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ABSTRACT

Purpose: This study aims to hypothesize the companies that apply income smoothing to Industry trade, services, and investment on Indonesia Stock Exchange.

Theoretical framework: Theoretical basis of the income smoothing hypothesis was used to examine the differences in stock returns between the trading, service, and investment industries that apply income smoothing on the Indonesia Stock Exchange. Test differences in stock risk between the trading, service, and investment industries that apply income smoothing and the trading, service, and investment industries do not determine income smoothing on the Indonesia Stock Exchange.

Design/methodology/approach: The method used in this study is a comparative descriptive method. The analysis used is descriptive analysis, normality test, and t-test to conclude whether there are differences in the treatment of these variables. In addition, it also calculates the actual return and risk of the issuer’s shares in the trading, service, and investment industries on the Indonesia Stock Exchange.

Findings: There is no significant difference between company returns and profits and returns of non-profit companies in trading, service, and investment sector companies listed on the Indonesia Stock Exchange. In addition, there is no significant difference between the shares of risk separator companies and the risk returns of non-company shares in trading, service, and investment companies listed on the Indonesia Stock Exchange.

Research, Practical & Social implications: The average risk level of companies that do income smoothing is lower than the average risk level of companies that do not. The level of risk in shares is a description of the volatility of share prices. The higher the variation in stock prices, the higher the risk investors face.

Originality/value: The study highlighted that changes in the information that occurs on a company’s profitability in various ways would be more likely to impact the follow-up of information users, including the application of income smoothing.

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A HIPÓTESE DE SUAVIZACIÓN DE RENDA, RETORNO DE ESTOQUE E RISCO

RESUMO
Objetivo: Este estudo visa levantar hipóteses sobre as empresas que aplicam suavização de renda ao comércio industrial, serviços e investimentos na Bolsa de Valores da Indonésia.

Estrutura teórica: A base teórica da hipótese de suavização da renda foi utilizada para examinar as diferenças no retorno das ações entre as indústrias de comércio, serviços e investimentos que aplicam a suavização da renda na Bolsa de Valores da Indonésia. Testar as diferenças no risco de ações entre as indústrias de comércio, serviços e investimentos que aplicam suavização da renda e as indústrias de comércio, serviços e investimentos não determinam a suavização da renda na Bolsa de Valores da Indonésia.

Design/metodologia/abordagem: O método utilizado em isto estudo is a comparativo descritivo método. The análise utilizado is descritivo análise, normalidade teste, e -teste to conclusivo segundo a supra diferenças em te tratamento de desta variável, em adição, it alá cálculos the actual retorno e risco de d participação em em comércio, serviço, e investimento indústrias em e Indonésia Stock Mudança.

Descobertas: Não há diferença significativa entre o retorno da empresa e os lucros e retornos de empresas sem fins lucrativos no comércio, serviços e empresas do setor de investimentos listadas na Bolsa de Valores da Indonésia. Além disso, não há diferença significativa entre as ações das empresas separadoras de risco e os retornos de risco das ações de empresas sem fins lucrativos do setor de comércio, serviços e investimentos listadas na Bolsa de Valores da Indonésia.

Pesquisa, implicações prácticas e sociais: O nível médio de risco das empresas que fazem suavização de renda é inferior ao nível médio de risco das empresas que não o fazem. O nível de risco em ações é uma descrição da volatilidade dos preços das ações. Quanto maior a variação nos preços das ações, maior o risco que os investidores enfrentam.

Originalidade/valor: O estudo destacou que as mudanças nas informações que ocorrem sobre a rentabilidade de uma empresa de várias maneiras teriam maior probabilidade de afetar o acompanhamento dos usuários das informações, incluindo a aplicação de suavização de renda.

Palavras-chave: Suavização de Renda, Retorno de Estoque, Risco, Indonésia

LA HIPÓTESIS DE LA SUAVIZACIÓN DE LOS INGRESOS, LA RENTABILIDAD DE LAS ACCIONES Y EL RIESGO

RESUMEN
Propósito: Este estudio tiene como objetivo hipotetizar las empresas que aplican la suavización de ingresos al comercio, los servicios y la inversión de la industria en la Bolsa de Indonesia.

