# ANALYSIS QUALITY OF FINANCIAL REPORTING, FREE CASH FLOW, ASSET TANGIBILITY, AND LIQUIDITY OF INVESTMENT EFFICIENCY WITH IN MODERATION TO DEBT MATURITY

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***ABSTRACT***

*This study aims to analyze the role of free cash flow, asset tangibility, liquidity, and the quality of financial reporting which is moderated by debt maturity in investment efficiency. This study takes State-Owned Enterprises companies listed on the Indonesia Stock Exchange from 2011 to 2017 as a population. The purposive sampling method is used as a sampling in research. The number of companies that can meet the criteria is 17 companies. This study uses data from the company's annual financial statements listed on the Stock Exchange, which consists of total investment, free cash flow, asset tangibility, liquidity, and debt maturity. There are five hypotheses in this study, and analyzed using multiple regression with SPSS tools. The results of this study indicate that the quality of financial reporting has a positive and significant effect on investment efficiency. In addition, the quality of financial reporting moderated by debt maturity has a positive and significant effect on investment efficiency. For free cash flow, asset tangibility, and liquidity do not have an effect on investment efficiency.*

*Keywords: Quality of Financial Reporting, Free Cash Flow, Asset Tangibility, Liquidity, Debt Maturity, Investment Efficiency*

## INTRODUCTION

The development of the world economy makes the investment climate in Asia grow faster. This makes competition from various industrial sectors in Indonesia to increase company value. Investment is one of the determinants of growth, not only for companies but also for the economy as a whole. Investments made by companies can contribute to the physical development of a country and also provide employment. Companies can also invest in the form of capital that contributes to the development of the capital market which contributes to the development of the capital market.

A good investment decision can only be made with sufficient information. One of the most important information needed in investment decision making, especially in the private sector, is financial information. This information must be relevant and of high quality. Previous findings also prove that in less developed countries the relevance of accounting information is lower (Cutillas Gomariz &

Sánchez Ballesta, 2014; Li & Wang, 2010). Cutillas Gomariz & Sánchez Ballesta (2014) only focuses on market participants as users of financial information. In contrast to previous research, this study looks at the usefulness of financial information from a company perspective.

Investing companies must be able to invest efficiently to benefit the company. Companies are also required to be able to use and plan the right investment so that investment reaches optimal results and can avoid the problem of overinvestment or underinvestment. It is said to be overinvestment if the investment conditions are higher than expected. Problems in overinvestment are experienced by companies that are in the stages of slow growth rates, and free cash flow and assets in place are very high (Dwiwana, 2012). While underinvestment is a state of smaller investment returns than expected by the company. Sari & Suryana (2014) states that underinvestment occurs when corporate investment requires the use of large debts, without adequate collateral debt payments (free cash flow).

Cutillas Gomariz & Sánchez Ballesta (2014) say the quality of financial reporting can ease overinvestment. Likewise, a small debt maturity will put the company in an investment efficiency condition, so that the problem of overinvestment and underinvestment can be reduced. In a research by Amrullah & Fatima, 2013 stated that FRQ and debt maturity have a positive influence on overinvestment and underinvestment. In this study found a relationship between the quality of financial reporting on investment efficiency that has a low debt maturity.

Some references show that asymmetry of company information can be reduced by improving the quality of financial reporting. In research (Biddle, Hilary, & Verdi, 2009; Cutillas Gomariz & Sánchez Ballesta, 2014; Li & Wang, 2010) show that adverse selection[1] can be reduced and moral hazard allows a manager to recognize good investment opportunities. Research (Amrullah & Fatima, 2013; Cutillas Gomariz & Sánchez Ballesta, 2014) suggests that debt maturities that are short of debt can be used to reduce the problem of corporate information asymmetry.

