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THE EFFECT OF INFORMATION ASYMMETRY AND DIVERSIFICATION ON COMPANY VALUE WITH PROFIT MANAGEMENT AS AN INTERVENING VARIABLE

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ABSTRACT

This empirical research aims to analyze the effect of information asymmetry and diversification on firm value with earnings management as intervening variables and profitability, firm size, and leverage as control variables. This study analyzes six research objectives in detail: a. The effect of information asymmetry on earnings management; b. The effect of diversification on earnings management; c. The effect of information asymmetry on firm value; d. The effect of diversification on firm value; e. The effect of earnings management on firm value; and f. A more significant influence between the effect of information asymmetry and the effect on firm value directly or indirectly, namely through earnings management variables. The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange, with an observation year of 2015-2019. This research uses purposive sampling. This research uses panel data regression analysis. The expected research results are: a. Information asymmetry has a negative effect on earnings management; b. Diversification has a positive effect on earnings management; c. Information asymmetry has a negative effect on firm value; d. Diversification has a negative effect on firm value, e. Earnings management has a negative effect on firm value; and f. A more significant influence between the effect of information asymmetry and the effect on firm value directly or indirectly, namely through earnings management variables.

KEYWORDS *firm value, asymmetric information, diversification, earnings management, profitability, firm size, leverage.*

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INTRODUCTION

Profitability is the ability of a company to earn profits either through sales, total assets, or its own capital. Profitability is used as important information for external parties as an indicator of the company's performance. Profitability can influence managers to carry out profit management actions in their efforts to attract investors and creditors. Companies with large profits will be in demand more from investors because they are expected to provide greater returns for investors. Hidayat and Triyonowati (2020) mentioned that the company's profitability level can be a signal for investors to assess whether the company is in a healthy condition and able to obtain high profits.

Company size is a value that shows the size or size of a company as measured through total assets, log size, sales and stock price. Sugiarti and Widyawati (2020) states that the size of the company is associated with the company's assets where large assets will attract investors. Medium and large companies are under pressure from shareholders to produce better company performance than small companies. The size of the company can be seen from the total assets owned by the company.

Leverage is a ratio that measures the amount of a company's debt by indicating assets that can be used to secure debts (Hidayat, Juanda & Jati, 2019). Leverage is used to measure a company's ability to meet a company's short-term debt and long-term debt. The company tries to maximize its debt to finance the company's operations rather than using its own capital. Hidayat et al. (2019) Mentioning companies with a high level of leverage, managers tend to perform profit management due to the company's inability to fulfill its obligations on time.

According to research by Novyarni and Wijaya (2018), diversification has a positive effect on profit management. In line with research, Nur'aini and Darsono (2017) stated that the many variations in the company's business lines resulted in a variety of sources of company income, which led to a higher level of information asymmetry that triggered profit management actions by managers. The results of this study are different from the research Wijayanti and Mukti (2018) which states that diversification of operations has a negative effect on profit management. Diversification is a strategy that managers carry out in their efforts to develop the company; with this goal, the manager will focus on the success of the new business line, which will reduce the profit management behavior carried out by management.

According to Dwijayani, Surachman, Sumiati, and Djawahir (2020), there is a positive relationship between information asymmetry and company value. Investors use this information gap as an opportunity to get profits when investing, so the higher the company's information asymmetry, the higher the company's value will increase. The results of this study are not in line with the research of Fosu, Danso, Ahmad, and Coffie (2016), who stated that information asymmetry has a negative effect on the company's value. The results of this study are in line with those of Brother Wu Leads the Way (2019), who conducted a study in Vietnam. The researcher examined the effect of information asymmetry on the value of companies in developing countries, but the results confirmed that information asymmetry has a negative influence on the value of companies in Vietnam. The high asymmetry of information indicates the low transparency of financial information, which can obscure investors' and shareholders' analysis of the

company's current and future prospects and performance. This will raise doubts about the validity of the published financial statements and whether the accounting system has been adopted in accordance with the applicable PSAK; then, the information asymmetry will reduce the company's value for investors and shareholders.

