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Influence Readability, Earning Management, Size, Information Asymmetry to Financial Risk

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Abstract
Although investment provides high returns for investors, investors must be pay attention to the risks. After all, investments that ignore risk will lead to losses. Financial risk includes are number of common phenomena that affect the sustainability and financial health of the company. This study aims to understand the impact of Readibility of financial statement, Earning Management, Firm Size, and Information Asymetry on Financial Risk, based on existing literature. This study uses a quantitative explanatory approach with descriptive methodology using panel data analysis and the data used is secondary data. Readibility, Earnings Management, and Information Asymmetry are not significantly related to Financial Risk, because these factors are determined by financial analysis and professional auditors. Meanwhile, Firm Size has a positive impact on Financial Risk, because larger companies can also be more difficult to organize and control their operational activities, so it can lead to higher financial risk and vice versa. However, the lack of empirical literature creates conceptual, contextual, and empirical gaps. Future research should add qualitative approaches, such as in-depth interviews or case studies to explore the complex relationships between variables.

Introduction

Although investments provide high returns for investors, investors should also be aware of the risks. After all, investments that ignore risk will lead to losses. According to Mardiyanto (2009), there are two general categories of risks that can be taken by a company. The first is business risk, which is the risk of uncertainty associated with the company's future investment decisions. The second is financial risk, which arises from the use of long-term financing instruments that have fixed costs. Financial risk includes a number of common phenomena that can affect the sustainability and financial health of a company. One of these phenomena occurred in 2018 at PT Sariwangi Agricultural Estate and its partner PT Indorub Sumber Wadung Plantation, where the company experienced investment failures and had debts of Rp 1.5 trillion to various creditors. This is due to the company's efforts to grow its business by expanding its sewage treatment system and water spraying technology. However, this plan did not come to fruition. As a result, investments to increase plantation production failed and companies faced financial problems. Thus, PT Sariwangi and PT Indorub Sumber Wadung Plantation went bankrupt. Even though PT Sariwangi has gone bankrupt, the Sariwangi brand is still produced by PT Unilever Indonesia Tb (Azhaar, 2023).

In general, financial risk refers to the possibility that a company will suffer financial losses due to factors such as market uncertainty, policy changes, and mismanagement (Siahaan, 2009). However, Goswami et al. (2023) mentioned the readability of financial statements and firm size as other factors that affect financial risk, while Sukmono's (2020) research mentioned the readability of financial statements, information asymmetry, and earnings management as factors that affect financial risk. Research by Ju (2018) also states that information asymmetry is a factor that affects financial risk. Based on these various studies, researchers concluded that the factors that affect financial risk consist of readability, earnings management, firm size and information asymmetry. A study by Yin et al (2022) found that better readability of financial statements can reduce the risk of stock price declines. Another factor that affects financial risk

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is earnings management. In this context, earnings management is a relevant issue because practices such as manipulation of financial statements can affect the level of financial risk, a study conducted by Halim (2015) shows that the impact of earnings management on stock returns has a negative and significant relationship, which indicates that this practice affects the value of company shares. Other factors that affect financial risk are firm size; According to Gengatharan et al. (2020), there is evidence that firm size has an effect on financial risk. Descriptive statistics from a study conducted in Oman show that small companies tend to face higher risks than large companies. Another factor that affects financial risk is information asymmetry. According to Jati & Tandelilin (2011), empirical studies in the capital market show that not only the level of information asymmetry, but also factors such as the risk and growth potential of a company can affect stock returns. By better understanding how these factors affect financial risk, companies can improve their financial viability and reduce the likelihood of a financial crisis.

With respect to these financial risk factors, previous research has shown a shortcoming. In particular, the findings of Enslin et al. (2023) suggest that risk information is not easy to read and tends to be written in a narrative tone, but does not fully cover the more specific aspects of financial risk. However, the results of a study conducted by Ferri et al (2022) show that there is a negative relationship between the completeness of financial risk information and the readability of the information, but the results are not completely specific to financial risk. Second, previous research by Ningsih (2019) showed that profitability has a positive and significant influence on earnings management, while financial risk does not necessarily have a significant influence on earnings management. However, the results of Alamudy (2013) research show that earnings management may have a positive and significant impact on financial risk. Furthermore, the firm size variable correlates with financial risk, and the results of the research of Gengatharan et al. (2020) show that firm size does not have a significant effect on returns. On the other hand, the results of Eliawati's (2022) research show that firm size has a significant negative effect on financial risk. Based on the results of previous research, the results of the study are inconsistent. Most previous studies have not delved further into these factors to identify financial risk. The lack of empirical literature creates conceptual, contextual, and empirical gaps. Therefore, researchers are interested in studying more deeply the influence of readability, earnings management, firm size, and information asymmetry on financial risk.

