

Direction of the Cost of Equity Capital in Manufacturing Companies

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Abstract: This study aims to examine the effect of information asymmetry, earnings management, and firm size on the cost of equity capital. This type of research includes causal research using quantitative methods. The population in this study are all manufacturing companies on the Indonesia Stock Exchange. There are 156 manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. The sampling technique in this study was carried out by purposive sampling, so the total sample was 35 data from the financial statements of manufacturing companies. Secondary data was collected through the Indonesian stock exchange website and analyzed using Multiple Regression Analysis with the Ordinary Least Square model using the Eviews Version 12 software. The results found that information asymmetry had a positive and significant effect on the cost of equity capital; Earnings management has a negative and significant effect on equity capital. At the same time, the company's size has no significant effect on the cost of equity capital.

Keywords: Information Asymmetry, Earnings Management, Firm Size, Cost of Equity Capital.

Abstrak: Penelitian ini bertujuan untuk menguji asimetri informasi, manajemen laba dan ukuran perusahaan berpengaruh terhadap biaya modal ekuitas. Jenis penelitian ini termasuk penelitian kausal dengan menggunakan metode kuantitatif. Populasi dalam penelitian ini yaitu seluruh perusahaan manufaktur di Bursa Efek Indonesia. Saat ini terdapat 156 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2017-2019. Teknik pengambilan sampel dalam penelitian ini dilakukan secara purposive sampling, maka total sampel adalah 35 data laporan keuangan perusahaan manufaktur. Data sekunder dikumpulkan melalui website bursa efek Indonesia dan dianalisis menggunakan Analisis Regresi Berganda dengan model Ordinary Least Square menggunakan bantuan software Eviews Versi 12. Hasil penelitian menemukan bahwa asimetri informasi berpengaruh positif dan signifikan terhadap biaya modal ekuitas; Manajemen laba berpengaruh negative dan signifikan terhadap biaya modal ekuitas. Sedangkan Ukuran perusahaan tidak berpengaruh signifikan terhadap biaya modal ekuitas.

Kata Kunci: Asimetri Informasi, Manajemen Laba, Ukuran Perusahaan, Biaya Modal Ekuitas.

INTRODUCTION

The increasingly fierce industry competition forces companies always to innovate to continue growing and developing. This commercial expansion is, of course, accompanied by an increase in capital requirements. Of course, a business as a party that needs money to improve its operations must incur a cost of equity. The cost of equity is the cost incurred by the company to obtain external funding (Gustian, 2017). The cost of capital is the cost that the company must incur to obtain capital. Knowing the cost of capital is very important for companies and maximizing the company's value; the cost of capital must also be known as the basis for making leasing decisions, budgeting costs, and others.

The cost of capital is an important concept in investment analysis because it can show the minimum profit level that must be obtained from investments made by the company (Francis et al., 2008). Furthermore, (Sharfman and Fernando, 2008) argue that the cost of equity capital is the required rate of return on the stock, namely the rate of return desired by investors to be willing to invest their money in the company. Companies can obtain equity capital in two ways: retaining earnings and issuing new shares.

Facts many issuers have decided not to distribute dividends from the 2019 financial year this year. There are several reasons behind this decision. For example, companies are experiencing losses due to the pandemic, thus, companies holding back profits for reserve funds, company expansion, etc. Issuers that did not distribute dividends were: 1) PT Hero Supermarket Tbk (HERO) throughout 2019 recorded a profit for the year of up to Rp 70.64 billion. This amount is much better than 2018, which suffered a loss for the current year of up to Rp. 1.25 trillion. Even though it managed to record a profit, management will still be absent from distributing dividends; 2) PT Pioneerindo Gourmet International Tbk (PTSP) increased profit for the year by Rp 28.7 billion.

