

The Influence of Profitability, Leverage and Company Size on Income Smoothing in Pharmaceutical Companies on the Indonesian Stock Exchange

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Abstract

This study aims to determine the effect of Profitability, Leverage, Company Size on Income Smoothing in Pharmaceutical Companies listed on the Indonesia Stock Exchange. This research was conducted at pharmaceutical companies listed on the Indonesia Stock Exchange. The sample determination method uses purposive sampling by taking into account the availability of financial report information for the 2017-2021 period, a total of 55 samples consisting of 11 companies with a 5 year period. The data used in this research is secondary, namely the financial reports of the Indonesia Stock Exchange (IDX) for 2017-2021. In this study the technique used is multiple linear regression analysis. The results of the analysis show that there is a significant effect of Profitability, Leverage and Company Size together on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. There is a significant effect of Profitability on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. While Leverage and Company Size partially have no significant effect on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.

Keywords: profitability, leverage, company size, income smoothing.

1. Introduction

The financial report is an information presentation of a company's financial condition, because the financial report will present various kinds of information about the company's finances that are needed by various parties in the company. The users of financial reports include management, creditors, shareholders, company employees, suppliers, government, consumers and other general public which in essence can be divided into two major groups, namely internal and external parties.

The economic development in Indonesia is growing well and is able to produce products in every sector - company sectors that are able to compete in the business world, including the pharmaceutical sector. Accelerating the development of the pharmaceutical and medical device industry sector has become the main focus of the government, especially since the last five years. The aim is to realize independence and increase the competitiveness of the domestic pharmaceutical and medical device industry. The policy to accelerate the development of the pharmaceutical and medical device industry is motivated by Presidential Instruction Number 6 of 2016 to guarantee the availability of pharmaceuticals and medical devices, as an effort to improve health services within the framework of the National Health Insurance.

Income Smoothing is a specific practice of earnings management that involves temporary

internal reporting of income smoothing, which makes earnings appear stable without too high fluctuations. Profitability is a ratio to estimate a company's ability to achieve profits. *Leverage* is a ratio used as a measure of the extent to which a company's assets are financed by debt. This means how much debt is borne by the company compared to its assets. Company Size is a measure of the size of large and small organization sizes as indicated by the different sections, specifically all resources, complete transactions, log size, stock exchange values, etc. Etc.

Profitability is a measure used to assess the extent to which a company is able to generate profits at an acceptable level. Profitability is a ratio to estimate a company's ability to achieve profits. *Leverage* is a ratio used as a measure of the extent to which a company's assets are financed by debt. This means how much debt is borne by the company compared to its assets. *Company size*, which is a size, scale or variable that describes position in relation to the size of the organization based on material guidelines, for example, complete resources, log size, market price, shares, annual sales, annual income, absolute *capital* and *others*.

In 2022 there was negligence in the pharmaceutical industry sector where there were many cases where ingredients were found in the drugs being produced. This can trigger a lack of public trust in the use of drugs produced by pharmaceutical companies. Most recently, the Food and Drug Supervisory Agency (BPOM) will drag two pharmaceutical industries towards crime. The reason is because the contents of ethylene glycol (EG) and ethylene glycol (DEG) are very high in the drugs they produce.

2. Literature Review

Income Smoothing. According to Nejad et al., (2013) in Alfonsa (2017) *Income Smoothing* is a special practice of earnings management that involves internal reporting of temporary income smoothing, which makes earnings look stable without too high fluctuations. Stable profits are expected to create investors' perceptions of a good company condition. *Income Smoothing* activities are deliberately carried out to attract the market's desire to invest. Profitability. According to Kashmir (2017) the profitability ratio is a ratio for assessing a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. Leverage. Kashmir (2017) leverage ratio is the ratio used to measure the extent to which a company's assets are financed with debt. The financial leverage ratio is used to measure the relationship between total assets and equity capital used to fund assets. Company Size. According to Paramita and Isarofah (2016), company size is a scale in which a company can be classified as large or small through various ways including total assets, log size, stock market value, and others. Company size is the result of the overall average of net sales for the current period to the coming year.

