INFORMATION DETECTION OF BID-ASK SPREAD AND FIRM SIZE ON EARNING MANAGEMENT WITH GOOD CORPORATE GOVERNANCE AS A MODERATING VARIABLE

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Abstract

The objective of this research is to examine how bid-ask spread and company size impact earnings manipulation, with effective corporate governance acting as a moderating factor. This research employs a quantitative method by analyzing secondary data sourced from the annual reports of manufacturing businesses that are publicly traded on the Indonesia Stock Exchange (IDX) between 2018 and 2022. Samples were collected using purposive sampling with specific criteria. The results showed that a larger bid-ask spread can result in more earnings manipulation, while company size does not significantly affect earnings manipulation. Good corporate governance affects the bid-ask spread and earnings management relationship, but not the company size and earnings management relationship. This study highlights the significance of implementing good corporate governance in reducing earnings management practices and advises investors to consider corporate governance before investing.

Keywords: Bid-Ask Spread, Company Size, Earnings Management, Good Corporate Governance

1. INTRODUCTION

Financial statements serve as a crucial resource for individuals outside the company looking to evaluate its performance. It is essential that the information presented is both pertinent and trustworthy in order to accurately portray the company's financial standing. This necessity often leads managers to explore various strategies, such as manipulating earnings, to boost their company's bottom line. As a result, management is consistently focused on delivering strong results (Andika & Sukartha, 2015).

The phenomenon of the problem in this study occurs when a number of people still take advantage of the loopholes in the capital market to launch their criminal acts. From the PPATK statistical report data in the October 2022 edition, between January and October 2022, there were 1,033 reports of financial transactions under examination. This figure saw a 20.8% rise from the previous year's 855 reports during the same timeframe. Notably, none of these reports pertained to activities within the capital market, a trend that has persisted for some time.

Capital market activities that continue to grow cause investors to now focus on investing in the capital market in Indonesia, even so of course various companies are not always able to generate income every year. There are several companies that have experienced a decline, such as Merck Tbk. which posted a revenue from continuing operations of Rp316.79 billion in the first semester of 2019, up 7.22% compared to the first semester of 2018 of Rp295.45

billion, although profit from continuing operations fell 79.76% to Rp 6.12 billion in that period. Merck Corporate Secretary Melisa Sandrianti said that the performance in the first semester of 2019 was still in line with the company's target, which had reached almost 50% of the target for this year. Meanwhile, profits in the first half of this year were depressed due to the greater contribution of sales to the National Health Insurance market.

The topic of corporate governance (CG) has garnered global interest and discussion following a string of high-profile corporate failures, including the downfall of well-regarded firms like Enron, WorldCom, and Arthur Andersen. This situation sparked significant worries about the dependability of financial reporting and the effectiveness of the oversight mechanisms within companies. In response to these scandals, numerous stakeholders have contended that boards of directors and audit committees failed to provide adequate supervision of management (Al-Matari et al., 2012). Good GCG implementation in Indonesia is still quite weak. The survey conducted by the Asian Corporate Governance Association (ACGA) reveals that Indonesia is positioned 11th among the countries evaluated. The research subjects included Singapore, Hong Kong, Japan, Taiwan, Thailand, Malaysia, India, Korea, China, the Philippines, and Indonesia.

According to data from the Asian Corporate Governance Association (ACGA), the value of Corporate Governance implementation in Indonesia has declined, despite a rise observed between 2016 and 2018. This indicates that there remains a significant gap in awareness regarding Corporate Governance practices in Indonesia. Phenomenon occurs in transportation or logistics companies in Indonesia is the case of Pt. National Bonded Zone (KBN). Director of The Maritime National Istitute (Namarine), Siswanto Rusdi highlighted the implementation of good corporate governance (GCG) at PT Kawasan Berikat Nusantara (KBN). This is linked to the corporate governance issues present in this state-owned enterprise (BUMN).

Siswanto encouraged PT KBN to better understand Law No. 17/2008 and its derivatives, namely PP No. 61/2009 concerning Ports which was updated with PP No. 64/2015. Many business actors do not understand the purpose of the concession from the Law. One of the GCG problems is the legal dispute between PT KBN and PT KCN. Where PT KBN filed a lawsuit against PT KCN. The legal issue arose due to PT KBN's desire to control 50% of the shares in PT KCN. This case has been decided at the cassation level. The Supreme Court on its official website granted the cassation filed by KCN. The verdict of KCN's cassation against KBN, as a minority shareholder, was made on September 10, 2019.