Meanwhile, revenue in 2019 increased 15% from IDR 626.81 billion to IDR 720.99 billion. However, 2019 Profits will be used to safeguard the company's finances in the face of COVID-19; 3) PT Kioson Komersial Indonesia Tbk (KIOS) compared to still pocketing a loss attributable to owners of the parent entity of Rp 5.36 billion. In 2018, his party pocketed a profit of IDR 1.51 billion; 4) PT Dyandra Media International Tbk (DYAN) achieved net profit attributable to owners of the parent entity, a decrease of 74.97% from Rp 76.61 billion to Rp 19.27 billion (Source: <https://investasi.kontan.co.id/>, 2021).

The cost of equity capital is the risk or sacrifice faced by investors for their investment or the expected rate of return in the future (Hery, 2015). At the same time, the cost of equity capital is the minimum rate of return required by users of their capital on investment so that the stock price does not change (Richardson and Welker, 2001).

The increase in the cost of capital is influenced by one of the directions, namely information asymmetry. Information asymmetry is an information gap between managers and shareholders or other stakeholders, where managers know more about internal information and company prospects in the future than shareholders (Putri and Azzahra, 2021).

The company and the investor certainly have different interests, so the financial statements are not transparent. The causes of poor and non-transparent communication through financial statements are three conditions: (1) compared to investors, managers have more information about the strategies and business operations they manage. (2) the

interests of managers are not always aligned with the interests of investors, and (3) imperfections of accounting and auditing rules.

(Heriyanthi, 2013) states that information asymmetry has a positive and significant effect on the cost of capital. Information asymmetry has a positive and significant effect on the cost of equity capital. When information asymmetry arises, disclosure decisions made by managers affect stock prices because information asymmetry between more informed investors and less informed investors creates transaction costs and reduces the expected liquidity in the market for the company's shares. It means that the smaller the information asymmetry among capital market participants, the smaller the company's capital costs (Nuryatno et al., 2019).

Furthermore, earnings management also determines the direction of increasing the cost of equity capital. Earnings management is a management intervention by increasing or decreasing accounting profit in compiling the company's external financial statements following management's or the company's interests (Astari and Suryanawa, 2017). Concerning the cost of equity capital, the motivation of earnings management is to maximize or minimize profits so that it can affect the level of dividends that investors will receive.

The attention of users of financial statements is often only directed to profit information, regardless of how the profit is generated. It encourages company management to take earnings management or earnings management. There are four earnings management types: massive profit reduction, profit decline, profit increase, and income smoothing (Bahri and Arrosyid, 2021). If in a condition where the management does not succeed in achieving the specified profit target, then management will take advantage of the flexibility allowed by accounting standards in preparing financial statements to modify reported earnings. Management is motivated to show good performance in generating maximum value or profit for the company so that management tends to choose and apply accounting methods that can provide better profit information. The existence of information asymmetry allows management to carry out earnings management (Nurkholik and Fitriyanti, 2021).

If earnings management aims to maximize profits, the company's dividends will be high. Moreover, vice versa, if the goal of earnings management is to minimize profits, the company's dividends will be low (Tanomi, 2012). In addition, if the company has low profits, there is a possibility that the company will not be able to distribute dividends. If investors have predicted the number of accruals in determining the rate of return on shares, it can prevent earnings management practices carried out by issuers, namely companies that issue and sell securities in the form of shares, bonds, and others (Ball et al., 2016).

Recently, an interesting earnings management issue is the service company Garuda Indonesia, which manipulated the 2018 financial statements. This issue was finally known to the public in April 2019 because it not only covered the previous year's losses but also generated a net profit of Rp 11.33 billion or US\$ 8 .0984 million. Fortunately, the company is polished. The violation in this financial report began with a cooperation agreement worth Rp. 3.41 trillion was reached with PT Mahata Aero Technology in 2018, and net profit was obtained. If there is no record of agreement revenue, the company must suffer a loss (www.cnnindonesia.com, 2019).

