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The Influence of Information Asymmetry, Accounting Conservatism, Public Accounting Firm Size, and Leverage Ratio on Earnings Management in State-Owned Enterprises Listed on the Indonesia Stock Exchange During the 2019–2023 Period.

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Abstract: This study aims to obtain empirical evidence regarding the factors that influence earnings management. These factors include information asymmetry, accounting conservatism, the size of public accounting firms, and leverage. The population in this study consists of the annual reports of Badan Usaha Milik Negara listed on the Indonesia Stock Exchange for the period 2019–2023. The sampling technique used is purposive sampling. The regression method employed is panel data regression with the fixed effect model selected.The results of this study partially show that accounting conservatism has a significant effect on earnings management. Meanwhile, information asymmetry, the size of public accounting firms, and leverage do not have a significant effect on earnings management. Simultaneously, the results indicate that information asymmetry, accounting conservatism, the size of public accounting firms, and leverage collectively influence earnings management.

Keywords: Information Asymmetry, Accounting Conservatism, Public Accounting Firm Size, Leverage, and Earnings Management

INTRODUCTION

The Indonesia Stock Exchange (IDX) is an institution that manages and provides the infrastructure for capital market transactions in Indonesia. Companies listed on the IDX are classified into three main sectors: raw materials, manufacturing, and services. The raw material-producing sector includes the agriculture and mining sectors (www.sahamok.com).

Erick Thohir (2020) stated that the phenomenon of window dressing, or the manipulation of financial statements to appear more favorable, frequently occurs in State-Owned Enterprises (SOEs). He even emphasized that financial statement window dressing constitutes a criminal offense (www.cnbcindonesia.com). In 2024, indications of earnings management practices reappeared in the case of PT Indofarma. The Audit Board of the Republic of Indonesia, in its Investigative Audit Report on the Financial Management of PT Indofarma and its subsidiaries for the 2020–2023 period, found indications of financial statement manipulation that potentially caused state losses of up to IDR 371.8 billion (www.kaltim.bpk.go.id).

Information asymmetry arises due to agency problems. Agency problems occur when agents have goals that do not align with the principals' interest to maximize value. Research conducted by Richardson (1998) shows that information asymmetry has a positive effect on earnings management, indicating that the higher the level of information asymmetry, the greater the potential for agents to engage in earnings management.

Public Accounting Firms are professional service providers in the accounting field, regulated under the Law of the Republic of Indonesia No. 5 of 2011 concerning public accountants, and Government Regulation No. 20 of 2015 concerning the Practice of Public Accountants. Research by Sujana (2017) and Hafiz Rahdal (2017) found that the size of a Public Accounting Firm influences earnings management.

The leverage ratio is used by investors to assess a company's capacity and risk by determining the proportion of debt in relation to equity or assets that serve to secure its obligations (Sujarweni, 2016). Studies by Priyadi (2016) and Riharjo (2021) found that leverage has a negative effect on earnings management, suggesting that higher leverage limits earnings management practices. Conversely, research by Firnanti (2017) and Budiasih (2017) found that leverage ratio has a positive effect on earnings management, indicating that the higher the leverage ratio, the greater the opportunity for managers to engage in earnings management.

Based on these phenomena and the identified research gap, this study aims to examine the influence of information asymmetry, accounting conservatism, the size of Public Accounting Firms, and leverage ratio on earnings management in State-Owned Enterprises listed on the Indonesia Stock Exchange.

Based on the aforementioned issues, the research questions formulated in this study are as follows:

1. Does information asymmetry affect earnings management?
2. Does accounting conservatism affect earnings management?
3. Does the size of the Public Accounting Firm affect earnings management?
4. Does the leverage ratio affect earnings management?

METHOD

A. Research Object

The object of this study is the annual reports from 2019 to 2023 (Bougie, 2016). The variable in this study is earnings management as the dependent variable. Meanwhile, information asymmetry, accounting conservatism, the size of the Public Accounting Firm, and the leverage ratio are the independent variables.

B. Research Method

This study aims to determine the relationship or correlation between variables, namely the relationship between earnings management and information asymmetry, accounting conservatism, the size of the Public Accounting Firm, and leverage ratio. Therefore, this type of research can be classified as explanatory research. The data analysis used in this study is secondary data analysis.

C. Operationalization of Variables

This study involves two types of variables: dependent and independent variables. The independent variables in this research are information asymmetry, accounting conservatism, the size of the Public Accounting Firm, and leverage ratio.

