The Effect of Company Size, Financial Leverage, Profitability, and Dividend Payout Ratio on Income Smoothing Practices

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Abstract

The aim of this study is to examine the impact of company size, financial leverage, profitability, and dividend payout ratio on earnings smoothing practices in companies listed in the LQ-45 index on the Indonesia Stock Exchange during the period from 2018 to 2020. This research adopts a quantitative approach, collecting data from LQ-45 companies through purposive sampling, with 19 companies selected based on predetermined sample criteria. Hypothesis testing is conducted using logistic regression analysis, and data processing is performed using E-Views 10 software. The results of the study indicate that company size has a significant positive influence on earnings smoothing practices, whereas financial leverage has a significant negative impact. Additionally, profitability shows a significant positive influence on earnings smoothing practices, but dividend payout ratio does not significantly affect earnings smoothing practices in LQ-45 index companies on the Indonesia Stock Exchange during the studied period. This research holds valuable implications for investors, providing information and understanding regarding earnings smoothing practices and the factors influencing them, both internal and external to the companies.

Abstrak


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1. Introduction

Financial statements serve as a representation of a company's status, as they contain essential information required by stakeholders with an interest in the company. However, investors and creditors tend to focus their attention on the income statement to assess the performance of the company's management without paying attention to the procedures used to earn profits (Pratama, 2012).

If the company displays good or stable earnings conditions, this tends to bring good profits in the future (Natalia & Susanto, 2019). Realizing this, makes the management tend to perform dysfunctional behavior (undue behavior). The form of dysfunctional behavior carried out by management on financial statements is by manipulating earnings or earnings management. These actions are taken to increase the value and performance of the company so that the company looks good and to influence investors in making decisions in investing their capital (Santosa, Setianingrum, et al., 2022). Profit manipulation that is often carried out is income smoothing (Setyaningsih et al., 2021).

The practice of income smoothing is not a new occurrence in Indonesia, and it has been observed in various companies, including PT Envy Technologies Indonesia, Tbk (ENVY), and its subsidiary PT Ritel Global Solusi (RGS). There are suspicions of manipulation in the 2019 annual financial statements (LKT), where RGS's financial statements were consolidated into ENVY's 2019 annual financial report. RGS is 70% owned by ENVY. The Indonesia Stock Exchange (IDX) has raised questions about the financial figures of RGS that were included in ENVY's 2019 annual financial report, as it appears that RGS did not prepare its own financial report. As a result of the investigation and review of ENVY's interim financial statements as of September 30, 2020, trading of ENVY stock has been temporarily suspended by the IDX since December 1, 2020.

According to ENVY's 2019 financial report, it was disclosed in the notes that ENVY's financial performance for that period incorporated (consolidated) the financial statements of Retail Global Solusi and PT Envy Kapital Internasional. These companies were under the direct control of PT Envy Technologies Indonesia. Based on the 2019 financial report, ENVY's revenue was recorded at Rp. 188.58 billion, an increase of 135% of 2018 revenue of Rp. 80, 35 billion. 2019 net profit rose 19% to Rp. 8.05 billion from 2018 of Rp. 6.79 billion (CNBC Indonesia, 2021). Dewantari & Badera (2015) said several factors that influence the practice of income smoothing are company size, financial leverage, profitability, and dividend payout ratio.

This study takes a sample of LQ-45 index companies on the IDX for the period 2018 to 2020. The end of 2019 is the beginning of the Covid-19 pandemic. So it is very influential on the company's performance in various sectors. In addition to the Covid-19 pandemic phenomenon, companies must also continue to display their best performance in terms of presenting profits in financial statements as a basis for assessing interested parties. The LQ-45 companies were selected as the focus of the study because income smoothing is believed to be a prevalent practice among these well-established companies, often referred to as Blue Chips, aiming to sustain their reputation as top-performing firms, particularly during the challenging period of the Covid-19 pandemic. Companies belonging to the LQ-45 index try to maintain their profits so that they can attract investors to invest their capital, because investors generally prefer companies with stable profits compared to fluctuating ones (Fauzan & Rulfah M. Daud, 2015).
2. Literature Review and Hypothesis

2.1. Agency Theory
According to Endiana (2018), agency theory refers to the contractual association between a principal and an agent. This theory assumes that individuals are primarily driven by self-interest, leading to potential conflicts of interest between the principal and the agent. The principal entrusts decision making to the agent, which means that both parties have a mutual agreement on the responsibilities assigned to the agent.

