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Determinant of Income Smoothing At Manufacturing Firms Listed On Indonesia Stock Exchange

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ABSTRACT: *This research conducted to analyze the influence of profitability, financial risk (leverage), value of firm, institutional ownership and public ownership on the Income smoothing at Manufacturing firms listed in Indonesia stock exchange (IDX). The data used in this research was secondary data and there was 68 samples taken through purposive sampling technique. The method used in analyzing the relationship between the independent variables and dependent variables was multiple linear regression methods and classical assumption test. These findings simultaneously indicated that profitability, leverage, the value of the firm, institutional ownership and public ownership influence on the income smoothing. The partially results performed that leverage and value of firm influenced positively on income smoothing, while the profitability, institutional ownership, and public ownership influenced negatively on the income smoothing of manufacturing firms listed on the Indonesia Stock Exchange.*

Keywords: *Profitability, Leverage, Value of Firm, Institutional Ownership, Public Ownership, and Income Smoothing.*

I. INTRODUCTION

Financial statements will provide the information about the improvement of firms' financial statements used in decision making by stakeholders. One of the important information needed in making decision is profit. Earnings management tends to show the stability of profit of company in each period. The achievement of stable and low variance profits in each period is considered as a good achievement of firm. Stabilizing profit is called Income Smoothing [6,]. Income Smoothing or profit flattening is one of the patterns of profit manipulation by controlling profits based on the fluctuation.

There are related studies about Income smoothing and perform various results one another. [1] Indicated that financial risk and the value of the firm influenced positively on Income smoothing, while profitability and ownership structure did not influence on Income smoothing of firms on Indonesia Stock Exchange, but [10] find the profitability have a positive relationship and significant on income smoothing. [2] Indicated that there were positive and significant influences between profitability and Income smoothing. [10,13] Stated that firm size, the value of the firm, profitability and Financial Leverage partially and significantly influenced on the Income smoothing of manufacturing firms of Sub-sector automotive & components listed in Indonesia Stock Exchange in 2009-2012).

[7] Based on the result performed that public ownership structure, Audit quality, Independent Board Commissioner proportion, Audit committee, type of industry, firms size, *profitability* influenced significantly. While financial risk did not influence on Income smoothing. [4] Found that firm size, *Profitability*, and *Dividend Payout Ratio* (*DPR*) influenced positively and significantly on Income smoothing.

In other side, institutional ownership is the ownership of firm stock by institutions or organizations such as insurance companies, bank, investment companies and the other institutions also impact to income smoothing. The higher institutional ownership, the more efficient of firm assets usage. The institutional can be the barrier to certain parties in carrying out variance because the supervision of firm management committed by the owners of institutional stock. Therefore, the institutional ownership portion functions as a prevention of wasting conducted by management [12].

Besides that, Public ownership represents the number of stock in society. The higher percentage of public ownership of stock, the lower possibility of firms in carrying out Income smoothing. The higher public ownership, the more information known by society about the firms. Those case will prevent manager in manipulating earning. However, public ownership does not frequently become a threat to some party in carrying out deviation because of the few stock proportion owned by the public. Sometimes, the information obtained by the public is also limited. Because the public is regarded as the minority shareholders where they only have stock below 5% so that it makes them only able to be followers of the majority shareholders [11].

Based on the phenomenon above appear a research gap on the research results so that motivates the researchers to find the consistency of the results of the research, then the researchers limit the study on the influencing factors of Income smoothing at Manufacturing firms Listed on Indonesia Stock Exchange (IDX).

II. METHODS

The data used in this study were taken from 68 manufacturing firms selected from141 firms listed in Indonesia Stock Exchange (BEI) during 2013-2014. The sample was selected by using Purposive sampling method. The object of observations was profitability, financial risk, the value of the firm, institutional ownership, and public ownership.

Table 1. Definition operational variable

Variable	Definition	Measurements
Income smoothing	Fluctuation in reported earnings that is considered normal for the firms.	Indeks Eckel (1981), [5] IPL = [CV ΔI / $CV\ \Delta S$] I = income S = Sales ΔI or ΔS = [(t – t-$_1$) / t-$_1$] $CV\Delta I \text{ or } CV\Delta S = \sqrt{\frac{\Sigma(\Delta x - \Delta X)^2}{n-1}} : \Delta X$
Profitability	The ability of firms in obtaining profits in a certain period	$ROA = \frac{Net\ Income}{Total\ Assets}$
Financial Risk	Risks for the ordinary shareholders to get funding through debt.	$LEV = \frac{Total\ Debts}{Total\ Assets}$
Value of Firm	The price is willing to pay by a potential buyer if the firm sold out which is represented by the stock price	$PER = \frac{Stock\ Market\ Price}{Earning\ Pershare}$
Institutional Ownerships	Institutional ownership is a proportion of stock ownership by an institution	$IO = \frac{Institusional\ Stocks}{Stocks\ Outstanding}$
Public Ownerships	Public ownership reflects the number of outstanding stock in society	$PO = \frac{Public\ Ownerships\ Stocks}{Stocks\ Outstanding}$

