INFORMATION ASYMMETRY, EARNINGS AGGRESSIVENESS AND COST OF EQUITY: THE MODERATING ROLE OF INVESTOR PROTECTION

Erika Febriyanti[1], Komala Ardiyani[2*], Andi Kushermanto[3], Akhmad Samsul Ulum[4]

Affiliation:

[1,2,3,4]Accounting Study Program, Faculty of Economics and Business, Pekalongan University

Proses Artikel:

Received 09-09-2024
Revised 02-18-2025
Accepted 02-18-2025

*** Correspondence:**
komalaardiyani19@gmail.com

DOI : 10.30813/jab.v18i1.6194

Abstrak

Background: The phenomenon of recent years shows an increase in the number of companies that go public. This condition indicates that more and more companies want to obtain funding through the capital market with the aim of attracting investors to invest their capital. Investors invest funds for the purpose of getting a return, while the company expects the cost of equity.
Objective: This study aims to examine the effect of information asymmetry and earnings aggressiveness on the cost of equity, and examine the moderating role of investor protection on the relationship between information asymmetry and earnings aggressiveness on the cost of equity.
Research Methods: The research sample is LQ-45 indexed companies on the Indonesia Stock Exchange for the period 2018-2022. 115 research data were analyzed using Partial Least Square (PLS) - Structural Equation Model (SEM).
Research Results: Shows that information asymmetry has a negative effect on the cost of equity while earnings aggressiveness has a positive effect on the cost of equity. Investor protection does not moderate the effect of information asymmetry on cost of equity, but weakens the relationship between earnings aggressiveness and cost of equity. Earnings aggressiveness practices are in line with the cost of equity, if balanced with good governance practices. Investor protection needs to be maintained so that the practice of earnings aggressiveness can be minimized so that the cost of equity can be reduced.
Originality/Novelty of Research: This research adds investor protection as a moderating variable for information asymmetry and earnings aggressiveness with cost of equity
Keywords: Cost of Equity, Earnings Aggressiveness, Information Asymmetry, Investor Protection

Introduction

In the era of globalization, the rapid development of the business world drives companies to expand their operations to sustain their existence and remain competitive in an increasingly intense market environment (Pangestika & Widiatmoko, 2021; Yolanda & Mulyani, 2019). Consequently, many companies across various sectors choose to go public by issuing shares. Going public, also known as an Initial Public Offering (IPO), represents a crucial step for companies to access public equity capital and reduce the costs associated with funding their operations and investments (Pandey & Pattanayak, 2021).

The Indonesia Stock Exchange, (2023) shows that there has been an increase in the number of companies going public. This condition indicates that more companies want to obtain funding through the capital market (Duong et al., 2022; Septiani & Taqwa, 2019). The company's efforts to go public can attract investors to invest their capital in the company (Das & Jena, 2016), so that the capital provided by investors can meet the company's needs (Hermawan et al., 2021). In investing their funds, investors have the aim of getting a return on the funds invested (Persakis & Iatridis, 2017). Meanwhile, from the company's point of view, the expected stock return is the cost of equity capital (Yu, 2023). Yolanda & Mulyani (2019) explain that the concept of cost of equity can be said to be the costs incurred by the company to fulfill the rights of investors in the form of a return on the investment that has been invested. The high and low rate of return by a company is an important consideration in investment decisions because it reflects how investors view risk (Alkebsee et al., 2023).

The phenomenon in Indonesia related to investment returns occurred at PT Indosterling Optima Investa (IOI). This case is a default for the Indosterling High Yield Promissory Notes (HYPN) product. This investment product promises returns of 9% to 12% annually. Since the case occurred, customers have only found out that HYPN does not have a license to raise funds from the OJK or Bank Indonesia (Financial Services Authority, 2021). In addition, there is the case of PT Asuransi Jiwasraya, which failed to manage its investment risk. PT Asuransi Jiwasraya has a JS Saving Plan insurance product that is linked to investment. However, in October 2018 the company defaulted because the company did not get the expected return on investment assets (Alijoyo, 2021).

The cost of equity is one of the main elements in financial capital (Sarang et al., 2022). Research related to the cost of equity can help companies listed on the IDX to make the right investment decisions so as to produce returns that can improve the welfare of stakeholders (Sunarto et al., 2016). Some investors are reluctant to invest their funds in companies that are very volatile (Bessler et al., 2023). The cost of equity capital is important in making investment and financial decisions for businesses, so it must be made as rational as possible (Saleh et al., 2022; Duong et al., 2022). The cost of equity capital is used by companies to choose financing methods and assess the efficiency of capital market financing (Jian et al., 2023). Research by Saleh et al. (2022) explained that the cost of equity can be used to ensure the availability of financial resources, estimate funding costs and their effect on company profits and risks. Therefore, reviews of the cost of equity need further research to find out what factors affect the high and low cost of equity of a company.