D. Data Sources and Data Collection Methods

The data used in this study consist of the annual reports of State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX). These data were obtained from various sources, including the official website of the Indonesia Stock Exchange, the Indonesian Capital Market Directory (ICMD), and the official websites of the companies.

In addition, data were also gathered through scientific books, articles, and scholarly works relevant to this research. The sample in this study includes all annual reports of SOEs listed on the IDX from 2019 to 2023, excluding those in the financial and telecommunications sectors. The sampling technique used is purposive sampling.

RESULTS AND DISCUSSION

A. Research Discussion

This section discusses the results of data processing that have been analyzed to determine the influence of the independent variables on the dependent variable. The analytical techniques employed in this study include descriptive statistical analysis and panel data regression.

Tabel 1
Parsial Test

Dependent Variable: EM
Method: Panel Least Squares
Date: 06/15/25 Time: 12:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 11
Total panel (balanced) observations: 55

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	262.6419	281.5746	0.932761	0.3565
ASIM	0.011800	0.009537	1.237227	0.2232
KONS	0.972954	0.074643	13.03481	0.0000
LEVR	0.049677	0.051672	0.961394	0.3421
KAP	49.48969	141.7790	0.349062	0.7289

B. The Effect of Information Asymmetry on Earnings Management

The EViews output in Table 1, based on the Fixed Effect Model selection, indicates that information asymmetry does not have a significant effect on earnings management. This finding is consistent with the results of previous studies by Yudowati (2019), Nursanita (2020), Nawirah (2023), Setijaningsih (2023), and Kurniawati (2024), which also concluded that information asymmetry has no effect on earnings management.

The probability value, which exceeds the significance threshold, weakens the theoretical rationale and contradicts the hypothesis proposed by Budiasih (2017), Wijaya (2021), and Maulida Isnawati (2023), who found that information asymmetry has a positive influence on earnings management.

The occurrence of information asymmetry within companies is in line with economic rationality, where principals are motivated to establish contracts aimed at enhancing their welfare through continuous profitability, while agents are motivated to fulfill their own economic and psychological needs. However, during the period of this study, it appears that the flow of information between principals and agents became more symmetrical, particularly due to the impact of the COVID-19 pandemic.

During the pandemic, principals and agents tended to collaborate in aligning their goals. The reduced pressure to meet profit targets and the principals' tendency to accept financial

outcomes as they were led agents to act more realistically and transparently in presenting financial statements.

C. The Effect of Accounting Conservatism on Earnings Management

The EViews output in Table 4.20, based on the Fixed Effect Model, shows that accounting conservatism has a significant and positive effect on earnings management. This finding supports the studies conducted by Ruwanti (2016), Liu (2010), Kun Yuan (2020), Wijaya (2021), Farzaneh Nassir Zadeh (2022), and Hidayati (2023), which found a positive relationship between accounting conservatism and earnings management.

The positive coefficient value contradicts the theoretical logic and hypotheses of Fengyi Lin (2013), Pratomo (2018), and Fuad (2019), who found that accounting conservatism negatively affects earnings management.

Accounting conservatism is a cautious approach in financial reporting that emphasizes the timely recognition of losses and the delayed recognition of revenues until they are fully realized.

Although conservatism is intended to improve reporting quality and protect shareholders from overly optimistic financial statements, in practice, conservative accounting methods are often used by management to pursue specific objectives. The adoption of conservative methods is not always purely for prudence, but may relate to efforts to maximize personal interests, especially in the context of agency relationships.

Managers may have incentives to obscure company performance by delaying revenue recognition or increasing allowance for doubtful accounts, which can later be used to inflate earnings in certain periods. Therefore, there is a strong indication that accounting conservatism may be exploited to engage in earnings management, thereby explaining the positive influence found in this study.

D. The Effect of Public Accounting Firm Size on Earnings Management

The EViews output in Table 1, based on the Fixed Effect Model, indicates that the size of the Public Accounting Firm does not affect earnings management. This finding supports the theoretical logic and hypotheses proposed by Carolus (2017) and Challen (2020), and contrasts with the studies by Sujana (2017) and Hafiz Rahdal (2017).

The classification of accounting firms as either Big Four or non-Big Four does not significantly influence the extent of earnings management practices. This is likely because earnings management is more heavily driven by internal managerial incentives, such as performance targets, bonus attainment, or stock price management, rather than external audit oversight.

