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INCOME SMOOTHING: FINANCIAL STRATEGY, COST STICKINESS, AND INCOME TAX

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ABSTRAK

Tujuan penelitian ini adalah untuk mengumpulkan bukti empiris mengenai pengaruh strategi keuangan seperti profitabilitas, leverage, ukuran perusahaan, rasio pembayaran dividen, rencana bonus, kekakuan biaya, dan pajak penghasilan terhadap kemungkinan praktik perataan laba. Sampel penelitian terdiri dari perusahaan sektor konsumen siklikal, nonsiklikal, dan industri yang terdaftar di Bursa Efek Indonesia dari 2020 hingga 2022. Pemilihan sektor ini didasarkan pada karakteristik operasional dan siklus bisnis yang berbeda, yang dapat memengaruhi praktik perataan laba dan memberikan wawasan mendalam tentang praktik ini di Indonesia. Periode 2017-2022 dipilih karena mencakup berbagai dinamika ekonomi, termasuk fluktuasi pertumbuhan ekonomi dan perubahan regulasi akuntansi di Indonesia. Dengan demikian, penelitian ini bertujuan menggambarkan bagaimana perusahaan menyesuaikan strategi keuangan mereka menghadapi tantangan ekonomi dan regulasi yang berubah. Sebanyak 41 perusahaan dipilih sebagai sampel melalui metode purposive sampling. Data dianalisis menggunakan regresi logistik. Hasilnya menunjukkan bahwa strategi keuangan seperti profitabilitas, ukuran perusahaan, rasio pembayaran dividen, rencana bonus, kekakuan biaya, dan pajak penghasilan tidak berhubungan dengan praktik perataan laba, sedangkan leverage justru mengurangi kemungkinan perataan laba.

Kata Kunci: Perataan Pendapatan, Leverage, Rasio Pembayaran Dividen, Rencana Bonus, Kekakuan Biaya, Pajak Penghasilan.

ABSTRACT

This study aims to gather empirical evidence on whether financial strategies, such as profitability, leverage, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax, influence the likelihood of income smoothing practices. The sample includes consumer cyclical, noncyclical, and industrial companies listed on the Indonesia Stock Exchange from 2017 to 2022. These sectors were chosen because they have different operational characteristics and business cycles that can affect income smoothing, offering deeper insights into Indonesia's income smoothing behaviour. The 2017-2022 period was selected because it encompasses various economic conditions, including fluctuating growth and changes in Indonesian accounting regulations. Consequently, this study aims to reveal how companies adjust their financial strategies amidst economic and regulatory challenges. A total of 41 companies were chosen as samples using purposive sampling. The data were analyzed with logistic regression. Findings suggest that financial strategies such as profitability, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax do not impact income smoothing, whereas leverage decreases its likelihood.

Keywords: *Income Smoothing, Leverage, Dividend Payout Ratio, Bonus Plan, Cost Stickiness, Income Tax.*

1. INTRODUCTION

Financial statements are the main instrument stakeholders use to assess a company's performance and prospects. The financial statement section regarding profit information is one of the important elements in financial statements that is the basis for decision-making for investors, creditors, and other users of financial statements. Consistency and stability of profits are often a major concern, as significant fluctuations in profits can create uncertainty and damage a company's image in the eyes of the market. In this context, the practice of income smoothing emerges, which is a managerial action to flatten profits to look more stable between periods,

although it does not always reflect the actual economic condition of the company (Trueman & Titman, 1988).

Practice income smoothing that the company is doing to reduce the rate of profit fluctuations, and consider the normal growth rate desired in a period. Management carries out this practice to reduce reported profit fluctuations and give investors, creditors, and regulators an impression of performance stability. Companies with relatively stable profits can improve their image to external parties. This is because profit stability tends to show a minimal level of risk. Income smoothing can be considered a rational action if it is carried out within the limits of the applicable financial accounting standards. Changes in profits in each period that are not too volatile can give a good impression to creditors and investors (Dini & Fau 2022). While income smoothing can increase positive market perception in the short term, it can potentially degrade the quality of accounting information and obscure the true economic condition of the company (Healy & Wahlen, 1999). In addition, income smoothing can result in errors in investment decision-making, as the company's management can potentially present inaccurate financial information (Dini & Fau, 2022).

Various factors have been identified as determinants of income smoothing practices, including profitability, leverage, company size, and dividend payout ratio. High profitability often prompts management to postpone the recognition of profits to maintain performance sustainability in the coming period. According to Miftah, Oktaviani, & Supriadi (2023), the companies with high levels of profitability are less likely to have a strong push to smooth, as their financial performance has reflected a positive image in the eyes of stakeholders. However, Alfandia (2024) shows that profitability can influence profit management strategies, especially concerning tax objectives and managerial efficiency. Another factor is leverage. The high debt-to-equity ratio puts companies under pressure to meet financial obligations, which ultimately encourages management to present stable financial statements per the debt covenant. Wijaya, Mauren, & Cahyadi (2020) show that leverage has a role in encouraging income smoothing practices.