Biddle, Hilary, & Verdi (2009) state that in documenting a conditional positive relationship between the quality of financial reporting and investment for companies operating in low investment settings. Li & Wang (2010) states that the quality of financial reporting registered with companies in Shanghai and Shenzhen, is of high quality and can be attributed to underinvestment and overinvestment in China. Chen, Hope, Li, & Wang, (2011) prove that positive investment efficiency is influenced by the quality of financial reporting, namely by increasing bank financing and reducing investment to minimize earnings (for tax purposes). Ebrahimi Rad, Embong, Mohd-Saleh, & Jaffar (2016) show that countries, especially emerging markets, can benefit from improving the quality of financial reporting. The results show that the positive quality of financial reporting is related to the efficiency of investment. The effect of the policies adopted for each company in each country makes a difference in the results for the quality of financial reporting on investment efficiency.

## THEORETICAL FOUNDATION AND HYPOTHESIS FORMULATION

### Agency Theory

One theory that is the basis of a company's practice is agency theory. Breda and Hendriksen (2001) explain that this theory explains about two individuals, namely for the first individual is an agent and for the second individual, the owner of capital or principal. Agents function to carry out tasks to meet the interests of capital owners, for example, namely the management of the company itself and the company owner.

[1] Adverse selection is all managers and people who are in the company usually know more about the circumstances and opportunities of the company than from outside parties.

The problem of agency conflict results in the problem of information asymmetry between company managers and shareholders. One of the factors that influence a company's investment is information asymmetry, because when making a decision to make an investment it becomes of poor quality. The existence of information asymmetry causes the initial objectives of the company's investment are not achieved. The problem of information asymmetry causes differences in information obtained between the two parties. To be able to prevent information asymmetry that can create overinvestment and underinvestment, a monitoring function is needed that makes it strong enough in terms of shareholders. Improve the monitoring function for shareholders through quality company financial reports (Beatty et al, 2009).

**Signaling Theory**

Signal or signal is one of the steps that company management takes in order to provide a direction for investors to be able to see the opportunities of the company (Brigham and Houston, 2001). Companies that are in a profitable position will refuse to sell shares. The company's efforts to seek new capital by using debt that is more than the target capital structure.

An accounting information such as a financial statement is a signal from a manager. These financial statements are usually used by various parties. But more interested in using these financial statements are users from outside the company. In a situation like this can trigger the emergence of information asymmetry conditions, in which there is an imbalance of information obtained between management with shareholders and stakeholders.

There is an imbalance when obtaining information between management as the provider of information with the shareholders and stakeholders. The problem of information asymmetry can create conflicts between agents and principals to try to use other parties for their own interests.

**Investment Theory**

Investment develops in the long run and can affect capital stock. Increased capital stock will be able to increase company productivity. In Neo Classical theory saving is very important in a company because saving is a source of investment. One of the main drivers of economic growth and development is investment. Investments that develop rapidly, making stock capital become more rapidly developing as well. In Harrod-Domar's theory, capital creation is seen as more financing that can increase the ability of an economy that can make goods and services.

The state of the company is said to be overinvestment if the company invests and the high yields than expected. Companies that are in the mature stage usually have problems in overinvestment, where the company's growth rate becomes very slow, as well as high free cash flow and assets in place (Dwiwana, 2012). Whereas a company is said to be underinvestment if the company invests and the yields are lower than expected. The company experiences underinvestment when the company is facing an opportunity to invest which requires the use of large amounts of debt and without sufficient debt financing dependents (free cash flow).

**Investment Efficiency**

Companies are required to be able to increase and develop company value by investing. Investment is one way companies can invest. Investment can be in the form of buying bond certificates issued by companies. This is the same as the meaning of investment in general, which is an activity that places a fund within a certain period that is expected to get income or get an increase in investment value. Investment to be made by the company makes the company not only develop, but also can maintain good business relations between companies.