Non-Big Four audit firms are still bound by auditing standards and professional ethical codes, meaning the quality of audit procedures may not substantially differ. In some cases, firms engaging in earnings management may deliberately choose auditors who are more accommodating, making the impact of accounting firm size less relevant. Thus, the size of the Public Accounting Firm is not a sole determinant of earnings management practices.

E. The Effect of Leverage on Earnings Management

The EViews output in Table 4.20, based on the Fixed Effect Model, shows that leverage has no significant effect on earnings management. This finding contradicts the theoretical rationale and hypotheses put forward by Firnanti (2017), Budiasih (2017), and Wijaya (2021).

Leverage, as measured by the Debt to Asset Ratio (DAR), reflects the proportion of a company's assets financed through debt. However, it does not capture short-term liquidity pressures that managers directly experience. The DAR is more structural in nature, meaning that a high leverage ratio does not necessarily prompt managers to manipulate earnings.

Firms with high leverage are often subject to stricter monitoring by creditors and external auditors, which indirectly limits managerial discretion in earnings management. This oversight, particularly in a strong corporate governance environment, helps mitigate agency conflicts and reduces the likelihood of financial statement manipulation.

Therefore, leverage is found to have no effect on earnings management due to the more dominant internal and external control mechanisms. This finding is also supported by the empirical studies of Drajat (2022) and Hind Muhtaseb (2023), which similarly concluded that leverage has no influence on earnings management.

F. The Influence of Information Asymmetry, Accounting Conservatism, Public Accounting Firm Size, and Leverage on Earnings Management

Tabel 2
Simultan Test

R-squared	0.878103	Mean dependent var	167.9818
Adjusted R-squared	0.835439	S.D. dependent var	472.6710
S.E. of regression	191.7443	Akaike info criterion	13.57720
Sum squared resid	1470635.	Schwarz criterion	14.12466
Log likelihood	-358.3731	Hannan-Quinn criter.	13.78891
F-statistic	20.58185	Durbin-Watson stat	1.106798
Prob(F-statistic)	0.000000		

The EViews output in Table 2, using the Fixed Effect Model, indicates that information asymmetry, accounting conservatism, the size of the Public Accounting Firm, and leverage ratio simultaneously influence earnings management. These results suggest that the model constructed in this study is reliable for predicting the regression outcomes.

The finding that these variables simultaneously affect earnings management implies that stakeholders—including ministries, investors, government institutions, and the Audit Board of Indonesia—must adopt a systematic and integrated approach, rather than relying solely on sectoral methods. Moreover, audit committees should play a stronger role in reinforcing internal control and oversight functions.

CONCLUSION

This study aims to obtain empirical evidence regarding the variables that may influence earnings management. These variables include information asymmetry, accounting conservatism, the size of the Public Accounting Firm, and leverage ratio.

The research was conducted on State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange for the period 2019–2023, excluding the telecommunications and financial sectors. The final sample consisted of 55 annual reports. Descriptive statistics and panel data regression analyses were employed to examine the influence of the independent variables on the dependent variable. Based on the results of statistical testing and discussion, the following conclusions were drawn:

Information asymmetry does not have a partial effect on earnings management. This condition indicates that principals had relatively symmetrical access to information, allowing them to detect anomalies in financial reports. The research period (2019–2023) coincided with the global COVID-19 pandemic, which encouraged collaboration and shared goals between principals and agents—namely, sustaining the company rather than pursuing opportunistic behavior. This condition reduced the likelihood of earnings manipulation by agents.

Accounting conservatism has a partial effect on earnings management. Managing revenue recognition and allowance for doubtful accounts are among the conservative accounting techniques that may influence earnings by anticipating potential losses and postponing the

recognition of uncertain gains. Therefore, principals must focus on formulating and monitoring policies related to bad debt reserves used by the company.

The size of the Public Accounting Firm does not have a partial effect on earnings management. Agents have deeper access to the company's operations, while auditors only assess whether financial statements are presented fairly within acceptable standards. As a result, earnings management that occurs within acceptable accounting boundaries may be difficult to detect.

Leverage ratio does not have a partial effect on earnings management. Not all companies with high debt levels are in financial distress, and companies with high leverage are typically subject to strict oversight by creditors, which reduces the opportunity for earnings management.

Overall, information asymmetry, accounting conservatism, Public Accounting Firm size, and leverage ratio are found to have a simultaneous effect on earnings management.

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