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Financial Reporting Quality and Debt Maturity on Investment Efficiency in Non-Financial Companies Listed on the Indonesia Stock Exchange in 2015-2017

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Abstract:- This research explains the effect of financial reporting quality and debt maturity on investment efficiency. Based on agency theory, the financial reporting quality and debt maturity can reduce information asymmetry hat occurs between management and stakeholders. This research was conducted at non-financial companies listed on the Indonesia Stock Exchange in 2015 to 2017. The results show that the financial reporting quality has a significantly effect on investment efficiency. The debt maturity has no significantly effect.

Keywords:- *Financial Reporting Quality, Debt Maturity, Information Asymmetry, Investment Efficiency.*

I. INTRODUCTION

The development of the business world is now more advanced, especially with the ASEAN Economic Community (AEC) which has an impact on increasing business competition between companies. Companies are required to do business development well so that company performance can improve, thus requiring management to make appropriate decisions. One of them is the decision to make an investment. Management is required to consider every decision made related to investments made by the company so that investments made can provide effective results in the future.

Investment growth in Indonesia continues to increase from 2011 to 2018. If in 2011 the total investment obtained was Rp. 251.3 trillion, in 2018 total investment in Indonesia has increased to Rp. 721.3 trillion (Badan Koordinasi Penanaman Modal, 2019).

Investments made by companies must consider the benefits to be gained in the future. The investment must be able to increase the company's business growth for the better by increasing the production capacity of goods or services. The company must invest appropriately so that the company can achieve investment efficiency. According to Christianto Wibisono as an Indonesian economist, one of the ratios used to measure investment efficiency is ICOR (Incremental Capital Output Ratio). The phenomenon of investment efficiency also occurs in Indonesia, where ICOR values have continued to decline from 2014. If in 2014 ICOR Indonesia was 6.5%, in 2017 it decreased to 6.34%. The decline in the value of ICOR is in line with an increase in the amount of investment in Indonesia, but the value is still considered to be less efficient because it is still above the average value of ASEAN ICOR, which is 3.5% (www.indonews.id).

According to Gomariz & Ballesta (2013) investment efficiency is an investment that occurs in accordance with what is expected by the company, where investment efficiency will be created when there are no deviations, either underinvestment or overinvestment than the level of investment expected by the company. Investment efficiency is an action taken by company management to use resources appropriately and in accordance with company needs. Investments made efficiently will provide benefits and benefits for the company. Investment is be told efficient if the company can avoid overinvestment or underinvestment conditions (Rahmawati & Harto, 2014).

Efficient or not an investment one of which is influenced by decisions taken by company management. In a condition where management has access to information that is not owned by shareholders as an external party of the company and the lack of a monitoring process, it will provide an opportunity for management to manipulate financial information that it knows. This is done as an effort to maximize their own prosperity by investing that is not in accordance with the wishes of shareholders. This condition can cause overinvestment (Hope & Thomas 2008).

To provide the same information, investors need financial reports as a means of communicating financial information. Financial statements are used as a source of information in the decision making process including investment decisions, financial statements must have characteristics that can improve the quality of information presented therein. The quality of financial reporting can be seen from the qualitative characteristics of financial statements in SFAC No. 02 i.e. relevant, reliable, consistent, consideration of costs and benefits, and materiality.

Based on research conducted by Chen, Jiang, Tang & Lin (2011) regarding the financial reporting quality index of Indonesia is ranked 6 out of 8 Asia Pacific Countries. The same study also conducted by Tang, Chen, & Lin (2016) results show that Indonesia is ranked 36th out of 38 countries which are the world's major capital markets. Based on these two studies, it can be seen that Indonesia still has a low quality of financial reporting.

Research conducted by McNichols & Stubben (2008), Biddle et.al (2009), Wang et.al (2014 & 2015), Jafari (2016), Houcine & Kolsi (2017) found a way to reduce information asymmetry between management and stakeholders by improving the quality of financial reporting. With high quality financial reporting that will enable better oversight of the information presented, there is a need for high quality financial reporting so that stakeholders can avoid information asymmetry.

Based on research conducted by Biddle et al. (2009), Jafari (2016), Christine & Yanti (2017), Umiyati (2017), Houcine & Kolsi (2017), Chen et.al (2017), Chen et.al (2018), Aulia & Siregar (2018) shows the results that financial reporting quality has a significantly effect on investment efficiency. High financial reporting quality can help management in identifying good investment opportunities through projects, so that management can make correct decisions related to corporate investment. Whereas research conducted by Handayani, Siregar & Tresnaningsih (2016), Setyawati (2015), Wang et. al (2015), Wang et. al (2014) shows the results that financial reporting quality has a significantly effect on investment efficiency.