The implementation of agency theory can be observed in a work contract, which outlines the respective rights and responsibilities of both parties while considering their overall advantages. The employment contract acts as a framework for profit sharing and becomes optimal when it achieves a balance between the benefits obtained by the principal and the agent. The fundamental concept of agency theory revolves around aligning the interests of the principal and the agent, particularly in situations where conflicting interests may arise. So that it is possible to reduce agency costs that occur in a company (Santosa et al., 2022).

Income smoothing can be understood from an agency theory perspective, which posits that the practice of income smoothing is driven by conflicts of interest between the management (acting as agents) and the owners (acting as principals). These conflicts arise when all parties strive to attain or sustain their desired level of prosperity.

2.2. Income Smoothing
Income smoothing refers to the process of minimizing fluctuations in profits between different years by shifting income from high-income periods to less profitable periods. It is not a problem as long as the income smoothing action in its implementation does not contain fraud. However, some parties argue that income smoothing is considered a detrimental action because it does not describe the actual financial condition. The income smoothing action has several objectives according to Oktyawati & Agustia (2014), namely: improving the company's image in the eyes of outsiders, that the company has low risk, providing relevant information in predicting future earnings, increasing satisfaction. Business relations, tax minimization, enhancing external perception of management capabilities, and increasing management compensation are some of the reasons or motivations for income smoothing.

2.3. Company Size
Size is one of the factors that influence the practice of income smoothing. Larger company sizes tend to be more critical of getting attention from analysts, investors, and the government. Large companies will avoid drastic profit fluctuations by taking income smoothing actions, because the company will later be burdened with large taxes and minimize the risks that may occur (Ginantra & Putra, 2015). Size is an indicator to determine the size of a company. The greater the profit earned by the company, the greater the size of the company. Large companies get a lot of attention from analysts, investors, and governments. Large companies are considered to have greater capabilities so that they will receive higher burdened funds, for example high tax costs (Santosa et al., 2020). Thus, large companies tend to avoid drastic profit fluctuations, because if the recorded profit is large enough in a period then the company will be burdened with large taxes, on the contrary if the company reports a drastic decline in profits it will appear to be experiencing a crisis. This means that the larger the size of the company, the practice of income smoothing tends to be carried out by management (Herlina, 2017).

H1: Firm size has an effect and is significant on Income Smoothing Practices.
2.4. Financial Leverage
Financial leverage indicates the extent to which a company utilizes debt to fund its investment and operational endeavors. Level leverage will also require the company to show performance results on the debt used in its operational activities. Thus, there will be a tendency for companies to practice income smoothing and managers will report better or expected earnings than actually to gain the trust of investors and creditors to the company (Mirwan & Amin, 2020). The level of financial leverage in a company is determined by its use of debt. When a company relies more on debt than its own capital, it incurs a higher fixed burden, which can lead to a decrease in profitability. Financial leverage is deemed significant in companies that rely on fixed financial sources to achieve higher profits. However, if a company carries a substantial amount of debt, it also faces increased risk. Consequently, as leverage grows, so does the risk borne by the company's owner. Then it will be able to trigger the company to take income smoothing actions to stabilize the company's financial position (Ginantra & Putra, 2015).

H2: Financial Leverage has a significant and significant effect on Income Smoothing Practices

2.5. Profitability
According to Fitriani (2018) profitability is the company's ability to earn profits in relation to sales, total assets, and own capital. Therefore, long-term investors, such as shareholders, will be highly interested in this analysis of profitability, as it directly affects the dividends they can expect to receive. Profitability, in this context, refers to a company's capacity to generate future profits. Companies with high profitability may engage in earnings smoothing as their management is aware of the company's ability to earn profits consistently in the future. On the other hand, companies with lower performance will likely attempt earnings management to improve their results, but they may find it challenging to conceal such actions in the subsequent year. so that there is no smoothing, but rather Income Increasing for several periods (Ginantra & Putra, 2015).

