IJATB Vol. 2, No. 1, 2021

International Journal of Accounting, Taxation, and Business

https://journal.unsika.ac.id/index.php/IJATB

The Influence Of Cash Holding, Profitability, And Institutional Ownership On Income Smoothing

Maulina Inayah, Khairina Nur Izzaty
Accounting, Economic Faculty, Bank BPD Jateng College, Indonesia

Corresponding Author : izzaty33@gmail.com

Abstract

The aim of the research is to investigate empirically about influence cash holding, profitability, and institusional ownership on income smoothing. Population in this research is the infrastructure, utilities and transportation companies listed on the Indonesia Stock Exchange (BEI) from 2016-2019. Total sampels used 53 companies. The sampling technique use purposive sampling technique. The analysis method of this research is regression logistic analysis using SPSS 25 software. The results of this research is cash holding, institusional ownership have negative and signifikan effect on income smoothing, while profitability have no effect on income smoothing.

Keywords: cash holding, profitability, institusional ownership, income smoothing

ISSN
2745-9349 (print)
2747-0075(online)

1. BACKGROUND

The current condition of the Indonesian economy is declining. In the third quarter of 2020 economic growth in Indonesia reached minus 5.32% or slower than economic growth in 2019 which was able to grow to 5.02%. The weakening of the Indonesian economy in 2020 was due to the Covid-19 pandemic (www.bps.go.id, 2020). With this condition, the company tries to increase and maintain its profit. Because investors and stockholders are interested in investing their funds when a company's profits are stable and have good prospects in the next period. This is supported by the opinion of K. Dewi (2018) that profit is one of the information contained in the financial statements. Information on earnings aims to assess company performance, estimate investment or credit risk, and determine whether investors and stockholders will invest their funds in a company. In addition, according to Putri & Budiasih (2018), it is stated that companies that have good prospects can influence investors to invest in the company.

According to Statement of Financial Accounting Concept (SFAC) No. 1, earnings information reported by the company is a major concern in assessing management performance and helping other parties in estimating earning power (earnings power) in the future (Dewi & Latrini, 2016). The information needed by stockholders and investors before investing their funds is seen from the financial statements. Because the financial statements reflect the company's performance. If the performance of a company is good then investors will be interested in investing in the company. So the company will try to maintain profits from the previous period. This causes companies to be motivated to commit fraud in financial statements in the form of income smoothing (Lestari & Aprilia, 2020). According to Rivard et al. (2003), income smoothing occurs because of the freedom in choosing accounting methods or principles according to PSAK 25.

Beidleman (1973) explains that income smoothing is a deliberate reduction or fluctuation of some level of profit that is currently considered normal by the company. On the other hand, according to Haniftian & Dillak (2020), income smoothing is a management effort that is carried out intentionally so that the profits obtained by the company look stable from the previous period so that they can be attractive to users of financial statements. Companies that carry out income smoothing will be detrimental to investors and stockholders because there is an inconsistency between the information in the financial statements and the real situation.

Income smoothing appears as a result of agency theory. Agency theory explains the relationship between agents (management) and principals (shareholders). Agency theory performs the separation of corporate management responsibilities between agents and principals. Agency theory serves to determine the award that must be paid by the principal to the agent as well as to analyze and determine solutions when there are problems between the agent and the principal (Jensen & Mekling, 1976). In agency theory, the principal gives authority to the agent, but the agent knows more information about the company than the principal. So the agent (management) tends to do income smoothing. Therefore, companies need a competent and independent third party auditor to audit financial statements (Utami et al., 2020).

One of the factors that influence investment decision making is cash holding in the company. The relationship between agency theory and cash holding occurs because of a conflict between management and the principal. Where management is willing to hold cash in the company while the manager's performance focuses on the principal (Eni & Suaryana, 2018). If the company has a high cash flow, the agency problem of the company is also high so that management is motivated to enrich itself by carrying out income smoothing practices in the form of manipulating the amount of cash in the company.

The factors that influence income smoothing are stated by Natalie & Astika (2016) which proves that cash holding affects the practice of income smoothing. According to Gill & Shah (2012), cash holding is the amount of cash in the company that is available to invest in physical assets and distributed to investors. Companies can have physical assets or large amounts of receivables, but if a company runs out of cash, the company will go bankrupt. Therefore, the company holds cash in the company to support the smooth operation of the company. According to Dewi & Latrini (2016), the very liquid nature of cash holdings encourages someone to withdraw and transfer cash in the company by taking actions that should not be taken. Thus, cash holding must be maintained so that there is no shortage or excess in facilitating the company's activities (Ridha et al., 2019). Cash holding can be measured by comparing cash and cash equivalents with total assets.

The results of Haniftian & Dillak's (2020) research state that cash holding has a significant positive effect on income smoothing practices. The higher the cash holding in the company, the higher the income smoothing is done. This happens because the amount of cash in the company is the cause of a management to practice income smoothing because in the eyes of investors when holding cash in a large company, the company's performance is good in managing cash. This is supported by research conducted by Dewi & Latrini (2016), Sumarna (2017), and Nirmanggi & Muslih (2020) that cash holding has a significant effect on income smoothing practices. However, the results of Fachrorozi et al. (2017) show that cash holding has a positive and insignificant effect on income smoothing. While the results of research from Putri & Budiasih, (2018) and Riyadi (2018) state that cash holding has no effect on income smoothing practices because the level of cash holding does not affect the company's opportunities to practice income smoothing.

Another factor that is thought to influence income smoothing is profitability. According to Carlson & Bathala (1997) that profitability is a factor that influences management to practice income smoothing, because the higher the profitability of a company, the greater the expectations of investors, stockholders, and the government for compensation that will be given to them in the form of tax payments and social programs.

