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Research Article

The Effect of Asymmetry Information and Profit Management Against Cost of Capital Equity in the Company Manufacturing Registered in Bursa Efek Indonesia

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Abstract

The research aim is to know the capital equity influenced by Asymmetry Information and Profit Management. The research method used in the research is the explanatory method (Explanatory Research). The population is 193 companies and the sample is 84 companies. The research is the on-the year 2018 up to 2020. The research results have demonstrated that Asymmetry Information influence is positively significant to the Cost of Capital Equity. Profit Management has no significant effect on the Cost of Capital Equity. Based on the test simultaneously F-count Asymmetry Information and Profit Management effect on the Cost of Capital Equity. The impact investors must be meticulous in seeing the accrual information presented in the company financial statements related to profit management practices to reduce the risk of losses borne by the investor.

Keywords

Asymmetry Information, Profit Management, Capital Equity

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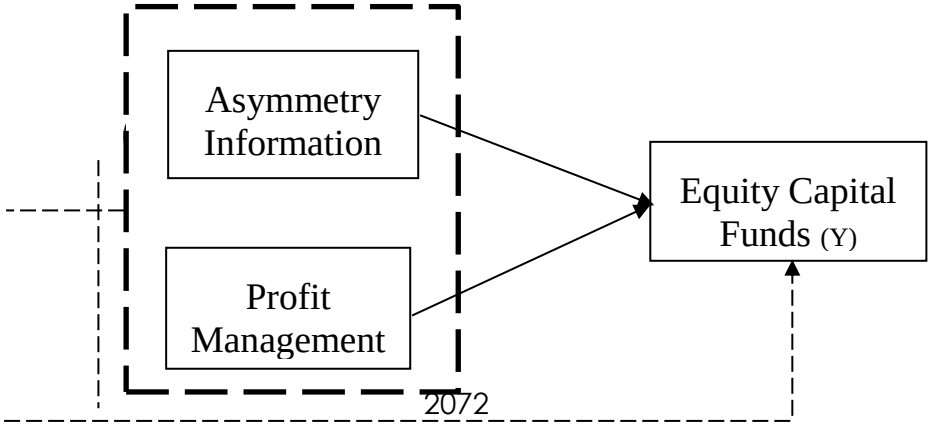
Introduction

The cost of capital equity for the company is the tangible cost that has to be gone in obtaining funds from the equity side so that the tendency of cost capital has to be minimized. To minimize the cost of which is low for capital equity, the company publishes a disclosure which can lower the expectations of investors against the risk and reduce the asymmetry of information which each show a reduction in the cost of capital, especially at the end of the year 2019 at the beginning of the pandemic Covid 19 appears. Several decades backward, from 2018 until 2020, shares have become very popular in the world. Many companies are vying to go public so that they can issue shares. Thousands of companies that have gone public and issuing shares will attract the interest of investors to redeem their capital to stake all in a company with the lure of dividends. Of course, despite the offer of big dividend-distributed, the risk of the shares is still rated high enough. The risk is divided into markets risk (systematic risk) and risk that can be avoided (unsystematic risk). Based on Mehrnoosh, JafariLarigani, and Nasl Moosavi (2021), the risk of market or plain is known as the risk of system is a factor - a factor of risk that affects the market is global. The risk could not be avoided by companies or investors because the case is associated with the risk of the market and impact to all companies. An example is an investor who took the shares portfolio of a company then shares down, where other investors who sell shares of companies mentioned. Meanwhile, Sukrianingrum and Manda (2020) explain that the unsystematic risk is a risk experienced by a company had experienced. Examples of unsystematic risk are a product company that failed and demos employees were on strike. Some investors often only focus on profit information without paying attention to how the profit has resulted. It encourages the management companies to perform some action called profit management or manipulation of earnings (earnings management). If earnings management aims to maximize profits, the company's dividends will be high. So also the contrary, if the management profit aimed to minimize the profitability, then the company's dividends will be low. In addition, if the company has low profitability, there is a possibility that the company will not distribute dividends. The cost of equity capital for the company is the tangible cost that must be incurred in obtaining funds from the equity side so that the tendency of cost capital has to be minimized. Asymmetry Information or inequality of information is a situation where the manager is aware of information internally and prospects of the company in the future will come in comparison with holders of shares and stakeholders. What activities that the investors do in the capital market are determined by the information that they obtained either by direct (reports public) and indirect (insider trading). Several studies on profit management and asymmetry information on the cost of equity give results that differ. Meini and Siregar (2014) proves that management earnings have a positive and significant influence on the cost of capital equity, meaning that the more high level of accruals, the increasingly high cost of capital equity, and companies tend to do income increasing accruals. While research PUTRI (2019) resulted in no significant influence between the asymmetry information and profit management to the cost of capital equities where investors do not only see the results of the report financial but look at factors other in deciding to infuse money into the company. Handoko and Ahmar (2016) found that profit management has a significant effect on the cost of equity capital in manufacturing companies. According to Cormier, Houle, and Ledoux (2013), asymmetry information has no significant effect toward the capital equity fund. This study showed that the size of Assymetry Information is unable to increase capital equity fund and profit management variable, as well as not significantly affect capital equity fund. Further, the size of profit management behavior does not determine the increasing equity capital fund.



