THE IMPACT OF INFORMATION ASYMMETRY, PROFITABILITY, AND MANAGERIAL OWNERSHIP ON EARNING MANAGEMENT

Tjahjani Mudijaningsih1, Sully Kemala Octisari2, Isnaeni Rokhayati3, Ginanjar Adi Nugraha4, Amin Budiastuti5

1,2,3,4Faculty of Economics and Business, Wijaya Kusuma University Purwokerto, Central Java, Indonesia.
5Satria School of Economics, Purwokerto, Central Java, Indonesia.
*Email: calyaniyubi@gmail.com

ABSTRACT

The purpose of this study was to determine the effect of managerial ownership, profitability, and information asymmetry on earnings management in LQ45 companies listed on the Indonesia Stock Exchange from 2015 to 2022. This type of research is empirical research using the panel data regression analysis method. The results of the study show that managerial ownership has a significant negative effect on earnings management, while profitability and information asymmetry have no effect on earnings management in LQ45 companies listed on the Indonesia Stock Exchange from 2015 to 2022. Management of LQ45 companies listed on the Indonesia Stock Exchange Securities Indonesia needs to prioritize policies regarding managerial ownership. One way that can be done is to evaluate earnings periodically so that trends or patterns of increase or decrease in company profits can be identified so that the factors that increase the company's earning power can be identified. In addition, it is also necessary to increase supervision of the process of preparing reports, especially in terms of profitability to minimize information asymmetry so as to reduce the occurrence of earnings management.

1. INTRODUCTION

In the age of globalisation we are now in, financial reports have become essential.
One of the most crucial components of a business are financial reports, which include information records for an accounting period and may be used to explain a company's success and give information to both internal and external parties. Financial reports also offer details about a company's financial standing that interested parties might subsequently utilise to make decisions (Sartono, 2010).

The financial statements provide information regarding the company's profitability as one of its contents. Yulianti (2004) asserts that one of the motivations for managers to control earnings is the company's desire to make profits. Earnings management is a management strategy thought to have been used to manipulate the financial facts of the organisation. As instance, since profit is a gauge of corporate success, management may aim to demonstrate to shareholders or investors that the firm is performing well. Several methods have been used to control earnings, and one of them was used by Garuda Indonesia Tbk. Garuda Indonesia earned a profit of US $ 809,850, which is equal to Rp. 11.33 billion, in 2018, according to (Hartomo, 2019). Compared to 2017, which had a deficit of US $ 216.5 million, this accomplishment grew significantly. At the General Meeting of Shareholders (GMS) on April 24, 2022, Chairul Tanjung and Dony Oskaria, as commissioners of Garuda, expressed their disagreement of the financial accounts of Garuda Indonesia. They protested the recognition of income by PT Mahata Aero Technology and PT Citilink Indonesia, a subsidiary of Garuda Indonesia, from the Cooperation Agreement for the Provision of Connectivity Services in Flight transaction. At that time, only Garuda Indonesia's management had acknowledged the US$239.94 million in Mahata income. Garuda Indonesia's revenue breakdown, which includes US$28 million, is included in the profit-sharing payment it received from Sriwijaya Air. In fact, Garuda's revenue is still in the form of receivables or invoices for Garuda Indonesia.

Theoretically, if management owns a sizable portion of the firm, they will act as though they had a stake in it. The contract-based approach is closely related to the premise that management will be more effective in selecting accounting techniques that will bring value to the organisation (Christie & Zimmerman, 1994). When an audit committee is elected, it generates a demand for quality financial reporting from shareholders, creditors, and consumers of financial statements to guarantee the accuracy of contracts established. Managers who own business shares will be subject to review by the parties engaged in the contract, such as the election of an audit committee. Quality financial reports will be produced by management at their request. Of course, this would signify improved contract terms (Ball et al. 2000). As a result, it is likely that the degree of managerial ownership will move in the same direction to restrain management's use of earnings management. According to a study by Nasution et al. (2019), managerial ownership has a detrimental impact on profitability management. However, research (Puspitasari et al., 2019) that claims managerial ownership has no impact on earnings management does not corroborate the findings of this study.

