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JOURNAL

THE EFFECT OF CASH HOLDING, DIVIDEND PAYOUT RATIO AND FINANCIAL LEVERAGE ON INCOME SMOOTHING PRACTICES

Salsabila Dara Aulia
I Gusti Ketut Agung Ulupui
Hera Khairunnisa
salsabiladraulia@gmail.com
Faculty of Economy and Business, State University of Jakarta

Abstract:

This study aims to analyze the effect of Cash Holding, Dividend Payout Ratio, and Financial Leverage on Income Smoothing practices in energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Income Smoothing is measured using the Eckel Index, and the data is analyzed using panel data regression with the Random Effect Model approach. The results indicate that the Dividend Payout Ratio has a negative and significant effect on Income Smoothing. Meanwhile, Cash Holding and Financial Leverage show no significant effect. The adjusted R-squared low value suggests that the three independent variables explain only a small portion of the variation in Income Smoothing, indicating the need to consider other influencing factors in future research.

Keywords: Cash Holding, Dividend Payout Ratio, Energy sector, Financial Leverage, Income Smoothing.

BACKGROUND

Financial statements are the final result of the accounting process. They consist of five reports: financial statements describing profitability, assets, liabilities, changes in owner's equity, transactions that generate cash flow, and notes to the financial statements. These financial statements must also comply with established regulations, namely standard auditing standards, or in Indonesia, the Statement of Financial Accounting Standards (PSAK).

Financial statements are one of the tools used to determine a company's financial condition. They provide an overview of the company's financial position and its performance in generating profits. Users of financial statements, such as investors, creditors, the government, and shareholders, typically refer to financial statements for decision-making (Ernayani et al., 2020). Profit information is a crucial parameter in financial statements because it is used to assess management performance. As stated in Statement of Financial Accounting Concepts (SFAC) No. 1, profit information is generally a management responsibility and is a primary concern for managers in assessing performance. This profit information helps managers assess the company's future earning power. Before investing in a company, investors will examine its performance through financial reports. Among the various types of financial reports, company management focuses on the income statement, specifically how to generate high profits to

attract investors. The development of a company's profits significantly impacts its future, as evidenced by investors' preference for companies with stable stock prices over companies with high profit growth (Setyaningsih et al., 2021). Investors are seen as crucial to a company's sustainability. The tendency for stakeholders to focus on profit information can lead management to seek out various means to maintain the company's profit stability, including through earnings management practices such as income smoothing.

Several previous studies have examined income smoothing practices. Research conducted by Anwar & Gunawan (2020) concluded that cash holdings have a positive and significant effect on income smoothing. Meanwhile, research conducted by Mangngalla & Kartini (2021) concluded that cash holdings have no significant effect on income smoothing. Furthermore, research conducted by Angreini & Nurhayati (2022) concluded that cash holdings have a significant positive effect on income smoothing.

Research by Khoirul Kabib et al. (2020) found that profitability and financial leverage partially have a significant positive effect on income smoothing. Meanwhile, research conducted by Angreini & Nurhayati (2022) concluded that leverage has no effect on income smoothing. Research by Khoirul Kabib et al. (2020) also found that the dividend payout ratio partially has an insignificant negative effect on income smoothing.

Based on the explanation above, the researcher observed a gap in research on the effect of Cash Holding, Dividend Payout Ratio, and Financial Leverage on Income Smoothing due to inconsistencies in previous research. The purpose of this study was to reexamine and update the independent variable testing used in previous studies. Therefore, the researcher conducted a study entitled "The Effect of Cash Holding, Dividend Payout Ratio, and Financial Leverage on Income Smoothing Practices."

THEORETICAL FRAMEWORK

Agency Theory

Agency theory states that a company is a nexus of contracts, a place where contracts between various parties meet, potentially giving rise to conflicts of interest. Jensen & Meckling (1976) explain that a company is a collection of contracts between the owner of economic resources (principal) and management (agent), who manages the use and control of those resources.
Primanita & Setiono (2006) state that a person's inherent characteristic is to prioritize or prioritize their own interests. Management (agent) does not always act in the best interests of the owner (principal), so management (agent) tends to manipulate profits.
Eisenhardt (1989) suggests that agency theory relies on the basic assumptions of human nature: self-interest, limited thinking, and a lack of foresight (bounded rationality), and risk aversion. One of the fundamental human traits is self-interest, meaning a tendency to prioritize oneself and an unwillingness to sacrifice for others. Based on this basic assumption, managers, as human beings, will act opportunistically, meaning they will strive to prioritize their own interests.

