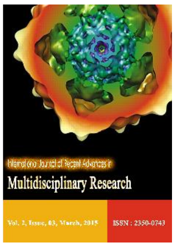


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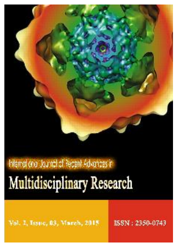


## Research Article

# THE ROLE OF FINANCIAL INFORMATION IN THE WORLD BUSINESS

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**ABSTRACT**

This article is a literature review that contains the results of several previous studies relating to the role of information, especially financial information in the business world. Based on the study of some existing article, indicates that an important part of information for individuals and for organizations. Information plays an important role in many aspects, also serves as a tool for the organization to achieve its objectives, especially accounting information. This information plays an important role in business organizations. From within the organization between the information obtained from this section strongly supports the operational success of the organization, both for planning and decision making.

## INTRODUCTION

The era of rapid globalization, technological advances and competition in the business world to encourage individuals/ organizations to be competitive in order to obtain optimum benefit. To be competitive, the individual or organization requires resources, one of which is information, information as one of the resources available to the manager and have the same value as other resources such as people, equipment, tools and money (Azhar, 2013, 37). Before discussing the importance of information, it is better described in advance of information. Information describes a process to produce output that has meaning and useful for people who receive it (Chusing, 1993; 2).

This means that in the business world there is no useful information both for management and for company owners / shareholders. In the business world there are still many issues that are linked to the information. So that it can make a person lose in competition or success in the competition. How individuals / organizations to be successful in the competition? What should be done by idnividu or organization to be successful to win the competition? How the information can play a role in the business world? How is quality information?

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The author tries to give answers to what the previous question and answer of course is to be based on theory and previous studies.

## MATERIALS AND METHODES

Research methods used in this study is a literature review, in which the material covered is the result or set of theories and previous studies. Thus, in this study did not use statistical methods, but only using the explanation based on theory and previous research.

## DISCUSSION

### Information

The information is the result of data processing that has meaning / benefits for those who receive it (Chusing, 1994: 2; Azhar Susanto, 2013: 38).According to Hansen and Mowen (1999: 9) financial accounting aims to produce an objective report and financial information that can be justified. For management accounting, information that can be financial and non-financial information. The financial information / financial statements are, in principle, where a company communicate financial information to outside parties. The report presented the company historically in size amount of money. The financial statements have presented the frequency of the balance sheet, income statement, cash flow statement,

statement of changes in equity and notes to the financial statements. (Kieso 2012: 4).

**Quality of Information**

Barry E. Cushing, (1994: 3) argues characteristics of information: For information to be useful, it must prossess Several characteristics. Information must be reliable, relevant, timely, complete, understanable, and verifieable, Chusing of opinion can be interpreted that the characteristics of the information; so that information can be used, it must have some information characteristics. The information must be reliable, relevant, timely, complete, and verifiable. Similarly, proposed by Mc Leod in the book Azhar Susanto (2013: 38) that the information quality can be said must have characteristics:

- Accurate, means that the accounting information truly reflect the situation and conditions.
- Relevant, means that the accounting information produced completely in accordance with our needs.
- Timely, can be interpreted that the accounting information available at the time the information is required.
- Complete, can be interpreted that the accounting information has been completely produced the desired and needed.
- It can be concluded that the characteristics of quality information that is information to be relevant, reliable/ accurate, timely, and complete.

**Pihak berkepentingan**

The parties interested in the information consists of the internal (directors, management, and employees) and external parties (government, investors, communities, customers, suppliers, creditors, analysts and employees (Stice, 2010; 9). Harrison, Horngren, Thomas (2013: 4) argues that the present financial accounting information for decision making outside parties, such as investors, creditors, government, and society.Bodnar and Hopwood (2006: 4) argues users of accounting information can be grouped into two major groups of external and internal; External users include shareholders, investors, creditors, government agencies, customers, vendors, competitors, unions and the public. Internal users consists of the managers.Conclusions about the users of accounting information is that users / stakeholders concerning accounting information is the internal party consisting of directors, management, and employees and external parties consist of shareholders, investors, creditors, government agencies, customers, vendors, competitors, unions and community.