The company's size also affects income smoothing because large companies tend to be more supervised by investors and regulators, or try to maintain their image. Dividend policies can create incentives to maintain stable profits so that dividend distributions are consistent. Companies with a stable dividend policy need a stable profit. To achieve consistency in dividend payments, management tends to even out profits to maintain investor confidence (Liu & Espahbodi, 2014). Suwaldiman & Lubis (2023) show that the dividend payout ratio positively influences income smoothing in manufacturing companies in Indonesia. Furthermore, bonus plans or profit-based compensation systems can be the main motivation in income smoothing practices. Bonus plans are relevant because profit-based compensation schemes can encourage managers to do income smoothing to achieve the set targets. Healy (1985) states that managers manage profits to meet compensation thresholds. December (2018) Supporting these findings with evidence that incentive systems influence profit manipulation tendencies. Nevertheless, Nelyumna, Nursari, & Ambarwati (2022) found that bonus compensation negatively affects income smoothing.

Operational aspects such as cost stickiness also play an important role. When fixed costs do not fall proportionally to the decrease in revenue, the company's profits will be significantly affected. To overcome this, managers can use income smoothing to maintain financial stability (Hartlieb & Loy, 2022; Silva et al., 2019). Hartlieb & Loy (2022) confirm that cost stickiness has implications for financial reporting practices and profit management decisions, especially in

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companies with large fixed costs. Likewise, the income tax factor is often a strategic motivation in profit setting because the difference between accounting profit and fiscal profit can allow management to make profit adjustments that impact the alignment pattern. Krzeczewska and Coelho (2022) state that companies tend to set profits to avoid a spike in tax burdens. Clarissa & Dewi (2022) state effective tax rates can affect a company's tendency to perform income smoothing, although they do not always act as a significant mediator.

This study aims to examine several factors that can encourage an increase in the probability of income smoothing practices, such as profitability, leverage, dividend payout ratio, bonus plan, which is the company's financial strategy, as well as the footprint of cost stickiness and the amount of income tax. This study uses a sample of companies in cyclical, noncyclical, and industrial industries. This study selected companies from the cyclical, noncyclical, and industrial sectors based on different financial behavior patterns. Cyclical companies tend to experience high fluctuations in financial performance in line with the ups and downs of the economic cycle, so there is greater potential in performing income smoothing practices to maintain the stability of profit statements. On the other hand, noncyclical companies have more stable revenues, but income smoothing is a managerial strategy to maintain investor perception. Meanwhile, the industrial sector often has a significant fixed cost structure, which makes companies vulnerable to cost stickiness when there is a decline in revenue. Using different industry sectors is expected to provide a more comprehensive understanding of the influence of leverage, dividend payout ratio, bonus plan, cost stickiness, and tax burden on income smoothing practices and strengthen the external validity of research results. This study uses the period of 2020-2022 to get a fairly diverse picture of the period. In 2020, the COVID-19 pandemic occurred, which caused a global economic setback. This time span includes the pre-pandemic phase, during the COVID-19 pandemic, and the initial phase of recovery, which allows for analysis of changes in the company's behavior in performing income smoothing practices and responses to external pressures and economic uncertainty.

While extensive research has been conducted on the factors influencing income smoothing practices, previous findings still show inconsistencies and empirical gaps. Some studies find that profitability and financial leverage drive the probability of income smoothing practices due to performance pressures and debt obligations, while others show the opposite (Anwar & Gunawan, 2020; Wijaya et al., 2020; Palupi, 2020; Firnanti, 2019; Gunawati & Susanto, 2019; Ekadjaja et al., 2020; Bangun & Justin, 2023; Indrawan & Damayanthi, 2020; Handoyo & Fathurrizki, 2018; Bangun & Justin, 2023). Similarly, research findings on company size and dividend payout ratios vary. Some studies believe that larger companies are more likely to engage in income smoothing due to high public scrutiny (Wijaya et al., 2020; Obeidat, 2021; Palupi, 2020; Ernayani et al., 2020), Dhenyalsah & Bawono, 2023), while others argue that larger companies are more transparent and therefore less likely to engage in such practices (Tiana & Harjanto, 2021, Indrawan & Damayanthi, 2020; Pradipta & Susanto, 2019; Mulyati & Mulyana, 2021). Other factors, such as bonus plans, cost stickiness, and income tax, are rarely studied simultaneously in a single comprehensive model, particularly in the context of Indonesian companies, which include cyclical, noncyclical, and industrial industries. Furthermore, the economic conditions in the 2020–2022 period, influenced by the COVID-19 pandemic, created different financial dynamics, necessitating further testing to determine whether financial strategies continue to play a role in increasing the probability of income smoothing practices during this period of uncertainty.