Agency Theory is a theory that focuses on the relationship between the principal of a company and its agents. This theory states that conflicts of interest can arise between both parties, as agents may not fully understand their own interests. This theory identifies guiding mechanisms and incentives that can be used to reduce conflict and prevent agents from assessing the interests of the principal of the company (Jensen & Meckling, 1976). Eisenhardt (1989) explained that information asymmetry arises from differences between agents and principals, which leads to information asymmetry and conflicts of interest. This can cause the agent to provide inaccurate information to the principal so that it affects the accuracy of the financial statements. Hu (2020) argues that companies have the right to provide information to principals and do so in a transparent and honest manner. The theory also states that high-quality information can reduce the company's financial risk. By providing accurate and transparent information, companies can better serve principals and reduce financial risk.

Signalling theory is a theory that explains the role of management in providing information to investors in terms of company performance and risk management. This theory focuses on the roles of individuals and organizations when they have different attitudes towards different types of information. The announcement of company information is a signal for investors to make investment decisions. If the company's information contains positive values, then the positive effect is also felt by the market. Signal theory offers a unique, practical and testable perspective on the problem of social decision in imperfect information conditions (Connelly et al., 2011). Legoria's research (2015) states that companies can use the readability level of their financial statements as a signal to potential investors and creditors about the quality of financial information and the company's financial risk. Financial statements become more valuable

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for investors because they are easier to understand and understand. Signal theory is also relevant in the context of financial risk, as it can affect the perception of a company's risk profile. Ayomi and Hermanto (2014) show that banks are the main contributors to systemic risk, which can affect their risk management. However, research conducted by Winarsih (2016) shows that certain financial indicators, such as good company ratios, return on equity (ROE) and profitability, can have a significant impact on a company's risk profile.

Financial risk is the risk associated with a company's financial instruments, such as the equity market, exchange rate, interest rates, cash flow, and liquidity. Financial risk arises when fluctuations in the financial market do not match initial estimates. Husnan (2005) stated that companies are exposed to financial risk because they have to pay debt and interest costs, which leads to uncertainty about revenue. Financial risk includes information and signals provided to investors regarding the company's long-term financial situation and possible bankruptcy (Rahmadani & Wulandari, 2022). The level of financial risk can be measured using two ratios, namely long-term financial risk which is measured using the solvency ratio. This ratio consists of the Debt to Equity Ratio (DER) and the Debt to Assets Ratio (DAR). Second, short-term financial risk, which is measured using the liquidity ratio. This ratio consists of a current ratio, a quick ratio, and a cash ratio (Nasir & Muqorobin, 2009). In this study, the debt-to-equity ratio (DER) functions as a proxy for financial risk.

Readability is the number of elements in a printed document that allows a group of readers to understand the content, read at optimal speed, and find interesting content. Dubay (2004) emphasized that clarity facilitates the readability of text. Chall (1958) argues that readability refers to a combination of a variety of different factors regarding interest, flatness, and ease of understanding. Meanwhile, Sun and Yan (2002) stated that readability refers to the level of difficulty in reading an article. In the study, Loughran and McDonald (2014) applied the textual analysis method in the field of corporate finance and examined in an empirical study the economic consequences of the flatness of annual reports. The Gunning Fog Index consists of two elements, namely: word sentence length; as well as the percentage of complex words, which consist of three words or more than three syllables. The Gunning Fog Index formula adds these components together and multiplies the amount produced against a scalar to estimate the readability level. The Gunning Fog Index is often used to determine whether a text is understandable to the reader. The Gunning Fog Index can be used to measure the level of understanding of the annual report in the Management Discussion & Analysis (MD&A) section.

Earnings management is an activity carried out by management through accounting policies, which consider its own interests and the interests of the company. Sulistyanto (2018) stated that management's efforts to modify financial statements to deceive stakeholders. The earnings management practices carried out by managers have a significant impact on reported earnings information. However, there are three factors related to the emergence of earnings management practices, namely accrual management, the application of accounting principles and voluntary asset changes. Acrruals management refers to all activities that may have an impact on cash flow and personal profits, and that are under the authority of the director of the company. The application of accounting principles refers to the manager's decision to apply an accounting principle that must be applied by the entity. Voluntary asset change refers to the manager's attempt to change a certain accounting method from the many methods available and recognized by existing accounting bodies (Amalia, 2023). Gumanti (2000) stated that earnings management does not involve efforts to process accounting data and information, but involves accounting methods used by companies to manage profits that can be realized. There is a fundamental reason why earnings management, namely the market price of a company's stocks, is highly dependent on profits, risks, and speculation. Therefore, if a company routinely experiences consistent profit increases, there is a risk that the company will experience a greater decline in profit than the rate of increase. This results in many companies managing and structuring profits to reduce risk.