**The role of information in business**

Information plays an important role in all aspects of human life, both individually and organizations (Azhar Susanto, 2013, 11). Further proposed by Azhar Susanto (2013: 37) information is valuable because the information shown to the management company can determine how development happens in the company operations and avoid the risk of doing something that is not supposed to be the result patal for the organization. According to Bodnar (2006: 4) argues that the economic value of information if such information to facilitate resource allocation decisions. So the information is useful when supporting a system to achieve the system goals. Information is a resource that is a very important organization.

Hansen and Mowen (1999: 8) mengemukakkan that the usefulness of accounting information for managers is not only limited to manufacturing companies. Whatever the form of organization, managers should be able to use accounting information.So from some previous opinion, the authors conclude that the role of information in business organizations is essential, in the absence of information, the management can not do the planning and control as well as the decision-making process within the company. For the information presented must be qualified and reliable information that is reliable, easy to understand, relevant, timely and complete. Here are some results of studies related to the importance of information in the business world. Whether it be from within the company itself or dariluar company.

**Previous Research**

Several studies / articles about the importance of information which is also based on several theories exist as a basis to clarify the importance of information in the business world.

**Finacial Information and Asset Market Equilibrium**

As argued by Grossman and Milgrom (1981) in his article is the result of research. Those who master the information about the quality of the product may affect the way buyers dg selectively express what he knew. Grossman and Milgram concluded that those who control the information about the product or assets required to follow a policy of full disclosure (full disclsure). Empirically advised managers to perform exercises to disclose information voluntarily scr. From the research Grossman and Milgram, there are meanings that to be competitive in order to produce a product or to take control of assets, then management must have quality information. How do the characteristics of quality information?

Then research Ball and Brown (1981) Good news in the accounting literature is known as a positive difference between the actual earnings that were reported with market expectations on earnings otherwise bad news is negative difference. According Givoly-Dalmon (1982) found that the delay of the bad news is the definition of timeliness (timeliness) and the model of earnings expectations (expected earnings). Patell-Wolfson (1982) find that the bad news tends to be reported after the close of trading (trading). Chambers-Periman (1983) concluded that loss of the expected date of the report is a signal of the existence of bad news that reflected dlm sekurutas prices on the expected date of release. Watts (1978) find that there is no significant evidence to the cross-sectional distribution of quarterly delay deliberate delay, to support the hypothesis. Kross-Schroder (1983) find that the timing of the information released to have a significant impact on returns is to perform the analysis at intervals of 8 days around the announcement date.

**Financial disclosure**

Pensignalan theory underlying the voluntary disclosure (discretionary disclosure).The management is always trying to reveal private information that he considered very attractive to investors and shareholders, especially if such information is good news (good news).

Management interested in conveying information that can enhance the credibility and success of the company even though the information is not required. Discretionary Disclosure by Robert E. Verrecchia (1983), this article tries to observe how the presence of the associated costs of disclosure (disclosure of related costs) may explain why managers practicing voluntary disclosure even if traders have rational expectations of the management motivation to withhold reports / information unfavorable. There is a balance (equilibrium) of the "threshold level of disclosure" with the "trader's expectation" where the speculation of "trader" about the contents of confidential information in accordance with the motivation manager to withhold such information. The manager will choose to disclose or withhold information which are true liquidation value of the assets held (true liquidating value of the asset). When managers reported what he observed, the value of the asset will be reduced due to the cost (cost) that is related to some disclosures (proprietary cost). The existence of proprietary cost is significant that when the cost of proprietary information occurred and detained, the trader becomes unsure whether the withheld information thd declare bad news or good news. Proprietary cost is considered "noise" in the model. proprietary cost is a function of the observed information. For example 'average news' will lead to a proprietary low cost. The greater the costs associated with the disclosure of proprietary information, the smaller traders reacted negatively to the information that is being held / kept secret.

**Earnings Manipulation and Accounting Choice (PART)**

Watts and Zimmerman (1986) normative theory seeks to explain what information should be communicated to the users of accounting information and how accounting theory is presented. Positive theory seeks to explain why the accounting practices achieve as its present form. Watts and Zimmerman (1986, 1990) mengaris three hypotheses in the form of "opportunistic", namely: Debt / equity. Ceteris paribus hypothesis, the greater the company's debt / equity ratio, the more likely the company managers to choose accounting procedures that shift reported earnings of future periods of the future. Ceteris paribus, the larger the company, the more likely the manager is to choose accounting procedures suspend reported income from current to future periods.

