Information Asymmetry and Profit Management on Cost of Equity

by Rika Astutik

Information Asymmetry and Profit Management on Cost of Equity Capital

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Abstract. This study aims to examine the effect of information asymmetry and earnings management on the cost of equity capital for food and beverages companies listed on the Indonesia Stock Exchange. The object in this study is food and beverages companies listed on the Indonesia Stock Exchange and the sample of research obtained by 11 companies with the study period is the 2015-2018 financial year. The independent variables used are information asymmetry and earnings management, while the dependent variable is cost of equity capital, moderating variables are agency theory and capital market theory. Data analysis method is done by using multiple regression calculations to examine the effect of independent variables on the dependent variable. The results of the study indicate that information asymmetry produces a non-significant positive direction and earnings management produces a positive direction significantly affecting *the cost of equity capital*. moderating variables of agency theory and capital market theory produce a non-significant positive direction on the relationship of information asymmetry on cost of equity capital. While the results of previous studies indicate that information asymmetry and earnings management have no effect on the cost of equity capital while other studies that show information asymmetry have a positive effect on earnings management practices while firm size has a negative effect on earnings management practices. Investors assess at this time, the company that issued new ordinary shares is to cover its operational and investment debt, so that the company is less attractive to investors. In addition, investors consider other things in investing in a company such as business decision making, not only focusing on earnings information asymmetry, but also considering non-financial information on the existence of the company's internal mechanism.

Keyword. Information Asymmetry, Earnings Management, Cost of equity capital.

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INTRODUCTION

Financial statements are an important facility for the public to know financial information in communicating to each party in need. The financial report is expected to help people to be smarter in making decisions in the world of investment. One form of running a good company operation requires good funds from creditors and investors. One process of bringing together parties who can provide funds to companies that need finance for their business is the capital market. The Indonesian stock exchange has the capability in funding sources and managing funds for the community. Companies that are included in the Indonesia Stock Exchange can issue shares and bonds that will be traded in the capital market to obtain funds from the fund provider.

Cost of equity capital is a calculation of the discount rate imposed on each company share by capital market players on the basis of the company's consideration to determine the current stock price and estimated cash flows in the future.

Cost of Equity Capital is a certain assessment that the company must achieve in meeting the needs of future investors and creditors. *The cost of equity capital* (cost of equity capital) is related to the level of risk of investment in the company's stock. *cost of equity capital* is the rate of business performance and the risk of financial note is balance (relatively stable). The calculation of the *Cost of equity capital* uses the source of funds provided to the company. There are several sources of funds, namely: (a) long-term debt, (b) preferred stock, (c) common stock, (d) retained earnings. Cost of equity capital is the level of distribution needed by the fund provider, both investors and creditors. *The cost of equity capital* related to investment risk for food and beverages companies that occurred in the past four years in the first quarter was the result of unstable or fluctuating quality but not up to delisting (a decline that could eliminate the food sector and munitions industry from the stock list Indonesian effect). Therefore, it is very important to know the cost of equity capital related to the investment in the food and beverage sector, where the sector is a sector of basic needs for the community.

Based on the above background, the formulation of the problem in this study is: (a) How to increase *cost of equity capital* with the emergence of information asymmetry in *food and beverages* companies listed on the Indonesia stock exchange? (b) Why does earnings management not always affect the cost of *equity capital of food and beverages* companies listed on the Indonesian stock exchange? (c) Does the agency theory have an influence on the relationship between information asymmetry and the occurrence of cost of equity capital in *food and beverages* companies listed on the Indonesian stock exchange? (d) Does capital market theory have an influence on the relationship between information asymmetry and the occurrence of *cost of equity capital in food and beverages* companies listed on the Indonesian stock exchange?

This theory is related to the relationship between principal and agent (agency relationship). Agency relationships occur when one entity (principal) delegates authority, authority to another party (agent). Agency relationships allow for potential conflicts of interest between the principal and the agent. Agency theory states that companies can be shown as owners of resources. An agency relationship can appear when one or several individuals, entrust to one or several individuals, to carry out several actions and then delegate decision-making authority to the agent. Agency relationships occur when the actions of one individual affect the welfare of other individuals. Individuals who perform these actions are referred to as agents and parties who have welfare (utility) as measured by the size of the Indonesia monetary unit, and influenced by the actions of the agent as principal. In the principal agency relationship, the agent wants to act according to the principal's interests.

