The Influence of Financial Risk, Firm Value, Dividend Payout Ratio and Managerial Ownership on Income Smoothing (Case Study of Primary Consumer Goods Companies Listed on the Indonesia Stock Exchange in 2018–2021)

Dien Noviany Rahmatika(✉), Aminul Fajri, Yanti Puji Astutie, Jaka Waskito, and Devi Larasati(✉)

Universitas Pancasakti Tegal, Tegal, Indonesia
diennovia@gmail.com, devilarasati534@gmail.com

Abstract. This study aims to determine the effect of financial risk, firm value, dividend payout ratio and managerial ownership on income smoothing. This type of research is a descriptive quantitative. The population used all consumer non-cyclicals companies listed on the IDX in 2018–2021, i.e. 87 companies. Sampling use purposive sampling technique and collected of 23 companies. Data collection through documentation techniques in the form of financial reports. The data analysis method used is logistic regression. The results show firm value and dividend payout ratio have a positive effect on income smoothing whereas financial risk and managerial ownership have no effect on income smoothing.

Keywords: Income Smoothing · Financial Risk · Firm Value · Dividend Payout Ratio · Managerial Ownership

1 Introduction

In the current era of globalization, with a lot of competition between companies, it encourages management to be more competitive to improve operational effectiveness and efficiency. The goal is to improve the company's financial performance which is shown through financial reports, especially profit and loss statements [1, 2].

The importance of information about profits for investors encourages management to carry out activities that make profits better. This is because a stable profit value shows the successful performance of the management in the eyes of investors. From this, the management strives to keep profits stable. Efforts that are often used are manipulations carried out by management in companies, namely by applying earnings management in the form of income smoothing [2].

The factors (variables) that influence the corporate management's income smoothing action are inextricably linked to it. Financial risk, ownership structure of business value, dividend payout ratio (DPR), firm size, profitability, and managerial ownership are some

S. Saha et al. (Eds.): ICOBIS 2022, AEBMR 230, pp. 191–197, 2023.
https://doi.org/10.2991/978-94-6463-068-8_15

of these variables. However, earlier studies on the impact of these factors came up with contradictory and inconsistent findings [3], For instance, it was discovered that while business value and ownership structure had no effect on income smoothing techniques, profitability and financial risk did.. [3] discovers that financial risk, business size, and firm value all contribute to the smoothing of income. Profitability, financial leverage, and dividend payout ratio, according to [4], had a favorable impact on income smoothing. While income smoothing is negatively impacted by the company's worth. Meanwhile, [5] revealed that income smoothing is positively impacted by the profitability variable (ROA). Managerial ownership and leverage variables (DER) have little impact on income smoothing,.

The authors are interested in revisiting the variables that affect income smoothing because of the conflicting results of earlier studies. The study examines four factors to determine whether managerial ownership, dividend payout ratio, business value, and financial risk have an impact on income smoothing. This study aims to determine whether management ownership, dividend payout ratio, business value, and financial risk have an impact on income smoothing.

2 Development of Research Hypotheses

Income smoothing is a management effort in managing earnings so that the profits of the company become stable in some periods [6]. This method is carried out by changing the income and costs in the current period to be smaller or larger than the appropriate income and costs [7]. The existence of income smoothing in general can be explained by agency theory. Agency theory is a theory that studies the relationship between agents and principals. An agency relationship is defined as an agreement by one or more people who involve other people to carry out services on behalf of the principal and delegate authority to the agent to represent him in making a decision [8].

2.1 Financial Risk

A company that has a high leverage ratio can be predicted that the company implements earnings management. A company with a high level of debt has a high risk and makes profits fluctuate so that the company will implement income smoothing so that company profits are consistent [9]. This is supported by research by [3, 10–12] who say that financial risk can positively affect income smoothing. Based on the description above, the first hypothesis of the research can be formulated as follows:

H1: Financial risk has a positive effect on income smoothing.

2.2 Firm Value

If the value of the firm is high, the possibility of income smoothing is also higher, because applying income smoothing can reduce earnings instability and the risk of a stock. The company will definitely maintain a minimum of profit instability so that the company is attractive to investors [6]. This is supported by the research of [3, 13–15] which state that firm value positively affects income smoothing. Based on the description above, the second hypothesis of research can be formulated as follows:

H2: Firm value has a positive effect on income smoothing.

2.3 Dividend Payout Ratio (DPR)

The size of the DPR is determined by the tendency of the management to manage the income of a company. In companies that implement a large dividend policy, they tend to apply income smoothing, because in anticipation of fluctuating profits which will be a risk to the company [16]. This is supported by the research of [2, 17, 18] which say that the DPR has a positive influence on income smoothing. Based on the description above, the third research hypothesis can be formulated as follows.

H3: Dividend payout ratio has a positive effect on income smoothing.