**Measurement and Evaluation Role of Accounting**

The differences of opinion regarding the income numbers (accounting calculation results) that lacks meaning and questionable benefits (Canning 1929). For this reason the study emerged from research Ball and Brown are (Watts and Zimmerman, 1986): What is accounting earnings reflect the factors that affect stock prices? Is the information content of earnings announcements have on the stock market. Recent developments regarding Capital Theory In the theory stated that: "Capital markets are both efficient and Unbiased in that if information is useful in forming a capital asset prices, then the market will adjust asset prices to that information quickly intervening and without leaving any opportunity for further abnormal gain ". (Samuelson, 1965). Scholes (1967) prove that the income report has information content. In this study, discussed two alternative models as follows Income expected by the market, and watching the market reaction when expectations are not realized.

The purpose of this study was to assess the usefulness of a number of existing accounting figures by examining the information contained and duration. In An Empirical Evaluation of Accounting Income Numbersby Ray Ball and Philip Brown, the underlying background Ball and Brown's study is that the theory of general accounting aims to evaluate the usefulness of accounting practices to the extent of agreement on the theories of accounting with special analytical models.

The model usually contains only a small assertions or arguments developed carefully. In each case, the evaluation method has been compared with some of the implications of the existence of the practice of the preferred practice. With some models or standards which implies all models of practice that should be owned. Disadvantages of this method is that the model rejects a significance of knowledge of the world, namely the breadth of the prediction model according to the observed behavior. The results of the study period March 1944 - December 1960 indicated that about 30-40% of the variability in the rate of return associated with a market share wide effect; (King, 1966). Market-wide variation in stock returns are influenced by the release of company information. Ball and Brown evaluate the related consolidated statements of respective Company, contents and time income statement should be assessed relative to the change in the rate of return net share of the market wide effect. The impact of market-wide information rateof monthly return of investasisatu dollars in company stock j is estimated by linear regression predictive value of the relative price of ordinary shares in the company's monthly market return index.

**Management and Financial Accounting (Agency Theory)**

Coase widely known with 2 of his article in The Nature of the Firm (1937) he introduced the concept of transaction costs to describe the size of the company. In The Problem of Social Cost (1960) he states that property rights are well illustrated can solve the problem of externalities. Coase for the first time has produced an explanation "strong and valid" economic theory based on two main questions, which is why the company exists, and why every company of a certain size? Coase (1937) argued that the analysis of the company can be explained by the principle of marginalism, and connect it to the problem defining the limits of the company. This was concluded by Coase with simple rules: "A company will likely continue to evolve until the unit costs for organizing specific / particular transaction is equal to the cost of carrying out the same transaction by way of exchange in the open market or organization costs in other companies" (Coase, 1937, p 395).

In the theory of agency (agency theory), the agency relationship arises when one or more persons (the principal) employs another person (the agent) to provide a service and then delegate decision-making authority to the agent. The relationship between the principal and the agent can lead to unbalance information (asymmetrical information) because the agent is in a position that has more information about the company than the principal. Assuming that individuals act to maximize self-interest, then the information asymmetry that has will encourage agents to hide some information that is not known to the principal. In the asymmetry conditions, the agent can affect the accounting numbers presented in the financial statements by way of earnings management.

One of the methods used to monitor and restrict contractual issues opportunistic behavior management is corporate governance. Fundamental principles of corporate governance that need to be considered for the implementation of good corporate governance practices are; transparency, accountability, fairness, and responsibility. Corporate governance is directed at reducing the information asymmetry between principal and agent, which in turn is expected to minimize the costs of earnings management. Then, the agency problem will arise if the management company or the agent does not or less have the company's common stock. Due to this situation no longer makes the management seeks to maximize corporate profits and they are trying to take advantage of the load borne by the shareholders. Ways in which the management is in the form of an increase in wealth, and also in the form of pleasure and facilities of the company. Described in Jensen and Meckling (1976), Jensen (1986), Weston and Brigham (1994), that the agency problem can occur in two forms of relationships, namely; (1) between shareholders and managers, and (2) between shareholders and creditors. If a company in the form of individual enterprise managed by the owner, it can be assumed that the manager-owner will take every possible measure to improve their well-being, especially in the form of increased wealth is measured individually and also in the form of pleasure and executive facilities.However, if the manager has an owner and a portion as they reduce their ownership by forming a company and sell some shares of the company to outsiders, the conflict of interest could arise immediately. This situation makes the manager may not be so persistent again to maximize shareholder wealth because of the wealth of its quota has been reduced in accordance with the reduction of their holdings. Or maybe just a great manager sets the salary for himself or add executive facilities, as part of which will be borne by the other shareholders.