H3: Profitability has a significant and significant effect on Income Smoothing Practices

2.6. Dividend Payout Ratio
According to Lahaya (2017), the Dividend Payout Ratio (DPR) represents the percentage of dividends given to shareholders relative to the company's net profit. When earnings experience fluctuations, companies often adopt a high DPR dividend policy. However, this policy comes with higher risks and a greater likelihood of implementing income smoothing practices. The DPR reflects the portion of profits distributed to shareholders and is believed to influence income smoothing practices. Companies with a high DPR face increased risk and, as a result, tend to engage in income smoothing to stabilize their profits. This is driven by investors' desire for higher dividends, as they expect stability in dividend payments when a company's profits are consistent.

H4: Dividend Payout Ratio has a significant and significant effect on Income Smoothing Practices

3. Data and Method
3.1. Research Design
This research is a quantitative research. The research strategy used is associative research with a causal approach. The data used is secondary data obtained from the financial reports of LQ-45 companies listed on the IDX during the 2018-2020 period. Hypothesis testing involves the use of linear logistic regression analysis.
3.2. Population and Research Sample
The population of this study consisted of 45 LQ-45 index companies during 2018 - 2020. Researchers used purposive sampling method to select companies that meet the criteria. The research sample consisted of LQ-45 category companies listed on the IDX in 2018 - 2020.

3.3. Data Types and Sources
The research uses quantitative data, namely the financial statements of companies listed on the IDX from 2018 - 2020. The data collection method used is the documentation method. Data sources include financial reports of companies included in the LQ45 index category and listed on the IDX for a certain period. Information will be taken from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the annual reports of each company.

3.4. Definition of Operational Variables and their Measurement Scale

Dependent Variable (Bound)
Income Smoothing Practices (Y)
Income smoothing is a strategy employed by management to control fluctuations in reported earnings within a specific period, aiming to present a more stable appearance of earnings. This study utilizes the Eckel Index (1981) to measure the practice of income smoothing. The index calculates income smoothing based on net income, allowing it to differentiate and identify companies that engage in income smoothing from those that do not. To categorize companies, a dummy variable is used, assigning a value of 1 (one) to companies that practice income smoothing and a value of 0 (zero) to companies that do not engage in income smoothing. The formula for calculating income smoothing using the Eckel Index (1981) is as follows:

\[
\text{Eckel Index} = \frac{CV_I}{CV_S}
\]

When the Eckel Index value is equal to or greater than 1 (Eckel Index 1), it indicates that the company does not practice income smoothing (CV $S < CV_I$). However, if the Eckel Index value is less than 1 (Eckel Index < 1), it suggests that the company engages in income smoothing (CV $S > CV_I$).

Independent Variable
1. Firm Size (X1)
Company size serves as an indicator of a company's magnitude. In this research, firm size is measured using the natural logarithm (Ln) of total assets. The formula for calculating company size is as follows:

\[
\text{Company Size} = \ln(\text{Total Assets})
\]

The interpretation of the results is that the greater the total assets, the higher the management practice of income smoothing.

2. Financial leverage (X2)
Financial leverage demonstrates the extent to which a company utilizes debt to fund its investments. Companies with no leverage use 100% of their own capital to finance their operations. Financial leverage is calculated by dividing the total debt by the total shareholder equity. The measurement scale used is a ratio scale with the formula (Fitriani, 2018):
DER = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}

Ratios Leverage show the amount of capital originating from loans (foreign capital) used to finance the company's investment and operations. Sources originating from foreign capital will increase the company's risk. Therefore, the more foreign capital is used, the greater the leverage, which means the greater the risk faced by the company. So that the higher the financial leverage, the higher the management will practice income smoothing (Fitriani, 2018).

3. Profitability (X3)
Profitability serves as a crucial indicator for evaluating a company's performance. It not only measures the company's capacity to generate profits but also reflects its efficiency in managing resources (Fitriani, 2018). In this study, profitability was assessed using the Return On Assets (ROA) ratio, which calculates the relationship between after-tax profit and total assets. ROA plays a significant role in determining a company's financial health and significantly influences investors' decision-making processes. The formula for calculating ROA is as follows:

\[
\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}
\]

Companies with higher Return On Assets (ROA) are more inclined to engage in income smoothing practices compared to companies with lower ROA. The rationale behind this is that management is perceived to possess a better understanding of the company's ability to generate future profits, allowing them to manipulate the timing of income recognition more easily.