Beaver (2002), in accordance with agency theory, argues that accrual management motivations can be grouped into two categories:

1. Opportunistic Motivation
   Opportunistic motivation can be implemented by management through aggressive accounting policies that lead to overstating earnings and income smoothing. This opportunistic motivation is carried out by management in relation to compensation based on contracts agreed with owners.
2. Signaling Motivation
   In signaling motivation, management implements accrual policies that lead to earnings persistence. Management strives to present financial information, particularly earnings, as effectively as possible because this relates to performance and in the hope of sending a signal to shareholders.

Earnings Management

Earnings management is a common business practice used to influence a company's financial statements to improve its image or achieve specific performance targets (Nopriyanto, 2023). This concept involves management actions to manipulate or alter financial statements. The primary goal of earnings management is to produce figures that appear better than they actually are, particularly those related to revenue and net profit.

Earnings management stems from the divergence of interests between the owners, namely shareholders, and the company's management, namely management. Management is required to provide signals or signals regarding the company's condition to the owners. However, sometimes the information provided does not align with the actual situation, often referred to as information asymmetry. The greater the level of information asymmetry between management and stakeholders, the more difficult it is for stakeholders to obtain relevant information and monitor management actions (Argarinjani, 2023).

In the financial reporting process, managers often engage in intentional earnings management practices for personal gain (Lindra et al., 2022). Managers can choose various methods or specific accounting policies to increase or decrease reported earnings. In doing so, they can shift profits from the current period to future periods.

According to Scott (2015), earnings management patterns are divided into four:

1. Taking a bath: This pattern occurs during periods when a company is experiencing organizational problems or is undergoing restructuring. This pattern is implemented by eliminating assets that could incur future costs.
2. Income minimization: This pattern is implemented when company profits are high, so that if profits for the next period are expected to decline significantly, they can be anticipated by taking profits from the current period.
3. Income maximization: In this pattern, company managers report high net income in the hope of receiving a larger bonus. This pattern is implemented by deferring costs and accelerating revenue recognition.
4. Income Smoothing: This pattern is implemented by smoothing reported profits to ensure relatively stable and low-risk profits.

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Income Smoothing

Understanding Income Smoothing

Income smoothing is a pattern of earnings management that falls under agency theory. Agency theory states that earnings management is influenced by conflicts of interest between management (agents) and owners (principals) that arise from the desire to maximize their respective interests. Income smoothing arises from agency problems related to the separation of ownership and control. Agency problems are caused by information asymmetry. Income smoothing is a tool used by management to reduce the variability of reported earnings sequences relative to several target sequences due to manipulation of accounting variables or transactions (Algery, 2013). Managers employ income smoothing strategies by increasing or decreasing reported earnings to mitigate fluctuations. (Subramanyam, 2014)

Many factors trigger managers to engage in income smoothing. One such factor is that investors' attention tends to focus on earnings information without considering the process used to achieve those earnings levels. Therefore, managers exploit this situation to smooth earnings to stabilize earnings in accordance with their desires. This is done to attract investors, hoping to motivate them to invest in companies with these relative earnings. Another reason management engages in income smoothing through accounting methods is to maximize profits (Algery, 2013).

The model commonly used to detect income smoothing is the Eckel Index. The Eckel Index compares the coefficient of variation of income with the coefficient of variation of sales over a given period. The formula for the Eckel Index is as follows:

$$Eckel\ Index = \frac{\text{CV } \Delta\text{I}}{\text{CV } \Delta\text{S}}$$

Description:
CV ΔI = Coefficient of Variation of Income
CV ΔS = Coefficient of Variation of Sales

Cash Holding

Cash holding is the amount of cash a company holds to carry out various corporate activities. Agency theory states that the conflict between management and shareholders leads each party to desire to hold cash within the company (cash holding). Keynes's The General Theory of Employment, Interest & Money (Schumpeter & Keynes, 1936) explains three reasons or motives for holding cash: the transaction motive, the precautionary motive, and the speculative motive. The transaction motive involves cash being used to pay for goods and services/daily transactions. The precautionary motive involves cash being used for investment (e.g., in the form of stocks/bonds) because investments are considered safe and rarely lose value. The speculative motive, on the other hand, is that investors expect the maximum rate of return on their investments.