2.4 Managerial Ownership

In a company activity with managerial ownership, it can increase control in the company because managerial ownership can establish a balanced and synchronous relationship between managers and company owners. The existence of manager ownership by high management and the thought of making the company grow make income smoothing actions can be minimized [5]. This is supported by the research of [9, 19, 20]which stated that managerial ownership negatively affects income smoothing. Based on the description above, the fourth hypothesis of research can be formulated as follows:

H4: Managerial ownership has a negative effect on income smoothing.

3 Research Methods

Quantitative descriptive research is the type being done. The population consists of 87 primary consumer products businesses that are all listed on the Indonesia Stock Exchange for the period of 2018 to 2021. A purposive sampling strategy is used, in which the sample is chosen based on particular standards. The requirements are that the key consumer products firms must be listed on the Indonesia Stock Exchange in the years 2018 through 2021, submit complete financial statements on the IDX throughout that time, not have losses during that time, and have all the data necessary for the research process.

Based on these parameters, 23 companies with a 4 year observation period were obtained, making a total of 92 observational data. The information used is secondary information that was gathered via documentation methods. Logistic regression is the method of data analysis employed.

4 Results and Discussion

The description of the research data which includes the minimum, maximum, average and standard deviation is shown in the descriptive statistical Table 1.

The results of the hypothesis test are shown in Table 2. F-test results, Table 3 t-test results and Table 4 the coefficient of determination. The Tables are shown.

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Risk	92	,108472	,782099	,40879999	,186569104
Firm Value	92	,294540	7,908136	2,46397255	1,862137334
Dividend Payout Ratio	92	,000000	4,770376	,39583204	,587602482
Managerial Ownership	92	,000000	,775000	,09970648	,169829919
Income Smoothing	92	0	1	,57	,498

Table 2. F-Statistical Test Results, Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	15,660	4	,004
	Block	15,660	4	,004
	Model	15,660	4	,004

Table 3. t-Statistical Test Results Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Financial Risk	-2,926	1,297	5,093	1	,024	,054
	Firm Value	,262	,130	4,050	1	,044	1,300
	Dividend Payout Ratio	1,928	,875	4,852	1	,028	6,873
	Managerial Ownership	-1,422	1,440	,975	1	,323	,241
	Constant	,335	,700	,229	1	,632	1,397

Table 4. Results of the Coefficient of Determination Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	110,309[a]	,157	,210

4.1 Financial Risk

The test results show that financial risk does not affect income smoothing. There is no effect on financial risk in this study because most of the companies sampled obtain a fairly low leverage ratio. It shows that the company is in a safe condition or it can be said that the company in financing the company's assets does not depend on debt, which means the company does not have financial problems so that the company does not

require income smoothing action [21]. The results of this study support the research of [18, 21] which say financial risk does not affect income smoothing.

4.2 Firm Value

The test results show that the value of the company positively affects income smoothing. If the value of the company increases, it will make the company perform income smoothing because a good company value considers the profit that has been obtained by the company is consistent and makes management interested in income smoothing. A larger company value can encourage companies to smooth profits in order to keep the company value high and will be in demand by investors [14]. The results in this study are the same as those of Benandri and [2, 15, 21] which say that firm value positively affects income smoothing.

4.3 Dividend Payout Ratio (DPR)

According to the test's findings, income smoothing is positively impacted by the dividend payout ratio. The amount of revenue smoothing that management will implement will increase as the DPR grows. Similarly, the likelihood of revenue smoothing increases with the level of DPR, hence businesses with high levels of DPR have a high likelihood of income smoothing. [18] The results in this study are the same as those of [2, 4, 22] which state that DPR positively affects income smoothing.

4.4 Managerial Ownership

The test results show that managerial ownership does not affect income smoothing. This is predicted because the shares owned by management have fewer shareholdings (minority shares) than institutional and public shareholdings. This low share ownership has an impact on the votes cast when making a company decision related to profit manipulation. So with the relatively small managerial ownership, managers do not have the desire to smooth earnings [15]). The results in this study are the same as a study by [15, 23] which state that managerial ownership does not affect income smoothing.

5 Conclusion

The results showed that of the four determinant variables analyzed, only two variables were proven to have a positive effect on income smoothing. The two variables are firm value and dividend payout ratio. The other two variables, namely financial risk and managerial ownership have no effect on income smoothing.

References

1. Haniftian RA, Dillak VJ. Pengaruh Profitabilitas, Cash Holding, dan Nilai Perusahaan Terhadap Perataan Laba. J Akunt Ekon FE UN PGRI Kediri 2020;5:88–98.

