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Analysis Of Financial Performance Characteristics Toward The Quality Of Financial Report And Impact On Economic Consequences Of Manufacturing Industry In Bursa Efek Indonesia

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Abstract:*This study aimed at analyzing the financial performance for the quality of financial report and its impact on the economic consequences in manufacturing industry Bursa Efek Indonesia. The samples were manufacturing Bursa Efek Indonesia which consist of 100 respondents during 5 years observation. The analysis model used in this study was SEM (Structural Equation Model). This study found characteristics of financial performance had no influence on the quality of market-based financial report. While financial performance characteristics have significant impact on the quality of the accounting-based financial report. For the intervening variables influence the company's performance with intervening variable market-based financial report and accounting had significant effect, it is quite larger than the direct impact.*

Key Words:*Characteristics of Financial Performance; Quality of Financial Report; the Economic Consequences; Asymmetric Information*

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I. Introduction

The quality of financial report is the end result of accounting. Financial report produces information used by investors as a basis for decision making. This financial information is the description of the results performances in the company as accountability of management to the owners. Johnson et al. (2002) state that the quality of financial report becomes an interesting issue because the financial report is the means of communication to external users. The financial report is useful for assessing the economic performance and condition of the company's business. It is done to monitor the actions of management in making economic decisions (Reeve, 2005).

The need of financial report by management to the shareholders explained through the theory of agency. Jensen and Meckling (1976) explained their contractual relationship between managers and owners of the company in the decision-making authority is given to the manager. It is like a conflict between economic consequences owners and agents. Agent as managers of the company are obliged to reach the success or failure of the company (Sharpe, 1997). The delivering quality information will reduce economic consequences in the form of asymmetric information (Cohen, 2003).

Indonesia’s financial report is seen as a problem must be observed by users of financial because the financial report is the end of accounting result activities. Baridwan (2004) states that the annual financial report has been used by investors as a basis of information for consideration in making decisions (Lako, 2006). Delivery financial reports by managers company to investors as information, with the expectation of investors can distinguish a high and low quality company. This case will influence the economy consequences of asymmetric information on the financial report. Fanani (2008) said high-quality reporting will reduce the economic consequences.

Starting from the importance of high quality financial report, the agency theory which states that the company’s performance is influenced by a conflict of interest between the agent and the employer. Each party seeks to achieve the level of prosperity. Agent as managers of the company are morally responsible to optimize the benefits of the owners, but the other agents also have an interest to maximize the benefit and welfare of their staffs. Conflict is due to opportunistic behavior of the agent who does not always act according to expectations and in violation of the agreed contract.

Empirical facts on the quality of corporate financial report can be seen from the results of the audit opinion on the financial report of the company. There are many unqualified audit on the Bursa Efek Indonesia. It indicates there are still many a financial report of companies in Bursa Efek Indonesia does not meet the standards report. The report of Bapepam indicates that there are 7% in 2011, 14% in 2012, 17.5% in in 2013 and 19.0% in 2014 audit were unqualified companies listed in Bursa Efek Indonesia.

The results of this audit from year to year has increased, it indicates that the company's financial reports are still low quality. According to Warsono et al. (2009) these offenses generally caused by the failure of company on performing its functions in selecting accounting method.

Theoretically, the economic consequences expressed in a positive accounting (Watts and Zimmerman, 1990), while through home visits reduce the cost of capital (Easley and O'Hara, 2004). According to Cohen (2003) and Fanani (2008) the poor quality of financial reports will have economic consequences. Zeff (1978) popularized the term economic consequences as a result of the accounting report to the decision-making behavior.

Starting from the phenomenon of financial report, it then interesting to study, because it is inconsistent with the theory that the low quality of financial report will increase asymmetric information (Cohen, 2003), Easley and O'Hara (2004), Regrigo (2006), Fanani (2008), and in this case the low quality of financial reporting will reduce asymmetric information. According to Francis et al. (2004) and Fanani (2008) there are two factors that affect the quality of financial report inside and outside factors of the company. The inside factor of the company often called factors inherent or intrinsic factors (Fanani, 2008). Hassan and Bello, (2013) said this factor with firm characteristics. Francis et al. (2004), Fanani (2008), Hassan and Bello (2013) state these factors are the company's performance (profitability, liquidity, growth company).