The research is aimed to (1) determine the effect of asymmetry information regarding the cost of equity in companies manufacturing are listed on the Bursa Efek Indonesia (2) determine the effect of profit management on the cost of capital shares in companies manufacturing are registered on the Bursa Efek Indonesia, (3) determine the influence of asymmetric information and profit management by simultaneously towards the cost of capital equity in the company manufacturing are listed on the Bursa Efek Indonesia.

Literature Review

Cost of Capital Equity

Cost of capital equity is a calculation of the level of discount that is imposed on the shares of companies by perpetrators of the market based on estimates of the flow of future cash front companies to determine the price of the share nowadays (Mangena et. Al., 2010 in Kiswanto and Fitriani (2019). According to Meini and Siregar (2014) the cost of capital is a dynamic concept that is affected by several economic factors. The structure of the cost of capital is based on several assumptions which relate to risk and taxes. Capital structure has become one of the important investment consideration factors (Kodongo, Mokoaleli-Mokoteli, & Maina, 2015).

Asymmetry Information

Asymmetry information is an imbalance of information between managers with holders of shares, where the manager is aware of information internally and prospects of the company in the future will come than holders of shares or other stakeholders.

Profit Management

Profit Management is a process of taking steps that deliberate within the limitation principles of accounting are grateful public either the inside or outside the limitation of General Accepted Accounting Principles (GAAP). Copeland (1968) in Meini and Siregar (2014) defines profit management as "some ability to increase or decrease reported net income at will." It means that profit management includes management's efforts to maximize or minimize profits, including income smoothing, according to the manager's wishes.

Research Method

The research method applied in this research is explanatory. The Explanatory Method (Explanatory Research) is research that highlights the causal relationship between the variables of research and tests the hypotheses that have been formulated previously.

H 1: Asymmetry Information (X1) effect on Cost of Capital Equity (Y)
H 2: Profit Management (X2) affects the Cost of Equity Capital (Y)
H 3: Asymmetry Information and Profit Management (X3) influence on the Cost of Capital Equity (Y)

In order to confirm the significant between independent and dependent variable, whether the correlation found is valid for the entire population, it is necessary to test its significant. This test can be done using the statistic t-test, with the equation as follows (Hamad, Savundranayagam, Holmes, Kinsella, & Johnson, 2016):

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Description:
t = t - value
r = correlation coefficient

n = number of samples

Research Results

Normality Test

Table 1 .
Normality Test Results One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		84
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	.91759259
Most Extreme Differences	Absolute	.134
	Positive	.134
	Negative	-.117
Kolmogorov-Smirnov Z		1.229
Asymp. Sig. (2-tailed)		.097

The residuals normality testing by using the test Kolmogorov-Smirnov has a value of Kolmogorov-Smirnov amounted to 1,229 with the value of the significance of 0.097. It means that the data residual is distributed normally.

Classic Assumption Test

Table 2
Multicollinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-014	.124		-.110	.912		
	AI	.068	.024	.304	2.885	.005	.996	1.004
	ML	-.012	.009	-.140	-1.330	.187	.996	1.004

Based on the results of the multicollinearity calculation, it is known that the tolerance and VIF values for both variables are 0.996 and 1.004. So that all the variables independently on the model regression have the value of tolerance > 0.10 and VIF <10, to thus it concluded that the model regression is free from the problem of multicollinearity.

Table 3.
Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.727	.081		8.969	.000
	AI	-.011	.015	-.081	-.734	.465
	ML	.006	.006	.121	1.096	.276

Heteroskidastity test shows that the significance of the variable AI (Asymmetry Information) is at

0.465 and the variable ML (Management Profit) amounted to 0,276. It shows the significance of all variables > 0.05 so it can be concluded that the regression model does not occur heteroscedasticity.

