International Journal of Multidisciplinary Research and Publications
ISSN (Online): 2581-6187

The Effect of Information Asymmetry, Leverage, and Profitability on Earnings Management Practices

I Gst. B Ngr. P. Putra[1], I Wayan Gde Yogiswara Darma Putra[2]
[1, 2]Faculty of Economics and Business, Warmadewa University, Denpasar, Bali, Indonesia
Email address: ngurahpanji.putra(at)gmail.com

Abstract— One component of financial statements that describes the performance of issuers is the profit component. In general, the amount of profit can be a decision maker for investors. Any changes related to earnings information will affect the actions of investors. The accrual basis in financial statements provides an opportunity for managers to modify financial statements to produce the desired amount of profit. The choice of accounting method that is deliberately chosen by management for certain purposes is known as earnings management. The population of this study are all banking companies listed on the Indonesia Stock Exchange (IDX) in the 2016-2020 period, which amount to 43 banking companies. The sampling method was carried out by purposive sampling, so that 10 samples were obtained during 2016 to 2020 and a total of 50 observations were obtained. The results showed that the variables of information asymmetry and leverage had a positive and significant effect on earnings management practices. Meanwhile, the profitability variable has a negative effect on earnings management practices.

Keywords— *Information Asymmetry, Leverage, Profitability, Earnings Management.*

I. INTRODUCTION

Business competition is getting tougher day by day, requiring companies to continue to strive to improve their performance. This is based on the fact that business performance is a benchmark for assessing the general condition of the company. One of the references used by stakeholders, especially investors, in determining their investment decisions is the performance of an issuer. Experienced investors will not speculate in investing their funds in underperforming companies. Investment choices will be focused on businesses that have bright prospects in the future, or in other words, have good business sustainability in the long term.

The basis of reference used by stakeholders in assessing the performance of an issuer is guided by the financial statements that are presented regularly. This is what encourages each issuer to present financial statements fairly as a form of business responsibility. In this case, financial statements play an important and crucial role as evidence of accountability for the management of business funds owned by the principal by the management or agents. Furthermore, in addition to having a function to assess the business performance of a company, financial reports are also capable of being a tool or medium to predict or project business performance for several periods in the future. So it can be concluded that the existence of financial statements has an important role in the decision-making process.

Financial statements are a source of information used to assess the company's financial position and performance. Financial reports are expected to provide relevant information in terms of making the right decisions regarding the investment of investors' funds. One component of financial statements that describes the performance of issuers is the profit component. In general, the amount of profit can be a decision maker for investors. Any changes related to earnings information will affect the actions of investors. The accrual basis in financial statements provides an opportunity for managers to modify financial statements to produce the desired amount of profit. Generally Accepted Accounting Principles (GAAP) provide flexibility for managers to choose the accounting method to be used in preparing financial statements (Suwardjono, 2016). The choice of accounting method that is deliberately chosen by management for certain purposes is known as earnings management (Rahmawati, et al, 2008). Herawati and Baridwan (2007) stated that earnings management is defined as management action in the form of intervention in choosing accounting policies with a specific purpose such as increasing or decreasing earnings by processing discretionary accrual components in financial statements. This is done for personal interests or for business interests in general. Earnings management actions can mislead stakeholders, especially investors because the financial statements presented do not describe the real situation.

The phenomenon of earnings management practices that have occurred in the Indonesian capital market, namely in mining companies listed on the Indonesia Stock Exchange (IDX). The first case example occurred at PT. Timah, where the Timah Employees Association considers that the directors have committed a lot of public lies through the media. For example, when the press release of the first semester of 2015 financial statements stated that efficiency and strategy could produce positive performance, in fact during the first semester (one) the operating profit lost Rp59 billion. (http://economy.okezone.com). In addition to the case with PT Timah, another case is still from a mining company, namely PT Ancora Mining Service (AMS), where in 2011 the FMPK (Forum of People Concerned for Justice) was reported to the Directorate General of Taxes, Ministry of Finance for alleged manipulation of financial statements. The head of the FMPK Investigation Section, Mustopo, explained that the signs of manipulation were seen from the income of Rp. 34.9 billion but no investment movement was detected. In addition, evidence of interest payments of Rp. 18 billion was found even though AMS claimed to have no debt. FMPK also found evidence of receivables worth Rp5.3 billion but there was no clarity on the transaction.

