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sebagai Pemakalah (Pemakalah Kedua) dalam Tarumanagara International Conference on the Application of Social Sciences and Humanities (TICASH) 2020, dengan judul makalah ***"Factors Affecting Income Smoothing"*** yang telah dilaksanakan pada:

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Biaya yang timbul atas penugasan ini ditanggung oleh Fakultas Ekonomi Universitas Tarumanagara.

Demikian Surat Tugas ini dibuat untuk dilaksanakan dengan sebaik-baiknya dan yang bersangkutan melaporkan hasil penugasan tersebut kepada Pimpinan Fakultas Ekonomi Universitas Tarumanagara sesuai ketentuan yang berlaku.

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Factors Affecting Income Smoothing

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ABSTRACT
This study aims to empirically examine the effect of company size, profitability, debt ratio, audit committee, independent commissioner, and foreign ownership on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange period 2016-2018. The sample selection technique uses a purposive sampling method with a total sample of 44 companies. Data processing was performed with EViews 10 software and with binary logistic regression. The results showed that company size has a negative and significant effect on income smoothing. While profitability, debt ratio, audit committee, independent commissioner, and foreign ownership have no significant effect on income smoothing.

Keywords: *Income Smoothing, Corporate Governance, Manufacture, IDX*

1. INTRODUCTION

There are number of cases of manipulation of financial statements, it turns out that many income smoothing actions are carried out by many companies. It focuses on other aspects of income smoothing and they interested in learning the factors that lead to income smoothing, goals, motivations, types, tools, objects, and their effects on companies and stakeholders, stated by Obaidat [1]. Saeidi [2] stated that financial statements are a tool used by managers to see the results of resources control. Accounting as an information system has the aim to provide information that is useful for rationalizing different decisions.

The more rapid and dynamic the global economy is encouraging companies to increase their business to attract domestic and foreign investors. Investors are seen as a party that has an important role for the sustainability of a company and even a country. Investors will be more interested in investing their shares from companies that have stable income [3]. Bora and Saha [4] stated, income smoothing is a deliberate action taken by managers by using special tools in accounting to reduce fluctuations in earnings. Various kinds of motivation in learning income smoothing from previous literature. The first thing is to increase investor confidence in the future state of a company and also develop the company's capabilities.

Hessayri and Saihi [5] emphasized that accounting earnings are the main concern for shareholders which reflects the company's performance. However, due to the flexibility of accounting standards represented by various alternatives such as depreciation methods that are allowed in accounting standards, earnings become the subject that influences management to do income smoothing.

Fudenberg [6] defined that income smoothing is the utilization of accounting discretion to reduce income stream variability, defined by Fudenberg.

Smoothing moderates year-to-year fluctuations in income by shifting earnings from peak years to less successful ones, making earnings fluctuations less volatile, defined by Copeland [7].

1.1. Paper Structure

The literature review for this research will be explained in the Section 2. The hypothesis development will be explained in Section 3. Sections 4 contains the methodology for this research and the use of the formulas. The results for this research will be explained in Section 5. Section 6 will be the discussion for this research. Lastly, Section 7 concludes the research and presents recommendations for further research and practical implications.

2. LITERATURE REVIEW

2.1. Agency Theory

An agency is defined as a consensual relationship between two parties, where one party (agent) agrees to act on behalf of the other party (principal). Agency relationships cause conflicts of interest between shareholders and managers. So that the compensation obtained is greater, the manager increases accounting income. If this is done then the interests of shareholders in obtaining large wealth do not occur because compensation for managers is greater than they should so that shareholder wealth is reduced [8].

2.2. Positive Accounting Theory

According to Scott [9] positive accounting theory is a theory that predicts actions related to the selection of accounting policies by companies and how to respond to proposed new accounting standards. Positive accounting theory in principle has the objective to explain and predict accounting practices. Positive accounting theory consists of: (1) The Bonus Plan Hypothesis, (2) The Debt Covenant Hypothesis, and (3) The Political Cost Hypothesis.

2.3. Earning Management

Earning management is a change in financial information that is done intentionally either to trick investors into the economic status of the underlying company or to get contractual benefits that are highly dependent on numbers recorded in accounting [10]. The pattern of earnings management consists of: (1) taking a bath, (2) profit minimization, (3) profit maximization, and (4) income smoothing.

