Can Income Smoothing Be Influenced By Ownership And Religiosity: An Empirical Study On JII Group Companies

Novelia Melati Sukma 1
Raden Arief Wibowo 2

1, 2 Faculty of Economics and Business, Peradaban University, Indonesia

ARTICLE INFO

ISSN: 2774-4256

Keywords:
Internal Ownership; Institutional Ownership; Religiosity; Income Smoothing;

ABSTRACT

This research was conducted to examine the effect of Internal Ownership, Institutional Ownership and Religiosity on Income Smoothing, a study of JII Group Companies on the Indonesia Stock Exchange 2016-2018 period. The population used in this study as the object of the company were all 30 companies of the JII group listed on the 2016-2018 Indonesian Stock Exchange, while 17 companies were used as the object of research (samples). The sampling technique used was purposive sampling method. Hypothesis testing uses multiple linear regression analysis. The results of this study indicate that internal ownership has no significant effect on income smoothing, while institutional ownership has a significant effect on income smoothing and religiosity has no significant effect on income smoothing.

Introduction

Investors often only focus on considering the quantity of profit without knowing the quality of the profit. They only consider the amount of profit received without regard to how the profit is earned. One form of earnings management is income smoothing. Suwito and Arleen (2005) define income smoothing as a way of management in reducing fluctuations in reported earnings through accounting or transaction methods with the aim that reported earnings can be in accordance with the desired target. This action is not a method that makes the profit of a period equal to the amount of the profit of the previous year, because in reducing fluctuations in profit it is necessary to consider the normal growth rate expected in that period. So the conclusion is that the practice of income smoothing is an attempt to reduce reported profits if the actual profit is too large compared to normal profits, and also an attempt to increase reported profits if the actual profit is smaller than normal profit because the purpose of the practice of income smoothing is to provide a sense of security to the investors because stable earnings increase the ability of investors to forecast company profits in future periods.
Income smoothing can be prevented and handled by several factors, including managerial ownership, institutional ownership, and religiosity. Several studies related to income smoothing include research from Sheu et al (2007) and Purwandari (2012) which show that managerial ownership has a significant positive relationship to voluntary disclosure, which means that if managerial ownership increases, then managerial ownership will increase disclosure of financial statements is getting more complete. In addition, research by Cason and Simnett (1997) and Akhtaudin et al (2009) states that there is a significant positive relationship between institutional ownership and voluntary disclosure through corporate governance, which means that institutional ownership can reduce earnings management actions, because they are considered more experienced. In line with that research, Santoso and Sherly (2012) also show that institutional ownership has a positive and significant effect on income smoothing practices. This result is strengthened by research conducted by Ansori and Wahidawati (2014) which concludes that institutional ownership has a positive effect on income smoothing. In addition, research conducted by Nazaruddin (2019) states that religiosity has a positive effect on moral reasoning, which supports Maulana (2018) that companies with funding for religious activities tend to avoid income smoothing.

The objects in this study are companies that are included in the Jakarta Islamic Index (JII) for the 2016-2018 period. JII is one of the stock indexes in Indonesia that calculates the average stock price index for types of shares with sharia criteria. The purpose of the establishment of JII is to increase investor confidence to invest in sharia-based stocks that provide benefits for investors in carrying out Islamic sharia to invest in the stock exchange. JII is also expected to support the process of transparency and accountability of sharia-based shares in Indonesia.

Table 1. Income smoothing cases

<table>
<thead>
<tr>
<th>Periods</th>
<th>Total Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2009</td>
<td>45.54%</td>
</tr>
<tr>
<td>2008-2010</td>
<td>81.81%</td>
</tr>
<tr>
<td>2009-2016</td>
<td>45.45%</td>
</tr>
<tr>
<td>Mean</td>
<td>57.56%</td>
</tr>
</tbody>
</table>

Source: Indeks Eckel, Octaviana (2019)

Another factor that can affect income smoothing is religiosity. Previous research conducted by Octaviana (2019) provides empirical facts in the period 2007-2009 as many as 45.54% of companies practice earnings management. In 2008-2010 it was recorded at 81.81% and 45.45% in the period 2009-2016. Further findings prove that
there are always companies that practice income smoothing. Ironically, the perpetrators of income smoothing also occur in companies that are members of the JII (Jakarta Islamic Index) group. In fact, investors have high expectations of JII group companies because they claim to be a group of companies that run a business with real information included in the preparation of financial statements. Barnett et al. (1996) stated that if the socio-religious norms were high, in general, individuals would tend to have higher moral standards.