Managerial performance is measured by the actions taken to maintain a stable cash balance within the company. Managers use cash holding to minimize external financing and company

operations. Cash holding is liquid, short-term, and easily converted into cash in certain amounts without experiencing significant changes in value. Cash holdings are easily controlled by managers, thus motivating them to pursue personal interests. Company management tends to choose accounting methods that shift profits, one of which is through income smoothing (Ningrum et al., 2021).

Cash holdings are significantly and directly related to income smoothing, meaning that the higher the cash holdings or the higher the cash holdings within the company, the higher the income smoothing. Cash held within a company is typically used for operational costs, investments, or held for precautionary reasons, so cash can be significantly and directly related to income smoothing (Nirmanggi & Muslih, 2020).
Cash holdings are cash or cash equivalents held by a company. Cash holdings are measured by cash and cash equivalents divided by net assets, where net assets are total assets minus cash and cash equivalents. Cash holdings can be calculated using the following formula:

Cash Holdings = (Cash and cash equivalents) / (Total Assets)

Dividend Payout Ratio

The Dividend Payout Ratio is defined as the ratio of dividends paid to shareholders to the company's net income. The Dividend Payout Ratio (DPR) is the ratio of total dividends paid to shareholders to the company's net income. It represents the percentage of a company's earnings paid to shareholders in the form of profit sharing or dividends. Any earnings not paid to shareholders are retained by company management to pay debts or reinvested in business operations (Meilina & Tjong, 2021). According to Sutrisno (2017) in Nurhayati et al. (2020), dividend policy is one of the policies management must adopt regarding whether the company's profits earned during a period will be distributed entirely, partially as dividends, and partially retained as retained earnings.

The theories underlying dividends include: Dividend Irrelevance Theory. This theory was proposed by Merton Miller and Franco Modigliani (MM). According to the Dividend Irrelevance Theory, dividend policy does not affect a company's stock market price or firm value. Modigliani and Miller argue that a company's value is solely determined by its ability to generate revenue (earning power) and business risk. The division of revenue streams between dividends and retained earnings does not affect the company's value. Bird-in-the-Hand Theory. This theory was put forward by Myron Gordon and John Lintner. Based on the Bird-in-the-Hand Theory, dividend policy has a positive effect on stock market prices. This means that if a company distributes higher dividends, the company's stock market price will increase, and vice versa. Tax Preference Theory. Based on Tax Preference Theory, dividend policy has a negative effect on a company's stock market price. This means that the higher the dividends a company distributes, the lower its stock market price. Dividend policy in this study is proxied by the Dividend Payout Ratio (DPR). The Dividend Payout Ratio can be formulated as follows:

Dividend Payout Ratio = (Dividend Per Share (DPS)) / (Earning Per Share (EPS))

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Financial Leverage

Financial leverage shows how a company's assets are financed by debt. Financial Leverage also creates profit-making practices for a company because the company avoids violating agreements. Debt is measured by a company's ability to repay its debts with its assets. Companies with high levels of leverage are identified as having high corporate risk, and vice versa. This encourages company management to reduce the ratio by stabilizing the company's profit level, one of which is through income smoothing (Mardiana & Yulianasari, 2018).
Higher leverage indicates a greater proportion of assets used to finance investment, which means increased financial risk, and vice versa. In general, creditors prefer a company's lower debt levels because lower debt levels mean higher funding levels available to investors and greater protection against the risk of default.

Financial leverage arises from the existence of fixed financial obligations that a company must meet. These fixed financial obligations do not change with changes in EBIT levels and must be paid regardless of the company's EBIT level (Algery, 2013).

The leverage ratio is a ratio found in financial statements that can indicate the extent to which a company is financed by debt compared to its capacity, as represented by capital. It can also indicate the proportion of assets used to secure the debt (Hendra et al., 2018). This ratio serves to determine what portion of each capital is used as collateral for debt. Therefore, the measurement used in this study is the Debt to Equity Ratio (DER). The higher the debt to equity ratio, the less owner's capital can be used as collateral for debt. Financial leverage in this study is proxied using the debt to equity ratio (DER).

DER = (Total Debt) / (Total Equity)

METHOD

The unit of analysis is the research object that will be analyzed throughout the study to test its influence on a specific hypothesis. The unit of analysis can be an individual, a company, or an organization. The unit of analysis used in this study is energy sector companies listed on the Indonesia Stock Exchange from 2022 to 2024. The population in this study is energy sector companies listed on the Indonesia Stock Exchange from 2022 to 2024. The research sample was selected using purposive sampling based on specific criteria. This purposive sampling method was used because not all research objects met the criteria required by this study.