According to Regina (2012) is one of the researchers who examined the information asymmetry and earnings management with cost of equity capital using the cost of real estate companied. The results of her research that information asymmetry and earnings management has no effect on the cost of equity capital (cost of equity capital). Muliati (2011) is a researcher who examines information asymmetry and firm size on earnings management practices that use corporate shares listed on the Indonesian stock exchange. The results of this study that information asymmetry has a positive effect on earnings management practices while firm size has a negative effect on earnings management practices.

Information Asymmetry

Is an information situation where the manager has more knowledge about the condition of the company in the future compared to information owned by investors or other interested parties. There are two types of information asymmetry: *adverse selection and moral hazard. Adverse selection* is a type of information asymmetry where one or more parties that carry out a business transaction, or a potential business transaction has more information than other parties. Adverse selection occurs because some people such as company managers and other inside parties are more aware of the current condition and prospects for the future of a company than outside investors. The adverse-selection problem arises when the agent has information that is useful for decision making and the principal does not know it. However the principal cannot know whether the decision taken by the agent is appropriate because they do not have the same information. The principal faces the problem of information asymmetry.

Profit management

Profit management is a disclosure, namely financial statements intervened with the aim of obtaining personal benefits. Management makes engineering efforts by using certain techniques so that the appearance of financial statements looks better. Looks better on the profit height, or looks lower in profit. The display is adjusted to the expected goals of management, namely a reduction in tax rates, avoidance of monopolies. Compensation and bonuses, the pressure of the debt covenant, and other motivations. Managers have information about future earnings and will signify their beliefs regarding certain rates of profit in the future. If the manager is wrong about the upcoming profit level they will not disclose it. Earnings management is related to safeguarding expectations that future periods will increase.

Cost of Equity Capital

That is the amount of equity costs (cost of equity) and the cost of debt that is considered with a certain value. A company to finance its sustainability also requires funding from external parties, namely by becoming an open company or listed on the IDX, the company can issue shares and bonds. For internal financing, the company can invest more in the profits generated from the company's operational activities.

Capital Market Theory

In the capital market, investors are not parties who have no knowledge of earnings management at all. In many previous capital market studies, inverters have seen abnormal accruals more as a reflection of earnings management practices. The discussion of the practice of earnings management also assumes that financial statements provide efficient information for investors. Reported earnings in financial statements is reflect management judgment. Which has relevance value and is a good predictor of future cash flows compared to current cash flows. Earnings management is chosen by management with the aim of influencing users' perceptions of company financial statements. Managers face has many consequences from the reported earnings profile. Analysis and institutional investor preferences will influence the reporting decisions made by managers through their impact on compensation, reputation, job security, and capital market consequences that affect managers' utility.

The Influence between Information Asymmetry and Cost of Equity Capital. The existence of information asymmetry is considered to be the cause of the cost of equity capital that can increase the level of return for recipients of fund channels. When asymmetry information is high, the company can engineer the cost of equity capital before the financial statements are audited without worrying about detecting the engineering. Therefore, the increasing asymmetry information that occurs, the greater the habits of companies that will not be monitored effectively as in companies with low asymmetry. The greater the risk and changes in investment growth the company then seamkin small the level of cost of equity capital. This is because information asymmetry will occur in companies with high investment growth rates. Whereas the larger the company, the greater the level of cost of equity capital. According to Muliati (2[illegible]) The results of this study indicate that information asymmetry has a positive effect on earnings management practices, the results of this proposal support the results of research conducted by Rahmawati, et al (2006). From the description above, the following hypotheses can be formulated as H1: Information asymmetry has an influence on the cost of equity capital.

The Influence between earnings management and Cost of Equity Capital. The management earnings that is often used is the value of company assets. Asset value is used as a measure of the company because there is still a compounding effect that arises because large companies are always identified with large asset values. This situation makes managers motivated to do the cost of equity capital because managers believe that users of financial statements are still basing one of the assessment on the company on the asset value. According to Reizky, (2012) the results showed that there was no relationship between asymmetry and earnings management of cost of equity capital. From the results of previous research, it can be compared as a reference for future research. From the description above, it can be formulated the following provisional hypothesis as H2: earnings management has an influence on the cost of equity capital.