4. Dividend Payout Ratio
The dividend payout ratio is a metric that examines the percentage of earnings (income) distributed as dividends to investors. The remaining portion, which cannot be distributed, is reinvested back into the company (Widhyawan & Dharmadiaksa, 2015). The calculation of the dividend payout ratio is as follows:

\[
\text{DER} = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}
\]

3.5. Methods of Data Analysis and Hypothesis Testing
In this study, the collected data will be processed and analyzed using descriptive statistical methods and hypothesis testing through logistic regression analysis. Logistic regression is chosen because the dependent variable in this research is a dummy variable. The objective of logistic regression is to create a regression model that can predict the outcome of the dependent variable as a binary outcome, based on the known independent variable data.

4. Results
4.1. Descriptive Statistics Test
The descriptive statistical test is the analytical approach utilized to describe the data gathered from the variables in this study, encompassing gender, audit charter, auditor switching, auditor specialization, and audit delay. The results of the descriptive statistical analysis are as follows:
Table 1. Results of Descriptive Statistical Test

<table>
<thead>
<tr>
<th></th>
<th>Y</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.600000</td>
<td>25.22216</td>
<td>1.869460</td>
<td>0.094800</td>
<td>0.544525</td>
</tr>
<tr>
<td>Median</td>
<td>1.000000</td>
<td>24.65201</td>
<td>0.885576</td>
<td>0.066148</td>
<td>0.478747</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.000000</td>
<td>28.04433</td>
<td>6.611333</td>
<td>0.446758</td>
<td>1.766841</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.000000</td>
<td>23.51685</td>
<td>0.186446</td>
<td>0.003726</td>
<td>0.054762</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.494032</td>
<td>1.498844</td>
<td>2.004790</td>
<td>0.091426</td>
<td>0.350971</td>
</tr>
<tr>
<td>Observations</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Processed Data

In Table 1 the variable with the smallest average value of 0.094 is profitability, while the variable with the largest average value of 25.222 is company size. The variable with the largest standard deviation of 2.004 is Financial Leverage, while the smallest standard deviation is 0.091 for the variable profitability.

4.2. Likelihood Ratio Test (LR Test)

Tabel 2. Likelihood Ratio Test (LR)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>McFadden R-squared</td>
<td>0.271880</td>
</tr>
<tr>
<td>LR statistic</td>
<td>11.42585</td>
</tr>
<tr>
<td>Prob(LR statistic)</td>
<td>0.031740</td>
</tr>
</tbody>
</table>

Source: Processed Data

Based on the estimation results, the statistical LR value or the calculated chi-square is 11.425, while the chi-square table value with df 4, 5% is 9.49. Then the statistical LR value or the calculated chi-square (11,425) > the table chi-square value (9,49). The LR test can be seen by comparing the Prob (LR Statistics) on , Prob (LR Statistics) 0.0317 > 0.05, then the decision is jointly there is a significant influence between the independent and dependent variables.

4.3. Koefisien Determinasi Test (R² Mc Fadden)

In Table 2, the McFadden R² value is 0.272. This shows that the independent variables collectively contribute 27.2% of the variation in the income smoothing probability. The remaining 72.8% of the variations are attributed to other factors not considered in the model. In the binary dependent variable regression model, while goodness of fit is important, the primary focus lies on the direction (positive or negative) and significance (statistical and/or practical) of the coefficients associated with the independent variables. These coefficients provide valuable insights into the impact and relevance of each independent variable in explaining income smoothing behavior.

4.4. Statistic Z Test

Table 3. Statistic Z Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>z-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.989710</td>
<td>7.381722</td>
<td>-0.269546</td>
<td>0.0475</td>
</tr>
<tr>
<td>X1</td>
<td>0.091080</td>
<td>0.300765</td>
<td>0.302829</td>
<td>0.0220</td>
</tr>
<tr>
<td>X2</td>
<td>-0.028887</td>
<td>0.207878</td>
<td>-0.138963</td>
<td>0.0421</td>
</tr>
<tr>
<td>X3</td>
<td>0.138151</td>
<td>3.717509</td>
<td>0.037162</td>
<td>0.0104</td>
</tr>
</tbody>
</table>

Source: Processed Data

The results of the Z test for each independent variable and the dependent variable are as follows:
1) Company Size
   Based on the output results, the probability value is 0.0220 < 0.05, so H0 is rejected and H1 is accepted. Based on hypothesis testing, company size proxied by Ln (Total Assets) has a significant positive effect on income smoothing practices.

