

THE EFFECT OF FINANCIAL LEVERAGE, PROFITABILITY, AND INSTITUTIONAL OWNERSHIP TOWARDS INCOME SMOOTHING IN BASIC INDUSTRY AND CHEMICAL, MISCELLANEOUS INDUSTRY, AND CONSUMER GOODS INDUSTRY LISTED ON INDONESIA STOCK EXCHANGE FOR THE PERIOD 2019-2021

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Abstract: The purpose of this study is to obtain empirical evidence about the effect of financial leverage, profitability, and institutional ownership towards income smoothing in basic industry and chemical, miscellaneous industry, and consumer goods industry listed on Indonesia Stock Exchange for the period 2019-2021. This study used 65 samples and 195 data from companies in basic industry and chemical, miscellaneous industry, and consumer goods industry that have been selected using purposive sampling technique. The data was processed using Eviews version 12 software. The result of this study shows that financial leverage and profitability have significant negative effect towards income smoothing, while institutional ownership has no effect towards income smoothing.

Keywords: income smoothing, financial leverage, profitability, institutional ownership

Abstrak: Tujuan dari penelitian ini adalah untuk memperoleh bukti empiris mengenai pengaruh financial leverage, profitabilitas, dan kepemilikan institusional terhadap perataan laba pada industri dasar dan kimia, aneka industri, dan industri barang konsumsi yang terdaftar di Bursa Efek Indonesia periode 2019-2021. Penelitian ini menggunakan 65 sampel dan 195 data dari perusahaan industri dasar dan kimia, aneka industri, dan industri barang konsumsi yang diseleksi dengan teknik purposive sampling. Data diolah dengan menggunakan software Eviews versi 12. Hasil dari penelitian ini menunjukkan bahwa financial leverage dan profitabilitas berpengaruh negatif signifikan terhadap perataan laba, sedangkan kepemilikan institusional tidak berpengaruh terhadap perataan laba..

Kata Kunci: Perataan Laba, Financial Leverage, Profitabilitas, Kepemilikan Institusional

INTRODUCTION

Generally, financial statements are used as an indicator in evaluating a company. IAI confirms in PSAK No. 1 that financial reports provide reporting entity information regarding economic resources, claims against the entity, and changes in resources and claims. Financial reports are crucial for stakeholders because financial reports are a form of management accounting in managing the business to stakeholders such as owners or investors. Especially for investors, assessing the business performance of an entity from its financial statements is one of the benchmarks in investing. When faced with investment options with long-term goals, investors will certainly be more interested in entities that have good business performance fundamentals. The importance of the information presented in financial reports for its users coupled with the current instability of the country's economy and increasingly fierce competition in the business world has motivated management to work more effectively and efficiently so that entities can survive, maintain their existence, and obtain more optimal results. Not infrequently, the management makes efforts to manage earnings in order to make the financial statements look more satisfactory and achieve this goal.

One of the components in the financial statements that can reflect the success or failure of an entity's business operations objectives is profit. Users of financial statements often focus on the profits presented in financial reports. Changes related to profit information will affect the decisions of stakeholders. The importance of earnings information for users of financial statements is often an impetus for management to manipulate earnings. This tendency will give the impression that the financial statements presented look good and attractive. In fact, this will result in a misleading interpretation for users of financial statements because the profit information contained therein does not reflect the actual economic conditions and company value.

One of the efforts made by management to ostensibly increase the quality of the firm performance is by practicing income smoothing. Income smoothing is intentionally done by management so the profits obtained by the entity look stable from time to time so that it seems attractive for the users (Haniftian, R. A. & Dillak, V. J. ,2020) . The importance of profit in influencing stakeholders' decision is often become a motive for management to manipulate it. In fact, this tendency will result in misleading interpretations for the users of financial report because the earnings information contained in it does not reflect the actual economic condition of the entity. Management also often does income smoothing to achieve their personal goals since some companies have a profit target and promise bonuses or even promotions if the target is achieved.