In addition to financial reporting quality, investment efficiency can also be achieved by considering debt maturity for debt which is used as a summary of corporate funding (short-term debt and long-term debt). follow to Barclay & Smith (1995) when companies choose debt as a source of funding, companies must also consider other financial policies, such as debt maturity, priority, whether using public debt or private debt.

From previous studies (Myers, 1977; Gomariz & Ballesta, 2013; Huang, Jiang & Wu, 2018; Chen et al., 2018), short-term debt is more recommended than using long-term debt as a source of corporate funding as mentioned by Myers (1977) who recommended companies to shorten the maturity of a debt to reduce the problem of investment efficiency. The choice of short- term debt is also associated with lower agency costs (Huang, Jiang & Wu, 2018), meaning that the lower the costs incurred for agency problems will increase profits for investors.

Based on research conducted by Christine & Yanti (2017), Jeon & Oh (2017), Jafari (2016), Sakti & Septiani (2015), Gomariz & Ballesta (2013) show the results that short-term debt maturity has a significantly effect on investment efficiency. The meaning of short-term debt maturity can reduce the deviation of an investment thereby increasing investment efficiency, because short-term debt allows lenders to exercise better control over the company's management. Supervision will be carried out better because debts with shorter maturities will require setting interest rates more often.

While research conducted by Aulia and Siregar (2018), Heidari, Abdolahi & Ghanvatiyan (2015), Rahmawati & Harto (2014) showed different results, the results showed that debt maturity has no significantly effect on investment efficiency.

II. LITERATUR REVIEW

A. *Agency Theory*

Agency theory is a relationship between parties who have various interests to achieve goals in a company. Agency theory related with the relationship between principal and agent in the separation of ownership between management and stakeholders, the separation of risks, decision making and carrying out management functions (Jensen & Meckling, 1976). But according to Hadiprajitno (2013) states that the management of a company that is not the full owner of the company cannot be expected to perform well according to the objectives of other owners.

According to Meisser, Glover and Prawitt (2006) this agency relationship causes two problems, namely the occurrence of information asymmetry and the occurrence of a conflict of interest.

B. *Investment*

According to Halim in Fahmi (2011: 2) investment is essentially the placement of funds at this time with the hope to obtain profits in the future. According to Jogiyanto (2012) investment is delaying current consumption to be used as a productive asset for a certain period of time. In other words, investment can be defined as a delay in current consumption to be included in productive assets for a certain period, so that the current consumption delay is expected to provide more benefits in the future.

C. *Investment Efficiency*

According to Gomariz & Ballesta (2013) investment efficiency is an investment that occurs in accordance with what is expected by the company, Investment efficiency occurs when there is no deviation from the level of investment made expected by the company. Whereas Christine & Yanti (2017) explained that investment efficiency is the use of assets and corporate investment appropriately so that there is no waste of available resources by reducing company costs and managing the company optimally, to achieve profitable corporate goals.

For investment to be efficient, companies must avoid overinvestment and underinvestment issues. Overinvestment is a condition where the investment made by the company is higher than expected, while underinvestment is a condition where the investment made by the company is lower than expected (Sakti and Septiani, 2015). According to Biddle et al. (2009) a company that has run all projects with a positive NPV and continues to invest in a negative NPV then the company will experience overinvestment, whereas when the company skips the opportunity to invest with a positive NPV then the company will experience underinvestment.

D. *Financial Reporting Quality*

According to IAI's accountant ethics guidelines, financial statements are the presentation of financial data including attached notes, if any, intended to communicate economic resources (assets) and / or liabilities of an entity at a certain time or changes in assets and / or liabilities for a certain period are in accordance with generally accepted accounting principles or comprehensive accounting bases in

addition to generally accepted accounting principles. Financial statements are accountability reports made by management or company leaders for the management of the company entrusted by stakeholders. The financial statements contain an overview of the financial condition and cash flow of a company that can provide benefits to the users of financial statements in making decisions for a certain period of time. Fahmi (2013: 21) states that financial statements are information that illustrates the financial condition of a company and further information can be used as a description of the company's financial performance.

According to Francis and Ryan (2004) the quality of financial reporting can be seen through two major groups of financial reporting quality attributes (second order), namely accounting-based attributes (acounting-based attributes) and market-based attributes (market-based attributes).

E. Debt Maturity

Debt maturity is a policy in determining the maturity of a debt undertaken by the company, divisible into two that is long term debt maturity and short term debt maturity. Long term debt maturity is a policy to using debt with a maturity of more than one year, while short term debt maturity is a policy of using debt with a maturity of less than one year or a maximum of one year (Rahmawati & Harto, 2014). According to the FASB debt is a sacrifice of future economic benefits arising from the present obligation of an entity to hand over assets or provide services to other entities in the future as a result of past transactions. According to Munawir (2004: 18) debt is all of the company's financial obligations to other parties that have not been fulfilled, where this debt is a source of funds or company capital that comes from creditors.