Is there an influence of agency theory on the relationship between information asymmetry and the occurrence of cost of equity capital. Agency conflicts that have the potential to arise when managers have shares of less than 100 percent. If a company is an individual governed by the owner, the owner-manager will take action to maximize his welfare. The owner-manager might measure utility with a measure of personal well-being. If the owner-manager sells ownership to outside investors, conflicts of interest are known as agency conflicts. According to Jensen and Beckling (1976) added that if the two groups (agents and principals) are people who try to maximize their utility, then there is a strong reason to believe that the agent will not always act the best for the principal's interests. With the conflicts that occur the agency theory is very important to be measured in the presence of information asymmetry that occurs in the cost of equity capital that occurs in food and beverage industry companies listed on the Indonesian stock exchange. Agency theory will later be known whether it plays an important role in the sustainability of the investments that are carried out. From the above description, the following hypothesis can be formulated as H3: Agency theory has an influence on the relationship between information asymmetry and the occurrence of cost of equity capital.

Is there an influence of capital market theory on the relationship between information asymmetry and the occurrence of cost of equity capital. Public companies have not only an urge to avoid losses or decrease profits, but also to be able to achieve market expectations so that the stock price does not go down. According to Bauwhede, Wilekens and Gaeremynck (2003) examine whether there are differences in the behavior of profit-making companies with registered companies or not. The hypothesis proposed by registered companies has more impetus to increase profits compared to private companies. The evidence found is that listed companies make fewer profits than unregistered companies when equity capital has not been manipulated over the previous year. Non-public companies are more willing to lower equity capital with the aim of saving for future earnings formation. From the description above, the following hypothesis can be formulated as H3: Capital market theory has an influence on the relationship between information asymmetry and the occurrence of cost of equity capital. conceptual framework Based on the explanation of the theory that has been stated previously, then it is conveyed theoretical thinking that describes a conceptual framework which is an alloy as well as a flow of thought and as the formulation of a hypothesis. Measurement of good earnings management in asymmetry policy in accordance with the applicable provisions in the company. To make belief between principals and agents. This research model is based on the study there are factors that influence the cost of equity capital of food and berages companies listed on the Indonesian stock exchange. The conceptual framework will be described as follows:

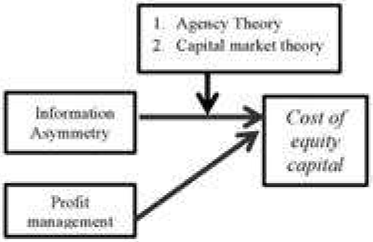

Figure 1. Framework

RESEARCH METHOD

The type of data in this study is Documentary data. This study used secondary data which is a source of research data obtained by researchers indirectly or through the results of someone's work in the company (the results of a party's record in the company) which is the source of evidence in the completion of the task. The data is generally in the form of historical evidence, records or reports that have been compiled in archives (documentary data) published and unpublished. Indriantoro and Supomo (2013).

The dependent variable in this study is the cost of equity capital of food beverages companies listed on the Indonesian stock exchange. Cost of equity capital (Y) is the cost incurred to finance funding sources (source finance). Moderating variable. Demonstrate agency theory and capital market theory as moderating variables which can weaken or strengthen the relationship between independent variables, namely information asymmetry and the dependent variable, namely cost of equity capital. In supporting good audit quality, moderating variables need to be used in finding better results.The moderating variables in this study are agency theory and capital market theory : Agency theory composition (TK) AND The measure of capital market theory (TPM). The data analysis method this study is a statistical analysis method with multiple linear regression equations using the SPSS application.

RESULTS AND DISCUSSION

It began on November 2, 1971 and at the beginning of 1974 began operating commercially. The place of this business head office is on Jl. Raya Cimareme 131 Padalarang - 40552, Kab. West Bandung.

Table 1. Information Asymmetry Data 2015 Until 2018 in the First Quarter

No	Company name	Year %			
		2015	2016	2017	2018
1	Tiga Pilar Sejahtera Food Tbk, PT	11,01074	1,89078	8,51169	17,76833
2	Wilmar Cahaya Indonesia Tbk, PT (d.h Cahaya Kalbar Tbk, PT)	12,73654	0,87518	7,27441	26,58765
3	Indofood CBP Sukses Makmur Tbk, PT	13,64054	0,47980	5,69704	29,31789
4	Indofood sukses Makmur Tbk, PT	11,77808	2,56887	9,12602	22,63879
5	Mayora Indah Tbk, PT	11,23098	1,55987	5,93043	18,43675

6	Prashda Aneka Niaga Tbk, PT	10,16564	2,67717	8,45282	20,27098
7	Nippon Indosari Corporindo Tbk, PT	11,30157	0,42774	6,32627	19,90499
8	Sekar Bumi Tbk, PT	10,32056	0,37254	9,32065	17,96278
9	Sekar Laut Tbk, PT	11,87125	0,33087	8,926,83	28,74506
10	Siantar Top Tbk, PT	12,57647	1,70952	8,52322	23,52378
11	Ultrajaya Milk Industri And Trading Company Tbk, PT	10,79022	1,65722	7,35996	18,81347
	AVERAGE	11,35372	0,60875	7,32476	19,88719