3. HYPOTHESIS DEVELOPMENT

3.1. Company Size and Income Smoothing

According to Alexandri and Anjani [11], company size is a measure of size that can be classified as a company size in various ways, including total assets, natural logarithm size, value of the stock market, and others. Company size shows the size of the company with total assets owned. Large companies have tighter internal control compared to smaller companies, because companies that have a greater amount of assets will attract the attention of the public, investors, analysts, and the government [12]. This shows the practice of income smoothing in large companies will be increasingly avoided [13]. This study is also in accordance with that studied by Mohammadi and Arman [14] showing that company size has a negative effect on income smoothing. This explains that the larger the size of the company, the practice of income smoothing by the company will be smaller. The results of research conducted by Sonadi [15] that there is no significant effect between company size and income smoothing, but it is not consistent with research conducted by Lassaad [16] which states that company size can significantly influence income smoothing.

Hypothesis H1: Company size has a negative and significant effect on income smoothing.

3.2. Profitability and Income Smoothing

Kieso et. al. [17] stated that profitability ratio is the level of success or failure measured against a particular company or division in a certain time period. Profitability is also a measuring tool for investors assessing the condition of the company that will determine the decision to invest in the future. Companies that have low profitability will trigger income smoothing practices to influence investor prospects [18]. Then profitability has a negative effect on income smoothing. Research conducted by Mohebi et al. [19] which stated that profitability had no significant effect on income smoothing, in contrast to research conducted by Zarnegar and Hamidian [20] which stated that profitability had a significant effect on income smoothing.

Hypothesis H2: Profitability has a negative and significant effect on income smoothing.

3.3. Debt Ratio and Income Smoothing

Ladistra and Sofie [21] explained debt ratio or leverage ratio is the expected rate of return of debt for shareholders. Debt ratio is used to measure the percentage of total assets provided by creditors. The higher the loan that is owned, it will increase the level of debt compared to the capital. This can increase the risk for investors so that it motivates management to do income smoothing. Research conducted by Mohebi et al. [19] show that debt ratio has no significant effect on income smoothing, this is contrary to research conducted by Maswadeh [22] which shows that debt ratio has a significant effect on income smoothing.

Hypothesis H3: Debt ratio has a positive and significant effect on income smoothing.

3.4. Audit Committee and Income Smoothing

According to Uwuigbe et al. [23], an audit committee is a committee formed and has the authority to ensure the quality of financial statements. The Audit Committee plays an important role in overseeing management to protect shareholders. To create good corporate governance, the committee must be independent, competent, and have high integrity. The Audit Committee is responsible for reviewing the integrity of financial statements and overseeing the independence and objectivity of the external auditor. The more the number of audit committees provides an effective mechanism for manager oversight and the quality of financial statements, then the practice of profit manipulation or income smoothing should be smaller [24]. Research by Indrawan et al. [18] found that the audit committee had a significant effect on income smoothing. Marpaung and Latrini [25] showed that the audit committee had no significant effect on income smoothing.

Hypothesis H4: Audit Committee has a negative and significant effect on income smoothing.

3.5. Independent Commissioner and Income Smoothing

The board of commissioners is the core of corporate governance that aims to oversee the overall running of the company, the creation of accountability, as well as the mechanism for the way managers manage the company [21]. The more number of independent commissioners, the level of supervision will be more effective because independent commissioners are representative of shareholders, so that it can reduce the practice of income smoothing. Research by Andani [26] shows the same thing that an independent commissioner has a negative and significant effect on income smoothing. Research conducted by Purwanti and Nugrahanti [3] and Ladistra and Sofie [21] show that independent commissioners have no significant effect on income smoothing.

Hypothesis H5: Independent Commissioner has a negative and significant effect on income smoothing.

3.6. Foreign Ownership and Income Smoothing

Purwanti and Nugrahanti [3] stated foreign ownership is the number of shares owned by foreign parties either individually or institutionally, and explains that companies with high foreign share ownership cause the supervision function to be tighter compared to companies that do not have foreign ownership, because ownership owned by foreign parties makes them not want to be harmed by the investments made and will choose to sell their shares if the company is proven to make income smoothing. So the higher the foreign ownership will reduce the practice of income smoothing [27]. Research conducted by Guo et al. [28] states that foreign ownership has a significant effect on income smoothing. In contrast, research conducted by Maswadeh [22] inform that foreign ownership has no significant effect on income smoothing.

Hypothesis H6: Foreign Ownership has a negative and significant effect on income smoothing.

