

## The Effect Of Profitability, Managerial Ownership, Leverage, and Firm Size On Income Smoothing

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Article Info	Abstract
<p><i>Keywords:</i></p> <ul style="list-style-type: none"><li>○ Profitability</li><li>○ Managerial Ownership</li><li>○ Leverage</li><li>○ Income Smoothing</li></ul>	<p><b>Objective</b> - This research aims to determine the impact of profitability, managerial ownership, leverage, and firm size on income smoothing</p> <p><b>Design/methodology/approach</b> - This research uses quantitative data, the sample of this company is a commodity sector company listed on the Indonesian Stock Exchange in 2018-2023 of 19 companies. The analysis technique used to test the hypothesis is a logistic regression analysis using Eviews 9 software.</p> <p><b>Findings</b> - The results of this research show that the profitability variables, leverage and company size, have no effect on income smoothing, while the managerial ownership variable has a positive significant effect on income smoothing.</p> <p><b>Originality/Value</b> - This research discusses income smoothing and other factors such as profitability, managerial ownership, leverage and company size, focusing on companies in the raw goods sector. The difference between this research and previous research lies in the research period, the company sector studied, and the measurements used.</p>
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## INTRODUCTION

Profit is one of the information contained in the financial statements that is very important to the internal and external parties of the company. Profit information is important information in financial statements for management so encourage managers to engage in deviant behaviour (dysfunctional behavior). This behavior arises from an agency conflict between managers and shareholders, where managers as agents act opportunistically in an attempt to maximize their utility, rather than maximize shareholder prosperity. In addition, this dysfunctional behavior also arises due to the presence of information asymmetry, i.e. the inadequacy of the amount of ownership of information about the company's activities between managers and shareholders. The dysfunctional behavior of managers related to profit is profit management. Profit management practices can be done with four patterns, namely taking a bath, income maximization, income minimization and income smoothing (Scott, 2006). The profit management pattern

commonly used by management is a profit statement. A profit statement is an effort made by managers to minimize the fluctuation of profits in certain periods. The profit phrase is also often applied with the aim of making it easier for companies to obtain loans from creditors as well as to attract investor interest in making investments (Maulana, 2022).

Profitability is a measurement in percentage used to assess the extent to which a company is able to generate profits. Profitability figures are expressed, among other things, in terms of profit before or after tax, investment profit, earnings per share and sales profit (Saputri et al., 2024). Increasing profitability usually indicates that the opportunity for income smoothing is increasing because companies that have published financial reports with high profits will try to make profits in the following period more stable because it will give a negative picture to shareholders.

Managerial ownership is believed to have the ability to influence the running of a company which in turn can influence the performance of a company. A manager's ownership will also determine policies and decision making regarding the accounting methods applied to the company they manage. In other words, a certain percentage of share ownership by management tends to influence income smoothing, this is supported by research conducted by Sri Wahyui et al. (2022) & Dini and Fau (2022) who say that managerial ownership has a positive effect on income smoothing.

Ibram & Woni, (2019) state that large debt results in increased risk, so that the greater the leverage, the risk borne by capital owners will also increase. The greater the debt borne by the company, the greater the indirect risk borne by capital owners. This makes it difficult for companies to find parties who want to invest or parties who want to lend funds to the company. This condition gives rise to management's desire to carry out income smoothing practices. Based on the explanation above, it can be concluded that leverage has a positive effect on income smoothing.

Company size describes the size of the company which can be measured, one of which is by looking at the total assets owned. So large companies always want to provide good performance by showing stable profits, because investors are more interested in investing their capital in companies whose profits are relatively stable (Nugraha & Dillak, 2018). Previous research proves that company size has a positive effect on income smoothing (Eliawati, 2022).

A lot of research has been done on income smoothing, but the results tend to be different. However, the author notes that there is an interesting phenomenon in which the previous research found inconsistencies in the results of the research. In view of the inconsistencies, the author wants to look back at the factors that lead to income smoothing in a company. Researchers are interested in researching such matters at basic materials companies listed in the BEI. The difference between this research and previous research is the period of research, the selected area of the company, as well as the independent variable selected. The researchers used the period 2018-2023, assuming that in that time range there were a lot of changes taking place in the business world and the economic situation of Indonesia, as well as to get the latest results of income smoothing carried out by companies in particular in the property and real estate sector companies.