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Firm size is an indicator of the company's capital value, asset value, and profitability (Dharmaputra et al., 2022). Firm size can have an impact on company policies, such as dividend policies, investments, debt, and financial risk. Larger companies have lower financial risk because they have more resources and better risk diversification (Riadianto, 2015). Herawati and Suwito (2005) argue that firm size can be divided into three categories, namely large, small, and medium. Firm size can be expressed in the form of total assets. In addition, firm size can be divided into three variables, namely total assets, sales and capitalization. Firm size is determined by the total assets available for the company's operating activities (Sudiarti and Rudangga, 2016). Firm size itself has a significant influence on financial policy and risk, as larger companies generally adopt different policies and manage risk better.

Information asymmetry is an agency relationship that produces information between investors, namely managers as agents and shareholders as principals. Information asymmetry occurs when managers know more about the company's interests and expectations than shareholders or other stakeholders (Komalasari, 2016). Nel et al. (2018) describe information asymmetry as a situation where some investors have access to non-public information or are sophisticated investors, while others only have public information or investors who are not sophisticated. Information asymmetry occurs between management and investors, as well as between the investors themselves. Research conducted by Akerlof in 1970 showed that information asymmetries can prevent investors from distinguishing between good and bad investment opportunities, resulting in additional costs associated with adverse selection and reduced liquidity. These losses include additional costs due to adverse selection and reduced liquidity (Gaeremynck and Vergauwe, 2019). The company is trying to find a formula to overcome information asymmetry in order to create information asymmetry that increases investor confidence and market efficiency. Information asymmetry itself has a significant impact on investment decisions and market liquidity. Effective management of information asymmetry strengthens investor confidence and improves company performance.

Readability consists of all the elements of the text that have an impact on the reader's success in understanding the material being read. In this case it is the understanding of the information contained in the annual report (Bonsall et al., 2017). Research by Zhu, Li and Li (2013) examined the relationship between the quality of financial statements and the risk of financial loss for companies in the Chinese market. The results show that poor-quality financial statements have a negative impact on the company's risk, while poor-quality financial statements lead to greater financial losses. Badertscher, Katz and Rego (2013) also provide a similar analysis and show that companies with better financial statements and lower risk have lower financial losses. Therefore, the hypothesis of this study can be formulated, namely:

H1: Readability has a significant positive effect on financial risk

Earnings management is the process by which management controls financial statements with a specific goal. Earnings management, which refers to the deliberate manipulation of a company's profits, can be influenced by factors such as free cash flow, profitability, and financial risk (Rosyidah, 2023). In terms of financial risk, earnings management affects business risk. This practice is generally used to increase a company's market share and achieve financial goals, but it also carries risks and hinders financial analysis (Ningsih, 2019). Earnings management is also referred to as creative accounting, in which financial instruments are manipulated. A study by Karina and Rosmery (2023) Rosmery and Karina (2023) shows that this has a positive impact on the company's financial performance. Based on this description, the hypothesis of this study can be formulated, namely:

H2: Earnings management has a positive effect on financial risk

Firm size is a measure of the size of a company, including all assets used for business purposes. According to a study,

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firm size affects financial risk, and the larger the company, the higher the financial risk (Krisnando & Novitasari, 2021). The larger a company is and the more assets, employees, and resources it has, the higher the risk, which can make the company more vulnerable to financial conditions. Ardiana (2014) shows that firm size and financial risk are correlated and the relationship between the two is positive. Therefore, in this study, it can be assumed as follows:

H3: Firm size has a positive effect on financial risk

Information asymmetry is a situation in which one party in a relationship has more or better information than the other party. The level of information asymmetry between the parties involved in financial transactions can have an impact on the company's financial risk. The greater the level of information asymmetry, the greater the potential for financial risk. Ju's (2018) research analyzed the relationship between information asymmetry and company risk appetite, and the results showed that the higher the information asymmetry, the higher the company's financial risk. Based on the above description, the following hypothesis is formulated:

H4: Information Asymmetry has a Positive Effect on Financial Risk

Methodology

This study uses a quantitative explanatory approach to analyze *cross-sectional data* focusing on the effects of *readability, earnings management, firm size, and information asymmetry* on *financial risk*. The descriptive methodology uses panel data analysis to identify biases in research findings and aims to apply mathematical models, theories and hypotheses related to the topics discussed as well as aim to test the relationship between independent and dependent variables.

Population is defined as a general area consisting of certain subjects or objects that are studied, researched, and analyzed (Sugiyono., 2017). The population used in this study is companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2022 period. This study uses *the purposive sampling* method to select a sample, where the researcher determines the sampling criteria, namely: companies in the financial sector listed on the Indonesia Stock Exchange (IDX), companies that publish consecutive and complete annual report data during the 2018-2022 period, companies that can be read using the *Gunning Fog Index* from annual reports, and companies that have complete data and meet the requirements of research variables.