In this study to calculate the level of company profitability using the Return On Asset (ROA) formula. By comparing net income with total assets owned by the company. ROA ratio is the company's ability to utilize assets to generate profits. The higher the level of profitability of a company indicates a good company performance in generating net income.

Research conducted by Dewi & Latrini (2016), Pratiwi & Damayanthi (2017), and Eni & Suaryana (2018) succeeded in proving that profitability has a positive effect on income smoothing practices. In contrast to the results of research conducted by Harsanto (2020), and Haniftian & Dillak (2020) which stated that profitability had no significant effect on income smoothing practices.

In addition to cash holding and profitability, institutional ownership is considered as one of the factors affecting income smoothing. Institutional ownership is ownership of shares owned by institutions or institutions such as by the government, financial institutions, legal entities, foreign institutions, trust funds and other institutions (Dwiastuti, 2017). According to Jensen & Mekling (1976) suggests that institutional ownership plays an important role in minimizing agency conflict. The existence of institutional ownership is considered capable of supervising decision making by managers, including decisions in debt policy making. Institutional ownership can be measured using the percentage of shares owned by institutional ownership of the number of shares owned by the company.

The results of research conducted by Andiani & Astika (2019) stated that institutional ownership has a positive effect on income smoothing. This research is supported by the results of research conducted by Pratiwi & Damayanthi (2017). They argue that institutional shareholders are considered capable of monitoring every decision made by managers. However, the results of this study are not in line with the research conducted by Sugeng &

Faisol (2016) and Gunawati & Susanto (2019). The results of both studies state that institutional ownership has no effect on income smoothing. Meanwhile, according to Lestari & Aprilia (2020) institutional ownership has a negative effect on income smoothing.

One of the phenomena of income smoothing practices that occur in Indonesia in Infrastructure, Utilities, and Transportation companies listed on the Indonesia Stock Exchange (IDX) is the case of PT Garuda Indonesia Tbk. In the 2018 financial statements of PT Garuda Indonesia Tbk, there are irregularities in the income statement and others. Where the beginning of the awkwardness of PT Garuda Indonesia Tbk started from operating revenues in 2016 amounting to US$ 3.86 billion, in 2017 amounting to US$ 4.18 billion, in 2018 amounting to US$ 4.37 billion, and the first quarter of 2019 amounting to US$ 1.10 billion. With the increase in operating income, the operating expenses will also increase, if the number of passengers increases, the operating costs will automatically increase. The operating expenses of PT Garuda Indonesia Tbk in 2016 amounted to US$ 3.79 billion, in 2017 it was US$ 4.24 billion, in 2018 it was US$ 4.58 billion, and in the first quarter of 2019 it was US$ 1.105 billion. This can be seen in the following table:

Tabel 1

	2016	2017	2018	Kuartal 1 2019
Revenue	US$ 3,86 M	US$ 4,18 M	US$ 4,37 M	US$ 1,10 M
Expense	US$ 3,79 M	US$ 4,24 M	US$ 4,58 M	US$ 1,105 M

In 2017 PT Garuda Indonesia recorded a loss of US$ 216.58 million and in 2018 it should also have suffered a loss. However, in the financial statements of PT Garuda Indonesia, it reported that in 2018 it experienced a profit of US $ 809,846 thousand. Where the reported profit is supported by the cooperation between PT Garuda and PT Mahata. The cooperation value is US$ 239.94 million. The funds are receivables, but are recognized by PT Garuda as revenue.

The irregularities in the financial statements of PT Garuda Indonesia Tbk were caused by 1) an agreement between PT Garuda Indonesia and PT Mahata Aero Teknologi (Mahata) for 15 years, but the payments were made and recorded using cash on an accrual basis. Where income for the next 15 years was recorded at the beginning of 2018, what should have been recorded as receivables was actually recorded as income. 2) Documentary evidence, Revenue may be recognized but there must be proof of the handover of any facilities that have been installed by PT Mahata Aero Teknologi to PT Sriwijaya Air and PT Garuda Indonesia. 3) There has been no cash inflow until the first quarter of 2019, this can be seen from the absence of impairment in trade receivables items. 4) PT Sriwijaya Air paid an incentive of US$ 28 million to PT Garuda as compensation for PT Sriwijaya Air's participation in the PT Mahata Aero Teknologi connectivity agreement (www.cnbcindonesia.com, 2019).

From this phenomenon, it can be concluded that in Indonesia the practice of income smoothing is often carried out by companies. This is done so that the financial statements look good so that investors are interested in investing in the company.

Research on income smoothing is often done, but the results of previous studies still cause contradictions in the variables of cash holding, profitability, and institutional ownership. Research conducted by Rahmadani et al. (2020) states that cash holding has a positive effect on income smoothing, while according to Eni & Suaryana (2018) it shows that cash holding has no effect on income smoothing. The results of Dewi & Latrini's research (2016) show that profitability has an effect on income smoothing, while according to Harsanto (2020) it shows that profitability has no effect on income smoothing. On the other hand, based on the results of research by Nugraheni & Sulistyawati (2018), institutional ownership has an effect on income smoothing, while according to Gunawati & Susanto

(2019), institutional ownership has no effect on income smoothing.

With this research gap, researchers are interested in doing research again because there are still differences between the results of one study with other studies related to factors that affect income smoothing. Updates made in this study are in the form of changing the research period, the sector of the company to be studied, as well as the selected independent variables. The reason the researcher chooses companies in the infrastructure, utilities, and transportation sectors as research objects is because there are still few who conduct research in these sectors, especially in examining the practice of income smoothing. The second reason is that infrastructure, utility, and transportation companies consist of several industrial sub-sectors so that they can reflect the condition of the capital market as a whole. Third, to get the latest results related to the infrastructure, utilities, and transportation sectors that carry out profit smoothing practices.