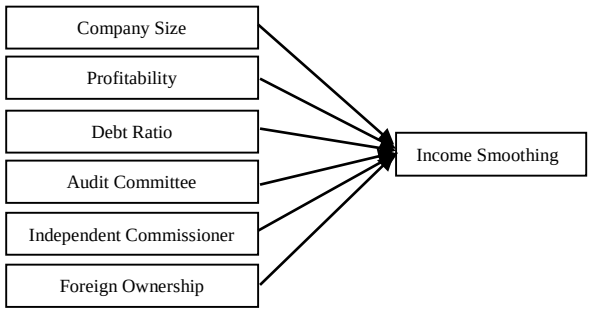

Figure 1 Researh Framework

4. METHODOLOGY

4.1. Population and Sample

This research was conducted to examine the effect of independent variables consisting of company size, profitability, debt ratio, audit committee, independent commissioner, and foreign ownership of the dependent variable, income smoothing. The study was conducted on manufacturing companies listed on IDX period 2016-2018. The research method uses purposive sampling which is a specific sample selection technique that can provide information on data obtained to represent the sample criteria. The results of the sample selection details show a sample of 44 companies to be studied. The selected sample is 3 years observation period, so the number of data is 132 companies.

The sample criteria used in this study are (1) Manufacturing companies listed on IDX consistently period 2016-2018, (2) Companies that use Indonesian Rupiah, (3) Companies that earn net profit period 2016-2018 and (4) Companies that distribute dividends period 2016-2018.

4.2. Data Analysis

Data analysis methods in this study use descriptive statistics and binary logistic regression. Logistic regression analysis is caused because the dependent variable is a dummy variable and uses panel data. Data processing in this study uses Microsoft Excel and EViews 10 software.

4.2.1. Binary Logistic Regression

In order to know the effect of the variables that affect income smoothing, logistic regression analysis is carried out or commonly referred to as the logit model. Logistic regression analysis or logit model analyzes the dependent variable whose data is dichotomous or numeric with binary numbers. The dichotomy scale itself is data with a scale to obtain one answer for two different aspects of one concept such as the data obtaining a yes or no response [30]. In this study using the numbers 1 or 0 according to binary numbers. Ghozali and Ratmono [31] state that the logistic regression analysis model does not have to use the normality assumption test, the classic assumption test on the independent variables in this study. This explains that the explanatory variables do not have to have the same linear, variant, or normal distribution in each grip. This logistic regression analysis model shows the probability of whether the independent variable can influence the occurrence of the dependent variable or not. This probability is shown by the Bernoulli distribution which explains that the number 1

indicates the occurrence of an event while the number 0 indicates that an event did not occur.
Income smoothing is tested using a research model that has a logistic regression equation shown by the formula as follows:

$$ln\left[\frac{Pis}{1-Pis}\right] = c + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \beta_5 X5 + \beta_6 X6 + \varepsilon$$

Where:

$ln\left[\frac{Pis}{1-Pis}\right]$ = odds ratio

Pis = probability of a company doing income smoothing

1 – Pis = probability of the company not doing income smoothing

c = a constant

$\beta_{1,2,3,4,5,6}$ = regression coefficient value

X1 = Company Size

X2 = Profitability

X3 = Debt Ratio

X4 = Audit Committee

X5 = Independent Commissioner

X6 = Foreign Ownership

ε = error standard

4.3. Operationalization of Variables

The dependent variable in this study is company size, profitability, debt ratio, audit committee, independent commissioner, and foreign ownership. While the dependent variable in this study is income smoothing.

4.3.1. Income Smoothing

Income smoothing is measured using the Eckel index [29]. The formula used to calculate the Eckel index is as follows:

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

Where :
ΔI = change in income for one period
ΔS = change in sales for one period
CVΔI = coeficient variance for change in income
CVΔS = coeficient variance for change in sales
CV ΔI and CV ΔS are calculated as follows :

$$CV\Delta I = \sqrt{\frac{\Sigma(\Delta I - \Delta\overline{I})^2}{n-1}} : \Delta\overline{I}$$

And

$$CV\Delta S = \sqrt{\frac{\Sigma(\Delta S - \Delta\overline{S})^2}{n-1}} : \Delta\overline{S}$$

4.3.2. Company Size

Proxies used to calculate company size (CS) according to Mohammadi and Arman [14] are with the following formula:

$$CS = \text{Ln } total\ asset$$

4.3.3. Profitability

Saeidi [2] states that profitability is proxied by the return on asset (ROA) :

$$ROA = \frac{Net\ income}{Total\ asset}$$

4.3.4. Debt Ratio

Kieso et. al. [17] and Maswadeh [22] stated that the debt ratio can be proxied with a debt to total asset ratio (DAR) with the following formula:

$$DAR = \frac{Total\ debt}{Total\ asset}$$

4.3.5. Audit Committee

Andani [26] explains the proxy in the Audit Committee (AC) can be shown with the following formula:

$$AC = \Sigma\ total\ of\ audit\ committee$$

4.3.6. Independent Commissioner

Independent Commissioner Proxy (IC) is shown by Purwanti and Nugrahanti [3] with the following formula:

$$IC = \Sigma\ total\ of\ independent\ commissioner$$

4.3.7. Foreign Ownership

Farina and Hermawan [27] stated that the Foreign Ownership (FO) proxy can use the following formula:

$$FO = \frac{Total\ shares\ owned\ by\ foreign\ parties}{Total\ outstanding\ shares}$$

