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The Influence of Managerial Ownership and Capital Structure on Income Smoothing

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ABSTRACT

This study aims to analyze the effect of managerial ownership and capital structure on income smoothing. This study used quantitative methods with secondary data obtained from the annual financial statements of consumer goods industry companies listed on the Indonesia Stock Exchange in 2016-2020. The population used is 52 companies with a research period of 5 years, so that the sample that can be obtained is 14 companies. The analytical method used is the panel data regression analysis method with the estimation of model selection test, model suitability test (Chow test, Hausman test, Lagrange multiplier test), classical assumption test (normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test), test hypothesis and test the coefficient of determination. The program used in this study is Eviews 10. Based on the test, it was found that the variables of managerial ownership and capital structure simultaneously (simultaneously) affect income smoothing or income smoothing. This study also proved that the managerial ownership variable has a significant effect on income smoothing and also that capital structure has a significant effect on income smoothing.

Keywords: Managerial ownership, capital structure and income smoothing

1. Introduction

Indonesia is one of the countries abundant in natural resources, enabling the production of various commodities. This is further supported by a significant human resource base, leading to continuous innovation and development in the consumer goods industry sector in Indonesia. The consumer goods industry sector consists of sub-sectors such as food and beverages, tobacco, pharmaceuticals, cosmetics and household necessities, household appliances, and other sub-sectors (Tijow et al., 2018).

The managerial ownership of consumer goods industry companies during the period 2016-2020 experienced an annual increase except in 2020. In 2017, there was an increase to IDR 591,496,418 or an increase of 8.42% compared to 2016, which was IDR 545,545,703. Then in 2018, managerial ownership increased again to IDR 852,863,186, or a 44.19% increase compared to 2017's IDR 591,496,418. Subsequently, in 2019, it increased by 1.52% to IDR 865,806,205, and finally in 2020, it decreased to IDR 470,309,793, a decrease of 45.68% compared to 2019's IDR 865,806,205.

Meanwhile, the total outstanding shares in the consumer goods industry sector during the period 2016-2020 did not change significantly over the five years of the study. In 2016, the average number of outstanding shares was IDR 3,957,350,178, and in 2017, it increased by 1.5% to IDR 4,018,674,919. There was no change in the following years until 2020, where it remained the same as in 2017, at IDR 4,018,674,919.

Next, the total debt in the consumer goods industry sector during the period 2016-2020 increased from 2016 to 2019 and decreased in 2020. In 2017, total debt increased to IDR 33,590,355, or an increase of 5.15% compared to 2016's IDR 31,944,366. Then in 2018, it increased to IDR 38,560,044, a 14.79% increase compared to 2017's IDR 33,590,355. Furthermore, in 2019, it increased to IDR 48,033,934, a 24.57% increase compared to 2018's IDR 38,560,044. However, in 2020, it decreased to IDR 8,739,001, down by 81.81% compared to 2019's IDR 48,033,934.

Then, the total capital during the period 2016-2020 showed a decrease from year to year except in 2017. Total capital in 2017 increased to IDR 29,080,112, or a 7.22% increase compared to 2016's IDR 27,122,900. Then in 2018, it decreased to IDR 28,996,331, a 0.29% decrease compared to 2017's IDR 29,080,112. Furthermore, in 2019, it decreased to IDR 21,859,920, a 24.61% decrease compared to 2018's IDR 28,996,331. And in 2020, the average capital experienced another decrease to IDR

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11,630,753, a 46.79% decrease compared to 2019.

Next, the net profit in the consumer goods industry sector during the period 2016-2020 fluctuated or remained unstable over the five years of the study. The total net profit in 2017 was IDR 1,120,318, an increase of 6.58% compared to 2016's IDR 1,051,144. Then in 2018, it decreased to IDR 1,094,875, a 2.27% decrease compared to 2017's IDR 1,120,318. Subsequently, in 2019, it increased to IDR 1,499,486, a 36.95% increase. And finally, in 2020, there was a significant increase to IDR 9,096,371, compared to 2019's IDR 1,499,486.

Furthermore, the average sales in the consumer goods industry sector from 2016 to 2020 showed an increase from year to year. In 2017, sales increased to IDR 13,776,015, a 6.69% increase compared to 2016's IDR 12,912,672. Then in 2018, it increased by 10.01% to IDR 15,155,584 compared to 2017's IDR 13,776,015. Furthermore, in 2019, it increased by 11.05% to IDR 16,831,024 compared to 2018's IDR 15,155,584, and finally, in 2020, there was another increase to IDR 17,448,960, a 3.67% increase compared to 2019's IDR 16,831,024.