The ability of the business to turn a profit is shown by profitability. The degree of profit may also be used to gauge how well a company organization is performing. Profit is used to quantify the net efficacy of a commercial activity. The amount of profit that accrues might encourage business managers to control profits. for the reason that business managers have a say in the profitability reported in the financial accounts. According to research
(Cahyono & Widyawati, 2019), profitability has a favorable impact on managing earnings. It differs with the findings of the study by Wowor et al. (2021), which claim that profitability has no impact on managing earnings.

The capacity of managers to get more information about the company's prospects than external stakeholders is demonstrated by information asymmetry. Since issuer shares included in the LQ45 Index computation are thought to be active and superior equities based on liquidity and market capitalization considerations with specified criteria, the author in this case employs data from LQ45 firms as the target of inquiry. Companies will always produce high-quality financial reports to make themselves appear good to readers of financial reports and investors because companies included in the LQ45 Index are chosen companies so that they are in high demand, the focus of attention of investors, and to attract investors. Information asymmetry is also thought to have an impact on earnings management. According to Richardson (1998), there is a consistent correlation between the degree of earnings management and information asymmetry. In particular, if the information is relevant to gauging the manager's performance, the existence of information asymmetry will incentivize management to offer false information. According to research by Cahyono and Widyawati (2019), knowledge asymmetry benefits earnings management. However, according to the findings of Nasution et al. (2019), knowledge asymmetry has little impact on managing earnings. It must be reexamined because several of the findings conflicted with earlier studies. This study sought to ascertain how managerial ownership, profitability, and information asymmetry affected profits management in LQ45 businesses listed on the Indonesia Stock Exchange from 2015 to 2022.

It has to be reexamined because many of the findings from earlier study were inconclusive. This study sought to understand how managerial ownership, profitability, and information asymmetry affected profits management in LQ45 businesses listed on the Indonesia Stock Exchange from 2015 to 2022.

**Earning Management**

According to Rahmawati (2012), earnings management is the practise of managers adopting deliberate actions inside and beyond the bounds of GAAP (General Accepted Accounting Principles) to accomplish some specified aims. This activity aims to maximize welfare because, in general, managers have access to more corporate information than outside parties. Taking a bath, income reduction, income maximization, and income smoothing are the typical patterns utilized in earnings management practices (Scott, 1997).

**Managerial Ownership**

Management ownership refers to ownership of shares. Because managers directly profit from decisions made and assume the risk of losses resulting from poor judgements, managerial share ownership can connect the interests of shareholders with managers. According to this, the more management ownership a firm has, the easier it will be to align the interests of managers and shareholders and improve the company's performance (Anggraeni & Hajiprajitno, 2013).

**Profitability**

As defined by Rifqiyah (2016), profitability is a company's capacity to produce profits and demonstrates how effective its financial performance has been. Sales profits and investment income may gauge the efficacy of management in running a corporation. The
profit made on the company's sales and investments, as observed from the elements of the financial statements, may be used to determine the efficacy and efficiency of management. Based on the profitability ratio, the firm is in better shape a greater level of the ratio. However, due to the increased attention from the public and the government, a company's degree of profitability also increases. As a result, high-profit corporations typically disclose smaller profits (income minimization).

**Information Asymmetry**

According to Wiyadi et al. (2016), information asymmetry occurs when managers have access to knowledge about company prospects not owned by third parties. There are chances for managers to execute earnings management activities due to the information asymmetry between owners and managers. The bid-ask spread proxy is used to evaluate the degree of information asymmetry, according to Listiana & Prabowo (2011). Ask and bid are terms used to describe purchasing and selling limit orders, respectively. The gap between the highest asking price put out by shareholders or issuers and the highest purchasing price from investors is known as the bid-ask spread.

