

CORPORATE GOVERNANCE MODERATES THE RELATIONSHIP OF INFORMATION ASYMMETRY AND DIVIDEND POLICY TOWARDS EARNINGS MANAGEMENT

Novita Eka Berlianti^{1*}, Husnah Nur Laela Ermaya², Yoyoh Guritno³

¹novita.eka@upnvj.ac.id, ²husnah_ermaya@upnvj.ac.id, ³yoyoh@upnvj.ac.id

^{1,2,3}Universitas Pembangunan Nasional Veteran Jakarta, Indonesia

*corresponding author

Abstract

This study was conducted to examine the effect of information asymmetry and dividend policy on earnings management, and how the role of corporate governance in moderating the relationship between information asymmetry and dividend policy on earnings management. The sample in this study were 46 banking companies listed on the Indonesia Stock Exchange for the 2015-2019 period and were selected using the purposive sampling method. The final sample used in this study were 9 banking companies. The test results using Fixed Effect Generalized Least Square (FEGLS) regression showed that: (1) Information asymmetry had no significant effect on earnings management; (2) Dividend policy has a significant negative effect on earnings management; (3) Corporate governance cannot moderate the relationship between information asymmetry and earnings management; (4) Corporate governance cannot moderate the relationship between dividend policy and earnings management.

Keywords: Earnings Management; Information Asymmetry; Dividend Policy; Corporate Governance

Abstrak

Penelitian ini dilakukan untuk menguji pengaruh asimetri informasi dan kebijakan dividen terhadap manajemen laba, dan bagaimana peran corporate governance dalam memoderasi hubungan antara asimetri informasi dan kebijakan dividen terhadap manajemen laba. Sampel dalam penelitian ini adalah 46 perusahaan perbankan yang terdaftar di Bursa Efek Indonesia periode 2015-2019 dan dipilih dengan metode purposive sampling. Sampel akhir yang digunakan dalam penelitian ini adalah 9 perusahaan perbankan. Hasil pengujian menggunakan regresi Fixed Effect Generalized Least Square (FEGLS) menunjukkan bahwa: (1) Asimetri informasi tidak berpengaruh signifikan terhadap manajemen laba; (2) Kebijakan dividen berpengaruh signifikan negatif terhadap manajemen laba; (3) Corporate governance tidak dapat memoderasi hubungan antara asimetri informasi dengan manajemen laba; (4) Corporate governance tidak dapat memoderasi hubungan antara kebijakan dividen dengan manajemen laba.

Kata Kunci: Manajemen Laba; Asimetri Informasi; Kebijakan Dividen; Corporate Governance



INTRODUCTION

Accounting profit is measured based on a set of rules in the form of accounting standards that sometimes require estimation in determining value, thus causing different treatment between transactions with one another and increasing the potential of management to implement earnings management through financial statements in order to fulfill their personal interests. Earnings management refers to an action taken by managers to manipulate earnings so as to cause distortions in accounting earnings that do not reflect the actual economic conditions in the company (Subramanyam, 2014, pp. 92–94).

In Indonesia, earnings management practices are still common and often have a negative impact, both for the company that have done it and for stakeholders who use financial statements. One of the cases of earnings management in Indonesia occurred in PT Bank Tabungan Negara (Persero) Tbk, or more familiarly referred to as Bank BTN, where Bank BTN experienced a decline in 2019 profit by 92.55% on an annual basis from 2018 profit period. The profit is allegedly the impact of earnings management practices carried out by the company's management. This is related to the credit given to PT Batam Island Marina (BIM), where PT BIM submitted a receivable worth Rp 400 billion as collateral for its loan to Bank BTN which turned out to be invalid. As a result of PT BIM's bad credit, Bank BTN conducts earnings management to be accountable to shareholders by transferring the bad loans to PT Perusahaan Pengelola Aset (Wartaekonomi.co.id, 2020).

Earnings management in the banking sector is often carried out through uncollectible loan loss reserves or often known as loan loss provisions. It because the loan loss provision is the main method for banks to cover losses due to uncollectible loans, and is an indicator that can reflect the stability of the company. The losses that can be caused by the existence of earnings management in the financial statements not only have an impact on the potential failure to maximize shareholder wealth, but also have an impact on the efficiency of company resources. When earnings management in a company is higher, then resource efficiency tend to be lower (Ab-Hamid et al., 2018).

Based on agency theory, earnings management can be caused by a gap in information ownership between managers as internal parties of the company and shareholders and other stakeholders as external parties, in which the situation is known as information asymmetry. However, the research results of Evodila et al. (2020) shows things that are not in line with the theory, where information asymmetry has a negative effect on earnings management. For companies that have traded their shares in the capital market, the main expectation after conducting an initial public offering (IPO) is an increase in company equity. However, if these expectations are not fulfilled, it can have an impact on new real losses in the company due to the emergence of agency costs, and an increase in company size. On the other hand, the results of Ghani et al. (2017) stated that information asymmetry does not have a significant impact on earnings management. Therefore, there is inconsistency from the previous study's results about does earnings management could be influenced by information asymmetry.

The occurrence of information asymmetry between managers and shareholders can trigger agency problems, one of which is related to the dividend

policy that will be distributed by the company. The amount of dividends paid by a company to investors is inseparable from the existence of a dividend policy in the company. In order to respond to pressure from shareholders for the company to pay dividends, the company's management tries to increase profits in its financial statements (Nguyen & Bui, 2019). The research results of Im et al. (2016) stated that the higher the level of dividend payments, the higher the manager's opportunistic behavior to carry out earnings management because managers will try to maintain sufficient profits to pay dividends. However, contrary to the results of previous research, Sari & Khafid (2020) explained that dividend policy has no effect on earnings management because the decision on the value of dividends to be distributed is made at the General Meeting of Shareholders (GMS), so management is not the only party that has the right to determine the amount of dividends. Therefore, there is inconsistency from the previous study's results about does earnings management could be influenced by dividend policy.