In addition, there are a number of Minister of Transportation Regulations that regulate the implementation and technical levels related to port concessions (management). "In the future, KBN must know the character of its business as a land manager even though there is a sea side management business but the rules must be clearly understood," Siswanto told reporters in Jakarta, Wednesday (9/25/2019). Siswanto stated this in response to several problems in the implementation of GCG at PT KBN. As a state-owned company, PT KBN should implement corporate governance as well as possible. "The implementation of GCG is also an effort to be accountable for the use of public funds through the state budget as state assets set aside," he said.

In research (Natasha & Bangun, 2020) that the bid-ask spread does not significantly impact earnings management, as its effect is greater than the established significance level. Conversely, when looking at the firm size variable, it is evident that the size of a company does not significantly influence earnings management. Thus, it can be inferred that although firm size may have a slight impact, it is not significant in terms of earnings management. Meanwhile, research by Kahfi (2023) reported that the bid-ask spread has a beneficial impact on the manipulation of financial statements to show higher profits. Maulida Isnawati (2023) in her research explains that size of a company does not impact earnings manipulation, while effective corporate governance has a detrimental impact on earnings manipulation. As for the research by (Ghozali et al., 2022) suggested that the bid-ask spread can have a favorable impact on earnings manipulation, however, corporate governance weakens the connection between bid-ask spread and earnings manipulation.

Additionally, it serves as a source of input and supplemental reference for investors. It is recommended for investors to focus on bolstering factors such as consistently improving corporate governance within the company on an annual basis prior to making any investments. Astuti & Setiawati (2014) stated that the following action to take is to investigate whether GCG, when used as a moderating factor, enhances or diminishes the impact of bid-ask spread on real earnings manipulation in order to achieve optimal remuneration. This study builds upon previous research by Ghozali et al. (2022) “Bid Ask Spread on Earning Managament with Good Corporate Governance as Moderation Variable : Banking Sector in Indonesia” so based on given the information provided, this study is aimed at examining how bid-ask spreads and company size influence earnings manipulation, with effective corporate governance acting as an intermediary.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory revolves around the correlation among the owner, also known as the principal, and the agent, also referred to as the principal. The main challenge associated with agency theory stems from the conflicting motivations between owners and managers. Owners are commonly referred to as principals, while managers are often labeled as agents. They are two parties who have different objectives in managing a business, especially in terms of maximizing satisfaction and interests in business performance (Armanza, 2012). The relationship between agents and principals must have strong trust, where the agent provides all information on the development of the company owned by the principal, using all kinds of accounting information, because only management knows the exact status of the principal.

2.2. Earning Management

Managing earnings involves executives taking steps to adjust a company’s profits with the intention of benefiting themselves. This behavior is demonstrated by altering earnings to highlight favorable information regarding a company's performance (Huynh, 2020).

2.3. Firm Size

A company’s size is typically classified as either big or small. The dimensions of a business can be determined by analyzing its overall revenue, combined assets, and the size of its workforce. The magnitude of a corporate can be assessed by its total assets by the conclusion of the financial year.

2.4. Good Corporate Governance

Corporate governance serves as a framework that coordinates, manages, and oversees the management of business operations. Good corporate governance has the potential to enhance the effectiveness of the economy and encompasses various interactions among company leaders, board members, investors, regulatory bodies, staff, and other key players within the organization (Astuti & Setiawati, 2014). Corporate governance presents a chance to establish corporate goals and determine methods for monitoring performance.