In addition to earnings management, company size also affects investors in determining the rate of return on investments made because company size measures the

availability of information. The larger the company means, the greater the information that must be disclosed by the company, which consequently incurs a cost to providing information or a cost of equity capital (Boubakri et al., 2012). Large companies cannot be separated from political pressure, namely pressure to carry out social responsibility or high levels of corporate taxes to allow companies to have information production costs resulting from lower disclosures than small companies. It causes the information disclosed by the company does not reflect the actual condition of the company.

(Indriyani, 2017) proves that the larger the size of the company, the lower the cost of equity capital. Large companies usually have large total assets to attract investors to invest in the company. Because large companies, the expected return will be received in the future is greater than small companies. In addition to investors, creditors are also more confident in lending their capital to large companies because the risk of credit failure will be smaller.

(Amalina and Trisnawati, 2017) and (Houque et al., 2017) prove that earnings management positively influences the cost of equity capital, meaning that the higher the accrual rate, the higher the cost of equity capital. It shows that investors have carefully anticipated the relatively high level of earnings management in Indonesia by increasing the required return on stock returns.

Research that examines directly between firm size and the cost of equity capital was conducted by (Vitolla et al., 2020), which proves that firm size has a negative effect on the cost of equity capital. It shows that the greater the total assets owned by the company, the smaller the cost of equity capital. The results of this study are consistent with previous research conducted by (Embong et al., 2012), which proved that the larger the size of the company, the lower the cost of equity capital.

Based on the facts and the results of previous studies, the researchers chose a manufacturing company as the object of research because the manufacturing companies listed on the Indonesia Stock Exchange are large-scale companies compared to other companies. Another reason is that manufacturing companies in the consumption sector have sustainable production so that good capital and asset management are needed so that they generate large profits to provide a large return on investment so they can have investors to invest their capital. Therefore, the purpose of this study is to examine the relationship between earnings management and firm size, which has a significant effect on the cost of equity capital.

THEORETICAL REVIEW

The basis for the need to disclose financial statements by management to shareholders/investors is explained in agency theory. According to (Jensen and Meckling, 1976), an agency relationship exists when one or more individuals called principals work with other individuals or organizations called agents; principals will provide facilities and delegate decision-making policies to agents. Agents (company management) must provide periodic reports to the principal (shareholders) about the business they run. The principal will assess the performance of his agent through the financial reports submitted to him. (Widyowati, 2020), an agency relationship exists when one or more individuals called principals work with other individuals or organizations called agents; principals will provide facilities and delegate decision-making policies to agents. Agents (company

management) must provide periodic reports to the principal (shareholders) about the business they run.

There are two different interests in the company where each party strives to achieve the desired prosperity. Information asymmetry arises between management and owners, which can allow managers to carry out earnings management to mislead owners about the company's economic performance. Earnings management is based on the agency theory, which states that each individual tends to maximize his or her utility. The concept of agency theory is the relationship or contract between the principal and the agent. The principal employs agents to perform tasks to fulfill the principal's interests. (Udayani and Sari, 2017) states that agency theory uses three assumptions of human nature, namely 1) Humans are generally selfish. 2) Humans have limited thinking power regarding the perception of the future (bounded rationality). 3) Humans always avoid risk (risk-averse). Following the assumption of human nature, management as a human will act opportunistically, namely prioritizing his interests. The non-transparency of financial information triggers the conflict of interest between the agent and the principal. The agent does not always work under what the principal wants, and it will create a risk on the investment invested by the investor.

Ross first developed this signal theory in 1977. In building the signal theory based on the information asymmetry between management information (well-informed) and information from shareholders (poorly informed). This theory is based on the idea that management will provide information to investors or shareholders when they get good information related to the company, such as increasing company value. Signal theory explains how investors have the same information about the company's prospects, but in reality, the manager (the company) has more information. It is called information asymmetry, and it has an important impact on the optimal capital structure. (Puspitaningtyas, 2012) information published as an announcement will signal investors to make decisions. Companies with high values will signal their financial policies so that they are not the same as companies with low values. The signal is a process that takes the form of deadweight costing, which aims to convince investors about the company's value. The company urges to provide information because there is information asymmetry between outsiders. After all, the company knows more about its prospects than outside parties (investors and creditors). Other low-value companies cannot imitate a good signal because of the cost factor.