Agency theory can explain the phenomenon of earnings management. In the practice of earnings management, managers who are obliged to convey the condition of the company to shareholders sometimes do not convey information according to the actual condition of the company. This happens because of differences in information capacity that is known by management as business manager and shareholders as suppliers of funds. This condition is often referred to as information asymmetry or information asymmetry. The existence of information asymmetry is considered as one of the causes of earnings management practices because managers know more about company information than other parties, so managers tend to take opportunistic actions for their personal interests, among others, by abusing the authority they have over the profits of the companies they manage (Jensen and Mackling, in Ujiyanto and Bambang, 2007). Research examining the effect of information asymmetry on earnings management practices has obtained mixed results. Research conducted by Restuwulan (2014), Niriastiti and Dwi Ratnadi (2014), History, Markonah, and Siladjaja (2016), and Pramestri and Budiasih (2017) found that information asymmetry has a positive effect on earnings management practices. Meanwhile, different results were obtained by Veno and Sasongko (2016) where the results of the study stated that information asymmetry had a significant negative effect on earnings management practices as proxied by Long Term Discretionary Accrual (LTDA).

Leverage is the company's ability to use assets or funds (source of funds) that have a fixed burden (debt and or special shares) to increase the potential profit of the company's shareholders. The greater the company's debt, the greater the risk faced by investors, so investors will ask for a higher level of profit so that the company is not threatened with liquidation or breach of debt contracts. The leverage used is the Debt to Equity Ratio (DER) or the ratio between total liabilities and the company's total equity. Research conducted by Gunawan et al (2015), Pramestri and Budiasih (2017), and Olifia (2017) obtained the results that leverage has a positive effect on earnings management. While the research conducted by Yofi (2018) obtained the results that leverage has no effect on earnings management.

Profitability is the ability of the company's performance to create profits from the assets used at the level of sales, assets, and equity based on certain measuring bases (Kasmir, 2016:201). The higher the profitability of a company, the company's ability to generate profits will also increase. The proxy used in this study is Return On Equity (ROE) measured by the comparison between net income after tax and the company's total equity. Research conducted by Yofi (2018) and Olifia (2017) results that profitability has a positive effect on earnings management. Meanwhile, research conducted by Gunawan (2015) and Winda (2016) obtained the results that profitability has no effect on earnings management.

Through the explanation above, it can be seen that there are still inconsistencies in the results which become research gaps. This indicates that the results of previous studies are not conclusive and encourage further research. In addition to previous research gaps, one of the important keys in this research is the existence of a state of the art. The majority of previous studies used issuers in the manufacturing sector as the research sample. The thing that distinguishes or the state of the art of this research is the use of research samples, namely issuers in the banking sector. The aim is to increase the repertoire of research results related to the determinants of earnings management practices.

II. Literature Review

Agency Theory

Agency theory is the basis used to understand earnings management. Agency theory reveals that the company is a meeting place for contracts between the owner of the company (principal) and management (agent) which has the potential for a conflict of interest. This conflict of interest is caused by differences in positions, functions, situations, goals, and backgrounds between the agent and the principal (Zeptian and Rohman, 2013). The conflict that occurs between the two parties is based on the differences in goals and interests between the agent and the principal. Business owners want to increase the value of the company by expecting an increase in profitability. Meanwhile, the agent aims to improve his personal welfare through the fulfillment of economic needs. Furthermore, in agency theory, it is stated that there is a difference in information (information asymmetry) between the agent and the principal. The agent as a business manager has more information than the principal. Information held by company management can trigger actions in accordance with the interests and desires to achieve prosperity (Mursalim, 2005). It is assumed that managers will take advantage of information asymmetry to maximize their own interests by doing things they want and hiding facts that are not known to shareholders. (Fernanda, 2015). Meanwhile, it will be difficult for investors to control the opportunistic actions that have been carried out by the company's management due to limited information. One example of opportunistic actions from the management is income smoothing.