According to research Symmetrical and Darmawan (2019) diversification has a positive effect on the company's value. Diversification is one of the company's strategies, and lines that record profits can cover other business lines that suffer losses. This is intended to generate stable corporate profits. Different from research Setianto (2020) Stating that diversification has a negative effect on the value of the company, companies that diversify in the early stages will incur more costs than the profits that may be obtained. The costs incurred are both in the form of research and development costs, surveys and comparative studies as well as other costs to improve the new product; this will certainly reduce the company's profit so that it has an impact on the company's value, which also decreases. This is in line with research by Alsmairat, Yusoff, Salleh, and Basnan (2018) that shows that companies listed on the Amman Stock Exchange in Jordan, both in the financial and non-financial industries, diversification, have a negative effect on the value of companies. The existence of diversification discounts causes a decrease in operating profit, which will reduce the company's value. In research, Borah, Pan, Park, and Shao (2018) who e, who examined high-tech industries, show that the industry shows a greater diversification discount than other industries because this industry has high-value non-fungible assets that are more complex in their asset valuation.

Results Mulyani (2018) found that the size of the company has a positive effect on profit management. In contrast, according to research by Novyarni and Wijaya (2018), the size of the company has a negative effect on profit management. This means that the larger the size of the company, the smaller the profit management practice will be because the larger the company, the supervision of the manager's performance will be further improved so that the company's goals are achieved, and fraud can be minimized. Internal supervision in the form of strict implementation of company operating standards (SOPs) and external supervision in the form of external audits by public accountants will improve the quality of the company's financial statements, which are indispensable for investors' and other external parties' decision-making.

Results Ramadhani and Sulistyowati (2021) stated that leverage has a positive effect on profit management. The company's high debt will trigger management to improve its performance in its efforts to gain and maintain the trust of creditors. Managers perform profit management to give creditors confidence that high levels of debt can result in high levels of profit. These results are not in line with research by Fatmala and Riharjo (2021) that leverage has a negative influence on profit management, a high level of debt will make it difficult for investors to predict the future of the company, investors will be more cautious and carry out higher supervision to maintain the stability of the company's performance. High supervision will reduce management movements in conducting profit management.

Profit management practices can still be found in large companies in Indonesia. For example, in the case of Garuda Indonesia (GIAA), which recorded a net income of USD 809 thousand in 2018, while in 2017, it lost USD 216 million. Another example of an accounting scandal case is PT Tiga Pilar Sejahtera Food Tbk (AISA), where the old management of AISA overstated Rp 4 trillion in several accounts in the 2017 financial statements. Both cases reflect that even open companies still practice profit management. Profit management can be triggered because there is competition to record good performance for investors and external parties; investors must be observant in assessing whether the financial information presented is correct or whether there is an element of profit management in it (Christabel & Awake, 2020).

The case of profit management practices above results in losses for investors, so investors can make mistakes in their decision-making when investing. The research motivation is to connect information asymmetry and diversification to profit management and company value. The novelty of the author in this study is to add profit management as an intervening variable. Investors tend to invest in companies with good performance. However, in large companies that have been listed on the capital market, profit management practices are still found. Investors need to understand the factors that can affect the company's value and whether profit management actions are carried out to evenly distribute profits from year to year so that the company's performance remains stable or whether profit management is opportunistic for the benefit of managers and certain parties.

The purpose of this study is to examine the influence of information asymmetry and diversification on company value with profit management as an intervening variable and profitability, company size and leverage as a control variable. The research sample is manufacturing companies listed on the Indonesia Stock Exchange from 2015-2019.

Problem Formulation

The author analyzes the influence of information asymmetry and diversification on company value with profit management as an intervening variable and profitability, company size, and leverage as a control variable. Based on the background of these variables, the formulation of this research problem is as follows:

1. Does information asymmetry affect profit management?
2. Does diversification affect profit management?
3. Does information asymmetry affect a company's value?
4. Does diversification affect the value of a company?
5. Does profit management affect company value?
6. Which has a more significant influence between the influence of information asymmetry and diversification on the company's value directly or indirectly, namely through profit management variables?

Research Objectives

The purpose of this study is to test and analyze empirical evidence:

1. The effect of information asymmetry on profit management
2. The effect of diversification on profit management
3. The effect of information asymmetry on company value

4. The effect of diversification on company value
5. The effect of profit management on company value
6. A more significant influence between the influence of information asymmetry and diversification on the company's value directly or indirectly, namely through profit management variables

RESEARCH METHODS

Research Design

This research is a causality test. The causality test is intended to determine the causal relationship of each independent variable to the dependent variable. This study aims to examine the influence of the dependent variable, namely company value, on the independent variable of information asymmetry and diversification and profit management as an intervening variable. The data used in this study is secondary data, which is already available on the Indonesia Stock Exchange but still requires further processing to answer existing problems. The population is made up of manufacturing companies that have been listed on the Indonesia Stock Exchange for the period 2015 – 2019.