Marco teórico: La base teórica de la hipótesis de suavización de ingresos se utilizó para examinar las diferencias en los rendimientos de las acciones entre las industrias de comercio, servicios e inversión que aplican la suavización de ingresos en la Bolsa de Indonesia. Se examinan las diferencias en el riesgo de las acciones entre los sectores de comercio, servicios e inversión que aplican la suavización de ingresos y los sectores de comercio, servicios e inversión que no determinan la suavización de ingresos en la Bolsa de Indonesia.

Diseño/metodología/enfoque: El método utilizado en este estudio es un método comparativo y descriptivo. El análisis utilizado es un análisis descriptivo, una prueba de normalidad y una prueba de resistencia para determinar si existen diferencias en el tratamiento de estas variables. Además, también calcula el rendimiento real y el riesgo de las acciones del emisor en las industrias de comercio, servicios e inversión de la Bolsa de Valores de Indonesia.

Resultados: No existe una diferencia significativa entre los rendimientos de las empresas y los beneficios y rendimientos de las empresas sin ánimo de lucro del sector comercial, de servicios y de inversión que cotizan en la Bolsa de Indonesia. Además, no existe una diferencia significativa entre las acciones de las empresas separadoras de riesgo y los rendimientos de las acciones de las empresas sin ánimo de lucro en las empresas de comercio, servicios e inversión que cotizan en la Bolsa de Indonesia.

Investigación, implicaciones prácticas y sociales: El nivel medio de riesgo de las empresas que realizan la suavización de ingresos es inferior al nivel medio de riesgo de las empresas que no lo hacen. El nivel de riesgo de las acciones es una descripción de la volatilidad de los precios de las acciones. Cuanto mayor es la variación de los precios de las acciones, mayor es el riesgo al que se enfrentan los inversores.

Originalidad/valor: El estudio pone de manifiesto que los cambios en la información que se produce sobre la rentabilidad de una empresa de diversas maneras tendrían más probabilidades de influir en el seguimiento de los usuarios de la información, incluida la aplicación de la suavización de los ingresos.

Palabras clave: Suavización de Ingresos, Rendimiento de Las Acciones, Riesgo, Indonesia.
INTRODUCTION

The company’s performance is described in the form of financial statements. A financial statement is the main means to communicate financial information to parties outside the company and is a tangible form of company performance. Financial statements provide information about company resources, claims against those resources, and changes in those resources that are useful for investment and credit decision-making and measure the prospects of cash flows [1].

Profit is one indicator of the performance appraisal for investors and the general public of a company. An income Statement is one form of financial statement that illustrates the ability of companies to manage the capital obtained to generate profits. Help estimate the ability of representative earnings in the long run and estimates the risk of investment or lending funds. Based on the annual report of the Indonesia Stock Exchange in 2018, it explained that one of the industries considered to be quite important in the economy is the trade, service, and investment industries. The magnitude of the contribution of the service sector at this time is nothing but a manifestation of Indonesia’s economic transformation over the past few decades. The national economy, which was initially supported by the primary sector (agriculture and mining), moved to the secondary sector (manufacturing industry), then began to switch to the tertiary sector (services). In the period 2000-2018, the contribution of the service sector continued to increase, from 45% (in 2000) to 54%. Around 34% of the total service sector output in Indonesia is used for intermediate input to production activity, and the contribution of the service sector to total input reaches 16% (IDX 2018).

The service sector has experienced high growth in recent years, where the average growth in the service sector for the last eight years has reached 7.05% per year. However, like other economic sectors, the service sector also experienced a slowdown due to slowing global and national economic growth. As the new belle of growth, the contribution of the service sector is enormous. Currently, the service sector contributes 54% of the national gross domestic product (GDP), with 47% of the workforce employed in this sector (www.ekonomi.bisnis.com). Therefore, the service sector is one investment opportunity for investors. Through financial reports, investors obtain information about performance in the service sector. The manager and owner of the company are an opportunity for new funding sources.