5. RESEARCH RESULTS

This study uses descriptive statistical tests, the coefficient of determination test (R^2McFadden), the likelihood ratio test, the z-statistic test and logistic regression analysis.

Table 1. Descriptive Statistic Analysis Results

	Income Smoothing	Company Size	Profitability	Debt Ratio	Audit Committee	Independent Commissioner	Foreign Ownership
Mean	0.340909	28.99504	0.110134	0.367635	3.121212	1.863636	0.333269
Maximum	1.000000	33.47373	0.921000	0.796561	5.000000	4.000000	0.962210
Minimum	0.000000	25.79861	0.000780	0.091426	3.000000	1.000000	0.000000
Std. Dev.	0.475821	1.588557	0.118933	0.148200	0.371305	0.880430	0.314846
N	132	132	132	132	132	132	132

In Table 1, all descriptive statistic results will be explained. Variable income smoothing has a maximum value of 1.000000 and a minimum value of 0.000000. The standard deviation is 0.47582 and the mean value is 0.340909.
The company size variable has a maximum value of 33.47373 and a minimum value of 25.79861. The standard deviation is 1.588557 and the mean value is 28.99504.
The profitability variable has a maximum value of 0.921000 and a minimum value of 0.000780. The standard deviation is 0.118933 and the mean value is 0.110134.
The debt ratio variable has a maximum value of 0.807310 and a minimum value of 0.076890. The standard deviation is 0.179251 and the mean value is 0.382959.
The audit committee variable has a maximum value of 5.00 million or five people and a minimum value of 3,000,000 or three people. The standard deviation is 0.371305 and the mean value is 3.121212 or about three people.
The independent commissioner variable has a maximum value of 4.000000 or four people and a minimum value of 1.000000 or one person. The standard deviation is 0.880430 and the mean value is 1.863636 or about two people.
The foreign ownership variable has a maximum value of 0.962210 and a minimum value of 0.000000. The standard deviation is 0.314846 and the mean value is 0.333269.

Table 2. Coefficient Determination Analysis Results (R^2McFadden)

McFadden R-squared	**0.109062**	Mean dependent var	0.340909
S.D. dependent var	0.475821	S.E. of regression	0.460572
Akaike info criterion	1.249377	Sum squared resid	26.51585
Schwarz criterion	1.402253	Log likelihood	-75.45891
Hannan-Quinn criter.	1.311499	Deviance	150.9178
Restr. deviance	169.3921	Restr. log likelihood	-84.69604
LR statistic	18.47426	Avg. log likelihood	-0.571658
Prob(LR statistic)	0.005150		

In Table 2, McFadden R-squared determination coefficient of 0.109062. This means that the dependent variables which are company size, profitability, debt ratio, audit committee, independent commissioner and foreign ownership can be explained by the independent variable at 10.91%. The rest, as much as 89.09% can be explained by other variables outside this study.

Table 3. Likelihood Ratio Analysis Results

McFadden R-squared	0.109062	Mean dependent var	0.340909
S.D. dependent var	0.475821	S.E. of regression	0.460572
Akaike info criterion	1.249377	Sum squared resid	26.51585
Schwarz criterion	1.402253	Log likelihood	-75.45891
Hannan-Quinn criter.	1.311499	Deviance	150.9178
Restr. deviance	169.3921	Restr. log likelihood	-84.69604
LR statistic	18.47426	Avg. log likelihood	-0.571658
Prob(LR statistic)	**0.005150**		

In Table 3, likelihood ratio statistical test (LR) with a probability value (p-value) of 0.005150. Probability value (p-value) = 0.005150 < value α = 0.05. Ho is rejected and Ha is accepted. This means that the company size, profitability, debt ratio, audit committee, independent commissioner and foreign ownership variables as independent variables simultaneously or together have a significant effect on income smoothing variables as the dependent variable.