Operational Definition and Variable Measurement

The variables used in this study are as follows:

a. Dependent variable (Y): Company Value (NP)

Company value is the investor's perception of the company's success in managing the company's resources, which is reflected in the company's share price (Tubagus & Khuzaini, 2020). A high company value will get a good response from investors because it is considered able to manage the company well, so it will increase the prosperity of shareholders. The value of the company was measured using Tobins Q in the study Holiawati and Murwaningsari (2019) and Bhatia and Thakur (2017) with the following formula:

NPit = (MVEit + TDit) / TAit

MVEit = Year-end share price x number of shares outstanding

Information:

NPit: Company value i in year t

MVEit: The equity market value of the company in the year t

TDit: Total debt of the company in year t

Tait: Total assets of the company in year t

b. Independent variable (X): Information Asymmetry (AI)

Information asymmetry is the information gap between the company's management and shareholders (Kusumaningtyas & Nasser, 2020). One of the problems that arises in the measurement of information asymmetry is that the level of information asymmetry among market participants cannot be directly observed (Nasih et al., 2016). The measurement of information asymmetry is proxied by bid-ask spread with the following formula (Sofia & Murwaningsari, 2020):

$$AIit = \frac{(ASKit - BIDit) \times 100\%}{(ASKit + BIDit) / 2}$$

Information:

AIit: Company information asymmetry i in year t

ASKit: The asking price of the closing price of the company's shares in the year t

BIDit: Bid price for closing company shares in year t

2. Diversification (DIV)

Diversification is a strategy implemented by companies by expanding market share or running businesses in several separate business segments (Symmetricis & Darmawan, 2019). Diversification is calculated using the Herfindahl index with the following formula (Symmetricis & Darmawan, 2019):

$DIV = \sum_{i=1}^{m} SEGSALit2 / (\sum_{i=1}^{m} SAL_{it})^2$

Information:

DIVit	:	Company diversification in year t
SEGSALit	:	Sales of each segment of the company in 2019
SALit	:	The company's total sales in the year t

c. Intervening variable (Z): Profit Management (ML)

Profit management is an accounting policy choice that managers make for a specific purpose (Scott, 2015). Meanwhile, according to (Belkaoui, 2004), profit management is the ability to manipulate the available options and make the right choices in order to achieve the desired level of profit. Profit management is measured using a conditional revenue model (Stubben, 2010). Teak and Murwaningsari (2020) and Sofia and Murwaningsari (2019) Also use this formula to measure profit management with the following formula:

$\Delta ARit = \alpha + \beta 1 \Delta Rit + \beta 2 \Delta RitxSIZEit + \beta 3 \Delta RitxAGEit + \beta_{4 \Delta RitxAGE\_SQit} + \beta_{5 \Delta RitxGRMit} + \beta 6 \Delta RitxGRM\_SQit + \varepsilon_{it}$

Information:

Sickle	:	Company's year-end accounts receivable in year t
R	:	The company's year-end operating income in year-t
SIZEit	:	Natural log of the company's total assets in 2019
AGEit	:	Company life in year t
GRMit	:	Gross Ratio Margin of the company in year t
$\_SQ_{it}$	:	Square of the variable
εit	:	Company item error in year t

d. Control variable: Profitability (PROF)

Profitability is the ability of a company to earn profits either through sales, total assets, or its own capital. Profitability is important information for external parties and an indicator of the company's performance. Profitability is measured using the following formula (Akhmadi & January 2021):

$PROFit = EATit / TA_{it}$

Information:

Profit	:	Company Profitability in Year t
EATit	:	The company's net profit in the year t
Tait	:	Total assets of the company in year t

2. Company Size (SIZE)

Company size is a value that shows the size or size of a company as measured through total assets, log size, sales, and stock price. The size of a company can be seen from the total assets owned by a company. Company size is measured using a

natural log of total assets (Talukdar et al., 2021). Husna and Satria (2019) Also use this formula to measure the size of a company with the following formula:

$SIZEit = (Ln)TA_{it}$

Information:

SIZEit	:	Company size in year t
$(Ln)TA_{it}$	:	The logarithm of the company's total assets in year t