III. STATISTICAL ANALYSIS

The data was analyzed by using multiple linear regressions with the help of SPSS after having classical assumption tests such as normality, multicolinearity and autocorrelation test. This analysis aimed to know the influence of profitability, financial risk, the value of firm, ownership structure, (institutional and public ownership) on Income smoothing at manufacturing firms listed in Indonesia Stock Exchange from 2013 and 2014.

IV. RESULTS AND DISCUSSIONS

This research was conducted in 2013 until 2014 and the total sample was 68 firms listed in Indonesia Stock Exchange. The Independent variables used in this study were profitability, financial risk, firm Value, Institutional Stocks and public stock. While the dependent variables was income smoothing. Before the data were analyzed, first testing the classical assumption of normality, autocorrelation and multicolinearirty tests, as presented below. Before analyzing the data, the classical assumption test should be done, they are normality test, autocorrelation and multicolinearirty tests such as served below:

Table 2. One-Sample Kolmogorov-Smirnov Test

		Standardized Residual
N		136
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.98130676
Most Extreme Differences	Absolute	.107
	Positive	.107
	Negative	-.068
Kolmogorov-Smirnov Z		1.248
Asymp. Sig. (2-tailed)		.089

Table 3. Multicolinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Return On Asset	,969	1,032
	Leverage	,994	1006
	Value of Firm	,996	1,004
	Institutional Ownership	,993	1,007

	Public Ownership	,969	1,031
a. Dependent Variable: Income Smoothing			

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.460[a]	.212	.182	2.27870	2.118

After conducted normality test, multicolinearity and autocorrelation test, it could be inferred that the data of this research was categorized free from violation of classical assumption and was proper to be analyzed further. After the data was analyzed using SPSS and multiple linear regressions, the results can be seen in the following table:

Table 5. Multiple Linear Regression

Model	B	T_{Count}	t_{table}	Sig (t)
(Constant)	3.936	8.136	1,656	.000
Return On Asset	-.149	-2.393		.018
Leverage	.171	3.351		.001
Firm Value	.006	2.704		.008
Institusional Ownership	-.042	-1.987		.049
Public Ownership	-.232	-2.260		.025
Coefficient Correlation (R)	,460	F_{count}	F_{table}	Sig (F)
Coefficient Determination (R_2)	,212	6.991	3,062	.000
Adjusted (R_2)	,182			

The table above performs that Coefficient Determination (adjusted R^2) is 0,212 or 21,2%. This result indicated that *Return On Asset*, *Leverage*, Firm value, Institutional ownership and Public ownership can influence Income smoothing about 21,2%. While the rest of 78.8% was influenced by the other variables beyond of this model.

The simultaneous test performed that all the independent variables influenced significantly on income smoothing at manufacturing firms listed in Indonesia Stock Exchange. The partial test obtained that *Leverage*, the value of the firm influenced positively and significantly on Income smoothing. While the *Return on Asset,* Institutional ownership and Public ownership influenced simultaneously on the Income smoothing at manufacturing firms listed in Indonesia Stock Exchange.

V. CONCLUSSIONS

The results performed that profitability, financial risk, the value of the firm, public ownership and institutional ownership simultaneously influenced on Income smoothing positively and significantly. Partially, Profitability, Public ownership and Institutional ownership influenced negatively and significantly on Income smoothing. The results of this study supported by research [2,4,7,8,9,10,13], while leverage and the value of firm influenced positively and significantly on Income smoothing at manufacturing firms listed in Indonesia Stock Exchange. The results also consistent with research [10, 13].

This research provided the implication in which the management of manufacturing firms listed in Indonesia Stock Exchange (BEI) should be able to generate and maintain the consistent profits so that the investors are interested to invest in the firms. If the profits fluctuate relatively, the income smoothing can be carried out to gain the trust of investors.

Hopefully, the further researchers could increase the other variables such as ownership managerial and concentrate on the stock ownership proportion so that it can provide more varying results regarding the theory of Income smoothing.

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