Banking is an industry that has different characteristics from other industries such as manufacturing, trading, and so on. Banking is an industry that is full of various regulations, this is because the bank is a financial intermediary institution that connects parties who have excess funds with those who need funds. Because of this function, the risk that banks must face is very large, the inability to maintain quality will greatly affect bank liquidity (Zeptian and Rohman, 2013). The existence of regulation in banking makes the agency relationship in this industry different from the agency relationship in unregulated companies (Ciancenelli and Gonzales, 2000). With this regulation, there are other parties involved in the agency relationship, namely the regulator, in this case the government through Bank Indonesia, resulting in agency problems becoming increasingly complex. With the complex capital structure in banking, there are at least three agency relationships that can lead to information asymmetry (Ciancenelli & Gonzales, 2000), namely: (1) the relationship between depositors, banks and regulators, (2) the relationship between owners, managers, and regulators, and (3) the relationship between borrowers, managers and regulators.

Signaling Theory

The difference in information held by the agent and principal underlies the emergence of signaling theory. Signaling theory can be defined as a company management step that actually provides implicit instructions to investors about how management views the company's prospects (Steven and Lina, 2011). These instructions become a sign related to the stability of the company's performance each year, for example from a profit perspective. The profit presented in the financial statements is the actual profit or is the result of earnings management practices.

III. Research Methods

This research was conducted on banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2016 to 2020. The data was obtained by accessing the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The population of this study are all banking companies listed on the Indonesia Stock Exchange (IDX) in the 2016-2020 period, which amount to 43 banking companies. The sampling method was carried out by purposive sampling, so that 10 samples were obtained during 2016 to 2020 and a total of 50 observations were obtained. Information asymmetry can be measured using the bid ask spread. The bid ask spread is the difference between the highest purchase price and the lowest selling price of the traded stock. The bid price or the selling offer (ask price) is a function of costs and the information it holds. The leverage variable in this study is calculated using the Debt to Equity Ratio (DER) proxy, which is to assess the company's ability to compare the total amount of debt with equity. This ratio is used to determine the amount of funds provided by creditors and company owners (Kasmir, 2016). While the profitability variable can be calculated using Return On Equity (ROE), which is the result of net income on equity and is expressed in the form of a percentage, as well as to measure a company's ability to generate profits through investments by shareholders in the company (Kasmir, 2011). 2014). Earnings management variable can be measured using Discretionary accruals which is calculated by differentiating total accruals (TACC) with Non-Discretionary accruals (NDACC). The data analysis method in this research is multiple linear regression test.

IV. Results and Discussion

Table 1
Multiple Linear Regression Analysis

Variabel	Unstandardized coefficient		Standardized coefficient	t-hitung	Sig.
	B	Std. Error	Beta		
Constant	31,642	0,234	-	135,369	0,000
X_1 (As Inf)	0,145	0,060	0,295	2,403	0,020
X_2 (Lev)	0,241	0,112	0,265	2,157	0,036
X_3 (Prof)	-4,093	1,072	-0,464	-3,819	0,000
R		0,326			
Adjusted R Square		0,282			
F_{hitung}		7,405			
Sig F		0,000			

Source: Primary data processed (2022)

Based on Table 1, it can be seen that the value of Adjusted R Square is 0.282, which means that 28.2 percent of the dependent variable in earnings management can be explained by information asymmetry, leverage and profitability variables, while the remaining 71.8 percent is influenced by other variables that are not included in the table. in this research model.