In addition, the company's debt policy also functions as a monitoring mechanism for management actions taken in managing the company. So that debt can be used to reduce agency conflicts between management and stakeholders (Rahmawati & Harto, 2014). According to D'Mello & Miranda (2010) debt can minimize the problem of overinvestment, because debt can discipline managers by forcing them to pay excess cash, thereby reducing the amount of funds at their discretion. The policy of using short term debt maturity can also minimize information asymmetry and reduce agency costs between shareholders, creditors and management (Gomariz & Ballesta, 2013).

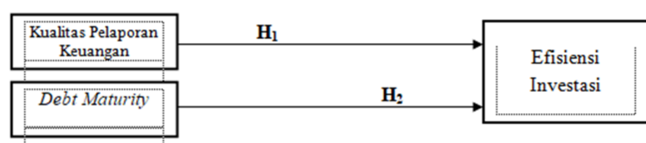

Fig 1:- Research Thinking Framework

H1: Financial reporting quality has a significant positive effect on investment efficiency

H2: Debt maturity has a significant positive effect on investment efficiency

III. RESEARCH METHODS

The population used in this research are non-financial companies listed on the Indonesia Stock Exchange in 2015-2017. Determination of the sample using a purposive sampling method, which is the determination of samples from the existing population based on criteria. In this research using secondary data sourced from company documentation. Secondary data in this research are annual reports and the sustainability report for the 2015-2017 period.In this study, the measurement of variables by:

A. Investment Efficiency

$$Investment_{i,t} = \beta 0 + \beta 1 \textit{ Sales Growth}_{i,t-1} + \varepsilon_{i,t}$$

Information :

Investment = Total investment of company i in year t. Measured by an increase in net tangible fixed assets and intangible assets divided by lagged total assets.

Sales Growth = The rate of change in company income from t-1 to t.

B. Financial Reporting Quality

$$TAi,t = \beta 0 + \beta 1 \Delta Salesi,t + \beta 2PPEi,t + \beta 2 \Delta CFOi,t + \varepsilon i,t$$

Information :

TA = Total accrual, calculated from changes in non-current assets minus changes in current liabilities plus changes in short-term bank debt and minus depreciation

ΔSales = Changes in income

PPE = Property, Plant and Equipment

ΔCFO = Changes in cash flow from operations

All variables are divided by lagged total assets. The absolute value of the residual value is multiplied by -1 to facilitate interpretation, so that the highest value will indicate high quality financial reporting.

C. Debt Maturity

STDebt = (Short-term Debt) / (Total Debt)

IV. RESULT AND DISCUSSION

	N	*Minimum*	*Maximum*	*Mean*	*ST.Dev*
EfInvestasi	783	-0.925	-0.000	-0.065	0.10507
FRQ	783	-3.776	-0.001	-0.124	0.18253
DebtMat	783	0.013	0.994	0.609	0.24950
Valid N (listwise)	783				

Table 1:- Descriptive Statistics

Based on Table 1 it can be seen that the mean value of the investment efficiency variable is -0.06527 and the standard deviation value is 0.10507. The minimum value of the investment efficiency variable is -0.092571 owned by PT. Nippon Indosari Corpindo Tbk in 2015. While the maximum value is -0.00007 owned by PT. Ultra Jaya Milk Industry & Trading in 2015.

The variable financial reporting quality has a mean value of -0.12373 and a standard deviation value of 0.18253. The minimum value of the variable quality of financial reporting is -3,77620 owned by PT. Indonesia Prima Property Tbk in 2016. While the maximum value of -0,00056 is owned by PT. Bekasi Fajar Industrial Estate in 2017.

The debt maturity variable has a mean value of 0.60885 and a standard deviation value of 0.24950. The minimum value of the variable debt maturity is 0.0128 owned by PT. Jaya Konstruksi Manggala Prata in 2017. While the maximum value of 0.99376 is owned by PT. Global Teleshop Tbk in 2015.

Correlation Probability	EfInvestasi	FRQ	DebtMaturity
EfInvestasi	1.00000 -		
FRQ	0.106921 0.0027	1.00000 -	
DebtMaturity	0.041141 0.2502	0.02315 0.5177	1.00000 -

Table 2:- Pearson Correlation Matrix

Based on Table 2 it can be seen that the value of the correlation probability variable of the financial reporting quality is 0.0027 which means there is a relationship between the financial reporting quality on investment efficiency with a positive direction. Debt maturity variable can be seen that the value of correlation probability is 0.3171, which means there is no relationship between debt maturity and investment efficiency.

➢ *Data Analysis*

The regression model used in this study is panel data regression. Based on the tests conducted, it can be concluded that from the three models, namely Common Effect Model, Fix Effect Model and Random Effect Model, the better model in interpreting panel data regression to answer this research is the Random Effect Model.