Data collection is a research method used to collect data on variables (Azwar, 2009). This study uses panel data consisting of time series *data* and *cross-sectional* data. The data collection method used in this study is a literature survey and the data used is secondary data. The data source used is the annual financial report for the 2018-2022 period. The financial statements were obtained from the IDX's official website. The data source is also supported by various documents, including scientific articles, literature studies, national and international journals and previous researches.

In this study, *financial risk* is a variable that refers to the company's external exposure to potential risks in its business operations. Risks include debt, *off-balance sheet* transactions, performance costs, and other factors that limit financial flexibility. The measurement of leverage using the debt-to-asset ratio is based on the fact that leverage has been used as a risk indicator in several disclosure studies (Hassan & Amran, 2009). Supriantikasari & Utami (2019), *Financial Risk* is proxied *by the company's Debt to Equity ratio*, which is the comparison of the debt-to-equity ratio. Systematically, *the formula for financial risk* with leverage ratio is formulated as follows:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}\ x\ 100\%$$

Readability refers to the ability of investors and analysts to evaluate the adequacy of information from the information disclosed. *Good readability* is effective communication and represents an assessment of the adequacy of information, especially for users of annual reports (Sambuaga et al., 2022). In Ramos and Rogo's

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(2017) study, the *Gunning Fog Index* was used to measure the *readability* and implicit FOG Index, in other words "like a fog". The FOG index is calculated with the following equation:

$$FOG\ Index = 0{,}4\left(\frac{n.words}{n.sentences}\right) + 100\left(\frac{n.complex\ words}{n.words}\right)$$

The criteria for monitoring the FOG index are: A score between 14 and 18 means that the report (text) cannot be read, a value between 12 and 14 means that the report (text) is satisfactory, a value between 10 and 12 means that the report (text) is acceptable, and a value between 8 and 10 means that the report (text) contains unnecessary information.

In the research of Sari and Kusuma (2003), *earnings management* is defined as a strategic accounting method used by managers to achieve certain goals. *Earnings management* is an approach that is based on the opportunity to manage personal or business interests using accounting methods. In this study, *earnings management* is represented by discretionary accruals, which are divided into two categories, namely discretionary and non-discretionary accruals. To model discretionary accruals, researchers use the Jones model, which is calculated by dividing the total accrual by the ratio of discretionary accruals to nondiscretionary accruals, by following this procedure:

1. Calculate the total accrual using the following formula:
$$TA_{it} = NI_{it} - CFO_{it}$$
2. Break down the total accrual into discrete and non-discretionary accrual components, in the form of a formula:
$$\frac{TA_{it}}{A_{it-1}} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{A_{it-1}}\right)$$
3. Determine the non-discretionary accrual value using the following formula:
$$NDA_{it} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{A_{it-1}}\right)$$
4. Discretionary accrual as a measure of revenue management is obtained using the following formula:
$$DAC_{it} = \left(\frac{TA_{it}}{A_{it}}\right) - NDA_{it}$$

Descriptions:

TA_{it} : Total company accrual i for period t
NI_{it} : The company's net profit for the period t
CFO_{it} : Cash flow from the company's operating activities i in the period t
A_{it-1} : Total assets of the company i in the t-1 period
ΔRev_{it} : Company income i in year t minus company income i in period t-1
PPE_{it} : The company's total fixed assets i in the period t
ΔRec_{it} : Company receivables i in year t minus company receivables i in period t-1
DAC_{it} : Discretionary allowance of companies i in period t
NDA_{it} : Non-discretionary accruals of companies i in period t

Firm size

Firm size is a criterion used to determine the size of a company using various methods such as total assets, log

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ratio, revenue, and market share. Larger companies have easier access to internal and external resources, having more resources to generate revenue in the market, compared to small and medium-sized companies. *Firm size* is determined using natural logarithms from Geyer-Klingeberg et al (2021):

$$Firm\ Size = \text{Ln (Total Assets)}$$

Information asymmetry is a type of unbalanced information that allows management to identify information and future prospects within the company in relation to shareholders and other stakeholders. Bodnar and William (2000) state that information is processed data that can be used as a basis for making the right decisions. To measure *information asymmetry*, researchers used the current gap between supply and demand as a calculation model:

$$SPREAD = \left(\frac{ask\ price - bid\ price}{ask\ price - bid\ price / 2} \right) x\ 100$$

Description:
Spread : The difference between the ask price and the bid price of the company's shares.
Ask price : The highest ask price (selling price) for the company's shares.
Bid price : the lowest bid price (buy price) for the company's shares.