Cost of equity can be influenced by many factors that have been studied by several researchers. Some research on the determinants of cost of equity, namely (1) institutional and foreign ownership (Edison

Vain S et al. 2020; Muslim & Setiawan.2021), (2) earnings opacity (Malau et al. 2019; Zuhrotun & Sunaryo 2023), (3) Corporate Social Responsibility (Chen & Zhang 2021; Wang et al. 2021; Breuer et al. 2018; Yeh et al. 2021; Edison Vain S et al. 2020), (4) earnings quality (Le et al., 2021; Listionargo et al. 2022; Malau et al. 2019; Marpaung & Herawati 2020; Sunarto et al. 2016). (5) Risk committees (Al-Hadi et al. 2018) (5) information asymmetry (Muslim & Setiawa, 2021; K. Li, 2020; Edison Vain S et al., 2020; Irwansyah, Aliah (2022), Kiswanto & Fitriani 2019; Malau et al. 2019), (6) Earnings aggressiveness (Delita & Mulyani, 2018; Hermawan et al. 2021; Listionargo et al. 2022; Marpaung & Herawati 2020; Malau et al. 2019, Andriani & Afriyenti, 2019; Sunarto et al., 2016).

Accounting information has an important role in the capital market (Muslim & Setiawan, 2021). The company's annual report is a forum for shareholders to dig up information and find out the condition of the company run by management (Habib et al., 2019). Financial reports can be used by investors to measure the risk and return of investor funds provided to the company (Saleh et al., 2022). Non-disclosure of credible information can lead to information asymmetry problems (Bhatia & Kaur, 2023). Information asymmetry is the difference in information composition between public and private information (Muslim & Setiawan, 2021). The existence of information asymmetry makes investment more vulnerable to stock price fluctuations (Saleem et al., 2023). In addition, Sunaryo & Saripujiana (2018) explain that the existence of information asymmetry can increase the high level of risk that investors will face due to the amount of information that is hidden so that it can cause uncertainty in the return on investment results. Potential investors will lead to greater returns to compensate for increased company risk (Alkebsee et al., 2023).

Previous research on the effect of information asymmetry on cost of equity provides inconsistent results. Several studies have found a positive effect between information asymmetry and cost of equity (Muslim & Setiawan, 2021; Kiswanto & Fitriani, 2019; Pratiwi, 2021; Edison Vain S et al. 2020;, Irwansyah, Aliah, 2022; Malau et al. 2019). However, the results of research by K. Li (2020) and Sunaryo & Saripujiana (2018) found that information asymmetry has a negative effect on the cost of equity. Meanwhile, research by Widanengsih et al. (2019) and D. H. Putri & Rokhmania (2018) found that there is no influence between information asymmetry on the cost of equity. This study tries to re-examine the effect of the influence of information asymmetry on the cost of equity.

Earnings aggressiveness is a management action that tends to delay recognizing losses, whereas if earnings will accelerate their recognition, where conditions will have an impact on quality (Jennifer Altamuro et al., 2005). Earnings aggressiveness is one of the management actions to manipulate earnings by increasing the value of accrual components such as inventory and at the same time reducing costs, so that earnings become higher (Bedard & Johnstone, 2004).

Research on earnings aggressiveness shows inconsistent results. Research by Hermawan et al. (2021), Listionargo et al. (2022), Marpaung & Herawati (2020), Sunarto et al. (2016), Malau et al. (2019) and Andriani & Afriyenti (2019) found that earnings aggressiveness has a positive effect on the cost of equity. However, the results of Delita & Mulyani's research (2018) concluded that earnings aggressiveness has a negative effect on the cost of equity. Because there are different results in previous studies, this study tries to re-examine the relationship between earnings aggressiveness and cost of equity.

In investing their funds, investors expect a rate of return on investment (Habib et al., 2019). Earnings can be an important reference of the company's accounting information, as a result management will adjust the results to attract investors (Saleh et al., 2022). Research by Wang et al., (2022) explains that there is a need for investor protection to ensure that the information provided by the company is fulfilled, this condition will increase investor interest in investing. Meanwhile, research by Xu et al. (2023) states that investor protection is the effectiveness of law enforcement from financial regulators which is very important in protecting investor rights in the capital market. However, research by Nilasari (2011) explains that a large capital market is determined by the transaction value or market capitalization value and its ability to protect the interests of various parties, especially the interests of investors.

Investors must make rational investment decisions (Duong et al., 2022). Therefore, the existence of investor protection is considered to moderate the relationship between information asymmetry and earnings aggressiveness on the cost of equity. Effective investor protection can attract more external funding, especially equity (Huang et al., 2021) and reduce the risk premium demanded by investors, thereby affecting the company's cost of equity (K. C. W. Chen et al., 2009).

Based on the phenomena gap and research gap, this study examines the effect of information asymmetry and earnings aggressiveness on the cost of equity. This study also examines the moderating role of investor protection on the relationship between information asymmetry and earnings aggressiveness on the cost of equity. This study makes an important contribution by examining the moderating role of investor protection in the relationship between information asymmetry, earnings aggressiveness and cost of equity. This can help understand how investor protection mechanisms, such as institutional ownership or strict regulation, affect the impact of information asymmetry and earnings aggressiveness on firms' cost of equity. From a practical perspective, this study provides relevant policy implications for regulators and firms. If investor protection proves effective in reducing the negative impact of information asymmetry and earnings aggressiveness, then policies that support transparency, stricter supervision, and strengthening investor rights can be recommended to improve capital market efficiency and lower firms' cost of equity.