Model Feasibility Test (F Test)

Based on the F test carried out in Table 1, the calculated F is 7.405 with a significance level of 0.000 which is smaller than $\alpha = 0.05$. Thus, this research model is suitable to be used to prove the formed hypothesis or in other words the fit model.

Regression Coefficient Test (t Test)

The t-test was used to determine the effect of the independent variable on the dependent variable. If sig < 0.05 then the independent variable has an effect on the dependent variable.

a) From the test results obtained data as in Table 1 where the value of the regression coefficient for the information asymmetry variable is 0.145 with a significance level of 0.020, which is less than 0.05. This means that the information asymmetry variable has a significant positive effect on earnings management practices, so the first hypothesis is accepted.
b) Meanwhile, for testing the X2 variable, the result is that the regression coefficient value for the leverage variable as proxied by DER is 0.241 with a significance level of 0.036, which is less than 0.05. This means that leverage has a significant positive effect on earnings management practices, so the second hypothesis is accepted.
c) For testing the X3 variable, the results show that the regression coefficient value for the profitability variable as proxied by ROE is -4.093 with a significance level of 0.000, which is less than 0.05. This means that the profitability variable has a significant negative effect on earnings management practices, so the third hypothesis is accepted.

Multiple Linear Regression Analysis

It can be seen that the regression coefficient values for Information Asymmetry, Leverage and Profitability variables are 0.145, 0.241 and -4.093, respectively, while the constant value is 31.642, so the simple linear regression equation is obtained as follows:

$$Y = 31{,}642 + 0{,}145X_1 + 0{,}241X_2 - 4{,}093X_3 + e$$

Based on the regression equation model, the following information can be explained:

a) The constant value of 31.642 means that if the variables of information asymmetry, leverage and profitability are considered constant or equal to 0 (zero), then the practice of earnings management has a value of 31.642.
b) The information asymmetry coefficient value is $\beta_1 = 0.145$ with a significance level of 0.020, meaning that if there is an increase in the information asymmetry variable by 1 unit, the earnings management variable will increase by

I Gst. B Ngr. P. Putra and I Wayan Gde Yogiswara Darma Putra, “The Effect of Information Asymmetry, Leverage, and Profitability on Earnings Management Practices,” *International Journal of Multidisciplinary Research and Publications (IJMRAP)*, Volume 4, Issue 8, pp. 64-68, 2022.

0.145 with the assumption that the other independent variables are constant.

c) The value of the leverage coefficient is $\beta_2 = 0.241$ with a significance level of 0.036, meaning that if there is an increase in the leverage variable by 1 unit, the earnings management variable will increase by 0.241 with the assumption that the other independent variables are constant.
d) The value of the profitability coefficient is $\beta_3 = -4.093$ with a significance level of 0.000, meaning that if there is an increase in the profitability variable by 1 unit, the earnings management variable will decrease by 4.093 with the assumption that the other independent variables are constant.

Discussion

The discussion of the results of hypothesis testing is then explained in detail to find out the results of the study, the reasons, as well as the similarities and differences between this study and previous research that has been carried out related to this research.

The Effect of Information Asymmetry on Earnings Management Practices in Banking Issuers on the Indonesia Stock Exchange

The first hypothesis in this study states that the information asymmetry variable has a positive and significant effect on earnings management practices. Based on the results of multiple linear regression analysis in Table 1, the results show that the first hypothesis is accepted. This can be seen from the significance value of 0.020, which is smaller than the specified significant level ($\alpha = 0.05$) and has a regression coefficient of 0.145. Furthermore, the direction of the regression coefficient is in line with the hypothesis formed, so it can be concluded that the information asymmetry variable has a positive and significant effect on earnings management practices in banking issuers listed on the Indonesia Stock Exchange.