The analysis method used in this study is multiple linear regression. Multiple linear analysis is a technique used to determine the relationship between independent and dependent variables. The test was carried out with *the Eviews* 12 application.

These descriptive statistics describe the mean, maximum, minimum, variance, range, standard deviation, and amount of data used in the study. Mean is the average of the data, the maximum is greater than the number, the minimum is smaller than the number, and the standard deviation is the determinant of the nature of the data (Fashikhah, 2018).

The chow test was performed to compare the common-effects model with the fixed-effects model and determine which model was better. The decision is made taking into account the probability value (p) for the cross-section F. If the p-value > 0.05, the common-effects model is selected; If the p-value < 0.05, the fixed-effects model is selected.

A thirst test is performed to compare fixed-effects models with random-effects models and to determine which model is better. The decision is made by examining the probability value (p) of the cross-section. If the value of p > 0.05, then the random-effects model is selected; If the value of p < 0.05, then the fixed-effects model is selected.

The lagrange multiplier test is performed to compare or determine the best model between common-effects models and random-effects models. The decision-making process is based on the probability value (p) for cross-section. If the p-value is greater than 0.05, then the common-effects model is selected; If the p-value is less than 0.05, then the random-effects model is selected.

Multicollinearity is the linear relationship between variables to determine the reliability of regression models. If there is no relationship between independent variables, then the regression model is good. However, these variables are not orthogonal if there is a relationship between independent variables. These variables are orthogonal, that is, they do not affect each other. In this study, multicollinearity was tested using variance inflation

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factor (VIF), with a VIF value of < 10 indicating no multicollinearity and a value of > 10 indicating the presence of multicollinearity (Ghozali, 2016a).

Heteroscedasticity is a statistical technique used to determine the relationship between residuals in a linear regression model (Ghozali, 2013). Many *cross-sectional* data show different variations with different amounts of data. In this study, the *Breusch-Pagan-Godfrey method* and the natural logarithm of the independent variable residual square (RESID^2) were used. The test criteria are as follows: If the probability of heteroscedasticity is less than 0.05, then the data show the presence of heteroscedasticity. Conversely, if the probability of heteroscedasticity is greater than 0.05, then the data do not indicate the presence of heteroscedasticity.

The purpose of the determination coefficient is to determine the model's ability to emphasize differences in dependent variables. The values of 0 and 1 for the determination coefficient represent multiple regressions with different determination coefficients. R2 measures the optimal accuracy of multiple regressions. A low value of the determination coefficient (R2) indicates that the independent variable is able to detect changes in the dependent variable. Conversely, if the resulting value is close to 1, it means that the independent variables provide almost all the information expected to predict changes in the dependent variables (Ghozali, 2016b).

F test is used to find out whether the independent variables in the model have a significant influence on the dependent variables. The hypothesis is used to find out whether independent variables have a significant effect on dependent variables. If so, the decision is made based on a significant probability value, i.e. if the probability is greater than 0.05, H0 is accepted and Ha is rejected. If the probability value is less than 0.05 then H0 is rejected and Ha is accepted (Ghozali, 2016b).

The t-test was used to individually test how strongly the independent variables in this study had a strong influence on the partially dependent variables. The basic criteria for accepting or rejecting a hypothesis are: If the significance is greater than 0.05, then the hypothesis is rejected. Conversely, if the significance is less than 0.05 then the hypothesis is accepted (Ghozali, 2016b).

Result And Discussion

Results

Table 1. Descriptive statistic

	Readibility	Earning Management	Firm Size	Information Asymetri	Financial Risk
Mean	24.78675	0.008367	1.473650	2.910601	3.069982
Median	24.40000	0.000510	1.477181	2.926050	2.300728
Maximum	56.50000	1.471826	1.546890	4.497465	16.07858
Minimum	15.50000	-0.305006	1.368381	0.987411	-3.719161
Std. Dev.	3.505777	0.108017	0.034659	0.655927	2.996437
Skewness	2.434926	7.331515	-0.216236	-0.192272	1.278570
Kurtosis	21.16685	93.14293	2.730239	2.801695	4.933928
Jarque-Bera	5895.834	139012.5	4.330066	3.119979	171.3173
Probability	0.000000	0.000000	0.114746	0.210138	0.000000
Sum	9914.700	3.346804	589.4599	1164.240	1227.993
Sum Sq. Dev	4903.900	4.655366	0.479311	171.6660	3582.475
Observations	400	400	400	400	400

