INFORMATION ASYMMETRY, DIVERSIFICATION AND OWNERSHIP IN INDONESIA: DATA PANEL ANALYSIS

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ABSTRACT

There are various factors that influence information asymmetry, including corporate diversification and ownership. The objective of this study was to discuss a comprehensive understanding of information asymmetry and the factors that influence it, namely business diversification and ownership structure. Data obtained from observations of 150 Financial Statements of manufacturing companies sectors listed in the Indonesia Stock Exchange in 2016-2018. The methodology relies on linear regressions using the method of panel least square and processed with Eviews 11 version. The variable has an average value larger than the standard deviation so that the deviation of data is good. The results show that at the level of confidence 95%, diversification and institutional ownership have a significant effect on asymmetry information, and the variables are meaningful in the model. This paper highlights the importance of increasing the role of institutional ownership in mitigating asymmetry information.

Keywords: Agency Theory, Corporate Diversification, Information Asymmetry, Institutional Ownership, Ownership Structure

INTRODUCTION

Economic conditions, both globally and nationally, which often change and the economic crisis affects the business climate and the presence of domestic companies directly or indirectly. Companies are required to have a strategy to survive and continues to develop and minimize risks in the face of changing economic conditions. One of the strategies a company can undertake is to diversify its business where business diversification which can reduce business risk include earning management and asymmetry information (Wu, Chen, Chen, & Jeon, 2020). By contrast, Adesina, (2020) argue that firms should remain focused on their traditional activities in order to minimize possible agency problems. Diversified companies have a high level of complexity and are more aggressive in managing income, thus increasing the motivation of managers to use various information in the company. So, the manager will have more information than shareholder. It is called information asymmetry.

The information asymmetry between managers and shareholders also can influence the emergence of earnings management. According to (Jensen & Meckling, 1976), in a company there is a contract between shareholders and managers which is an agency relationship, where shareholders are principals who give authority to managers as agents to manage companies on behalf of shareholders. Information asymmetry occurs because managers have more opportunity to master information than owners or shareholders. Other disadvantages of diversification include information asymmetry between department managers and headquarters, increases exposure to new forms of risk (eg (Such as operational risk, liquidity risk and market risk) and bank credit Risk (Moudud-Ul-Huq, Ashraf, Gupta, & Zheng, 2018). These opposing views have led to empirical research on the impact of diversification on information asymmetry, but the results are still inconclusive, especially in Indonesia.

There are other factors that influence information asymmetry, namely institutional ownership. The corporate governance structure varies from country to country, resulting in differences in the level of institutional ownership and the role of institutions as a company shareholder. Institutional investors can act as external investors monitors (Kałdoński, Jewartowski, & Mizerka, 2019), but in some cases, they can induce managerial myopia that can be expressed by earnings management activities through asymmetry information. For example, when certain classes of institutional investors (transient institutions) put pressure on managers to meet or exceed short-term earnings targets.

In contrast, the results of research (Bao & Lewellyn, 2017) dispute that the role of institutional investors protects the company by giving them the power to discipline managers, provide incentives through more monitoring costs low, and by limit the contracts of manager's personal benefit for taking advantage from asymmetry information. Prior literature on the relationship between information asymmetry and institutional ownership is relatively scarce in Indonesia. The aim of this research will be to analyze the factors that affect information asymmetry, namely corporate diversification and ownership structure. The use of companies from the manufacturer sectors in this study will differentiate this research from previous studies. The difference between the country and the industrial sector of the company used as a sample and there are not many studies that link diversification to asymmetry in Indonesia. In fact, as we know, diversification is a strategy that has been widely implemented by public companies in Indonesia

RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

Agency problems arise including if the management (agent) does not have ordinary shares of the company. With this condition, the agent does not try to maximize the profits of the company and the agent tries to take advantage of the burden borne by the shareholders, in the form of increasing wealth and satisfaction and company facilities, including manipulating the company's financial statements to get a reward or bonuses are calculated based on the achievement of financial figures presented in the Financial Report. Agency theory wants to solve problems that arise from agency relationships, namely when the principal cannot know for certain whether the agent has acted appropriately, and when the principal has a different view from the risk-related agent (Eisenhardt, 2015).