## LITERATUR REVIEW

### Agency Theory

According to Jensen & Meckling (1976) agency theory is a contract between manager and owner. In order for this contractual relationship to work smoothly, the owner will delegate decision-making authority to the manager. An agency relationship is a contract in which one or more persons (the employer or principal) hire another person (the agent) to perform a number of services delegating the power to take decisions to the agent. The agency's theoretical approach is closely related to profit statements, in which case a conflict of interest between owners and managers can encourage managers to make a profit statement to meet their personal goals or manage market perceptions. Owners may prefer a profit that reflects actual economic performance without a word, while managers may use a profit term to manipulate financial results. Strict supervision, accounting regulation, and proper compensation structure can help reduce agency costs associated with profit statements. The agency theory approach is also related to profitability, in which it emphasizes the importance of harmonizing the interests of managers and owners to reduce agency costs and improve company performance. By providing appropriate financial incentives and increased supervision, companies can reduce opportunistic behaviour, motivate managers to focus on increased profitability, and better financial performance. In addition to the theory of agencies also relates to managerial ownership since giving ownership of shares to managers, the interests of managers and owners can be aligned. Managers who own company shares will be more likely to make decisions that increase the value of the company because they will also benefit from such improvements Jensen & Meckling (1976). As far as the agency theory approach with leverage is concerned, the theory of an agency approach with a leverage emphasizes how the use of debt can serve as a supervisory mechanism that reduces agency costs and motivates managers to act in the interests of owners. By improving financial discipline and external supervision, leverage can help companies more efficient performance and increase shareholder value (M. C. Jensen, 1986). Lastly, the theoretical approach of agency to corporate size. The separation between greater ownership and control in large corporations creates higher agency problems. Management may feel that it has greater freedom to engage in profit management practices, including profit statements, due to less strict supervision.

### Profitability

Profitability is the ratio that a company uses to measure the overall management effectiveness shown by the greatest and smallest rate of profit obtained in relation to sales or investments, the better the profitability ratio then the better a company's ability to obtain profits. (Haniftian & Dillak, 2020). According to Brigham & Ehrhdart, (2016) in his famous book "Financial Management: Theory & Practice", profitability is a company's ability to generate profits or profits from its operational activities. Profitability is seen from the company's ability to generate sufficient net profit relative to expenditure, capital costs, and risks. The profitability of this study is proxied with the return on assets, which is because the return of assets not only focuses on current financial performance, but also reflects a solid business strategy that has proven to be profitable in the long term. It becomes an important indicator for investors in assessing the company's potential for future growth.

## Managerial Ownership

According to the theory proposed by Michael C. Jensen and William H. Meckling in their famous article in 1976, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," managerial ownership refers to the ownership of company stock by the managers or executives of the company. Jensen and Meckling argue that managerial ownership can reduce conflicts of interest between shareholders and managers (known as the agency problem). Managerial ownership is a concept in which managers or executives in a company hold stock or equity ownership in the company they manage. The greater the proportion of management ownership in the company, the more it can unify the interests of managers and shareholders.

## Leverage

Krisyadi & Mulfandi, (2021) stated that leverage is a metric that measures the ability of long-term and short-term debt to pay for the company's assets. Companies with high levels of debt indicate that they rely on credit or external debt, while companies with low levels of debt can manage their assets. The amount of leverage a company has can affect the amount of tax paid by the company. Leverage shows the proportion of debt used to finance its investments. In this study, leverage is measured using the Debt to Asset Ratio (DAR) because it depicts the company's capital ability to guarantee its debt and shows the proportion of the company's burden funded by shareholders and financed by loans. The greater the debt burdened by the company, the greater the indirect risk borne by the owners of the capital. This makes it difficult for the company to find parties willing to invest or lend money to the company. This condition leads to management's desire to practice earnings management (Ibram & Woni, 2019).

## Firm Size

According to Brigham & Huston, (2006), a leading expert in financial management, the size of an enterprise can be defined and measured using a variety of financial and operational metrics that reflect the scale and scope of a company's activity. The size of a company is a scale, i.e. it can be classified the size of the company in various ways, including total assets, log size, stock market value, and so on. (Sesilia et al., 2021). The larger the size of the company, the more accurate the information is given to the market and the better public access to that information. In this study the measurement used is the natural logarithm of the total asset. Becker & Huselid, (1983) The use of the total natural logarithm of assets as a company measure aims to reduce the skewness and courtesy in the distribution of financial data, which makes the data closer to normal distribution and easier to analyze.