This study has a theoretical contribution, adding to the literature review on the factors that encourage income smoothing practices, such as profitability, leverage, dividend payout ratio, bonus plan, cost stickiness, and income tax, which shows inconsistencies in the results of previous research. This research was also carried out in the scope of samples in the scope of cyclical, noncyclical, and industrial industries, which are still rarely studied. The practical contribution of this research can provide views on financial statement users in making investment decisions and providing credit to a company that may carry out income smoothing practices.

Literature Review and Hypothesis Development

Agency Theory

This research is based on agency theory, proposed by Jensen & Meckling (1976). This theory explains the relationship between shareholders (principals) and managers (agents), who often have conflicting interests. Shareholders desire increased company value and long-term profits, while managers focus on personal interests such as obtaining bonuses, maintaining their positions, or maintaining stable performance. This divergence of interests creates agency conflicts and information asymmetry that can encourage managers to engage in opportunistic behavior, one of which is income smoothing, to project a stable financial performance in the eyes of investors, creditors, and regulators (Zhou & Elder, 2004). The existence of information asymmetry encourages managers to practice income smoothing, which may mislead shareholders regarding the company's performance information (Inayah & Izzaty, 2021).

In the context of this research, agency theory serves as a basis for understanding how various financial strategy factors, such as profitability, financial leverage, company size, dividend payout ratio, bonus plans, cost stickiness, and income tax, can influence the likelihood of income smoothing. Managers with high profitability may smooth earnings to maintain market expectations, while pressures from leverage and taxes can encourage earnings adjustments to meet specific obligations and targets. Furthermore, bonus schemes, company size, and cost characteristics also drive managerial behavior in managing earnings to appear stable and reduce the risk of negative external assessments. Thus, agency theory provides a logical framework to explain managers' motivations for income smoothing as a response to the various pressures and incentives that arise in agency relationships.

Profitability and Income Smoothing

Profitability refers to a company's capacity to efficiently and effectively generate profits concerning sales, total assets, and capital through its operating activities (Handayani et al., 2016). Profitability is a measure for investors to compare the company's performance, so profitability greatly influences investors' decisions. Management practices income smoothing to make the company's finances look more stable, even if the profitability level is not too high (Indrawan et al., 2018).

Anwar & Gunawan (2020) declare that a company with a high score indicates a probability of income smoothing. Profitability is one of the important indicators in assessing company performance. Level profitability will trigger the company's management to carry out the practice of income smoothing so that there are no fluctuations in profits, and the company can still perform well. However, the results of the study are not in line with the results of the research conducted by Wijaya et al. (2020), Palupi (2020), Firnanti (2019), Gunawati & Susanto (2019), Ekadjaja et al. (2020), Bangun & Justin (2023), which state that the probability of a company with a high score indicates a tendency for low-income smoothing. Although the company has

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low profitability, it is still possible that it is carrying out the practice of income smoothing, thus showing that not only companies with high profitability do the practice of income smoothing. According to the above description, this study's hypothesis is as follows:
Ha1: Profitability increases the probability of income smoothing.

Leverage and Income Smoothing
Leverage uses financial resources with fixed costs or debt to finance the company's operations. When a company predicts that there will be a significant increase in profits in a period, management can use debt to acquire assets. This will increase the interest expense that must be paid by the company, which has the potential to decrease the company's profits (Tiana & Harjanto 2021). Leverage also shows the company's ability to pay its debts. High leverage will give investors a bad impression, showing the company's inability to pay its debts. The company is aiming to reflect lower debt.

Indrawan & Damayanthi (2020), Handoyo & Fathurrizki (2018) shows that a company with high leverage indicates a probability of income smoothing. Management tends to practice income smoothing to avoid violations of debt agreements, so the higher a company's debt ratio, the higher its tendency to carry out income smoothing will also be. However, Bangun & Justin (2023) declare that a company with leverage indicates a low probability of income smoothing. Companies with leverage will get greater pressure and scrutiny from stakeholders, and high financial risks will also limit management's decision-making in practicing income smoothing. According to the description above, this study's hypothesis is as follows:
Ha2: Leverage increases the probability of income smoothing.