Managers must be obliged to give a signal about the condition of the company to the owner. Information received by investors can be in the form of a good signal (good news) or a bad signal (bad news). A good signal, if the company's reported profit increases and vice versa if the company's reported profit decreases, it is a bad signal for investors (AWS et al., 2018). So that information is an important element for investors or business people because the information provides information, notes, or descriptions of the company both for past, current, and future conditions for the continuity of the company's business. Investors in the capital market need complete, relevant, accurate, and timely information as an analytical tool for making investment decisions.

Information asymmetry is information inequality between managers and shareholders, where managers are more aware of internal information and company prospects in the future than shareholders (AWS et al., 2018). The greater the information asymmetry that appears, the higher the company's cost of equity can be. Meanwhile, the

decrease in information asymmetry caused by the high amount of information disclosed by the company impacts the decrease in the cost of equity paid by the company. Information asymmetry can be measured by the value of the bid-ask spread, which is the difference between the highest buying price and the lowest selling price of the stock. Measurement of information asymmetry with this bid-ask spread, securities traders set the bid-ask spread so that the expected profit from the uninformed trader can cover the loss from the informed trader. Therefore, the adverse selection component of this spread will be greater when securities traders feel that the tendency to trade with informed traders is greater or when they believe that informed traders have more accurate information (Haryono and Subiyantoro, 2014). (Ningsih and Ariani, 2016), (Dewi et al., 2017) and (Malau et al., 2019) found that information asymmetry had a positive and significant effect on the cost of equity capital. Meanwhile, according to research (Haryono and Subiyantoro, 2014), information asymmetry has a negative and insignificant effect on the Cost of Equity. Then put forward the hypothesis:

H1: Information asymmetry has a significant effect on the cost of equity capital in manufacturing companies listed on the Indonesian Stock Exchange.

Earnings management is one of the factors that can reduce the credibility of financial statements. Earnings management adds to the bias in financial statements and can be annoying to users of financial statements who believe the engineered earnings figures to be unengineered earnings figures. Earnings management is a deliberate management intervention in the process of compiling external financial reporting so that it can increase or decrease accounting profits, usually to meet personal goals (Sastradipraja, 2010). Earnings management can also be efficient (increasing earnings information in communicating private information) and opportunistic (management reports earnings opportunistically to maximize its interests) (Scoot, 2009). If earnings management is opportunistic or for personal purposes, the profit information can lead to wrong investment decisions for investors. The proxy used in this research is the accrual of working capital done, namely the accrual of working capital to sales. The reason for earnings management causes much information to be disclosed by the company, resulting in increased costs incurred by the company to provide information to the public, where the cost of equity capital is the discount rate used by investors to assess cash flow in the future (Kurnia and Arafat, 2015). Earnings management causes much information to be disclosed by the company, so the consequence of the increase in costs incurred by the company to provide information to the public (cost of equity capital), where the cost of equity capital is the return requested by the fund providers, both investors and creditors. The greater the indication of earnings management means the greater the cost of equity capital. Research from reveals that earnings management has a significant influence on the cost of equity capital, as well as research conducted by, (Dewi et al., 2017). It shows that investors have correctly anticipated information related to their earnings management. The results of this study conducted by (Putra, 2015) stated that earnings management has a positive and significant effect on the cost of equity capital, which means that the higher the earnings management, the higher the cost of equity capital. Then put forward the hypothesis:

H2: Earnings management has a significant effect on the cost of equity capital in manufacturing companies listed on the Indonesian Stock Exchange.