The following are some of the sample selection criteria for this study:

a. Energy sector companies consecutively listed on the Indonesia Stock Exchange from 2022 to 2024.
b. Energy sector companies that have published audited annual financial reports on the Indonesia Stock Exchange website from 2022 to 2024.
c. Energy sector companies that disclose relevant data in their audited annual financial reports for the 2022-2024 period.

The data collection technique used in this study is secondary data with quantitative methods, where data is obtained from the audited annual financial reports of publicly listed companies in the energy sector for the period 2022-2024. The audited annual financial reports of these companies were obtained from the official website of the Indonesia Stock Exchange (IDX),

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www.idx.co.id, and the websites of each company. The data will then be processed using the Ms. Excel application and the Eviews statistical data processing program.

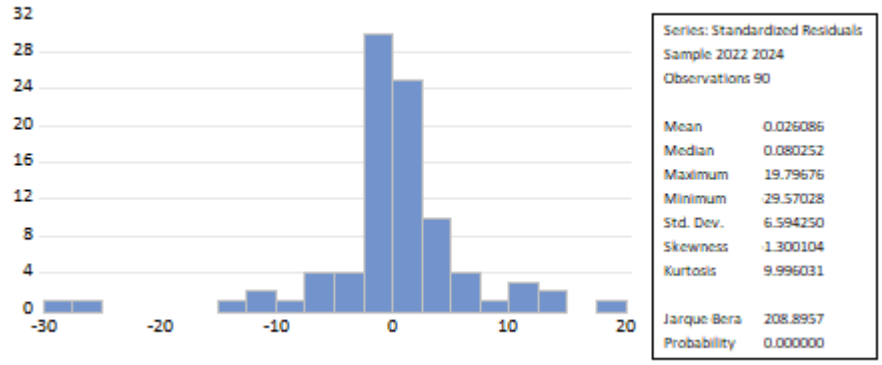
RESULT

Before conducting panel data regression analysis and hypothesis testing, the initial stage in data processing is to test the classical assumptions.

1. Normality Test

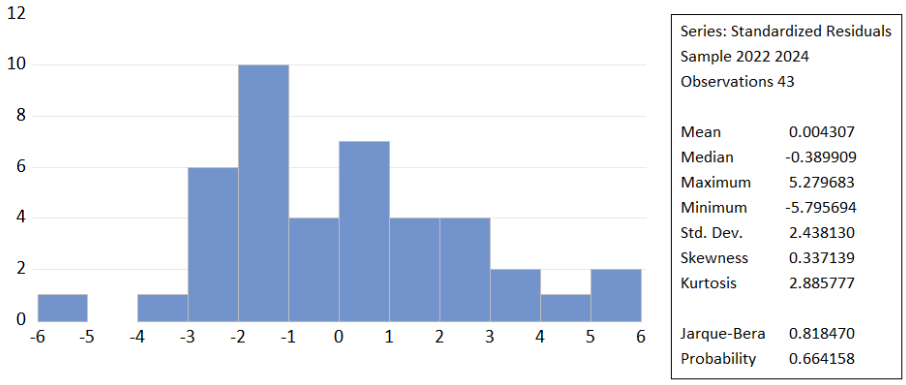
The data normality test in this study used the Jarque-Bera test. When the Jarque-Bera probability value is >0.05, it can be concluded that the data is normally distributed. However, if the Jarque-Bera probability value is <0.05, it can be concluded that the data is not normally distributed. The results of the normality test in this study are:

FIGURE 4.1 NORMALITY TEST RESULTS – BEFORE OUTLIERS



Based on the output above, the Jarque-Bera test shows a probability value of 0.00, which is lower than the significance level of 0.05. This result indicates that the assumption of residual normality has not been met. Therefore, an outlier test was conducted, which identified 66 extreme data points. These extreme data were subsequently removed, resulting in a final dataset of 129 observations derived from 43 companies used in this study.

FIGURE 4.1 NORMALITY TEST RESULTS – AFTER OUTLIERS



Based on the output above, the Jarque-Bera test shows a probability value of 0.66, which is greater than 0.05. This result indicates that the assumption of residual normality has been met, allowing the analysis to proceed to the next testing stage.