Based on the background of the problem, the formulation of the problem in this study is as follows: (i) How does cash holding affect the practice of income smoothing, (ii) How does profitability affect the practice of income smoothing, and (iii) How does institutional ownership affect the practice of income smoothing.

Based on the description that has been presented, the researcher is interested in conducting a research entitled “The Influence of Cash Holding, Profitability, and Institutional Ownership on Income Smoothing Practices (Empirical Study on Infrastructure, Utilities, and Transportation Companies Listed on the Indonesia Stock Exchange).

2. LITERATURE REVIEW

Agency Theory

Agency theory is a theory related to the practice of income smoothing in the company. According to Jensen & Mekling (1976) describing agency theory is a collection of contracts between owners (principals) and managers (agents) who manage the use and control of resources.

The relationship between agency theory and the practice of income smoothing is caused by a conflict between the principal and the agent. In this case, the principal is the owner of the capital while the agent is the one who manages the capital. The cooperation that exists between the principal and the agent allows them to prosper themselves. It is assumed that the agent works hard to maximize profits for the company by seeking as much information as possible to take various actions without regard to applicable standards. So there is a difference of interest between shareholders and management Artawan et al. (2020).

According to Scott (1997) suggests that companies have many contracts, such as cooperation contracts between companies and several managers and loan contracts between companies and creditors. Both contracts are made based on the amount of profit in the company, so it can be said that agency theory has an involvement in accounting. What is meant by a work contract is a cooperation contract between shareholders (principal) and management (agent). Where shareholders and management want to maximize profits for their respective interests based on the information they know. On the other hand, the agent knows more about the company so that the agent has more information than the principal. This is due to the agent who directly carries out operational activities in the company while the principal only focuses on profit returns without knowing how management is doing in obtaining these profits. This makes it difficult for investors to assess, control the actions taken by management. Sometimes the policies carried out by the company's management are sometimes carried out without the knowledge of shareholders or investors, causing information asymmetry. With the information asymmetry, it encourages managers to perform income smoothing which can mislead the principal regarding the company's performance information.

Signalling Theory

Signal theory is a signal given by the company (manager) to investors as an indication that the company is worthy of being used as a place to invest (Gunawati & Susanto, 2019). Signal theory assumes that the information received by internal and external parties is not the same. This creates information asymmetry. Signal theory shows information asymmetry between internal parties and external parties. So that companies are encouraged to provide information about financial statements to interested parties (Kusmiyati & Hakim, 2020). Signal theory explains how a company should do in giving signals to external parties such as users of financial statements. The signal is in the form of information about what the company's management has done in realizing the wishes of the owner of the company. So the company must provide complete and relevant information to be used as an analytical tool in making investment decisions so that external parties believe that the profits published in the financial statements are real, not the result of manipulation (Dewi & Abundanti, 2019).

Income Smoothing

Income smoothing is a method of reducing fluctuations in earnings in the financial statements so that the profits reported in the financial statements look stable. Income smoothing occurs when the profit generated does not match the target desired by the company (Fudenberg & Tirole, 1995).

According to Barnea et al. (1976) defines income smoothing as an act of reducing profits that is carried out intentionally on fluctuations in company profits which are considered normal for the company. This makes investors tend to avoid companies with high profit fluctuations.

The reason for doing income smoothing according to Hepworth (1953) is first, to reduce profits and increase costs in the current period with the aim of reducing tax debt. Second, it can increase investor confidence. Because the income and the amount of dividends are as expected. Third, it can strengthen management relations with employees so that employees do not ask for salary increases or wages.

Factors thought to influence income smoothing practices are audit opinion, managerial ownership, company size, profitability, company age, dividend payout ratio, public ownership, independent board of commissioners, financial leverage, institutional ownership, net profit margin, company growth, cash holding , and the reputation of the auditors. In this study, researchers only used cash holding, profitability, and institutional ownership variables.

Cash Holding

Cash holding is free cash flow that managers use to meet the interests of managers above the needs of shareholders. The performance of a manager is generally judged by the actions taken by managers in keeping the company's cash stable (Jensen, 1986). According to Putri & Budiasih (2018), cash holding is the amount of cash held by the company that is used to carry out all company activities.

According to Tamara & Tjundjung (2019), cash holding is the retained cash balance consisting of cash and cash equivalents used to meet the company's operational activities and other activities such as distributing cash dividends to shareholders, buying shares, and other sudden needs. Cash is an asset that is easy to convert into other assets and is easy to transfer. Therefore, companies must be wise in managing cash holdings.

Profitability

Profitability is the company's ability to generate profits within a certain period as well as to determine the effectiveness of the company's management. Profitability is a benchmark used by investors to invest in the company. When the profitability of a company is high, it describes the company's performance in good condition (Dewi & Abundanti, 2019).

Meanwhile, according to Brigham & Gapenski (2006) profitability is the result of a number of company management policies and decisions. Thus, it can be said that profitability is the company's ability to generate net income from activities carried out in a certain period. Companies that are in an unprofitable state will find it difficult to get capital from investors. So that the management tries to increase profits, because creditors and company owners realize that profit (profit) is important for the company's future.

Profitability in this study uses the ROA proxy because this ratio shows a measure of the effectiveness of asset management in generating profits.

