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Effect Of Company Size And Profit Management On The Cost Of Equity Capital

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Abstract

The aim of this research is to determine the effect of company size on the cost of equity capital, as well as to determine the effect of earnings management on the cost of equity capital. The approach used in This research is a quantitative approach. The population in this research is all manufacturing companies on the Indonesian Stock Exchange. Currently there are 63 manufacturing companies listed on the Indonesian Stock Exchange. Technique The sampling in this research was carried out using purposive sampling, so the number of samples was 57 financial report data from 19 sample companies with an observation period of three years. The collected data was then analyzed using multiple linear regression analysis. The research results found that company size did not have a significant effect on the cost of equity capital, while earnings management has a significant effect on the cost of equity capital. an increase in earnings management will increase the cost of equity capital.

Keywords : *company size, earnings management, the cost of equity capital*

INTRODUCTION

With the increasingly rapid development of the business world, financial reports have become an important medium for decision making for every company. Financial reports are information that describes financial conditions a company, and further information can be used as an illustration of the company's financial performance (Amin

& Hamid, 2022).Financial reports are the main tool for companies to convey financial information regarding management's responsibilities (Amin & Anwar, 2020).

The importance of financial reports is also expressed that financial reports are a means of accountability carried out by managers for the owner's resources (Kristanti, 2019). One of the important parameters in financial reports used to measure manager performance is profit (Rudiwantoro, 2020).However, financial report preparers tend to take advantage This usually happens because users only tend to see net income information in the income statement. This illustrates that financial information and economic conditions that affect the company are presented in financial reports, where management has the prerogative right to disclose data in these financial reports.

The manufacturing sector in Indonesia during the 2021-2023 period is experiencing complex dynamics. A very important factor is of course the COVID-19 pandemic, the positive impact that occurred because of this pandemic, several manufacturing companies that were able to adapt their production to produce health goods or PPE experienced an increase in demand during the pandemic. Apart from these positive things, disruptions in global supply chains and a decline in global demand during the pandemic have damaged production and sales of manufacturing companies in Indonesia. This factor is related to the last factor, namely government policy. Government support in the form of investment incentives or financing has helped a number of manufacturing companies in expansion and technology investment, however, inconsistent policies or sudden changes in policy can create uncertainty for companies and hamper long-term investment plans which impact the cost of equity capital.

Therefore, information about the company is very necessary to be used as a basis for consideration in making decisions decisions, in this case to make investments or credit to the company. The company as a party that needs funds, of course to obtain these funds the company incurs equity capital costs.

The cost of equity capital is the cost that a company must bear to obtain external funding (Irdawati et al., 2021). Capital costs are costs that must be incurred by a company to obtain capital (Zouari-Hadiji & Chouaibi, 2021). Knowing the cost of capital is very important for companies. Apart from maximizing company value, the cost of capital must also be known as a basis for making leasing decisions, budgeting costs and others. The cost of equity capital is an important concept in investment analysis because it can show the minimum level of profit that must be obtained from investments made by the company (Firmansyah & Febriyanto, 2018). In this research, the aspects that influence the cost of equity capital are company size and earnings management.

Company size is defined as a measure of information availability (Amin et al., 2023). The larger the company, the greater the costs incurred by the company to provide

information to the public, which will have an impact on increasing the cost of equity capital. Large companies are considered to have less risk than small companies, because large companies are accepted more quickly in the capital market(Isnaini et al., 2020). In addition, the shares will rotate more frequently (high frequency) and easily than shares of small companies(Susilawati & Safary, 2020). The relationship or influence of Firm Size on the Cost of Capital is explained based on the fact that if the Firm Size is larger, the greater the costs incurred by the company to provide information to the public, thus having an impact on increasing the cost of equity capital.(Irwansyah & Aliah, 2022).

Apart from company size, another aspect that influences the cost of equity capital is earnings management. Earnings management is one that causes a lot of information to be disclosed by the company, which has the consequence of increasing the costs incurred by the company to provide information to the public (cost of equity capital) (Lestari, 2022). Earnings management increases in line with the increase in the cost of equity capital incurred by the Company (Hendri & Nurhazana, 2019). Earnings management is one of the actions usually carried out by managers to influence the numbers in the reports. Earnings management is management intervention in the process of preparing external financial report reporting, so that it can increase or decrease accounting profits in accordance with the interests of implementing a company's earnings management (Aissyah, 2020).