3. Leverage (LEV)

Leverage is the company's ability to pay off both short-term and long-term debts. Companies that use debt to finance their operations are expected to earn higher profits and are expected to be a positive signal for investors (Suwardika & Mustanda, 2017). A company that does not have leverage reflects the use of its own capital to finance all of the company's operations. The debt-to-equity ratio can be measured by the following formula (Ichsani & Susanti, 2019):

$LEVit = TD_{it} / TEit$

Information:

Levit	:	Company leverage in year t
TDit	:	Total liabilities of the company in year t
CLICK	:	Total equity of the company in the year t

Data Collection Procedure

The data in this study uses secondary data available on the Indonesia Stock Exchange, which is further processed to answer existing problems. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange with the observation year 2015-2019. To obtain the author's sample using the purposive sampling method, which was selected based on the following criteria:

1. The selected sample is a manufacturing company listed on the Indonesia Stock Exchange (IDX) and publishes financial statements in the period 2015-2019.
2. The data in the financial statements used in the study are in Rupiah.
3. The company has data on the ask and bid prices of the company's shares in the period 2015-2019.
4. The company publishes company segmentation data for the period 2015-2019.

Data Analysis Methods

Descriptive Statistical Test

According to Ghozali (2018), Descriptive statistical tests provide an overview or description of data groups presented in minimum, maximum, mean, and standard deviation values.

Panel Data Regression Analysis

This study uses a ratio scale, namely the value of a variable can be compared, the distance can be calculated (added, subtracted, multiplied and divided) but the value of zero (0) on the ratio scale is absolute.

This study adopts panel data regression analysis. Panel data regression analysis is a regression analysis with a panel data structure. It has the same goal as multiple linear regression, which is to predict intercept and slope values. Panel data is a combination of cross-section data and time series data, where the same cross-section unit is measured at different times or data from several of the same

individuals is observed over a certain period of time. Having a regression equation can be as follows:

Equation I:

$ML = \alpha 0 + \alpha 1AIit + \alpha 2DIVit + \alpha 3PROFit + \alpha 4SIZEit + \alpha 5LEVit + \varepsilon it1$

Equation II:

$NPit = \alpha_0 + \alpha 6AIit + \alpha 7DIVit + \alpha 8MLit + \alpha 9PROFit + \alpha 10SIZEit + \alpha 11LEVit + \varepsilon it2$

Information:

MLA	:	Company profit management in year t
NPit	:	Company value i in year t
AIit	:	Company information asymmetry on day t
DIVit	:	Company diversification in year t
Profit	:	Company profitability in year t
SIZEit	:	Company size in year t
Levit	:	Company leverage in year t
εit	:	Company Item Error I in Year T
α	:	Constant

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistics aim to provide an overview of the data of research results presented in the form of minimum, maximum, average, and standard deviation values. The results of the descriptive statistical test will be explained in Table 1 as follows:

Table 1. Descriptive Statistical Results

Variable	n	Minimum	Maximum	Mean	Std. Deviation
NP	245	0.4206	23.2858	1.8619	2.6871
AI	245	0.0006	0.2320	0.0248	0.0336
DIV	245	0.1912	0.9902	0.5946	0.2049
ML	245	0.0001	0.2023	0.0224	0.0282
PROF	245	-0.1761	0.9210	0.0599	0.1014
SIZE	245	0.0893	352.0000	14.1000	44.7000
LEV	245	0.0761	786.9676	4.3939	50.2196

Source: Secondary Data Processing

Note: NP: Company Value, AI: Information Asymmetry, DIV: Diversification, ML: Profit Management, PROF: Profitability, SIZE: Underestimate of the Company, LEV: Leverage.

Based on Table 1, it can be seen that the objects studied (N) in the period 2015 – 2019 are as many as 245 observation data. This table is used to help identify the magnitude of deviations in each variable that affect each other. Descriptive statistical analysis showed the following results:

Company Value (NP)

Company value is the investor's perception of the company's success in managing the company's resources, which is reflected in the company's share price (Tubagus & Khuzaini, 2020). Table 1 shows that the value of the company varies from a low of 0.4206 to a high of 23.2858. A company value of less than 1 indicates a market value lower than the book value of assets (undervalued), so the company is still said to be cheap. On the other hand, if the company's value is more than 1, the company is already classified as expensive or overvalued. The average value of the company is 1.8619, which shows that the average manufacturing company for the period 2015-2019 is overvalued. The variable of the company's value has a standard deviation value of 2.6871, which is higher than the mean value of 1.8619, so this shows poor data variation because it is heterogeneous.