Variabel	Koefisien	t-*value*	Prob.
C	-0.090	-5.741	0.0000
FRQ	0.031	4.167	0.0000
Debtmat	0.020	0.843	0.3995

Table 3:- Results of Panel Data Regression

From Table 3 we can get the following regression models:

EfInvestment = -0.09041 + 0.03095 FRQ + 0.02021 Debtmat + Ɛ

➢ *Hypothesis Testing*

1. Determination Coefficient Test (Adjusted R Square)

R-Squared	0.025388
Adjusted R- squared	0.020377

Table 4:- Regression Coefficient Test

Based on Table 4 it can be seen that the Adjusted R Square value is 0.02037. This means that 2.04% of the investment efficiency variable can be explained by the variables of financial reporting quality, debt maturity, audit committee effectiveness and moderation between the quality of financial reporting and the effectiveness of the audit committee, while the rest is explained by factors outside the model.

2. *Simultant Significance Test (F Test)*

F- statistic	5.066577
Prob (F-statistic)	0.000492

Table 5:- Simultant Hypothesis Testing Results

From Table 5 above it can be seen that the F-statistic value is 5.06656 with a significance level of 0.00049 <0.05, meaning that H0 is rejected and Ha is accepted. Then the quality of financial reporting, debt maturity and moderation between the quality of financial reporting with the effectiveness of the audit committee together have a significant effect on investment efficiency.

3. *Partial Significance Test (t Test)*

Variabel	Hipotesis Sign	Koefisien	t-*value*	Prob.
C		-0.09041	-5.7410	0.0000
FRQ	+	0.03094	4.16762	0.000
Debtmat	+	0.020209	0.84301	0.3995

Table 5:- Partial Hypothesis Testing Results

➢ *Financial Reporting Quality and Investment Efficiency*

From the results of the first test it can be concluded that the quality of financial reporting which is proxied by discretionary accruals (Kasznik, 1999) has a positive and significant effect on the efficiency of corporate investment. Positive coefficient values indicate that partially the quality of financial reporting has a significant positive effect on investment efficiency, meaning that the higher the quality of financial reporting, the higher the efficiency of investment. The results of this study are in line with research conducted by Aulia & Siregar (2018) and Houcine & Kolsi (2017) that the quality of financial reporting has a positive and significant effect on investment efficiency.

These results are consistent with the perspective of agency theory which states that one way to reduce information asymmetry is to improve the quality of financial reporting. The quality of financial reporting in this study was measured using accrual quality from Kasznik (1999). By presenting a quality financial report, the company has shown the actual condition of the company, so as to reduce information asymmetry (Wang et al., 2015). Disclosure of good quality financial reporting can help in better oversight of managerial activities, minimize information asymmetry between shareholders so as to increase shareholder control over managers and reduce opportunistic behavior of managers or related parties as well as in corporate decision making.

➢ *Debt Maturity and Investment Efficiency*

The second hypothesis in this study predicts that debt maturity has a positive effect on investment efficiency. Based on the results of the second hypothesis testing it can be concluded that debt maturity which is proxied by using short-term debt has no effect on investment efficiency. These results are not consistent with the results of research conducted by Christine & Yanti (2017), Jeon and Oh (2017), Sakti and Septiani (2015) and Gomariz and Ballesta (2013) which states that short-term debt maturities affect investment efficiency. The results of this study conclude that debt maturity is not a factor that can determine the increase or decrease in investment efficiency of companies listed on the IDX.

The results of this study indicate that debt maturity measured using short-term debt ratios has no effect on investment efficiency, because interest rates in Indonesia are higher when compared to interest rates abroad, especially in ASEAN countries (https://money.kompas). com / read / 2016/02/29/181509626 / Interest Credit in Indonesia. Most High). From these data it can be seen that Indonesia's interest rates are higher than neighboring countries such as Malaysia, Singapore, Thailand and the Philippines. A high interest rate then requires the company to make a greater return to creditors, meaning that the funds that should be used by the company to make profitable investments for the company must ultimately be spent to pay debts and high enough interest. So that investments that benefit the company cannot be carried out optimally and investment efficiency cannot be achieved.

V. CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

➢ *Conclusions*

Based on data analysis from the results of this study, several conclusions are obtained, namely:

1. Financial reporting quality has a significantly positive effect on the financial reporting quality.
2. Debt maturity does not significantly effect investment efficiency.

➢ *Limitations of Research Results*

Research conducted still has several limitations, namely:

1. The research sample used in this study is limited to three years, namely 2015-2017, so the results of this study can only be used in the observation period.
2. The results of the coefficient of determination test show that the independent variable and moderation variable are only able to explain the investment efficiency of companies listed on the Stock Exchange of 2.04% which means there are still many other independent variables that have not been captured in this research model.

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