Myers and Majluf (1984) in Cutillas Gomariz & Sánchez Ballesta, (2014) developed a framework about investment efficiency in the role of an information asymmetry, such as moral hazard and adverse selection. According to Sari & Suryana (2014) the company will experience an underinvestment if the company is faced with an opportunity to invest which requires the company to use large amounts of debt, namely in the absence of sufficient collateral in debt payments (free cash flow). Companies with high leverage will make the company face underinvestment problems.

Investment is a business of the company in order to develop and increase the value of the company. Investment is one form of company investing. Buying bond certificates is a way for companies to invest in other companies. This means that in accordance with the general meaning of investment, the company makes decisions that aim to get great returns in the future, such as spending funds to buy real assets (land, cars, houses, etc.).

**Quality of Financial Reporting**

Every company is required to make financial reporting that aims to shareholders and other parties to be able to ensure when making financial decisions, namely by estimating the company's cash flow (Breda and Hendriksen, 2001). Companies use financial statements to be able to make decisions to invest, make credit, and other similar decisions. According to Cutillas Gomariz & Sánchez Ballesta, (2014) the quality of financial reporting can enable a manager to conduct better supervision, so that a manager can be responsible. Not only to make decisions, but the quality of financial statements can also reduce the problem of information asymmetry, moral hazard, and adverse selection.

Financial reporting represents a description of the position of the financial and structured financial performance of an entity. The financial statements also aim to be able to provide information on how the financial performance, financial position and cash flow of an entity is useful in making an economic decision. A manager who is responsible for the use of the resources entrusted to them can be seen from the accountability of a financial statement (IAI, 2012). Quality financial statements display all information about the company's business in a relevant and reliable manner. Therefore companies need good disclosure, a good level of disclosure is needed from the company (Bens and Monahan, 2002).

**Debt Maturity**

The problem of information asymmetry can be reduced by using short-term debt (Flannery, 1986; Berger and Udell, 1998; Ortiz-Molina and Penas, 2008, in Cutillas Gomariz & Sánchez Ballesta, 2014). To reduce agency cost problems, a manager will choose short-term debt and in its use can control and supervise a manager to be able to make good decisions (Diamond, 1991).

Myers (1977) suggested in overcoming the problem of underinvestment using short debt maturities. The problem of underinvestment occurs because it is caused by short-term debt that will be resolved within the allotted time, and the results obtained are entirely the company's property. In overcoming agency conflicts between shareholders and creditors, namely by using short-term debt, so that the problem of overinvestment and underinvestment can be reduced. Debt maturity is divided into two parts. The first is short-term debt and the second is long-term debt. Current debt or short-term debt is debt that has a maturity of less than a year or a maximum of one year. While long-term debt is debt that has a maturity of more than one year.

**Free Cash Flow**

Every company has cash that is not used to fund investment. The cash will be in the company's assets, but not yet used by the company. Companies with high investment, will provide high profitability and are more likely to have excess cash or free cash flow. The company has the right to use cash to fulfill its obligations.

Free cash flow is excess cash that is used to finance a project in which the net present value is positive after it is divided by the dividend. Free cash flow is divided into positive and negative. It is said free cash flow is positive if the company has an excess of cash flow, so the company has the opportunity to make new investments, pay off debt and others. Whereas negative free cash flow means that the company is unable to support its business expansion, which means that the company does not have enough free cash flow (this shows that the company has a lack of funds).

**Asset Tangibility**

Asset tangibility, also known as Fixed Asset Ratio (FAR), is the ratio between a company's fixed assets and total assets (assets). This asset shows that a company's assets are used for operational activities. The greater the desired assets, the results of the company's operations will be even greater. As more assets are collected, companies must think about how to be able to carry out investment efficiency.

Fixed assets are used in carrying out operational activities, to produce goods or services, and are useful in the normal operation of the company. Assets continue to be related to property, equipment and buildings. This asset is not for sale, but is used for activities within the company, producing, storing goods, and others. These fixed assets include land, land rights, buildings, equipment, machinery, office furniture, cars, and so on (Rahardjo, 2007: 39).