Based on the explanation of the gap phenomenon and the difference in results (Research Gap) from previous studies, the authors are interested in conducting research on the effect of internal ownership, institutional ownership and religiosity on income smoothing (empirical studies on companies included in the Jakarta Islamic Index).

Literature Review

Agency Theory

In agency theory, the so-called principle is the shareholder and the so-called agent is the management who manages the company. Principles are assumed to be interested only in the financial returns they get from their investment in the company. Meanwhile, the agent is assumed to receive satisfaction not only from financial compensation but also from other additions involved in the agency relationship (Anthony and Govindarajan, 2004). In accordance with these assumptions, managers will take policies that benefit themselves before providing benefits to shareholders.

Earnings Management

Earnings management is a management action to choose accounting policies from a certain standard with the aim of maximizing the welfare or market value of the company (Scott, 2003). Earnings management is carried out by playing with the accrual components in the financial statements, because accruals are components that are easy to manipulate in accordance with the wishes of the person who records transactions and prepares financial statements.

Income Smoothing

Income smoothing or commonly referred to as income smoothing is an action taken by management as an effort to reduce fluctuations in reported earnings (Suzanti, 2001). Another definition of income smoothing proposed by Beidelman (1973) in Ghozali and Chariri (2007) is that reported income smoothing can be
defined as a deliberate attempt to smooth or fluctuate the level of profit so that it is currently considered normal for a company. In this case, income smoothing indicates an effort by the company's management to reduce abnormal variations in earnings within the limits permitted by accounting practices and reasonable management principles.

Managerial ownership

Managerial ownership is share ownership by company management as measured by the percentage of the number of shares owned by management (Sujono and Soebiantoro, 2007) in (Cahyaningsih, 2016). Managerial ownership is the amount of share ownership by the management of the entire managed company capital (Gideon, 2005) in (Cahyaningsih, 2016). In conclusion, the managerial ownership structure is whether there is a company management who also has shares in the company he manages.

Several studies related to this, including research from Sheu et al., (2007) showed that managerial ownership showed a significant positive relationship to voluntary disclosure, this identified an increase in managerial ownership followed by an increase in voluntary disclosure. Purwandari (2012) also found a positive relationship between managerial ownership and disclosure of financial statements. These results indicate that if managerial ownership increases, the disclosure of financial statements will be more complete.

Institutional Ownership

According to Madura (2006; 156), institutional ownership is ownership owned by another institution or institution which usually has substantial value, so that it can demand accountability and control from company managers in order to make the right decisions so that it can be pleasing to shareholders. According to Gitman (2009: 17) institutional ownership is a professional investment that is paid to manage the finances of others. And these institutions hold and trade large amounts of stock. And because of their large holdings, these institutions have more influence than just individual investors.

Carson and Simnett (1997) (in Barako, 2007) found that there is a significant positive relationship between the percentage of ownership by institutional investors and voluntary disclosure of governance practices by companies listed in Australia. Akhtarudin et al., (2009) proved that share ownership by outside investors has a positive relationship to voluntary disclosure in companies registered in Malaysia. The results of previous studies show significant results and state that the presence of institutional investors can reduce earnings management actions, because institutional
investors are considered more experienced (midiastuti and machfoedz, 2003). the results of this study are siregar and utama (2006) and ulfa (2012) which show that institutional ownership has no significant effect on income smoothing practice.

religiosity

the importance of religiosity considering the phenomenon of earnings management practices that are often carried out by companies and result in losses for stakeholders and can reduce the quality of financial statement information. on the other hand, earnings management studies are dominated by the agency theory approach. agency theory says that earnings management behavior occurs because it is driven by the opportunistic nature of individuals who are more concerned with personal interests from the economic side. in wurud (it came to us) not all hadiths are authentic like the qur’an. some hadiths are authentic (true/authentic), some are hasan (good/semi-authentic), and some are dhaif (weak/inauthentic). hadith serves as an explanation of the qur’an. the third source is ijtihad which provides a more detailed description in addition to the explanation of the qur’an and hadith. ijtihad plays a role in answering problems that arise due to the development of the times and the thoughts of mankind so that islam is always relevant to the times. comprehensively, religiosity in the islamic perspective can be divided into 3 dimensions, namely; faith, worship (sharia), and morals (ihsan) (ansari in safrilsyah et al., 2010).