1. Information Asymmetry (AI)

Information asymmetry is the information gap between the company's management and shareholders (Kusumaningtyas & Nasser, 2020). Table 1 shows that the information asymmetry of manufacturing companies listed on the IDX for the 2015-2019 period has an average value of 0.0248. The minimum spread value is 0.0006, and the maximum is 0.2320. The lower the spread value indicates that the price is not too volatile. Stock prices that are too volatile are less attractive to investors because the further away the bid and ask prices are. The wider the bid and ask values can lead to a longer time for investors to buy or sell at the desired price, so the smaller the investment spread is considered more liquid. The information asymmetry variable has a standard deviation value of 0.0336, which is higher than the mean value of 0.0248, which indicates poor data variation because it is heterogeneous.

2. Diversification (DIV)

Diversification is a strategy implemented by companies by expanding market share or running businesses in several separate business segments (Symmetricis & Darmawan, 2019). Table 1 shows that the diversification of manufacturing companies listed on the IDX for the period 2015 – 2019 has an average value of 0.5946. The lowest value of 0.1912 and the highest value of 0.9902 indicate the variation in business segmentation owned by the company. The lowest value of 0.1912 indicates a high level of diversification in the company, while a maximum value of 0.9902 or close to a value of 1 indicates that the company is more focused on one specific segment. The diversification variable has a standard deviation value of 0.2049, which is lower than the mean value of 0.5946, so this shows good data variation because it is homogeneous.

3. Profit Management (ML)

Profit management is the behavior of managers in the manipulation of company profits, which is carried out with the sole purpose of the manager's personal interests, namely so that his performance is seen well by the principal so that the manager gets a high bonus as compensation. Table 1 shows that the profit management value of manufacturing companies listed on the IDX for the period 2015 – 2019 has an average value of 0.0224, which means that, on average, companies manage profits by increasing company profits (because they have a positive value), while if they have a negative value, it means that they reduce the company's profit. If the company does not manage profits, it must have a value of

zero (0) because the residual value is zero (0). The profit management variable has a standard deviation value of 0.0282, which is higher than the mean value of 0.0224, so this shows poor data variation because it is heterogeneous.

4. Profitability (PROF)

The company's ability to generate profits is one of the indicators of the company's performance, and it will greatly affect the company's operations in the next period. Table 1 shows that the profitability value of manufacturing companies listed on the IDX for the 2015-2019 period has an average value of 0.0599, which means that the average manufacturing company in Indonesia in 2015-2019 was able to generate a net profit of 5.99%. The lowest value of -0.1761 indicates the inability of the company to generate profits from its assets. The highest value of profitability of 0.9210 shows that every Rp. 1 of the company's assets is able to generate a net profit of 92.1%. This reflects that the company is able to generate high profits with the assets owned by the company. The profitability variable has a standard deviation value of 0.1014, which is higher than the mean value of 0.0599, so this shows poor data variation because it is heterogeneous.

5. Company Size (SIZE)

The size of the company can be measured from the total value of the company's assets. Advanced companies tend to have assets that increase from period to period so that an improvement in the company's management performance can be seen. Table 1 shows the size of companies from 245 observation data that have an average value of total assets of IDR 14,100,000,000,000. The lowest total asset value is IDR 89,300,000,000, and the highest total asset value is IDR 352,000,000,000,000. The company size variable has a standard deviation value of 40,700,000,000,000,000, which is higher than the mean value of 14,100,000,000,000,000, so this shows poor data variation because it is heterogeneous.

6. Leverage (LEV)

Leverage is used to measure a company's ability to meet a company's short-term debt and long-term debt. Table 1 shows that the leverage of manufacturing companies listed on the IDX for the period 2015 – 2019 has an average value of 4.3939, showing that the average manufacturing company in Indonesia has a high level of debt, which indicates that the higher the debt level, the higher the loan interest burden that the company must pay so that it will reduce profits. The lowest value of leverage is 0.0761, while the highest value of 786.9676 indicates the high level of the company's funding through external debt. The leverage variable has a standard deviation value of 50.2196, which is higher than the mean value of 4.3939, so this shows poor data variation because it is heterogeneous.