The presentation of the statistical test results can be interpreted as follows, namely information asymmetry arises when managers know more about internal information and company prospects in the future than shareholders and other stakeholders. The existence of information asymmetry is considered as the cause of earnings management. There is a systematic relationship between information asymmetry and the level of earnings management. The existence of information asymmetry will encourage managers to present information that is not true, especially if the information is related to the manager's performance measurement. Managers who know more information about the company than other parties will tend to take opportunistic actions for their personal interests, among others, by abusing the authority they have over the profits of the companies they manage (Jensen and Mackling, in Ujiyanto and Bambang, 2007). So it can be interpreted that the greater the information asymmetry in a company, the greater the earnings management practices that occur. The results of this study are in accordance with research conducted by Restuwulan (2014), Niriastiti and Dwi Ratnadi (2014), History, Markonah, and Siladjaja (2016), and Pramestri and Budiasih (2017) which obtained the results that information asymmetry had a positive effect on management practice. profit.

The Effect of Leverage on Earnings Management Practices in Banking Issuers on the Indonesia Stock Exchange

The second hypothesis in this study states that the leverage variable has a positive and significant effect on earnings management practices. Based on the results of multiple linear regression analysis in Table 1, the results show that the second hypothesis is accepted. This can be seen from the significance value of 0.036, which is smaller than the specified significant level ($\alpha = 0.05$) and has a regression coefficient of 0.241. Furthermore, the direction of the regression coefficient is in line with the hypothesis formed, so it can be concluded that the leverage variable has a positive and significant effect on earnings management practices in banking issuers listed on the Indonesia Stock Exchange.

The presentation of the statistical test results can be interpreted as follows, namely leverage is the ratio between the company's debt to capital, this ratio can see how far the company is financed by debt or external parties with the company's ability described by capital. Companies that have a high leverage ratio due to the large amount of debt compared to the assets owned by the company will tend to carry out earnings management by increasing assets and reducing debt and by increasing income, with the aim of avoiding long-term debt contracts (Sinta, 2019). The higher the level of leverage of a company, it will increase the possibility of earnings management actions to stabilize the company's profit condition (Pramesti and Budiasih, 2017). The results of this study are in accordance with research conducted by Zulfikri Roskha (2017) which states that the effect of leverage shows a positive effect on earnings management.

The Effect of Profitability on Earnings Management Practices on Banking Issuers on the Indonesia Stock Exchange

The third hypothesis in this study states that the profitability variable has a negative and significant effect on earnings management practices. Based on the results of multiple linear regression analysis in Table 1, the results show that the third hypothesis is accepted. This can be seen from the significance value of 0.000, which is smaller than the specified significant level ($\alpha = 0.05$) and has a regression coefficient of -4.093. Furthermore, the direction of the regression coefficient is in line with the hypothesis formed, so it can be concluded that the profitability variable has a negative and significant effect on earnings management practices in banking issuers listed on the Indonesia Stock Exchange.

The presentation of the statistical test results can be interpreted as follows, namely profitability is the level of net profit generated by the company's management in carrying out its operations. The relationship with earnings management is that profitability can influence managers to take earnings management actions. Because if the profitability of the company is low, managers will manipulate financial statements by increasing revenues and lowering costs to save

their performance in the eyes of the owner. According to Wijoyo (2014) that a stable level of profitability can attract investors to invest their capital. When the profitability of the issuer is low, management tends to do earnings management. So from the description above it can be concluded that the lower the profitability, the greater the practice of earnings management.

V. SUGGESTIONS

The limitation in this study is that it only observes a 5-year period. Therefore, further research can add a relatively long period and also add independent variables such as managerial ownership, industry specialization in developing research related to factors that affect earnings management in banking companies and non-financial companies.

REFERENCES

[1] Agus Pramuka, Bambang dan Ujiyanto. (2007). Mekanisme Corporate Governance, Manajemen Laba dan Kinerja Perusahaan. Simposium Nasional Akuntansi.