2) Financial Leverage
   Based on the output results, the probability value is 0.0421 < 0.05, so H0 is rejected and H2 is accepted. Based on hypothesis testing, Financial Leverage proxied by DER has a significant negative effect on income smoothing practices.

3) Profitability
   From the output results, the probability value is 0.0104 < 0.05, so H0 is rejected and H3 is accepted. This means that there is a significant positive relationship between the variable profitability (ROA) and income smoothing practices.

4) Dividend Payout Ratio
   Based on the output, the probability value is 0.7679 > 0.05, rejecting the hypothesis H4 and accepting H0. This shows that there is no influence between the Dividend Payout Ratio (DPR) variable on income smoothing practices.

4.5. Logistic Regression Analysis Equation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>z-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.989710</td>
<td>7.381722</td>
<td>-0.269546</td>
<td>0.0475</td>
</tr>
<tr>
<td>Firm Size</td>
<td>0.091080</td>
<td>0.300765</td>
<td>0.302829</td>
<td>0.0220</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>-0.028887</td>
<td>0.207878</td>
<td>-0.138963</td>
<td>0.0421</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.138151</td>
<td>3.717509</td>
<td>0.037162</td>
<td>0.0104</td>
</tr>
<tr>
<td>Dividend Payout Ratio</td>
<td>0.257925</td>
<td>0.873954</td>
<td>0.295124</td>
<td>0.7679</td>
</tr>
</tbody>
</table>

Source: Processed Data

Based on the output above, the logit equation is obtained as follows:

\[
\ln \left( \frac{p}{1-p} \right) = -1.9897 + 0.0911 \text{ (FS)} - 0.0289 \text{ (FL)} + 0.1381 \text{ (P)} + 0.2579 \text{ (DPR)}
\]

From the regression equation above, it can be explained that:

1) The regression equation shows that the constant coefficient is -1.989, which indicates that when the independent variable is equal to 0, there is a decrease in the probability of income smoothing practices of 1.989%.

2) The coefficient of firm size is 0.091. When the size of the company (Ln(Total Assets)) increases by 1%, the income smoothing probability increases by 1.09% assuming other variables remain constant.

3) The Financial Leverage variable represented by the Debt to Equity Ratio (DER) has a coefficient of -0.028. A decrease in DER of 1% causes an increase in the income smoothing probability of 1.028%, assuming other variables remain constant.

4) The coefficient of the profitability variable proxied by ROA is 0.138. An increase in ROA profitability of 1% results in an increase in the probability of income smoothing of 1.147%, assuming other variables remain constant.

5) The coefficient of the dividend payout ratio variable represented by the DPR is 0.257. It can be concluded that the Dividend Payout Ratio has no effect on income smoothing practices when other variables are considered constant.
5. Discussion
The Effect of firm size on income smoothing practices
The first hypothesis of this study suggests that company size has a significant and positive impact on income smoothing practices. The regression coefficient for firm size is 0.091 with a significance value of 0.022, which is below the significance level of 0.05. This indicates that the size of the company has a statistically significant effect on income smoothing practices, and thus, the hypothesis (H1) is accepted. The findings imply that larger companies, as measured by Ln (Total Assets), tend to attract more attention and create a positive impression on investors, influencing their interest in investing. This increased attention to financial statement information and the perceived viability of the company in the future may lead larger firms to engage in income smoothing practices. These results are consistent with prior studies by Ayunika & Yadnyana (2018) and Fitriani (2018) that also found a positive and significant relationship between company size and income smoothing. However, they differ from the findings of Ginantra & Putra (2015) and Gunawan & Hardjunanto (2020), which did not find a significant effect of firm size on income smoothing practices.