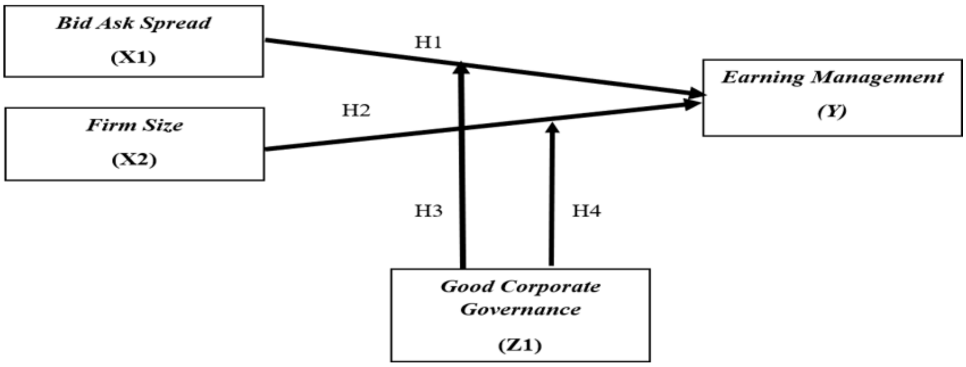

Figure 1. Research Hypothesis

2.5. Research Hypothesis

a. How Bid-Ask Spread Affects Earnings Management

Various studies have indicated that the bid-ask spread has the potential to impact the manipulation of earnings. A wide bid-ask spread provides managers with greater chances to manipulate earnings, thereby affecting the precision of financial statements necessary for attracting external investments. Signaling theory suggests that there is a gap between the information available to internal and external parties. This lack of transparency can lead investors to rely on misleading signals from managers who might manipulate earnings. Studies show that a larger bid-ask spread is associated with a greater likelihood of earnings manipulation, as the wider spread gives managers more room to alter financial results.

The wide bid-ask spread highlights the imbalance in information between those inside and outside the company. Managers may manipulate earnings to serve their own interests or to present a favorable performance when external parties are unaware of the company's true situation. Further research suggests that this information gap, as indicated by the bid-ask spread, negatively impacts earnings management.

No company wants to deal with information asymmetry, as it has the potential to impact the level of manipulation of financial results. Information asymmetry, often measured by bid-ask spreads, indicates a discrepancy between what insiders and outsiders know. Research by Wiharno & Rahayu (2018) found that information asymmetry, as reflected by bid-ask spreads, positively impacts earnings management. This finding aligns with studies like those by Rizky & Winarni (2020), which also show a constructive relationship between bid-ask spreads and earnings management. However, this contradicts the research by (Rahbar & Khodadady, 2015) which found that bid-ask spreads do not affect earnings management.

H1: Bid-ask spread influences earnings management.

b. How Firm Size Affects Earnings Management

Company size can be assessed through several indicators, including revenue, total assets, or the number of employees. Among these, total assets are often preferred as they provide a more stable and accurate reflection of a company's size. Therefore, this research uses total assets as the primary measure for determining company size. Larger companies are more likely to experience information asymmetry, which in turn increases the opportunities for management to engage in earnings manipulation.

Large companies will be more likely to face information asymmetry. In Nadilla et al (2018), this implies more chances for management to manipulate earnings. The study of Nadilla, et al (2019) state that there is a positive correlation between firm size and earnings management, but these results contradict research conducted (Astari & Suputra, 2019; Trisnawati et al., 2015) which states that firm size has no significant effect on earnings management.

H2: Firm size influences earnings management.

c. The Correlation Between Bid-Ask Spread and Earnings Management is Unaffected by Good Corporate Governance

Good Corporate Governance (GCG) promotes transparency in documentation and financial reporting, along with effective and efficient oversight. By ensuring clear and open financial reporting, GCG allows owners to better monitor managerial performance and thus reduces the likelihood of earnings management practices. It occurs when managers manipulate financial statements for personal gain. Strong corporate governance helps curb these practices. In companies with wide bid-ask spreads, internal stakeholders typically possess more information than external ones, which increases the likelihood of earnings manipulation. However, robust GCG with tighter supervision can mitigate these opportunities and reduce earnings management.