## Hypothesis Development

Profitability indicates the ability of a company to generate profits over a certain period of time. When a company's ability to generate profits is unstable, it will result in a decline in investor confidence in investing its capital in the company. In order for investors not to worry about the fluctuation of profits that occurs, the management takes a profit statement action (Linda Santioso, 2020). Increasing profitability usually indicates an increasing chance

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of profit statement because companies that have already published financial statements with high profits will strive to keep the profits in the subsequent period more stable because it will give a negative picture to shareholders. This is supported by previous research conducted by Tundjung, (2019) & Yati et al. (2022) which said that profitability had a positive impact on income smoothing.

H<sub>1</sub>: Profitability has a positive effect on Income Smoothing

Managerial ownership is a condition in which a company manager or executive holds a number of shares in the company where they work. It aims to tie management interests to the interests of the main shareholders of the company. By holding the company's shares, managers are expected to be more likely to make decisions that benefit the company in the long term, in line with the interest of the shareholder. A certain percentage of management's ownership of shares tends to influence profit statements, supported by a study conducted by Sri Wahyuni et al. (2022) & Dini & Fau, (2022), which states that management ownership has a positive impact on income smoothing.

H<sub>2</sub>: Managerial Ownership has a positive effect on Income Smoothing

Leverage shows the proportion of debt used to finance the investment. An increase in debt followed by stable profits means the company is considered good at managing its debt. According to Ibram & Woni, (2019) stated that a large debt leads to increased risk, so the greater the leverage then the risk borne by capital owners will also increase. This makes it difficult for companies to find investors or those who want to lend their money to the company. This condition raises the management's desire to do the practice of income smoothing. Based on the explanation above, it can be concluded that leverage has a positive effect on the statement of profit. This is in line with the research carried out by Indrawan et al. (2020) and Safitri et al., (2020) which says that leverages have a positive impact on income smoothing.

H<sub>3</sub>: Leverage has a positive effect on Income Smoothing

## Firm Size on Income Smoothing

The evolution of a company's size has greatly influenced the attention and interest of analysts, investors and governments in assessing its future survival. The larger a company tends to make every effort to get a good image from the general public. Large corporations will also avoid large profit fluctuations, as a drastic increase in profits will result in a rise in tax rates and a dramatic decrease in profit will lead to poor performance in the eyes of investors and creditors. (Maotama & Astika, 2020). Previous research has proven that corporate size has a positive influence on income smoothing (Eliawati, 2022) (Faktor et al., 2020).

H<sub>4</sub>: Firm Size has a positive effect on Income Smoothing

## RESEARCH METHOD

The research aims to find out the impact of profitability, managerial ownership, leverage and size of the company on the statement of profits. Quantitative methods of research can be understood as research methods based on the philosophy of positivism

used to research on a particular population or sample, data collection using research instruments, data analysis is quantitative/statistical with the aim of testing the hypothesis that has been established. This research strategy uses case studies, case studies are intended to investigate and study events or phenomena about something and for the unit of analysis using organizations with minimal researcher involvement. The sampling design in this study is probability sampling using purposive sampling. For the research background, the researcher did not find any intervention in this study (non-contrived). For the implementation time using panel data which is a combination of cross-section and time series using data analysis, namely hypothesis testing. Population is an entire object that is a factor of research or observation and has similar characteristics (Nuryadi et al., 2017). In this method, researchers selectively select sampling units based on characteristics that are considered important, thus enabling more in-depth and relevant data collection. The population in this study is the entire commodity sector companies listed on the Indonesian Stock Exchange.

A sample is a portion of the population taken for direct observation and based on conclusions. (Nuryadi et al., 2017). Based on the determination of the population that has been established using the purposive sampling system, there is a definition of the criteria that will be entered as a sample in this study. Some criteria set by the researchers in determining the sample are as follows:

1. The sample is a company in the commodity sector that is listed in the Indonesian Stock Exchange since 2018 s/d 2023. The company in this commodities sector has submitted a consecutive annual financial report for the year 2018s/d 2023 containing data and information that can be used in this research and the financial report has been audited and accompanied by an independent auditor's report.
2. Commodity company for the period 2018-2023 is not delisted from the Indonesia Stock Exchange.
3. The company which submits financial reports in rupee or foreign currency.
4. The company that presents managerial ownership in the annual report.

Based on the above criteria, the companies eligible for this survey are 22 companies. The research was carried out using secondary data from commodity companies over six years, making the total of observations 132. This research uses a secondary data type, the data source used in this research is from the financial reports of sector companies listed on the Indonesian Stock Exchange for the years 2018-2023 obtained from [www.idx.co.id](http://www.idx.co.id) and the respective web of the companies. In obtaining data on this study, researchers use library research techniques. Researchers gather data related to the problem researched through previous research journals, books and internet searches related to research topics.