2. Multicollinearity Test

This test stipulates that if the correlation value of each independent variable is >0.85, multicollinearity occurs. However, if the correlation value of each independent variable is <0.85, multicollinearity does not occur. The results of the multicollinearity test in this study are:

FIGURE 4. 2 MULTICOLLINEARITY TEST RESULTS

CH	DPR	DER
1,000000	0,116062	-0,495817
0,116062	1,000000	0,080921
-0,495817	0,0800921	1,000000

Based on Figure 4.2, the correlation coefficient between the independent variables is <0.85, thus concluding that multicollinearity does not occur in this study.

3. Heteroscedasticity Test

The heteroscedasticity test method in this study uses the Glejser test. If the Chi-square probability value for Obs* R-Squared is > α 0.05, heteroscedasticity does not occur. The results of the heteroscedasticity test in this study are:

Dependent Variable: ABS(RESID)
Method: Panel EGLS (Cross-section random effects)
Date: 07/23/25 Time: 00:54
Sample: 2022 2024
Periods included: 3
Cross-sections included: 17
Total panel (unbalanced) observations: 42
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.161105	0.638878	1.817414	0.0770
CH	2.645978	2.466441	1.072792	0.2901
DPR	-0.230989	0.251914	-0.916936	0.3650
DER	0.600348	0.358319	1.675458	0.1021

Based on the figure, it is known that the probability value is > α 0.05, thus it can be concluded that the regression model used in this study is free from heteroscedasticity.

4. Autocorrelation Test

According to Ajija et al., (2020), panel data generally combines cross-sectional and time series data. Because this type of combined data has a more complex structure, several classical assumption tests are not required, one of which is the autocorrelation test. Autocorrelation testing on non-time series

data, such as cross-sectional or panel data, would be futile or meaningless (Basuki and Prawoto, 2017). In panel data, although there is time series data, it is not a pure time series (non-recurring time).

1.1.1 Panel Data Regression Model Selection Test

To determine the best model among the Fixed Effect Model, Random Effect Model, and Common Effect Model on panel data, several tests were performed, including the Chow test, the Hausman test, and the Lagrange Multiplier test.

1. Chow Test Estimation Results
   The Chow test is used to determine whether a fixed effects model or a common effects model is more appropriate in panel data analysis. The results of the Chow test in this study are presented in the following table:

TABLE 4.3 CHOW TEST RESULTS

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.419504415570171	(16,22)	0.21958...
Cross-section Chi-square	29.78644404543923	16	0.01914...

Based on the results of the Chow test, shown in Table 4.3, a probability value of 0.0191 was obtained. This value is less than 0.05, so it can be concluded that the Fixed Effect model is more appropriate than the Common Effect model. After the Chow test is conducted, the next step is to test whether the Fixed Effect or Random Effect model is more appropriate, using the Hausman test.

2. Hausman Test Estimation Results
   The Hausman test is used to determine whether the fixed effect or random effect model is used. The results of the Hausman test in this study are presented in the following table: The test results in Table 4.4 show that the Cross-Section Random Prob. value is 0.2227, which is greater than the 5% significance level (0.2227 > 0.05). Based on these results, it can be concluded that the Random Effect model is more appropriate than the Fixed Effect model. After the Hausman test is performed, the next step is to test the relationship between the Common Effect and Random Effect methods using the Lagrange Multiplier test.

3. Lagrange Multiplier Test Estimation Results
   The Lagrange Multiplier (LM) test is a method for determining whether the most appropriate panel data regression model is the Common Effect Model (CEM) or the Random Effect Model (REM). This test is used if a choice between the CEM and FEM models has not been made beforehand, and is only relevant when the Common Effect model is still considered suitable for use.

   However, in this study, based on the Chow test results shown in Table 4.3, the probability value was less than 0.05, so the Common Effect model was rejected and the more appropriate model was the Fixed Effect Model. Therefore, the Lagrange Multiplier test was not performed in this study, as the Common Effect model was deemed unsuitable for use in the initial stage of panel

data regression model selection. Therefore, the panel regression model used in this study was the Random Effect Model (REM).