Company Diversification

The company runs a diversification policy as its corporate strategy for several reasons. According to (Montgomery, Wernerfelt, Rand, Winter, & Montgomery, 1988) there are three perspectives on corporate diversification motives, namely market power views, resource-based views, and agency view. The application of diversification will result in a more complex organizational structure within the company and a lower level of transparency and complexity of information for investors and higher financial analysis (Khanchel El Mehdi & Seboui, 2011). Diversification is a strategy implemented by companies with the aim of facing intense competition and a very fast-growing market. The motive or other reasons for companies to implement this strategy is to neutralize competitor's market power and also to expand the company's portfolio in order to reduce managerial risk.

Information Asymmetry

Information asymmetry can happen when one party have more or advantage information than another party. In the (Eckles, Hoyt, & Miller, 2014), the concept of information symmetry was introduced where in a perfect market, the information of company and investor are equally the same. Thus, when there is information asymmetry, this assumption will be failed to hold, and the stock price will be distorted. The presence of information asymmetry on stock will cause the difference of value perceived between well informed and retail investor. In equity market, the most common information asymmetry is insider trading where the employees or directors have private information and make profit by utilizing the information. Although insider trading is not allowed all market around the world, but this is still rampant in the market.

Information asymmetry occur when managers know all the information in the company that are not known to shareholders or stakeholders. When this condition occurs, stakeholders do not have sufficient resources for relevant information in monitoring manager actions so that practices of earnings management will emerge (Yamaditya, 2014). As a result, this information asymmetry will encourage managers to do not provide complete information of manager’s performance.

Ownership Structure

Ownership structure is a mechanism that is useful for reducing conflicts between managers and shareholders. The ownership structure is used as a way to reduce the imbalance of information between internal parties and external parties of interested companies. The ownership structure is used to show the most important part contained in the capital structure which is not only determined by the amount of debt or equity but also by the percentage of ownership by managerial, institutional and public (Jensen & Meckling, 1976). Institutional ownership will monitor management and be expected reduce earnings management. Research results stated by (Hartanto, Dedy, Nugrahanti, 2016), show that institutional ownership variables negatively affect earnings management.

Effects of Corporate Diversification on Information Asymetri

The researchers found empirical evidence that companies operating in more than one industry will have a more potency to make accrual earnings management than companies operating in one industry (Khanchel El Mehdi & Seboui, 2011). According to (Farooqi, Harris, & Ngo, 2014), real information Asymmetry in diversified companies is higher compared to non-diversified companies. The more spread of company assets within a geographic scope, the level or organizational structure of the company will become more complex and increase the level of information asymmetry between managers and investors.

Hypothesis 1: There is a significant impact on the relation of Corporate Diversification to Information Asymmetry

Effect of Institutional Ownership on Information Asymmetry

The results of the study (Lassoued, Ben Rejeb Attia, & Sassi, 2017) show that ownership structure has a superior influence to produce financial reporting quality. Ownership structure like institutional ownership can reduce profit management. The greater structure of managerial ownership will support better performance achievement. Dominant share ownership, in economic terms, gives the authority to monitor the operations of the company (Murwaningsari & Rachmawati, 2017).

Hypothesis 2: There is a significant impact of Institutional Ownership on Information Asymmetry

RESEARCH METHODOLOGY

Sample Selection

A purposive sampling method used with the criteria of manufacturing companies. The manufacturing sector was the most attractive sector for investors to enable manager motivation in making information Asymmetry so that the company is attractive to investors.

