



Income Smoothing: The Role Cash Holding, Bonus Plan, and Winner/Loser Stock

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ABSTRACT

The purpose of this study is to see if cash holding, bonus plans, and winner/loser stock have an effect on income smoothing in Indonesian Stock Exchange-listed food and beverage sub-sector companies. The population for this study was 34 food and beverage sub-sector enterprises selected using a purposive sampling method, yielding a total sample of 19 companies during a two-year period, 2020-2021. The research data is quantitative, including secondary data sources obtained through intermediaries. This study employed multiple linear regression using the SPSS 26 program. The results revealed that cash holding, bonus plan, and winner/loser stock had little influence on income smoothing.

Keywords: Cash Holding, Bonus Plan, Winner/ Loser Stock, Income Smoothing

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1. INTRODUCTION

Ahmad et al. (2017) According to agency theory, income smoothing happens when all parties are motivated to carry out actions or activities based on their own desires, which frequently results in disputes between principals and agents. There are various factors that can influence income smoothing, including cash holdings, bonus plans, and winner/loser stock.

The first element assumed to influence income smoothing is cash holdings. Cash holdings can be defined as cash that exists or is available within the company. Alrahmon et al. (2022) define cash holding as follows: The company's cash is owned or accessible for investment in the form of physical assets, which can be distributed to investors. The tension between management and shareholders drives each party's desire to keep cash in the company or cash holding.

Management is interested in maintaining the stability of the company's increase in cash available to attract investors, whilst shareholders are interested in receiving advantages in the form of dividends on their shares. According to Ningrum et al. (2021), cash holdings have a considerable and favorable effect on earnings smoothing. The more cash the corporation has, the more profit smoothing the company does. The existence of cash in the corporation creates an object that can be used to smooth out income.

The second element assumed to influence income smoothing is the bonus plan. Bonus pay (bonus plan) is a type of reward offered by the organization when management meets predetermined milestones. Companies that offer bonus compensation encourage managers to optimize the present value of bonus payments. The bonus awarded by

management is based on net income. Management often reports high net income in order to boost the bonus that will be received. This incentive to receive bonuses may drive management to implement income smoothing.

The third element assumed to influence income smoothing is winner/loser stock. A winner stock is one that has a higher return than the market average, often known as a stock that generates a positive return. Meanwhile, loser stock is a stock that has a return equal to or smaller than the market average return, often known as a stock that produces a negative return (Mustikarini et al., 2021). According to Lisda et al. (2018), The effect of winner/loser stock on smoothing earnings implies that winner stock business management may use smoothing earnings to obtain or preserve its place in the winner stock group. Loser stock businesses use profits smoothing to increase the company's position in the winning stock.

2. LITERATURE REVIEW

Agency Theory

According to Scott (2015), According to agency theory, conflicts of interest between management and shareholders influence income smoothing procedures when each party attempts to obtain the desired prosperity. In agency partnerships, managers have asymmetric information about external organizations, specifically creditors and investors. knowledge asymmetry arises when managers have more full firm knowledge and are aware of information before external parties. In such cases, managers can alter financial reports to maximize their profits.

Income Smoothing

Beidleman (1973) provides another definition of income smoothing. Specifically, reported earnings smoothing is a deliberate attempt to flatten or fluctuation profits levels so that they are currently regarded regular for a corporation. In this situation, earnings smoothing refers to a company's attempt to reduce anomalous changes in earnings within the bounds set by legitimate accounting processes and management principles.

Cash Holding

Cash holding is defined as cash that the company owns or has available for investment in the form of tangible assets and distribution to investors. The higher the cash holding, the greater the chance of earnings smoothing (Mustikarini et al., 2021).

Bonus Plan

A bonus plan is compensation paid by management. Bonuses will incentivize management to conduct earnings smoothing initiatives because management has the authority to decide the company's accounting practices. This suggests that the bigger the bonus scheme, the greater the likelihood of earnings smoothing (Nirmanggi et al., 2020).