Source: secondary data accessed by eviews 12

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Based on table 1, it shows that the amount of N data for each variable is 400 and this amount of data is taken from 80 samples of this study, namely companies in the financial sector listed on the Indonesia Stock Exchange for the 2018-2022 period. From the table above, the descriptive statistical results of the readability independent variable show that the minimum value is 15.50, the maximum value is 56.50, the mean value is 24.79 and the standard deviation is 3.50. The results in table 1 show that earnings management has a minimum value of -0.3050; the maximum value is 1.4718; The mean value is 0.0083 with a standard deviation of 0.1080. The results of table 1 show that the firm size has a minimum value of 1.3683; maximum value 1.4771; average score of 1.4736; and standard deviation of 0.034. The results in Table 1 show that the minimum value of information asymmetry is 0.9874; the maximum value is 4.4974; the average value was 2.9106; and a standard deviation of 0.6559. The results of table 1 show that the minimum value of descriptive statistics for the dependent variable financial risk is -3.7191; the maximum value was 16.0785; The average value is 3.0699, and the standard deviation is 2.9964.

Table 2. Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section Chi-square	742.043848	79	0.0000

Source: secondary data processed using eviews 12

Table 2 shows that the cross-section value of the chi-square statistic is 742.043848 with a probability value of 0.0000, less than 0.05. Therefore, in this Chow test, the fixed effect model (FEM) was chosen as the appropriate model because the probability value of the cross-sectional chi-square statistic was below the significance level.

Table 3. Hausman test results

Test Summary	Chi-Sq. Statistic	Shi-Sq. d.f.	Prob.
Cross-section random	10.828066	4	0.0286

Source: secondary data processed using eviews 12

Table 3 shows that the statistical distribution value of the chi-square is 10.828066 and its probability value is 0.0286, which is smaller than 0.05. Therefore, since the chi-square probability value is below the significance level, the best model for this Hausman test is the Fixed Effect Model (FEM).
The Lagrange multiplier test was not performed in this study because the Chow and Hausman test showed that the fixed-effects model (FEM) was the preferred method, while the Lagrange multiplier test was done to compare common-effects models (CEM) or random-effects models (REM) to determine which model was better.

Table 4. Multicollinearity test results

Variabel	Coefficient Variance	Uncentered VIF	Centered VIF
C	30.65511	1966.416	N/A
Readibility	0.001286	51.69063	1.011285
Earning Management	1.351493	1.015043	1.008974
Firm Size	12.72621	2052.540	1.131933
Information Asymetry	0.041676	23.79520	1.147324

Source: secondary data processed using eviews 12

Based on table 4 of the results of the multicollinearity test, it is known that the independent variable readability

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has a VIF value of 1.011285 < 10, earnings management has a VIF value of 1.008974 < 10, firm size has a VIF value of 1.131933 < 10, and information asymmetry has a value of 1.147324 < 10. So that the value of the Variance Influation Factor (VIF) of each variable shows a value smaller than 10, which means that all independent variables in this study do not have a multi-nuclearity problem.

Uji Heteroskedastisity

Table 5. Results Of The Data Heteroscedasticity Test Before Transformation

F-statistic	3.269027	Prob. F (4,395)	0.0118
Obs*R-squared	12.81732	Prob. Chi-Square (4)	0.0122
Scaled explained SS	30.35955	Prob. Chi-Square (4)	0.0000
Variabel		t-statistic	Prob.
R		-0.766935	0.0935
EM		-1.681043	0.7567
FS		2.543860	0.0113
IA		-2.349299	0.0193

Sumber: data sekunder yang diolah dengan eviews 12

The results of the heteroscedasticity test shown in table 5 show that the chi-square value of Obs*R squared of 0.0122 is smaller than the set significance level of 0.05 and the probability value of the firm size variable and information asymmetry is less than 0.05. To avoid heteroscedasticity, the firm size and information asymmetry data are converted into natural logarithms.

Table 6. Heteroscedasticity Test Results After The Data Are Transformed

F-statistic	1.491238	Prob. F (4,395)	0.2040
Obs*R-squared	5.950598	Prob. Chi-Square (4)	0.2029
Scaled explained SS	14.76403	Prob. Chi-Square (4)	0.0052
Variabel		t-statistic	Prob.
Readibility		-0.963800	0.3357
Earning Management		-1.869833	0.0622
Firm Size		-0.523733	0.6008
Information Asymetry		1.430455	0.1534
Readibility		0.037601	0.9700

Source: secondary data processed with eviews 12

Table 6 shows that the results of the heteroscedasticity test that the value of Prob. The chi-square on the Obs*R-square of 0.2029 is greater than the default significance level of 0.05 and the value of Prob. of each independent variable has a value greater than 0.05. Therefore, it can be concluded that this study does not show any symptoms of heteroscedasticity.