One of the phenomena related to the practice of income smoothing that has occurred in Indonesia is the case of PT Garuda Indonesia Tbk. PT Garuda Indonesia Tbk reported a significant increase in their net income for the year 2018 while in the previous quarter, the company recorded to have loss. Based on Siaran Pers Otoritas Jasa Keuangan (OJK) Nomor SP/26/DHMS/OJK/VI/2019, PT Garuda Indonesia Tbk and their external auditors were given administrative penalty following the order to restate the annual financial report for the year ended 2018. Another phenomenon that was revealed by OJK was the financial report issues of PT Truba Alam Manunggal Engineering Tbk based on Pengumuman Nomor PENG-1/PM.1/2021. The company has been revealed to manipulate their financial report by not

doing impairment on its receivables, decreasing receivables without any supporting evidence or mutations, and applying procedures related to material transactions that are not compliance.

There are several factors that influence income smoothing based on the results of previous studies. Some of them are profitability, financial leverage, company size, cash holding, institutional ownership, and tax avoidance. In this study, the factors that are used as independent variables or variables that affect income smoothing itself are financial leverage, profitability, and institutional ownership. The determination of variables in this study is based on the emergence of different results from previous studies so further research is needed.

One of the factors that influence the practice of income smoothing is financial leverage. Financial leverage is a measurement of the proportion of an entity in using debt and equity as a source of its financing (Brigham & Houston ,2019). Theoretically, entities with high level of financial leverage tend to perform income smoothing because the more the entities' using debt as their source of financing, the higher their financial risk. This unhealthy condition tends to discourage investors to invest their funds or raises doubt from creditors to loan their funds. (Maharani & Putra. ,2021) concluded in their study that financial leverage has a positive significant effect on income smoothing, but (Sarra& Mikrad ,2021). In states that financial leverage does not have significant effect on income smoothing.

Another factor that is thought affecting income smoothing is profitability. Profitability is a ratio that measures the effectiveness and ability of an entity to generate profits in a period of time. The low level of profitability of an entity can be a motive for management to perform income smoothing to affect the investors' outlook. (Indrawan, et. al 2018) argue that profitability has a negative significant effect on income smoothing which the greater the profitability of an entity, the lower its participation in practicing income smoothing. However, (Inayah & Izzaty , 2021) concluded that profitability has no influence on management's decision to perform income smoothing.

In addition, institutional ownership is also considered as one of the factors that influence income smoothing. Institutional ownership is share owned by institutional parties such as insurance companies, pension funds, securities companies, and other forms of companies (Edison, A. 2017). The existence of institutional investors can prevent the possibility of managerial opportunistic behavior including income smoothing since they indirectly have a supervisory role to the management. (Inayah & Izzaty , 2021)] concluded that institutional ownership has a negative effect on income smoothing, but (Suyono,2018). shows that institutional ownership has no effect towards income smoothing.

Based on the explanation that has been described, this study aims to provide contributions in identifying factors that affect income smoothing, especially in basic industry and chemical, miscellaneous industry, and consumer goods industry listed on Indonesia Stock Exchange for the period 2019-2021. Therefore, the purpose of this study is to answer (1) does financial leverage affect income smoothing (2) does profitability affect income smoothing (3) does institutional ownership affect income smoothing?

LITERATURE REVIEW

Agency Theory

Agency theory was first introduced by Jensen and Meckling (1976) provides an understanding of the contractual relationship between principal and agent. Manager as an agent is the party contracted by shareholder as a principal to work in the interests of the shareholder. For this reason, managers have the authority to make decisions and are responsible for their decisions to the shareholders. Agency theory illustrates that the interests between agent and principal are not always aligned and can lead to a conflict known as the agency problem. Agency problem is a result of information asymmetry where the agent has more information about the company internally and has the information faster than any external parties. Agent will probably misuse the information to perform income smoothing or manipulating other components of the financial report to maximize their personal interests because of the information asymmetry.