The term quality of financial report can be viewed in two perspectives. The first view is financial properties report (Fanani 2008 and Fanani et al, 2009). The quality financial report according to Thiagarajan (1993); Chen and Jaggi (2007), Francis et al. (2004) describes the current year profits such persistence, income smoothing, and predictability. Schipper, (2004), Fanani, (2008), Fanani et al, (2009) and Geert and van Beest (2013) the quality of financial report is called attribute-based accounting. While Feng et al, (2014) states this proxy (persistence, income smoothing, and predictability) called on an accounting basis.

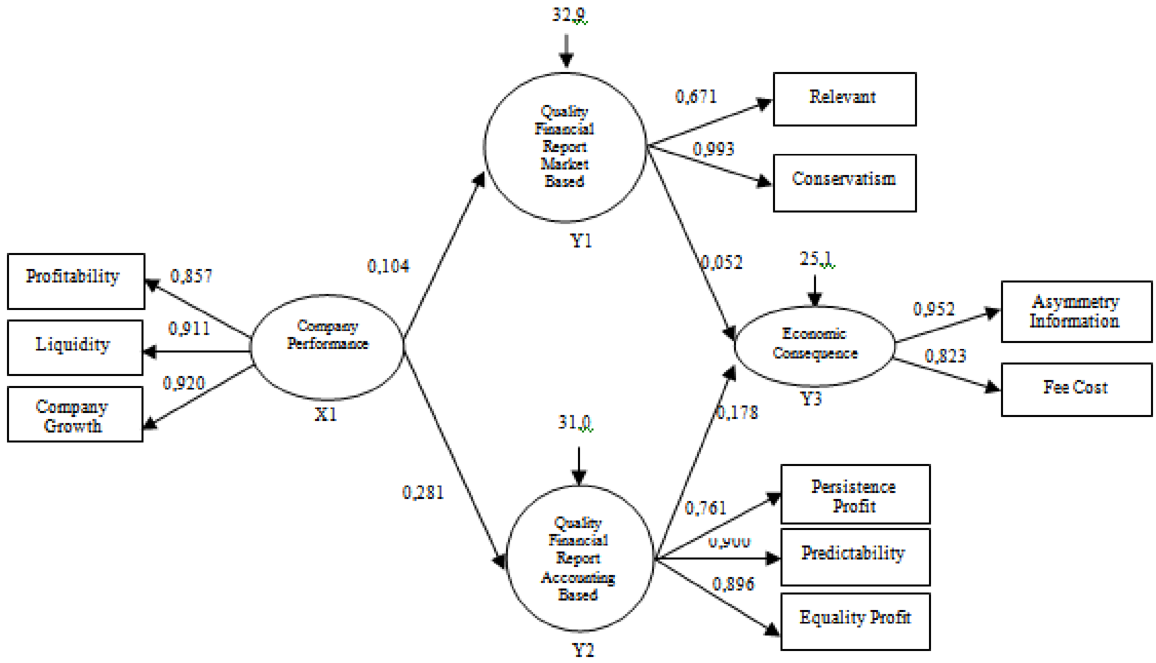
The second view certify the quality of financial report related to the performance of the capital market, the stronger relationship between corporate profits in exchange indicates a high financial report information (Ayres, 1994), relevance, timeliness, conservatism. This view is more commonly known by the model Dichev Dechow and DD (Dechow and Dichev, 2002 and Cohen, 2003). Schipper (2004), Fanani (2008), Fanani et al, (2009), and Geert and Van Beest (2013) the quality of financial report with a view to atributberbasis pasar.Sementara keduaini called Feng et al, (2014) said proxy this (relevance, timeliness, conservatism) call it market-based.