Model Assessment Results (Model Fit)

Common Effect Pooled Least Square (PLS)

The first step in determining the model is to test the Common Effect, where the approach that is often used is the Ordinary Least Square (OLS) method. The Common Effect model ignores the difference in individual and temporal dimensions so that intercepts and slopes do not change either between individuals or between times. Here are the test results:

Table 2. Common Effect Results of Equations I

Adjusted R-squared	0.041560
Prob(F-statistic)	**0.009591**

Source: Secondary Data Processing

Table 3. Common Effect Results of Equation II

Adjusted R-squared	0.363351
Prob(F-statistic)	**0.000000**

Source: Secondary Data Processing

Based on Table 2 and Table 3, it is known that the probabilities for Equation I and Equation II are 0.009591 and 0.000000. Then the test continued with the Fixed Effect Model (FEM).

Fixed Effect Model (FEM)

The Fixed Effect model assumes that the intercept of each individual is different while the slope between individuals is fixed (the same). Statistically, the intercept value is the average value in variable Y if the value in variable X is 0. In other words, if variable X does not contribute to the dependent variable (Y), then on average, the value of variable Y will be equal to the intercept, while the slope is a value that shows how much contribution a variable X gives to variable Y. Here are the test results:

Table 4. Fixed Effect Results of Equation I

Adjusted R-squared	0.327314
Prob(F-statistic)	**0.000000**

Source: Secondary Data Processing

Table 5. Fixed Effect Results of Equation II

Adjusted R-squared	0.961287
Prob(F-statistic)	**0.000000**

Source: Secondary Data Processing

Based on the Table. 4 and Table 5 obtained the results of the probability on Equation I and Equation II are as 0.000000 and 0.000000. Then the test continued with Random Effect Model (REM).

Random Effect Model (REM)

This model is very useful if the individuals (entities) taken as a sample are randomly selected and are representative of the population. In the Random Effect model, the difference in intercepts is accommodated by the error terms of each company. Statistically, the intercept value is the average value in variable Y if the value in variable X is 0. In other words, if variable X does not contribute to the dependent variable (Y), then on average, the value of variable Y is equal to the intercept, while the slope is a value that shows how much contribution variable X gives to variable Y. The following are the results of the test:

Table 6. Random Effect Results of Equation I

Adjusted R-squared	0.022450
Prob(F-statistic)	**0.063691**

Source: Secondary Data Processing

Table 7. Random Effect Results of Equation II

Adjusted R-squared	-0.01840
Prob(F-statistic)	**0.952698**

Source: Secondary Data Processing

Based on the Table 6 and Table 7 obtained the results of the probability on Equation I and Equation II are as 0.063691 and 0.952698. Thus the test is continued on Chow Test.

Chow Test

The next step is to do a Chow test. The Chow test is a test to determine the Common Effect or Fixed Effect model that is most appropriate to use in estimating panel data.

For the Chow test, the following hypothesis is used:

H0: Common Effect

H1: Individual Effect (Fixed Effect)

Decision:

If the Prob value of the Cross-section Chi-square < 0.05 (alpha 5%), then H_0 is rejected, and H_1 is accepted. On the other hand, if the Prob value of the Chi-square Cross-section > 0.05 (alpha 5%), then H_0 is accepted, and H_1 is rejected.

Table 8. Chow Test Results Equation I

Cross-section Chi-square	**0.0000**

Source: Secondary Data Processing

Based on the results of the Chow test in Equation I, showing the magnitude of the Prob value of the Cross-section Chi-square of 0.0000 < 0.05 (alpha 5%), then H_1 is accepted. It can be concluded that the selected model is FEM, so the test continues to the Hausman test.

Table 9. Results of Chow Test Equation II

Cross-section Chi-square	**0.0000**

Source: Secondary Data Processing

Based on the results of the Chow test in Equation II, showing that the magnitude of the Prob value of the Cross-section Chi-square is 0.0000 < 0.05 (alpha 5%), then H_1 is accepted. It can be concluded that the selected model is FEM, so the test continues to the Hausman test.

Hausman Test

The Hausman Test is a statistical test to choose whether the Fixed Effect or Random Effect model is most appropriate, with the following hypotheses:
H0: Random Effect
H1: Fixed Effect

Decision:

If the prob value of the random Cross-section < 0.05 (alpha 5%), then H0 is rejected, and H1 is accepted. On the other hand, if the prob value of the Cross-section random > 0.05 (alpha 5%), then H0 is accepted, and H1 is rejected.