Company size can also be defined as a measure of the availability of information. The larger the company, the greater the costs incurred by the company to provide information to the public so that it will impact increasing the cost of equity capital. Firm size is calculated from the company's Ln sales. The greater the value generated the company has good prospects. Companies that have good prospects in the long term will cause the company's shares to remain attractive to investors so that the share price is relatively high and stable (Wahyudi and Hotima, 2018). The size of the company can impact the company's ability to face the risks it will face (Afiqoh and Laila, 2018).

Large companies usually disclose more information than small companies. The political burden of large companies is greater because the public or users of financial statements demand more information on large companies (Azizah et al., 2021). (Almeida and Campello, 2007), the size of the company is a measuring tool for investors to invest and for creditors to make loans. In addition, the larger the company, the easier it is to get a loan and reduce the cost of equity capital that arises. *Company size* can also be defined as a measure of the availability of information. The larger the company, the greater the costs incurred by the company to provide information to the public so that it will impact increasing the cost of equity capital. The research results (Kurnia and Arafat, 2015) show that company size has a significant influence on the cost of equity capital; large-scale companies will find it easier to obtain loans than small companies. Then put forward the hypothesis:

H3: Firm size has a significant effect on the cost of equity capital in manufacturing companies listed on the Indonesia Stock Exchange.

METHODS

This type of research includes causal research using quantitative methods. The population in this study are all manufacturing companies on the Indonesia Stock Exchange. Currently, there are 156 manufacturing companies listed on the Indonesia Stock Exchange. The sampling technique in this study was carried out by purposive sampling to obtain a representative sample following the characteristics determined by the researcher.

Table 1. Results of Selection Method Purposive Sampling

No.	Description	Number of Companies
1.	All manufacturing companies listed on the Indonesia Stock Exchange for the period 2017-2019.	156
2.	Manufacturing companies that experienced delisting during the 2017-2019 period	3
3.	Manufacturing companies that do not publish complete annual financial reports as of December 31 and IPO&Relisting from 2017-2019.	(22)
4.	Companies that do not use rupiah in their financial statements during the research year as the reporting currency.	(31)

5. Manufacturing companies that have incomplete financial reports during the 2017-2019 period.	(65)
Number of companies sampled	35

This panel data combines time-series data and cross-section data, where the time series collects observations within a certain period. While the cross-section is data collected within a certain period from the sample through the website www.idx.co.id and analyzed using multiple linear regression analysis using the Ordinary Least Square model using the software E-views Version 12 with the following equation.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

Y : Cost of Equity Capital

X1: Information Asymmetry

X2: Earnings Management

X3: Company Size

The data in this study were carried out with several stages of testing such as normality test, autocorrelation test, multicollinearity test.

Table 2. Operational Definition

No	Variable	Definition	Indicator
1.	Information Asymmetry	Information asymmetry between managers and shareholders, where managers know more about internal information and company prospects in the future than shareholders	$PREAD_{i,t} = \frac{(ask_{i,t} - bid_{i,t})}{\{(ask_{i,t} + bid_{i,t})/2\}}$ Description : Ask _{i,t} : the highest ask price of company i's shares that occurred on day t (on the publication date of the annual report) Bid _{i,t} : the lowest bid price of company i's shares that occurred on day t (on the publication date of the annual report).
2.	Management Earning (X1)	Earnings management is the selection of accounting policies by managers, or actions that can affect earnings which aims to achieve several objectives in profit reporting.	Earnings Management (EM) = Accruals Working capital = AL – HL - Cash Description : AL = Change in current assets In period t HL = Change in current debt In period t Cash = Change in cash and Cash equity at period t

3.	Company size (X2)	Company size is a measure of the availability of information. The larger the company, the greater the costs incurred by the company to provide information to the public so that it has an impact on increasing the cost of equity capital.	Company Size = LN Total Asset
4.	Capital cost Equity (Y)	The cost of equity capital is a calculation of the discount rate imposed on a company's stock by market participants based on the company's estimated future cash flows to determine the current share price. The cost of equity capital is treated as the dependent variable in this study.	$r = (B_t + X_{t+1} - P_t) / (P_t)$ Description: P_t = stock price in period t B_t = book value per share for period t x_{t+1} = earnings per share in period t + 1 r = cost of equity capital

RESULTS

The results of data normality using the normal probability plot graph found that the data in this study were normal and could be used.