## Income Smoothing

The dependent variable used in this study is a profit statement measured using the eckel index. The measurement using this index is intended to distinguish between companies that make profit statements and companies that do not. This index has been used in previous research (Becker & Huselid, 1983), (Turnip et al., 2023). Here is the formula for calculating the Eckel Index.

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$$\text{Indeks Excel} = \frac{CV \Delta I}{CV \Delta S}$$

Referring to Eckel's study (1981) when the income smoothing index is  $< 1$  means that companies are included in income smoothing. Dependent variables in this study use dummy variables with measurements of 1 (one) = income smoothing and 0 (zero) = non-income smoothing

## Profitability

According to Kasmir, (2019) profitability is the ability of a company to make a profit in relation to sales, total assets, and equity. The profitability ratio shows the company's ability to manage its resources efficiently. In this study, profitability is projected with return on asset. As for the equation, it is as follows:

$$ROA = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

## Managerial Ownership

Managerial ownership is the percentage of acquisition of company shares carried out by management who own company shares or become shareholders in the company who actively participate in decision making in the company, especially the board of directors and board of commissioners of the company, so it can be said that the management or managers of the company have shares in the company. . Measurement of managerial ownership is carried out to determine the extent to which managers and executives of the company own shares in the company where they work. This measurement is important because it is believed to be able to affect company performance and reduce conflicts of interest between managers and shareholders. The equation used is as follows:

$$KM = \frac{\text{Shares Owned by Management}}{\text{Number of Shares Outstanding}}$$

## Leverage

According to Weston and Copelan, (2001) leverage is the use of financial resources derived from debt to obtain higher profits. With leverage, companies can increase their total assets and their potential to obtain greater profits. The Leverage Ratio shows the company's efficiency in managing funds for the purposes of anticipating short-term and long-term debt so that operational activities are not disrupted. Leverage in this study is calculated using the Debt to Asset Ratio proxy. The equation used is as follows:

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

## Firm Size

Brigham & Huston, (2006) said that company size can be seen from the total assets owned by the company. Large companies tend to have larger total assets compared to small companies. The size of the company can show the risks that may arise from various situations faced by the company. Company size can determine the level of ease of the

company to obtain funds from the capital market. In this study, the measurement used is the natural logarithm of total assets.

$$Size = Ln. Total Assets$$

## RESULTS

### Statistik Deskriptive

Statistical analysis of variables explains the independent variables and dependent variables used in this study. The independent variables in question are profitability, managerial ownership, leverage and company size and the dependent variable is earnings smoothing.

**Table 1. Descriptive Statistic**

	PERALA	PROFIT	KEPMAN	LEVERA	UKPERA
Mean	0.473684	0.012251	0.236409	0.501020	28.57140
Median	0.000000	0.022250	0.079400	0.491150	27.97915
Maximum	1.000000	0.129900	0.870800	1.194400	32.69010
Minimum	0.000000	-0.187000	0.000000	0.044000	25.55280
Std. Dev.	0.501511	0.059940	0.282186	0.240467	1.878873
Skewness	0.105409	-1.297862	1.127301	0.431236	0.705553
Kurtosis	1.011111	5.161050	2.775409	2.828740	2.472447
Jarque-Bera	19.00059	54.18762	24.38494	3.672644	10.78027
Probability	0.000075	0.000000	0.000005	0.159403	0.004561
Sum	54.00000	1.396600	26.95060	57.11630	3257.139
Sum Sq. Dev.	28.42105	0.405985	8.998102	6.534139	398.9084
Observations	114	114	114	114	114

PERALA= Income smoothing, PROFIT= Profitability, KEPMAN= Managerial Ownership, LEVERA= Leverage, UKPER= Company Size

The table above shows that there are 114 observations for the 2018-2023 research year period. The descriptive statistical explanation of the data above means:

1. Earnings smoothing in this study using dummy variables where companies that do earnings smoothing are identified with number 1, and companies that do not do earnings smoothing are identified with number 0 presented in appendix 1. Based on Table 4.2, obtained data on the sample of 19 companies processed, there are 9 companies or 47% of 100% that do earnings smoothing. While as many as 10 or 53% are companies that do not do earnings smoothing. The average value and standard deviation of the earnings smoothing variable are 0.4736 and 0.5015, respectively. The average value is smaller than the standard deviation value, this indicates that the data has a very wide variation, with many values far from the average.
2. In the analysis of profitability variables, the minimum value is -0.1870, which belongs to the company Alumindo Light Metal Industry Tbk in 2020, the maximum value of 0.1299 belongs to Gunawan Dianjaya Steel Tbk in 2022. From the information in Table 4.2, the average value of the profitability variable proxied by ROA is 0.0122 which is smaller than

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the threshold value determined by Suartini & Sulistiyo, (2017) which is between 0.5-0.8. This can be said that the profitability of the raw goods sector companies is low. Low profitability leads to a loss of investor confidence. Therefore, the possibility of management smoothing earnings is very large because, management needs to maintain investor confidence and show that the company's performance is good and stable. The standard deviation obtained in this analysis is 0.0599, these results indicate that the standard deviation is greater than the average value. So, it can be concluded that the data variation in the profitability variable is more diverse and the data used is complete.