Literature Review

Agency Theory

The relationship between company managers and shareholders can be explained by agency theory. Agency theory states that managers (agents), especially managers of large publicly owned companies, may have different objectives from shareholders (principals) (Jensen & Meckling, 1976). The existence of differences in interests between managers and owners can result in poor management decisions (Saleh et al., 2022). Shareholders can believe that managers will make decisions to maximize shareholder wealth only if managers receive appropriate incentives and are supervised (Horne & Jr., 2001). Potential differences in interests between shareholders and managers lead to agency costs (Koh, 2003).

The existence of these agency problems creates a conflict of interest because management and shareholders have different goals (K. C. W. Chen et al., 2009). Company management certainly wants high compensation for its performance in managing the company so that it ignores the interests of shareholders (Kiswanto & Fitriani, 2019). There are two methods to align interests in agency problems, namely with incentive mechanisms and monitoring mechanisms (Ali et al., 2019).

Cost of Equity

Cost of equity capital is defined as the minimum rate of return of a company (Mondal & Ghosh, 2020). Cost of equity is an important part of the cost of capital (Ali et al., 2019). Cost of equity is the internal rate of return that the market applies to the company's future equity cash flows to determine the current market value of equity (Luong et al., 2021) and to assess whether a company's investment activities are feasible or not (Putri & Rokhmania, 2018). If a company's investment produces a rate of return greater than the cost of capital spent, the company's value will increase so that the investment is considered feasible, and vice versa if a company's investment produces a lower rate than the cost of capital, the investment is considered not feasible (Sartono, 1999).

The cost of capital is the rate of return expected by investors to attract funds for certain investments (Abu Afifa & Saadeh, 2023). One of the most important considerations in investment decisions is the cost of equity because it reflects how investors perceive risk, investors will demand greater returns to compensate for increased risk if there is fundamental activity at the company level that has high risk (Alkebsee et al., 2023). The cost of equity is considered the opportunity cost of a particular investment, which can be used to calculate investor expectations and market consensus expectations (Abu Afifa & Saadeh, 2023). The cost of equity capital is an important criterion for companies to choose financing methods and an important reference for assessing the efficiency of capital market financing (Jian et al., 2023).

Information Asymmetry

Information asymmetry is an imbalance of information obtained between one party and another (K. Li, 2020), which can increase the uncertainty of the results that will be received by investors in the future (Sunaryo & Saripujiana, 2018). In this case, it means that managers as company managers are considered to know more information than investors who are only owners of capital (Cuadrado-Ballesteros et al., 2016; Muslim & Setiawan, 2021). Information plays a very important role because the lack of credible information disclosure creates information asymmetry problems that affect the cost of equity funding (Bhatia & Kaur, 2023).

The difference in information owned by managers and shareholders can be divided into two types, namely adverse selection and moral hazard (Scott, 2015). Adverse selection is a type of information asymmetry that occurs when one or more parties have information advantages compared to other parties (Scott, 2015). The second type of information asymmetry is moral hazard, which is information asymmetry that occurs when one or more parties can observe the extent of actions taken in fulfilling the contract, but the other party does not, which means that this moral hazard can arise when one party cannot observe the actions of the other party in fulfilling the contract or agreement (Scott, 2015). Because of the information imbalance between company managers and investors, it creates obstacles to obtaining accurate measures of company valuation to outsiders (K. Li, 2020). Information asymmetry can be reduced by disclosing better company reports (Mondal & Ghosh, 2020).

Earnings Aggressiveness

Management as company managers automatically has wider access rights to internal information and company prospects. This condition makes companies have the freedom to make policies in disclosing earnings (Hermawan et al., 2021). The negative impact that occurs is the act of manipulating earnings or earnings aggressiveness. So earnings aggressiveness can be defined as management actions that have a tendency to accelerate the recognition of corporate profits which can have an impact on earnings informativeness (J. Altamuro et al., 2005). The existence of earnings aggressiveness by management causes current year earnings to be relatively higher than actual earnings (Hermawan et al., 2021).

Companies that carry out earnings aggressiveness can cause current year earnings to be relatively higher than real earnings so that it does not rule out the possibility that future profits will decrease (J. C. Bedard & Johnstone, 2004). Management policy in carrying out earnings aggressiveness will have an impact on the negative reaction that earnings cannot be used as a reference because the financial statements contain the uncertainty of the profits earned by the company (Hardiningsih et al., 2019).

Investor Protection

Shareholders or commonly referred to as investors are capital providers for companies (Pandey & Pattanayak, 2021). Every company has the main goal of maximizing shareholder welfare (Horne & Jr., 2001), so good corporate governance is needed to maximize shareholder welfare and to align management interests with shareholders (Shleifer & Vishny, 1997). Enforcement of financial regulations is a basic element of the institutional framework that deals with violations committed by companies (Xu et al., 2023). Securities market regulation and investor participation are important policy instruments to ensure strong investor protection and prevent conflicts (Eveline, 2017). A corporate governance framework should ensure that shareholder rights are protected and also facilitate shareholders to exercise these rights (Indonesian Institute of Accountants, 2015).