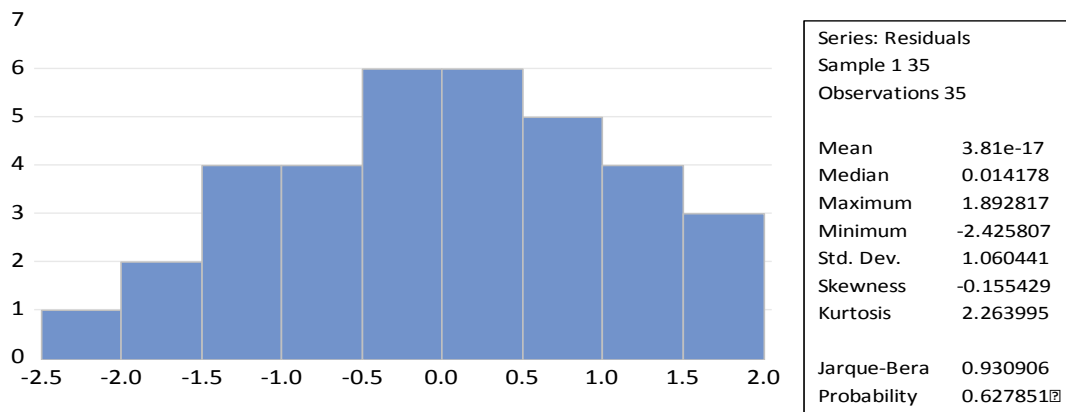


Figure 1. Normality Test Results

Source: Output E-views V.12 (2021)

Figure 1 shows the Jarque-Bera value of 0.930906 and a significance of 0.627851 or 62.78% > 5% significance level, meaning that the research variables are normally distributed. In order to ensure that the estimated data are free from autocorrelation, this study uses the Brusch-Godfrey method as follows:

Table 3. Autocorrelation Test Results

No	Description	Breusch-Godfrey Test
1	1 F – Statistics	3,0759
	Prob. F	0,006
2	Obs* R-Square	6,1252
	Prob. Chi-Square	0,04

Source: Output E-views V.12 (2021)

The F statistic value is 3.075, and the Prob value. F of 0.006 is greater than the 5% significance level so that there is no autocorrelation. Then the heteroscedasticity test is carried out to see whether some disturbances appear in the regression function can be done with the ARCH test:

Table 4. Heteroscedasticity Test ARCH Results

No	Description	ARCH Test
1	F - Statistics	0,21757
	Prob. F	0,6441
2	Obs* R-Square	0,22961
	Prob. Chi-Square	0,6318

Source: Output E-views V.12 (2021)

Prob value. From the calculated F and the Chi-Square count of all tests is greater than the 5% significance value, then there is no heteroscedasticity in the equation model. Furthermore, multicollinearity test using Pearson Correlation as follows:

Table 5. Multicollinearity of Result

No	Auxiliary	Partial Regression
1	X1,X2,X3	0,2179
2	X2,X1,X3	0,3756
3	X3,X1,X2	0,2655

Source: Output E-views V.12 (2021)

The test results show that the coefficient value between variables is less than 0.9, so this research data does not have a multicollinearity problem.

Table 6. Coefficient of Determination

R Squared	Adjusted R-Squared	Coefficient of Determination	Result
0.316	0.240	24,00%	Information Asymmetry, Earnings Management and Firm Size affect the cost of equity capital by 24%

Source: Output E-views V.11 (2021)

The value of Adjusted R square (Adj.R²) is 0.240 or 24%, indicating information asymmetry, earnings management and firm size have a significant effect on the cost of equity capital.