In 2017, the income smoothing value was 49.18, which was the same as in 2016, indicating no change from the previous year. Then in 2018, the income smoothing value increased to 58.82, a 16% increase from 2017. In both 2019 and 2020, the income smoothing value remained at 58.82, showing no change from 2018.

Next, the percentage of managerial ownership in the consumer goods industry companies during the period 2016-2020 fluctuated or experienced ups and downs from year to year. The managerial ownership percentage in 2017 was 16.28, an increase of 7.88% compared to 2016's 15.09. Then in 2018, it increased to 16.90, a 3.85% increase from 2017. Furthermore, in 2019, it decreased by 9.97 to 16.90, a 40% decrease from 2018, and in 2020, it increased again to 12.49, a 25.18% increase from 2019.

Furthermore, the percentage of capital structure approximated by Debt to Equity Ratio (DER) during the period 2016-2020 tended to decrease from year to year. In 2017, the capital structure approximated by DER decreased to 21.80, a 39% decrease from 2016 with a percentage value of 35.72. Then in 2018, it increased to 22.56, a 3.48% increase from 2017's 21.80. Then in 2019, it decreased again to 20.44, a 9% decrease from 2018. And in 2020, it became 20.52, a 0.4% increase from 2019's 20.44.

Factors influencing the income smoothing variable have been studied by several previous researchers, but differences in results have been found between managerial ownership and income smoothing, as well as between capital structure and income smoothing. Here, I present the differences in previous research results:

Managerial Ownership: Research by Linda Ayu Oktoriza (2020) suggests that managerial ownership does not significantly affect income smoothing practices. Maotama and Astika (2020) argue that management, as the company's administrator, has more information than shareholders. This study proves that managerial ownership positively affects income smoothing practices. Research by Sari and Oktavia (2019) shows that managerial ownership does not affect income smoothing practices, while research by Yuyun Yunengsih et al. (2018) indicates that managerial ownership significantly influences income smoothing practices.

Capital Structure: Research by Nurani and Dilak (2019) demonstrates that capital structure approximated by DER positively affects income smoothing. Research by Handayani et al. (2020) shows that capital structure does not affect income smoothing. Meanwhile, research by Zuhriya and Wahidahwati (2015) suggests that Debt to Equity Ratio positively influences income smoothing.

This topic is researched due to the phenomenon and inconsistency of previous studies on the variables of managerial ownership, capital structure, and income smoothing. The inconsistency of several research results has prompted further investigation to understand why this research is important. This study aims to test and prove the influence of managerial ownership and capital structure on income smoothing, focusing on manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange.

Based on the above exposition, this research is titled "The Effect Of Managerial Ownership And Capital Structure On Income Smoothing (An Empirical Study On Consumer Goods Industry Companies Listed On The Indonesia Stock Exchange From 2016 To 2020)."

2. Methods

This research used quantitative methods. This research aimed to test statistics and explained existing phenomena using numbers, numbers to determine the characteristics of individuals or groups. Quantitative descriptive research was obtained from a sample of the research population, analyzed in accordance with the statistical methods used. This study examined the effect of Managerial Ownership and Capital Structure on Income Smoothing (Sugiyono. 2018). The population used in this study were 26 manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016-2020. with the number of samples in this study were 14 companies with a total of 70 observation data.

The data analysis used is descriptive statistical analysis and Panel Data regression analysis. Meanwhile, the writing regression processing uses the E-Views 10 computer program accompanied by data quality tests, namely: normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Hypothesis testing used multiple linear regression analysis, then the results of multiple linear regression testing are interpreted through the analysis of the coefficient of determination (r2) to determine the magnitude of the contribution of the influence between the independent variable on the dependent variable and the partial test (t test), and simultaneous test (F test).

3. Results and Discussion

Influence of Managerial Ownership and Capital Structure on Income Smoothing (Simultaneous)

The F-test results show an F-statistic value or calculated F of 16.57061, while the critical F value is 2.740 (16.57061 > 2.740), indicating the rejection of the null hypothesis (Ho) and acceptance of the alternative hypothesis (Ha). This means that managerial ownership (X1) and capital structure (X2) have an influence on income smoothing.

In this study, the probability values of managerial ownership and capital structure on income smoothing are 0.000000, which is smaller than a = 0.05 (0.000000 < 0.05). Hence, it can be inferred that managerial ownership (X1) and capital structure (X2) significantly affect the dependent variable, income smoothing (Y). Thus, the null hypothesis is rejected, and the alternative hypothesis is accepted. It can be concluded that variables X1 (Managerial Ownership) and X2 (Capital Structure) in this study collectively (simultaneously) have a significant effect on Y (income smoothing).

The magnitude of this effect can also be explained by the coefficient of determination, which is 0.771945, meaning that 77.19% of the dependent variable can be explained by the independent variables, while the remaining 22.81% is influenced by other unexamined variables.