**The Effect of Managerial Ownership on Earning Management**

"Managerial ownership" refers to the management's ownership of a company's shares. The drive of business managers heavily influences how earnings are managed. various motives, such as between managers who are shareholders and those who are not, will lead to various earnings management levels. It is envisaged that manager activities to manipulate results can be reduced if management and shareholders' interests can be aligned. Low share ownership increases the incentives for managers to act opportunistically (Shleifer & Vishny, 1997). Because managers will behave similarly to general shareholders when they own a portion of the company, they will ensure that financial statements are presented fairly and accurately reflect the state of the business, according to research by Kouki et al. (2011). This has a negative impact on earnings management and can improve the quality of the financial reporting process. (Nasution et al. 2019) and (Astari & Suryanawa, 2017), which indicate that managerial ownership has a detrimental influence on earnings management, validate the findings of this study.

**H1 : Managerial Ownership has a negative effect on Earning Management**

**Effect of Information Profitability on Earnings Management**

Profitability, according to Kasmir (2012), is a company's capacity to turn a profit. This ratio also serves as a gauge of the management's efficacy. Profitability demonstrates management's capacity to make money through making use of resources employed in daily operations. Profit from sales and investment income serve as examples of this. Profitability can influence managers to manage profits in proportion to that. Companies with large profits often declare lesser earnings than they actually have (income minimization), as governments and society tend to pay more attention to or spotlight businesses with high revenues relative to their political costs. According to the study's findings, profitability positively affects earnings management (CaHyono & Widyawati, 2019; Astari & Suryanawa, 2017), which supports the idea that profitability does so.

**H2 : Profitability has a positive effect on Earning Management**

**The Effect of Information Asymmetry on Earning Management**

According to Wiyadi et al. (2016), information asymmetry occurs when managers...
have access to knowledge about a company's prospects that is not held by outside parties. There are chances for managers to execute earnings management activities due to the information asymmetry between owners and managers. Since managers are presumed to behave in their own best interests, they may take advantage of situations to conceal facts from the principle. management have a better potential to control earnings the more information shareholders and management have access to. Earning Management occurs when there is considerable information asymmetry, making it difficult for stakeholders or investors to supervise managers' activities. According to the study's findings (Cahyono & Widyawati, 2019; Januardi et al., 2020), information asymmetry positively affects earnings management, which supports the theory that it does.

**H3** : **Information asymmetry has a positive effect on Earnings Management**

2. METHODOLOGY RESEARCH

This study is quantitative, with LQ45 businesses registered on the Indonesia Stock Exchange as the study's subject. Purposive sampling was utilized as the sampling strategy in this investigation. Data from financial reports on the official website of the Indonesia Stock Exchange and connected firms are collected using the documentation approach. The difference between total accruals and nondiscretionary accruals is one way that discretionary accruals may be used to monitor earnings management. In this case, managerial ownership refers to the portion of all management's outstanding shares. The Return on Assets (ROA) ratio, which assesses a company's management team's aptitude for managing existing assets to generate profits, is employed in this study as the indicator for gauging profitability. The difference between the lowest purchase price suggested by the buyer and the highest selling price demanded by the seller, also known as the bid-ask spread, is the indicator used to assess the information asymmetry variable.

In order to determine the direction of effect and examine the impact of the independent factors on the dependent variable, the data analysis method utilised in this study used a panel data regression analysis model (Sugiyono, 2015). The following is the panel data regression equation used in this study:

\[
EM_{it} = a + b_1 KM_{it} + b_2 ROA_{it} + b_3 AI_{it} + e
\]

Where :

- **Y** = Earning Management
- **X1** = Managerial Ownership
- **X2** = Profitability
- **X3** = Information Asymmetry
- **i** = *cross section* (perusahaan i)
- **t** = *time series* (tahun ke-t)
- **a** = Constanta
- **b1** = managerial ownership variable regression coefficient
- **b2** = profitability variable regression coefficient
- **b3** = regression coefficient of information asymmetry variable
- **e** = *error*

The Common Effect Model, Fixed Effect Model, and Random Effect Model are the approaches that may be used to estimate panel data regression models. To analyze the data,
one of the three methods—the Chow Test, Hausman Test, and Lagrange Multiplier Test—will be chosen as the model that best fits the data. According to Basuki & Prawoto (2017), the multicollinearity and heteroscedasticity tests are the traditional assumption tests utilized in panel data analysis. Panel data regression analysis was used to test the first, second, and third hypotheses in this study precisely to ascertain the significance of the impact of each independent variable (managerial ownership, profitability, and information asymmetry) on the dependent variable (earnings management).

