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THE EFFECT OF STOCK LIQUIDITY, PROFIT MANAGEMENT, INFORMATION ASYMETRY AND PROFITABILITY ON THE COST OF EQUITY CAPITAL AT CONVENTIONAL COMMERCIAL BANKS LISTED ON THE INDONESIA STOCK EXCHANGE IN 2018-2022

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ABSTRACT

The purpose of this study is to determine and evaluate the effect partially and simultaneously of the variables of stock liquidity, earnings management, information asymmetry, and profitability on the cost of equity capital in conventional commercial banks listed on the Indonesia Stock Exchange (IDX) on the Indonesia Stock Exchange. from 2018 to 2022. Multiple linear regression is the data analysis strategy applied in this study. There are 43 companies listed on the Indonesia Stock Exchange, based on the corporate population between 2018 and 2022. There are 10 companies sampled with a total of 50 companies sampled at conventional commercial banks. The results of the study show that partially stock liquidity and profitability have a negative and insignificant effect on the cost of equity capital in conventional commercial banks listed on the IDX in 2018-2022. Meanwhile, partially, information asymmetry and earnings management have a positive and significant effect on the cost of equity capital in conventional commercial banks listed on the IDX in 2018-2022. The results show that simultaneously stock liquidity, information asymmetry, earnings management and profitability have a significant positive effect on the cost of equity capital in conventional commercial banks listed on the IDX in 2018-2022. The results of the coefficient of determination show that stock liquidity, information asymmetry, earnings management and profitability contribute 46.29% to the cost of equity capital,

1. INTRODUCTION

The era of globalization has led to open competition, increasing competition between businesses. As the level of competition between businesses increases, businesses must grow in order to survive and remain competitive. Expanding the business also requires more money. As a result, more funding is needed from outside parties such as creditors and investors.

Information asymmetry is the occurrence of an imbalance of information between managers and shareholders, where this imbalance arises when managers know more about internal information and company prospects in the future compared to shareholders and other stakeholders [1]. Information asymmetry occurs because management, in this case managers, are superior in controlling company information, especially financial information, compared to other parties (owners, shareholders and investors) [2].

Profitability shows a measure of the level of effectiveness of company management through sales profit or investment income [3]. Stock liquidity is a measure of the number of stock transactions in the capital market in a certain period [4], the more liquid a company's shares are, the higher the frequency of stock transactions [5]. Earnings Management is the process of preparing financial reports for external parties so that they can level out, increase and decrease profit reports, where management can use the flexibility to use accounting methods. [6]

Cost of equity capital can be identified as the minimum rate of return required by the use of cost of equity (equity capital) on investment [7]. The cost of capital is the return that the company must get on existing assets to meet the expectations of creditors and shareholders [8]. The actual cost of equity capital that a corporation must incur to raise money through debt/bonds, preference shares, common stock and retained earnings to finance investments or business operations is known as the cost of equity capital. From an investor's point of view, the cost of equity capital is the rate of return anticipated by the provider of funds, but from a company's point of view, it is the cost incurred by the company to obtain the necessary sources of funds. The following table shows data on the cost of equity capital from the Indonesia Stock Exchange (IDX):

Table 1. The Phenomenon of the Cost of Equity Capital in Conventional Commercial Banks

Stock code	Company name	Period	Cost of Equity Capital (in million rupiah)
BBNI	Bank Negara Indonesia, Tbk	2016	89,252
		2017	100,903
		2018	110,347
		2019	125,004
		2020	**112,872**
BBTN	State Savings Bank, Tbk	2016	19.130
		2017	21,663
		2018	23,840
		2019	**23,836**
		2020	**19,987**
BMRI	Bank Mandiri, Tbk	2016	153,369
		2017	170,006
		2018	184,960
		2019	218,852
		2020	**204,699**