Earnings management carried out by the company causes earnings opacity to occur. Profit ambiguity means that company profit information cannot describe true economic profits. If profits contain ambiguity, information risk will be created. To cover this information risk, investors increase the required rate of return. An increase in the required rate of return will increase the cost of equity capital (Santoso & Deviyanti, 2022).

Research on the effect of disclosure quality on the cost of equity capital shows varying results, including (Irwansyah & Aliah, 2022) and (Layarda, 2021) found that company size has an effect on the cost of equity capital, meanwhile (Fandriani & Tunjung, 2019) and (Hayati, 2019) who found that company size had no effect on the cost of equity capital. Meanwhile, research results (Varadila et al., 2022) and (Widyowati, 2020) who found that earnings management had a significant effect on the cost of equity capital, whereas (Hayati, 2019) found that earnings management has no significant effect on the cost of equity capital.

There are inconsistencies in the results of previous research and the phenomena described above, so The aim of this research is to determine the effect of company size on the cost of equity capital, as well as to determine the effect of earnings management on the cost of equity capital.

METHODS

In research this is the method approach used is a quantitative approach. According to (Sugiyono, 2015). A quantitative approach is research that is based on the philosophy of positivism and is used to research certain populations or samples. Approach This is used because this research uses financial report data with an approach to theory testing through research variables with numbers (numerical) so that the relationship between the variables studied will be known and produce conclusions that will clarify the object under study. The population in this research is all manufacturing companies on the Indonesian Stock Exchange. Currently there are 63 manufacturing companies listed on the Indonesian Stock Exchange. Technique Sampling in this research was carried out by purposive sampling.

Table 1. Sample Selection Results Purposive Sampling Method

No.	**Information**	**Number of Companies**
1.	All manufacturing companies listed on the Indonesia Stock Exchange for the 2021-2023 period.	63
2.	Manufacturing companies that do not publish complete and timely annual financial reports ending December 31 for 2021-2023.	(8)
3.	Manufacturing companies that have incomplete financial reports for the 2021-2023 period	(36)
	Number of companies used as samples	19
	Number of Years of Research	3
	Total Research Sample (19X3)	57

The collected data was then analyzed using multiple linear regression analysis.

RESULTS AND DISCUSSION

Normality test

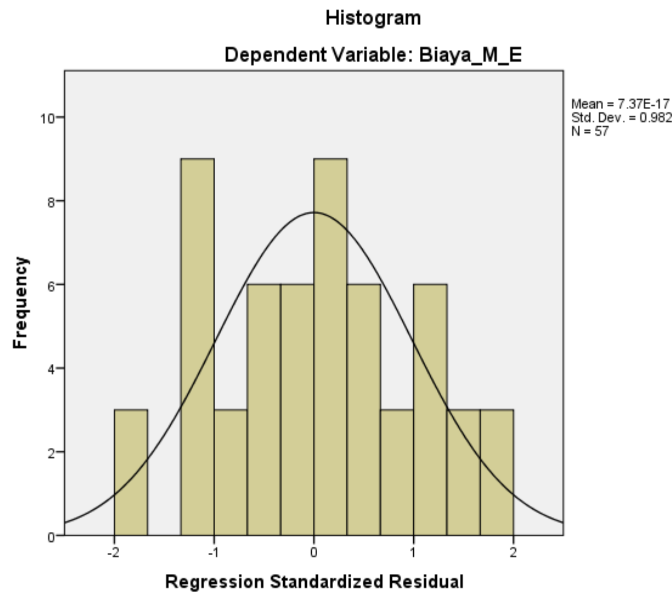

Figure 1. Hasil Normality Test with Histogram Normality

Be Based on the histogram display in Figure 1, it can be seen that the histogram graph does not show any differences. The shape of the histogram can be seen depicting data that is distributed normally or close to normal due to its shape nombar like a bell. Therefore, based on the normality test with histogram normality, regression analysis is appropriate to use.

Multicollinearity Test

Table 2.Hasil TestMulticollinearity

Coefficientsa

	Collinearity Statistics	
Model	**Tolerance**	**VIF**
Company Size	,912	1,820
Profit management	,912	1,820

The results of the classical assumption test calculations in the collinearity statistics section are visible for three variables independently, the VIF figures are each equal to1,820 is smaller than 10 so it does not exceed the permitted VIF value limit, namely a maximum of 10 and a tolerance value > 0.10. Thus, it can be concluded that the regression model does not have multicollinearity problems.