In addition, it is suspected that earnings management can occur due to the weak implementation of good corporate governance in banking. Banks that have implemented good corporate governance tend to rarely report small profits due to behavioral restrictions to manipulate earnings through discretionary accruals, loan loss provisions, or realized share gains or losses (Leventis & Dimitropoulos, 2012). Through good corporate governance that is implemented in the company, the opportunistic behavior of managers to take personal advantage from the company can be suppressed due to strong supervision from shareholders, so that information asymmetry can be minimized because managers and shareholders both know information about the condition of the company (Elbadry et al., 2015). The implementation of good corporate governance is considered to be able to minimize the occurrence of earnings management caused by dividend payments, so as to align the interests of between management and shareholders.

Earnings management practices by management are also inseparable from the company's fundamental characteristics such as leverage and firm's growth. Based on the debt hypothesis contained in Positive Accounting Theory, managers tend to implement earnings management practices so that companies avoid violations of debt covenants, so that high leverage will further motivate managers to carry out earnings management (Khanh & Thu, 2019). In addition, the company's high growth rate tends to motivate managers to lower profits and allocate them to periods where the company experiences a decline in profits (Alexander & Hengky, 2017).

Motivated by the current phenomenon and the inconsistency of previous research's results, this study aimed to test and analyze empirically the effect of information asymmetry and dividend policy on earnings management moderated by corporate governance in the banking companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The Corporate Governance Principles Implementation Index developed by Solikhah & Maulina (2021) is used to measure corporate governance in this study. This index of corporate governance implementation is derived from the five corporate governance principles. The index was chosen because previous studies mostly only used one aspect of corporate governance, such as the size of the board of commissioners, independent commissioners, or audit committees, to represent corporate governance as a

moderating variable that have not been able to measure corporate governance implementation comprehensively in the company. As a result, the corporate governance assessment in this study is better capable of measuring the application of corporate governance in a company more comprehensively. This study has contribution to the extensification of the accounting literature regarding the effect of information asymmetry and dividend policy on earnings management with corporate governance measured by Corporate Governance Principle Implementation Index as a moderating variable.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) stated that the agency relationship refers to a contract in which the principal delegates decision-making authority to the agent to manage the company by prioritizing the interests of the principal. However, in reality the actions of managers are sometimes not in line with the interests of shareholders, so agency problems can arise. The agent knows more information about the condition of the company, while the principal cannot always monitor and measure the behavior of the agent, so this has an impact on the emergence of information asymmetry due to differences in interests (Salehi et al., 2014). Jensen & Meckling (1976) also stated that to minimize the occurrence of agency problems, both the principal and the agent will incur costs to overcome agency problems which are called agency costs. Agency costs are the total of monitoring costs incurred by the principal, bonding costs incurred by agents, and residual losses. To minimize the incidence of agency problems, which might result in agency costs, corporate governance must be implemented in the organization. In relation to agency theory, corporate governance is a mechanism that can assures shareholders that management will act in their best interests, as well as how shareholders may oversee and monitor manager's conduct (Kurniyawati, 2019). As a result, agency theory may be employed as a theoretical framework to explain the moderating role of corporate governance variable in this study.

Positive Accounting Theory

Positive accounting theory states that the reason for managers in determining the accounting method to be used is not based on producing better measurements of certain accounts, but rather based on personal goals that can be met by choosing certain accounting methods (Watts & Zimmerman, 1990). Based on this, positive accounting theory can be employed as a theoretical basis in this study since it outlines the presence of incentives and the potential factors that lead management to execute earnings management. As a result, earnings management may be utilized to increase management's own advantage. In positive accounting theory, there are two perspectives regarding encouragement for managers to take an action, namely the efficiency perspective (*ex ante*) and the opportunistic perspective (*ex post*). The *ex ante* perspective aims to minimize agency costs which will have an impact on maximizing profits for stakeholders, while the *ex post* perspective aims to increase profits for managers through the selection of certain accounting methods without considering the benefits for shareholders and other stakeholders (Ma, 2020).

Positive accounting theory also states several hypotheses regarding the reasons managers choose certain accounting methods, which are as follows (Sumantri et al., 2021):

1. Bonus plan hypothesis, namely to increase the compensation (bonuses) to managers, the management tends to apply accounting procedures that will increase current profits to be greater.
2. Debt covenant hypothesis, namely when the company is likely to violate the debt agreement, managers tend to apply accounting procedures that will make current and future profits seem to increase to be greater.
3. Political cost hypothesis, namely the company's political costs tend to be high which will cause managers to apply accounting procedures that can reduce reported profits in the current period and the next period so as to avoid certain regulations made by the government.

Signalling Theory

Signal theory was originally developed by Spence (1973) with the aim of providing an explanation of the existence of information asymmetry, where information asymmetry can be used as a tool by companies to provide information signals to the market. Godfrey et al. (2010, pp. 375-376) states that management uses the accounts in the report to signal expectations regarding the company's future earnings. If investors trust these signals and make changes to their investment decisions, this will have an impact and be reflected in an increase in the price, trading volume, or volatility of the company's shares. According to Scott (2015, pp. 503-504) companies can signal accounting information through analyst forecasts, capital structure, dividend policy, and company accounting policies. Therefore, signalling theory can be used as theoretical basis to explain about how information asymmetry and dividend policy might influence earnings management in this study.

Earnings Management

Earnings management is the manipulation of accounting information in order to increase company performance by misleading company performance engineering in order to attract possible investors who can enhance corporate earnings (Shahwan & Almubaydeen, 2020). According to Scott (2015, pp. 447), Managers can use various earnings management patterns to achieve certain objectives, such as:

1. Taking a bath, that is earnings management that can occur when a firm is under pressure or going through a restructure. If the firm suffers a loss throughout a period, management may elect to disclose a substantial loss all at once, even if the loss is minor at the time.
2. Income minimization, that is happens when managers attempt to report small profits by policies like as asset write-offs, the imposition of R&D and advertising expenditures, and low income tax payments, which gives a number of incentives for managers to choose to minimize profits.
3. Income maximization, arises when the management's purpose is to achieve the profit target in the bonus scheme, or when the firm is about to violate

the debt contract or defaulting, in which case the manager seeks to maximize profit.

4. Income smoothing, refers to the reporting of profit trends with small variances (Yang et al., 2012). Managers can avoid unfavorable shareholder assessments regarding the probability of corporate insolvency via income smoothing. Furthermore, income smoothing can also be done with the motivation to provide stable incentives to managers based on profit growth.