Each company has a different fixed asset policy, as needed. For example, manufacturing companies have fixed assets that are greater than banks. That is because companies engaged in the manufacturing industry require a lot of fixed assets that can support the production process they do (such as machines, warehouses, factory buildings, etc.). In contrast to a bank which is a service company that does not really need fixed assets in its business activities and to carry out its function as an intermediary institution.

**Liquidity**

Liquidity is an effort of a company to fulfill its short-term obligations. The higher the level of liquidity in the company, the better the company's performance. This is good for a company, because the company is not affected by liquidity as a result of the company's business and can pay short-term obligations. A company has a level of liquidity that is used as a benchmark in making decisions related to the company.

**Hypothesis**

**Effect of Quality of Financial Reporting on Investment Efficiency**

Several studies have been developed on the effect of the quality of financial statements on investment efficiency. Since the high quality of the financial statements, managers are required to be more careful in monitoring and thus the information asymmetry is reduced. The quality of financial statements can also make investment efficiency increase, namely by means of investment decisions taken by managers must be better and more precise. So managers must manage the quality of financial statements well.

Empirically the previous literature argues and finds evidence that FRQ reduces the sensitivity of cash investment flows (Biddle et al., 2009) and the distortion of information used by managers makes earnings management lead to overinvestment (McNichols & Stubben, 2008).

*(H1): The quality of financial reporting has a positive effect on investment efficiency.*

**The Effect of Free Cash Flow on Investment Efficiency**

Returns on investment are a reflection of a cash flow, in the form of debt or equity. Free cash flow can be used for stock purchases, debt payments and dividends, and can also be used for savings for future company development. In every decision to invest will affect the timing, the risk of cash flow in the company, so that makes managers need to make the right decision to maximize the company's stock price. . A positive free cash flow indicates that the income from the company is able to support the business. By knowing the free cash flow, companies can analyze the cash benefits of their money.

*(H2): Free cash flow has a positive effect on investment efficiency.*

**Effect of Asset Tangibility on Investment Efficiency**

According to Pradana (2013), a company that has high fixed assets will be able to produce than a company that has only a few assets. To be able to reduce costs and be able to generate a lot of profits, companies must have a large fixed assets, tend to have good production effectiveness. Investment is an investment owned by a company. It can be one or more of its assets and usually has a sufficiently long period of time, thus making the company get results in the future. The greater the fixed assets owned by the company, the company has the ability to sort out which investments are needed for the company. In general, companies that are more mature in the industry will have greater asset tangibility.

*(H3): Asset tangibility has a positive effect on investment efficiency.*

**Effect of Liquidity on Investment Efficiency**

The ability of a company to be able to pay all of its short term is closely related to liquidity. In a high debt position will affect the dividend policy and investment decisions of the company. Liquidity is not only related to company finances, but liquidity can also change cash from certain current assets. If the company's profits are used by the company to pay off debts, then dividend payments will be delayed or not paid and the company experiences investment constraints.

*(H4): Liquidity has a positive effect on investment efficiency.*

**Effect of Debt Maturity Moderates the Quality of Financial Reporting on Investment Efficiency**

Checking the isolated effect of the quality of financial reporting moderated by debt maturity on investment efficiency can be handled by using short-term debt, the borrower can monitor so that overinvestment is reduced through short-term debt. Companies that have shorter debt maturities will appear to have a weak effect on the quality of financial reporting on the efficiency of their investments, because the quality of financial statements and access only provide public information in the form of internal information presented in short debt maturities. The existence of short-term debt can benefit from public and private information on complementary investment efficiencies.