Positive Accounting Theory

Positive accounting theory developed by Watts and Zimmerman in 1986 explains that not all entities apply the same accounting policies because the management has the right to choose it according to their judgement are the most appropriate on the basis of an understanding of accounting in order to obtain benefits from its application in certain conditions. This theory is related to the practice of income smoothing since management will always try to show good performance to the stakeholders so that they will choose to apply accounting procedures and practices that are considered as the most beneficial in its application, including income smoothing.

Income Smoothing

Income smoothing is a manipulative act in accounting to balance profits over time with the aim of reducing excessive risk. The manipulation in income smoothing can be interpreted as the ability to increase or decrease profits (Di Fabio, Ramassa & Quagli, 2021). The effort to increase profits in a period aims to make the firm performance look favorable and management's decision looks effectively executed. On the other hand, lowering the profits is also an effort to reduce the firm's tax expense. Managers will also perform income smoothing to get benefits in the form of compensation as a result of achieving a profit target (Fasipe & Sun, 2020). The practice of income smoothing often lead to question of whether it is a financial crime or an action that can be justified. Income smoothing is defined as a way for management to use accounting method and transactions to reduce fluctuations in company profits so their performance looks favorable (Toni, Simorangkir, & Kosasih, 2021). Because it is said that the practice still uses accounting methods that are in accordance with the standards, income smoothing practice is often considered reasonable even though it will reduce the reliability of the financial report.

Income Smoothing

Income smoothing or income smoothing is management's effort to reduce abnormal profit fluctuations. The aim is to make it easier for companies to obtain creditor loans and attract the

attention of investors and also to reduce excessive risk. So, this income smoothing action is carried out by managers to gain profits, but considerations for reducing or increasing profits are adjusted again to the objectives of management and the conditions of the company.

Financial Leverage

Financial leverage is the use of debt to maximize company assets and income. Financial leverage is an important financial scheme in managing the continuity of a business. This condition occurs because there is insufficient capital owned and there is a desire to generate greater profits to increase the value of the company. Therefore, the company seeks financing and hopes to get more than expected profits. The high financial leverage makes it difficult for companies to pay their obligations and there is a big risk.

Cash Holding

Cash holding according to is cash available within the company which in time can easily be used to assist operational activities and meet the needs desired by the company. Cash is one of the current assets that is ready to be converted into other assets and is also very easy to hide, move, and much desired. The financial manager is the party responsible for cash-holding policies as a measure of protecting the company from cash shortfalls

Institutional Ownership

Institutional ownership is share ownership by large investors who invest on behalf of certain institutions such as insurance companies, mutual funds, and pension funds. Explain the definition of institutional ownership as the proportion of share ownership by institutional parties such as banks, insurance companies, investment companies, and other companies. In the ownership structure, institutional investors act as parties who monitor company management. Monitoring actions carried out by institutional investors will encourage managers to focus on company performance so as to reduce arbitrary actions .

Financial Leverage and Income Smoothing

Financial leverage is the use of debt in the company's capital structure where if the company has more debt, the higher the company's financial leverage (Rose et al. , 2018). The high level of financial leverage can cause a negative effect on the company since the interest expense will increase, but it will have a positive effect if the debt is used wisely and make the company's income greater than the cost incurred when obtaining the debt. Financial leverage can be measured using debt to equity ratio (DER) which will also be used in this study. High financial leverage with low profits could give an outlook that the company's is not healthy. The company's ability to pay interest and repay its debts in accordance with the term could be doubtful if the financial leverage is too high and it would discourage investors to invest their funds or raises doubt from creditors to loan their funds. Therefore, a company with high level of financial leverage has more potential to perform income smoothing to influence the outlook and decisions of the financial report users. This argument is supported by the result of the study by (Maharani & Putra. ,2021) which concluded that financial leverage has a positive effect on income smoothing.