Table 7. Partial Test Results

Variable	B	t	Sig.
Constant	3,338	0,816	0.000
Information Asymmetry	7,881	2,500	0.001
Earning Management	-0,052	-2,046	0.004
Company Size	-0,090	-0,615	0.542

Source: Output E-views 12 (2021)

The multiple regression model from the table above is

$$Y = 3,338 + 7,881 X_1 - 0,052 X_2 - 0,090 X_3 + e \dots\dots\dots (1)$$

The model has explained: the variable coefficient of information asymmetry is 7.881 with a positive direction, meaning that if there is an increase in information asymmetry, the cost of equity capital will increase by 7.881. the coefficient of the earnings management variable is 0.052 with a negative direction, meaning that if there is an increase in earnings management, the cost of equity capital will decrease by 0.052. The variable coefficient of firm size is -0.090 with a negative direction, meaning that if there is an increase in firm size, the cost of equity capital will decrease by 0.090.

DISCUSSION

Effect of Information Asymmetry. This study found that information asymmetry has a positive and significant effect on the cost of equity capital. It means that if information asymmetry increases, the disclosure of decisions made by managers can affect stock prices because asymmetric information between investors who are more informed and investors who are less informed increases transaction costs and reduces the expected liquidity in the market for company shares. The study results (Putra, 2018) support this study, showing that the higher the information asymmetry of a company, the riskier the company's shares are so that investors will think twice about investing and investors will expect greater returns. The cost of equity capital is used to determine the return on investment. When investment increases, the cost of equity capital decreases.

They are associated with agency theory, where investors will invest their shares in a company by expecting a large rate of return on their investment. However, investors have not fully obtained it due to the lack of information obtained by investors. To overcome this, investors use agent services to get all information about the company whose invested shares. The use of agents by investors gives rise to agency theory, namely when one or more people (principals) employ another person (agent) to provide a service and then delegate decision-making authority to the agent. It can be said that agency theory emphasizes information that is more known to the company's management than investors, or in other words, not all investors know all the information contained in a company.

On the other hand, the manager must signal the company's condition to the owner. It supports the signal theory, which explains that the information received by investors can be in the form of a good signal (good news) or a bad signal (bad news). A good signal, if the company's reported profit increases and vice versa if the company's reported profit decreases, is a bad signal for investors. So that information is an important element for investors or business people because the information provides information, notes, or descriptions of the company both for past, current, and future conditions for the continuity of the company's business. Investors in the capital market need complete, relevant, accurate, and timely information as an analytical tool for making investment decisions.

The results of the study (Ningsih and Ariani, 2016), (Dewi et al., 2017) and (Malau et al., 2019) found that information asymmetry had a positive and significant effect on the cost of equity capital. The impact of information asymmetry can also be seen in the stock trading volume and the spread. When information asymmetry increases, it can lead to small trading volumes because investors doubt their financial statements' accuracy, which affects the rate of return expected by investors (Widyowati, 2020).

Effect of Earnings Management on the Cost of Equity Capital. This study found that earnings management has a negative and significant effect on the cost of equity capital. It means that the positive or negative sign only shows the nature of the earnings management practice itself, if it is positive, then the company tends to increase profits, and if it is negative, the company tends to decrease profits. For the cost of equity capital, the value is also positive and negative; if it is positive, the company will be more satisfied to give satisfaction to investors, and if it is negative. Generally, investors use profit figures in financial statements as a basis for analyzing business. However, this tendency to see profit figures encourages conflicts of interest between management and investors that cause deviant behavior. One form is earnings management.

The cost of equity capital is the rate of return expected by investors on their investment in the company. One of the important factors in determining the cost of equity capital of a company is the risk associated with company information. Earnings information is one of the risk factors of published company information. Earnings information should be an indicator in predicting future cash flows that investors will receive. However, the accrual component in earnings can be a source of uncertainty that can reduce the ability of earnings to project future cash flows. The accrual component that is the source of the uncertainty comes from discretionary accruals. The accruals come from management's policy to choose accounting policies and procedures to increase private profits. As a result, there are many elements of management subjectivity in the formation of profit figures.