The Effect of Financial Leverage on Income Smoothing Practices
The second hypothesis of this study posits that Financial Leverage has a significant and negative impact on income smoothing practices. The regression coefficient for Financial Leverage is -0.028, and its significance value is 0.042, which falls below the significance level of 0.05. This indicates that Financial Leverage has a statistically significant negative effect on income smoothing practices, and thus, the hypothesis (H2) is supported. The findings suggest that when a company’s leverage ratio is lower, management is more inclined to engage in income smoothing activities. This behavior is motivated by the company’s desire to obtain more loans from creditors. By smoothing income, management aims to demonstrate to creditors that the company carries less risk, making it more likely for them to provide loans. The practice of income smoothing helps stabilize profits, as fluctuations in profits may lead creditors to be hesitant in providing loans (Sugiarto & Santosa, 2018). These results align with the research conducted by Mirwan & Amin (2020), which also found a significant negative relationship between financial leverage and income smoothing practices. However, they differ from the findings of Ginantra & Putra (2015), which did not find a positive effect of Financial Leverage on income smoothing practices.

The Effect of Profitability on the Practice of Income Smoothing
The third hypothesis of this study proposes that profitability has a significant and positive impact on income smoothing practices. The regression coefficient for profitability is 0.138, and its significance value is 0.010, which is below the significance level of 0.05. This indicates that profitability has a statistically significant positive effect on income smoothing practices, and thus, the hypothesis (H3) is supported. The positive direction of the coefficient implies that as the Return on Assets (ROA) changes, there is a corresponding fluctuation in management’s ability to generate profits. This aspect is crucial for investors as it influences their predictions of profit and risk in their investments, subsequently impacting their confidence in the company. These findings align with the research conducted by Oktyawati & Agustia (2014) and Endiana (2018), which also found a significant positive relationship between profitability and income smoothing practices. However, they differ from the results of the research by Fauzan & Daud (2015) and Gunawan & Hardjunanto (2020), which did not find a significant effect of profitability on income smoothing practices.
The Effect of Dividend Payout Ratio on Income Smoothing Practices
The fourth hypothesis of this study posits that the Dividend Payout Ratio has a significant and positive impact on income smoothing practices. However, the statistical analysis results contradict this hypothesis. The regression coefficient for the Dividend Payout Ratio is 0.257, and its significance value is 0.767, which is above the chosen significance level of 0.05. Thus, it can be concluded that the Dividend Payout Ratio does not have a statistically significant effect on income smoothing practices, and the null hypothesis (H0) is accepted. Despite this, it is important to note that the coefficient's positive direction indicates that higher Dividend Payout Ratios are associated with an increase in income smoothing practices, and conversely, lower Dividend Payout Ratios are linked to reduced income smoothing practices. These findings align with the research conducted by Ginantra & Putra (2015), which also found no significant effect of the Dividend Payout Ratio on income smoothing practices. They explain that the dividend policy is not solely determined by management as an agent, but also involves decisions made by the General Meeting of Shareholders (GMS). However, these results differ from the research conducted by Fauzan & Daud (2015), which suggested that the Dividend Payout Ratio does impact income smoothing practices.

6. Conclusion
Based on the research findings and the preceding discussion, we can draw the following conclusions:
1) Company size has a positive and significant impact on income smoothing. This suggests that larger companies, as indicated by Ln (Total Assets), attract more attention and positively influence investor interest due to the availability of financial statement information and the perceived viability of the company. 2) Financial Leverage has a negative and significant effect on income smoothing. Lower leverage ratios motivate management to engage in income smoothing practices. 3) Profitability has a positive and significant effect on income smoothing. Changes in Return on Assets (ROA) affect management's ability to generate profits, influencing investors' profit predictions and risk assessments, thereby affecting their confidence in the company. 4) The Dividend Payout Ratio has no significant effect on income smoothing. The dividend policy is not solely determined by management, as decisions made by the General Meeting of Shareholders (GMS) also play a role. These findings provide valuable insights for investors, helping them understand income smoothing practices and the factors that influence them, both internal and external to the company.

Recommendation
Based on the study's findings, several recommendations can be made. Firstly, company management should focus on factors such as company size, financial leverage, profitability, dividend payout ratio, and the managerial ownership structure to mitigate the occurrence of income smoothing practices. Being mindful of these variables can help in making informed decisions regarding financial reporting practices. Secondly, future researchers are encouraged to expand the study population by including companies from various sectors, not limited to just the manufacturing sector. This broader scope would lead to research results with higher generalizability and enhance our understanding of income smoothing practices across different industries.

References