Profitability and Income Smoothing

Profitability is a financial ratio that reflects the performance of an entity in generating profits by using its resources through sales activities, asset utilization, and the use of capital (Hery, 2018). Evaluation of the profitability ratios aims to measure the success of an entity's operation in certain period of time (Weygandt, Kimmel, & Mitchell, 2020). The ratio used in this study to represent the companies' profitability is return on assets (ROA). Return on assets is a effectiveness measurement of asset management in generating profits. Companies with low profitability tend to practice income smoothing since the low profitability looks unattractive to investors. Investors invest to expect high returns and consider the risks of their investment. For that reason, management often perform income smoothing to show a good performance in providing returns for investors, lowering investment risks, and basically to get the investors' attention. This correlation is supported by (Angraeni, Bastian & Lestari, 2022) which argues that profitability has a negative effect towards income smoothing.

Institutional Ownership and Income Smoothing

Institutional ownership is share owned by large investors on behalf of certain institutions such as insurance companies, banks, mutual funds, and pension funds (Al-Sartawi, & Sanad, 2019). Large investment from the institutions is a source that support the existence of managers and the company. Institutional investors are also considered not to be easily fooled by the information presented in financial report and have a better understanding of management activities that the average investors. With this advantage, institutional investors are able to monitor management decisions and limit management to act in their own interest. The more significant the institutional ownership in a company's ownership structure, the stricter the monitoring to prevent opportunistic behaviour of the managers such as practicing income smoothing. This argument is supported by (Inayah & Izzaty , 2021) which stated that institutional ownership has a negative effect towards income smoothing.

Based on the theory and the interrelationships between the variables as previously described, the framework and the research model of this study is depicted in the following chart:

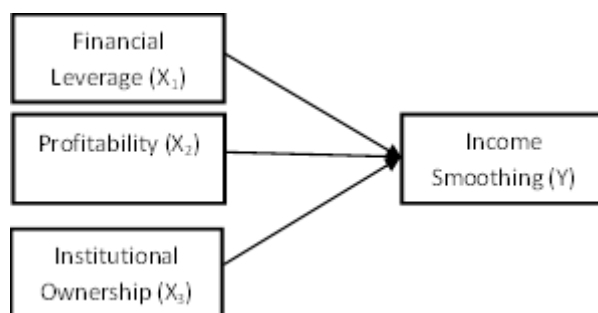


Figure 1. Research Framework

RESEARCH METHODOLOGY

The research design used in this study is descriptive quantitative with the research subjects are companies in basic industry and chemical, miscellaneous industry, and consumer goods industry listed on Indonesia Stock Exchange for the period 2019-2021. Sample is selected using the purposive sampling with the following criteria: Companies in basic

industry and chemical, miscellaneous industry, and consumer goods industry listed on Indonesia Stock Exchange consecutively in 2019-2021, do not experience relisting, suspend, and delisting during the observation period, use the Rupiah currency for the financial report, prepare the financial report for the period ended December 31, do not have negative value for the net income, and have institutional ownership data.

This study using binary logistic regression to analyse the data because income smoothing is a dummy variable. 0 represents the company that does not perform income smoothing and 1 represents the company that does income smoothing. Binary logistic regression does not require the normality assumption, heteroscedasticity, and autocorrelation since the dependent variable is a dummy variable (Ghozali, 2018). The test includes McFadden R-squared to measure the ability of a model to explain the variation of particular variable, likelihood ratio test to know whether the independent variables simultaneously affect the dependent variable or not, Hosmer-Lemeshow test to determine whether the model fit or not, and test of percent correctly predicted to measure the accuracy of the model in predicting the dependent variable.

Variable operationalization is summarized in Table 1 below. The research methodology section describes actions to be taken to investigate a research problem and the rationale for the application of specific procedures or techniques used to identify, select, process, and analyze data and information.