Based on the results of the model testing conducted above, it can be concluded that the most suitable model to be used in this study is the random effect model. In this study, the author used statistical software, namely Eviews 12. From the results of the panel data regression calculation, the output and equation of the panel data regression relationship are obtained as follows:

Effects Specification

	S.D.	Rho
Cross-section random	0.917835	0.1340
Idiosyncratic random	2.333105	0.8660

Weighted Statistics

R-squared	0.186356	Mean dependent var	1.590613
Adjusted R-squared	0.122121	S.D. dependent var	2.516989
S.E. of regression	2.360545	Sum squared resid	211.7425
F-statistic	2.901153	Durbin-Watson stat	1.661032
Prob(F-statistic)	0.047331		

Unweighted Statistics

R-squared	0.198881	Mean dependent var	1.897619
Sum squared resid	243.7243	Durbin-Watson stat	1.443069

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.525054	1.089976	1.399163	0.1699
CH	3.126033	4.170404	0.749576	0.4581
DPR	-1.158585	0.397089	-2.917695	0.0059
DER	0.616116	0.616782	0.998920	0.3242

Thus, the panel data regression equation formed in this study is as follows:

IS = 1,5250 + 3.1260CH - 1.1585DPR + 0.6161DER + ε

The regression model equation is explained as follows:

1. The constant (α) of 1.5250 indicates that if the Cash Holding (CH), Dividend Payout Ratio (DPR), and Debt to Equity Ratio (DER) variables are held constant (zero), then the Income Smoothing (IS) value is estimated at 1.5250.
2. The CH coefficient of 3.1260 indicates that every one-unit increase in Cash Holding, assuming other variables remain constant, will increase the Income Smoothing value by 3.1260. This indicates a positive relationship between CH and Income Smoothing practices.
3. The DPR coefficient of -1.1585 indicates that every one-unit increase in the Dividend Payout Ratio, assuming other variables remain constant, will decrease the Income Smoothing value by 1.1585. This indicates a negative influence of DPR on Income Smoothing practices in the companies in the study sample.
4. The DER coefficient of 0.6161 indicates that every one-unit increase in the Debt-to-Equity Ratio, assuming other variables remain constant, will increase the Income Smoothing value by 0.6161. Thus, DER has a positive effect on Income Smoothing.

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1.1.2 Hypothesis Testing

The hypothesis testing analysis in this study was conducted to determine the effect of each independent variable (Cash Holding, Dividend Payout Ratio, and Financial Leverage) on Income Smoothing practices. After obtaining the best model for panel data regression, the next stage was hypothesis testing, which included a t-test, a model fit test (F-test), and a coefficient of determination test. The description of each hypothesis test is as follows:

1. Partial Significance Test (t-Test)
   The t-test aims to examine the effect of each independent variable on Income Smoothing individually. The test was conducted based on a panel data regression model with a previously established Random Effects Model (REM) approach. The test results are explained in Figure 4.4 as follows:
   a. Cash Holding (CH): Based on the results of the hypothesis test, the Cash Holding (CH) variable has a coefficient value of -3.1260, a t-statistic of 0.7496, and a probability value of 0.4581. Because the probability value is greater than 0.05, it can be concluded that Cash Holding does not significantly influence income smoothing practices. Therefore, hypothesis H1 in this study is rejected. These results indicate that the level of cash held by energy sector companies during the 2022–2024 period does not have a statistically strong relationship with the company's tendency to smooth income. Although cash can theoretically provide management with flexibility in preparing financial statements, this finding was not significantly proven in this study.
   b. Dividend Payout Ratio (DPR): Based on the regression results, the Dividend Payout Ratio (DPR) variable has a coefficient value of -1.1586, with a t-statistic of -2.9177 and a probability value of 0.0059. Because the probability value is less than 0.05, it can be concluded that the DPR has a negative and significant effect on income smoothing. Therefore, hypothesis H2 in this study is accepted. Based on the research results, the greater the proportion of profits distributed as dividends, the less likely the company is to engage in income smoothing. This result supports the understanding that companies with a high dividend distribution policy tend to maintain credibility and transparency with investors, thereby minimizing the potential for earnings management.
   c. Financial Leverage (DER): For the Debt to Equity Ratio (DER) variable, the coefficient value is 0.6161, the t-statistic is 0.9989, and the probability value is 0.3242. Because the probability value is greater than 0.05, it can be concluded that DER does not have a significant effect on income smoothing. Therefore, hypothesis H3 in this study is rejected. These results indicate that the company's leverage level during the observation period is not strong enough to explain management's tendency to engage in income smoothing. In other words, the energy sector companies in this study sample do not use debt structures as a basis for income smoothing.