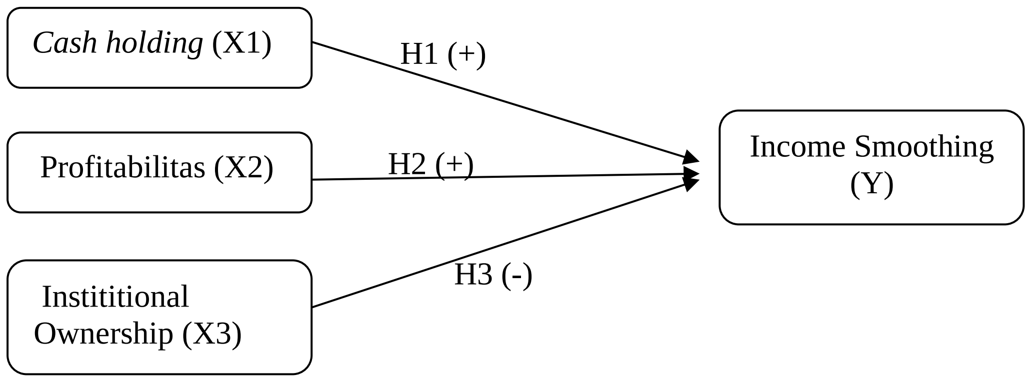
Institutional Ownership

According to Fransiska et al. (2016) institutional ownership is the proportion of share ownership in a company consisting of institutions or institutions such as insurance, banking, and investment companies. The existence of institutional ownership is very important in the company to supervise the management. Where these supervisory activities aim to ensure that shareholders' prosperity is guaranteed. The supervisory actions carried out by institutional ownership encourage managers to focus on company performance, so as to reduce selfish actions (Andiani & Astika, 2019).

The existence of institutional ownership has an important role to reduce agency conflicts between agents (management) and shareholders. Institutional investors are considered capable of carrying out an effective supervisory mechanism in decision making by management. This has resulted in institutional investors not easily trusting earnings manipulation actions carried out by management (Jensen & Mekling, 1976).

Research Framework

Picture 1
Research Framework



3. RESEARCH METHODOLOGY

Population and Research Sample

The population in this study are companies in the infrastructure, utility, and transportation sectors listed on the Indonesia Stock Exchange for the period 2016 - 2019. With a total of 80 companies.

The sample selection in this study used purposive sampling method. Purposive sampling is a method used to select samples by considering certain criteria. The selected sample must meet the following criteria:

1. Infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange during the period 2016 - 2019.

2. The company actively publishes consecutive financial reports during the research period and can be accessed through the IDX's official website, namely www.idx.co.id.

3. There are data needed in financial reports published by infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange.

Data Collection Techniques

The type of data used in this research is secondary data. In this study, researchers used secondary data obtained from the financial statements of companies in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange during the 2016-2019 period which were accessed through the IDX's official website, namely www.idx.co.id. The method of data collection in this research is the method of documentation and literature study. The method of documentation is the method of collecting data by studying secondary data obtained from the financial statements of companies in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange. The literature study method is carried out by searching for data through journals, scientific articles, and studying literature and publications related to research.

Data Analysis Method

Descriptive Statistical Test

Descriptive statistics are used to describe or provide an overview of the data that can be seen from the mean, standard deviation, minimum and maximum values. The output results of the descriptive statistical test provide numerical measures for the sample data. Numerical measures are a form of data simplification to make it more concise.

Overall Fit Model Test

This test was conducted with the aim of knowing whether the logistic regression model used as a whole and can be used to assess the independent variables added to the model have a significant effect or not on the dependent variable. Overall Fit Model test is calculated by comparing the value of -2 log likelihood at the beginning of the model (block number = 0) with a value of -2 log likelihood at the end (block number = 1). According to Ghozali (2012) if the value is between -2LL at the beginning > -2LL at the end, it shows the overall model is getting better. And a value between -2LL at the beginning < -2LL at the end shows that the overall model is getting worse

Logistics Regression Test

Logistic regression analysis was conducted to determine the effect of the independent variable on the dependent variable. The reason for using logistic regression analysis is because the dependent variable in this study uses a dummy (nominal) variable. In this study, the dummy variable is denoted by the number 1 which means the company performs income smoothing and the number 0 indicates the company does not perform income smoothing. So that the logistic regression analysis with the following equation:

$$PL = \alpha + \beta_1 CH + \beta_2 PF + \beta_3 KI + \varepsilon$$

Information :

PL : Perataan Laba

CH	: *Cash Holding*
PF	: Profitabilitas
KI	: Kepemilikan Institusional
α	: Konstanta
β_1-β_3	: Koefisien
ε	: Error

Nagelkerke R Square

The coefficient of determination test is used to explain how big the relationship between the independent variable and the dependent variable is. If the results of the calculation of the value of R Square are small, it shows that the influence of the independent variable on the dependent variable is very limited. Nagelkerke R Square has various values. When the value is close to 1, the model is considered to be more goodness of fit and if the value is close to 0 then the model is considered not to be goodness of fit.

Partial Test (t) and Simultaneous Test

Partial multivariate testing was conducted to test whether the independent variables partially affected the independent variables. The hypothesis is tested by comparing the probability (sig) with the level of significance (α). The level of significance used in testing this hypothesis is 5%. If the probability value (sig) significance level (α) 5%, then H0 is rejected and H1 is accepted. This shows that the independent variable has a significant effect on the dependent variable. While the probability value (sig) > the significance level (α) 5%, then H0 is accepted and H1 is rejected. This shows that the independent variable has no effect on the dependent variable.

Omnibus tests of Modal Coefficients is a regression coefficient test simultaneously or simultaneously aims to determine the effect of all independent variables on the dependent variable. The independent variable has a simultaneous effect on the dependent variable when the significance value is less than 0.05.