Variable Operationalization

The independent variables used in this study are (1) Corporate Diversification (CD) proxied by the number of segments in each company, (2) Ownership Structure is calculated by the level of Institutional Ownership (IO) in the company which is the study sample. The Dependent variable in this study is information asymmetry (ASY). The bid-ask spread is used to measure information asymmetry because it can more reflect the level of information asymmetry than using returns with the following models:

$$BIDASKi,t = (aski,t - bidi,t\ ) / \{(aski,t + bidi,t\ ) / 2\} \times 100\%$$

Where: aski, t = closing ask price at the end of each year on the company i. bidi, t = closing bid price at the end of each year at the company i.

Data analysis

The first hypothesis up to two is tested by linear regression tests The equation model used:

$$ASY = \alpha + \beta 1DIVER + + \beta 2\ IO + e$$

Notes:

ASY: Information Asymmetry; DIVER: Diversification; IO: Institutional Ownership.

RESULT AND DISCUSSION

Descriptive statistics

Table 1 Deskriptive Statistics

	ASY	C	CD	IO
Mean	0.118963	1.000000	2.746667	0.288786
Median	0.010217	1.000000	3.000000	0.222222
Maximum	2.000000	1.000000	8.000000	0.945017
Minimum	-2.000000	1.000000	1.000000	0.005427
Std. Dev.	0.532458	0.000000	1.443275	0.216441
Observations	150	150	150	150

Notes: The dependent variable is information asymmetry (ASY), the independent variable is diversification (CD) and institutional ownership (IO).

Table 1 contains the descriptive statistics in the research model. From the results of Table 1 above the diversification, the variable has an average value of 2.746667 larger than the diversification standard deviation which is worth 1.443275 so that it can be indicated that information Asymmetry respond to diversification. For the ownership variable, the minimum value of 0.005427 is generated from several samples. The standard deviation of 0.216441 shows that the company's institutional ownership that is the sample is varied and heterogeneous.

Assumption test

Before linear regression analysis, the heterokedacity test, autocorrelation and multicollinearity has been perform. The value of the Prob. Chi-Square is 0.216441 > 0.05, so it can be stated that there is no heterokedacity in this regression model. For multicollinearity test, the value of the Prob. Chi-Square is 0.5971> 0.05, so it can be stated that there is no autocorrelation in this regression model. The Centered VIF value for all variables is less than 10, so it can be stated that there is no multicollinearity problem in the prediction model

Panel Data Regression Test

The coefficient of determination can measure the model in this study can explain company diversification, ownership structure and information asymmetry which can be seen from the adjusted R-squared value of 1.000000 shows that this model can explain variations in Information Asymmetry as a variable Dependent is 1.000000.

Hypothesis testing

This t-test are carried out using a 5% significance level and 1 side. Based on the test results, the results of the t-test are as follows:

Tabel 2. Table of Hypothesis testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.09	2.53	-4.29	0.0000
CD	2.52	8.11	3.10	0.0023**
IO	1.00	2.20	4.55	0.0060**

Notes: ***, **, and * denote significance at the 1% level, 5%, and 10% levels, respectively. This table reports results from our baseline regression model hypothesis test, using multiple regression. The dependent variable is information asymmetry (ASY), the independent variable is diversification (CD) and institutional ownership (IO).

Corporate Diversification on Information Asymmetry

From the results above, company diversification significantly influences information Asymmetry. The probability value (or significant level F) is 0.0000 and since this value is less than 0.05, The zero assumption is rejected at the 95 % confidence level, which mean the model is meaningful. Based on this result hypothesis 1 is accepted. This is in line with (Lupitasari, 2012) which states the results that diversification of operations has a significant effect on Information Asymentry. The results of this study produce the same result with the research conducted by (Khanchel El Mehdi & Seboui, 2011). The test results in this study also produce findings similar to the research conducted by (Dimarcia & Krisnadewi, 2016), where in his research states the results that operating diversification affect information Asymmetry.