nazaruddin’s research (2019) entitled “the impact of religiosity, relativism, and idealism on moral reasoning and earnings management behavior”, which provides empirical evidence that moral reasoning, idealism, and relativism affect individual ethical judgments on earnings management behavior. “idealism, religiosity has a positive effect on moral reasoning, while relativism has a negative effect on moral reasoning. individual religiosity is also influenced by idealism besides ethical policy making is influenced by individual reasoning abilities. maulana’s research (2018) proves that companies that provide funds for religious activities tend to avoid profit-taking actions.

the effect of internal ownership on income smoothing

research conducted by sheu et al., (2007) shows that managerial ownership shows a significant positive relationship to voluntary disclosure, this identifies increased managerial ownership followed by an increase in voluntary disclosure. purwandari (2012) also found a positive relationship between managerial ownership and disclosure of financial statements. these results indicate that if managerial
ownership increases, the disclosure of financial statements will be more complete. From this description, the following hypothesis is formulated:

**H1:** Internal ownership has a significant positive effect on income smoothing at JII Companies listed on the Indonesia Stock Exchange.

**Effect of institutional ownership on income smoothing**

Institutional ownership is the proportion of shares owned by institutions and ownership of at least 5% of company shares. According to Baroko (2007), institutional investors have a strong incentive to monitor the company's disclosure practices. So it is expected that with increasing institutional ownership, voluntary disclosure will increase. Carson and Simnett (1997) (in Barako, 2007) found that there is a significant positive relationship between the percentage of ownership by institutional investors and voluntary disclosure of governance practices by companies listed in Australia. Akhtarudin et al., (2009) proved that share ownership by outside investors has a positive relationship to voluntary disclosure in companies registered in Malaysia. The results of previous studies show significant results and state that the presence of institutional investors can reduce earnings management actions, because institutional investors are considered more experienced (Midiastuti and Machfoedz, 2003). The results of this study are Siregar and Utama (2006) and Ulfah (2012) which show that institutional ownership has no significant effect on income smoothing practice.

**H2:** Institutional ownership has a significant positive effect on income smoothing in JII Companies listed on the Indonesia Stock Exchange.

**The effect of religiosity on income smoothing**

Earnings management practices carried out by companies often result in losses for stakeholders and reduce the quality of financial statement information. So that efforts are needed to improve understanding of moral reasoning, idealism, and relativism. Because it affects the individual's ethical assessment of earnings management behavior. Nazaruddin's research (2019) entitled "The Impact of Religiosity, Relativism, and Idealism on Moral Reasoning and Earnings Management Behavior", which provides empirical evidence that moral reasoning, idealism, and relativism affect individual ethical judgments on earnings management behavior. “Idealism, religiosity has a positive effect on moral reasoning, while relativism has a negative effect on moral reasoning. Individual religiosity is also influenced by idealism besides ethical policy making is influenced by individual reasoning abilities."
Maulana's research (2018) proves that companies that provide funds for religious activities tend to avoid profit-taking actions.

H3: Religiosity has a significant negative effect on income smoothing at JII Companies listed on the Indonesia Stock Exchange.

**Method**

This research is a quantitative research using secondary data in the form of the company's annual financial statements. The population in this study is the JII group of companies listed on the Indonesia Stock Exchange (IDX) in the 2016-2018 period as many as 30 companies. The sampling technique used is purposive sampling method and found as many as 17 companies as samples. Hypothesis testing using multiple linear regression analysis.

**Operational Definition and Measurement of Variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Smoothing (IS)</td>
<td>Income smoothing as a method used by management to reduce fluctuations in reported earnings to match the desired target either through accounting or transaction methods</td>
<td>IS = ( \frac{CV \Delta I}{CV \Delta S} )</td>
</tr>
<tr>
<td></td>
<td>Where: IS = Income smoothing (income smoothing) ( \Delta I=) Change in profit in a period ( \Delta S=) Change in sales in a period ( CV=) Coefficient of variation of the variable, namely the standard deviation divided by the average change in profit (I) or sales/revenue (S).</td>
<td></td>
</tr>
<tr>
<td>Managerial Ownership (OM)</td>
<td>share ownership by the management of the company as measured by the percentage of the number of shares owned by management</td>
<td>OM = ( \frac{number \ of \ shares \ of \ managers, \ directors \ and \ commissioners}{Number \ of \ outstanding \ shares} \times 100% )</td>
</tr>
</tbody>
</table>

Ikin Solikin, Mimin, Sofie (2013)
(IO) proportion of share ownership by institutions and blockholders at the end of the year as measured by percentage

\[ KI = \left( \frac{\text{Number of institutional shares}}{\text{Number of outstanding shares}} \right) \times 100\% \]

Ikin Solikin, Mimin, Sofi e (2013)

Religiosity (R)
Religiosity is the internalization of religious aspects that have been lived, practiced and implemented in everyday life.

\[ R = LB \times 2.5\% \]

R = Religiosity
LB = net income

(Maulana, 2018)

Result and Discussion

The statistical description of each variable in this study is shown in table 3. The table shows that the income smoothing and management ownership variables have a standard deviation value greater than mean. while for institutional ownership and religiosity variables have a standard deviation value that is smaller than mean of sample.