Company Size and Income Smoothing
Company size is a classification scale based on various standards, such as total assets, stock market value, and others (Budiasih, 2009). The company conducts practice income smoothing to avoid profit fluctuations, which can negatively impact the company. The larger the company's size, the more attention it can attract from investors to invest. However, Large companies can also act cautiously when managing the business, particularly in handling profits efficiently (Setyani, 2022). Large companies will be analyzed more critically by investors than small companies. This prompts management to engage in income smoothing, as larger companies tend to have more complex operations.

Wijaya et al. (2020), Obeidat (2021), Palupi (2020), Ernayani et al. (2020), Dhenyalsah & Bawono (2023) declare that a company with a high firm size indicates a probability of income smoothing. As a company's size increases, so does the likelihood of engaging in income smoothing practices. The company will maintain a stable size in sales, revenue, etc., so income smoothing will be done. Instead, Tiana & Harjanto (2021), Indrawan & Damayanthi (2020), Pradipta & Susanto (2019), Mulyati & Mulyana (2021) declare that the company with a firm size of high indicates a low probability of income smoothing. Large companies attract the attention of all stakeholders, so the larger the company's size, the more likely the company is to income smoothing. Based on the above description, this study's hypothesis is as follows:
Ha3: Company size increases the probability of income smoothing.

Dividend Payout Ratio and Income Smoothing
The dividend payout ratio represents the profit allocated to shareholders as cash dividends (Rahmini & Panggabean, 2019). Companies that distribute profits as dividends decrease their internal funds. Conversely, those withholding profits will build up larger internal reserves

(Silaban & Prawira; Purnawati, 2016). A higher percentage of profit paid out as dividends can send a positive signal to investors and significantly impact their decision-making (Lahaya, 2017). A high dividend payout ratio attracts investors because it indicates the company's profitability.

Handoyo & Fathurrizki (2018); Palupi (2020) shows that a company with a dividend payout ratio is highly likely to engage in income smoothing. The more dividends distributed to shareholders, the higher the company's tendency to practice income smoothing. Based on the above description, this study's hypothesis is as follows:
Ha4: The dividend payout ratio increases the probability of income smoothing.

Bonus Plan and Income Smoothing
A bonus plan is the provision of compensation for the performance of the company's management in supervising the company (Anwar & Gunawan, 2020). Management practices income smoothing to meet the target, so the manager gets a higher bonus. Companies that do not have a bonus plan as compensation for the manager's performance tend not to motivate the manager to maximize the company's value (Anwar & Gunawan, 2020). On the other hand, companies with a bonus plan will encourage managers to try their best to increase the company's value and earn bonuses. The bonus plan will also encourage managers to always try to meet the planned targets. Managers practice income smoothing to get a higher bonus. This is because the performance target charged to the manager is used as the basis for giving bonuses.

The higher the bonus plan in a company, the higher the potential to practice income smoothing (Nirmanggi & Muslih, 2020). Bonus calculations tend to be based on a company's profit target. Practice income smoothing: Management does this to give the manager a higher bonus. Anwar & Gunawan (2020); Dhenyalsah & Bawono (2023) show that the company with a high bonus plan indicates a probability of income smoothing. Companies with bonus plans tend to trigger management to income smoothing because management will strive to achieve the target of getting a higher bonus. Based on the above description, this study's hypothesis is as follows:
Ha5: Bonus plan increases the probability of income smoothing.

Cost Stickiness and Income Smoothing
Traditional cost accounting theory has historically suggested a straightforward, mechanistic link between fluctuations in sales activity and company costs (Noreen, 1991). Management has limited influence on cost control. Increasing evidence indicates that costs respond asymmetrically to shifts in corporate activities (Noreen & Soderstrom, 1997). This phenomenon relates to managers intentionally implementing complex resource adjustment strategies (Banker et al., 2018). Managers' deliberate resource adjustment decisions may impact capital market communication. Minor adjustments are necessary to reach specific short-term revenue goals, like meeting revenue targets, which can be achieved through income smoothing. Income smoothing and the treatment of costs result from deliberate managerial decisions. Changes in the treatment of costs are likely to impact financial reporting, as one of the more complex consequences of profit management is practice income smoothing (Hartlieb & Loy, 2022).

Changes in the treatment of costs can impact financial reporting, as one of the more complex consequences of profit management is the practice of income smoothing. However, Hartlieb & Loy (2022) show that the company with cost stickiness that has a high value indicates a low probability of income smoothing. The management's motives behind the resource adjustment strategy, which supports a rigid cost structure, and the goal of reporting stable financial

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statements over an extended period, are inappropriate and cannot be achieved simultaneously. Since resource adjustments by management affect financial reporting, the degree of cost stickiness should be linked to income smoothing, especially for smaller firms. Based on this, the hypothesis of this study is as follows:
Ha6: Cost stickiness increases the probability of income smoothing.