Influence of Managerial Ownership on Income Smoothing

The t-test results indicate that the independent variable X1 (managerial ownership) influences Y (income smoothing) with a significance value of 0.05. It can be observed that the probability value of X1 is 0.0239, which is less than 0.05 (0.0239 < 0.05). Therefore, it can be concluded that managerial ownership (X1) influences income smoothing (Y). Furthermore, the calculated t-value of -2.323836 compared to the critical t-value of -1.99656 (-2.323836 < -1.99656) leads to the rejection of the null hypothesis (Ho) and acceptance of the alternative hypothesis (Ha). Hence, it can be concluded that managerial ownership X1 affects income smoothing Y. The negative sign on the t-value of variable X1 (managerial ownership) indicates an inverse relationship between X1 (Managerial Ownership) and Y (Income Smoothing). This implies that if X1 (Managerial Ownership) increases, Y (Income Smoothing) decreases, or vice versa.

Management is responsible for presenting the best performance of the company. Management is also responsible for disclosing financial statements to all parties with interests using the accounting information held by the company. However, managerial ownership positions management similarly to company owners, aligning management's interests with shareholders. Therefore, management will act like typical investors and will not engage in income smoothing practices to understand the true state of the company.

This research aligns with studies conducted by Maotama and Astika (2020), which found that managerial ownership has a positive influence on income smoothing practices, and Yunengsih et al. (2018), which indicated that managerial ownership significantly affects income smoothing practices. However, this research contradicts studies by Linda Ayu Oktoriza (2020), which found that managerial ownership does not significantly affect income smoothing practices, and Sari and Oktavia (2019), which showed that managerial ownership does not affect income smoothing practices.

Capital Structure Affects Income Smoothing

The t-test results indicate that the independent variable X2 influences Y with a significance value of 0.05. It can be observed that the probability value of X2 is 0.0181, which is less than 0.05 (0.0181 < 0.05), concluding that capital structure (X2) affects income smoothing (Y). Furthermore, the calculated t-value of 2.438565 compared to the critical t-value of 1.99656 (2.438565 > 1.99656) leads to the rejection of the null hypothesis (Ho) and acceptance of the alternative hypothesis (Ha). Therefore, it can be concluded that capital structure (X2) affects income smoothing (Y).

With a positive sign on variable X2 (Capital Structure), there is a direct relationship between X2 (Capital Structure) and Y (Income Smoothing). This implies that if X2 (Capital Structure) increases, Y (Income Smoothing) also increases, or if income smoothing decreases, capital structure also decreases.

An optimal capital structure is one that maximizes a company's stock price. A high capital structure may make creditors uncertain about the company's ability to repay its debts, leading management to engage in income smoothing practices. Too much debt can hinder a company's development, making shareholders think twice about investing their capital. This aligns with economic principles of minimizing sacrifices to maximize profits.

This research aligns with studies conducted by Zuhriya and Wahidahwati (2015), which found that Debt to Equity Ratio has a positive effect on income smoothing, and Nurani and Dilak (2019), which proved that capital structure approximated by DER has a positive effect on income smoothing. However, this research contradicts a study by Handayani et al., (2021),which found that capital structure does not affect income smoothing.

4. Conclusion

Based on the findings of this research titled "The Influence of Managerial Ownership and Capital Structure on Income Smoothing in the Manufacturing Companies of the Consumer Goods Industry Sector Listed on the IDX from 2016 to 2020," with a sample size of 14 companies studied over a period of 5 years, totaling 70 samples, and data processed using Eviews 10 with the Fixed Effect Model (FEM) estimation method, the conclusions are as follows:

1. Managerial ownership and capital structure simultaneously influence income smoothing in the manufacturing companies of the consumer goods industry sector listed on the IDX from 2016 to 2020.
2. Managerial ownership has an influence on income smoothing in the manufacturing companies of the consumer goods industry sector listed on the IDX from 2016 to 2020. The negative sign in the t-statistic indicates an inverse relationship between variable X1 (Managerial Ownership) and variable Y (Income Smoothing), meaning that if variable X1 (Managerial Ownership) increases, Y (Income Smoothing) decreases, or if variable Y (Income Smoothing) increases, variable X1 (Managerial Ownership) decreases.
3. Capital structure influences income smoothing in the manufacturing companies of the consumer goods industry sector listed on the IDX from 2016 to 2020. The positive sign in the t-statistic indicates a direct relationship between variable X2 (Capital Structure) and variable Y (Income Smoothing), meaning that if variable X2 (Capital Structure) increases, Y (Income Smoothing) also increases, or if income smoothing decreases, capital structure also decreases.

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