Based on this background, this study analyzed the financial performance for the quality of financial report and its impact on the economic consequences in manufacturing industry Bursa Efek Indonesia. The object of this study was manufacturing companies listed in Bursa Efek Indonesia. Based on the background of the problem, the formulation of the research problem was whether there is influence of performance on the quality of financial report and accounting-based market-based. This paper was related to Easley and O'hara (2004), they found that the quality of information affects asset pricing, then how information is provided to the markets is clearly important.

II. Research Method

In this research, we used quantitative design to see the partial and simultaneous influence between the variables (Sugiyono, 2012: 25). The purpose of quantitative research is to develop and use mathematical models, theories or hypotheses related to natural phenomena (Sugiyono, 2012: 26). The quantitative research variables tested in this study consist of headmaster supervision (X1) on the effective teacher (Y), achievement motivation (X2) on effective teacher (Y). While simultaneous hypothesis testing the headmaster supervision (X1) and achievement motivation (X2) on effective teacher (Y), then all data obtained is processed with a quantitative analysis.

III. Results And Discussion



Influence the Company's Performance to the Quality of Market-Based Financial Report and Accounting.

In this study, the manifest variables of the company's performance profitably, liquidity and growth. The results partially variable performance characteristics did not affect the quality of market-based financial report. While the performance characteristic affecting the quality of accounting-based financial report.

These findings are consistent with Fanani (2008), Fanani et al. (2009) found no significant effect between liquidity with financial. The report quality is because the company more concerned with the company's performance higher, the eyes of investors and neglect report quality financial. The liquidity of company used as internal factors which demonstrate the ability of company as the short term to meet its obligations when the company went bankrupt.

While these findings conflict with Hassan research and Bello (2013) found a significant performance influenced characteristic of the quality financial report. Katie (2011) the future profitability is very low impact on the financial report. Hassan and Bello (2013) found the company's growth influenced positively and significantly related to the quality of financial report. While Pagalung (2006) said liquidity had an influence on the quality of financial report.

This result occurs because the company shows stable tendency to utilize profitability of management and improved corporate earnings serves as a monitoring tool to prevent managers from opportunistic behavior in managing revenues. It results the quality of financial report higher.

Relationships between variables intervening hypothesis testing are presented include the impact of the economic consequences of the company's performance through the quality of market-based financial report and accounting can be inferred to a positive contribution in the relationship between the performance of company against economic consequences.

These results support the theory of Jensen and Meckling (1976) large-sized enterprise will disclose more information than the smaller companies to reduce agency costs occur. The theory of efficient contract between the manager and the owner of the company will establish a positive relationship between accounting policies and long-term performance of companies that enhance the quality of financial information which affects the economic consequences of manager in decision-making (Klein (2002). The positive accounting through home visits explain why companies are given freedom in accounting method that the company's financial report influenced quality and assuming opportunistic individual will act to increase their wealth that will have an impact on the economic consequences (Watts and Zimmerman, 1990). Easley and O'hara (2004) supported this result, they state the quality of information affects asset pricing, then how information is provided to the markets is clearly important. They showed differences in the composition of information between public and private information affect the cost of capital, with investors demanding a higher return to hold stocks with greater private information. This higher return arises because informed investors are better able to shift their portfolio to incorporate new information, and uninformed investors are thus disadvantaged. In equilibrium, the quantity and quality of information affect asset prices. It was different from the results of this paper, their results raise interesting questions about security market design and the cost of capital. In particular, how transparency of trades and orders influence the in formativeness of stock prices, or even how the speed of the trading system affects information flows to investors.

IV. Conclusion

This study resulted in several conclusions, the performance characteristics have no influence on the quality of market-based financial report; performance characteristics have a significant impact on the quality of accounting-based financial report; and for intervening variables influence the company's performance against the economic consequences with intervening quality variable market-based financial report and accounting, have a significant effect where donations quality market-based financial report and accounting is quite larger than the direct impact.

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