3. In the managerial ownership variable, the minimum value of 0.0000 is occupied by PT Aneka Tambang Tbk, the maximum value of 0.8708 is occupied by PT Gunawan Dianjaya Steel Tbk in 2022 and 2023. The average value obtained is 0.236, and the standard deviation value is 0.2821. The standard deviation value is greater than the average, indicating that the data variation used is diverse and complete.
4. In the Leverage variable measured using DAR, the minimum value is 0.0440 owned by PT Duta Pertiwi Nusantara Tbk in 2023, the maximum value of 1.194 belongs to PT Alumindo Light Metal Industry Tbk in 2020. From the information in Table 4.2, the average value of the leverage variable proxied by DAR is 0.5010, smaller than the threshold value determined by Suartini & Sulistiyo, (2017) which is around 0.5-1. This can be said that the raw goods sector companies are in a financially stable position because they do not exceed the established leverage limit, this can provide more confidence for investors. Leverage stability is a sign of good risk management and the company's financial health. However, stable leverage can facilitate financial planning and reduce the need for earnings smoothing. The standard deviation obtained from this analysis is 0.2406, these results indicate that the average value is greater than the standard deviation value. This means that the data distribution of the leverage variable is small and provides an incomplete picture of the information.
5. In the company size variable which is measured using the company's total assets, then transformed by logarithm with a sample size of 114. In the results of the calculation of the company size variable, the minimum value is 25.5528 owned by PT Lionmesh Prima Tbk in 2023, the maximum value of 32.6901 belongs to PT Barito Pasific Tbk in 2023. The average value obtained is 28.5714 which is greater than the standard deviation obtained, namely 1.8788. From these results it is known that the number of companies below the average is 11 and 8 companies above the average. The average value that is greater than the standard deviation value indicates that the distribution of variable data is small or there is no large enough gap. This means that the data distribution of the company size variable is small and provides an incomplete picture of the information.

## Logistic Regression Analys

According to Hosmer et al., (2013) logistic regression analysis is a statistical method used to model the relationship between a binary dependent variable and one or more independent variables. The main objective is to predict the probability of occurrence of an event based on the given values of the independent variables. They emphasized the importance of result interpretation and assumption testing in logistic regression analysis to ensure the validity and reliability of the model developed. The results are presented in the table below.

**Table 2. Logistic Regression Analys**

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-1.240658	3.200512	-0.387644	0.6983
PROFIT	4.882071	4.218027	1.157430	0.2471
KEPMAN	2.311091	0.761844	3.033548	0.0024
LEVERA	-1.184964	1.051065	-1.127394	0.2596
UKPERA	0.038906	0.117157	0.332085	0.7398

Based on the table above, the logistic regression equation can be obtained as follows:

$$P = \frac{1}{1 - 1,2406 + 4,8820 \text{ PROFIT} + 2,3110 \text{ KEPMAN} - 1,1849 \text{ LEVERA} + 0,0389 \text{ UKPERA}}$$

The regression model above can be explained as follows:

1. Based on the regression equation, a constant of -1.240 is obtained. This indicates that if all independent variables are equal to 0, the earnings smoothing variable is equal to -1.240, which means that the probability of earnings smoothing is 0.77%.
2. The coefficient of the profitability variable as measured by ROA has a value (+) of 4.882071 and is greater than the significant value at a = 5%. This means that profitability has no significant effect on earnings smoothing.
3. The coefficient of the managerial ownership variable is positive (+) amounting to 2.311 and has a significant effect at a = 5%. If the odd ratio is calculated with the assumption that the independent variable = 0, the result is 0.255. This means that if the percentage of managerial ownership increases by 1 unit, the possibility of increasing earnings smoothing is 0.255%.
4. The coefficient value of the leverage variable proxied by DAR is negative (-) of -1.184, and greater than the significant value at a = 5%. This means that leverage has no significant effect on earnings smoothing.
5. The coefficient value of the firm size variable is positive (+) of 0.038, and greater than the significant value at a = 5%. This means that company size has no significant effect on earnings smoothing.