**Theory of the firm and organization**

Articles of Sah and Stiglitz on the Economic System Architecture: hierarchies and Polyarchies (1986). Secsra the widespread public that the performance of the economic system or organizations affected by its internal structure. In this article, the researcher presents some new ways to look at the relationship between the performance of the economic system and certain aspects of the structure, which the researchers refer to the "architecture" of his. Aritektur (as well as computer systems or electricity) explains how the constituent units organized decision-makers together in one system, how the decision-making authority and ability to be distributed in a system, who is looking for information about what, and who communicates what and with whom. Two specific architectures that are examined in this article is called polyarchies and hierarchy.

Researchers suspect that polyarchy as a system in which there are some (and perhaps competition) decision-makers who can run the project (or ideas) independently from one to the other. In contrast, concentrate more decision making authority in the hierarchy in the sense that only a few individuals (or just one individual) can work on projects while others provide support in decision making. Respectively, these two architectures is the origin of the economic market orientation and the orientation of the economic bureaucracy. Aspects of organizational performance in which researchers focus on the quality of decision making.

All people make mistakes and assessment: some projects received must be rejected, and some projects are rejected even accepted. Using the analogy of the classical theory of statistical inference, this error can be equated with mistakes Type-II and Type-I. How individuals are organized jointly affect the nature of the error made by the economic system. For example. In a market economy, if the company rejects the idea that benefit (say, for a new product), it is possible that some companies will accept this. Conversely, if a small (single bureau) made some decisions and the company rejected the idea, ma then the idea will not be used. However, the same thing is done, it is true that the idea was not profitable. As a result, one should expect the emergence of Type-II error is greater in polyaarchy, and the emergence of Type-I error is greater and hierarchy. The cost to obtain and communicate information (which lead to misjudgment by the individual) is a central characteristic of the underlying technology research analysis. Cost (cost) include direct costs (time and resources) and indirect costs resulting from unavoidable contamination that occurs in the process of communicating information. Communication, such as making decisions, not always perfect. No individual who can communicate fully and perfectly what he knew to be communicated to the other party. Another important feature is the limited ability of individuals to acquire, absorb, and process information in a limited time. This is why organizations, groups of individuals, want to do more (make better decisions) of the individual. But the fact that communication is very expensive and not perfect, it means that an organization with two individuals, each of which can process any number of incoming information, say one month, not the same as a person who has the capacity to process twice as much information in the same time.

**Accounting and Internal Control**

Accounting and the Theory of the Firm, By; Ronald H Coase (1990): In this article, the author explains that the accounting is instrumental in economic research, due primarily accounting accounting system that can be part of the theory of the firm. Further research suggested that, researchers hope to be able to see the development of the theory of the firm and accounting. Neoclassical view considers that the market is running perfectly without any cost because buyers have perfect information and sellers compete with one another to produce a low price. But the fact the field is different. Where information, competition, contract system, the process of buying and selling can be very asymmetric, leading to the presence of transaction costs for the negotiation process, measurement, information exchange, and others - others. Coase theory formulated in the institutional economic theory. In an article titled Accounting and the theory of the firm, Coase emphasizes the role of the accounting system in relation to the decentralization of decision-making. Within the company, the management makes decisions independently of the others in order delegating responsibility and all decisions not produks of a single mind. Accounting system has a substantive and important role in providing information about the uncertainty regarding the cost. Performance of different accounting systems between transaction and between companies. Accounting system to function as a determinant of cost efficiency. Coase provides an insight into the company's performance in performance and size. The role of the accounting system in relation to the decentralization of decision-making.