The existence of effective Corporate Governance is anticipated to mitigate the influence of bid-ask spread on earnings manipulation. Studies have shown that corporate governance acts as a buffer in this correlation, indicating that GCG has the potential to alleviate the connection between bid-ask spread and manipulative practices. As per agency theory, GCG has the ability to curb earnings manipulation by supervising and regulating the behaviors that managers, or agents, may engage in if left unchecked. This regulatory framework ensures that management actions align with the company’s welfare and its shareholders. This study aligns with previous research carried out by Agatha & Imelda (2020) which concluded that bid ask spread has a great impact on earnings management. A larger bid-ask spread often provides managers with more opportunities for earnings management. This is because a wide spread can indicate a disparity in information between internal and external parties. When external parties lack insight into the company's future prospects, managers may be more inclined to manipulate earnings to benefit themselves or to present a more favorable performance. Nonetheless, this discovery contradicts some of the research conducted by Triantoro & Bertuah (2020) which shows that corporate governance can reduce the effect of bid-ask spread on earnings management.

Research conducted by Lantang & Ardiansyah (2021) also shows that good corporate governance contributes to lowering information asymmetry and restraining earnings management. When companies have strong corporate governance practices, it minimizes the chances for parties to exploit information gaps for personal gain. Effective corporate governance ensures transparency, efficiency, and adherence to regulations, which helps in curbing excessive earnings management. By implementing robust corporate governance, companies can foster a more transparent and accountable market environment.

H3: The effectiveness of Bid-Ask Spread is not affected by Good Corporate Governance.

d. The Correlation Between Bid-Ask Spread and Earnings Management is Affected by Good Corporate Governance

Corporate governance plays a role in controlling the manipulation of earnings. Companies with large spreads between bid and ask prices may have internal groups with privileged information, allowing them to manipulate earnings. Effective corporate governance, however, provides stricter supervision to prevent or eliminate such practices.

A larger company size generally boosts investor confidence, leading to an increase in the company's value. Large companies have better access to capital markets due to their ability to secure funds more easily. This ease of access is viewed positively by potential investors, signaling strong growth prospects and a promising future. As a result, the size of a company can positively impacts its overall firm value.

The size of a company is usually classified as either large or small depending on different criteria like overall sales, total assets, and the number of staff. Evaluating a firm's size is frequently done by looking at its total assets recorded at the conclusion of the financial year. High total sales indicate substantial capital and assets, supporting large-scale production activities. This substantial scale can positively influence the company's value. Large firms, in particular, strive to maintain a strong image to attract investors and build relationships. The perception of a large company being well-known can facilitate an increase in its value. Additionally, company size plays a crucial role in its profit-generating capacity. The influence on earnings management is positively affected by the size of the firm and is influenced by the practices of good corporate governance.

This study corroborates the earlier work of Joe & Ginting (2022) which conclude that company size significantly impacts earnings management. It is defined by various metrics, such as total assets, market value, total sales, and revenue. Larger companies, with their extensive operations and greater scale, often experience more complex earnings management practices. This is because the magnitude of their operations increases, resulting in an increase in chances for managers to manipulate earning. Conversely, smaller companies, due to their limited size and value, may also exhibit earnings management behaviors, but often in a different manner, as they aim to present a more substantial financial position. This aligns with Sheli Marselina's research (2020), although it contrasts with findings from (Purnama & Taufiq, 2021)

H4: Good Corporate Governance have the potential to regulate the impact of company size on financial manipulation.

3. RESEARCH METHODS

The research is quantitative and involves hypothesis testing. The researchers used secondary data from annual reports of manufacturing companies on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The study looked at Bid-Ask Spread and Firm Size as independent variables, Earning Management as the dependent variable, and Good Corporate Governance as the moderating variable. It specifically focused on manufacturing companies on the Indonesia Stock Exchange (IDX) during this time period. Nonprobability sampling was used with a purposive sampling technique, considering specific criteria.

a. The Indonesian Stock Exchange had manufacturing companies listed from 2018 to 2022.
b. The study only included companies with comprehensive data, such as financial reports up to December 31st.

The process of conducting research consists of a series of steps that must be followed by the researcher in order to collect information in a systematic way, which is consistent with the selected research approach and the quantitative approach used in this research. According to Paramita (2015), the quantitative method emphasizes the use of numerical data to test theories and make analyses using statistical techniques. It is important to carefully evaluate the authenticity of the data source during data collection. The researchers used secondary data from publicly traded manufacturing firms in Indonesia found on the IDX website for this study.