Information Asymmetry

When managers have more extensive information than shareholders, information asymmetry emerges, and the situation of the information gap might motivate management to act in their own interests through financial statement manipulation (Pratiwi et al., 2015). Scott (2015, pp. 22-23) divides the information asymmetry into two types, namely adverse selection and moral hazard. Adverse selection is an information gap that occurs in where one party (management) has an information advantage over the other party (investor) in business transactions. Information asymmetry between market participants will lead to adverse selection, usually in the form of an increase in transaction costs and a decrease in the level of stock liquidity. Because when capital providers realize that adverse selection is increasing, they will protect their funds by expanding the bid-ask spread, resulting in a decreased liquidity and increased cost of capital (Abad et al., 2018).

On the other hand, moral hazard refers to the information gap that occurs when one party to a contract (management) acts without the knowledge of the other party (investor). Moral hazard can occur due to the separation between those who own the company and those who manage the company, so that direct supervision by the owner of the company on the quality of managers in acting in the interests of the owner cannot be carried out. As a result, managers who suffer a fall in performance could engage in biased reporting to conceal it.

Dividend Policy

Dividend policy is a decision made by management regarding the use of corporate profits at the end of the year, where these profits can be dispersed as dividends to investors or maintained as capital reserves for future investment financing (Dahayani et al., 2017). There are two assumptions related to banking transparency that explain how dividends impact bank opacity. First, dividends, according to agency theory, can substantially minimize agency costs caused by the separation of ownership and control. Second, dividends can be utilized to transfer wealth from creditors to shareholders. To avoid this opportunistic behavior, the creditor establishes a payment policy on debt contracts (Tran & Ashraf, 2018).

Furthermore, signalling theory has two empirical consequences for dividend policy, both direct and indirect. First, the market reaction to dividend policy changes must be positively connected with these changes. Second, there is a change in operational performance following a change in dividend policy. Meanwhile, the indirect result is that the corporation will pay dividends more consistently since these dividend payments are based on long-term future profits rather than current income (Booth & Zhou, 2017).

Corporate Governance

Corporate governance consists of regulations, structures, processes, culture, and systems that are formed in order to provide accountability, transparency, fairness, and rights for stakeholders (Salehi et al., 2014). Implementing effective corporate governance is seen to be capable of resolving agency problems since it assures shareholders that they will receive a return on their investment (Fadillah & Afriyenti, 2020). Corporate governance may resolve agency problems through two mechanisms, that is internal mechanisms, such as board of commissioners composition, and external mechanisms, such as capital market parties regulating firms. Corporate governance mechanisms could help to minimize information asymmetry, either directly through remuneration or indirectly through regulation and monitoring. Managers who are granted with incentives and rewards are more likely to reveal information about their performance accomplishments, reducing information asymmetry. Meanwhile, regulations requiring the separation of the functions of directors and commissioners will strengthen oversight of managers' performance, reducing information asymmetry. (Kurniyawati, 2019). According to Komite Nasional Kebijakan Governance (KNKG) (2006), transparency, accountability, responsibility, independence, and fairness are the five principles of corporate governance that must be implemented in the organization.

The Effect of Information Asymmetry on Earnings Management

Information asymmetry is a condition where there is a different level of control or ownership of information between managers and shareholders regarding the condition of the company. If the information asymmetry that occurs is high enough, then managers will also have a greater potential to carry out earnings management because shareholders will receive less and less information to monitor the behavior of managers. According to signalling theory, the information disclosed by management is considered capable of reducing the level of information asymmetry, so that the manager's reasons for not disclosing certain information about the company's performance are often used to manipulate earnings (Yimenu & Surur, 2019). Research by Sumantri et al. (2021) and Sofia & Murwaningsari (2019) explain that information asymmetry has a significant effect on earnings management. When the ownership of information by shareholders is not as good as the information known by managers, managers can use this information imbalance to implement earnings management. Research conducted by Cahyono & Widyawati (2019) also indicates that information asymmetry has a significant positive effect on earnings management. This is because managers have access to information that shareholders do not have, which encourages managers to hide some information from shareholders. As a result, the information obtained by shareholders is sometimes not in accordance with the actual condition of the firm.

H₁: Information asymmetry has a significant positive effect on earnings management.

The Effect of Dividend Policy on Earnings Management

According to signalling theory, Managers might convey to investors that the firm has a promising future by establishing a dividend policy. Based on this, the

corporation can formulate a policy of paying out large dividends. This is strongly related to the ex ante perspective outlined in positive accounting theory, in which the perspective seeks to reduce agency costs, with the goal of maximizing profits for shareholders. Managers tend to inform about the profitability and future growth of the company through dividend payments, and try to avoid the negative impact of reducing dividend payments. This is done to influence the stock market response to unexpected reductions or suspensions of dividend payments, so that managers will maintain the dividend payout ratio. This can motivate managers to carry out earnings management in order to achieve a sufficient level of profit to maintain the dividend payout ratio. Research by Rahmawati & Fajri (2021) and Azevedo et al. (2019) shows that dividend policy has a significant effect on earnings management. This is because investors prefer companies that distribute profits in the form of dividends. The higher the dividend paid will show investors that the company's condition is stable. Research conducted by Jeradu (2021) also indicates that dividend policy has a positive effect on earnings management, that is the higher the dividend payout ratio, the higher the company's earnings management practice.

H2: Dividend policy has a significant positive effect on earnings management.

Corporate Governance Moderates the Relationship Between Information Asymmetry and Earnings Management

According to agency theory, the implementation of good corporate governance is considered to be able to minimize agency conflicts, which can be caused by information asymmetry. Through the implementation of good corporate governance, the supervision carried out by certain parties on the performance of managers will increase because shareholders and other stakeholders can ensure management accountability, so that it can have an impact on increasing the transparency of the company's financial statements. Transparency of financial statements can be increased if supervision of manager actions increases so that it will lead to stakeholder demands for companies to carry out information transparency (Wiyadi et al., 2015). This can cause the level of earnings management to be minimized because managers will make more efforts to balance the distribution of company information, especially during earnings announcements.