Table 7. Hypothetical Results

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-19.87688	11.81488	-1.682360	0.0935
Readibility	-0.024597	0.019362	-1.270335	0.2049
Earning Management	-0.448998	0.548818	-0.818118	0.4139
Firm Size	15.83139	8.035818	1.970102	0.0497

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Information Asymetry	0.079150	0.221052	0.358062	0.7205
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.892443	Mean dependent var		3.069982
Adjusted R-squared	0.864193	S.D. dependent var		2.996437
S.E. of regression	1.104248	Akaike info criterion		3.220485
Sum squared resid	385.3192	Schwarz criterion		4.058692
Log likelihood	-560.0969	Hannan-Quinn criter.		3.552426
F-statistic	31.59018	Durbin-Wats on stat		1.442851
Prob(F-statistic)	0.000000			

Source: secondary data processed with eviews 12

Based on Table 7, the value of adjusted R-squared (R2) is 0.864193 x 100% = 86.4193%. The value of the determination coefficient is greater than 1, which means it is high enough to provide almost all the information that independent variables need to predict the development of dependent variables.

The results of the hypothesis test in Table 7 show that the Prob value (F-statistic) of 0.00000 is below the significance level of 0.05. Therefore, Ha is accepted and H0 is rejected. It can be concluded that readability, earnings management, firm size, and information asymmetry simultaneously have a significant influence on the company's financial risk in the financial sector.

In Table 7, the results of the hypothesis test for the X1 variable show a t-statistical value of -1.270335 with a probability value of 0.2049 greater than 0.05, which explains that the readability variable (X1) has no partial effect on financial risk. For the variable X2, a t-statistical value of -0.818118 was obtained with a probability value of 0.4139 greater than 0.05. This explains why the earnings management variable (X2) has no partial effect on financial risk. The t-statistical value of the X3 variable is 1.9790102 with a probability value of less than 0.0497 0.05, which explains why the firm size variable has a positive and partially significant effect on financial risk. The t-statistical value of the X4 variable is 0.358063 with a probability value of 0.7205 greater than 0.05 which explains that the information asymmetry variable (X4) has a partial insignificant effect on financial risk.

Discussion

Readability And Financial Risk

In this study, panel data was analyzed using a fixed effect model (FEM), and the results showed that the t-statistic for the readability variable was -1.270335 with a greater probability of 0.2049 at a significance level of 0.05, which indicates that readability does not have a significant effect on the financial risk of financial companies listed on the IDX. This is because financial risk decisions are often made by professional financial advisors and auditors who can understand complex financial information. Many investors and lenders rely on quantitative data, such as financial statements, which are easier to analyze and less sensitive to risk assessment (Prabhawa & Harymawan, 2022). Financial risk is also influenced by external factors that are not directly related to the readability of financial statements, such as macroeconomic conditions, government policies, and industry performance. This study concludes that readability does not significantly affect financial risk, this study is in line with research conducted by Prabhawa & Harymawan (2022) and Yin et al (2022b) which stated that readability has no effect on financial risk.

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Earnings Management and Financial Risk

The results of the fixed effect model (FEM) analysis based on panel data showed that the t-value of the earnings management variable was -0.818118 and the probability value of 0.4139 was greater at a significance level of 0.05, which implies that earnings management does not have an impact on the financial risk of financial companies listed on the Indonesia Stock Exchange. Earnings management is often used to meet targets, avoid breach of agreements or control interest rates. However, because it is used for specific purposes, earnings management does not have a significant impact on financial risk (Yunita et al., 2023). Companies with good accounting systems and independent auditors have less control over performance management practices. This ensures that financial reporting consistently reflects the company's current state and reduces financial risk (Martin & Wijaya, 2021). However, this study is in line with the opinions of Sherly & Lubis (2023) and Yunita et al (2023) who stated that earnings management has no effect on financial risk. Thus, it can be concluded that good or bad performance management has no effect on the company's financial risk.

Firm Size and Financial Risk

This study used the Fixed Effect Model (FEM) to analyze panel data. The firm size variable obtained a t-Statistic value of 1.970102 and a Prob. value of 0.0497 smaller with a significance value of 0.05, revealing that firm size has a significant positive influence on financial risk in financial companies listed on the IDX. Signaling theory plays an important role in explaining the relationship between firm size and financial risk. According to this theory, companies use certain measures to communicate information to investors that can have a significant impact on the company's value (Umaroh, 2019). The contribution of large banks to systemic risk suggests that the size of the bank affects its risk. Firm size is a large measure of how small a company is and larger companies have more resources, employees, and labor which can increase risk and make them more vulnerable to the financial environment. These results are consistent with previous research by Ardiana (2014), Damayanti & Dana (2017), and Erwati et al (2012) which found a positive relationship between firm size and financial risk.