Income Tax and Income Smoothing
Income tax is a tax that a company is required to pay based on its net operating income. The amount of income tax payable can be observed from the company's paid income tax (Ratnaningrum, 2016). The company's management has always wanted to pay low taxes, encouraging management to practice income smoothing. Too high profits will result in the company paying a higher tax rate. To reduce the tax the company pays, the company's management will carry out income smoothing. Management will shift profits from one period to the next. This is done to obtain the minimum tax payment (Tanomi, 2012). As a company's profit increases, so does the management's ability to smooth income. Tax laws and regulations significantly influence the accounting policies and methods adopted by the company. Many companies engage in income smoothing to reduce tax payments, particularly those with substantial tax liabilities (Saeidi, 2012).

Firnanti (2019); Palupi (2020) show that the company with a high income tax indicates a probability of income smoothing. Burdening income tax may encourage companies to engage in income smoothing to reduce taxes and stabilize profits over time. This also indicates that the company is not heavily taxed. Based on this, the hypothesis of this study is as follows:
Ha7: Income tax increases the probability of income smoothing.

This research model can be described as follows:

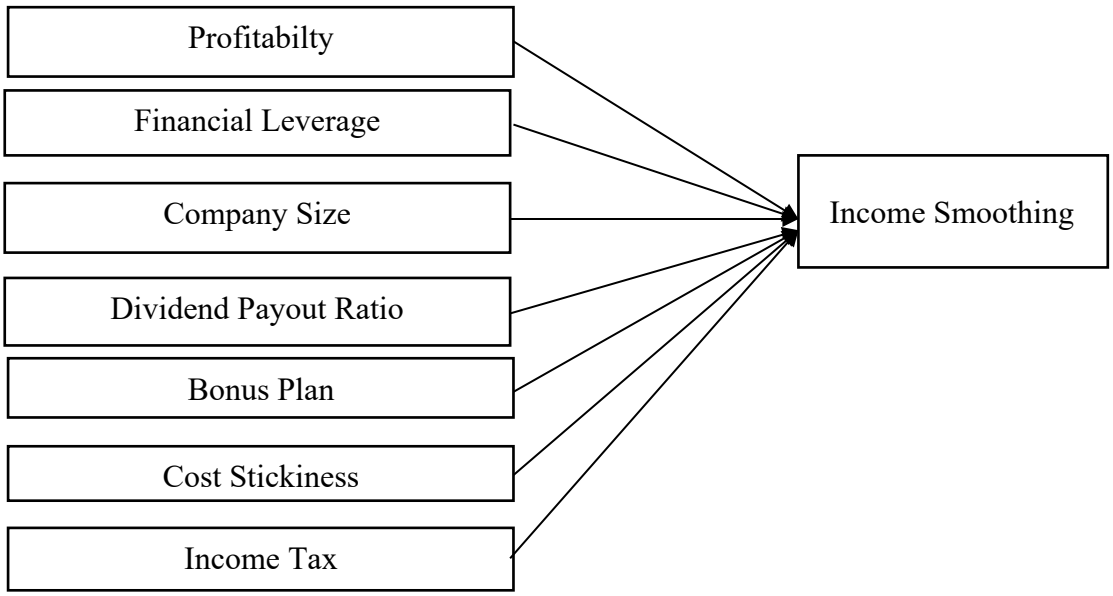

Figure 1. Research Model

2. RESEARCH METHODS

Sample selection and data collection methods

The research object used in this study is consumer cyclical, noncyclical, and industrial companies listed on the Indonesia Stock Exchange, with a research period of 2020-2022. The consumer cyclical sector is more susceptible to fluctuations in the economic cycle, so company management is more encouraged to distribute profits evenly. In contrast, the relatively stable noncyclical consumer sector may exhibit a different pattern of income smoothing. The industrial sector has the characteristics of large capital requirements and high leverage, which can affect the tendency of profit equalization practices. Thus, comparing the three sectors can reveal more comprehensive test results. The 2020–2022 research period was chosen because it covers the COVID-19 pandemic and post-pandemic recovery. This condition creates high uncertainty in profitability, funding structure, and cost control strategies. In such a situation, the pressure on management to maintain performance stability is even greater, so research in that period can provide stronger empirical evidence on the factors that influence income smoothing. This study employs purposive sampling to select a research sample according to the criteria outlined in Table 1.