The effectiveness of law enforcement from financial regulators is crucial in protecting the rights of investors in the capital market (Xu et al., 2023). The main focus of corporate law is to regulate company managers so that carrying out company management activities does not cause company losses that can harm investors as shareholders (Wang et al., 2022).

Hypothesis Development

Research Model

The research model regarding the effect of information asymmetry and earnings aggressiveness on the cost of equity and the moderating role of investor protection relations is as follows:

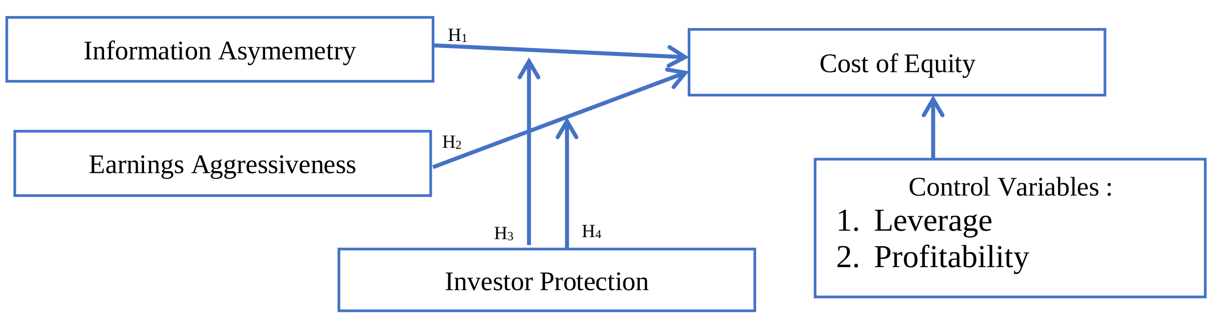

Figure 1. Research Model

Information Asymmetry and Cost of Equity

A company's information asymmetry can affect its cost of equity (Luong et al., 2021). Putri & Rokhmania's research (2018) explains that if the company has high information asymmetry, investors will assume that the company has a high risk and ultimately the cost of equity capital borne by the company will be high. He et al. (2013) explain that companies with many information disclosure policies have a lower cost of equity. This is because investors who have information know more about the company's prospects than investors who do not have information (Pandey & Pattanayak, 2021).

More and better information in the capital market can reduce investor uncertainty about the size and determination of the company's future cash prospects, thereby reducing the cost of equity (Luong et al., 2021). Bhatia & Kaur (2023) reveal that in a low-information environment, investors cannot estimate the true return of a security or portfolio, which can increase the cost of equity. Therefore, the existence of information asymmetry in a company can increase the cost of equity capital (Bhatia & Kaur, 2023). In addition, research by Muslim & Setiawan (2021), Pratiwi (2021), Edison Vain S et al. (2020), Irwansyah, Aliah (2022), and Malau et al. (2019) also found that information asymmetry has a positive effect on the cost of equity. Based on this description, the hypothesis is formulated as follows:

H1 : Information asymmetry has a positive effect on the cost of equity.

Earning Aggressiveness and Cost of Equity

Khaddaf et al. (2014) explain in agency theory, accrual management motivation can be opportunistic or advantageous for management because they have free access to earnings reporting. Opportunistic management motivation through aggressive accounting policies results in a higher level of profit compared to actual income (Black et al., 2017; Wu et al., 2015). The impact of managerial opportunism reflected in earnings manipulation on the cost of capital and documented that managerial opportunism worsens the quality of earnings information thereby increasing corporate risk (Duong et al., 2022).

Companies that carry out earnings aggressiveness will cause the company's book value and earnings to be higher, but future earnings estimates will be lower and the cost of capital will increase (Sunarto et al., 2016). The existence of earnings aggressiveness can cause earnings reports to provide information gaps (Hermawan et al., 2021). The information gap that occurs between management and owners can increase the cost of equity (Listionargo et al., 2022).

Thus, it means that the higher the earnings aggressiveness carried out by management will increase the cost of equity of a company. This is in accordance with research conducted by Marpaung & Herawati (2020), Hermawan et al. (2021), Listionargo et al. (2022), Andriani & Afriyenti (2019), Sunarto et al. (2016), and Malau et al. (2019) which states that earnings aggressiveness has a positive effect on the cost of equity. Based on this description, the hypothesis is formulated as follows:

H2 : Earnings aggressiveness has a positive effect on the cost of equity.

Information Asymmetry, Investor Protection, and Cost of Equity

Agency conflicts occur due to information asymmetry among investors, thus creating friction in trading creating losses that lead to lower stock liquidity levels and higher return expectations (Leuz & Verrecchia, 2000).

Information asymmetry occurs due to differences in information received by one party to another, this causes investors to lose trust in the company, then investors will demand a high rate of return if they invest in companies with high information asymmetry (Cuadrado-Ballesteros et al., 2016 Eldomiaty et al., 2019). Sony & Bhaduri (2020) argue that the lack of appropriate institutional structures, family business ownership, weak legal frameworks, inadequate corporate governance norms, and lack of protection for investors exacerbate the problem of information asymmetry that occurs in companies. The existence of legal protection can minimize the information asymmetry of the company (Mougin, 2007). Reduced information asymmetry can lead to a reduction in the company's cost of equity (Bhatia & Kaur, 2023). The existence of investor protection reduces information asymmetry and investors obtain more accurate information for company valuation and the cost of equity can be reduced (K. Li, 2020).