2. Model Fit Test (F Test)

The F test is used to determine whether the three independent variables jointly influence income smoothing. The results of the F-statistic test show an F value of 2.9012 with a probability value (Prob. F-statistic) of 0.0473. Because the probability value is less than the 5% significance level (0.0473 < 0.05), it can be concluded that this regression model is simultaneously significant. This means that the three independent variables used in the model jointly have a significant influence on income smoothing practices. This indicates that, although not all independent variables show a significant effect. While the individual variables are significant, the overall model is adequate to explain the dependent variable.

3. Coefficient of Determination (Adjusted R^2)

Based on the panel data regression results in Figure 4.4, the R-squared value of 0.1863 indicates that approximately 18.63% of the variation in Income Smoothing practices can be explained by the regression model containing Cash Holding (CH), Dividend Payout Ratio (DPR), and Debt to Equity Ratio (DER). Meanwhile, the adjusted R-squared value of 0.1221 indicates that, after adjusting for the

number of variables and observations, only 12.21% of the variation in the dependent variable, Income Smoothing, can be explained by the three independent variables used in the model: Cash Holding (CH), Dividend Payout Ratio (DPR), and Debt to Equity Ratio (DER).
The low adjusted R-squared value indicates that there are still many other factors outside the model that influence Income Smoothing practices, such as profitability, company size, audit quality, ownership structure, as well as external factors such as energy industry regulations and fluctuations in global commodity prices.

DISCUSSION

4.3.1 The Effect of Cash Holdings on Income Smoothing Practices

The test results indicate that cash holdings have a positive but insignificant effect on income smoothing practices. This indicates that the amount of cash held by a company does not significantly encourage managers to engage in income smoothing practices in the context of energy companies during the 2022–2024 period.

In theory, companies with high cash levels have greater financial flexibility. According to agency theory, this flexibility could potentially be used by managers to engage in earnings management, including income smoothing, to achieve specific targets or adjust market perceptions of financial performance stability (Jensen & Meckling, 1976). However, the empirical results in this study do not support this hypothesis.

In practice, energy companies tend to retain cash for financing long-term investments such as infrastructure development and renewable energy projects. For example, PT Pertamina Geothermal Energy Tbk reported using cash for a geothermal expansion project requiring significant capital expenditures (PGE Financial Report, 2023). Therefore, cash is used more for operational and investment purposes than for managing earnings.

This finding aligns with research by Irawan and Anindyajati (2020), which found that cash holdings had no effect on income smoothing practices in non-financial companies in Indonesia. Similar results were also found by Rachmawati and Oktaviani (2021) in their study of manufacturing companies, which showed that high cash holdings tended to be used to maintain liquidity, rather than for accounting manipulation.

Conversely, research has shown a significant effect of cash holdings on income smoothing, such as the study by Kim et al. (2011) in the South Korean market. They found that companies with high cash levels were more likely to engage in income smoothing to maintain investor relations and maintain stock price stability. However, differences in industry context and ownership structure may explain why these findings differ from the results in this study.

The context of the energy sector in Indonesia provides additional insight. This industry generally faces regulatory uncertainty, fluctuations in global commodity prices, and significant capital requirements for large-scale, long-term projects. These conditions make cash holdings a crucial element to support operational continuity, rather than a flexible tool for opportunistic earnings management.

Furthermore, energy companies that are state-owned enterprises (SOEs) or affiliated with the government often have stricter internal controls in financial management. Therefore, the likelihood of using cash for manipulative practices such as income smoothing is reduced. This

aligns with the opinion of Setiawan and Widagdo (2022), who stated that companies with strong governance mechanisms tend to be more transparent and accountable in their financial reporting.

These results also confirm that, in the context of energy companies in Indonesia, managerial decisions regarding cash management are more influenced by the company's strategic needs and sector characteristics, rather than the incentive to aggressively manage profits. This is important for investors and policymakers to consider when assessing the financial behavior of companies in the energy sector.

Several other factors that may explain these results include strict regulations on financial reporting and oversight by external and internal auditors. Many energy companies are public companies or subsidiaries of state-owned enterprises (SOEs) that are subject to regulations from the Financial Services Authority (OJK), thus minimizing the scope for manipulative practices. Under these conditions, even with high cash holdings, the opportunity for income smoothing remains limited due to strong control and reporting mechanisms.

In terms of the influence of ownership structure, companies with high institutional and public ownership tend to experience greater pressure to maintain transparency. Large institutional ownership often comes with strict monitoring of managerial activities, including cash management. Thus, market mechanisms and corporate governance can mitigate managers' tendency to use cash for income smoothing practices.