The results of research by Utomo (2020) and Harahap (2018) show that corporate governance is able to provide a significant moderating effect on the relationship between information asymmetry and earnings management. This is because the application of good corporate governance mechanisms will affect information asymmetry in earnings announcements, because when earnings are announced, it is expected that good corporate governance will be able to ensure a balanced distribution of information between shareholders and managers. The result from research conducted by Ermaya & Astuti (2017) that using size of audit committee as moderating variable, representing corporate governance, also shows that audit committee could weaken the relationship between information asymmetry towards earnings management.

H3: Corporate governance weakens the relationship between information asymmetry and earnings management.

Corporate Governance Moderates the Relationship Between Dividend Policy and Earnings Management

The dividend rate is one of the important benchmarks in determining the company's net profit. However, high dividend payouts are not necessarily expected by all shareholders. This is because there are certain groups of shareholders who want low dividend payments, so that if management distributes high dividends from manipulated profits, the interests of these investor groups are not fulfilled. However, according to agency theory, the practice of earnings management caused by the dividend payment policy can be minimized by implementing good corporate governance, where through the implementation of good corporate governance, shareholders can monitor the behavior and performance of managers so that the manager's opportunistic nature is to utilize the company's cash surplus for their personal interests become limited (Gunawan et al., 2019).

In addition, the existence, number of members, and financial expertise of the audit committee in the company can also have an effect on minimizing earnings management practices due to dividend policy. This is because the audit committee has a function to ensure the reliability of the company's published financial statements, so that the figures in the financial statements, including profits, are more reliable and can have an impact on dividend policy that can better accommodate all the interests of the shareholder group. Research conducted by Wahidahwati (2012) shows that the effectiveness of corporate governance internal control will reduce the impact of dividend policy on earnings management.

H4: Corporate governance weakens the relationship between dividend policy and earnings management.

RESEARCH METHODOLOGY

Population and Sample

Banking companies listed on the Indonesia Stock Exchange during the 2015-2019 period are the population in this study. The banking sector was chosen because the practice of earnings management in banking is carried out on a discretionary accrual basis through a loan loss provision, thus distinguishing it from other sectors. In addition, earnings management in the banking sector is also still common in Indonesia, so that it can influence the decisions made by users of financial statements. In this study, the sample was determined by purposive sampling method as follows:

Table 1. Sample Determination

No	Sample Criteria	Number of Companies
1	Banking companies listed on the Indonesia Stock Exchange and not delisted during 2015-2019	46
2	Banking companies that IPO after 2015	(8)
3	Banking companies that did not distribute cash dividends during 2015-2019 in a row	(27)
	Number of banking companies with complete data	11
	Research period	5
	Number of observation	55
	Outlier	(10)
	Total sample	45

Source: Processed data (2021)

Dependent Variable

Earnings management as the dependent variable refers to the use of certain accounting procedures to produce financial statements in accordance with the expectations of managers with the aim of reflecting the condition and healthy financial performance of the company (Agustia et al., 2020). The measurement of earnings management in this study is using the Beaver and Engel Model developed by Beaver & Engel (1996) because this model is a specific model for measuring earnings management in the banking companies.

$$ALL_{it} = \gamma_0 + \gamma_1 CO_{it} + \gamma_2 LOAN_{it} + \gamma_3 NPA_{it} + \gamma_4 \Delta NPA_{it+1} + z_{it} \dots\dots(1)$$

Where:

- ALL = Total accrual
- CO = Loan charge off
- LOAN = Outstanding loan
- NPA = Non performing assets
- ΔNPA = Δ Non performing assets with later period
- z = Estimation of discretionary accruals

Independent Variable

There are two independent variables in this study, namely information asymmetry and dividend policy. Information asymmetry refers to the occurrence of an unequal distribution of information between management and shareholders, where the information held by management is more comprehensive than that of shareholders (Pratiwi et al., 2015). In this study, a proxy for measuring the bid-ask spread will be used to measure information asymmetry.

$$Bid - Ask Spread = \frac{\{(bid_{i,t} - ask_{i,t}) / (bid_{i,t} + ask_{i,t}) / 2\} \times 100}{total\ stock\ trading\ days\ during\ the\ year} \dots\dots\dots(2)$$

Dividend policy is a policy made by the company to choose whether the company's profits will be distributed as dividends to investors or retained as additional capital to fund certain investments in the future (Silalahi & Silalahi, 2020). In this study, dividend policy will be measured using the Dividend Payout Ratio (DPR), which is the ratio of cash dividends per share divided by earnings per share.

Moderating Variable

Corporate governance as a moderating variable in this study refers to a set of guidelines, practices, and actions designed to ensure that company managers work hard to achieve company goals and ensure that managers strive to maximize shareholder wealth through ethical ways (Abdelkarim & Zuriqi, 2020). In this study, the proxy for measuring corporate governance is using the Corporate Governance Principles Implementation Index developed by Solikhah & Maulina (2021), where the index measures the implementation of corporate governance in accordance with the principles of good corporate governance. There are a total of 20 criteria that are the basis for measurement with the maximum total score that can be obtained is 33.

Control Variable

Leverage and firm's growth are the control variables in this study. Leverage is the amount of liability used by the company to finance or purchase assets. Leverage will be measured using the ratio of total liabilities to total equity. Meanwhile, firm's growth is one of the benchmarks for the success of investments made by the company to encourage the development of the company in the future (Mardianto, 2020). The measurement proxy for firm's growth in this study is asset growth.

Data Analysis Method

The data in this study will be analyzed by multiple linear regression analysis. However, before performing multiple linear regression analysis, the panel data estimation model test and classical assumption test were carried out first in this study. The hypothesis will be tested using two regression models, namely a regression model without moderating variables to test hypotheses 1 and 2, and a regression model with moderating variables to test hypotheses 3 and 4.

$$EM_{it} = \alpha + \beta_1 IA_{it} + \beta_2 DP_{it} + \beta_3 LEV_{it} + \beta_4 FG_{it} + \epsilon_{it} \dots \dots \dots (3)$$

$$EM_{it} = \alpha + \beta_1 IA_{it} + \beta_2 DP_{it} + \beta_3 CG_{it} + \beta_4 IA_{it} * CG_{it} + \beta_5 DP_{it} * CG_{it} + \beta_6 LEV_{it} + \beta_7 FG_{it} + \epsilon_{it} \dots \dots \dots (4)$$

RESULT AND DISCUSSIONS

Panel Data Estimation Model Test

Chow test needs to be done in order to choose a better model between the common effect model and the fixed effect model. Furthermore, the Hausman test needs to be carried out to choose a better model between the fixed effect model and the random effect model. The value of Prob. Cross-Section Chi-square on the Chow

test for model 1 and model 2 is 0.0000 and 0.0001, respectively, which is lower than 0.05. Based on the Chow test, both of these research models are better using the fixed effect model. In line with the Chow test, the value of Prob. Cross-section random on the Hausman test also shows 0.0000 and 0.0001 for model 1 and model 2, which is lower than 0.05. Based on the Hausman test, the fixed effect model is also better to use.