These results are consistent with the agency conflict hypothesis that companies consisting of various industrial divisions in different geographic areas are found to be more difficult for outsiders or analysts and interested parties to examine income reports and income statements from different divisions and in different countries, as a result there will be greater information asymmetry in a diversified company. Based on agency theory, the diversification carried out by the company is less than optimal because managers who diversify tend to direct diversification according to their interests. And also refers to the bonus plan hypothesis in the formation of earnings management where managers will tend to direct the divisions under them according to their interests, and taking advantage of the information asymmetry especially if the company implements bonuses based on achievements in the form of increasing profits achieved by managers.

According to the study of (Khanchel El Mehdi & Seboui, 2011) multinationals tend to display a significantly higher degree of asymmetri information than purely domestic firms. This is consistent with the empirical results of this study. Overall, the evidence provided by this study seems to reject the informational asymmetry hypothesis because the study finds diversified firms with higher of informational asymmetry. Thus, the reason of positive relationship among asymmetri and corporate diversification may not be because of the determination or motivation of managers to manipulate accounting numbers, but because there is no informational asymmetry is found in diversified firm that the managers can exploit. This research investigated that the diversified firms potentially cause the asymmetri information. The findings of the study help policymakers, standard-setters and regulators to understand the potential adverse effect of ownership and corporate diversification on information asymmetry.

Institutional Ownership Structure on Information Asymmetry

From Table 2 it is known that the significance value of the Ownership Structure variable proxied by Institutional Ownership is 0.0060 <0.05 means that Hypothesis 2 is accepted. The results show that at the level of confidence 95%, the variables are rejected due to the zero hypothesis, and the variables are meaningful in the model. In general, the results show that the coefficient of institutional ownership variable is (1.000) which indicate the positive correlation of information asymmetry. Institutional investors have a more complete ability to process information than individual investors. Based on the theory, the higher ownership by the institution, the smaller the opportunity for company management to practice asymmetri information will be smaller, as stated (Muse, Popoola, Ratnawati, Ali, & Hamid, 2017).

In contrast, this result is consistent with previous researches, as most of the studies found a positive and significant result such as (Younas, Klein, & Zwergel, 2017) and (Zaher, 2017). We argue that even those institutional investors who invest in binary companies have relatively little interest in monitoring due to relatively high costs and low monitoring efficiency, especially in countries with low levels of investor protection. Previous findings in the literature show that asymmetry information is lower in countries with strong investor protection, compared to those with weak investor protection. Thus, institutional investors have a lesser role to play in improving earnings quality without asymmetry information in countries with strong investor protection. Conversely, institutional investors are likely to have a better value-added and assistance in improving earnings quality in countries with low investor protection, where earnings quality is low and asymmetry information is high. This argument leads to a stronger positive association between asymmetry information and institutional ownership in countries with weaker investor protection.

CONCLUSION

This study examined the impact of corporate diversification and institutional ownership on information asymmetry. Testing Hypothesis 1 shows that the application of diversification affect assymetri information. For Hypothesis 2, it is meaning that the more shares owned by institutional shareholders, the higher the level of information asymmetry.

Asymmetri information can cause earning management, and the main function of earnings management is to make up the company for investors point of view to look healthier than it really is. But it may cause to disappointment for investors regarding loss of investment. Secondly, it may result in misallocation of resources which is value loss for society. The results of the study suggesting that, diversification is not subject to decreases asymmetry and this result provides evidence that industrial diversification affect asymmetri information. This finding rejects the earning equalizing hypothesis and supports agency conflicts hypothesis which illustrates that the diversification is not linked with lower risk but with higher risk because of its multiple lines of business with imperfectly correlated returns (Brenes, Ciravegna, & Marcotte, 2016).

This study has several limitations that may have an effect on research result. This limitation is that this study only uses a sample of manufacturer sector which are listed on the IDX. Research only used a sample of companies in the three-year reporting period only. In addition, the independent variables used consist of only two variables, namely diversification and institutional ownership.

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