4. RESULT

Descriptive Statistical Analysis

Descriptive analysis provides an explanation of the data from the research variables which include the minimum value, maximum value, average value (mean) and standard deviation value. The results can be seen in the following table:

Tabel 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviasi
CH	212	0,0001	0,9655	0,085575	0,1288376
PF	212	-1,4653	2,1920	0,001654	0,2114810
KI	212	0,1859	1,0000	0,670943	0,1994855
PL	212	0	1	0,42	0,494
Valid N (listwise)	212				

Sourcer: Data diolah, 2021

Goodness of Fit Test

Tabel 3. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	12,925	8	0,114

Sourcer : Data diolah, 2021

Overall Fit Model Test

Tabel 4. Uji -2 Log likelihood Awal

Iteration		-2 Log likehood	Coefficients Constant
Step 0		287,752	-0,340
		287,751	-0,343
		287,751	-0,343

Sourcer : Data diolah, 2021

Tabel 5. Uji -2 Log likelihood Akhir

				Coefficients		
Iteration		-2 Log likehood	Constant	CH	PF	KI
Step 1	1	271,683	1,065	-2,390	1,159	-1,791
	2	270,242	1,180	-4,083	1,518	-1,825
	3	270,125	1,211	-4,765	1,622	-1,811
	4	270,125	1,214	-4,821	1,629	-1,810
	5	270,125	1,124	-4,821	1,629	-1,810

Sourcer : Data diolah, 2021

Logistics Regression Analysis

Tabel 6. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	CH	-4,821	2,242	4,624	1	0,032	0,008
	PF	1,629	0,974	2,798	1	0,094	5,100
	KI	-1,810	0,745	5,909	1	0,015	0,164
	Constant	1,214	0,514	5,578	1	0,018	3,366

a. Variable(s) entered on step 1: CH, PF, KI

Sourcer : Data diolah, 2021

Nagelkerke R Square

Tabel 7. Uji Koefisien Determinasi

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	270,125[a]	0,080	0,107

Sourcer : Data diolah, 2021

Partial Test (t) and Simultaneous Testing

Tabel 8. Uji Parsial (t)

Varibel Independen	B	Sig.	Kesimpulan
Constant	1,214	0,18	-
H1: *Cash Holding* berpengaruh positif terhadap Praktik Perataan Laba	-4,821	0,032	Signifikan, H1 ditolak
H2: Profitabilitas berpengaruh positif terhadap Praktik Perataan Laba	1,629	0,94	Tidak signifikan, H2 ditolak
H3: Kepemilikan Institusional berpengaruh negatif terhadap Praktik Perataan Laba	-1,810	0,015	Signifikan, H3 diterima

Tabel 9. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	17,627	3	0,001
	Block	17,627	3	0,001
	Model	17,627	3	0,001

Sumber : Data diolah, 2021

Discussion

Effect of Cash Holding on Income Smoothing Practices

The first hypothesis testing is to test the effect of cash holding on income smoothing practices. The results of hypothesis testing on the cash holding variable show that the regression coefficient is -4.821 with a significant value of 0.032. This shows that the cash holding variable has a negative and significant effect on income smoothing practices. So it can be concluded that the first hypothesis is rejected.

The results of this test prove that the higher the cash holding value, the lower the company's management performs income smoothing, or vice versa. The average cash holding is 8.5% which states the average accumulation of cash owned by the company when viewed from the side of the company's assets. This shows that the available cash does not make the company's management to perform income smoothing.

Cash holding is the most liquid asset so it is used to finance the company's operational activities, debt payments, and dividend payments to shareholders so that management cannot use cash for their personal interests. When the cash holding in the company is not sufficient to finance dividends or other payments, what the company management does is to accumulate cash. This does not support the agency theory, which states that the higher the cash holding value, the higher a company is motivated to smooth earnings (Sumadi & Nugroho, 2017).

This study is in line with research conducted by Sumadi & Nugroho, (2017) and Sumarna (2017) which states that cash holding has a negative and significant effect on income smoothing. In contrast to the results of research conducted by Haniftian & Dillak (2020) and Natalie & Astika (2016) stated that cash holding has a positive and significant effect on income smoothing.

Effect of Profitability on Profit Smoothing Practices

Testing the second hypothesis is to test the effect of profitability on income smoothing practices. The results of hypothesis testing on the profitability variable show that the regression coefficient is 1.629 with a significant value of 0.094. This shows that the profitability variable has no effect on the practice of income smoothing. So it can be concluded that the second hypothesis is rejected.

The results of testing the second hypothesis prove that the higher or lower profitability does not affect the company to perform income smoothing. This is because when the company performs excessive income smoothing, it will bring the company into public attention. So that the company's management tries to reduce profit smoothing because it can endanger the company's credibility. In addition, investors in making decisions tend to ignore information about the company's profitability ratios.

Profitability has no effect on income smoothing allegedly because investors tend to ignore available information for decision making, so that management is not compelled to smooth income through profitability variables proxied by ROA (Napitupulu et al., 2018). In addition, according to Ginantra & Putra (2015) there is no effect of profitability on income smoothing because there is information asymmetry between the company's management (agents) and principals, so that management (agents) have the opportunity to commit fraud in financial statements.

However, this is not in accordance with signal theory, because signal theory suggests that there is information asymmetry between internal parties and external parties where the company's management knows more information related to the actual level of profitability. This can encourage the company's management to smooth profits so that it can provide a signal to interested parties to invest, because companies with high levels of profitability have a greater chance of getting investors. Investors like companies with a high level of profitability because these companies can manage them well. In addition, a high level of profitability can make it easier for companies to obtain investment and easily enter the capital market (Shabilla & Nugroho, 2020).