Normality Test

Jarque-Bera test was used to test normality in this study. Jarque-Bera probability values in model 1 and model 2 respectively show the results of 0.793818 and 0.884882, which are higher than 0.05, so that the data in model 1 and model 2 are normally distributed.

Multicollinearity Test

In this study, there is a multicollinearity problem in the regression model with moderating variables. Therefore, according to Iacobucci et al. (2016), the problem of multicollinearity due to the presence of moderating variables can be solved by doing mean centering. After doing mean centering, the correlation value between independent variables is not more than 0.90, so this research model is free from multicollinearity.

Autocorrelation Test

The Durbin-Watson value of the two models lie between dL and dU, so the autocorrelation in model 1 and model 2 in this study cannot be concluded. According to Wooldridge (2002, pp. 276), the autocorrelation problem can be solved using Fixed Effect Generalized Least Square (FEGLS) regression to produce an unbiased estimator because the number of cross-sections in this study is not much different from the number of time series.

Heteroscedasticity Test

In this study, the heteroscedasticity test was carried out by looking at the Glejser test value. The probability values for the variables used in model 1 and model 2 are higher than the 0.05 significance level. In conclusion, model 1 and model 2 in this study are free from heteroscedasticity problems.

Regression Result

Table 7. Regression Result

Variable	Model 1	Model 2
	Coef.	Coef.
C	0.051064	0.047518
IA	0.000006	0.000012
DP	-0.008941*	-0.009526**
CG		0.000114
IA*CG		0.000002
DP*CG		-0.001403
LEV	-0.001691*	-0.001735*
FG	0.003671***	0.007192*
Prob(F-statistic)	0.000000*	0.000000*
Adjusted R-squared	0.886863	0.911702

Notes: * is significant at the level of 1%, ** is significant at the level of 5%, and *** is significant at the level of 10%.

Source: Processed data (2021)

Based on table 7, model 1 has an Adjusted R-squared value of 0.886863. This means that the variables of information asymmetry, dividend policy, leverage, and firm's growth have the ability to explain earnings management together by 88.6863%. Then, model 2 has an Adjusted R-squared value of 0.911702. This means that the variables of information asymmetry, dividend policy, corporate governance, information asymmetry and dividend policy moderated by corporate governance, leverage, and firm's growth are able to explain earnings management variables together of 91.1702%. In addition, in the F significance test, both model 1 and model 2 have a Prob(F-statistic) value of 0.000000. This means that both models are suitable for testing the effect of the independent variable on the dependent variable simultaneously.

The results of model 1 in table 7 show that information asymmetry has a probability of 0.1395 ($0.1395 > 0.05$), therefore information asymmetry cannot significantly affect earnings management (H_1 is rejected). Then, the probability of dividend policy is 0.0057 ($0.0057 < 0.05$) and has a negative regression coefficient of -0.008941. This shows that dividend policy has a significant negative effect on earnings management (H_2 is rejected). Meanwhile, for the control variable leverage has a probability of 0.0001 ($0.0001 < 0.05$) and a negative coefficient of -0.001691, therefore that leverage has a significant negative effect on earnings management. The control variable firm's growth has a probability of 0.0547 ($0.0547 > 0.05$), therefore it can be concluded that the firm's growth variable has no significant effect on earnings management.

On the other hand, the results of the regression with the moderating variable in model 2 show that information asymmetry moderated by corporate governance has a probability of 0.8819 ($0.8819 > 0.05$). This means that the relationship between information asymmetry and earnings management cannot be moderated by corporate governance (H_3 is rejected). Then, dividend policy moderated by

corporate governance has a probability of 0.4041 ($0.4041 < 0.05$). This shows that the relationship between dividend policy and earnings management cannot be moderated by corporate governance (H_4 is rejected). Meanwhile, the probability of the leverage control variable is 0.0003 and the negative coefficient is -0.001735, so that leverage has a significant negative effect on earnings management. The probability of firm's growth is 0.0053 ($0.0053 < 0.05$) and a positive coefficient of 0.007192. Thus, firm's growth has a significant positive effect on earnings management.

The Effect of Information Asymmetry on Earnings Management

The probability of the information asymmetry variable is greater than the 0.05 significance level, which is 0.1395. Thus, H_1 which states that information asymmetry has a positive effect on earnings management is rejected. The unequal distribution of company information between managers and shareholders is a fairly common condition, which can motivate managers to carry out earnings management. However, the measurement of information asymmetry that has been carried out in this study shows that the average banking companies that have been observed have a low level of information asymmetry. A low level of information asymmetry indicates that company information is fairly distributed between managers and shareholders, so that managers and shareholders both know information about the company. Based on this, it can be concluded that information asymmetry is not the key factor for managers to engage in earnings management activities because the information gap between principals and agents in the research sample companies is fairly small (Utomo, 2020). The findings of this study contradict to agency theory, which claims that information asymmetry might be a barrier for managers to execute earnings management activities since shareholders have less information than managers.

The Effect of Dividend Policy on Earnings Management

The probability of dividend policy is lower than the 0.05 significance level, which is 0.0057 with a negative coefficient of -0.008941. Thus, H_2 which states that dividend policy has a significant positive effect on earnings management is rejected. In the context of agency relations, dividend policy can indicate that the contract is running efficiently because certain groups of investors, especially minority investors, put more pressure on the company to distribute dividends, so that it can limit the opportunistic behavior of managers to carry out earnings management. In addition, according to Signalling Theory, dividend policy can be a signal to investors that the company has good prospects in the future. The dividends paid also indicate that the company is committed to taking the best actions to meet the interests of investors, so that agency problems such as earnings management can be limited and managers cannot take personal profits from company profits that deviate from the contract (He et al., 2017). The banking firms analyzed in this study have a dividend policy that generally increase from year to year. Meanwhile, as the dividend policy is increased, the degree of earnings management in general is decreasing. As a result, dividends paid by the corporation may minimize earnings management practices.