Non-disclosure of credible information can lead to information asymmetry problems that affect the cost of equity funding (Bhatia & Kaur, 2023). In Indonesia, disclosure regulations are regulated in Bepepam LK regulation No.134/BL/2006 through this provision companies are required to submit company financial data (Kiswanto & Fitriani, 2019). This regulation was issued to minimize information asymmetry and provide convenience for investors (Muslim & Setiawan, 2021). With legal protection for investors, companies will disclose more information about the company to fulfill the rights of investors (Wang et al., 2022). The higher the level of information disclosed, it will reduce information asymmetry so that the cost of equity issued by the company will be lower (Bhatia & Kaur, 2023). More and better information in the capital market can reduce investor uncertainty about the size and determination of the company's prospects, thereby reducing the cost of equity (Luong et al., 2021).

The implementation of investor protection embodied in good corporate governance can mitigate agency problems and reduce agency costs to maximize shareholder wealth (Shleifer & Vishny, 1997). Disclosure affects investor confidence in their investment in the company, thereby reducing the expected rate of return and reducing the company's cost of equity (Abu Afifa & Saadeh, 2023). Based on this description, the hypothesis is formulated as follows:

H3 : Investor protection weakens the relationship between information asymmetry and cost of equity.

Earnings Aggressiveness, Investor Protection, and Cost of Equity

The emergence of agency problems can affect the quality of financial statements, because there is an incentive for certain parties to provide false earnings figures or hide information (Delita & Mulyani, 2018). One of the motivations for management to manage earnings on an accrual basis is to get incentives in the form of bonuses (Watts & Zimmerman, 1989). Opportunistic management will carry out earnings aggressiveness so that current earnings are relatively higher than actual, so that the possibility of future income will decrease (Hermawan et al., 2021). This can cause uncertainty about the benefits obtained by the company (Hardiningsih et al., 2019). This situation motivates shareholders to demand higher returns as compensation, causing the cost of equity borne by the company to be higher (Bhattacharya et al., 2003). However, the implementation of investor protection, which is realized in the form of good corporate governance, will be able to reduce agency conflicts so as to produce reports that are more transparent and in accordance with what actually happened (Hardiningsih et al., 2019). Good corporate governance can help align the interests of managers with company owners to increase the credibility of accounting information, one of which is information about the profit earned by the company (Garcia-Meca & Sanchez-Ballesta J.P., 2009). A better corporate reputation reflected by corporate governance mechanisms helps lower the cost of equity capital (Yu, 2023).

Aggressive financial reporting practices are more likely to occur in companies that manipulate reports by increasing profits and delaying expenses (J. Altamuro et al., 2005). Manipulated financial statements stem from the earnings aggressiveness policy carried out by management (Albretch et al., 2009). This claim is based on companies that conduct aggressive recording have a weaker corporate governance system (Kamarudin et al., 2012). The involvement of corporate governance may limit earnings management discretion and reduce managerial incentives to engage in earnings aggressiveness (Koh, 2003). Therefore, the implementation of good corporate governance can minimize the implementation of aggressive recording by management so as to reduce the cost of equity. Based on this description, the hypothesis is formulated as follows:

H4 : Investor protection weakens the relationship between earnings aggressiveness and cost of equity.

Research Methods

This research is causality research, where the influence of independent variables (X), namely information asymmetry and earnings aggressiveness on the dependent variable (Y), namely the cost of equity by using investor protection as a moderating variable (M). The object of research is the LQ-45 index companies listed on the Indonesia Stock Exchange, because the characteristics of LQ-45 stocks can represent portfolio performance seen from two sides, namely return and risk (Edison Vain S et al., 2020).

Variable Operational Definition

Cost of equity

Cost of equity is the internal rate of return that the market sets on the company's future equity cash flows to determine the current market value of equity (Luong et al., 2021). The cost of equity in this study is measured using the Capital Asset Pricing Model (CAPM) approach (Mio et al., 2023).

$$COE_{it} = R_{ft} + \beta_{it}(R_{mt} - R_{ft})$$

Description:

COE_{it} : *Cost of equity of company i period t*

R_{ft} : Risk-free return period t proxied by the average SBI interest rate in one period

β_{it} : Beta (unsystematic risk) of company i period t

R_{mt} : LQ-45 stock market return period t

Information Asymmetry

Information asymmetry is an imbalance of information obtained between one party and another (K. Li, 2020). Information asymmetry is measured using bid-ask spread (Verdi, 2012). The bid-ask spread is the difference between the asking and bid prices.

$$SPREAD_{it} = \frac{(ask_{it} - bid_{it})}{\left(\frac{ask_{it} + bid_{it}}{2}\right)} \times 100\%$$

Description:

$SPREAD_{it}$: Bid-ask Spread of company i in period t

ask_{it} : highest asking price of company i shares in period t

bid_{it} : the lowest bid price of company i shares in period t

Earnings Aggressiveness

Earnings aggressiveness is an act of managing earnings, namely by delaying loss recognition and accelerating revenue recognition so that earnings reports are higher than actual (J. Altamuro et al., 2005). Earnings aggressiveness is measured by the formula (Sunarto et al., 2016).

$$EA = \frac{\Delta CAt - \Delta CLt - \Delta CASHt + \Delta STDt - DEPt + \Delta TPt}{TA_{t-1}}$$

Description:

EA : Earnings Aggressiveness

ΔCAt : Change in current assets period t

ΔCLt	: Change in current liabilities (excluding STD) period t
$\Delta CASHt$	: Change in cash for period t
$\Delta STDt$	: Change in long-term debt due in period t
$DEPt$	: Depreciation and amortization expense in period t
ΔTPt	: Change in tax payable in period t
TA_{t-1}	: Total assets of period t-1

Investor Protection

Investor protection is law enforcement to protect the interests of shareholders over the management of the company by management (Persakis & Iatridis, 2017). This study uses the ASEAN CG Scorecard to assess investor protection practices (Indonesian Institute of Accountants, 2015). ACGS level 1 measurement consists of 146 items and is divided into 5 sections. Each section has a different weight in relation to the total score of level 1 of 100 points.

The ACGS assessment uses dummy variables, each disclosed item will be given a value of 1, and 0 if not disclosed. Where the overall score of each section is summed up to get the total score of the final ACGS assessment of each company.

$$Score = \frac{total\ points\ earned}{total\ questions} \times maximum\ score$$

Control Variables

There are two control variables in this study, namely leverage and profitability. Leverage reflects the level of financial risk of the company. Leverage is measured using the DAR (Debt to Assets Ratio) ratio. Profitability is the ability of a company to generate a profit, Profitability is measured by ROA (Return on Assets).

Sample

The samples used in this study are LQ-45 indexed companies listed on the Indonesia Stock Exchange for the period 2018-2022. The type of data in the study is secondary data, using purposive sampling technique.

Analysis Technique

The analysis technique used in this research is descriptive statistical analysis and Partial Least Square (PLS) -Structural Equation Modeling (SEM) data analysis. This research model can be described by the following equation.

$$COE = \alpha + \beta_1 AI + \beta_2 EA + \beta_3 IP * AI + \beta_4 IP * EA + \beta_5 Lev + \beta_6 Prof + e$$

Description:

COE	: Cost of Equity
α	: Constant
β	: Coefficient
AI	: Asymmetry Information
EA	: Earnings Aggressiveness
IP	: *Investor Protection*
Lev	: Company Leverage
Prof	: Company Profitability

To test whether the hypothesis can be accepted or rejected, it can be seen from the test results and compare them with the significance level. In this study using a significance level of 0.05 (5% level).

Results and Discussion

Descriptive Statistics

Descriptive statistics of research variables consisting of cost of equity, information asymmetry, earnings aggressiveness, investor protection, leverage and profitability. The results of descriptive statistical analysis are as follows:

Table 1 Descriptive Statistical Analysis Results

No	Variable	N	Maximum	Minimum	Average	Standard Deviation
1	*Cost of Equity*	115	0,072	-0,174	-0,008	0,039
2	Information Asymmetry	115	1,439	0,069	0,537	0,249
3	Earnings Aggressiveness	115	1,339	-1,681	-0,032	0,222
4	Investor Protection	115	98,769	73,467	90,704	5,362
5	Leverage	115	0,890	0,112	0,514	0,234
6	Profitability	115	0,467	0,000	0,082	0,086

Based on table 2, the results of descriptive analysis on the cost of equity variable show a standard deviation value of 0.039, indicating that the data variation is relatively high because the value is above the average, namely -0.008. The information asymmetry variable standard deviation value of 0.249 indicates that the data variation is relatively low because it has a value below the average, namely 0.537. The variable earnings aggressiveness standard deviation value of 0.222 indicates that the data variation is relatively high because the value is above the average of -0.032. The investor protection variable shows a standard deviation value of 5.362, indicating that the data variation is relatively low because it has a value below the average, namely 90.704. The leverage variable shows a standard deviation value of 0.234, indicating that the data variation is relatively low because the value is below the average, namely 0.514. Then for the profitability variable shows that the standard deviation value of 0.082 means that the data variation is relatively high because the value is above the average of 0.082.

Partial Least Square (PLS) – Structural Equation Modelling (SEM)

The results of the Partial Least Square (PLS) - Structural Equation Modeling (SEM) analysis using WarpPLS 8.0 software produced the following output.