Investors’ great interest and attention to the level of profits generated is one reason for managers and company owners to take several actions in dysfunctional behaviour, namely by making earnings management through income smoothing [2]. Changes in the information that occurs on a company’s profitability in various ways will impact the follow-up of information
users, including the application of income smoothing. It needs to be watched out by users of financial statements, including investors, because the information in the form of financial statements has experienced an addition or reduction that can be misleading in the decision-making process to be taken, including decisions on investment returns and risks.

This study examines whether there are differences between companies that do and do not do income smoothing based on the level of risk and stock returns. The level of risk and stock returns are considered when investing. The results of Martinez and Castro’s [15] research show that companies that perform income smoothing have a lower level of systemic risk than companies that do not smooth earnings, where the company’s annual abnormal return on smoothing is significantly higher. Meanwhile, the results of research conducted by Anwar and Chandra [12], based on discriminant analysis, show differences in Return on Assets between companies that perform income smoothing and do not.

**Literature Review**

Income smoothing is a subset of earnings management, in which managers report manipulated earnings – which do not accurately represent economic earnings for the reporting period. Income smoothing involves the intertemporal smoothing of reported earnings with economic income to make earnings appear less variable over time [3]. Income smoothing is an act of deliberate manipulation carried out by management on fluctuations in reported earnings so that the company’s profits are at a level considered normal by the company or, in other words, so that the company’s reported earnings look stable as long as it is allowed by sound accounting and management principles. Income smoothing does not depend on fraud and distortion or changes but rather on opportunities that arise in alternative accounting principles of accepted transactions and their spreads.

The implementation of Income Smoothing is done by management because of the information asymmetry and agency conflict with the company owner. To minimize agency conflict, a Good Corporate Governance mechanism is needed in managing the company. The corporate governance mechanism provides effective protection for shareholders and creditors, increasing the certainty of obtaining a return on investment. Income smoothing is considered signalling information when managers use income smoothing as a means to communicate personal information about the company’s future income to outside stakeholders [2].

Income smoothing is important in bridging unclear information between management and other stakeholders. Therefore income smoothing is useful for stakeholders such as participants in the public market, creditors, and credit rating agencies. Public market
Participants value companies reporting current profits with lower equity and debt (bond) costs [4]. The purpose of doing income smoothing is income smoothing has the aim of reducing the variability of reported earnings to reduce market risk on the company’s shares, which in turn can increase the company’s market price.

Creditors and credit rating agencies also give awards to companies with smoother income, lower debt costs, and better credit ratings; they believe that current income signals reduce the risk of default [5, 6]. Signal Theory states that it “is useful for describing the behaviour when two parties such as individuals or organizations have access to different information” [7]. Information obtained by various parties should describe the situation of the company. Therefore, various parties who obtain information have reactions or behaviours that tend to be the same. Targets in conducting income smoothing can focus on activities generally carried out by management to influence the flow of funds or information. To make the desired financial statements the management can include information that should have been reported in the past or future periods into the current period report or vice versa.

Information published by companies is considered an announcement that will signal to investors in the decision-making process. Signalling is responded to either (good news) or bad news after the information is interpreted and analyzed carefully. If the information gives a good signal (good news), the sales volume will increase. The good news is that one of them is a relatively high return rate, even though the risk level is relatively high. To produce a good news signal, managers and company owners must publish information in the form of good financial statements describing the company’s good and healthy condition. One of the programs was to smooth the company’s financial statements. In an agency relationship, managers have information asymmetry concerning external parties such as creditors and investors. It happens when managers have relatively more internal company information and find it relatively quickly. As an agent who knows more information, management will take advantage of information not known by the principal (owner) to maximize its interests. In this case, it is based on the company’s value, and managers believe that the market is based on accounting numbers. Therefore, managers can use known information to manipulate financial statements to maximize wealth.