3. RESULTS AND DISCUSSIONS

3.1. Research Results

Based on the results of the study, the best model used in panel data regression through the Chow Test, Hausman Test, and Lagrange Multiplier Test is the Random Effect Model. The classic assumption tests in panel data research are the multicollinearity and heteroscedasticity tests. In this research, the selected model is the Random Effect Model or Generalized Least Squared (GLS), so it is assumed that there is no heteroscedasticity because this method is a way to eliminate heteroscedasticity. The multicollinearity test shows that the Variance Inflation Factor (VIF) of Managerial Ownership, Profitability, and Information Asymmetry are each smaller than 10. Thus, it can be concluded that there is no multicollinearity among the independent variables in the regression model. The panel data regression output with the best model can be explained in the following table.

Table 1. Panel Data Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.933490</td>
<td>1.459889</td>
<td>-0.639426</td>
<td>0.5246</td>
</tr>
<tr>
<td>KM</td>
<td>-78.26997</td>
<td>19.69684</td>
<td>-3.973731</td>
<td>0.0002</td>
</tr>
<tr>
<td>ROA</td>
<td>4.198421</td>
<td>6.307288</td>
<td>0.665646</td>
<td>0.5078</td>
</tr>
<tr>
<td>AI</td>
<td>-0.179626</td>
<td>2.633836</td>
<td>-0.068199</td>
<td>0.9458</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.201875</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.168151</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>5.986156</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.001072</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: data processed E-views 9*

Based on the test results shown in table 1, the panel data regression equation can be compiled as follows:

\[ EM = -0.933 - 78.270 \times (KM) + 4.198 \times (ROA) - 0.180 \times (AI) \]

The explanation of the panel data regression equation is:

1. A constant value (C) of -0.933 indicates that if the independent variables, namely managerial ownership, profitability, and information asymmetry, do not change or are constant, then earnings management that occurs in LQ45 companies listed on the Indonesia Stock Exchange for the period 2015 to 2022 is worth -0.933.

2. The regression coefficient value of the managerial ownership variable (KM) is -78.270 indicating that managerial ownership has a negative effect on earnings management, or functionally it can be stated that if managerial ownership increases by one percent, it can reduce the occurrence of earnings management that occurs in LQ45 companies listed on
the Indonesia Stock Exchange for the period 2015 to 2022 amounted to 78,270.

3. The value of the profitability variable regression coefficient (ROA) of 4.198 indicates that profitability has a positive influence on earnings management, or functionally it can be stated that if profitability increases by one percent, it can increase the occurrence of earnings management in LQ45 companies listed on the Indonesia Stock Exchange for the period 2015 to 2022 amounted to 4,198.

4. The regression coefficient value of the information asymmetry (AI) variable is -0.180 indicating that information asymmetry has a negative effect on earnings management, or functionally it can be stated that if information asymmetry increases by one percent, it can reduce the occurrence of earnings management that occurs in LQ45 companies listed on the Indonesia Stock Exchange for the period 2015 to 2022 of 0.180.

The results of the calculation of panel data regression analysis obtained a coefficient value (Adjusted R Squared) of 0.168151, meaning that 16.81 percent of the variation in changes in the rise and fall of LQ45 company earnings management listed on the Indonesia Stock Exchange for the period 2015 to 2022 can be explained by managerial ownership variables, profitability, and information asymmetry, while 83.19 percent can be explained by other variables not used in this study. Based on the regression output, the F-count value is 5.986 greater than the F-table value with df1 = (k-1) = (4-1) = 3 and df2 = (n-k) = (75-4) = 71 or df1 = 3 and df2 = 71 with a confidence level of 95% indicating a number that is 2.73 (5.986 > 2.73) meaning that the variable managerial ownership, profitability, and information asymmetry have a significant influence on the earnings management of LQ45 companies listed on the Indonesia Stock Exchange, or it could be also declared appropriate or suitable with the research data (goodness of fit). Based on the error rate (α) = 0.05 and the degree of freedom (n-k) = (75-4) = 71, it is known that the t-table value for the one-tailed test is 1.6666. As for the summary of the results of the panel data regression analysis in Table 1 above, it can be seen that the t-count value of managerial ownership is -3.973, which is greater than the t-table value, so managerial ownership has a significant effect on earnings management. Meanwhile, the t-count of profitability is 0.665, and the t-count of information asymmetry is -0.068, which is smaller than the t-table value. Hence, profitability and information asymmetry have no significant effect on earnings management.