Coase also stated that the theory akkuntansi system is part of the theory of the firm (According to Coase, an accounting system is not optimal but has a substantive and crucial role, it moderates the problems of information and uncertainty in recognizing the cost. There are several opinions about the behavior akuntans Coase namely; Coase has conducted research on the company's balance sheet in 2000 (1926-1935) with the conclusion that the presence of unevenness in accounting practices and the difficulty of understanding the figures in the balance sheet. (dipbulikasikan in memorandum No. 49 on the London and Cambridge Economic sevice. 1940). Later in his research on bank credit policy for the iron and steel industry as capital goods industry, with the conclusion that the iron and steel industry is not affected in a state of economic depression in the UK 1929. Coase argued the need to publish financial statements as a source of economic statistics. (According to Coase, by using the accountans to drive information about firm behavior, it was possible to relate the figures abaout one kind of firm behavior to all other aspect of the firm's position and behavior. This still seems to me a decisive advantage of using the accounting records)

**Field Studies of Management Accounting**

Article from baiman stanley, david f.larcker and madhav v. rajan: Organizational design for business units by: Journal of Accounting Research, Vol. 33 No. 2 Autumn 1995. This article conduct empirical research firm differences through decentralized in hopes to allocate the task of the parent company to the business units (subsidiaries) and the level of risk compensation expense charged to the business unit manager. Researchers compiled empirical analysis in two diterminan hypothesis of decision organizational structure: the parent company expertise tasks associated with business units and business interests relations unit with the parent company's performance. The author developed a model of principal- agent for the allocation of tasks and decisions of risk compensation as a function of both diterminan TSB, and test some research hypotheses suggested by the model.

Another important aspect of the design of the company's organization is the extent of decentralization of the company concerned. Analysis by the author related to research conducted Vancil (1978), which analyzes the relationship between diversification strategy, the level of delegation, autonomy, compensation structure for the business unit managers, functional authority, financial accountability. More recently, Christie, Joye, and Watts (1993), the expansion Vancil (1978), examined the relationship between the cost of agency / agency cost, the cost to communicate information (knowledge transfer fee), and the type of knowledge produced by the company (public and special).The basic idea is that if this particular knowledge generated by an agent, it would be useful to allocate tasks more keagen respect to gain information from the agent and to avoid the cost of communications specialist knowledge. Because it is more difficult to control the agent who has special knowledge, these two factors combined make the hypothesis that confusing. Analysis by the author refers to Christie, Joye, and Watts (1993) and the authors also consider diterminan of task allocation decisions (or decentralization). Although, the key of the difference between the study author and research Vancil (1978) and Christie, Joye, and Watts (1993) is the author develops the hypothesis of a formal model analysis and derive hypotheses from various characterization expertise.

**Role of Auditing and Accounting Regulation**

In Low Balling, Legal Liability and Auditor Independence (Low Balling, legal liabilities, and Auditor Independence) Chi-Wen Lee Zhauyang Gu Jovans (Oct 1998; 73); The author builds a model of moral hazard dynamic multi-agent, to analyze the interaction between business owners, managers and auditors. Moral hazard can arise in hierarchical monitoring agency because rational agents can be received from the payroll of agents monitored for presenting false information to the principal. Moral hazard problem of multi-agent is the essence of the independent auditor concern. The author shows that the compensation scheme "less-skilled" and the legal liability of auditors is an efficient mechanism for dynamic contracting agency hierarchy. In particular, the lack of service as a substitute for competent legal obligation to establish the independence of auditors. Ably less will reduce transaction costs associated with the binding relationship tehadap auditor fee structure (wages / salaries) and can actually increase the independence of auditors.

**Financial Accounting Standards**

Articles Farrell and Saloner (1985) on standardization, compatibility between and innovation:

Many of the benefits to consumers and companies of standardization of a product. Authors test whether this standardization can be useful to trap the industry in the use of ancient standard or low-quality standards when there are better alternatives. With similar information complete and preferred the company was answered not; but if the information is not complete, there will be "excess moisture / excess inertia". The author also describes the extent of the problem which will be solved by communication. In this article, the authors analyze the problem of coordination of innovation or change in an industry standard, where the product is not compatible / match with another product at a very unfavorable. The author has shown that there will be inertia that is inefficient, or innovation that is not efficient, and it is not an easy problem to be solved only with the communication between companies.