**Goodness Of Fit Test**

A goodness of fit test is a statistical technique used to test how well a statistical model describes or fits the observed data. The main objective is to evaluate the extent to which the hypothesized distribution or model fits the actual distribution or pattern of the empirical data. If the test results indicate that the model does not fit the data, this means that the model may need to be modified or alternative models need to be considered.

**Table 3. Goodness Of Fit Test**

	Quantile of Risk			Dep=0	Total	H-L
	Low	High	Actual	Expect		
1	0.0801	0.2673	9	8.99782	2	2.00218
2	0.2680	0.3142	7	7.81129	4	3.18871
					11	11
						2.9E-06
						0.29068

3	0.3257	0.3746	11	7.77396	1	4.22604	12	3.80141
4	0.3760	0.4025	9	6.74659	2	4.25341	11	1.94649
5	0.4036	0.4502	3	6.84963	9	5.15037	12	5.04097
6	0.4527	0.4764	5	5.94368	6	5.05632	11	0.32595
7	0.4809	0.5210	4	5.49622	7	5.50378	11	0.81407
8	0.5314	0.6931	6	4.63171	6	7.36829	12	0.65831
9	0.6972	0.7387	3	3.08567	8	7.91433	11	0.00331
10	0.7398	0.8723	3	2.66342		9.33658	12	0.05467
						9		
Total			60	60.0000	54	54.0000	114	12.9358
H-L Statistic		12.9358		Prob. Chi-Sq(8)		0.1141		
Andrews Statistic		15.0578		Prob. Chi-Sq(10)		0.1300		

Table 3 obtained from the regression analysis results shows that the Hosmer and Lemeshow Goodness of Fit Test results obtained a chi-square value of 12.9358 with a significance level of 0.1141. The test results show that the probability value (P-value) > 0.05. This indicates that there is no significant difference between the model and the data so that the regression model in this study is feasible and able to predict the value of the observations.

### Partial Test

The partial test in logistic regression is also called the Z statistical test. This test can be done by comparing the probability value against  $\alpha$ , if the probability value <  $\alpha$ , then  $H_0$  is rejected, which means that the independent variable affects the dependent variable, while if the probability value >  $\alpha$ , then  $H_0$  is accepted, which means that the independent variable does not affect the dependent variable (Ghozali, 2016). The results of the Z statistical test can be seen in the table below.

**Table 4. Z Statistic**

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-1.240658	3.200512	-0.387644	0.6983
PROFIT	4.882071	4.218027	1.157430	0.2471
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UKPERA	0.038906	0.117157	0.332085	0.7398

Based on Table 4, the results of the Z statistical test of each independent variable on the dependent variable are as follows:

1. The first hypothesis ( $H_1$ ) raised in this study states that profitability has a positive effect on earnings smoothing. The results of this study support the hypothesis with a beta coefficient of 4.8820 which is in the expected direction. However, the results of this test obtained insignificant results because the significance value, namely  $0.2471/2 = 0.12355$  is greater than the significance level  $\alpha = 5\%$ . This indicates that there is an insignificant effect of profitability on earnings smoothing. This means that companies with high profitability

levels do not have a higher probability of smoothing earnings than companies with low profitability levels.

2. The second hypothesis (H2) raised in this study states that managerial ownership has a positive effect on earnings smoothing. The results of the analysis in this study support the hypothesis with a beta coefficient of 2.3110 and a significance value of  $0.0024/2 = 0.0012$  smaller at the  $\alpha = 5\%$  level. This means that there is a significant influence and in the expected direction. In this case, it proves that managers who own shares will feel they have more control over the company's operational and financial decisions. Thus, they use this control to implement earnings smoothing practices to achieve their personal or strategic goals.
3. The third hypothesis (H3) raised in this study states that leverage has a positive effect on earnings smoothing. However, the results of the analysis in this study obtained a beta coefficient value of -1.1849, this results in a value that is opposite to the expected value or shows a positive value. The significance value of  $0.2596/2 = 0.1298$  is greater at the  $\alpha = 5\%$  level. This indicates that there is an insignificant effect of leverage on earnings smoothing. This means that the higher the company's leverage level, the lower the level of earnings smoothing carried out by the company.
4. The fourth hypothesis (H4) raised in this study states that company size has a positive effect on earnings smoothing. The results of this study support the hypothesis with a beta coefficient of 0.0389 which is in the expected direction. However, the results of this test obtained insignificant results because the significance value of  $0.7398/2 = 0.3699$  is greater at the  $\alpha = 5\%$  level. This indicates that there is an insignificant effect of company size on earnings smoothing. This test proves that the size of a company does not have a significant impact on the extent to which the company is involved in earnings smoothing practices. Company size has no effect on earnings smoothing because the size of the company is not always identified with the large number of assets owned by the company.