Autocorrelation Test

Table 3. Autocorrelation Test Results Model Summary b

Model	R	R Square	Durbin-Watson
1	.470a	,386	2,517

Uji autocorrelation using the Durbin-Watson test. Based on the results of calculations with the help of the SPSS 24 program, it shows a result of 2,517 with 2 independent variables, and n = 57, it is known that dL is 1,546 and dU is 1,641 so that the Durbin-Watson calculation results are between 15.46 < 2,517< 1.641 which means the regression model has no decision.To support the analysis results*Durbin-Watson*, then use it Run-Test testing in this study, it was 0.078. These results show that the resulting significance value exceeds 0.05. Therefore, it can be said that there was no autocorrelation in this study.

Coefficient of Determination Test

The results of the coefficient of determination test can be seen from the table below:

Table 4. Coefficient of Determination Test Results Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.470a	,386	,335	1.24091

a. Predictors: (Constant), Mana_Profit, Measure_Peru,
b. Dependent Variable: Cost_M_E

From table 4 above, it is known that the R Square value is 0.386. This means that 38.60% of the Cost of Equity Capital variable can be explained by Company Size and Profit Management. then the remainder, namely 61.40%, is explained by other variables outside the equation or there are other variables that can influence the Cost of Equity Capital variable but are not examined in this research.

Partial Test

Tabel 5. Partial Test Results (t Test)

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	Std. Error	Beta		
	(Constant)	2,061	2,008		4,083	,000
1	Company Size	,181	,120	.117	1,712	,058
	Profit management	,325	,343	,312	2,307	,004

Hypothesis testing is carried out using the t test, and the test results can be

seen from the coefficients table in the t and sig columns. And the t-table value is1,673(df = nk-1 = 57-2-1) using a significant 5% t test results can be seen in table 5 above, it can be explained using the significant test as follows:

1. Company Size Variable to Cost of Equity Capitalit can be seen that the calculated t value > t table (1,712 >1,673) with a significance level of 0.058 > 0.05 and β of0.181,this shows that the variable Company Size has no significant effect on Cost of Equity Capital.
2. Variable Profit management to Cost of Equity Capitalit can be seen that the calculated t value > t table (2,307> 1,673) with a significance level of 0.004 > 0.05 and β of0.325this shows that the variable Profit management significant positive effect on Cost of Equity Capital.

Discussion

Influence of Company Size Terto the Cost of Equity Capital

The results of this study found that company size does not have a significant effect on the cost of equity capital. These results show that investors' lack of suspicion in decision making regarding financial results is not influenced by company size. Both large and small companies can provide benefits to investors. Not all large companies increase the cost of equity capital, on the contrary, small companies will increase large expenditures to provide information needed by the public (investors), resulting in an increase in the cost of equity capital.

The results of this study are consistent with the research results (Fandriani & Tunjung, 2019) and (Hayati, 2019) who found that company size had no effect on the cost of equity capital. Company size does not necessarily reduce the cost of equity capital, because large companies have more assets and allow many assets to be not managed properly, so there is a possibility of errors in disclosing total assets in the company.

The results of this study contradict the research results (Irwansyah & Aliah, 2022) and (Layarda, 2021) found that company size influences the cost of equity capital.Seincreasingly The larger the company, the greater the costs incurred by the company to provide information to the public, resulting in an increase in the cost of equity capital.

Influence Earnings Management Against the Cost of Equity Capital

The results of this study found that earnings management has a positive and significant effect on the cost of equity capital. This means that an increase in earnings management will increase the cost of equity capital. Earnings management is very much considered by investors in making investment decisions regarding information related to working capital accruals as a proxy for earnings management where the cost of equity capital is a discount rate used by investors to assess cash flow in the future.

The results of this study are consistent with the research results (Varadila et al., 2022) and (Widyowati, 2020) who found that earnings management has a significant effect on the cost of equity capital. The greater the profit of a company, the greater the interest of investors in investing their funds and earnings management causes a lot of information to be disclosed by the company, which has the consequence of increasing the costs incurred by the company to provide information to the public (cost of equity capital).

This result is contradictory to the results (Hayati, 2019) Earnings management has no significant effect on the cost of equity capital. The higher earnings management does not affect the high or low cost of equity capital.

CONCLUSION

Based on the data obtained in this research regarding the influence of work stress, work motivation and work discipline on the work performance of PT Perkebunan Nusantara XIV Makassar City employees, So it can be concluded that: work stress has a negative and significant influence on work performance; work motivation has a positive and significant influence on work performance; Work discipline has a positive and significant influence on work performance. It is recommended that PT. Perkebunan Nusantara XIV Makassar provides more motivation to employees and monitors employee work discipline to improve employee work performance.

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