Table 10. Results of the Hausman Equation Test I

Cross-section random	**0.3347**

Source: Secondary Data Processing

Based on the results of the Hausman test in Equation I, showing the magnitude of the Prob value from the random Cross-section of 0.3347 > 0.05 (alpha 5%), then H_0 is accepted. It can be concluded that the selected model is REM, so for hypothesis testing and goodness of fit test, the results of REM will be used.

Table 11. Results of the Hausman Equation Test II

Cross-section random	**0.0000**

Source: Secondary Data Processing

Based on the results of the Hausman test, showing the magnitude of the Prob value of the Cross-section random of 0.0000 < 0.05 (alpha 5%), H_0 was rejected. It can be concluded that the selected model is FEM, so for hypothesis testing and the Goodness of Fit test, the results from the FEM will be used.

Discussion of Research Results

The following is a discussion from Table 4.10 related to the research hypothesis:

The effect of information asymmetry on profit management

The first hypothesis in this study tests whether there is an influence of information asymmetry on profit management. Based on the results of hypothesis 1 testing, the result was obtained that information asymmetry does not have a positive effect on profit management, so this result does not prove and accept the first hypothesis.

This finding is contrary to the agency theory, where managers, as the party who manages the company, know more internal information than principals, thus encouraging managers to manage profits for their own benefit. The results of this study are not in line with the research of Sofia and Murwaningsari (2019), who found that information asymmetry has a positive influence on profit management. The difference in the level of information owned by managers and shareholders results in shareholders not getting an overall picture of the company's performance and prospects in the future. This level of information inequality can trigger managers to carry out profit management.

However, the results of this study are supported by the research of Putri and Machdar (2017), who found that information asymmetry has no effect on profit management. The lack of information asymmetry on profit management is due to strict internal supervision where managers do not get loopholes to practice profit management or stock ownership by managers.

The effect of diversification on profit management

The second hypothesis in this study tests whether diversification has an influence on profit management. Based on the results of hypothesis 2 testing, the results were obtained that diversification does not have a positive effect on profit management, so this result does not prove and accept the second hypothesis.

This finding is contrary to the results of the study Novyarni and Wijaya (2018) stated that diversification has a positive effect on profit management. These results are supported by research Nur'aini and Darsono (2017) stated that the many variations in the company's business lines resulted in a variety of sources of company income which led to a higher level of information asymmetry that triggered profit management actions by managers.

Diversified companies will have a complex organizational structure compared to focused companies, which can lead to greater complexity of information for investors and financial analysis and lower levels of transparency. This can lead to a higher level of information asymmetry between managers and shareholders and create a favorable situation for managers to practice profit management (Siregar & Veronika, 2017).

However, the results of this study are in line with those of Siregar and Veronika (2017), who state that company diversification has no effect on profit management. This means that the various business segments owned by the company do not show a variety of sources of corporate income that can increase information asymmetry and enable profit management. These results are supported by research by Sofia and Murwaningsari (2019), which shows that diversification has no effect on profit management.

The effect of information asymmetry on company value

The third hypothesis in this study tests whether information asymmetry influences the company's value. Based on the results of hypothesis 3 testing, the result was obtained that information asymmetry does not have a negative effect on the company's value, so this result does not prove and accept the third hypothesis.

This finding is contrary to the results of the study Fosu et al. (2016) that stated that information asymmetry has a negative effect on the company's value. The results of this study are supported by research by Huynh et al. (2019), who conducted a study in Vietnam. The researcher examined the effect of information asymmetry on the value of companies in developing countries, but the results confirmed that information asymmetry has a negative influence on the value of companies in Vietnam.

The high asymmetry of information indicates the low transparency of financial information which can obscure the analysis of investors and shareholders on the company's current and future prospects and performance. This will raise doubts about the validity of the published financial statements and whether the accounting system has been adopted in accordance with the applicable PSAK; then,

the information asymmetry will reduce the company's value for investors and shareholders.

However, the results of this study are in line with the research of Safitri, Zaiman, Ardani and Akbar (2021) which stated that information asymmetry has no effect on company value. This result is supported by the research of Azari and Fachrizal (2017).