Winner/Loser Stock

Winner/Loser stock is a company's stock positioning, which can effect its earnings (Mustikarini et al., 2021). Winner/Loser stock is a dummy variable that classifies

corporations as winners or losers. Winner/Loser Stock is a categorization of firms based on their stock returns. Loser stock businesses smooth earnings in order to increase the company's worth and gain a position in the winning stock.

Hypotheses of the research

The Effect of Cash Holding on Income Smoothing

Nirmanggi et al. (2020) and Putri et al. (2018) state that cash holding has a big and favorable impact on earnings smoothing. The more cash a corporation has, the more profits smoothing it does. The presence of cash in the company results in an item that can be utilized to flatten earnings. Meanwhile, Fachrorozi et al. (2017) discovered that cash holding had an insignificant yet favorable influence on income smoothing.

H1: Cash holding affects income smoothing

The Effect of Bonus Plan on Income Smoothing

The quantity of bonus paid is not the primary motivator for management to implement income smoothing. Bonus plans or bonus payouts are paid when management meets the firm owner's aim. Companies that offer bonus benefits make every effort to reach their targets. Management will apply accounting methods by transferring profits from future periods to the current quarter. Nirmanggi et al. (2020) demonstrate that one of the management may be measured based on the bonus received; the quantity of bonus given is determined by the business's profit; the higher the profit, the greater the compensation the firm would receive.

H2 : Bonus plan affects income smoothing

The Effect of Winner / Loser Stock on Income Smoothing

Lisda et al. (2018) state that stable earnings will influence stable stock price fluctuations. Stable profits offer investors the impression that the expected level of stock return is high and the level of risk from the stock portfolio is low, making the company's performance appear positive. When the company is in winner stock status, the company will preserve its status as winner stock and prevent changing to loser stock by smoothing the volatility in earnings created.

H3 : Winner / loser stock affects income smoothing

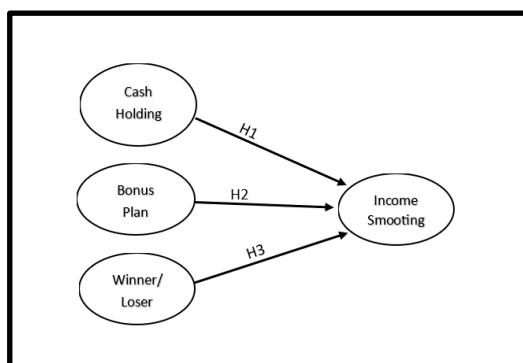


Figure 1. Proposed Conceptual Framework

3. METHODOLOGY

Research Type This study used a quantitative research strategy with secondary data for all variables. The population includes food and beverage companies listed on the IDX in 2022-2023. The sample employed the Purposive Sampling technique, with a total of 19. The dependent variable (Y) in this study is income smoothing according to Sanjaya et al. (n.d.) to measure income smoothing the following ratio and criteria are used:

$$\text{Indeks Excel} = \frac{CV\Delta I}{CV\Delta S}$$

Table 1. Criteria for Income Smoothing Practices

Description	Description
$CV\Delta I > CV\Delta S$	Performing Income smoothing action
$CV\Delta S < CV\Delta I$	Not Performing Income smoothing action

Independent Variable in this study is Cash Holding, Bonus Plan and Winner/ Loser Stock. The formula for calculating cash holdings (Ningrum et al., 2021):

$$\text{Cash Holding} = \frac{\text{Cash and Cash Equivalents}}{\text{Total Aset}}$$

Bonus Plan, According to Natalie et al. (2016) The bonus scheme can be structured as follows:

$$\text{Bonus Plan} = \text{Ln.Remuneration}$$

Winner/Loser Stock

According to Jogyanto et al. (2010) the formula for calculating winner / loser stock is as follows:

$$R_{mt} = \frac{IHS G_t - IHS G_{t-1}}{IHS G_{t-1}}$$

Data analysis using classical assumption test and multiple regression analysis.