Table 1. Sample Selection Procedure
Source: Data processing results sourced from IDX

Criterion	Number of Companies	Amount of Data
Consumer cyclical, noncyclical, and industrial companies consistently listed on the IDX 2017 – 2022	197	591
The companies that do not consistently publish annual and financial reports that end on December 31.	(12)	(36)
The companies that do not use the rupiah currency in financial reporting.	(19)	(57)
The companies that do not consistently generate net income.	(102)	(306)
The companies that do not consistently distribute dividends.	(21)	(63)
The companies that do not report COGS.	(1)	(3)
The companies that disclose income tax benefits.	(1)	(3)
Sample quantity	41	123

The operational definitions of the variables and their measurements are presented in Table 2 below:

Table 2. Operational Definitions and Variable Measurements

Definitions	Formula	Scale
Income Smoothing Practice income smoothing involves management efforts to minimize fluctuations in reported profits, aiming to efficiently stabilize the company's overall performance (Setyani, 2022). This practice is assessed using the Eckel index, which helps distinguish companies that engage in income smoothing from those that do not. A company is classified as practicing income smoothing if its income smoothing index is less than one, represented by the symbol 1. Conversely, if the index exceeds one, the company is considered not to perform income smoothing, symbolized by 0.	$\text{Income Smoothing} = \frac{CV\Delta I}{CV\Delta S}$ Information: CV= Coefficient variation ΔI = Change in net income during a period ΔS = Change in sales or revenue for a period CV ΔI and CV ΔS can be determined as follows: $\sqrt{\frac{\sum(\Delta x-\Delta\bar{X})^2}{n-1}} : \Delta\bar{X}$ Information: Δx = Changes in net income or revenue	Nominal Scale

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Definitions	Formula	Scale
	$\Delta\bar{X}$ = Average change in net income or revenue n = The number of years Source: Putri & Lutfillah (2020)	
Profitability Profitability refers to the company's capacity to produce profits, assessed through return on assets. This metric indicates how effectively a company can generate earnings using its own assets.	PF = Net Profit / Total Assets Source: Putri & Lutfillah (2020)	Ratio scale
Leverage Leverage is a comparison between total liabilities and total assets.	LEV = Total Debt / Total Assets Source: Putri & Lutfillah (2020)	Ratio scale
Company size The company's size is measured by its total assets (Putri & Lutfillah, 2020). Natural logarithms are used to refine real asset data and are expected to reduce the difference in total assets that are too large between companies.	CSIZE = Log natural of total assets Source: Putri & Lutfillah (2020)	Ratio scale
Dividend payout ratio The dividend payout ratio indicates the portion of the company's net profit distributed to shareholders as dividends.	DPR = Dividends per Share / Earnings per Share. Source: Putri & Lutfillah (2020)	Ratio scale
Bonus plan The bonus plan can be measured on the compensation scheme.	If the company has a compensation scheme, it will be assigned a symbol of 1, and if it does not have a compensation scheme, it will be given a symbol of 0. Source: Miftah & Murwaningsari (2018)	Nominal Scale
Cost stickiness Anderson et al. (2003) state that costs are rigid, meaning they tend to increase more than decrease for the same change in sales revenue.	CSTICKY = Sales Cost$_t$-Sales Costs$_{t-1}$ / Sales Revenue$_{t-1}$ Source: Salehi et al. (2018)	Ratio scale
Income tax Income tax burden paid by the company.	ITAX = Ln (Income before tax – Income after tax) Source: Ratnaningrum (2016)	Ratio scale

Data Analysis Methods

In this study, data were examined using logistic regression analysis. Ghozali (2021, 349), logistic regression analysis is an analysis to test whether a dependent variable is predictable from an independent variable. This study will use quantitative data managed with the SPSS software. The model implemented is a logistic regression as follows:

$$\text{Ln}\ \frac{P}{1-P} = \beta_0 + \beta_1 PF + \beta_2 LEV + \beta_3 CSIZE + \beta_4 DPR + \beta_5 BPLAN + \beta_6 CSTICKY + \beta_7 ITAX + \varepsilon$$

Information:

$\text{Ln}\ \frac{P}{1-P}$ = Income smoothing
β_0 = Constanta

PF = Profitability
LEV = Leverage
CSIZE = Company size
DPR = Dividend payout ratio
BPLAN = Bonus plan
CSTICKY = Cost stickiness
ITAX = Income tax
ε = Residual error

3. RESULT & DISCUSSION

Table 3 presents the results of descriptive statistics, indicating that 41 companies with 123 data points were selected as research samples. The mean income smoothing (IS) value is 0.59, with a standard deviation of 0.493, suggesting that most companies engage in income smoothing. The standard deviation's proximity to the mean highlights notable variation among firms. Profitability (PF) has an average of 0.0899 and a standard deviation of 0.0713, reflecting that the average company's profitability is relatively low—about 8.9% of total assets. The data also indicate that profitability levels among the firms are fairly consistent, given that their values are close to the average.