This research utilized quantitative data from annual financial reports, stock prices, and Corporate Governance Perception Index (CGPI) scores. Secondary data includes financial statements of manufacturing companies listed on the IDX from 2018-2022 and bid-ask data from Yahoo Finance. The research focuses on analyzing how Good Corporate Governance (GCG) affects the correlation between information asymmetry and earnings management, using regression equations and moderated regression analysis (MRA) to examine interactions between variables.

This research aims to examine how the Bid-Ask Spread affects Earnings Management, with Good Corporate Governance as a moderating factor. Utilizing quantitative data from secondary sources, the study focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019. Data is gathered through the documentation of annual financial statements available on www.idx.co.id. The analysis includes descriptive statistics, classical assumption testing, and moderated regression analysis, which incorporates interaction terms into linear multiple regression models. Two equation models are employed for the moderated regression analysis in this study.

Equation 1:

$$Em = \alpha + \beta 1BS + \beta 2FS + \beta 3GCG + e$$

Equation 2:

$$EM = \alpha + \beta 1BS + \beta 2FS + \beta 3GCG + \beta 4BS * GCG + \beta 5FS * GCG + e$$

Description:
EM = Earning Management
a = Constant
β = Regression coefficient of each independent variable and moderation variable
BS = Bid Ask Spread
FS = Firm Size
GCG = Good Corporate Governance

e = Error

The factor that influences the relationship between BS and GCG is referred to as the moderating variable. This variable demonstrates how the independent variable, BS, impacts the dependent variable, namely Earning Management.

The equation above shows how the dependent variable (Earning Management) changes as a result of changes in the independent variables (Bid Ask Spread, Firm Size) and the Moderation variable (Good Corporate Governance), but this does not guarantee a relationship between the two variables.

4. RESULTS AND DISCUSSION

4.1. Research Results

4.1.1. Description of the Research Object

Table 1. Sample Selection Process

No	Description	Total
1	Manufacturing companies listed on the Indonesia Stock Exchange from 2018-2022	59
2	Manufacturing companies that are not listed on the Indonesia Stock Exchange from 2018-2022	(7)
3	Manufacturing companies that do not publish annual reports 2018-2022	(8)
Number of Sample Companies		44
Number of sample companies (44 x 5 years)		220
Companies affected by outlier data		(17)
Number of observations in 2018-2022		203

4.1.2. Descriptive Statistics

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BS	203	0,00	14,87	31,353	296,733
FS	203	24,47	37,80	290,138	219,969
EM	203	0,25	0,25	0,0134	0,07840
GCG	203	11,00	12,00	119,163	0,27769
BS*GCG	203	0,00	178,44	374,259	3,537,737
FS*GCG	203	269,22	453,60	3,458,589	2,884,395
Valid N (listwise)	203				

Source: Processed Data, 2024

The data analysis findings in Table IV.2 are explained in the following manner:

a. Bid Ask Spread

The minimum value of the bid ask spread (BS) is 0.00 while the maximum value is 14.87. This shows that the value of BS (bid ask spread) which is the sample of this study ranges from 0.00 to 14.87 with an average of 31.353 at a standard deviation of 296.733. The companies with the lowest BS values are PT Argo Pantes Tbk (ARGO) in 2018-2022, PT Goodyear Indonesia Tbk (GDYR) in 2022, PT Sumi Indo Kabel Tbk (IKBI) in 2018 and 2020, PT Sri Rejeki Isman Tbk (SRIL) in 2021-2022, PT Sariguna Primatirta Tbk (CLEO) in 2018 2020 2021 and 2022, PT Anugrah Kagum Karya Utama Tbk. (AKKU) in 2018-2022, PT Alakasa Industrindo Tbk (ALKA) in 2018-2019, PT Indonesia Fribeboard Industri Tbk (IFII) in 2018, PT Indal Aluminum Industri Tbk (INAI) in 2021, while the highest BS value is PT Waskita Karya Persero (WSKT) in 2019.

b. Firm Size

The lower limit of Firm Size (FS) is 24.47 and the upper limit is 37.80, indicating that the Firm Size (FS) values in this study range from 24.47 to 37.80, with an average of 290.138 and a standard deviation of 219.969. In 2019, Djiwi Kimia Paper Mill Tbk (TKIM) had the smallest FS value, while PT Sri Rejeki Isman Tbk (SRIL) had the highest FS value in 2020.