Source: idx.co.id

Based on Table 1 above, it can be seen that from 2016 to 2019, the cost of equity capital for Bank Negara Indonesia (BNI) has increased every year. Whereas in 2016 it was 89 million rupiahs, in 2017 it was 100 million rupiahs, in 2018 it was 110 million rupiahs, and in 2019 it was 125 million rupiahs. The cost of equity capital then decreased to IDR 112 million in 2020. State Savings Bank (BTN) from 2016 to 2019 experienced an increase in the cost of equity capital. The amount varied from 19 million rupiah in 2016 to 21 million rupiah in 2017, 23.84 million rupiah in 2018, and 23.83 million rupiah in 2019 before dropping to 23.83 million rupiah. Then, in 2020, the cost of equity capital fell to IDR 19 million.

Bank Mandiri from 2016 to 2019 also experienced an increase in the cost of equity capital. IDR 153 million in 2016, IDR 170 million in 2017, IDR 184 million in 2018, and IDR 218 million in 2019. The cost of equity capital then decreased to IDR 204 million in 2020.

There are several factors that can affect the cost of equity capital including stock liquidity, information asymmetry, earnings management and profitability[9]. Based on the description above, the researcher is interested in conducting research with the title "Effect of Stock Liquidity, Profit Management, Information Asymmetry and Profitability on the Cost of Equity Capital in Conventional Commercial Banks Listed on the Indonesia Stock Exchange in 2018-2022".

The Conceptual Framework determines the logical link between theoretical underpinnings and empirical research. The study uses a quantitative technique which allows for many interpretations. Quantitative method is a research technique used to carry out research on a population or a certain part of a population in order to carry out the process of testing a hypothesis.[10].

In accordance with the review of the theoretical basis and previous research, the conceptual framework is:

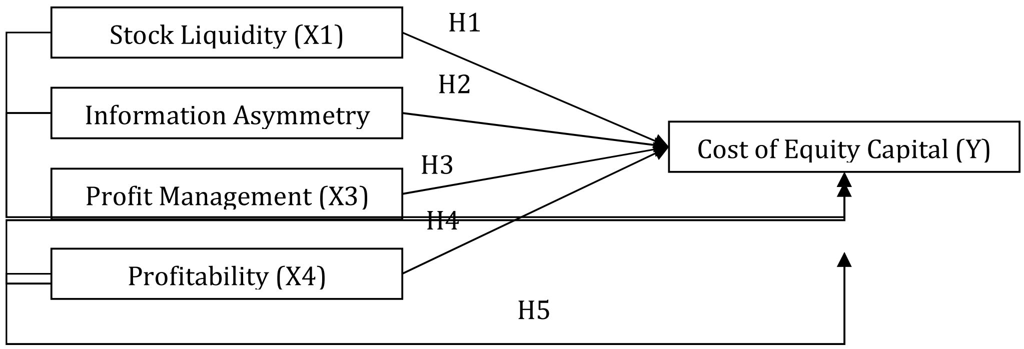

Figure 1: Conceptual Framework

2. METHOD

This research is quantitative (numbers). This information is obtained indirectly (secondary) from the Indonesia Stock Exchange. Secondary data is data whose features help the main demands but do not directly provide researchers with the right data (details).[11].

Coefficient of Determination (R2)

Table 2. Coefficient of Determination (R2)

Summary models	
R-Square	0.4629
Adjust R-Square	0.4410
Std. Error of the Estimate	0.1020

The Coefficient of Determination (R square) value is 0.4629, indicating that 46.29% of the variation in the Equity Capital Policy variable (Y) can be explained by the variables Stock Liquidity (X1), Information Asymmetry (X2), Earnings Management (X3), and Profitability (X4). while the remaining 53.71% are other independent variables that are reluctant to be explained in the study.

