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THE INFLUENCE OF INFORMATION ASYMMETRY, COMPANY SIZE, AND LEVERAGE ON EARNINGS MANAGEMENT AT HANSON INTERNATIONAL TBK

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Abstract

This research aims to determine the Influence of Information Asymmetry, Company Size, and Leverage on Earnings Management at Hanson International Tbk. The data used in this study are secondary data from PT. Hanson International Tbk for the first quarter of 2005 to the fourth quarter of 2022, resulting in 72 observations. The method used to analyze the relationship between independent variables and dependent variables is the multiple linear regression analysis method with the assistance of SPSS software. The results show that partially, information asymmetry has a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that the higher the information asymmetry, the higher the company's earnings management will be. Company size has a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that the larger the company size, the higher the company's earnings management will be. Leverage has a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that the higher the leverage, the higher the company's earnings management will be. Simultaneously, Information asymmetry, company size, and leverage have a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that the higher the information asymmetry, company size, and leverage, the higher the company's earnings management will be.

Keywords: ***Information Asymmetry, Company Size, Leverage, Earnings Management***

Introduction (TNR, 11 Bold)

Information regarding profit is often the target of engineering or manipulation by management. This is done to make financial statements appear favorable from one period to another. Manipulating profit levels by management is referred to as earnings management (Fahmi, 2015). Earnings management becomes one of the factors that can reduce the credibility of financial statements, as financial statements represent the company’s accountability to all stakeholders, including the government, management, creditors, and investors. Earnings management occurs due to a conflict of interest between investors (principals) and management (agents), where management seeks to maximize its utility (Dewi and Budiasih, 2019). The misalignment of objectives between shareholders and management is explained by agency theory (Jensen and Meckling, 1976). This misalignment can trigger information asymmetry, causing agents to manipulate financial statements. One indication of information asymmetry is when managers have access to more detailed information about the company’s internal condition and future prospects compared to investors. By possessing this additional information, management can engage in accounting practices aimed at profit maximization to achieve better entity performance. Information asymmetry is considered the reason behind the emergence of earnings management. Information asymmetry occurs when corporate management has more information about the company’s internal condition than shareholders. Agency theory explains the agency relationship between the company owner (principal) and corporate management (agent). This effort to maximize profit often leads to a conflict of interest between the principal and agent, as both parties aim to maximize their own benefits (Dewi and Budiasih, 2019). When information asymmetry is high, companies can more easily manipulate earnings before financial statements are audited. Consequently, with greater information asymmetry, companies tend to be less effectively monitored. Research findings suggest that information asymmetry influences earnings management (Candra et al., 2021; Desmiyawati et al., 2009; Mustikawati and Cahyonowati, 2015). However, a study by Dewi and Budiasih (2019) concluded that information asymmetry does not affect earnings management because agents and principals strive to maximize their own benefits and have differing motivations and interests. This supports the argument that agents will not always follow the principal's desires Furthermore, company size is also suspected to affect earnings management (Munthe, 2019). Large companies have a broader stakeholder base, meaning their policies have a more significant public impact compared to smaller companies. For investors, corporate policies affect future cash flow prospects. Meanwhile, for regulators (government), corporate policies influence tax revenues and the effectiveness of public protection measures (Febrilyantri, 2020).

Previous research concluded that company size positively and significantly affects earnings management (Desmiyawati et al., 2009; Dewantari et al., 2020; Febrilyantri, 2020; Medyawati, 2016; Munthe, 2019). However, research by Adyastuti and Khafid (2022) found that company size negatively affects earnings management. Another study by Felicya Nathaly and Yuniarwati (2022) concluded that company size has no effect on earnings management. Besides information asymmetry and company size, leverage is another factor suspected to influence earnings management. Leverage refers to the ratio between total liabilities and total assets (Joe and Ginting, 2022). A higher leverage ratio indicates a higher debt level, which increases management's tendency to engage in earnings management. Leverage is associated with earnings management behavior because it shows the extent to which a company's assets are financed by debt. Previous studies indicate that leverage significantly affects earnings management (Wilson and Prasetyo, 2020). However, other research found that leverage does not significantly impact earnings management (Joe and Ginting, 2022).

Research Method

This study employs a quantitative approach with secondary data in the form of time-series data. The research data consists of the financial statements of PT Hanson International Tbk for the 2015-2022 period, obtained through the company's official website, https://hanson.co.id. Data collection was conducted using the documentation method, gathering information from financial reports and other relevant documents. The data analysis utilized multiple linear regression to measure the effects of information asymmetry, firm size, and leverage on earnings management. The regression model used is as follows

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 \ln X_2 + \beta_2 X_{2\,+}\,€$$

Keterangan

Y	= *Earnings management*
X_1	= *Information asymmetry*
X_2	= *Firm size*
X3	= *Leverage*
β0	= *Constant*
β	= *Regression coefficients*
€	= *Error term*

Classical assumption tests are conducted to ensure the validity of the model, including normality tests, multicollinearity tests, autocorrelation tests, and heteroscedasticity tests. Hypothesis testing is performed using the t-test to examine the partial influence of independent variables on the dependent variable and the F-test to measure the simultaneous effect of all independent variables on the dependent variable

Results and Discussion

This model is used to examine the influence of information asymmetry, firm size, and leverage variables on earnings management through multiple linear regression analysis. The results of the multiple linear regression analysis are as follows

Tabel 1.Hasil penelitian

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.837268	3.939857	-2.243612	0.0281
X1	0.038011	0.009029	4.210027	0.0001
X2	0.411940	0.149935	2.747453	0.0077
X3	0.119763	0.051483	2.326280	0.0230
R-squared	0.279639			
Adjusted R-squared	0.247858			
F-statistic	8.799040			
Prob(F-statistic)	0.000052			
Durbin-Watson stat	1.762967			