### Likelihood Ratio Test

The likelihood ratio test can be done by comparing the calculated chi-square value with the chi-square table, if the calculated chi-square value > chi-square table value, then reject  $H_0$ , which means that all independent variables together affect the dependent variable. Meanwhile, on the contrary, then accept  $H_0$ , which means that all independent variables together do not affect the dependent variable (Rismawaty & Andyarini, 2020).

**Table 5. Likelihood Rasio**

McFadden R-squared	0.100563	Mean dependent var	0.473684
S.D. dependent var	0.501511	S.E. of regression	0.475394
Akaike info criterion	1.332111	Sum squared resid	24.63395
Schwarz criterion	1.452120	Log likelihood	-70.93035
Hannan-Quinn criter.	1.380816	Deviance	141.8607
Restr. Deviance	157.7216	Restr. log likelihood	-78.86081
LR statistic	15.86093	Avg. log likelihood	-0.622196

Prob(LR statistic) 0.003212

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Based on the estimation results, the statistical likelihood ratio value or chi-square count is 0.003212, where this result is less than 0.05, it can be concluded that the independent variables including profitability, managerial ownership, leverage and company size together affect the dependent variable, namely earnings smoothing.

## McFadden R squared

McFadden's R-squared is a measure that gives an indication of how well a more complex model explains the data compared to a very simple model (Hosmer et al., 2013). McFadden's R-squared is one of the measures of model fit used in logistic regression analysis, and is often referred to in literature focusing on logistic models, which is used to assess how well the logistic model fits the data. The results of the coefficient of determination test can be seen in the table below.

**Table 6. McFadden R-squared**

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McFadden R-squared	0.100563	Mean dependent var	0.473684
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LR statistic	15.86093	Avg. log likelihood	-0.622196
Prob(LR statistic)	0.003212		

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The table above shows that the McFadden R-Squared value is 0.100563. This means that the independent variables in this study, namely profitability (ROA), managerial ownership, leverage (DAR) and company size in the model are able to explain changes in the probability of the dependent variable earnings smoothing by 10.05% and the remaining 89.95% is explained by other independent variables outside of the study.

## DISCUSSIONS

### The Influence of Profitability on Income Smoothing

The results of testing the first hypothesis (H1) indicate that profitability has a positive but insignificant effect on earnings smoothing, so the first hypothesis (H1) is accepted. This means that increasing profitability will indicate an increasing opportunity for earnings smoothing. Companies that have published financial reports with high profits will try to make profits in the following period more stable. This is important because unstable earnings can give a negative picture to shareholders. Earnings stability can increase shareholder confidence and allow companies to continue to increase their firm value. This result is

consistent with agency theory, which says that profitability plays an important role in reducing conflicts between owners and managers. By displaying stable profits, companies can reduce the perception of risk from investors and creditors, therefore managers perform earnings smoothing. This is done because by smoothing earnings, managers can increase investor confidence and reduce pressure from shareholders to make short-term decisions that may not be in line with the company's long-term goals. These results are in line with the results revealed by Sadewo et al., (2023) that the profitability variable has a positive but insignificant effect on earnings smoothing.

### The Influence of Managerial Ownership on Income Smoothing

The results of testing the second hypothesis (H2) indicate that managerial ownership has a positive and significant effect on earnings smoothing, so the first hypothesis (H2) is accepted. This means that the greater the share ownership owned by the manager indicates that the opportunity for earnings smoothing is increasing. Managerial ownership is a condition in which managers or company executives own a number of company shares. This aims to bind the interests of management with the interests of the company's main shareholders. By owning company shares, managers are expected to be more likely to make decisions that benefit the company in the long term, in line with the interests of shareholders. A certain percentage of share ownership by management tends to affect earnings smoothing, this is supported by research conducted by Wahyuni et al., (2022) which states that managerial ownership has a positive effect on earnings smoothing. In the context of agency theory, managers who own shares in the company tend to have greater control over the company's operational and financial decisions. This is because they have a greater interest in the company's results and tend to prioritize their own interests over the interests of the owner. The implementation of earnings smoothing practices is more due to management choosing to maintain a stable earnings value, which means they will increase reported earnings if actual earnings decrease from the previous year and decrease reported earnings if actual earnings increase sharply compared to the previous year. This can help protect the value of their shares from excessive market fluctuations.