2. Pratiwi PI, Damayanthi AE. Analisis Perataan Laba dan Faktor-faktor yang mempengaruhinya. E-Jurnal Akunt Univ Udayana 2017;20:496–525.
3. Anggriani MF, Mardani RM, Salim MA, Benandri AN, Andayani. Pengaruh Profitabilitas, Risiko Keuangan, Nilai Perusahaan dan Struktur Kepemilikan Terhadap Praktik Perataan Laba (Income Smoothing) Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2014–2016. e – Jurnal Riset Manajemen, 8–20. J Ilmu Dan Ris Akunt 2018;7:1– 19.
4. Fauziah NA, Adi SW. Pengaruh Profitabilitas, Financial Leverage, Nilai Perusahaan dan Dividend Payout Ratio Terhadap Income Smoothing: Studi Empiris pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2016-2019. J Kaji Ekon Dan Kebijak Publik 2021;6:502–509.
5. Firdaus MR, Dillak VJ. Pengaruh Kepemilikan Manajerial, Profitabilitas dan Leverage Terhadap Perataan Laba. E-Proceeding Manag 2018;5:2204–2210.
6. Pradipta A, Susanto YK. Firm Value, Firm Size and Income Smoothing. J Financ Bank Rev 2019;4:1–7.
7. Ghozali I, Chariri A. Teori Akuntansi. 4th ed. Semarang: Badan Penerbit Universitas Diponegoro; 2014.
8. Jensen MC, Meckling WH. Theory of The Firm: Manajerial Behavior, Agency Costs and Ownership Structure. J Financ Econ 1976;3:305–360.
9. Kusnadi. Pengaruh Profitabilitas, Debt to Equity Ratio, Struktur Kepemilikan Manajerial, Ukuran Perusahaan dan Risiko Keuangan Terhadap Praktik Perataan Laba Pada Perusahaan Yang Terdaftar di Bursa Efek Indonesia Periode Tahun 2010–2013. J Ilm Mhs S1 Akunt Univ Pandanaran 2015;1:1–18.
10. Lahaya IA. Pengaruh Dividend Payout Ratio, Risiko Keuangan, Nilai Perusahaan dan Ukuran Perusahaan terhadap Perataan Laba (Studi pada Perusahaan Manufaktur Sektor Industri Dasar dan Kimia Listing di Bursa Efek Indonesia. J Ekon Bisnis Manaj 2017;14:11–18.
11. Widyaningrum S, dan NP-JPT, 2016 undefined. Perbedaan Perilaku Konsumtif Ditinjau dari Tipe Kepribadian Pada Siswa Sekolah Menengah Atas. JournalUnesaAcId 2016;6:2087–1708.
12. Ratnasari WR. Pengaruh Organizational Commitment and Big Five Personality terhadap Employee Performance dengan OCB sebagai variabel Intervening pada Karyawan PDAM Kabupaten Ponorogo. Skripsi. UIN Maliki Malang; 2016.
13. Wahyuni A, Damayanti CR. Pengaruh Persistensi Laba, Struktur Modal Dan Corporate Social Responsibility (CSR) Terhadap Earning Response Coefficient (ERC) (Studi Pada BUMN yang Terdaftar di BEI dan Menggunakan Pedoman Global Reporting Initiative (GRI) G4 Periode 2013-2016). J Adm Bisnis 2020;78:38–45.
14. Saputri YZ, Auliyah R, Yuliana R. Pengaruh Nilai Perusahaan, Pertumbuhan Perusahaan dan Reputasi Auditor Terhadap Perataan Laba di Sektor Perbankan. Neo- Bis 2017;11:122–140.
15. Oktoriza LA. Pengaruh Leverage, Profitabilitas, Ukuran Perusahaan, Nilai Perusahaan, Aktivitas Komite Audit dan Kepemilikan Manajerial Terhadap Praktik Perataan Laba. J Manag Bus 2018;1:188–203.
16. Triadi DM, Dillak VJ, Pratomo D. Pengaruh Profitabilitas, Leverage dan Dividend Payout Ratio Terhadap Perataan Laba. E-Proceeding Manag 2020;7:912–918.
17. Wahyuni RI. Pengaruh Risiko Keuangan, Dividend Payout Ratio dan Nilai Saham Terhadap Perataan Laba Pada Perusahaan Manufaktur di Bursa Efek Indonesia (BEI. J Akunt Dan Bisnis 2015;15:39–44.
18. Lestari RN, Putra C, Santosa ES. Pengaruh Profitabilitas, Dividend Payout Ratio, Ukuran Perusahaan, Risiko Keuangan dan Leverage Operasi Terhadap Perataan Laba Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. J Kharisma 2021;3:132–144.
19. Maotama S, Astika P. Pengaruh Profitabilitas, Ukuran Perusahaan dan Kepemilikan Manajerial terhadap Praktik Perataan Laba (Income Smoothing. E- J Akunt 2020;30:1767–1779.

20. Pambudi MR, Sulistiono T, R, Kleinert R. Infection Patterns of Helminth Parasites 2021.
21. Kurniawati E, Andayani. Pengaruh Faktor Internal Perusahaan Terhadap Income Smoothing. J Ilmu Dan Ris Akunt 2018;7:1–19.
22. Lestari D, Dian H, … RS-B dan S, 2018 undefined. Pembelajaran Menulis Teks Prosedur dengan Menggunakan Metode CTL (Contextual Teaching and Learning) pada Siswa Kelas X MAN Cimahi. JournalIkipsiliwangiAcId n.d.
23. Ningsih ESB, Hennyati S. Kekerasan Seksual Pada Anak Di Kabupaten Karawang. J Bidan 2019;4.