Based on Table 4.3 above, the regression equation that can be formulated in this study is as follows:
Y = -8.83 + 0.03 X1 + 0.41 X2 + 0.11 X3 + e
Based on the equation above, the following explanations can be made:

1. The constant of -8.83 means that if the variables of information asymmetry, firm size, and leverage are assumed to be constant (equal to 0), then the earnings management value will remain at -8.83. The negative value indicates that there are other factors that are more dominant or significant in explaining the variation in earnings management.
2. The regression coefficient for information asymmetry is 0.03, which indicates a positive (direct) relationship. This means that a 1% increase in information asymmetry causes a 0.03% increase in earnings management.
3. The regression coefficient for firm size is 0.41, which indicates a positive (direct) relationship. This means that a 1% increase in firm size causes a 0.41% increase in earnings management.
4. The regression coefficient for leverage is 0.11, which indicates a positive (direct) relationship. This means that a 1% increase in leverage causes a 0.11% increase in earnings management.
5. The findings of this study show an R-squared value of 0.279 or 27.9%. This suggests that 27.9% of the earnings management actions can be explained by information asymmetry, firm size, and leverage

In this study, hypothesis testing was analyzed using the t-test and F-test. The interpretation of the results for each test is as follows:

1. Information Asymmetry: The t-statistic for information asymmetry is 4.210 with a significance value of 0.000, while the critical t-value (ttable) at $\alpha = 0.05$ is 1.667. This shows that t > ttable, or 4.210 > 1.667, indicating that information asymmetry has a positive and significant partial effect on earnings management at PT. Hanson International Tbk.
2. Firm Size: The t-statistic for firm size is 2.747 with a significance value of 0.007, while the critical t-value (ttable) at $\alpha = 0.05$ is 1.667. This shows that t > ttable, or 2.747 > 1.667, indicating that firm size has a positive and significant partial effect on earnings management at PT. Hanson International Tbk.
3. Leverage: The t-statistic for leverage is 4.326 with a significance value of 0.023, while the critical t-value (ttable) at $\alpha = 0.05$ is 1.667. This shows that t > ttable, or 4.326 > 1.667, indicating that leverage has a positive and significant partial effect on earnings management at PT. Hanson International Tbk.
4. Simultaneous Effects: Information asymmetry, firm size, and leverage simultaneously have a positive and significant effect on earnings management at PT. Hanson International Tbk, with a significance value of 0.000

Discussion

The Effect of Information Asymmetry on Earnings Management at PT. Hanson International Tbk

The research findings indicate that information asymmetry has a positive and significant effect on earnings management at PT. Hanson International Tbk, where the t-statistic (4.210) is greater than the critical t-value (1.667) and the significance is less than 0.05 (0.000). Information asymmetry can provide positive benefits for earnings management practices. With deeper knowledge, management can take advantage of this situation to choose accounting methods that improve financial statements in the short term. This may include delaying the recognition of losses or accelerating revenue recognition, thus providing a better picture of the company's actual financial performance. These findings are consistent with previous research by Dewi and Budiasih (2019), Desmiyawati et al. (2009), and Maiyusti (2014), which also concluded that information asymmetry has a positive and significant effect on earnings management.

The Effect of Firm Size on Earnings Management at PT. Hanson International Tbk

The research findings show that firm size has a positive and significant effect on earnings management at PT. Hanson International Tbk, where the t-statistic (4.747) is greater than the critical t-value (1.667) and the significance is less than 0.05 (0.007). Firm size has a significant impact on earnings management practices. Earnings management refers to the actions taken by management to manipulate financial reports in order to present a misleading picture of the company's financial performance. Firm size can be measured through various metrics, such as total assets, revenue, or market capitalization. In this context, firm size influences the motivation and likelihood of earnings management practices. Larger companies tend to have more shareholders, financial analysts, and other stakeholders who monitor their performance. To meet market expectations and avoid negative reactions from stakeholders, management in large companies may be more likely to engage in earnings management practices. These findings align with the research of Dewi and Budiasih (2019), Adyastuti and Khafid (2022), and Desmiyawati et al. (2009), which also concluded that firm size has a positive and significant effect on earnings management.

The Effect of Leverage on Earnings Management at PT. Hanson International Tbk

The research findings indicate that leverage has a positive and significant effect on earnings management at PT. Hanson International Tbk, where the t-statistic (2.326) is greater than the critical t-value (1.667) and the significance is less than 0.05 (0.023). Leverage reflects the extent to which a company uses debt in its capital structure. In the context of earnings management, companies may use leverage to create the appearance of greater growth or profitability, but it can also introduce significant financial risks. Companies with high levels of leverage often have substantial interest expenses related to their debt. To reduce this burden and ensure financial viability, management may feel pressured to use earnings management practices. Manipulating financial statements can help present better performance, which can provide a positive impression to creditors and shareholders. These findings are consistent with the research by Felicya Nathaly and Yuniarwati (2022) and Adyastuti and Khafid (2022), which concluded that leverage has a positive and significant effect on earnings management.

Conclusion

1. Information Asymmetry has a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that as information asymmetry increases, earnings management within the company also rises.
2. Firm Size has a positive and significant effect on earnings management at PT. Hanson International Tbk. This suggests that as the firm's size increases, earnings management within the company also increases.
3. Leverage has a positive and significant effect on earnings management at PT. Hanson International Tbk. This means that as leverage increases, the level of earnings management within the company also increases.
4. Information Asymmetry, Firm Size, and Leverage collectively have a positive and significant effect on earnings management at PT. Hanson International Tbk. This indicates that as information asymmetry, firm size, and leverage all increase, the level of earnings management within the company also rises.

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