Income smoothing is considered signalling information when managers use income smoothing as a means to communicate personal information regarding the company’s future income to outside stakeholders. Indriani [8] stated that agency theory is an approach to applying income smoothing in companies. As with earnings management, the concept of income smoothing is motivated by agency theory, where it is assumed that the principal (owner) and
agent (management) both have an interest in maximizing the respective utility of the information they have, thus creating a conflict of interest, namely the existence of information asymmetry. The company experienced a conflict of interest between managerial parties and company owners. To reduce this conflict, the application of income smoothing is one solution to minimize conflict. Income smoothing is one form of earnings management. The objectives of income smoothing include improving the company’s image in the eyes of outsiders that the company has profits in the future, providing relevant information in predicting future earnings, increasing business relationship satisfaction, increasing external parties’ perceptions of management capabilities, and increasing management compensation. With the practice of income smoothing, it can increase the company’s value in the eyes of investors and increase investor trust.

Income smoothing generates reported earnings that do not reflect the economic performance that underlies the actual company, reducing the informativeness of reported earnings and improving the quality of information. On the other hand, income smoothing is considered invalid information; smoothing income will distort information and lead to lower quality information. In line with this view, Maffet [9] found that companies in countries with weak investor protection use income smoothing for opportunistic reasons. Another opinion states that earnings management is an important issue that needs to be questioned in current accounting studies because investors pay special attention to acquiring income in decision-making. Fluctuations in income are related to the company’s performance in profitability. Therefore, investors invest in stocks that enjoy a stable income stream. When a company experiences a decrease in income due to poor economic conditions, the manager will ask the accountant to change the information on the income statement (i.e. income) by making income smoothing. There are various information needs because there are many parties who need different information, such as investors (who need to know about the company’s profitability and financial stability), managers (who need to know about the company’s financial status), and banks and suppliers (who need to know about the company’s ability to repay loans) [10]. One of the causes of the practice of income smoothing is the lack of transparency between the principal (owner) and agent (management). The importance of earnings information for investors is one of the reasons for the management to practice income smoothing. Investors will be very selective in determining the companies chosen to invest. Investors tend to avoid investing in unstable companies because they have a high risk.

Based on that argument concluded that the company is still in need of treatment income smoothing on the financial statements that will be published. Shabani and Sofian [11] suggested
that income smoothing is the manager’s actions in managing earnings to reduce earnings fluctuations. In addition, the purpose of income smoothing is used to change the views of stakeholders and creditors about the company’s actual performance. So, the role of income smoothing is as signal information and information garbling. Income smoothing is an action in which managers intentionally reduce fluctuations in reported earnings to achieve the desired profit level. Investors will choose a company with good corporate value, reflected in the financial statements. The company will increase the revenues and will perform income smoothing. Based on the research results, Anwar and Chandra [12] showed that the independent variables used (Asset, Company Size, Dividend Payout Ratio, Debt to Equity Ratio, and Leverage Finance) can explain the process of smoothing earnings made by the company and which have a significant influence is the size company and Dividend Payment Ratio.

The company’s expectations are that income smoothing can increase stock prices, stock returns, and risk. It is evident from the research that has been done by Nafea et al. [13], using independent variables consisting of cash ratio (current ratio), liability ratio (interest cover), profitability (return on equity [ROE]), income smoothing was the dependent variable. The results showed that income smoothing would increase share price. Welc [14] examines the effect of the smoothness of earnings on stock prices, stock returns, investment risks, and next-year reported earnings of companies listed on the Warsaw Stock Exchange. Comparing the four portfolio groups, one of them uses a portfolio of stocks with the smoothest past earnings. The research results showed that stock returns and investment risk levels decreased. In general, income smoothing can be influenced by several factors, including the type of industry, company size, company value, financial risk, public ownership structure, company management practices, and others. Several recent studies have begun to examine other factors that are assumed to affect the practice of income smoothing, including cash holding factors, bonus plans, auditor reputation, debt funding, winner/loser stock, and others. However, here the author focuses on four factors: cash holding, financial risk, bonus plan, and profitability. This is because, according to the author, these four factors have a significant effect on the practice of income smoothing.