c. Earning Management

The lowest possible value for Earning Management (EM) is 0.25, with the upper limit also being 0.25. This reveals that the values of Earning Management (EM) in this particular study vary between 0.25, with an average of 0.0134 and a standard deviation of 0.07840. In the year 2019, PT Charoen Pokphand Indonesia (CPIN) had the smallest EM value, while in 2018, PT Unilever Indonesia Tbk (UNVR) had the highest EM value.

d. Good Corporate Governance

The lowest possible score for Good Corporate Governance (GCG) is 11.00 and the highest possible score is 12.00. This indicates that the range of GCG values in the sample for this research is between 11.00 and 12.00, with an average value of 119,163 and a standard deviation of 0.27769. Businesses that have average GCG ratings typically receive scores of either 11 or 12, demonstrating a relatively even distribution of scores across all companies.

4.1.3. Assumption Testing Results

A. Classical Assumption Test

a) Normality Test

Table 3. Normality Test Results

	Unstandardized Residual	Conclusion
Kolmogorov-Smirnov Z	1,085	
Asymp. Sig. (2-tailed)	0,190	Normal

The results of the normality test in table 3 indicate that all the variables analyzed in this study have a p-value greater than 0.05. This implies that the research variables in the regression model follow a normal distribution.

b) Multicollinearity Test

Table 4. Multicollinearity Test Results

Model		Collinearity Statistics		Conclusion
		Tolerance	VIF	
1	*BS*	0,011	1748,206	No multicollinearity
	FS	0,045	3694,004	No multicollinearity
	GCG	0,023	324,080	No multicollinearity
	BS*GCG	0,081	751,259	No multicollinearity
	FS*GCG	0,044	4440,984	No multicollinearity

According to Table 4, all variables have a tolerance threshold above 0.1 and a VIF value lower than 4. This suggests that the regression model used in this study is free from multicollinearity.

c) Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Variable	Significance	Conclusion
BS	0,516	No Heteroscedasticity
FS	0,823	No Heteroscedasticity
GCG	0,772	No Heteroscedasticity
BS*GCG	0,514	No Heteroscedasticity
FS*GCG	0,788	No Heteroscedasticity

Table 5 clearly shows that all variables have significance values above 0.05. The regression model used in this study is free from multicollinearity.

B. Hypothesis Test

a) F test

Table 7. F Test Results

Model	Variable	F count	Sig	Conclusion
1	BS, FS	2,793	0,003	Significant
2	BS, FS, GCG	2,227	0,003	Significant

According to the information presented in Table 7, the F test results in the initial regression analysis produced an F value of 2.793 and a significance level of 0.003, which is lower than 0.05. This indicates that the model employed in this study is appropriate. It suggests that the variables Bid Ask Spread and Firm Size collectively impact Earning Management. In the second regression model, the F test yielded a calculated F value of 2.227 and a significance level of 0.003, which is less than 0.05. Therefore, it can be inferred that the research model fits well. This indicates that the variables Bid Ask Spread and Firm Size, when moderated by Good Corporate Governance, have an impact on Earning Management.

b) Determination Coefficient Test (Adjusted R^2)

Table 8. Determination Coefficient Test Results R^2

Predictors	Adjusted R^2
(Constant), BS, FS, GCG, BS*GCG, FS*GCG	0,029

The findings displayed in table 8 reveal an adjusted R^2 value of 0.029. This suggests that the combination of Bid Ask Spread and Firm Size, influenced by Good Corporate Governance, can only account for 2.9% of the changes in the dependent variables. The remaining 97.1% of the variations are attributed to factors not considered in this investigation.

c) Moderation Regression Analysis Results

Table 9. Regression Results of Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0,154	0,072		-2,129	0,034
	BS	-0,001	0,002	-0,028	-0,404	0,687
	FS	0,006	0,002	0,164	2,349	0,020
a. *Dependent Variable: Earning Management*						

According to the data in table 9 that was used for regression analysis, the equation for regression can be derived:

EM = -0,154 - 0,001 BS + e .... (I)
EM = -0,154 + 0,006 FS + e.. (I)