3.2. Discussions

The Effect of Managerial Ownership on Earnings Management

Based on the results of the managerial ownership t-test research on earnings management, it can be seen that the tcount < ttable or (-3.973) < (-1.666) and the sig value < 0.05, which is 0.0001. This means that the results of this study indicate that H1 is accepted so that it can be assumed that managerial ownership has a negative and significant effect on earnings management, which means that the greater the managerial share ownership in a company, the more power investors will have in controlling the company's operational activities so that they can minimize earnings management practices in LQ45 companies listed on the Indonesia Stock Exchange for the 2015-2022 period. The results of this study are by research conducted by (Nasution et al. 2019), which states that managerial ownership has a negative and significant effect on earnings management.

Effect of Profitability on Earnings Management
According to the findings of the profitability t-test on earnings management, it can be deduced that profitability has a positive but not statistically significant impact on earnings management because the value of count table, or 0.665 1.666, and a sig value > 0.05 of 0.5078 mean that H2 is rejected. This indicates that the magnitude of an LQ45 company's profitability throughout the 2015–2022 timeframe has little bearing on the methods used to manage earnings. This is in line with the theory advanced by Astuti (2017) in Wardani & Isabela (2017), according to which increased profitability indicates good company performance, shareholders will also benefit from increased company performance, and managers will also profit if the company's performance improves, which will demotivate managers from taking managerial action earnings. Additionally, it may be concluded that LQ45 firms do not require earnings management to catch investors' attention as LQ45 companies are the most liquid corporations. The findings of this study are consistent with studies by Wowor et al. (2021), which found that the management of earnings is unaffected by profitability.

**Effect of Information Asymmetry on Earnings Management**

Based on the findings of the research on the information asymmetry t test on earnings management, it can be seen that the value of tcount ttable or (-0.681) (-1.666) and a significant value of 0.9458, which is above the significance level of 0.05 or 5%, then H3 is rejected, so it can be assumed that information asymmetry has no positive and insignificant effect on earnings management. This means that the size of the information asymmetry in a L Due to the potential of both strong economic development and financial reporting that complies with qualitative norms, information asymmetry has no impact on managing earnings. The qualitative rule states that financial reports must be able to satisfy the information needs of all parties who require them, be impartial towards the desires of those who wish to personally benefit from the information they contain, disclose all relevant information regarding the performance and condition of the company, and be comparable and testable, limiting managers' ability to alter information within a corporation. The findings of this study are consistent with research by Ummah (2020), according to which knowledge asymmetry has little impact on managing earnings.

4. **CONCLUSION**

Managerial Ownership significantly impairs earnings management in firms included on the IDX's LQ45 index from 2015 to 2022. This may suggest that the inclination to practice earnings management decreases with increasing managerial ownership. For firms listed on the LQ45 index on the IDX in 2015–2022, profitability, as measured by the ratio of return on assets, has a positive but not very substantial impact on earnings management in a negative direction. Between 2015 and 2022, firms listed on the LQ45 index on the IDX did not significantly benefit from information asymmetry as measured by the bid-ask spread in terms of managing earnings.

The management of LQ45 firms listed on the Indonesia Stock Exchange has to give priority to regulations regarding managerial ownership in an effort to reduce earnings management. To identify the elements that boost a business's earning potential, one approach to achieve this is to periodically assess earnings to spot trends or patterns of rising or falling firm profits. To eliminate information asymmetry and the likelihood of earnings
management, the management of LQ45 businesses listed on the Indonesia Stock Exchange must also enhance monitoring of the report production process, particularly in terms of profitability.

5. REFERENCES