Method of Analysis

The data analysis technique used in this study is multiple linear regression analysis using e-views 9 software. The multiple linear regression equation used is as follows:

$$COE = \beta 0 + \beta 1 LSit + \beta 2 AIit + \beta 3 MLit + \beta 4 Ftit + e$$

Where, COE is the Cost of Equity Capital, LS is Stock Liquidity, AI is Information Asymmetry and ML is Profit Management, and Ft is Profitability, $\beta 0$ is a constant and $\beta 1$, $\beta 2$, $\beta 3$ and $\beta 4$ are regression coefficients and e is an error.

3. RESULTS AND DISCUSSION

Test Results of Multiple Linear Regression Models

This analysis is used to see the suitability of predictions if there is a strong bond between the Independent variables (X1) Advertising Attractiveness, (X2) Brand Image, (X3) Price and (Y) Purchasing Policy[12]. the formula for the multiple linear regression equation is:

Table 3.Test Results of Multiple Linear Regression Models

	coefficient	std. Error
Constant	1,083	2,838
Liquidity_Shams	-0.587	-1.301
Information_asymmetry	0.074	0.263
Profit management	0.055	1,470
Profitability	-1.023	0.203

a. Constant (a) = 1.083, this means that the value of the independent variable is considered fixed or equal to zero, so the variable cost of equity capital (Y) is equal to 1.083.
b. The coefficient of stock liquidity (b1) = -0.587, this means that the variable stock liquidity (X1) has a negative effect on the cost of equity capital (Y). If the variable of stock liquidity is increased by one unit, it means that the cost of equity capital decreases by 0.587 (58.7%).
c. The coefficient of information asymmetry (b2) = 0.074, this means that the information asymmetry variable (X2) has a positive effect on the cost of equity capital (Y). If the information asymmetry variable is increased by one unit, it means that the cost of equity capital increases by 0.074 (7.4%).
d. Earnings Management Coefficient (b3) = 0.055, this means that the earnings management variable (X3) has a positive effect on the cost of equity capital (Y). If the earnings management variable is increased by one unit, it means that the cost of equity capital increases by 0.055 (5.5%).
e. Profitability coefficient (b4) = -1.023, this means that the profitability variable (X4) has a negative effect on the cost of equity capital (Y). If the profitability variable is increased by one unit, it means that the cost of equity capital decreases by 1.023 (10.23%).

Simultaneous Hypothesis Testing (F Test)

Table 4: Simultaneous Hypothesis Testing Process (f Test)

Model	
F-statistics	4.1020
Prob (F-statistic)	0.000
Durbin-Watson stat	1.9420

Based on Table 4, the results of the F (Simultaneous) test show that there is a significance value of 0.000 ≤ 0.05. This means that all the independent variables in this study, namely stock liquidity (X1), information asymmetry (X2), earnings management (X3) and profitability (X4) simultaneously/together have a significant influence on the cost of equity capital (Y) at the Bank. conventional general public listed on the IDX in 2018-2022.

Simultaneous Hypothesis Testing (F Test)

Table 5: Partial Hypothesis Testing (t test)

	t-Statistics	Prob.
Constant	4,082	0.000
Liquidity_Shams	1.414	0.464
Information_asymmetry	1.408	0.012
Profit management	2,299	0.025
Profitability	1,902	0.612

Based on Table 5, the results of the T test were obtained as follows:

1. Effect of stock liquidity (X1) on the cost of equity capital (Y)
The significance value of the stock liquidity variable is 0.464 > 0.05. Then it can be concluded that H1 is rejected and Ho is accepted. This means that stock liquidity has no effect on the cost of equity capital, this is in accordance with research [13], that stock liquidity has no effect on the cost of equity capital.
2. Effect of information asymmetry (X2) on the cost of equity capital (Y)
The significance value of the information asymmetry variable is 0.012 <0.05. Then it can be concluded that H1 is accepted and Ho is rejected. This means that information asymmetry (X2) has a positive and significant effect on the cost of equity capital (Y).
3. Effect of earnings management (X3) on the cost of equity capital (Y)
The significant value of the earnings management variable is 0.025 <0.05. Then it can be concluded that H1 is accepted and Ho is rejected. This means that earnings management (X3) has a positive and significant effect on the cost of equity capital (Y), this is in accordance with researchEfrina, M., and Faisal., that earnings management affects the cost of equity capital [9].
4. Effect of profitability (X4) on the cost of equity capital (Y)
The significant value of the earnings management variable is 0.612 <0.05. Then it can be concluded

that H4 is rejected and Ho is accepted. This means that profitability (X4) has a negative and insignificant effect on the cost of equity capital (Y)