Table 1. Variable Operationalization

No.	Variable	Measurement	Scale	Source
1.	Income Smoothing	$Eckel\ Index = \frac{CV\Delta I}{CV\Delta S}$	Nominal	[17]
2.	Financial Leverage	$DER = \frac{Total\ liabilities}{Total\ Equity}$	Ratio	[4]
3.	Profitabilitas	$ROA = \frac{Net\ Profit}{Total\ Assets}$	Ratio	[6]
4.	Institutional Ownership	$\text{Institutional Ownership} = \frac{\text{Number of shares comed by institution}}{\text{Total Outstanding shares}} \times 100\%$	Ratio	[8]

Source: data processed by researchers

RESULT AND DISCUSSION

The population in this study were 165 companies and based on the sampling criteria, 65 companies were selected as the sample with a total of 195 data to be examined.

Descriptive Statistics

Descriptive statistics is an analysis that provides a general description of the characteristics of each variable in the study as seen from mean, median, maximum, minimum, and standard deviation.

Table 2. Descriptive Statistics Result

	Income Smoothing	Financial Leverage	Profitability	Institutional Ownership
Mean	0.723077	0.727930	0.076141	0.699960
Median	1.000000	0.599890	0.062470	0.750430
Maximum	1.000000	3.824770	0.416320	0.997110
Minimum	0.000000	0.003470	0.000410	0.025940
Std. Dev.	0.448630	0.531763	0.066281	0.197269

Source: data processed by researchers

Based on Table 2, which is the result of descriptive statistical data, the number of observational data is 195 obtained from 65 sample companies with observations for 3 years (2019, 2020 and 2021) as follow :

- 1) Income smoothing in this study is a dummy variable where the number 1 represents companies that carry out income smoothing and the number 0 represents companies that do not perform income smoothing. From the observed data, it is known that the minimum income smoothing value is 0.000000 and has a maximum value of 1.000000. The mean income smoothing value in this study itself is 0.723077 where the value is closer to the maximum value so it can be said that companies in the basic and chemical industries, various industries, and the consumer goods industry in Indonesia are doing more income smoothing than those who are not doing income smoothing. The standard deviation value is 0.448630 which is smaller than the mean, meaning that the data pattern reflects income smoothing well and does not vary too much.
- 2) Descriptive statistics from the first independent variable, namely financial leverage, which is the independent variable in this study. It is known that the minimum value is 0.003470 and the maximum value is 3.824770. The lowest financial leverage is owned by PT Buana Artha Anugerah Tbk in 2020 and the highest financial leverage is owned by PT Pyridam Farma Tbk in 2021. The mean financial leverage is 0.727930 which is greater than the standard deviation value of 0.531763 so it can be concluded that the data pattern reflects financial leverage well and the data does not vary too much.
- 3) The descriptive statistics of the second independent variable, namely profitability, show that the minimum value of profitability is 0.000410 and the maximum value is 0.416320. The lowest profitability belongs to PT Cahayaputra Asa Keramik Tbk in 2020 and the highest is the profitability of PT Multi Bintang Indonesia Tbk in 2019. The mean value of profitability is 0.076141 where the standard deviation value is not greater than the mean value, namely 0.066281. A standard deviation value that is smaller than the mean means that the data pattern reflects profitability well and the data does not vary too much.
- 4) The descriptive statistics of the third independent variable, namely institutional ownership, show that the minimum value of institutional ownership is 0.025940 and the maximum value is 0.997110. The company with the smallest proportion of institutional ownership is PT Emdeki Utama Tbk in 2020 and the company with the largest proportion of institutional ownership is PT Fajar Surya Wisesa Tbk for 3 consecutive years (2019, 2020, and 2021). The mean value of institutional ownership is 0.699960 and it can be

concluded that most of the shares in basic and chemical industry companies, various industries, and the consumer goods industry are owned by institutions. The standard deviation is 0.197269 and is smaller than the mean value so it can be concluded that the data pattern reflects institutional ownership well and the data does not vary too much.

Coefficient of Determination Test (McFadden R-squared)

The coefficient of determination test in logistic regression can be seen from the McFadden R-Squared value which the aim is to measure the ability of a model to explain the variation of the dependent variable. Based on the result of Table 3, the McFadden R-squared value is 0,058804 which means the contribution of financial leverage, profitability, and institutional ownership in predicting variations in income smoothing is 5,88% and the remaining 94,12% is explained by other variables that are not discussed in this study.