The Relationship Between Information Asymmetry and Earnings Management Moderated by Corporate Governance

The probability of information asymmetry moderated by corporate governance is greater than the 0.05 significance level, which is 0.8819. Thus, H₃ which states that corporate governance weakens the relationship between information asymmetry and earnings management is rejected. The implementation of good corporate governance principles can function as a supervisory system from stakeholders, especially shareholders, on the performance of managers. Thus, this can align the interests of managers with shareholders through more comprehensive disclosure of information related to the condition of the company. A low level of information asymmetry indicates that the distribution of information about the condition of the company has occurred evenly, so that managers and shareholders tend to have the same information regarding the condition of the company.

However, earnings management practices can still occur even though corporate governance has been implemented properly and the information ownership gap between managers and shareholders is quite low. This is because managers may have other motivations for earnings management, such as the motivation to reduce the tax burden or increase bonuses. Although corporate governance is not able to weaken the level of information asymmetry in earnings management, stakeholders must still consider the implementation of good corporate governance as an effort to control and prevent opportunistic behaviors of managers that can harm stakeholders (Putri & Sujana, 2018).

Furthermore, the inability of corporate governance to moderate the relationship between information asymmetry and earnings management can be attributed to the fact that corporate governance in this study was measured using indicators obtained from the company's annual report released the following year, so it could not affect the bid-ask spread that occurred in the relevant fiscal year because investors in making decisions regarding the purchase of shares of a company do not solely rely on information from financial reports and annual reports, but also consider other information, for example from financial analyst reports. As a result, it has no bearing on the degree of earnings management.

The Relationship Between Dividend Policy and Earnings Management Moderated by Corporate Governance

The probability of dividend policy moderated by corporate governance is greater than the 0.05 significance level, which is 0.4041. Thus, H₄ which states that corporate governance weakens the relationship between dividend policy and earnings management is rejected. Corporate governance actually functions to control the opportunistic behavior of managers, so that it can influence investors' perceptions that managers will act for the prosperity of shareholders. Corporate governance mechanisms can also influence investment returns in the form of dividend payments through the audit committee whose task is to ensure the reliability of the company's financial statements, including profits that will be used as a reference in determining the proportion of dividends. However, the policy regarding the proportion of dividends to be paid to investors is certainly considered a burden for managers because it will reduce the company's cash that can be used to fund certain investments, so managers will carry out earnings management to

prevent dividend payments with a higher proportion. The companies in this study's sample have implemented corporate governance principles properly and have distributed dividends in a relatively significant portion, but earnings management is still practiced by the company. In this case, although the implementation of corporate governance in the company has been carried out well, it is not optimal enough to control the behavior of managers to carry out earnings management.

CONCLUSION

The purpose of this study is to examine the effect of information asymmetry and dividend policy on earnings management, and how the role of corporate governance in moderating the relationship between information asymmetry and dividend policy on earnings management in banking companies listed on the Indonesia Stock Exchange during 2015-2019. The results of testing the first hypothesis show that information asymmetry has no significant effect on earnings management. In testing the second hypothesis, the results obtained that dividend policy has a negative effect on the occurrence of earnings management practices. Meanwhile, the results of testing with moderating variables show that corporate governance is neither able to strengthen nor weaken the relationship between information asymmetry and dividend policy on earnings management.

Based on the research procedures that have been carried out, there are several limitations to this study. In relation to the criteria for determining the sample, only a small number of banking companies distribute dividends consecutively during the observation period, therefore the number of samples obtained is smaller. Related to the proxy of corporate governance, this study used an index of corporate governance principles implementation developed by Solikhah & Maulina (2021), which index can be used not only for banking industry but also for the other industries. Therefore, the index is not formulated to be focused in the assessment of corporate governance in banking industry. In addition, data related to stock bid and ask also experienced limitations related to the availability of data for the period before 2015, so that if the bid-ask spread is still used as a proxy for measuring information asymmetry, this research can only be carried out starting in 2015. Based on these limitations, further research can accommodate other variables that have not been studied in this study, such as executive compensation, political costs, and capital structure. Further researchers should also use pooled sampling so that the number of samples used is larger, so that the research results can be more generalized. Related to corporate governance, further researchers better used another proxy of corporate governance according to Circular Letter of the Financial Services Authority (OJK) No.13/SEOJK.03/2017 concerning the Implementation of Good Corporate Governance for Commercial Banks, which can measure the implementation of corporate governance in banking companies more specifically. In addition, the measurement of information asymmetry variables can use stock volatility or stock trading volume so that the research results are more comprehensive.

This research has practical implications that can be considered by certain parties. First, users of financial statements should pay greater attention to the company's level of earnings management before making decisions, particularly

those related to investment, by paying attention to the elements affecting it. Second, regulators must be able to protect users of financial statements, particularly investors, from losses caused by opportunistic actions of managers by imposing stricter corporate governance policies and regulations that limit company manager's behavior in taking actions that have the potential to harm stakeholders.