Leverage (LEV) averages 0.4053 with a standard deviation of 0.1905, indicating that 40.53% of the company's capital structure is financed through debt, with moderate variation. This suggests that most companies rely significantly on external debt funding. Company size (CSIZE) has an average of 29.5755 and a standard deviation of 1.5627, reflecting that the sampled firms are predominantly large-scale, with little size variation. This is consistent with companies listed on the Indonesia Stock Exchange across the consumer cyclical, non-cyclical, and industrial sectors, which typically have substantial assets. The dividend payout ratio (DPR) averages 0.7092 with a relatively high standard deviation of 1.6384, indicating considerable differences in dividend policies—some companies distribute large dividends, while others pay none, resulting in a wide spread data.

The bonus plan (BPLAN) shows an average of 0.45 with a standard deviation of 0.499. This indicates that about 45% of the companies in the sample implement a bonus plan scheme, while the others do not. Standard deviations close to the mean suggest a balanced distribution between companies with and without bonus plans. Cost stickiness (STICKY) averages 0.0798 and has a standard deviation 0.2849. This demonstrates that companies' sticky cost levels are relatively low, with most not displaying significantly rigid cost behaviour. A standard deviation larger than the average indicates considerable variation among companies regarding cost stickiness. Income tax (ITAX) averages 25.5977 with a standard deviation of 1.9225. This suggests that corporate tax burdens are generally consistent, with limited variation across the data. This consistency can be linked to national tax rate standards, resulting in minimal company differences.

Table 3. Descriptive Statistics
Source: Data processing results

Variabel	N	Minimum	Maximum	Mean	Standard Deviation
IS	123	0	1	0,59	0,493
PF	123	0,00011160	0,363619925	0,089879817	0,071309434
LEV	123	0,06302944	0,815262748	0,405316968	0,190505987
CSIZE	123	27,2637320	33,65518758	29,57551836	1,562687501
DPR	123	0,06250000	17,12328767	0,709194696	1,638384082
BPLAN	123	0	1	0,45	0,499

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CSTICKY	123	-0,7245534	2,539971420	0,079786250	0,284855512
ITAX	123	20,0097123	29,93060170	25,59771715	1,922533887

The Nagelkerke R2 value in Table 4 is 0.092, indicating that only 9.2% of the variation in income smoothing (IS) is explained by the independent variables—profitability (PF), leverage (LEV), company size (CSIZE), dividend payout ratio (DPR), bonus plan (BPLAN), cost stickiness (CSTICKY), and income tax (ITAX). The remaining 90.8% of the variation is attributed to other factors not included in the model.

Table 4. Nagelkerke R2
Source: Data processing results

Cox and Snell	**Nagelkerke R2**
0,068	0,092

The Hosmer and Lemeshow Goodness of Fit test in Table 5 shows a significance value of 0.089, exceeding 0.05, indicating that the model adequately fits the data.

Table 5. Hosmer and Lemeshow's Goodness of Fit

Chi-Square	**Df**	**Itself.**
13,738	8	0,089

In Table 6, the results of the coefficient significance test indicate that profitability (PF) has a significance value of 0.276, which is greater than 0.05. This suggests that high or low profitability does not encourage companies to practise income smoothing. This is because profitability reflects the company's management performance. Although a company's profits fluctuate, classified earnings information can attract investors to invest, so management does not need to practise income smoothing (Putri & Lutfillah 2020). The level of profitability does not automatically determine whether managers perform smoothing, because smoothing is carried out regardless of the high or low levels of profit. The findings of this study are consistent with Putri & Lutfillah (2020), Inayah & Izzaty (2021), Tiana & Harjanto (2021), Ernayani et al. (2020), Indrawan & Damayanthi (2020), Saitri & Putra (2020), Handoyo & Fathurrizki (2018), Obeidat (2021), Dhenyalsah & Bawono (2023).

Leverage (LEV) has a significance value of 0.020, below 0.05, with a coefficient of -2.581. This indicates that companies with high leverage tend to engage less in income smoothing practices. This is because such companies face greater pressure and scrutiny from stakeholders, and high financial risks also constrain management's ability to pursue income smoothing (Bangun & Justin, 2023). The results of this study support the agency theory, namely that a high level of leverage will increase the intensity of supervision from creditors through debt covenants. External monitoring limits the room for management to carry out opportunistic practices such as income smoothing because any irregularities in financial reporting can trigger debt contract violations and cause serious financial consequences. The findings of this study are consistent with Bangun dan Justin (2023).