Research Methods

This study uses data industry 110 companies in the trade, services, and investment field enrolled in the Indonesia Stock Exchange. After going through the process of identifying the financial statement data are 82 companies that have a full financial report for the year 2016-2018.
To identify groups of companies that do income smoothing and not income smoothing by using the Eckel Index [16]. Eckel Index compares the coefficient of variation (CV) of net income with the coefficient of variation of net sales. The intended profit is earnings after tax. The company is classified as income smoothing if CVΔS > CVΔI then given a value of 1 (one) and if not given a value of 0 (zero). The equation can calculate the value of CVΔS or CVΔI:

\[
CV \Delta S \text{ or } CV \Delta I = \sqrt{\frac{\text{Variance}}{\text{Expected Value}}} \quad \text{or} \quad CV \Delta S \text{ or } CV \Delta I = \sqrt{\frac{\sum (\Delta x - \bar{x})^2}{n - 1} \Delta \bar{x}}
\]

Where:
- CV: coefficient of variation of the variable
- ΔS: sales changes in one period
- ΔI: changes in net income in one period
- Δx: changes in profit or sales
- Δ\bar{x}: the average change in net income or sales
- n: the number of years observed

The method used in this research is descriptive and verification methods, which are a combination of descriptive methods and verification methods. The verification method aims to test the truth of the hypothesis, and the descriptive method aims to obtain a reliable and useful description. Good descriptive research is indispensable material for analytical research. Analytical research is, of course, ultimately to make new descriptions more perfect.

The analysis stage to obtain research objectives: first, descriptive analysis to calculate the minimum value, maximum, average, and variance of each study variable. Second, the normality test, which measures the extent to which that has been obtained, can be used for further analysis. Third, the t-test, to conclude whether there are differences in the variable treatment.

The analytical method used to achieve the goal is to calculate the actual return value and stock risk of the issuers of the trading, service, and investment industries on the IDX. Test data normality with the One-Sample Kolmogorov-Smirnov test. Kolmogorov-Smirnov test, t-test for independent samples is a t-test procedure for free samples by comparing the average of two groups of cases and conducting a nonparametric test Mann-Whitney U Test for abnormal distribution data. Mann-Whitney U Test is a nonparametric test that aims to test the difference between two independent samples originating from a population.
RESULTS AND DISCUSSIONS

Identified by Eckel index that 55 enterprise income smoothing and 27 companies that do not perform income smoothing. Table 1 shows the number of sample companies in the trade, services and investment 82 companies. The company’s average return is at 0.0169 with a standard deviation of 0.0294, which indicates that the average rate of return of the stock price was 1.69%, with a deviation rate of 2.9%. The smallest Return value owned by Bakrie and Brothers Tbk company is -0.0374, and Wicaksana Overseas International Tbk owns the highest return value at 0.1058. Table 1 shows the average return of the smoothing profit of 0.0160 is smaller than the average return of companies that do not perform income smoothing, which equals 0.0188.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>82</td>
<td>-0.0374</td>
<td>0.1058</td>
<td>0.016977</td>
<td>0.0294914</td>
<td>0.001</td>
</tr>
<tr>
<td>Risk</td>
<td>82</td>
<td>-7.4630</td>
<td>5.9752</td>
<td>-0.505766</td>
<td>1.7065199</td>
<td>2.912</td>
</tr>
<tr>
<td>Return Income smoothing</td>
<td>55</td>
<td>-0.0374</td>
<td>0.1058</td>
<td>0.016049</td>
<td>0.0307484</td>
<td>0.001</td>
</tr>
<tr>
<td>Return not Income smoothing</td>
<td>27</td>
<td>-0.0265</td>
<td>0.1007</td>
<td>0.018867</td>
<td>0.0272101</td>
<td>0.001</td>
</tr>
<tr>
<td>Risk of Income smoothing</td>
<td>55</td>
<td>-7.4630</td>
<td>5.9752</td>
<td>-0.592607</td>
<td>1.9866371</td>
<td>3.947</td>
</tr>
<tr>
<td>Risk of not smoothing</td>
<td>27</td>
<td>-2.2715</td>
<td>1.7142</td>
<td>-0.328867</td>
<td>0.9094814</td>
<td>0.827</td>
</tr>
</tbody>
</table>