REFERENCES

- Ab-Hamid, M. F., Asid, R., Sulaiman, N. F. C., Sulaiman, W. F. W., & Bahri, E. N. A. (2018). The Effect of Earnings Management on Bank Efficiency. *Asian Journal of Accounting and Governance*, 10, 1–12. <https://doi.org/10.17576/AJAG-2018-10-07>
- Abad, D., Cutillas-Gomariz, M. F., Sánchez-Ballesta, J. P., & Yagüe, J. (2018). Real Earnings Management and Information Asymmetry in the Equity Market. *European Accounting Review*, 27(2), 209–235. <https://doi.org/10.1080/09638180.2016.1261720>
- Abdelkarim, N., & Zuriqi, K. (2020). Corporate governance and earnings management: Evidence from listed firms at Palestine exchange. *Asian Economic and Financial Review*, 10(2), 200–217. <https://doi.org/10.18488/journal.aefr.2020.102.200.217>
- Agustia, D., Muhammad, N. P. A., & Permatasari, Y. (2020). Earnings management, business strategy, and bankruptcy risk: evidence from Indonesia. *Heliyon*, 6(2), 1–9. <https://doi.org/10.1016/j.heliyon.2020.e03317>
- Alexander, N., & Hengky. (2017). Factors Affecting Earnings Management in the Indonesian Stock Exchange. *Journal of Finance and Banking Review*, 2(2), 8–14.
- Azevedo, Y., Tortoli, J., Stanzani, L., & Gaio, L. (2019). Dividend Payment and Earnings Management Practices in Brazilian Public Firms. *XIII Congresso Anpconi*.
- Beaver, W. H., & Engel, E. E. (1996). Discretionary behavior with respect to allowances for loan losses and the behavior of security prices. *Journal of Accounting and Economics*, 22(1–3), 177–206. [https://doi.org/10.1016/S0165-4101\(96\)00428-4](https://doi.org/10.1016/S0165-4101(96)00428-4)
- Booth, L., & Zhou, J. (2017). Dividend policy: A selective review of results from around the world. *Global Finance Journal*, 34, 1–15. <https://doi.org/10.1016/j.gfj.2017.07.002>
- Cahyono, B., & Widyawati, D. (2019). Pengaruh Asimetri Informasi, Ukuran Perusahaan, dan Profitabilitas Terhadap Manajemen Laba. *Jurnal Ilmu Dan Riset Akuntansi (JIRA)*, 8(2), 1–16.
- Dahayani, N., Budiarta, I., & Suardhika, I. (2017). Pengaruh Kebijakan Dividen pada Manajemen Laba dengan Good Corporate Governance Sebagai Moderasi. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, 6(4), 1395–1424.
- Elbadry, A., Gounopoulos, D., & Skinner, F. (2015). Governance quality and information asymmetry. *Financial Markets, Institutions and Instruments*, 24(2–3), 127–157. <https://doi.org/10.1111/fmii.12026>
- Ermaya, H. N. L., & Astuti, M. (2017). Asimetri Informasi Dan Manajemen Laba Dengan Mekanisme Corporate Governance Sebagai Pemoderasi (Studi Pada

- Bank Go Publik Yang Terdaftar Di Bursa Efek Indonesia). *Jurnal MEBIS: Manajemen Dan Bisnis*, 2(2), 12–23. <https://doi.org/10.33005/mebis.v2i2.9>
- Evodila, Erlina, & Kholis, A. (2020). The Effect of Information Asymmetry, Financial Performance, Financial Leverage, Managerial Ownership on Earnings Management with the Audit Committee as Moderation Variables. *Jurnal Mantik*, 4(3), 1734–1745. <https://doi.org/10.35335/mantik.Vol4.2020.987.pp1734-1745>
- Fadillah, D., & Afriyenti, M. (2020). Pengaruh Corporate Governance, Kualitas Laba, Ukuran Perusahaan Terhadap Asimetri Informasi. *Jurnal Eksplorasi Akuntansi*, 2(1), 2115–2128. <https://doi.org/10.24036/jea.v2i1.202>
- Ghani, E. K., Azemi, N. A. M., & Puspitasari, E. (2017). The Effect of Information Asymmetry and Environmental Uncertainty on Earnings Management Practices among Malaysian Technology-Based Firms. *International Journal of Academic Research in Economics and Management Sciences*, 6(1), 178–194. <https://doi.org/10.6007/ijarems/v6-i1/2617>
- Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J., & Holmes, S. (2010). *Accounting Theory* (7th ed.). John Wiley & Sons Australia Ltd.
- Governance, K. N. K. (2006). *Pedoman Umum Good Corporate Governance Indonesia*. KNKG. <http://marefateadyan.nashriyat.ir/node/150>
- Gunawan, K. E., R. Murhadi, W., & Herlambang, A. (2019). The effect of good corporate governance on dividend policy. *Advances in Social Science, Education and Humanities Research*, 308(Insyma), 57–61. <https://doi.org/10.2991/insyma-19.2019.15>
- Harahap, H. P. (2018). The Influence of Information Asymmetry on Earnings Management With Good Corporate Governance (GCG) as the Moderating variable. *The Indonesian Accounting Review*, 7(1), 61–68. <https://doi.org/10.14414/tiar.v7i1.685>
- He, W., Ng, L., Zaiats, N., & Zhang, B. (2017). Dividend Policy and Earnings Management Across Countries. *Journal of Corporate Finance*, 42, 267–286. <https://doi.org/10.1016/j.jcorpfin.2016.11.014>
- Iacobucci, D., Schneider, M. J., Popovich, D. L., & Bakamitsos, G. A. (2016). Mean centering helps alleviate “micro” but not “macro” multicollinearity. *Behavior Research Methods*, 48(4), 1308–1317. <https://doi.org/10.3758/s13428-015-0624-x>
- Im, C. C., Kim, J. H., & Choi, M. K. (2016). Dividend Policy and Earnings Management: Based on Discretionary Accruals and Real Earnings Management. *International Journal of U- and e- Service, Science and Technology*, 9(2), 137–150. <https://doi.org/10.14257/ijunesst.2016.9.2.15>
- Jensen, M., & Meckling, W. (1976). Theory of Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, 3, 305–360.
- Jeradu, E. F. (2021). Pengaruh Ukuran Perusahaan, Kebijakan Dividen, Dan Perencanaan Pajak Terhadap Manajemen Laba. *Akmenika: Jurnal Akuntansi Dan Manajemen*, 18(1), 520–526. <https://doi.org/10.31316/akmenika.v18i1.1494>
- Khanh, M. T. H., & Thu, A. P. (2019). The effect of financial leverage on real and accrual-based earnings management in vietnamese firms. *Economics and Sociology*, 12(4), 299–312. [40](https://doi.org/10.14254/2071-789X.2019/12-</p></div><div data-bbox=)