Discussion

Effect of Stock Liquidity (X1) on the Cost of Equity Capital (Y)

The results showed that based on the t test for the variable stock liquidity (X1) it has a negative and insignificant effect on the cost of equity capital (Y) which is indicated by a coefficient value of -0.587 and a significance value of 0.464 greater than 0.05. Then the hypothesis is rejected, namely stock liquidity has a negative and insignificant effect on the cost of equity capital. The negative sign means that if the trading volume decreases, it will result in an increase in the cost of equity capital in conventional commercial banks listed on the Indonesia Stock Exchange.

Effect of Information Asymmetry (X2) on the Cost of Equity Capital (Y)

The results showed that based on the t test for the information asymmetry variable (X2) it had a significant positive effect on the cost of equity capital (Y) as indicated by the coefficient value of 0.074 and a significance value of 0.012 which is less than 0.05. Then the hypothesis is accepted, namely information asymmetry has a significant positive effect on the cost of equity capital. The positive sign means that if there is an increase in information asymmetry, it will result in an increase in the cost of equity capital in conventional commercial banks listed on the Indonesia Stock Exchange.

Effect of Profit Management (X3) on the Cost of Equity Capital (Y).

The results showed that based on the t test for earnings management variable (X3) it has a significant positive effect on the cost of equity capital (Y) which is indicated by a coefficient value of 0.055 and a significant value of 0.025 less than 0.05. So the hypothesis is accepted that earnings management has a significant positive effect on the cost of equity capital. The positive sign means that if there is an increase in earnings management, it will result in an increase in the cost of equity capital at conventional commercial banks listed on the Indonesia Stock Exchange.

The Effect of Profitability (X4) on the Cost of Equity Capital (Y)

The results showed that based on the t test for the variable profitability (X4) it has a negative and insignificant effect on the cost of equity capital (Y) as indicated by the coefficient value -1.023 and a significance value of 0.612 greater than 0.05. Then the hypothesis is rejected, namely profitability has a negative and insignificant effect on the cost of equity capital. The negative sign means that if the decline in profitability results in an increase in the cost of equity capital in conventional commercial banks listed on the Indonesian Stock Exchange.

4. CONCLUSION

The partial test results prove that stock liquidity (X1) has a negative and insignificant effect on the cost of equity capital (Y) in conventional commercial banks listed on the IDX in 2018-2022. The partial test results prove that information asymmetry (X2) has a significant positive effect on the cost of equity capital (Y) in conventional commercial banks listed on the IDX in 2018-2022. The partial test results show that earnings management (X3) has a significant positive effect on the cost of equity capital (Y) in conventional commercial banks listed on the IDX in 2018-2022. The test results partially prove that profitability (X4) has a negative and insignificant effect on the cost of equity capital (Y) in conventional commercial banks listed on the IDX in 2018-2022. Simultaneous test results show that stock liquidity (X1), information asymmetry (X2), earnings management (X3) and profitability (X4) have a significant positive effect on the cost of equity capital (Y) in conventional commercial banks listed on the IDX in 2018-2022 . The results of testing the coefficient of determination (R2) can be seen that stock liquidity (X1), information asymmetry (X2), earnings management (X3) and profitability (X4) contribute 46.29% to the cost of equity capital (Y) and the remaining 53, 71% is influenced by other variables that are not included in the considerations in this study.

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