Source: Data processed

Information asymmetry is the average obtained from the percentage of agent and principal information. While the calculation result of the highest information asymmetry is in 2018 that is equal to 19.888719. While the lowest percentage of information asymmetry in 2016 is 0.60875. The complete calculation of percentage information asymmetry can be seen in Table 4.2

Table 2. Earnings Management Data 2015 Until 2018 in the First Quarter

No	Company name	Year %			
		2015	2016	2017	2018
1	Tiga Pilar Sejahtera Food Tbk, PT	12,13474	2,43760	9,98760	21,87605
2	Wilmar Cahaya Indonesia Tbk, PT (d.h Cahaya Kaltbar Tbk, PT)	12,76023	3,56743	8,90876	26,34567
3	Indofood CBP Sukses Makmur Tbk, PT	13,67801	2,47150	9,69012	29,34532
4	Indofood sukses Makmur Tbk, PT	12,72208	2,09564	9,11289	22,39870
5	Mayora Indah Tbk, PT	14,26098	1,11987	10,89043	28,40981
6	Prashda Aneka Niaga Tbk, PT	10,16564	2,67717	8,45282	21,08798
7	Nippon Indosari Corporindo Tbk, PT	11,30297	1,42074	9,34627	19,47621
8	Sekar Bumi Tbk, PT	10,00756	2,10254	9,23905	18,01278
9	Sekar Laut Tbk, PT	11,37525	2,33217	8,17459	28,45506
10	Siantar Top Tbk, PT	12,04547	1,34807	8,08722	23,19378
11	Ultrajaya Milk Industri And Trading Company Tbk, PT	10,10789	1,87960	10,09896	18,09347
	AVERAGE	11,98405	2,64875	8,35776	22,35719

Source: Data processed

Earnings management calculations are done with discetionari accrual (DA). The highest average percentage of results in 2018 is 22,35719 while the lowest percentage results in 2016 is 2,64875. More complete calculation results can be seen in Table 4.2

Table 3. Cost of Equity Capital Data 2015 Until 2018 in the First Quarter

No	Company name	Year %			
		2015	2016	2017	2018

1	Tiga Pilar Sejahtera Food Tbk, PT	11,08474	0,98760	10,09760	20,83405
2	Wilmar Cahaya Indonesia Tbk, PT (d.h Cahaya Kalbar Tbk, PT)	12,45081	2,51143	8,45376	24,11567
3	Indofood CBP Sukses Makmur Tbk, PT	13,67012	2,09850	9,219012	26,87532
4	Indofood sukses Makmur Tbk, PT	14,56701	2,76544	9,30419	22,35470
5	Mayora Indah Tbk, PT	14,08821	1,89701	10,87903	28,09881
6	Prashda Aneka Niaga Tbk, PT	12,09843	2,30977	11,45091	20,02198
7	Nippon Indosari Corporindo Tbk, PT	12,65032	1,67504	9,22627	20,89621
8	Sekar Bumi Tbk, PT	11,42756	2,35544	9,38901	18,09878
9	Sekar Laut Tbk, PT	14,08965	2,87601	8,34019	26,40506
10	Siantar Top Tbk, PT	12,00454	1,440107	8,98012	20,29308
11	Ultrajaya Milk Industri And Trading Company Tbk, PT	11,17650	1,56010	10,41096	21,09765
	AVERAGE	12,08605	2,97602	9,08976	22,21019

Source: Data processed

Cost of equity capital is the size of the company in the level of equity capital measured by total assets based on book value. The highest value data cost of equity capital occurred in 2018, amounting to 22,21019 while the lowest value occurred in 2016 which was 2,97602. The results of a clearer calculation can be seen in Table 4.3.

Table 3. The results of the Hypotheses can be summarized as in the table as follows:

No	Hipotesis	Significance	Alpha (α)	Summary
1	The effect of Information Asymmetry on Cost of Equity Capital	0,554	0,05	H0 rejected
2	The effect profit Management on Cost of Equity Capital	0,001	0,05	H0 accepted
3	The effect of Agency Theory on information asymmetry relationships on cost of equity capital	0,114	0,05	H0 rejected
4	Effect of Capital Market Theory on the relationship of information asymmetry on cost of equity capital	0,722	0,05	H0 rejected

Hypothesis testing proposed in this study is that there is an influence based on the table so the decision to accept or analyze hypotheses (h0 and h1) consisting of information asymmetry and earnings management on cost of equity capital are as follows:

The first hypothesis The effect between Information Asymmetry and Cost of Equity Capital. The existence of information asymmetry is considered to be the cause of the cost of equity capital that can increase the level of return for recipients of fund channels. When asymmetry information is high, the company can engineer the cost of equity capital before the financial statements are audited without worrying about detecting the engineering.