Table 3. Coefficient of Determination Test Result (McFadden R-Squared) and Likelihood Ratio Test Result

McFadden R-squared	0.058804	Mean dependent var	0.723077
S.D. dependent var	0.448630	S.E. of regression	0.436882
Akaike info criterion	1.151682	Sum squared resid	36.45543
Schwarz criterion	1.218820	Log likelihood	-108.2890
Hannan-Quinn criter.	1.178865	Deviance	216.5779
Restr. deviance	230.1093	Restr. log likelihood	-115.0546
LR statistic	13.53136	Avg. log likelihood	-0.555328
Prob(LR statistic)	0.003618		

Source: data processed by researchers

Likelihood Ratio Test

The likelihood ratio test aims to determine the contribution of the independent variables to the dependent variable simultaneously. Based on the Table 3, the Prob(LR Statistic) value is 0,003618 which is less than the value of α (0,05). Therefore, it can be concluded that financial leverage, profitability, and institutional ownership simultaneously affect income smoothing.

Goodness of Fit Test (Hosmer-Lemeshow's Goodness of Fit)

The goodness of fit test with Hosmer-Lemeshow's goodness of fit aims to predict whether the empirical data is in accordance with the research model or not.

Table 4. Goodness of Fit Test Result (Hosmer-Lemeshow's Goodness of Fit)

H-L Statistic	3.1899	Prob. Chi-Sq(8)	0.9219
Andrews Statistic	4.0930	Prob. Chi-Sq(10)	0.9431

Source: data processed by researchers

The result shows that the prob. chi-sq from the test is 0,9219. The probability value is greater than 0,05 so it can be concluded that the model is fit or there is no difference between the model and the data so that the model can predict the observation value.

Percent Correctly Predicted

The test of percent correctly predicted is used to measure the model accuracy in predicting the dependent variable in the study where the result is in percentage form. Based on the Table 5, the total % correct is 73,85% which can be concluded that accuracy of the model in predicting income smoothing is 73,85%. This percentage is already relatively high so that the accuracy of the model in predicting the dependent variable is classified good.

Table 5. Percent Correctly Predicted Result

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)≤C	5	2	7	0	0	0
P(Dep=1)>C	49	139	188	54	141	195
Total	54	141	195	54	141	195
Correct	5	139	144	0	141	141
% Correct	9.26	98.58	73.85	0.00	100.00	72.31
% Incorrect	90.74	1.42	26.15	100.00	0.00	27.69
Total Gain*	9.26	-1.42	1.54			
Percent Gain**	9.26	NA	5.56			

Source: data processed by researchers

Binary Logistic Regression Analysis Result

Table 6. Binary Logistic Regression on Income Smoothing

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	1.826297	0.684784	2.666969	0.0077
FINANCIAL_LEVERAGE	-0.989595	0.355285	-2.785353	0.0053
PROFITABILITAS	-8.338582	2.866441	-2.909037	0.0036
INSTITUTIONAL_OWNERSHIP	0.781341	0.873662	0.894329	0.3711

Source: data processed by researchers

The coefficient column shows the direction and magnitude of the influence of the independent variable on the dependent variable while the probability column shows the significance of the independent variable on the dependent variable. If the probability value is less than 0,05, the independent variable has a significant effect on the dependent variable and if the probability value is greater that 0,05, the independent variable has no significant effect on the dependent variable. Based on the Table 6, the results can be explained as follows:

1. Income smoothing has a constant value 1,826297 which means if all the independent variables in this study are assumed to have a value equal to zero, the level or value of income smoothing is 1,826297.