4/18

- Kurniyawati, I. (2019). Pengaruh Konservatisme Akuntansi Dan Good Corporate Governance Terhadap Asimetri Informasi. *Jurnal Penelitian Ekonomi Dan Akuntansi*, 4(1), 979–1006. <https://doi.org/10.30736/jpensi.v4i1.221>
- Leventis, S., & Dimitropoulos, P. (2012). The role of corporate governance in earnings management: Experience from US banks. *Journal of Applied Accounting Research*, 13(2), 161–177. <https://doi.org/10.1108/09675421211254858>
- Nguyen, T. T. N., & Bui, P. K. (2019). Dividend policy and earnings quality in Vietnam. *Journal of Asian Business and Economic Studies*, 26(2), 301–312. <https://doi.org/10.1108/jabes-07-2018-0047>
- Otoritas Jasa Keuangan. (2017). Surat Edaran Otoritas Jasa Keuangan No 13/SEOJK.03/2017 tentang Penerapan Tata Kelola Bagi Bank Umum. *Otoritas Jasa Keuangan*.
- Pratiwi, A., Nurkholis, & Ghofar, A. (2015). Pengaruh Corporate Governance dan Struktur Kepemilikan Terhadap Asimetri Informasi. *Jurnal Akuntansi Dan Auditing Indonesia*, 19(2), 99–111. <https://doi.org/10.20885/jaai.vol19.iss2.art2>
- Putri, Y., & Sujana, I. (2018). The Influence of Bid-Ask Spread and Leverage on Earnings Management with Good Corporate Governance as Moderating Variable. *International Research Journal of Management, IT & Social Sciences*, 5(3), 8–21.
- Rahmawati, A., & Fajri, R. (2021). Firm Size , Leverage , Dividend Policy , Ownership Structure , Earning Management : Evidence in Indonesia Stock Exchange Firm Size to Earnings Management. *Proceedings of the 4th International Conference on Sustainable Innovation 2020-Accounting and Management*.
- Salehi, H., Rezaie, H., & Ansari, F. (2014). Corporate governance and information asymmetry. *Management Science Letters*, 4, 1829–1836. <https://doi.org/10.5267/j.msl.2014.6.048>
- Sari, N. P., & Khafid, M. (2020). Peran Kepemilikan Manajerial dalam Memoderasi Pengaruh Profitabilitas , Leverage , Ukuran Perusahaan , Kebijakan Dividen Terhadap Manajemen Laba pada Perusahaan BUMN. *Moneter: Jurnal Akuntansi Dan Keuangan*, 7(2), 222–231.
- Scott, W. (2015). Financial Accounting Theory. In *Financial Accounting* (7th ed.). Pearson. <https://doi.org/10.4324/9780203784655>
- Shahwan, Y., & Almubaydeen, T. H. (2020). Effects of Board Size , Board Composition and Dividend Policy on Real Earnings Management in the Jordanian Listed Industrial Firms. *International Journal of Financial Research*, 11(4), 195–202. <https://doi.org/10.5430/ijfr.v11n4p195>
- Silalahi, S., & Silalahi, M. (2020). Analisis Pengaruh Kecenderungan Manajemen Laba : Studi Empiris Pada Perusahaan Logistic. *Jurnal Manajemen Bisnis Transportasi Dan Logistik*, 6(1), 1–16.
- Sofia, I., & Murwaningsari, E. (2019). The Role of Corporate Diversification, Capital Structure Determinant, And Structure of Ownership on Earning Management with Information Asymmetry as Moderating Variable. *Research Journal of Finance and Accounting*, 10(14), 45–51. <https://doi.org/10.7176/RJFA>
- Solikhah, B., & Maulina, U. (2021). Factors influencing environment disclosure

- quality and the moderating role of corporate governance quality and the moderating role of corporate governance. *Cogent Business & Management*, 8(1), 1–18. <https://doi.org/10.1080/23311975.2021.1876543>
- Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics*, 87(3), 355–374. <https://doi.org/10.2307/1882010>
- Subramanyam, K. R. (2014). *Financial Statement Analysis* (11th ed.). McGraw-Hill Education.
- Sumantri, F. A., Kusnawan, A., & Anggraeni, R. (2021). The Effect Of Information Asymmetry , Company Size And Managerial Ownership On Income Management (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange). *PRIMANOMICS : Jurnal Ekonomi Dan Bisnis*, 19(1), 62–76. <https://doi.org/10.31253/pe.v19i1.505>
- Tran, D. V., & Ashraf, B. N. (2018). Dividend policy and bank opacity. *International Journal of Finance & Economics*, 23(2), 186–204. <https://doi.org/10.1002/ijfe.1611>
- Utomo, L. P. (2020). Good Corporate Governance Moderation of Influences Between Information Asymmetry Against Earnings Management. *Bilancia: Jurnal Ilmiah Akuntansi*, 4(2), 183–190.
- Wahidahwati. (2012). The Influence of Financial Policies on Earnings Management, Moderated by Good Corporate Governance. *Ekuitas: Jurnal Ekonomi Dan Keuangan*, 16(4), 507–521. <https://doi.org/10.24034/j25485024.y2012.v16.i4.125>
- Wartaekonomi.co.id. (2020). *Gerindra: Window Dressing BTN Cara Bobol Bank Tingkat Tinggi, Mirip-mirip Jiwasraya-Asabri*. <https://www.wartaekonomi.co.id/read270400/gerindra-window-dressing-btn-cara-bobol-bank-tingkat-tinggi-mirip-mirip-jiwasraya-asabri/0>
- Watts, R., & Zimmerman, J. (1990). Positive Accounting Theory: A Ten Year Perspective. *The Accounting Review*, 65(1), 131–156.
- Wiyadi, Veno, A., & Sasongko, N. (2015). Information Asymmetry and Earning Management: Good Corporate. *South East Asia Journal of Contemporary Business Economic and Law*, 7(2), 54–61.
- Wooldridge, J. M. (2002). *Econometric Analysis of Cross Section and Panel Data*. The MIT Press Cambridge.
- Yang, C., Tan, B. L., & Ding, X. (2012). Corporate governance and income smoothing in China. *Journal of Financial Reporting and Accounting*, 10(2), 120–139. <https://doi.org/10.1108/19852511211273688>
- Yimenu, K. A., & Surur, S. A. (2019). Earning Management: From Agency and Signalling Theory Perspective in Ethiopia. *Journal of Economics, Management and Trade*, 24(6), 1–12. <https://doi.org/10.9734/JEMT/2019/v24i630181>
- Yisha, M. (2020). Analysis on Efficiency and Opportunistic Perspective under the Pat. *The Frontiers of Society, Science and Technology*, 2(17), 71–79. <https://doi.org/10.25236/FSST.2020.021712>