*(H5): Maturity of debt moderates the quality of financial reporting which has a positive effect on investment efficiency.*

**RESEARCH METHODS**

**Research Variable**

**Investment Efficiency**

Conceptually, investment efficiency means doing all their projects with a positive value. Biddle et. al. (2009) assumes the expected level of investment by determining a model that can estimate the level of opportunity based on investment growth (can be measured by sales growth).

$$Investment_{i,t} = \beta_0 + \beta_1 SalesGrowth_{i,t-1} + \varepsilon_{i,t}$$

where :
$Investment_{i,t}$ = total investment of change i in year t
$SalesGrowth_{i,t-1}$ = the level of development of the company's sales i of $t_{-2}$ minus $t_{-1}$
$\varepsilon_{i,t}$ = Investment Efficiency

The regression model above produces a residual value that reflects the desired level of investment deviation, and the proxy of this residual value is in-investment efficiency. The high level of company investment is expected to be a positive result. Conversely, if the results are negative, the investment made by the company is smaller than expected (undeinvestment). The absolute value for the dependent variable of the residual is multiplied by -1, so that a high value is also high investment efficiency.

**Quality of Financial Reporting (FRQ)**

The quality of financial reporting follows the model proposed by McNichols and Stubben (2008), which considers discretionary income as a proxy for earnings management.

$$\Delta AR_{i,t} = \beta_0 + \beta_1 Sales_{i,t} + \varepsilon_{i,t}$$

where :
$\Delta AR_{i,t}$ = annual change in company receivables i in year t
$\Delta Sales_{i,t}$ = annual change from the sales of company i in year t

This model for FRQ will be the absolute of the residual multiplied by -1. Thus, higher values indicate higher FRQ ($FRQ\_MNST_{i,t} = -|\varepsilon_{i,t}|$).

**Debt Maturity (STDebt)**

Debt maturity is the value of the ratio of short-term debt (all debt with a maturity period of one year, along with a portion of long-term debt with maturity in the current year) to total corporate debt. To verify the role of debt maturity in investment efficiency, the STDebt variable was included in this study which was measured as the ratio of short-term debt (maturity of debt before one year) to total debt.

**Free Cash Flow**

Richardson (2006) states that free cash flow is defined as cash flow that is more than what is needed to keep assets in place (including payments on existing debt) and to finance expected new investments. Free cash flow measurement:

$$FCF = CFO - I_{maintenance} - I_{new} + RD$$

where :
FCF = free cash flow
CFO = operating cash flow
$I_{maintenance}$ = The size of investment expenditure needed to maintain the level of expenditure
$I_{new}$ = The measure expects the level of new investment expenditure

**Asset Tangibility (FAR)**

Asset Tangibility Ratio (FAR) Asset tangibility (FAR) is the ratio between a company's fixed assets and total assets. Asset tangibility measurement:

$$\text{Asset Tangibility} = \frac{Fixed\ assets}{Total\ assets}$$

**Liquidity**

Liquidity is the company's business in order to pay off short-term obligations in a timely manner. Liquidity is proxied by the current ratio in which the current ratio is current assets divided by current liabilities. This measurement is the most commonly used measurement to find out whether a company is able to meet its short-term obligations. Current ratio is also commonly used to see the extent to which its current liabilities can be covered with current assets. Liquidity measurement with:

$$\text{CR} = \frac{Current\ asset}{Current\ liabilities}$$

**Variabel Memoderasi**

This study uses a moderating variable, DumbSTD, this variable uses a dummy variable from short-term debt. This variable is worth 1 if the ratio of short-term debt divided by total debt is greater than the median and will be 0 otherwise. Median becomes the value of a benchmark in grading values, the value of the median can make a data into two equal parts without the bias value of the lowest and highest value among all the data (Harto and Rahmawati, 2014).

**Population and Sample**

The state-owned companies used for the population in this study are state-owned companies listed on the Indonesia Stock Exchange. The sample used for this study was taken from state-owned companies that have been listed on the Indonesia Stock Exchange from 2011 to 2017. The purposive sampling method was used to determine the sample data in this study. Purposive sampling is to determine the sample data based on criteria. Based on this method, the sample criteria to be used must meet the following requirements:

1. Companies listed on the Indonesia Stock Exchange in 2011 to 2017.
2. Financial statements for 2011 to 2017 published by the company.
3. Financial statements issued by companies in rupiah.
4. Companies that have complete and supportive data in conducting this research.