Therefore, the increasing asymmetry information that occurs, the greater the habits of companies that will not be monitored effectively as in companies with low asymmetry. The greater the risk and changes in the company's investment growth, the smaller the level of cost of equity capital. This is because information asymmetry will occur in companies with high investment growth rates. Whereas the larger the company, the greater the level of cost of equity capital. Based on the results of the analysis in this study, information asymmetry is thought to have no effect on the cost of equity capital. Based on the table above can be seen that the significance of 0.554> 0.05, H0 is rejected so it can be said that the information asymmetry does not significantly influence the cost of equity capital

The second hypothesis The influence between earnings management and Cost of Equity Capital Earnings management is a financial statement with the aim to gain profit personally. Denagan has information about profits in the future, will make changes in good trust regarding the level of profit in the future, thus will reveal a linkage of earnings management to cost of equity capital because in accordance with the theory above, management does not convey all information it has in its entirety so that information asymmetry occurs. Based on the results of the analysis in this study, earnings management is thought to influence the cost of equity capital. Based on the table above it can be seen that the significance of 0.001 <0.05 then H0 is accepted so that the results can be said that earnings management has a significant effect on the cost of equity capital.

The third hypothesis of agency theory is thought to influence the relationship of information asymmetry on the cost of equity capital. Agency conflict is caused by information asymmetry that occurs in the cost of equity capital. Managers have an interest in bonuses, compensation, promotions that are often based on accounting numbers. Because with so much information about the company, management has the opportunity to make profits that benefit them. These opportunities can be minimized by agency costs in the form of supervision and auditing. This agency tends to bring up agency costs, the costs charged to maintain an effective agency relationship (eg management is given bonuses for performance that is done in the hope of encouraging managers to act in accordance with the interests of shareholders). Based on the table above it can be seen that the significance of 0.114> 0.05 then H0 is rejected so that it can be said that agency theory does not affect the relationship of information asymmetry on cost of equity capital.

The fourth hypothesis capital market theory is thought to influence the relationship of information asymmetry on cost of equity capital. In the capital market, investors are not parties who do not have the full knowledge of the cost of equity capital. In many previous capital market studies, investors have seen abnormal accruals occur more as a reflection of the practice of cost of equity capital. Some studies also show that equity capital is also addressed by investors. The company's operational environment is public and not very different. Reports of public company financial position are also observed by financial analysis and investors. Based on the table above it can be seen that the significance of 0.722> 0.05 then H0 is rejected so it can be said that capital market theory does not affect the relationship of information asymmetry on the cost of equity capital

CONCLUSION

Based on the results of the analysis and discussion in this study, the conclusion is that information asymmetry produces a non-significant positive direction and earnings management produces a positive direction significantly influence the cost of equity capital. The results of moderating variables of agency theory and capital market theory produce a non-significant positive direction on the relationship of information asymmetry on the cost of equity capital. 11 food and beverage companies listed on the Indonesia Stock Exchange in the 2015-2018 period in the first quarter. This is because information asymmetry contributes negatively to cost of equity capital. While in earnings management has a real contribution to the cost of equity capit. Investors assess at this time, the company that issued new ordinary shares is to cover its operational and investment debt, so that the company is less attractive to investors. In addition, investors consider other things in investing in a company such as business decision making, not only focusing on earnings information asymmetry, but also considering non-financial information on the existence of the company's internal mechanism. Based on the conclusions above, some suggestions can be submitted, namely as follows: (1) It is recommended to design a regulation that prevents or restricts managers from carrying out information asymmetry. These regulatin can be contained in the Financial Accounting Standards Regulations in Indonesia. With this regulation, it is expected that the practice of information asymmetry in Indonesia can be reduced. The regulation, for example, is a provision for displaying multiple financial statements for companies that carry out accounting system companies in their companies. Thus users of financial statements based on the new system do not cause bias for stake holders and information related to external internal parts should be more open and monitored properly. (2) It is recommended to conduct similar research using samples from several more companies, so that they are better able to represent the condition of the Indonesian Stock Exchange in general. In addition, it is also recommended to conduct other research using a longer and most recent period.

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