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)

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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 descriptive quantitative. The population used by all consumer non-cyclical companies listed on the IDX in 2018-2021 is 87 companies. Sampling using purposive sampling technique of 23 companies. Data collection through documentation techniques in the form of financial reports. The data analysis method used is logistic regression. The results of his research firm value and dividend payout ratio have a positive effect on income smoothing but financial risk and managerial ownership do not affect 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, 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 ([1].

The action of income smoothing by the company's management cannot be separated from the factors (variables) that influence it. These factors include financial risk, ownership structure of firm value, dividend payout ratio (DPR), firm size, profitability, and managerial ownership. However, previous research on the influence of these factors found mixed and varied results. [3], for example, found that profitability and financial risk affected income smoothing practices, while firm value and ownership structure did not affect income smoothing practices. [4] finds that firm value, size, and financial risk positively affect income smoothing. [5] found that profitability, financial leverage, and dividend payout ratio had a positive effect on income smoothing. While the value of the company hurts income smoothing. Meanwhile, [6] found that the profitability variable (ROA) has a positive effect on income smoothing. Meanwhile, the managerial ownership variable and the leverage variable (DER), do not affect income smoothing.

Based on the inconsistent findings of previous studies, the authors are interested in re-examining the factors that influence income smoothing. The research focuses on four variables with the formulation of the problem of whether financial risk, firm value, dividend payout ratio, and managerial ownership affect income smoothing. The purpose of this research is to find out whether there is an influence of financial risk, firm value, dividend payout ratio, and managerial ownership 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. 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 as the company implements earnings management. A company with a high level of debt has a high risk and makes profits fluctuate so the company will implement income smoothing so that company profits are consistent [9]. This is supported by research by [10], [11], [3] who say that financial risk can positively affect income smoothing.

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 minimum of profit instability so that the company is attractive to investors [12]. This is supported by the research of [10], [1] [13], [14], and Selina & Muslih (2020) which state that firm value positively affects income smoothing.

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. Companies that implement a large dividend policy, tend to apply income smoothing, because in anticipation of fluctuating profits which will be a risk to the company [15]. This is supported by the research of [1], [16], (Lestari, R. N., Putra, C., and Santosa, E. S. 2021), [18], and [15] say that the DPR has a positive influence on income smoothing.

H3: The 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 to make income-smoothing actions can be minimized [19].

This is supported by the research of (Kusnadi. 2015), (Surya Maotama et al., 2020), Marfuah and Murti (2019), Nazira and Ariani (2016), and Pambudi, et al., (2021) which stated that managerial ownership negatively affects income smoothing.

H4: Managerial ownership harms income smoothing.

3. Methods

This research is a quantitative descriptive study. The population is all primary consumer goods companies listed on the IDX in 2018-2021, which is 87 companies. The research sample was carried out with a purposive sampling technique, meaning selecting the sample using special criteria. The criteria set for choosing a sample are primary consumer goods companies listed on the IDX in 2018-2021, companies that provide financial statements on the IDX completely during the research year, companies that do not lose in the research year, and companies that have complete data needed for the research process.

Based on these criteria, 23 companies obtained an observation period of 4 years so the number of observation data amounted to 92 data. The data used is secondary data where the data collection is obtained through documentation techniques. The data analysis method used is logistic regression.

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 below:

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

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 are shown below.

Table 2. F Statistical Test Results

Omnibus Tests of Model Coefficients				
		Chi-square	**df**	
Step 1	Step	15,660	4	,004
	Block	15,660	4	,004
	Model	15,660	4	,004

Table 3. 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 the company does not require income smoothing action [10]. The results of this study support the research of [10] and [17] who 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 to keep the company value high and will be in demand by investors [13]. The results in this study are the same as those of (Kurniawati, E., and Andayani. 2018), [1]), and [14] say that firm value positively affects income smoothing.

4.3. Dividend Payout Ratio (DPR)

The test results show that the dividend payout ratio has a positive effect on income smoothing. If the DPR is getting bigger, the income smoothing that will be carried out by management will increase. Similarly, the higher the level of DPR, the greater the probability of smoothing income, meaning that companies with a high level of DPR have a high probability of smoothing earnings [17]. The results in this study are the same as those of [1], [17], and [5] 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 relatively small managerial ownership, managers do not have the desire to smooth earnings [14]. The results in this study are the same as a study by [14], 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 do not affect income smoothing.

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