**Analysis Method**

Testing the models and hypotheses in this study was conducted by testing descriptive statistical analysis, classic assumptions and multiple regression analysis. The classic assumption test consists of heterokedasticity test, multicollinearity test, normality test. As for the regression model of this study, they are:

$$InvEff_{i,t} = \beta_0 + \beta_1\ \text{FRQ}_{i,t} + \beta_2\ \text{Tang}_{i,t} + \beta_3\ \text{FCF}_{i,t} + \beta_4\ \text{Likuiditas} + \varepsilon_{i,t} \qquad (1)$$

$$InvEff_{i,t} = \beta_0 + \beta_1 \, FRQ_{i,t} + \beta_2 \, Tang_{i,t} + \beta_3 \, FCF_{i,t} + \beta_4 \, Likuiditas_{i,t} + \beta_5 \, DumbSTDebt + \beta_6 \, (FRQ_{i,t} * DumbSTDebt_{i,t}) + \varepsilon_{i,t} \quad (2)$$

$$InvEff_{i,t} = \beta_0 + \beta_1 \, FRQ_{i,t} + \beta_2 \, Tang_{i,t} + \beta_3 \, FCF_{i,t} + \beta_4 \, Likuiditas_{i,t} + \beta_5 \, (FRQ_{i,t} * DumbSTDebt_{i,t}) + \varepsilon_{i,t} \quad (3)$$

where :
InvEff : Investment efficiency
FRQ : Proxy of financial statement quality
STDebt : Proxies are the opposite of debt maturity (the level of short-term debt to total debt), including short-term debt and long-term debt
DumbSTDebt: Dummy variable of short-term debt to total debt that exceeds the median
Tang : Tangibility, the ratio of fixed assets to total assets
FCF : Free cash flow
CR : Current ratio (liquidity)
$\beta_0$ : Constants
$\beta_1 - \beta_5$ : Regression coefficient

## RESEARCH RESULTS AND DISCUSSION

### Profile of Research

This study aims to examine whether the variables of the quality of financial statements, Free Cash Flow, Asset Tangibility and Liquidity affect Investment Efficiency and whether the Debt Maturity variable moderates the effect of Financial Statement Quality on Investment Efficiency. Based on the predetermined criteria, the samples obtained in this study were 17 companies. With a number of 7-year periods (2011-2017), 119 observations (17 x 7) are obtained.

### Discussion of Research Results

The statistical analysis used in this study is multiple linear regression. This analysis is used to test the effect of independent variables namely Quality of Financial Statements (FRQ), Tangibility (Tang), Free Cash Flow (FCF), Liquidity on the dependent variable (dependent), namely Investment Efficiency (InvEf). Based on multiple regression analysis the following results are obtained:

1. **Model (1)**

   Based on Table 1, it can be stated that 9 can be stated that the quality of financial statements (FRQ) has a significant effect on investment efficiency. Free Cash Flow (FCF), Tangibility (Tang), and Liquidity have no significant effect on Investment Efficiency. From Table 4.9 shows the Adjusted R square value of 0.13. This means that 13% of Investment Efficiency is influenced by the variables of Financial Statement Quality (FRQ), Free Cash Flow (FCF), Tangibility (Tang) and Liquidity. While the remaining 87% (100% - 13%) is influenced by other variables outside the model. Based on Table 4.9, the calculated F value is 4.964 with a P value of 0.001. This means that the P value < 0.01 which indicates that the variable Quality of Financial Statements (FRQ), Free Cash Flow (FCF), Tangibility (Tang), and Liquidity simultaneously (together) has a significant influence on Investment Efficiency.