2. Financial leverage has a negative and significant effect on income smoothing where every increase in one financial leverage will decrease income smoothing by 0,989595 in assumption that the other independent variables are constant.
3. Profitability has a negative and significant effect on income smoothing where every increase in one profitability will decrease income smoothing by 8,338582 in assumption that the other independent variables are constant.
4. Institutional ownership has a positive insignificant effect on income smoothing where every increase in one institutional ownership will increase income smoothing by 0,781341 in assumption that the other independent variables are constant.

The Effect of Financial Leverage Towards Income Smoothing

Based on the Table 6, the probability value of financial leverage is 0,0053 and the coefficient value is -0,989595. It can be concluded that financial leverage has a significant positive effect towards income smoothing. Therefore, the first hypothesis (H1) in this study is rejected. The result explains that if the value of financial leverage increases, the company's potential to perform income smoothing will decrease and vice versa. This could happen since companies with high level of financial leverage will get more pressure and supervision from stakeholders such as creditors and shareholders as a result of high financial risk which also will limit management from making arbitrary decisions such as income smoothing. In addition, companies with high financial leverage will certainly use their profits to pay their obligations which in this case are debts and the interest, making it more difficult to practice income smoothing. The result in this study is in line with the research conducted by (Maharani & Putra, 2021) which also found a significant negative relationship between financial leverage and income smoothing. However, the result of this study contradicts the result of research by (Anwar & Chandra, 2017). and (Sarra & Mikrad, 2021). which both found that financial leverage has no effect towards income smoothing.

The Effect of Profitability Towards Income Smoothing

Based on the Table 6, profitability has probability value of 0,0036 with coefficient value of -8,338582. It can be concluded that profitability has a negative and significant effect on income smoothing. If the value of profitability increases, the company's effort to practice income smoothing will decrease and vice versa. Therefore, the second hypothesis (H2) in this study is accepted. The main goal of investors in investing is to get positive return either in the long term or short term of period. Surely, companies with high and stable of profitability are very attractive to investors, especially who wish to invest for the long-term purpose. Having low profitability can be a motive for companies to perform income smoothing because it is naturally less attractive to investors. Therefore, companies often perform income smoothing as an option to attract investors and one of the efforts not to lose their shareholders while companies with fairly high profitability and stable in each period have less background for management to perform income smoothing. The result in this study is consistent with the research conducted by (Angraeni, Bastian & Lestari, 2022) and (Indrawan, et. al 2018) which concluded that profitability has a significant negative effect towards income smoothing. However, the research conducted by (Dewi, 2018). shows that profitability has a positive

significant effect towards income smoothing while (Inayah & Izzaty , 2021) found in their research that profitability has no significant effect towards income smoothing.

The Effect of Institutional Ownership Towards Income Smoothing

Based on the Table 6, the probability value of institutional ownership is 0,3711 with the coefficient value of 0,781341. The result shows that institutional ownership cannot be considered as a factor affecting management's decision to perform income smoothing or not. Therefore, the third hypothesis (H3) in this study is rejected. Company with large proportion of institutional ownership in its ownership structure does not always encourage management to perform income smoothing and small proportion of institutional ownership is also not a factor that will reduce the company's potential to perform income smoothing. This could happen because the supervisory role that is owned and carried out by the institutional investors on management is still not effectively done so that management's decisions and actions that only beneficial for particular party cannot be prevented, including income smoothing. The result in this study is in line with the research conducted by (Suyono,2018) which concluded that institutional ownership has no effect towards income smoothing. However, (Florentina& Hastuti, 2022). found that institutional ownership has a positive and significant effect towards income smoothing.

CONCLUSION

Based on the statistical tests that have been carried out on basic industry and chemical, miscellaneous industry, and consumer goods industry for the period 2019-2021, the conclusions from this study are financial leverage and profitability has a negative significant effect towards income smoothing and institutional ownership has a positive insignificant towards income smoothing.

It can be concluded that financial leverage and profitability are the factors that influence management's decisions in conducting income smoothing. Both financial leverage and profitability influence the views and decisions of the stakeholders so that management often performs income smoothing to influence the outlook and decisions so as to achieve the goals desired by management. Write the output of the work or investigations in summarized form.

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