Company size (CSIZE) has a significance value of 0.296, greater than 0.05. This indicates that the size of a large or small firm does not influence companies to engage in income smoothing. Management must provide accurate financial statements with high accountability to deliver relevant and trustworthy information (Anwar & Gunawan, 2020). The findings of this study are consistent with Putri & Lutfillah (2020), Anwar & Gunawan (2020), Setyani (2022), Saitri &

Putra (2020), Handoyo & Fathurrizki (2018), Firnanti (2019), Gunawati & Susanto (2019), Ekadjaja et al. (2020), Dini & Fau (2022).

Dividend payout ratio (DPR) has a significance value of 0.458, greater than 0.05. This indicates that a high or low dividend payout ratio does not influence companies to engage in income smoothing. The amount of dividends paid does not impact management's decision to report higher returns than appropriate, as dividends are not the sole factor investors consider when making decisions (Putri & Lutfillah, 2020). The findings of this study are consistent with Putri & Lutfillah (2020), Tiana & Harjanto (2021), Gunawati & Susanto (2019).

The bonus plan (BPLAN) has a significance value of 0.929, greater than 0.05. This indicates that whether a high or low bonus plan does not encourage companies to practice income smoothing. The bonus plan is not the primary factor management considers when practicing income smoothing (Nirmanggi & Muslih, 2020). Not all companies base manager bonuses on accounting profits, which explains why bonus plans do not always encourage smoothing. The findings of this study are consistent with Nirmanggi & Muslih (2020), Jannah & Widiyati (2023).

Cost stickiness (CSTICKY) has a significance value of 0.715, greater than 0.05. This indicates that high or low-cost stickiness does not influence companies to practice income smoothing. The degree of rigidity or cost stickiness is not a factor guiding management's decision to implement income smoothing strategies. While sticky costs may affect earnings, management possesses many other tools to manage earnings without altering cost behavior. Discretionary accounting practices, such as discretionary accruals, are more adaptable than managing sticky operating costs, weakening the link between stickiness and income smoothing.

Income tax (ITAX) has a significance value of 0.384, above 0.05. This indicates that income tax, whether high or low, does not motivate companies to engage in income smoothing. This is because there are strict regulations on tax payments by companies, leading them to avoid income smoothing through income tax due to the significant risks involved (Nirmanggi & Muslih, 2020). Many fiscal corrections mean that smoothing efforts on accounting profits do not necessarily reduce the tax burden. Consequently, income tax is not the dominant factor driving income smoothing. The findings of this study are consistent with Dini & Fau (2022), Nirmanggi & Muslih (2020).

The insignificance of the influence of profitability, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax on income smoothing shows that these factors have not become strong determinants in the context of Indonesian companies in the 2020–2022 period. This can be due to special dynamics during the COVID-19 pandemic, where management focuses more on survival and performance recovery than opportunistic earnings management.

Table 6. Hypothesis Test

Variable	B	p-value	Conclusion
PF	6,005	0,276	Ha1 is not accepted
LEV	-2,581	0,020	Ha2 accepted
CSIZE	0,539	0,296	Ha3 is not accepted
DPR	-0,178	0,458	Ha4 is not accepted
BPLAN	0,039	0,929	Ha5 is not accepted
CSTICKY	-0,389	0,715	Ha6 is not accepted
ITAX	-0,400	0,384	Ha7 is not accepted
Constant	-4,664	0,348	-

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4. CONCLUSION AND SUGGESTION

This study aims to gather empirical evidence on whether financial strategies—such as profitability, leverage, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax—affect the likelihood of income smoothing practices. The results indicate that companies with high financial leverage are unlikely to engage in income smoothing practices. However, other variables like profitability, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax show no significant probability with income smoothing practices.

This study offers theoretical implications that the higher the level of leverage, the lower the likelihood of a company engaging in profit equalization. Companies with high debt levels face stricter supervision from external parties, especially financial institutions, which limits management's ability to perform income smoothing practices. These findings reinforce agency theory by highlighting the role of external oversight mechanisms in restricting managers' opportunistic behavior. The practical implications are particularly relevant for investors and creditors, emphasizing the importance of assessing a company's capital structure when evaluating the quality of financial statements. Firms with high leverage tend to be more closely monitored, reducing the risk of income smoothing. In contrast, those with low leverage may have greater scope for profit adjustments, necessitating increased vigilance in financial statement analysis.

This study has several limitations, including a relatively short duration of three years. It concentrates exclusively on consumer cyclical, non-cyclical, and industrial firms listed on the Indonesia Stock Exchange. Moreover, only seven independent variables are considered: profitability, leverage, company size, dividend payout ratio, bonus plan, cost stickiness, and income tax. Future research should extend the timeframe to four or five years, broaden the scope to include other sectors like non-financial firms, and consider additional variables such as cash holdings, firm value, and managerial ownership, which could affect income smoothing behaviors.

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