Information asymmetry and financial risk

Using the fixed effect model (FEM), the t-statistic for the information asymmetry variable is 0.358062 and the probability exceeding the significance level of 0.05 which is 0.7205 indicates that information asymmetry does not have a significant influence on financial risk. This means that information asymmetry does not have a significant effect on the financial risk of financial companies listed on the IDX. Information asymmetry has no effect on financial risk because it is not a significant source of financial risk for companies because market participants have developed effective strategies to reduce the impact of information asymmetry and manage risk effectively. Other factors that have a significant impact on financial risk include profitability, company performance, and growth potential ((Jeniffer & Sudirgo, 2020)). On the other hand, information asymmetry can influence financial decisions through adverse selection, moral hazard, and cost monitoring (Bebczuk, 2003). This study shows that quantitatively information asymmetry does not directly affect the company's financial risk. This suggests that other factors have a greater impact on financial risk. These results are consistent with the findings of Merril iii (2017) and Rahmawati & Soekardan (2022).

Conclusions

This study analyzes the impact of readability, earnings management, firm size, and information asymmetry on financial risk. It was found that readability does not have a significant effect on financial risk, because the ease or difficulty of the readability of financial statements does not affect financial risk in financial reporting companies on the IDX in 2018-2022. Earnings management does not have a significant effect on financial risk, because the higher and lower levels of management performance do not affect financial risk in financial sector companies on the IDX in 2018-2022. Firm size has a positive effect on financial risk, because larger companies have better management and control, so the financial risk of representative companies on the IDX in 2018-2022 is higher. Information asymmetry does not have a

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significant effect on financial risk, because companies that have good information quality and low information costs do not have a significant effect on the financial risk of representative companies on the IDX in 2018-2022.
This research aims to provide insight and knowledge on key topics in financial accounting, improving understanding of factors such as information asymmetry, readability, profit management, company size, and financial risks that affect financial reporting. The research also aims to provide a better understanding of financial risks and help develop more accurate models and theories in financial accounting, improving the quality of research and academic contributions. The research also aims to assist companies in improving financial reporting and risk management, assisting regulators, investors, and financial analysts in understanding the factors that affect a company's financial risk and using it as a guide for better investment decisions and risk management. This can improve the transparency, efficiency, and quality of published financial reporting. The findings of this study can serve as a reference for future research, allowing other researchers to use this research as a basis for more specific research on specific topics and to identify unexplored areas of research, support new hypotheses, and improve understanding of key topics, improving the quality of academic literature and relevance in financial accounting.

Limitations

The limitations of this study are the measurement of financial risk, readability, and information asymmetry, which have shortcomings, such as the measurement of financial risk in this study, which only uses one metric, Debt to Equity Ratio (DER) which has shortcomings because it does not provide a complete picture of financial risk, subjectivity in measuring readability, and limited data to measure information asymmetry. In addition, the analytical methods used in this study cannot fully capture the complex relationships between the variables studied. In future research, we suggest adding qualitative approaches, such as in-depth interviews or case studies, to better understand the mechanisms and causes of the impact of these variables on financial risk. Financial risk variables should not be measured by a single metric such as leverage. Future researchers can use various measures of financial risk, such as current ratio, quick ratio, and interest coverage ratio. For the readability variable, future researchers can use other methods such as the Flesch Readability Index or SMOG Index to improve accuracy and reduce subjectivity. For information asymmetry variables, future researchers are advised to use data from various sources such as Bloomberg or Thomson Reuters. further researchers can conduct a comparative study of IDX between the financial sector and other sectors.

Research Contribution

The conclusion of this study contributes to both academic knowledge and practical application in several meaningful ways:

1. **Clarifying Theoretical Understanding**: By showing that readability, earnings management, and information asymmetry do *not* significantly affect financial risk—contrary to what might be expected—it challenges or refines existing assumptions in financial accounting literature.
2. **Highlighting Firm Size as a Key Factor**: The finding that **firm size has a significant positive effect on financial risk** helps concentrate future analysis on organizational structure and scale, encouraging more nuanced models that factor in size dynamics.
3. **Guidance for Stakeholders**: The study offers insights that are directly useful to corporate managers, investors, regulators, and financial analysts. It emphasizes which factors are *actually* influencing financial risk, allowing them to focus their attention and resources more effectively.
4. **Improving Financial Reporting Quality**: By identifying which assumed risk indicators don't hold up under empirical scrutiny, the study helps improve **transparency and efficiency in financial disclosures**, which benefits both internal decision-making and public accountability.
5. **Foundation for Future Research**: This work opens the door for more targeted investigations. For example, researchers might now explore *why* firm size influences risk while others don't, or dig deeper into conditions under which readability or information asymmetry *might* become significant.

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In short, its main contribution lies in reshaping where both academics and practitioners focus their efforts when assessing and managing financial risk.

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