2002) found that information asymmetry and disclosure have an interaction effect on the cost of capital where disclosure significantly moderates the effect between information asymmetry and cost of capital and states that the greater the level of disclosure, the stronger the effect of low information asymmetry. against a reduction in the cost of capital.

Likewise, the results of research conducted by Leuz & Wysocki (2008) show that disclosure plays an important role in resolving problems caused by capital market liquidation. In particular, in a high disclosure environment, traders have fewer opportunities to obtain private information. This reduces the advantages of an informed investor as well as the disadvantages of an uninformed investor. Therefore, capital market liquidity increases and the company's cost of capital decreases. In line, Diamond & Verrecchia (1991) stated in the results of their research that broad disclosure can reduce information asymmetry which results in a decrease in the special components of the cost of capital, such as reducing the cost of equity, operating costs, and reducing risk estimates.

Conclusion

1. Information asymmetry has a negative effect on investment efficiency
2. Information asymmetry has a positive effect on the cost of capital
3. Integrated reporting moderates the effect of information asymmetry on investment efficiency
4. Integrated reporting moderates the effect of information asymmetry on the cost of capital

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