4. RESULTS

Classical Assumption Test

a. Data Normality Test

**Table 2. Data Normality Test After Transformation
One Sample Kolmogorov Smirnov**

		Unstandardized Residual
N		38
Normal	Mean	,0000000
Parameters ^{a,b}	Std.	
	Deviation	2,04686321
Most Extreme	Absolute	,087
Differences	Positive	,066
	Negative	-,087
Test Statistic		,087
Asymp. Sig. (2-tailed)		,200 ^{c,d}

The results of the one-sample Kolmogorov-Smirnov test table show that the test statistic value is 0.087 at a significance level of 0.200. Because the significance value is $0.200 > 0.05$, the data can be viewed as meeting the traditional normality assumption test, i.e., being regularly distributed.

Multiple Regression Analysis

Multiple Regression Analysis is used to correlate two or more independent or dependent variables.

Table 3. Multiple Linear Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-3,466	2,092		-1,657	,107
Cash holding	-,153	,158	-,154	-,972	,338
Bonus plan	,920	,735	,198	1,252	,219
Winner/loser stock	-1,295	,530	-,388	-2,440	,020

The coefficient of determination in this study employs the Adjusted R-Square as follows:

Table 4. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.469 ^a	.220	.151	1.37084

According to table 4, the test results of the coefficient of determination (R^2) show a value of 0.151 or 15.1%, indicating that the cash holding variable, bonus plan, and winner / loser

stock have a 15.1% influence on income smoothing, while the rest is influenced by variables not included in this model.

5. DISCUSSION

The effect of cash holding on income smoothing

According to the results of hypothesis testing, the cash holding variable has no effect on income smoothing. This demonstrates that the company's high and low cash holdings do not impair its ability to practice income smoothing. The findings of this study do not support the agency theory, which argues that the more cash a corporation has, the more income smoothing it performs. This occurs because manufacturing organizations, on average, have minimal free cash flow, resulting in low agency difficulties, and managers are not incentivized to apply income smoothing in their companies. The results of this investigation are consistent with Nirmanggi et al. (2020), Eni et al. (2018) It asserts that cash holding has no influence on income smoothing.

The effect of bonus plan on income smoothing

According to the results of hypothesis testing, the bonus plan variable has no effect on income smoothing. A company's bonus plan, whether it is bigger or lesser, has no effect on its ability to implement income smoothing. The findings of this study do not support agency theory, which claims that management desires to pay bigger bonuses, leading management to select accounting practices that can shift profits for the goal of receiving bonuses, such as smoothing earnings. This suggests that the bonus plan is not a significant factor in management's decision to take earnings smoothing action. According to the present sample, a large bonus plan cannot influence management in income smoothing. The results of this study are in line with Nirmanggi et al. (2020) and Mustikarini et al. (2021), They claim that the bonus plan has no effect on income smoothing.

The effect of winner / loser stock on income smoothing

According to the results of hypothesis testing, the winner/loser stock variable has an impact on income smoothing. This means that both winning and losing organizations will use earnings smoothing. Stable earnings will result in stable stock price fluctuations. It also offers investors the impression that the predicted stock return is high with a low level of stock portfolio risk, making the company's performance level appear good. Winner firms will carry out earnings smoothing techniques to keep their status as winners and aim to prevent transitioning to loser stocks by smoothing earnings to maintain swings in profits earned. Meanwhile, loser firms will use earnings smoothing techniques to gain a place in the winner stock by paying attention to variations in their profits. Loss-making stock businesses, on the other hand, are more likely to smooth their earnings. The study's findings corroborate agency theory due to the unidirectional interaction between managers and owners. The owner wants earnings smoothing to help stable profits, however the manager is less concerned because the company's stock price is fluctuating. These results are consistent with study conducted by Arfan et al. (2010), Adhana et al. (2019) It states that winning and losing stocks have no influence on income smoothing.

6. CONCLUSION

Based on data analysis, hypothesis testing, and discussions conducted on food and beverage sub-sector companies listed on the Indonesian stock exchange in 2020-2021, the following conclusions can be drawn: Income smoothing is unaffected by cash holdings, bonus plans, or winner/loser stocks. The study's drawback is that it employs the Excel Index, which only identifies companies that use false earnings smoothing and does not identify all organizations that attempt to do so.

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