3. Research Method

The type of research used in his research is associative, which is research that aims to determine the relationship between two or more variables. The population used in this study are pharmaceutical companies listed on the Indonesian Stock Exchange. Sampling using *purposive sampling*. The number of samples studied were 11 pharmaceutical companies listed on the Indonesia Stock Exchange. The data needed for this research is secondary in nature in the form of financial reports of pharmaceutical companies listed

on the Indonesia Stock Exchange which can be accessed via www.idx.com. The data collection technique used in this research is documentation. Collecting information from the financial reports of pharmaceutical companies listed on the Indonesia Stock Exchange. Data analysis used in this study is quantitative analysis using statistical formulas corrected by research that takes documentary data from the financial statements of pharmaceutical companies listed on the Indonesia Stock Exchange.

4. Findings and Discussions

The effect of Profitability, Leverage and Company Size simultaneously on Income Smoothing in Pharmaceutical Companies listed on the Indonesia Stock Exchange. Based on the test results, there is a significant effect between Profitability, Leverage and Company Size on *Income Smoothing*. Hypothesis test results F test with a significant level $\alpha = 0.05$ or 5% F count $g\ 3.389 > F\ table\ 3.18$ with a Sig F value $\leq \alpha\ (0.025 \leq 0.05)$, then H_0 is rejected and H_a is accepted meaning there is an influence Profitability, Leverage and Company Size on *Income Smoothing* in Pharmaceutical Companies listed on the Indonesia Stock Exchange. The results of this study mean that if the higher the profitability shown through the profits owned by the company, then it is able to influence the practice of income smoothing in the company. With the higher level of debt owned by the company, it encourages management to manipulate profits to improve the company's image and reputation in the eyes of stakeholders so that investors still want to invest in the company. This means that the larger the size of the company as indicated by the size of the total assets owned by the company, the more influence it has on the practice of income smoothing.

The Effect of Profitability on Income Smoothing in Pharmaceutical Companies Listed on the Indonesia Stock Exchange. The results of the hypothesis test show that the significant value of the t variable profitability on *Income Smoothing* is 0.011 using t table with a significant level $df = 55-3 = 52$ then t count is $1.721 > t\ table\ is\ 1.674$ and significant profitability is $0.011 < \alpha\ 0.05$ then H_0 is rejected and H_a is accepted, meaning that there is a significant influence between profitability partially on *Income Smoothing* in pharmaceutical companies listed on the Indonesian stock exchange.

The Effect of Leverage on Income Smoothing in Pharmaceutical Companies Listed on the Indonesia Stock Exchange. The results of the hypothesis test show that the significant value of t variable leverage on *Income Smoothing* is 0.566 using t table with a significant level $df = 55-3=52$ then t count is $-0.578 < t\ table\ is\ 1.674$ and significant leverage is $0.566 > \alpha\ 0.05$ then H_0 accepted and H_a rejected, meaning that there is no significant effect between leverage partially on *Income Smoothing* in pharmaceutical companies listed on the Indonesian stock exchange.

The Effect of Company Size on Income Smoothing in Pharmaceutical Companies Listed on the Indonesia Stock Exchange. The results of the hypothesis test show that the significant value of t variable Firm Size on Income Smoothing is 0.443 using t table with a significant level $df = 115-3-112$ then t count is $-0.773 \leq table\ is\ 1.674$ and significant Firm Size is $0.443 \geq \alpha\ 0.05$ then H_0 is accepted and H_a is rejected, meaning that there is no significant effect between company size partially on income smoothing in pharmaceutical companies listed on the Indonesian stock exchange.

5. Conclusion

Based on the test results above, it can be concluded as follows: there are significant effect of Profitability, Leverage and Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. There is significant influence Profitability on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. There is no significant effect of Leverage on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. There is no significant effect of Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. Based on the conclusions in this study, suggestions that can be given for further research are as follows: The research period should be extended in order to better predict long-term research results. Future studies are expected to add to the sample companies in order to predict the effect of the independent variables on the dependent variable. Further research is suggested to add or replace independent variables that may affect the dependent variable, namely Income Smoothing such as Cash Holding, Growth, etc.

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