This research is in line with research conducted by Gunawan & Hardjunanto (2020), Setyani & Wibowo (2019), and Harsanto (2020) which state that profitability has no effect on income smoothing. In contrast to the results of research conducted by Maotama & Astika (2020) and Oktoriza (2018) that profitability has a positive and significant effect on income smoothing.

Effect of Institutional Ownership on Income Smoothing Practices

The third hypothesis testing is to examine the effect of institutional ownership on the practice of income smoothing. The results of hypothesis testing on institutional ownership variables show that the regression coefficient is -1.810 with a significant value of 0.015. This shows that the variable of institutional ownership has a negative and significant effect on the practice of income smoothing. So it can be concluded that the third hypothesis is accepted.

The results of testing this hypothesis prove that the higher the value of institutional share ownership, the lower the company's management performs income smoothing, or vice versa. The average institutional share ownership is 67.1%, which means that this institutional ownership is the majority ownership. So that the majority of institutional investors tend to side with management and ignore minority shareholders. This illustrates that high institutional share ownership can monitor the performance of company managers so that management's actions to smooth income are limited (Astari & Suayanawa, 2017).

This statement is supported by research by Lestari & Aprilia (2020) that there is a large amount of institutional ownership in a company, making company managers tend to reduce opportunistic actions in the form of income smoothing. This is because institutional ownership has the power to supervise the actions taken by the company's management.

This is in line with agency theory, because the greater the percentage of institutional ownership, the more it affects income smoothing so that the level of supervision carried out by institutional parties increases. The increased supervision is in order to create good performance and minimize the occurrence of information asymmetry (Dwiastuti, 2017).

In this study, there are several companies that have a high percentage of institutional share ownership but do not perform income smoothing. This is likely to happen because institutional ownership has the ability to control the company's management through a monitoring process, resulting in a decrease in profit smoothing by the company's management.

This study is in line with the research conducted by Napitupulu et al. (2018), Dewi & Abundanti (2019), and Gunawan & Hardjunanto (2020) which prove that institutional ownership has a negative and significant effect on income smoothing. In contrast to research conducted by Pratiwi & Damayanthi (2017) and Andiani & Astika (2019) which states that institutional ownership has a positive and significant effect on income smoothing.

5. CONCLUSION AND RECOMENDATION

Conclusion

Based on the results of the data analysis described in the previous chapter, the conclusions of this study are:

a. The results of testing the first hypothesis prove that cash holding has a negative and significant effect on income smoothing. This is because the company's management is less motivated to prioritize personal interests so that the smoothing of profits is reduced.

b. The results of testing the second hypothesis prove that profitability has no effect on income smoothing. This is because the high or low level of profitability does not affect the company in conducting income smoothing.

c. The results of testing the third hypothesis prove that institutional ownership has a negative effect on income smoothing. This is because the increasing percentage of institutional ownership will increase the supervision carried out by institutions so as to reduce income smoothing.

Recomendation

Based on the research limitations that have been described, the suggestions for further research are:

a. Further research should increase the research period and conduct research on other sector companies so that more samples are obtained.

b. The results of the Nagelkerke R Square in this study are 0.107, meaning that the independent variable affects the dependent variable by 10.7% so that further research should add other variables that are not in this study.

REFERENCES

Andiani, A. A. S. N., & Astika, I. B. P. (2019). Pengaruh Struktur Kepemilikan dan Ukuran Perusahaan Pada Praktik Perataan Laba. E-Jurnal Akuntansi, 27(2), 984–1012. https://doi.org/10.24843/eja.2019.v27.i02.p06

Artawan, I. K. J., Putra, I. P. M. J. S., & Ernawatiningsih, N. P. L. (2020). Pengaruh Return On Equity, Net Profit Margin, Debt to Equity dan Pertumbuhan Perusahaan Terhadap Praktik Perataan Laba. KHARISMA, 2(1), 101–112.

Astari, A. A. M. R., & Suayanawa, I. K. (2017). Faktor-faktor Yang Mempengaruhi Manajemen Laba. E-Jurnal Akuntansi Universitas Udayana, 20(1), 290–319.

Barnea, A., Ronen, J., & Sadan, S. (1976). Classificatory Smoothing of Income with Extraordinary Items. The Accounting Review, 51(1), 110–122. http://www.jstor.org/stable/245377

Beidleman, C. R. (1973). Income Smoothing: The Role of Management. The Accounting Review, 48(4), 653–667. http://www.jstor.org/stable/245289

Brigham, E. F., & Gapenski, L. C. (2006). Intermediate Financial Management. Sea Harbor Drive. The Dryden Press.

Carlson, S. J., & Bathala, C. T. (1997). Ownership Differences and Firms' Income Smoothing Behavior. Journal of Business Finance & Accounting, 24(2), 179–196. https://doi.org/https://doi.org/10.1111/1468-5957.00101

Dewi, K. (2018). Probability Factors Affecting Income Smoothing in Banks in 2010−2016. Binus Business Review, 9(3), 219–225. https://doi.org/10.21512/bbr.v9i3.4662

Dewi, N. M. S. S., & Latrini, M. Y. (2016). Pengaruh Cash Holding, Profitabilitas dan Reputasi Auditor Pada Perataan Laba. E-Jurnal Akuntansi Universitas Udayana, 15(3), 2378–2408.