**Table 1**
**Model Multiple Linear Regression Results (1)**

| Variable | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|
| | B | Std. Error | | |
| Constants | -0.631 | 0.139 | -4.547 | 0.000 |
| Quality of Financial Statements (FRQ) | 0.196 | 0.063 | 3.091 | 0.003 |
| Free Cash Flow (FCF) | 1.663E-005 | 0.000 | 1.669 | 0.098 |
| Asset Tangibility (Tang) | 0.497 | 0.353 | 1.407 | 0.163 |
| Liquidity | -0.070 | 0.071 | -0.993 | 0.323 |
| F test | | | | 4.964 |
| Sig F | | | | 0.001 |
| Adjusted R Square | | | | 0.130 |

***Dependent Variable: Investment Efficiency***
***Source: Processed Data***

2. **Model (2)**

Output results Table 2 shows that moderator variables are not related to criterion variables and do not interact with predictor variables. Then the moderator variable is not included in the quasi moderator category. The moderator variable has the potential to be a pure moderator variable.

**Table 2**
**Model Multiple Linear Regression Results (2)**

| Variable | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|
| | B | Std. Error | | |
| Constants | -0.450 | 0.239 | -1,882 | 0.063 |
| Quality of Financial Statements (FRQ) | 0.127 | 0.112 | 1.135 | 0.259 |
| Free Cash Flow (FCF) | 1.433E-005 | 0.000 | 1.449 | 0.151 |
| Asset Tangibility (Tang) | 0.331 | 0.356 | 0.928 | 0.356 |
| Liquidity | -0.045 | 0.072 | -0.622 | 0.535 |
| Debt Maturity (STDebt) | -0.045 | 0.072 | -0.622 | 0.535 |
| Interaction (FRQ* *STDebt*) | 0.090 | 0.190 | 0.476 | 0.635 |

*Dependent Variable: Investment Efficiency*
*Source: Processed Data*

3. **Model (3)**

Based on Table 3 shows the Debt Maturity variable (STDebt) interacting with the predictor variable, namely the Quality of Financial Statements. So the Debt Maturity variable (STDebt) can be categorized as a pure moderator variable (original moderator). Adjusted R square value of 0.158 means that 15.8% of Investment Efficiency is influenced by the variables of Financial Statement Quality (FRQ), Free Cash Flow (FCF), Tangibility (Tang), Liquidity and interaction of FRQ * STDebt. While the remaining 84.2% (100% - 15.8%) is influenced by other variables outside the model, the calculated F value is 4.989 with a P value of 0.00. This means that the value of P value < 0.01 which indicates that the variable Quality of Financial Statements (FRQ), Free Cash Flow (FCF), Tangibility (Tang), Liquidity and interaction of FRQ * STDebt simultaneously (together) have a significant influence on Investment Efficiency.

**Table 3**
**Model Multiple Linear Regression Results (3)**

| Variable | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|
| | B | Std. Error | | |
| Constants | -0.648 | 0.137 | -4.738 | 0.000 |
| Quality of Financial Statements (FRQ) | 0.059 | 0.090 | 0.661 | 0.510 |
| Free Cash Flow (FCF) | 1.560E-005 | 0.000 | 1.589 | 0.115 |
| Asset Tangibility (Tang) | 0.394 | 0.351 | 1.125 | 0.263 |
| Liquidity | -0.039 | 0.071 | -.0541 | 0.590 |
| Interaction (FRQ* *STDebt*) | 0.242 | 0.115 | 2.104 | 0.038 |
| F test | | | | 4.989 |
| Sig F | | | | 0.000 |
| Adjusted R Square | | | | 0.158 |

***Dependent Variable: Investment Efficiency***
***Source: Processed Data***

The results of testing the first hypothesis states the quality of financial reporting has a positive effect on investment efficiency. Based on the output shows the effect of the Quality of Financial Statements on Investment Efficiency obtained coefficient of 0.196 and t value of 3.091 with a significance level of 0.003. From the above results it can be concluded that the quality of financial reporting influences investment efficiency and proves that information asymmetry between managers can be reduced by the quality of financial reports. This research was supported by Ebrahimi Rad et al. (2016), and Wang et al. (2005).