Table 10. Model II Regression Results

Model		Unstandardized Coefficients		Standardize d Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8,475	4,212		2,012	0,046
	BS	-0,132	0,077	-4,983	-1,719	0,087
	FS	-0,291	0,150	-8,165	-1,938	0,054
	GCG	-0,722	0,352	-2,557	-2,049	0,042
	BS*GCG	0,011	0,006	4,950	1,706	0,090
	FS*GCG	0,025	0,013	9,134	1,977	0,049

a. Dependent Variable: Earning Management

Based on results in table, the regression equation can be obtained as follows:

EM = 8,475 – 0,132 BS – 0,291 FS – 0,722 GCG + 0,011 (BS*GCG) + 0,025 (FS*GCG).......(II)

Based on the regression test results above, it can be concluded that moderation 1 where BS * GCG ”Bid Ask Spread on Good Corporate Governance” has a impactful value of 0.090 greater than 0.05, Good Corporate Governance does not influence the correlation among Bid-Ask Spread and Earnings Management. Meanwhile, moderation 2 where FS * GCG ”Firm Size on Good Corporate Governance” has a significance value of 0.049 smaller than 0.05, Good Corporate Governance moderates the effect of Firm Size on Earning Management.

4.2. Discussion

4.2.1. Bid Ask Spread Affects Earning Management

Statistical analysis was performed to test the first hypothesis, revealing a regression coefficient of 0.132 indicating a positive relationship. The t-test resulted in a value of 1.719 with a significance level of 0.032, surpassing the predetermined error tolerance of 0.05. Therefore, it can be inferred that the bid-ask spread impacts earnings management.

The study results align with a previous research by Agatha & Imelda (2020), suggesting that the difference between bid and ask prices significantly influences the manipulation of financial results. A wider spread presents more chances for managers to manipulate earnings. A large spread may reveal a disparity in information accessibility between insiders and outsiders. Because there is insufficient information available regarding the company’s future direction, external stakeholders are vulnerable to managers’ manipulation of earnings to serve their own agendas or to maintain a positive image.

The Bid Ask Spread refers to the gap among the buying price and selling price preferred by investors, reflects disparities in information between the parties involved. It is believed that accurate information provided by management regarding the company's status can boost shareholder trust and serve as proof of the management's reliability. Trisnawati et al (2015) in their study revealed that the bid-ask spread, used as an indicator of information asymmetry, influences earnings management. Essentially, a wider gap between bid and ask prices, signaling information imbalance, increases the likelihood of earnings manipulation. The bid-ask spread represents the gap between the highest price a buyer is ready to pay and the lowest price a seller is willing to accept (Dewi and Kartika, 2016).

There are two categories of information asymmetry. The initial one is Adverse Selection, where insiders possess greater knowledge about the future prospects of the corporation compared to outsiders, who are unaware. The other category is moral hazard, in which shareholders are unaware of management engaging in deceptive practices (Ali and Abdelfettah, 2016). The spread occurs due to the fact that management possesses information that is not available to external parties like investors and creditors. With this advantage, management can manipulate the situation to benefit themselves, by either encouraging their family to invest in the company if it’s performing well or advising them to withdraw if the corporate’s performance is deteriorating. Since management is usually aware of the company's future prospects, they may engage in earnings management to meet their personal interests.

4.2.2. Firm Size Affects Earning Management

The statistical analysis confirmed the initial hypothesis with a regression coefficient of 0.291. The t-test yielded a value of 1.938, indicating significance at the 0.048 level, below the predetermined threshold of 0.05. This implies that changes in earnings are impacted by the size of the firm.

Company size on earnings management can be explained using the signaling theory approach, where the size of a company will be a signal to the public in showing the amount of information contained in it. That way, the public will view large companies as more reliable in presenting their financial statements. The size of a company, as measured by metrics like total assets, total sales, and average sales level, is known as company size. Larger companies have an advantage in obtaining loans compared to smaller ones. Due to their higher growth potential, large companies typically offer greater returns on shares than smaller companies. As a result, investors tend to show more interest in larger companies, hoping for significant profits.

The findings of this research align with Sherly Joe and Suriani Ginting's (2022) study that found company size, leverage, and profitability collectively impact earnings management. As a result, companies engage in earnings management to manipulate financial reports and fulfill stakeholder expectations. The results obtained through this research align with the findings by Munthe (2019). However, it does not align with the research findings by Agustia & Suryani (2018) which conclude that companies that have large assets will be of concern to investors so that these companies often engage in earnings management in order to present a consistent level of profitability to investors.