### The Influence of Leverage on Income Smoothing

The results of testing the third hypothesis (H3) indicate that leverage has a negative and statistically insignificant effect on earnings smoothing, so the third hypothesis (H3) is rejected. This means that high or low leverage does not have a strong enough impact to positively influence earnings smoothing. When the company's leverage is high, the company's ability to pay debt will be low, this in turn can create high uncertainty and make earnings smoothing more difficult because the company must face fluctuations in interest payments and other debt obligations. Thus the company will choose not to flatten earnings and will focus more on fulfilling its obligations. In addition, the lack of effect of leverage is suspected because investors now know that debt or loans from creditors are not the only main source of company activities. This may indicate that if the company has a large debt, the company is often monitored more closely by lenders and regulators which may limit management's ability to perform earnings smoothing. The use of debt that is too high will endanger the company and cause the company to fall into the extreme leverage category (extreme debt). This is in line with research conducted by Nugroho et al. (2021) which states that leverage has a negative effect on earnings smoothing. Based on the concept of agency

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theory, it states that leverage has an important role in aligning conflicts of interest between managers (agents) and shareholders (principals). Leverage can affect earnings smoothing behavior because managers who have high leverage tend to focus more on maintaining financial stability than achieving personal goals or smoothing earnings (Hanafi, 2020).

## The Influence of Firm Size on Income Smoothing

The results of testing the fourth hypothesis (H4) indicate that company size has a positive but insignificant effect on earnings smoothing, so the fourth hypothesis (H4) is accepted. This means that the size of the company may indicate that the opportunity for earnings smoothing is increasing. Company size is an indicator of the condition of a company as seen from the number of employees owned, the total revenue achieved, and the total shares outstanding. Although company size has a positive effect on earnings smoothing, it does not have a significant impact on the application of earnings smoothing practices. This shows that there are other factors that are taken into consideration in smoothing earnings. These factors include information disclosure, strict supervision, and also income diversification. This is because sometimes large companies usually have higher reporting obligations and are more transparent. This result is consistent with the concept of agency theory, that large companies often have tighter control systems and better governance, which can reduce agency problems between managers and shareholders. Strong internal controls and strict external supervision can reduce agency problems, which in turn reduce the incentive to perform earnings smoothing and reduce the risk of poor valuation in the market.

## CONCLUSIONS

Based on the results of research conducted from testing the effect of profitability, managerial ownership, leverage and company size on earnings smoothing, the conclusions of this study are:

1. Profitability is proven to have a positive effect on earnings smoothing in raw goods sector companies listed on the Indonesia Stock Exchange 2018-2023. This proves that, increasing profitability will indicate that the opportunity for earnings smoothing is increasing as well. Profit stability can increase shareholder confidence and allow companies to continue to increase their company value.
2. Managerial ownership is proven to have a positive effect on earnings smoothing in raw goods sector companies listed on the Indonesia Stock Exchange 2018-2023. So it can be explained that managers who own shares in the company have a stronger motivation to improve company performance because they will get incentives from increasing company value, which in turn will increase their own wealth. This motivation can influence management decisions to carry out earnings smoothing practices, such as adjusting the values listed on financial statements to achieve more consistent performance and build better relationships with investors.
3. Leverage is not proven to have a positive effect on earnings smoothing in raw goods sector companies listed on the Indonesia Stock Exchange 2018-2023. So it can be said that, when the company's leverage is high, the company's ability to pay debt will be low, this can later create high uncertainty and make earnings smoothing more difficult because the company must face fluctuations in interest payments and other debt obligations. Thus

the company will choose not to flatten earnings and will focus more on fulfilling its obligations.

4. Company size is proven to have a positive effect on earnings smoothing in raw goods sector companies listed on the Indonesia Stock Exchange 2018-2023. So it can be explained that, the bigger a company tends to make every effort to get a good image from the general public. Large companies will also avoid large fluctuations in earnings, because it will have a negative impact on the company's assessment, this causes managers to flatten earnings.

## IMPLICATIONS and LIMITATION

The results of this research have several implications, including, this research can help regulators and the government formulate accounting policies to improve the quality of financial information and prevent inappropriate accounting actions. The factors that influence income smoothing enable the Indonesian Stock Exchange to monitor practices that are detrimental to investors and also the capital market. However, this study has several limitations, namely the type of data in this study is secondary data in the form of numbers in the financial statements that have been published by the company. In addition, due to the limited research time so that not all companies publish financial reports, a research sample is needed

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