Lev (1988) Toward a Theory of Equitable and Efficient Accounting Policy (referring to the theory of proper and efficient accounting policies): Inequity in the capital markets, defined here as the inequality of opportunity or the existence of a systematic and significant information asymmetry between investors, which leads to the loss of personal and social consequences: high transaction costs, weak market, low liquidity securities, and in general, a decrease in revenue from trade. Some consequences of the loss of injustice can be reduced with public policy mandates the disclosure of financial information in relation to reducing information asymmetry. Disclosure regulation-justice orientation tools are very different from the traditional, moral concept of fairness in accounting, which are generally presented for the purpose of justice (fairness), eliminate fraud and protect investors unknown to the exploitation of the company. The converse to some obscurity, anachronistic and allegations are not attractive, the concept of justice as previously defined herein and operational art, which relates directly to the current theoretical development in economics and finance. As already prepared an economic justification for disclosure regulations, and further, offering accounting policy makers with an operational criteria of "public interest" for disclosure and open option for researchers to evaluate the consequences of regulatory agenda.

**The Market of CPAs+**

Michael h. Riordan and david e. M. Sappington (May, 1987) in Information, incentives and organizational mode: The authors examine the organizational mode option for a two-stage process in which the actual production costs at each stage of production is only observed with the group. If the costs (cost) is positively correlated, the principal prefers to conduct the second phase of production is done alone. If the correlation is negative and small enough, he prefers if the agent that forms the first stage and also form a second phase. As for the correlation negatife widely, probably the preferred mode. If costs are not correlated, the principal is not interested in fashion.

**Se of Accounting Information with in the Firm**

In the article The Balanced Scorecard: The Effects of Assurance and Process on Managerial Accountability Judgmen studied by Libby, Salterio, Webb. Shows that:

This study mengientifikasi and test two approaches to reduce the "common measure of bias / common measurement bias". Authors examine whether increased accountability efforts through the application process (like, ask the manager to justify to his superiors about the evaluation of their performance) and / or improve the quality measurement Balanced Scorecard (like, through the Balanced Scorecard reports on the guarantee of an independent third party) increase the unique way the manager the measurement of performance in their evaluation. The results show that there is a demand for justification of the evaluation to the boss or the provision of a guarantee of the Balanced Scorecard reports that increasing the use of unique measurements in the assessment of managerial performance evaluation. Implications for theory and practice are described.
This study contributes to the literature by examining how an increase in the determination of the information used to evaluate the performance of the division managers by combining both common and unique performance measurement BSC. This study provides the first evidence that the assurance report to the BSC is useful for managerial decision making, which until this study, the research is open to question (Maines *et al*, 2002, 359). The results convey that auditing and assurance regulations, standards makers, public accounting firms and their clients would like to continue the examination of the nature and value of collateral reports in the area of performance measurement. The results also stated that the senor management division manager should ask for menjusifikasi evaluation of their performance when using the BSC performance measurement containing both common and unique. This approach also increases the likelihood that managers will use all relevant information BSC in making assessments of the performance evaluation.

**Conclusion**

From the foregoing description is based on some existing article, indicates that an important part of information for individuals and for organizations.

Information plays an important role in many aspects, also serves as a tool for the organization to achieve its objectives, especially accounting information. This information plays an important role in business organizations, both within the organization itself and the information from outside the organization. From within the organization between the information obtained from this section strongly supports the operational success of the organization, both for planning and decision making. This implies that there is a good information system, the application of good information system that will produce good information, in terms of the accounting information system that will produce quality accounting information. Information from outside the organization, for example, to know the development of stock prices, economic conditions (interest rates, inflation rates and economic policies) must be obtained from the information. To be able to give you the truth and certainty of the information communication link between the parts involved then it should be good communication so as to produce quality information. It required a sophisticated communication media, or it can be said the use of information technology is very important in obtaining quality information. Characteristics of the quality of information among other information should be accurate, it can be interpreted that the accounting information truly reflect the situation and conditions. Relevant, means that the accounting information produced completely in accordance with our needs. Right on time, can be interpreted that the accounting information available at the time the information is required. Complete, it can be interpreted that the accounting information has been completely produced the desired and needed.

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