The results of the second hypothesis testing showed no effect of Free cash flow on Investment Efficiency, the coefficient value of 1.663E-005 and the t value of 1.669 with a significance level of 0.098. The results of this study are not enough to support the statement of Sriyunianti, (2006) who said that statistically proven that free cash flow to investment decisions has a positive effect. Based on the results of the study stated that free cash flow does not affect investment efficiency which means that the company is unable to expand its business, where the company does not have enough funds. This research was supported by

(Agustia, 2013). This is because free cash flow is an important determinant in determining company value.

The results of the third hypothesis testing show the effect of Asset tangibility on Investment Efficiency obtained coefficient of 0.497 and t value of 1.407 with a significance level of 0.163. So it can be concluded that there is no influence of Asset Tangibility variable on Investment Efficiency. This study contrasts with Andrew, Lu et al (2014), tangible assets provide a useful loan channel where companies can guarantee it as collateral. Pranada (2013) states that the funds of companies that have high fixed assets will get more results than companies that only have few assets. Where in a company that has ownership of fixed assets will allow the company to have the power to invest more.

The fourth hypothesis testing results show the effect of liquidity on Investment Efficiency obtained coefficient of -0.070 and t value of -0.993 with a significance level of 0.323. It can be concluded that there is no effect of liquidity variables on investment efficiency. The results of this study are not in line with research (Fanani 2009) and (Sujatmiko 2011) that liquidity is not affected by investment efficiency, because the amount of liquidity with financial statements does not move simultaneously.

The results of testing the fifth hypothesis show the moderating effect of the Debt Maturity variable on the Quality of Financial Statements on Investment Efficiency obtained a coefficient value of 0.242 and a calculated value of 2.104 with a significance level of 0.038. It can be concluded that the quality of financial reporting has a positive effect on investment efficiency which is strengthened or moderated by debt maturity. The results of this study are sufficient evidence to support previous research by Amrullah and Zidni (2013). In this study found a positive relationship between the quality of financial reporting and debt maturity to underinvestment and overinvestment. This study also found a strong relationship in companies that have low maturity debt to the quality of financial reporting and investment efficiency. In a similar study conducted by Cutillas Gomariz & Sánchez Ballesta (2014) with the t-static method, this study examines the effect of the relationship between debt maturity moderating the quality of financial reporting on investment efficiency.

## CONCLUSION

This study uses a population of state-owned companies listed on the Stock Exchange in the period 2011 to 2017. There are 19 companies included in the study criteria. Based on the results of the discussion of the hypothesis test, it can be concluded that this study shows the quality of financial reporting affects investment efficiency positively and significantly. As for the quality of financial reporting which is moderated by debt maturity has a positive and significant effect on investment efficiency. Whereas free cash flow, asset tangibility, liquidity do not affect investment efficiency. There are several limitations in this study. First, this research only focuses on state-owned companies listed on the IDX, so the results of the study may not be suitable when applied to other companies. The different characteristics of each company that distinguishes it. Secondly, this study only uses a limited period of time, in the period from 2011 to 2017.

Extending the research period will allow the sample to become wider so that the results obtained can be better.

This research can be modified or continued with several suggestions. First, for further research the variables used are not only limited to financial reporting quality (FRQ), free cash flow, asset tangibility, liquidity, debt maturity, and investment efficiency, but also can be added to various variables that are thought to have an effect on investment efficiency, so the scope of research becomes wider. Second, further research is expected to use control variables to get even better results. Third, research is expected to not only focus on state-owned companies, so that research can be applied in general. Fourth, the addition of the study period in order to get good results.

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