The effect of diversification on company value

The fourth hypothesis in this study tests whether diversification influences the value of companies. Based on the results of hypothesis 4 testing, the result was obtained that diversification has a negative effect on the value of the company, so this result proves and accepts the fourth hypothesis.

The results of this study are in line with the research Setianto (2020) Stating that diversification has a negative effect on the value of the company, companies that diversify in the early stages will incur more costs than the profits that may be obtained. The costs incurred are both in the form of research and development costs, surveys and comparative studies as well as other costs to improve the new product; this will certainly reduce the company's profit so that it has an impact on the company's value, which also decreases. This is supported by research by Alsmairat et al. (2018) and Borah et al. (2018). The existence of diversification discounts causes a decrease in operating profit, which will reduce the company's value.

The effect of profit management on company value

The fifth hypothesis in this study tests whether profit management influences the company's value. Based on the results of hypothesis 5 testing, the result was obtained that profit management has a negative effect on the company's value, so this result proves and accepts the fifth hypothesis.

Investors react positively to positive earnings information and respond negatively to the company's negative earnings information, whereas good news and bad news can affect the movement of stock returns. Investors usually use the company's profit information to observe the manager's performance, the ability to generate future profits, and the risk of investing in the company, so investors need to have in-depth knowledge so that they can evaluate more accurately. Smart investors tend to react negatively to profit management practices because profit management actions show the company's inability to generate profits, so it is necessary to make a make-up of the company's financial statements. This action will result in a bad image of the company, so it can reduce the value of the company in the eyes of the public.

The results of this study are in line with the research of Handayani and Hebrews (2020) that profit management has a negative influence on the company's value; if profit management is carried out continuously, it can reduce the company's value. These results are in line with research by Deva and Machdar (2017) that profit management actions by using loopholes in management policies with the aim of increasing profits in accordance with management's wishes have an impact on increasing investment interest in the company, but when the impact of profit management is a decrease in profits in the next period, this can be a trigger for investors not to invest.

The direct influence of information asymmetry and diversification on the company's value or the indirect influence through profit management

This study examines whether information asymmetry and diversification have a direct effect on company value or indirectly through profit management. Based on the results of this study, it was obtained that profit management was unable to mediate the relationship between information asymmetry variables and diversification to company value.

Information asymmetry does not directly affect the value of the company, and this is because investors use financial statements as the main source of information in observing the company's performance, investment decision-making is taken based on the financial statement data published by the company and has been audited by independent auditors, so that errors in the presentation of financial statements will be smaller. So, the indirect relationship between information asymmetry and company value through profit management is unacceptable.

Diversification directly has a negative influence on the value of the company. The costs that companies must incur in diversification tend to be greater than the profits obtained at the beginning of diversification. The costs incurred in the form of research and development and other costs may continue to come out for a certain amount of time until the business line is declared successful. However, in companies with a low level of diversification or no diversification at all, the costs incurred are relatively small or non-existent. The high cost incurred will increase costs and reduce profits; this will be a signal to external parties that the appearance of additional costs that are a burden on the company, and it will reduce the value of the company. A high level of diversification in the company will drain management's attention in maximizing resources and the ability to make the line successful, with this focus, the manager will reduce profit management because the business line has not yet allowed the manager to carry out the practice, so the indirect relationship between diversification and company value through profit management is unacceptable.

CONCLUSION

This study aims to test and analyze the influence of information asymmetry and diversification on company value with profit management as an intervening variable and profitability, company size, and leverage as a control variable. Based on the results of the research on the value of manufacturing industry companies listed on the Indonesia Stock Exchange (IDX) during 2015-2019, the following conclusions can be given: There was no influence of the company's information asymmetry variable on profit management. This shows that the information asymmetry carried out by the company manager has no impact on profit management. There is no influence of the company's diversification variable on profit management. This shows that the existence or absence of diversification does not have an impact on profit management in a company. There was no effect of the asymmetric variable of company information on the value of the company. This shows that the information asymmetry carried out by managers has no impact on the company's value. There is a negative influence of the company's diversification variable on the company's value. This shows that the more diversification carried

out by the company will result in a decrease in the company's value. There is a negative influence of profit management variables on the company's value. This shows that the higher the profit management practices carried out by the company, the lower the company's value. Profit management is not able to mediate the relationship between the variables of information asymmetry and diversification to the value of the company. This shows that the existence or absence of profit management does not have an impact on the influence of information asymmetry and diversification on the company's value.

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