[2] Agustia, Yofi Prima dan Elly Suryani. 2018. Pengaruh Ukuran Perusahaan, Umur Perusahaan, Leverage, dan Profitabilitas Terhadap Manajemen Laba (Studi Pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Periode 2014-2016). Jurnal ASET (Akuntansi Riset) Vol.10, No.1.

[3] Andri Veno dan Noer Susangko, 2015. *Pengaruh Asimetri Informasi Terhadap Manajemen Laba dengan Good Corporate Governace Sebagai Variabel Moderasi.* DAYA SAING Jurnal Ekonomi Manajemen Sumber Daya, Vol. XVIII, No. 1, Juni 2016

[4] Gunawan, I Ketut; Nyoman Ari Surya Darmawan, dan I Gusti Ayu Purnamawati. (2015). Pengaruh Ukuran Perusahaan, Profitabilitas, Dan *Leverage* Terhadap Manajemen Laba Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia (Bei). E-Journal S1 Ak Universitas Pendidikan Ganesha Jurusan Akuntansi Program S1 (Volume 03, No.01).

[5] Herawati, Nurul dan Zaki Baridwan. 2007. "Manajemen Laba pada Perusahaan yang Melanggar Hutang". Simposium Nasional Akuntansi 10. Makassar.

[6] Ida Ayu Jayatri Pramesti dan I Gst. Ayu Nyoman Budiasih, 2017. Pengaruh Asimetri Informasi, Leverage, dan Kepemilikan Manajerial Pada Manajemen Laba. E-Jurnal Akuntansi Universitas Udayana Vol. 21.1, (2017):200-226

[7] Kasmir, (2016). *Analisis Laporan Keuangan*, Raja Grafindo Persada, Jakarta.

[8] Mursalim. 2005. "Income Smoothing dan Motivasi Investor: Studi Empiris pada Investor di Bursa Efek Jakarta". *SNA VIII.* September, Solo.

[9] Ni Wayan Niriastiti dan Ni Made Dwi Ratnadi, 2014. Pengaruh Asimeri Informasi, Corporate Governance, dan Ukuran Perusahaan pada Manajemen Laba. E- Jurnal Akuntansi Universitas Udayana Vol. 9.3 (2014):717-727

[10] Rahmawati., Suparno, Yacob., dan Qomariyah, Nurul, 2006. Pengaruh Asimetri Informasi Terhadap Praktik Manajemen Laba pada Perusahaan Perbankan Publik yang Terdaftar Di Bursa Efek Jakarta. *Simposium Nasional Akuntansi* IX.

[11] Restuwulan, 2014. *Pengaruh Asimetri Informasi dan Ukuran Perusahan Terhadap manajemen Laba.* Skripsi (tidak diterbitkan), Universitas Widyatama

[12] Riwayati, H. E., Markonah, dan M. Siladjaja. 2016. "Implementation of Corporate Governance Influence to Earnings Management". Procedia - Social and Behavioral Sciences, Vol. 219, No., hlm: 632–638.

[13] Steven dan Lina. (2011). Faktor-faktor yang Mempengaruhi Kebijakan Hutang Perusahaan Manufaktur. *Jurnal Bisnis dan Akuntansi*, 13 (3), 163-181.

[14] Suwardjono, 2016. Teori Akuntansi "*Perekayasaan Pelaporan Keuangan",* Edisi Ketiga. Penerbit BPFE-YOGYAKARTA

[15] Suwardjono. 2016. Teori Akuntansi: Perekayasaan Pelaporan Keuangan, Edisi Ketiga. Yogyakarta: BPFE

[16] Zeptian, Andra dan Abdul Rohman. 2013. Analisis Pengaruh Penerapan Corporate Governance, Struktur Kepemilikan dan Ukuran Perusahaan Terhadap Manajemen Laba Pada Perbankan. Diponegoro *Journal of Accounting Volume 2, Nomor 4, Halaman 1-11.*