Dwiastuti, L. (2017). Analisis Pengaruh Struktur Kepemilikan Institusional, Financial Leverage, dan Ukuran KAP Terhadap Perataan Laba dengan Ukuran Perusahaan Sebagai Variabel Moderasi. JOM Fekon, 4(1), 503–517. Institutional Ownership Structure, Financial Leverage, Firm Size, Income Smoothing and Company Size

Eni, I. G. A. K. R. S. M., & Suaryana, I. G. N. A. (2018). Pengaruh Cash Holding , Profitabilitas dan Ukuran Perusahaan Terhadap Perataan Laba Pada Perusahaan properti di BEI. E-Jurnal Akuntansi Universitas Udayana, 23(3), 1682–1707. https://doi.org/https://doi.org/10.24843/EJA.2018.v23.i03.p03

Fachrorozi, Sinarwati, N. K., & Purnamawati, I. G. A. (2017). Pengaruh Cash Holding, Harga Saham Perusahaan, dan Earning Per Share terhadap Income Smoothing (Studi Empiris Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia). E-Jurnal S1 Ak Universitas Pendidikan Ganesha, 7(1), 1–12.

Fransiska, Y., S, R. A. E., & Purwanto, N. (2016). Pengaruh Kepemilikan Manajerial Dan Kinerja Keuangan Terhadap Kebijakan Dividen Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2014. Jurnal Riset Mahasiswa, 4(1), 1–15. http://ejournal.ukanjuruhan.ac.id

Fudenberg, D., & Tirole, J. (1995). A Theory of Income and Dividend Smoothing Based on Incumbency Rents. Journal of Political Economy, 103(1), 75–93. https://doi.org/10.1086/261976

Gill, A., & Shah, C. (2012). Determinants of Corporate Cash Holdings: Evidence from Canada. International Journal of Economics and Finance, 4(1), 70–79. https://doi.org/10.5539/ijef.v4n1p70

Ginantra, K. G., & Putra, N. W. A. (2015). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kepemilikan Publik, Dividend Payout Ratio Dan Net Profit Margin Pada Perataan Laba. E-Jurnal Akuntansi Universitas Udayana, 10(2), 602–617.

Gunawan, B., & Hardjunanto, A. (2020). Determinan Praktik Perataan Laba. Jurnal Akuntansi, 12(2), 178–186. https://doi.org/10.28932/jam.v12i2.2462

Gunawati, M. N., & Susanto, Y. K. (2019). Faktor-Faktor yang Mempengaruhi Perataan Laba Pada Perusahaan Non Keuangan. BISNIS DAN AKUNTANSI, 21(1a-1), 73–82. http://jurnaltsm.id/index.php/JBA

Haniftian, R. A., & Dillak, V. J. (2020). Pengaruh Profitabilitas, Cash Holding, dan Nilai Perusahaan Terhadap Perataan Laba. JURNAL AKUNTANSI & EKONOMI, 5(1), 88–98.

Harsanto, M. (2020). Analisis Faktor-Faktor yang Mempengaruhi Praktik Perataan Laba pada Perusahaan Sektor Aneka Industri yang Terdaftar di BEI. Khazanah Ilmu Berazam, 3(1), 110–120. ejournal.ymbz.or.id

Hepworth, S. R. (1953). Smoothing Periodic Income. The Accounting Review, 28(1), 32–39. http://www.jstor.org/stable/241436

Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. The American Economic Review, 76(2), 323–329. http://www.jstor.org/stable/1818789

Jensen, M. C., & Mekling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. Journal of Finanial Economic 3, 305–360.

Kusmiyati, S. D., & Hakim, M. Z. (2020). Pengaruh Ukuran Perusahaan, Profitabilitas, Cash Holding, Debt To Equity Ratio Dan Net Profit Margin Terhadap Perataan Laba (Studi Empiris Pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia Tahun 2014-2018). Jurnal Profita:Komunikasi Ilmiah Akuntansi Dan Perpajakan, 13(1), 58–72. https://doi.org/10.22441/profita.2020.v13.01.005

Lestari, D. I., & Aprilia, D. (2020). Apakah Financial Leverage dan Kepemilikan Institusional Mempengaruhi Tindakan Perataan Laba？JPAK: Jurnal Pendidikan Akuntansi Dan Keuangan, 8(2), 168–179. https://doi.org/https://doi.org/10.17509/jpak.v8i2.24588

Maotama, N. S., & Astika, I. B. P. (2020). Pengaruh Profitabilitas, Ukuran Perusahaan, dan Kepemilikan Manajerial terhadap Praktik Perataan Laba (Income Smoothing). E-Jurnal Akuntansi, 30(7), 1767–1779. https://ojs.unud.ac.id/index.php/Akuntansi/index

Napitupulu, J., Nugroho, P. S., & Kurniasari, D. (2018). Pengaruh Cash Holding, Profitabilitas, Reputasi Auditor dan Komponen Good Corporate Governance Terhadap Perataan Laba. Prima Ekonomika, 9(2), 1–20.

Natalie, N., & Astika, I. B. P. (2016). Pengaruh Cash Holding, Bonus Plan, Reputasi Auditor, Profitabilitas Dan Leverage Pada Income Smoothing. E-Jurnal Akuntansi, 15(2), 943–972.

Nirmanggi, I. P., & Muslih, M. (2020). Pengaruh Operating Profit Margin , Cash Holding , Bonus Plan , dan Income Tax terhadap Perataan Laba. Jurnal Ilmu Akuntansi, 5(1), 25–44.

Nugraheni, A. Q., & Sulistyawati, A. I. (2018). Pengaruh Ukuran Perusahaan, Profitabilitas, Kepemilikan Institusional, Dept to Equity Ratio, dan Net Profit Margin Terhadap Perataan Laba. Majalah Ilmiah Sosial, 16(1), 19–39.