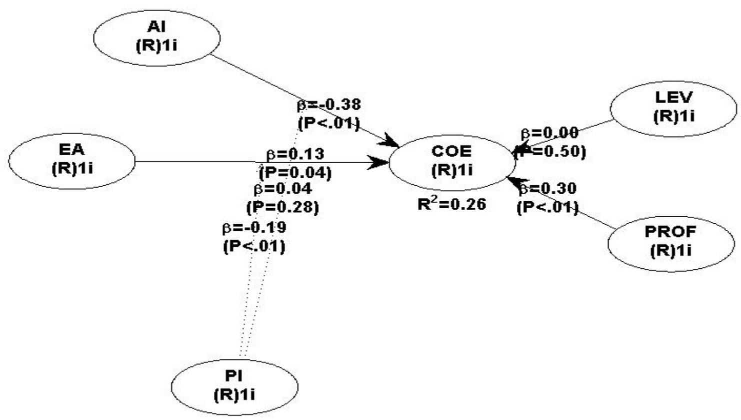

Figure 2 Research Model Output

Based on Figure 2, it shows that all variables used in this study are observed variables or variables that can be measured directly, therefore this study only evaluates the structural model (inner model).

The first step in evaluating the structural model is to see the goodnes of fit. The test results concluded that this research model is fit. Then testing the explanatory indicators of the model produces the R-Square Coefficient output, Q-Squared Coefficient Value and F-Squared or effect size The R-Squared result is 0.263 which indicates that 26.3% of the variation in the cost of equity variables, information asymmetry and earnings aggressiveness, investor protection, and control variables (leverage and profitability). While the remaining 73.7% is explained by other variables outside this research model. The Q-Squared result in this study of 0.329 shows good predictive validity because it has a value above 0. The effect size results in this study show that all the effect size values of the independent variable cost of equity variable are weak.

Hypothesis Testing

Hypothesis testing is done by looking at the results of the path coefficient and p-value of each variable can be seen in the following table.

Table 2 Summary of Path Coefficients and P-Values

NO	Variable	Path Coefficients	P-Values	Rule of Thumb	Conclusion
1	AI	-0,377	< 0,001	P < 0,05	Rejected
2	EA	0,126	0,042	P < 0,05	Accepted
3	PI*AI	0,047	0,257	P < 0,05	Rejected
4	PI*EA	-0,199	0,003	P < 0,05	Accepted

While the model equation is as follows:

$$COE = -0{,}377AI + 0{,}126EA + 0{,}047PI * AI - 0{,}199PI * EA + 0{,}023\ Lev + 0{,}310Prof + e$$

Based on the results of testing hypothesis 1, it shows that the path coefficients of the information asymmetry variable are -0.377 and the p-value is significant with P < 0.001, which is <0.05. These results indicate that information asymmetry has a negative effect on the cost of equity so that H1 is rejected. Hypothesis 2 testing shows that the path coefficients of the earnings aggressiveness variable are 0.126 and the p-value is 0.042 which is <0.05. These results state that earnings aggressiveness has a positive effect on the cost of equity so that H2 is accepted. Hypothesis 3 shows that the path coefficients of the moderating effect of investor protection with information asymmetry are 0.047 with a p-value of P = 0.257 which is > 0.05. The results show that investor protection cannot moderate the effect of information asymmetry on the cost of equity, so H3 is rejected. Then the results of testing hypothesis 4, show that the path coefficients of the moderating effect of investor protection with earnings aggressiveness are -0.199 and a significant p-value at P = 0.003 which is <0.05. From these results it can be concluded that investor protection weakens the relationship between earnings aggressiveness and cost of equity.

Discussion

Information asymmetry is an imbalance of information obtained between one party and another (K. Li, 2020). The test results show that information asymmetry has a negative effect on the cost of equity, meaning that high information asymmetry can reduce the cost of equity issued by the company.

The results of this study are different from the research of Kiswanto & Fitriani (2019), Muslim & Setiawan (2021), Pratiwi (2021), Edison Vain S et al. (2020), Irwansyah, Aliah (2022) and Malau et al. (2019), because the information asymmetry of LQ-45 indexed companies in 2018-2022 is relatively high, some are even greater than one. Meanwhile, the company's cost of equity value tends to be low, which is negative. However, the results of this study are in line with research conducted by K. Li (2020) and Sunaryo & Saripujiana (2018) which found that information asymmetry has a negative effect on the cost of equity. This means that the higher the information asymmetry can reduce the cost of equity. Lambert et al. (2012) explain that increasing information asymmetry between investors can reduce the cost of equity because information asymmetry affects the willingness of informed traders to increase capital market liquidity.

The existence of information asymmetry makes the company high risk so that the cost of equity can increase. The results of this study reflect that investors are not principled on high risk high return but principled on The more intelligent effort you perform on your investment, the higher the return you should expect which means the more intelligent the effort made on your investment, the higher the return you should expect (Graham, 2003; Santoso & Deviyanti, 2022). The existence of information asymmetry can make investors conduct a thorough fundamental analysis of investment in the company. Through this approach, investors can have a greater opportunity to achieve maximum and consistent investment returns in the long term without having to expect a rate of return related to company risk.

Earnings aggressiveness has a positive effect on the cost of equity, meaning that the higher the earnings aggressiveness carried out by the company, the higher the cost of equity issued by the company. Altamuro et al. (2005) explain that with the treatment of earnings aggressiveness by the company, it will have an impact on earnings informativeness. Earnings informativeness is the amount of future earnings information or cash flow including the period of stock returns (Zarowin, 2002). Quality earnings information is needed to measure business success and failure in achieving company goals (Zuhrotun & Sunaryo, 2023). In other words, earnings aggressiveness is an earnings report that cannot provide a true picture of the company's profit (Hermawan et al., 2021). The quality of an earnings not only affects investors, but can also affect the company. If the company publishes low quality information, it can cause the higher cost of equity borne by the company (Andriani & Afriyenti, 2019).