The results of this study support the agency theory, which explains earnings management based on the agency theory, which states that each individual tends to maximize his utility. The concept of agency theory is the relationship or contract between the principal and the agent. The principal employs agents to perform tasks to fulfill the principal's interests. The existence of an element of management subjectivity in policy selection can increase investor uncertainty over investment risk. It is because earnings information from earnings management published in financial statements tends to be used by investors to analyze the company's future performance. So, to compensate for all the risks on their investment, investors will increase the required rate of return and, in the end, will increase the cost of equity capital for the company (Santoso and Daromes, 2019).

(Kurnia and Arafat, 2015) Furthermore, (Amalina and Trisnawati, 2017) provide empirical evidence that earnings management has a positive and significant effect on the cost of equity capital. It means that with the higher earnings management, investors realize that earnings management practices are mostly carried out by issuers, so investors will anticipate risk by increasing the required level of return on shares. Account manipulation is carried out solely based on management's desire to influence investors' perceptions of company risk (Rizal and Sebrina, 2019).

(Barvidi, 2015) that, Earnings management causes much information to be disclosed by the company, thus resulting in increased costs incurred by the company to provide information to the public (cost of equity capital). Investors highly consider earnings management in making decisions on their investment regarding information related to working capital accruals as a proxy for earnings management. The cost of equity capital is the discount rate used by investors to assess cash flow in the future.

The study results (Loyme and Yusuf, 2017) found that earnings management had no positive and significant effect on earnings management. (Wiyadi et al., 2017) states that the anticipation of earnings management causes the effect of earnings management on the cost of equity capital by investors in making decisions on their investments.

Effect of Firm Size on the Cost of Equity Capital. The results of this study found that the company's size partially has no positive and insignificant effect on the Cost of Equity Capital. It means that the company's size will affect the ability to bear the risks that may arise from various situations faced by the company. The risk in investing in a company will increase when information about the company is difficult to obtain, and information is usually more available to large companies than to smaller companies. (Kurnia and Arafat, 2015) stated that the larger the company, the greater the costs incurred by the company to provide information to the public so that it impacts increasing the cost of equity capital.

The results of this study are consistent with the signal theory, which explains that companies with high values will signal the company's financial policies so that they are not the same as companies with low values. *The signal* is a process that takes the form of deadweight costing that aims to convince investors about the company's value. The company urges to provide information because there is information asymmetry between outsiders. After all, the company knows more about its prospects than outside parties (investors and creditors). A good signal cannot be imitated by other companies that have low value because of the cost factor.

The results of this study are consistent with the results of research conducted (Hayati, 2019) and (Zam, 2020), which state that company size has no significant effect on the cost of capital between company size and the cost of capital for large companies and is not significant for small companies. Not all large companies increase the cost of equity capital, and on the contrary, small companies will increase large expenditures to provide the information needed by the public (investors), increasing the cost of equity capital.

However, the results of this study do not support (Ningsih and Ariani, 2016), which states that company size is a measure of the availability of information. The risk in investing in a company will increase when information about the company is difficult to obtain, and information is usually more available to large companies than to smaller companies. The larger the company, the greater the costs incurred by the company to provide information to the public so that it impacts increasing the cost of equity capital.

CONCLUSION

Not all large companies increase the cost of equity capital, and on the contrary, small companies will increase large expenditures to provide the information needed by the public (investors), increasing the cost of equity capital. This study found that information asymmetry has a positive and significant effect on the cost of equity capital. Meanwhile, earnings management has a negative and significant effect on the cost of equity capital. On the other hand, firm size does not significantly affect the cost of equity capital. Investors should pay attention to the existence of earnings management and company size before deciding to invest their capital in a company because of the indications of earnings management and beta risk that can affect the amount of return and risk that investors will bear on their investment.

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