Table 3. Descriptive Statistical Analysis Test Results.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IS</td>
<td>51</td>
<td>-6.07</td>
<td>12.42</td>
<td>-.0253</td>
<td>2.14401</td>
</tr>
<tr>
<td>MO</td>
<td>51</td>
<td>.00</td>
<td>.13</td>
<td>.0081</td>
<td>.02999</td>
</tr>
<tr>
<td>IO</td>
<td>51</td>
<td>.17</td>
<td>.97</td>
<td>.6104</td>
<td>.18474</td>
</tr>
<tr>
<td>R</td>
<td>51</td>
<td>20.28</td>
<td>27.43</td>
<td>25.1022</td>
<td>1.26030</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The adjusted R square value is shown in table 4. the adjusted R square value shows how much the variables of management ownership, institutional ownership and religiosity are able to predict the variable .

Table 4. Coefficient of Determination Test Results
Based on the table 4, the adjusted R Square value is 0.076. This shows that the strength between the dependent variable, namely Income Smoothing (IS) and the independent variables, namely Managerial Ownership (MO), Institutional Ownership (IO), and Religiosity (R), is 7% and the remaining 86.1% is explained by other variables outside this study.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>R Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.362a</td>
<td>.131</td>
<td>.076</td>
<td>2.06121</td>
</tr>
</tbody>
</table>

The results of data analysis show that the significance value of the management ownership variable is higher than the level of significance. This shows that management ownership variable has no effect on income smoothing. In theory, income smoothing is a management action to choose accounting policies from a certain standard with the aim of maximizing the welfare or market value of the company. According to agency theory, there is a tendency for managers to play in the preparation of financial statements. The results of this study indicate that agency theory cannot explain the phenomenon of fraud in the JII group of companies.

This is in accordance with the opinion of Ikbal (2012) and Sheu (2007) which state that an increase in the proportion of shares by managers will reduce the tendency of managers to take excessive opportunistic actions so that the interests of the owners or shareholders will be aligned with the interests of managers.

The larger the shares owned by the manager, the manager will focus more on preparing reliable financial reports according to Saleh's research (2009) which finds that if management ownership increases, management will tend to increase value
creation activities that can increase long-term competitive advantage, one of which is by improve the performance of intellectual capital in the company

The results of data analysis show that the coefficient of institutional ownership has a positive direction, which means that if there are more institutions in the JII group of companies holding shares, the financial statements are presented in an unfair condition, or in other words there is financial manipulation.

The findings of Baroko (2007) and Akhtarudin (2009) strengthen the results of this study which states that institutional investors have strong incentives to monitor corporate disclosure practices. This means that there is a significant positive relationship between the percentage of ownership by institutional investors and the disclosure of financial statements.

The results showed that the religiosity variable did not have a significant effect on income smoothing; this means that the level of religiosity is not able to affect the company's income smoothing practice. This can be due to the fact that the manager's focus when performing income smoothing is more influenced by other factors, such as pressure from outsiders.

**Conclusion**

During the study period, the observations showed that the majority of the sample companies did income smoothing. If it is associated with the variables in this study, it is concluded that management ownership and religiosity have no effect on income smoothing, while the institutional ownership variable has a positive effect on income smoothing.

Further research can expand the object of research and extend the span of the research period, so that it will obtain a wider sample. Then by referring to the results of the low coefficient of determination, future research can use other variables that have more influence on income smoothing.

The contribution of this research is that the results of this study can be used for investors in making decisions. Investors should not only look at the size of the profit, but how the profit is obtained. And pay more attention to the ownership in it, as well as the group of companies to be selected.

**References**


aset, dan leverage operasi terhadap praktik perataan laba (studi pada perusahaan manufaktur sektor industri barang konsumsi yang terdaftar di BEI). Journal Of Accounting, 2(2)


https://www.idx.co.id


Prasetyo, P. P. (2013). Pengaruh aktivitas dan financial literacy komite audit terhadap manajemen laba pada perusahaan perbankan yang terdaftar di BEI. Fakultas