The results of this study are in line with research conducted by Marpaung & Herawati (2020); Listionargo et al. (2022); Sunarto et al. (2016); Hermawan et al. (2021); Malau et al. (2019); and Andriani & Afriyenti (2019) who found that earnings aggressiveness has a positive effect on the cost of equity. These results state that the practice of earnings aggressiveness is in line with the cost of equity issued by the company. The higher the earnings aggressiveness, the greater the cost of equity incurred by the company.

These results are in line with agent theory which explains the delegation of authority by the principal to management (Jensen & Meckling, 1976). This theory shows the separation of company management from the owner (Ali et al., 2019), this separation creates a problem where management as company managers have greater control over company information (Listionargo et al., 2022). This makes management have opportunistic motivation through aggressive accounting policies so as to produce a higher level of profit compared to actual income (Black et al., 2017; Wu et al., 2015). The impact of opportunistic motivation carried out by management in manipulating earnings can worsen the quality of earnings information thereby increasing company risk which causes the cost of equity to increase (Duong et al., 2022). Bhattacharya et al. (2003) explain that earnings aggressiveness will have an impact on increasing the cost of equity because blurred earnings information will result in higher information risk borne by the company. Therefore, investors will generally require a higher rate of return as compensation for the information risk borne (Andriani & Afriyenti, 2019). So it can be concluded that companies that tend to report aggressive earnings policies can make the market interpret high risk as increasing the cost of equity (Sunarto et al., 2016).

The existence of legal protection for investors will make companies disclose more information about the company to fulfill their rights (Wang et al., 2022). The results showed that investor protection does not moderate the relationship between asymmetric information and the cost of equity. This means that the better the investor protection practices carried out by the company have not been able to reduce the information asymmetry that occurs. Although investor protection aims to increase transparency and provide fairer access to information for investors, not all investors have the ability to understand existing information. Investor behavior depends on the information digested by each individual who may give different reactions despite having the same source of information, because each investor will receive and analyze the available information diversely (Puspitaningtyas, 2013). Therefore, the existence of investor protection may not necessarily reduce the existence of corporate information asymmetry.

Investor protection moderates the relationship between earnings aggressiveness and cost of equity. Where it can be interpreted that investor protection can reduce the relationship between earnings aggressiveness and cost of equity. The implementation of investor protection embodied in good corporate governance can limit earnings management policies and reduce managerial incentives to carry out aggressive earnings management (Koh, 2003). Therefore, the implementation of good corporate governance can minimize the implementation of aggressive recording by management so as to reduce the company's cost of equity.

Investor protection which is realized in the form of good corporate governance will be able to reduce agency conflicts so as to produce reports or earnings information that actually occurs (Hardiningsih et al., 2019). The implementation of corporate governance can reduce aggressive earnings recording practices so as to reduce the cost of equity.

Conclusion

Information asymmetry has a negative effect on the cost of equity. This means that the higher the information asymmetry that occurs, the lower the cost of equity incurred by the company. The existence of information asymmetry can affect the willingness of informed traders to increase capital market liquidity so that the cost of equity can be reduced (Askotamiya et al., 2018). Earnings aggressiveness has a positive effect on the cost of equity. Companies that tend to report aggressive earnings policies can increase the cost of equity incurred by the company. Companies that record aggressive earnings cannot provide a true picture of company profits. If the company publishes low quality information, it can cause the higher cost of equity borne by the company (Andriani & Afriyenti, 2019).

Investor protection cannot moderate the relationship between information asymmetry and cost of equity. This study found no evidence of the effect of investor protection in moderating the relationship between information asymmetry and cost of equity. However, investor protection can weaken the relationship between earnings aggressiveness and cost of equity. The moderating effect of investor protection reduces the positive effect of earnings aggressiveness on the company's cost of equity. With investor protection, the practice of earnings aggressiveness can be minimized so that the cost of equity issued by the company can be reduced.

This research has practical implications for the industry and financial services, where Cost of Equity has an important role in making investment and financial decisions. Investors have greater opportunities without having to expect high returns but with risk. If the company records aggressive earnings, it cannot provide a true picture of the company's profits. Investor protection needs to be enforced to minimize the practice of earnings aggressiveness, so that the cost of equity capital is reduced.

This study in its implementation has several limitations, including (1) This study only provides the results of the R-Squared value of 0.263, it is necessary to add variables that affect the cost of equity such as earnings management, earnings quality, ownership structure, market value of equity, and others. (2) The object in this study is only limited to LQ-45 indexed companies listed on the Indonesia Stock Exchange (IDX), so for future researchers it is necessary to expand the research object. (3) The observation period in this study is only in the 2018-2022 period or within 5 years. For future researchers, it is necessary to increase the time span of the observation period in order to obtain results that are more relevant to the times.

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