The average risk of the company is -0.5057 with a standard deviation of 1.7065. Negative values on the risk measurement indicate that the risk level is inversely proportional to the company’s return. In the same period, when the company’s return increased by 1%, the risk level decreased by 50.57%. The smallest risk is owned by Siwani Makmur Tbk company with a risk level of -7.4630, and the biggest risk is owned by Arthavest Tbk company with a risk level of 5.9752. The average level of risk for companies that do income smoothing is -0.5926, lower than the average level of risk for companies that do not do income smoothing, which is -0.33288.

Table 2. Testing data normality based on the Kolmogorov-Smirnov One Sample test. Kolmogorov-Smirnov test is a test that aims to see whether the sample is normally distributed or not.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Asymp. Sig (2-Tailed)</th>
<th>α</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Return</td>
<td>0.2740</td>
<td>0.05</td>
<td>Normal</td>
</tr>
<tr>
<td>2</td>
<td>Risk</td>
<td>0.0160</td>
<td>0.05</td>
<td>Abnormal</td>
</tr>
<tr>
<td>3</td>
<td>Smoother Company’s Return on Profit</td>
<td>0.4760</td>
<td>0.05</td>
<td>Normal</td>
</tr>
<tr>
<td>4</td>
<td>Non-Smoother Company’s Return on Profit</td>
<td>0.4810</td>
<td>0.05</td>
<td>Normal</td>
</tr>
<tr>
<td>5</td>
<td>Risk of Smoother Companies</td>
<td>0.0380</td>
<td>0.05</td>
<td>Abnormal</td>
</tr>
<tr>
<td>6</td>
<td>Risk of Smoother Non-Companies</td>
<td>0.8280</td>
<td>0.05</td>
<td>Normal</td>
</tr>
</tbody>
</table>
Table 2 illustrates that, based on data analysis using the One-Sample Kolmogorov-Smirnov Test, normality returns of the company amounted to 0.2740 > 0.05, so it can be concluded that the data is normally distributed. The results of the data analysis also showed that the normality of the company’s risk data was 0.0160 < 0.05, so it could be concluded that the company’s risk data were not normally distributed, especially the risk of the company grading profit which had a value of 0.0380 < 0.05. However, the systematic risk data is considered not normally distributed. Overall, the data can be concluded that the data is normally distributed.

The F test (Levene’s test) is summarized in Table 3. Is performed to determine whether the population variance of two samples each (equal variances assumed) or different (equal variances not assumed). The test is performed to determine whether the variance of two populations of the same or different.

<table>
<thead>
<tr>
<th>Variable</th>
<th>t-test</th>
<th>Asymp. Sig. (2-tailed)</th>
<th>Alpha</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>-0.404</td>
<td>0.687</td>
<td>0.05</td>
<td>no difference</td>
</tr>
<tr>
<td>Risk</td>
<td>-0.655</td>
<td>0.514</td>
<td>0.05</td>
<td>no difference</td>
</tr>
</tbody>
</table>

After knowing the average return and risk of the company grading profit and not grading profit, the results of the Independent Samples Test show that the F test results show a significance value for both variables, both the return of 43% and the risk of 5.6% greater than 5%. This value becomes the basis for decision-making in testing carried out using the same variance assumption formula. This means that there is no difference between the average return and risk of smoother income companies and non-smoother income companies in the trade, service, and investment sectors listed on the Indonesia Stock Exchange. The next test was done using two independent samples t-tests. Table 4 describes the results of these tests.