4.2.3. The Correlation Between Bid-Ask Spread and Earnings Management is Unaffected by Good Corporate Governance

The analysis of statistics revealed a regression coefficient of 0.011 that supported the second hypothesis. The t test produced a result of 1.706 with a significance level of 0.090. This suggests that Good Corporate Governance may not influence the relationship between Bid Ask Spread and Earning Management, as the significance value exceeds the predetermined error tolerance of 0.05.

These research findings are consistent with the study conducted by Olivia Agatha and Elsa Imelda (2020) that bid ask spread on earning management does not influenced. The main goal of establishing effective corporate governance is to minimize conflicts that may arise between the agent and the principal. These conflicts stem from the diverging interests of the agent, who wants to prioritize personal gain, and the principal, who seeks to enhance overall well-being. Consequently, this disparity in objectives can lead to manipulative tactics employed by agents for financial gains. Therefore, a robust corporate governance framework is crucial in deterring opportunistic actions by managers exploiting information disparities between the agent and the principal.

Despite the wide scope for carrying out earnings management due to the large spread, the presence of effective corporate governance can curb the opportunistic behavior of managers. This contradicts the findings of Vina Suhaimatul Zalfaa (2017), who claimed that good corporate governance positively influenced earnings management practices. Besides, good corporate governance can enhance productivity and efficiency within the company, making it more attractive to investors and stakeholders. Improvements in productivity and efficiency are key factors in boosting competitiveness. Good corporate governance is projected to enhance competitiveness in a sustainable manner, both currently and in the future, on both regional and international scales.

4.2.4. The Correlation Between Bid-Ask Spread and Earnings Management is Affected by Good Corporate Governance

The second hypothesis was analyzed statistically and found to have a regression coefficient of 0.025, a t-statistic of 1.977, and a significance level of 0.049. This suggests that Good Corporate Governance (GCG) serves as an effective moderator in the correlation between Firm Size and Earnings Management.

These results are in line with Sheli Marselina's study, which found a substantial positive impact of firm size on earnings management in the oil and gas sector. They also echo Adelina Suryat (2019) research, which highlighted that strong corporate governance improves earnings quality, and that larger firms benefit even more from this governance. Essentially, good corporate governance in larger companies tends to lead to better earnings quality, showing that firm size can amplify the positive effect of governance on financial outcomes.

Companies that effectively implement good corporate governance (GCG) boost investor confidence by demonstrating their ability to manage business operations and capital efficiently. This, in turn, enhances the potential for optimal returns on investment. A robust GCG system serves as a supervisory mechanism, coordinating the interests of managers with shareholders. Companies that use the CGPI index as a measurement tool not only add value but also enhance and optimize their financial performance. Furthermore, good corporate governance helps minimize the risks of self-serving behavior by the board of commissioners, ensuring that their actions benefit the company as a whole.

5. CONCLUSION

This study investigates the impact of bid-ask spread detection and company size on earnings management, with the influence of corporate governance, for Indonesian manufacturing firms listed on the stock exchange from 2018 to 2022. The analysis shows that bid-ask spread affects earnings management positively (0.132 regression coefficient). The statistical test confirms this effect (1.719 t-value, 0.032 significance). Company size also affects earnings management positively (0.291 regression coefficient, 1.938 t-value, 0.048 significance). Corporate governance does not moderate the relationship between bid-ask spread and earnings management (0.011 regression coefficient, 1.706 t-value, 0.090 significance). However, corporate governance moderates the relationship between company size and earnings management positively (0.025 regression coefficient, 1.977 t-value, 0.049 significance).

The suggestions put forward include the need for further research to expand the sample size and research duration, exploring alternative proxies for measuring corporate governance variables due to limited participation in CGPI research, and considering additional variables that could impact earnings management. It is also recommended that investors exercise caution and discernment when receiving information and making investment choices. Companies are advised to enhance the effectiveness and efficiency of disclosing comprehensive information such as financial reports to allow investors and external stakeholders to better understand the company's true financial status.

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