Oktoriza, L. A. (2018). Pengaruh Leverage, Profitabilitas, Ukuran Perusahaan, NIlai Perusahaan, Aktivitas Komite dan Kepemilikan Manajerial Terhadap Praktik Perataan Laba.

Journal of Management & Business, 1(2), 188–203.

Opler, T., Pinkowitz, L., Stulz, R., & Williamson, R. (1999). The determinants and implications of corporate cash holdings. Journal of Financial Economics, 52(1), 3–46. https://doi.org/https://doi.org/10.1016/S0304-405X(99)00003-3

Pratiwi, N. W. P. I., & Damayanthi, I. G. A. E. (2017). Analisis Perataan Laba dan Faktor-Faktor Yang Mempengaruhinya. E-Jurnal Akuntansi Universitas Udayana, 20(1), 496–525.

Putri, P. A. D. W., & Budiasih, I. G. A. N. (2018). Pengaruh Financial Leverage , Cash Holding , dan ROA Pada Income Smoothing di Bursa Efek Indonesia. E-Jurnal Akuntansi Universitas Udayana, 22(3), 1936–1964. https://doi.org/https://doi.org/10.24843/EJA.2018.v22.i03.p11

Rahmadani, F., Wijayanti, A., & Fajri, R. N. (2020). Pengaruh Biaya Politik, Cash Holding, dan Kualitas Auditor terhadap Income Smoothing. Journal of Economics and Business, 4(1), 113–119. https://doi.org/10.33087/ekonomis.v4i1.96

Revinsia, V. S., Rahayu, S., & Lestari, T. U. (2019). Pengaruh Cash Holding, Profitabilitas dan Leverage Terhadap Perataan laba (Studi Kasus pada Perusahaan Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia pada Tahun 2013-2017). Aksara Public, 3(1), 127–141.

Ridha, A., Wahyuni, D., & Sari, D. M. S. (2019). Analisis Pengaruh Kepemilikan Institusional Dan Profitabilitas Terhadap Cash Holding Dengan Ukuran Perusahaan Sebagai Variabel Moderasi Pada Perusahaan Terindeks Lq45 Di Bursa Efek Indonesia. Jurnal Manajemen Dan Keuangan, 8(2), 135–150.

Rivard, R. J., Bland, E., & Hatfield Morris, G. B. (2003). Income smoothing behavior of U.S. banks under revised international capital requirements. International Advances in Economic Research, 9(4), 288–294. https://doi.org/10.1007/BF02296177

Riyadi, W. (2018). Pengaruh Cash Holdiing, Profitabilitas dan Nilai Perusahaan terhadap Income Smoothing (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Tahun 2013-2015). Jurnal Ilmiah Manajemen Dan Akuntansi, 5(1), 64–72.

Sari, A. K., Saputra, H., & Nainggolan, W. G. (2019). Pemgaruh Praktik Perataan Laba Pada Perusahaan Tambang Yang Terdaftar di Bursa Efek Indonesia. Jurnal Akuntansi Dan Bisnis, 5(1), 60–70. https://doi.org/10.31289/jab.v5i1.2454

Scott, W. R. (1997). Financial accounting theory. Prentice Hall.

Setyani, A. Y., & Wibowo, E. A. (2019). Pengaruh Financial Leverage, Company Size, dan Profitabilitas Terhadap Praktik Perataan Laba (Income Smoothing) Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia. Research Fair Unisri 2019, 3(1), 76–91.

Shabilla, A., & Nugroho, W. S. (2020). Pengaruh Financial Leverage, Ukuran Perusahaan, Profitabilitas, dan Struktur Kepemilikan Terhadap Praktik Perataan Laba. Business and Economics Conference in Utilization of Modern Technology, 207–226.

Sugeng, & Faisol. (2016). Analisis Kepemilikan Manajerial, Kepemilikan Institusional, dan

Kualitas Audit Terhadap Perataan Laba. Jurnal Akuntansi Dan Ekonomi, 1(1), 48–63.

Sumadi, L. M., & Nugroho, W. S. (2017). Pengaruh Kinerja Keuangan, Kinerja Pasar, dan Ukuran Perusahaan Terhadap Perataan Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2013-2017). Prosiding 2nd Business and Economics Conference In Utilizing of Modern Techonolgy, 226–237.

Sumarna, A. D. (2017). Income Smoothing Dalam Industri Manufaktur. Jurnal Elektronik Riset Ekonomi Bidang Manajemen Dan Akuntansi, 1(1), 66–75. https://ejournal.stiegalileo.ac.id

Tamara, O., & Tjundjung, H. (2019). Faktor-Faktor Yang Mempengaruhi Income Smoothing Pada Perusahaan Manufaktur. Multiparadigma Akuntansi, 1(3), 655–665.

Utami, D. R., Evana, E., & Yuliansyah. (2020). The Influence of Audit Opinion and Managerial Ownership on Income Smoothing in Banking Companies. International Research Journal of Business Studies, 13(1), 15–26. https://doi.org/10.21632/irjbs.

Weston, J. F., & Brigham, E. F. (1978). Managerial finance. Dryden Pr.

www.bps.go.id. (2020). Laporan Perekonomian Indonesia 2020. Www.Bps.Go.Id. https://www.bps.go.id/

www.cnbcindonesia.com. (2019). 4 Kejanggalan Lapkeu Garuda, Nomor 3 Patut Dicermati.

Www.Cnbcindonesia.Com. https://www.cnbcindonesia.com/market/20190429180052-17-69520/4-kejanggalan-lapkeu-garuda-nomor-3-patut-dicermati/1