It can be concluded that the returns of companies in the trading, service and investment sectors listed on the Indonesia Stock Exchange, among companies that make income smoothing with companies that do not do income smoothing do not experience significant differences. Based on the independent samples test results, the significance of the return is 0.687, greater than the alpha level of 0.05. The significance value of the risk that is equal to 0.514 is greater than 0.05, so it can be concluded that the risk of companies in the trading, services, and
investment sectors listed on the Indonesia Stock Exchange between companies that do income smoothing with companies that do not do income smoothing also have no difference significant.

One policy that companies can use in earnings management is to make income smoothing. Companies carry out earnings smoothing to show earnings stability in the hope of increasing market reaction because investors more easily and quickly predict current year earnings based on profits generated from previous years. On the other hand, several companies do not smooth income with the intention to keep the information obtained by investors relevant to the profits of the company. So, the results of the analysis conducted by investors are far more accurate than using information that has been changed.

Statistical analysis did not reveal any significant difference between returns grading company profits and return of profits in the company instead of grading the trade, services, and investment listed on the Indonesia Stock Exchange. The average stock returns produced by companies that do not perform income smoothing are larger than stock returns produced by companies that perform income smoothing. It suggests that the market reaction to the company’s stock price did not perform income smoothing much better than the market reaction to the company’s stock price income smoothing. Investors prefer the information according to actual conditions rather than changed information.

The results of different tests show no significant difference between the risk of shares of profit-grading companies and the risk of shares of non-profit companies in trading, service, and investment companies listed on the Indonesia Stock Exchange. The average level of risk companies that perform smoothing earnings is lower than the average level of risk companies that do not perform income smoothing. The level of stock risk is an illustration of stock price volatility. The higher the stock price variations, the higher the risk investors face.

The results of this study are the same as those of research conducted by Salno and Baridwan [17] that there is no difference in return and risk between companies that do income smoothing and those that do not. In contrast to the results of research by Martinez and Castro [15]. His research proves that there are differences between companies that make income smoothing and those that do not. The cause of the difference in treatment is based on research conducted by Martinez and Castro [15], namely the determination of variable differentiators based on the group’s portfolio of companies that do and do not do income smoothing.

Apart from the absence of differences between companies that make income smoothing and do not, Salno and Baridwan [17] suggest that managers and companies motivated to do income smoothing want various economic benefits. Similarly, the factors that affect income smoothing are extremely diverse, as noted by previous investigators [18]. These factors include
company size, profitability, leverage, stock prices, the industrial sector, bonus plans, and nationality. But there are still differences in the results, even though they measure the same thing [13, 14]. So, the distinguishing factor is not only stock returns and risks [19, 20].

Profits generated by the company do not only cause high and low fluctuations in stock prices. In addition to earnings management, many other factors still underlie the market reaction and risk level of a stock, including fundamental factors, technical factors, government regulations, and the social, economic, and political conditions of a country. Therefore, income smoothing efforts are considered inappropriate and positive signals to increase market reaction. The results of this study are in line with research conducted by Prabayanti and Yasa [2], who argue that income smoothing produces reported earnings that do not reflect the economic performance that underlies the actual company and therefore reduces the reported earnings informativeness and improves the quality of information.

CONCLUSION

Based on the results of the statistical test, it is concluded that there is no significant difference between the return of the income smoothing company and the return of the non-income smoothing company in the trading, service, and investment sector companies listed on the Indonesia Stock Exchange. The average stock return produced by a company that does not perform income smoothing is greater than that of a company that does income smoothing. It shows that the market reaction to companies that do not smooth income is much better than the market reaction to the stock price of companies that do income smoothing. Also, there is no significant difference between the risk of income-levelling company shares and the risk of shares of non-profit smoothing companies in trading, service, and investment companies listed on the Indonesia Stock Exchange. Based on the average risk level of companies that do income smoothing is lower than the average risk level of companies that do not do income smoothing. The level of risk in shares is a description of the volatility of share prices. The higher the variation in stock prices, the higher the risk investors face.

REFERENCES


The Income Smoothing Hypothesis, Stock Return, and Risk