Table 4. Regression Model and Z-Statistic Analysis

Variable	**Coefficient**	Std. Error	z-Statistic	**Prob.**
C	**13.17338**	5.278114	2.495850	**0.0126**
COMPANY_SIZE	**-0.505115**	0.197833	-2.553237	**0.0107**
PROFITABILITY	**-1.035620**	1.836660	-0.563861	**0.5728**
DEBT_RATIO	**-0.282420**	1.114825	-0.253331	**0.8000**
AUD_COMMIT	**0.400096**	0.554587	0.721430	**0.4706**
INDPT_COMMIS	**-0.164754**	0.336843	-0.489113	**0.6248**
FOREIGN_OWN	**-0.122483**	0.682971	-0.179338	**0.8577**

$$ln\left[\frac{Pis}{1-Pis}\right] = 13.17338-0.505115X1-1.035620X2-0.282420X3+0.400096X4-0.164754X5-0.122483X6+\varepsilon$$

In Table 4, company size (X1) has a coefficient value -0.505115 and a probability value = 0.0107, where the value is < 0.05 so that the company size has a negative and significant effect on income smoothing. While other variables such as profitability (X2) probability value = 0.5728, debt ratio (X3) probability value = 0.8000, audit committee (X4) probability value = 0.4706, independent commissioner (X5) probability value = 0.6248 and foreign ownership (X6) value probability = 0.8577 where the value > 0.05, so that these variables do not significantly influence income smoothing.

6. DISCUSSION

The results of this study showed that the independent variable company size (X1) had a negative and significant effect on income smoothing. The results of this study were supported by Widhianningrum [13], Mohebi et al. [19], Alexandri and Anjani [11] and Mohammadi and Arman [14] who found the same results that company size had a negative and significant effect on income smoothing. But the results of the study contradict the research conducted by Lassaad [16] and Maswadeh [22] who concluded that company size has a positive and significant effect on income smoothing. Meanwhile, other independent variables, namely profitability (X2), debt ratio (X3), audit committee (X4), independent commissioner (X5) and foreign ownership (X6) do not have a significant effect on income smoothing.

The results of profitability were supported by Widhianningrum [13] and Mohebi et al. [19] which shows that profitability does not have a significant effect on income smoothing. But the results of the study contradict the research conducted by Ladistra and Sofie [21] and supported by Sonandi [15] showing that profitability has a positive and significant effect on income smoothing. The results of debt ratio were supported by research by Lassaad [16] and Mohebi et al. [19] which states that the debt ratio does not have a significant effect on income smoothing. This study contradicts research conducted by Alexandri and Anjani [11], Zarnegar and Hamidian [20], Mohammadi and Arman [14] and Maswadeh [22] that debt ratio has an effect positive and significant impact on income smoothing. The results of audit committee are supported by research by Uwuigbe et al. [23] and Marpaung and Latrini [25] stated that the audit committee had no significant effect on income smoothing. This research is contrary to research conducted by Ladistra and Sofie [21] as well as research conducted by Indrawan et al. [18] shows that the audit committee has a negative and significant effect on income smoothing. The results of independent commissioner in accordance with research conducted by Purwanti and Nugrahanti [3] also in accordance with research conducted by Ladistra and Sofie [21] found that independent commissioners had no significant effect on income smoothing. On the contrary, the research contradicts the research conducted by Andani [26] who found that independent commissioners had a negative and significant effect on income smoothing practices. The results of foreign ownership are the same as the results of research conducted by Purwanti and Nugrahanti [3], the same research also Maswadeh [22] states that foreign ownership has no significant effect on income smoothing. In contrast to research conducted by Farina and Hermawan [27] also research by Guo et al. [28] which states that foreign ownership has a negative and significant effect on income smoothing.

7. CONCLUSION

This study aims to empirically examine the effect of company size, profitability, debt ratio, audit committee, independent commissioner, and foreign ownership on income smoothing in manufacturing companies. There are some limitations on this research, so the recommendations need to be included. First, expand the company sector in further research so that it can be seen the difference between certain company sectors and found more significant results. Second, increase the period of observation period in subsequent studies so that research results can be more targeted and significant. Third, rearrange the criteria in subsequent studies so that the amount of data obtained is more so that the scope of research is broader and more significant. Fourth, the researcher can then add to the independent variable and choose the independent variable which is considered to more influence the dependent variable.

The research has practical implications for further research. For companies, Even though the practice of income smoothing is carried out following positive accounting theory with the aim of maximizing its interests, however financial statements can provide incorrect performance information for the shareholders. Therefore, no matter how large the size of the company, it will be better if the company does not practice income smoothing, but rather strives for company performance by paying attention to the revenue that will be obtained and the costs that will occur, so that the income will be less volatile. For investors, to pay more attention to the company size factor and to be more careful to invest in certain companies.

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