Table 4
Autocorrelation **Test Results**

Model	R	R Square	Adjusted R Square	S.E of the Estimate	Durbin-Watson
1	.326[a]	.107	.085	.92885181	1.824

And in the autocorrelation test, the results show the Durbin-Watson value of 1.824. This value will be compared with a significance value of 0.05. For some data n = 84 and variable independently as much 2 variables (k = 2). Based on the table Durbin-Watson, the regression testing above shows that the value that lies between the du (1.6942) and dL (4 to 1.5969 = 2.4031). If it is included in the criteria, it becomes 1.6942 < 1.824 < 2.4031. Then it can be concluded that not there is no problem of autocorrelation in the research of this.

Hypothesis Testing (T-Test and F Test)

Table 5
T-Test Results Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.014	.124		-.110	.912
	AI	.068	.024	.304	2.885	.005
	ML	-.012	.009	-.140	-1.330	.187

In the Partial test (t-test) variable Asymmetry Information (AI) obtained value coefficient regression with directions positive at 0.068. Results arithmetic amounted to 2.885 with a probability of 0.005 that value is below 0.05. By thus H1 is accepted, which means that the asymmetry of information affects positively and significantly the cost of capital in equity, while the variable management of earnings shows that the coefficient of the regression with the direction of the negative amounting to 0,012. Results t arithmetic of -1.330 with probability 0.187 which value is more substantial than 0:05, so it can be interpreted that management earnings (ML) do not impact significantly on the cost of capital equity so that H2 is rejected.

Table 6
F . Test Results ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.339	2	4.619	4.832	.010[a]
	Residual	69.884	81	.863		
	Total	78.223	83			

For the simultaneous test (Test F), F-count amounted to 4.832 with a probability of 0.010 and a degree DF1 and DF2 = 2 = 81 then F-table were obtained (2; 81) = 3.109. In the calculation, it is obtained that F-count > F-table, which is 4,832 > 3,109 so that H0 is rejected. It indicates that simultaneously there is the influence of asymmetry information and profit management to the cost of capital equity so H3 is received.

Table 7
Coefficient of Determination (R 2) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.326[a]	.107	.085	.92885181

The hypothesis test is done by applying analysis regression multiple. Based on the analysis result, it is known that the regression analysis resulted in an R square of 0107. It means that the cost of capital equity can be explained by the variable asymmetry information and profit management amounted to 10.7%. R-square value of the research is still very low, where all the variables independently in research are only able to affect the variable dependent amounted to 10.7%, while the remaining 89.3% is explained by variables other outside the model study this.

Discussion

The high risk of information will have an impact on the high cost of equity issued to the company. Research by Lang and Lundlolm (1996) in Mulyati (2017) suggests that the potential benefits to the expression include increasing investors who follow it, reducing risk estimation, and reducing information asymmetry, each of which indicates a reduction in the company's cost of equity capital. The decrease in asymmetry information causes a decrease in transaction costs, where transaction costs are represented by the bid-ask spread (Sahin, Yilmaz, & Lee, 2007). The cost of equity capital is used to determine the rate of return on investment. When the investment increases, the cost of equity capital will decrease. The impact of the asymmetry information also can be seen in the trading shares volume and spread occurs. When the asymmetry information increases, things that can cause the volume of trade small because investors doubted the accuracy of those statements of financial that affect the rate of return that investors expected. While profit management which is not influential to the cost of capital equity caused by the anticipation of profit management was performed by the investors and they also do not just see from the results of reports financial moreover reports profit and loss but saw their factors other in taking decisions on investment. The results of the study Leuz et al. in Meini and Siregar (2014) state when compared with the ASEAN countries, Indonesia is a country that has a level of overstating earnings in the profit management the most huge. Results of the study are not consistent with research from Meini and Siregar (2014) and Handoko and Ahmar (2016) state that profit management influence positively and significantly the cost of capital equity that means the higher the profit management, the higher the cost of capital equity.

Conclusion

Based on the tests and discussions results it had carried out, it concluded that (1) profit management has no significant effect on the cost of equity capital. It showed from the results of the regression coefficient with a negative direction of 0.012. The t arithmetic result of -1.330 with probability 0.187 which value is more substantial than 0:05, so it can be interpreted that profit management do not impact significantly on the cost of capital equity so that H2 is rejected. (2) While asymmetry information has a significant effect on the cost of equity capital. It can be seen from the value of the regression coefficient with a positive direction of 0.068. Results t arithmetic amounted to 2.885 with a probability of 0.005 that value is below 0.05. By thus H1 is accepted, which means that the asymmetry information affects positively and significantly the cost of capital equity. (3) For the simultaneous test F-count of 4.832 with a probability of 0.010 and degrees df1 = 2 and df2 = 81 then the obtained F-table (2;81) = 3.109. In the calculation, it is obtained that F-count > F-table, which is 4,832 > 3,109 so that H0 is rejected. It indicates that simultaneously there is the influence of asymmetry information and profit management to the cost of capital equity so H3 is received.

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