Furthermore, it is also important to consider macroeconomic conditions during the study period. 2022 to 2024 is the post-COVID-19 pandemic recovery period, during which many companies face operational and financing uncertainty. In such conditions, maintaining liquidity in the form of cash becomes a top priority, not a means of performance manipulation. Energy companies also face pressure.

The global commitment to a sustainable energy transition has led to the focus of cash management being directed towards investments that support ESG (environmental, social, and governance) targets.

4.3.2 The Effect of the Dividend Payout Ratio on Income Smoothing Practices

The dividend payout ratio shows a significant negative effect on income smoothing practices. This means that the greater the proportion of profits distributed to shareholders in the form of dividends, the less likely a company is to engage in income smoothing. This result suggests that profit distribution through dividends can serve as a disciplinary mechanism that reduces the need for management to manipulate financial statements.

This finding supports signaling theory, which states that dividend policy is a means of management communicating to the market about the company's future prospects (Ross, 1977). By consistently distributing dividends, companies signal that they have stable cash flows and strong financial performance, thus eliminating the need to use income smoothing practices to stabilize reported earnings. Signaling theory also explains that under conditions of information uncertainty, investors will pay close attention to signals sent by management as indicators of the company's internal financial condition.

In the context of energy companies, dividend policy reflects management's confidence in the sustainability of financial performance despite external challenges such as fluctuating global energy prices or pressures from the energy transition. For example, PT Medco Energi Internasional Tbk maintained its dividend policy in 2023 despite energy market volatility. This move indicates that the company chooses to demonstrate stability and performance through dividend policy rather than accounting manipulation.

Dividend policy is also often associated with greater oversight of managers. High dividend distributions can limit managers' discretionary resources for opportunistic use, including through income smoothing practices. In other words, the Dividend Payout Ratio acts as an effective internal control mechanism, especially in companies with dispersed ownership structures. Furthermore, regular dividend payments create stable market expectations regarding company performance, encouraging management to focus on long-term value creation rather than short-term earnings manipulation.

Companies operating in highly volatile industries, such as energy, often face pressure from various parties to demonstrate stable performance. However, the findings of this study suggest that consistently paying dividends may be a more ethical and sustainable alternative to accounting manipulation. In other words, dividends are not only an incentive for investors but also a strategic financial policy instrument for maintaining corporate credibility.

Furthermore, in the context of corporate governance, significant dividend distributions can also strengthen the role of external oversight mechanisms. Institutional investors, financial analysts, and majority shareholders often use dividend policy as a benchmark for evaluating managerial performance. Therefore, companies that maintain stable dividends are likely to face less pressure to employ manipulative techniques such as income smoothing.

This research aligns with the findings of Putri and Mawardi (2017), who stated that the Dividend Payout Ratio negatively impacts income smoothing practices in manufacturing companies. These findings are also supported by several recent studies. Ahmed and Hussainey (2022) state that companies with stable dividend policies tend to reduce earnings manipulation practices because investors view dividends as a primary signal of a company's prospects, particularly in emerging markets. Chen and Wang (2021) show that even after the COVID-19 pandemic, companies that maintain stable dividend policies experience higher market confidence without resorting to income smoothing. A study of the Southeast Asian energy sector by Wulandari and Lestari (2023) found that dividends are a primary signal of earnings sustainability and reduce accounting variability. Findings by Kurniawan and Pratiwi (2024) also support the finding that in the Indonesian energy sector, stable dividends reduce management's tendency to engage in income smoothing because dividends adequately signal the company's financial stability.

4.3.3 The Effect of Financial Leverage on Income Smoothing Practices

The test results indicate that financial leverage has a positive effect on income smoothing practices, but this effect is not significant. This means that although While in theory, companies with high levels of debt have an incentive to maintain stable earnings to maintain creditor confidence, in practice, not all energy companies exhibit this tendency.

According to agency theory, managers of companies with high debt burdens will tend to engage in earnings management to reduce the risk of debt covenant default. DeFond and Jiambalvo

(1994) stated that income smoothing practices can be used to avoid debt covenant violations, especially in companies whose capital structure relies heavily on external financing. However, in the context of the energy industry, these findings suggest that the effect of leverage is not as strong as assumed.

Energy companies generally finance themselves through long-term project financing schemes, where project cash flows are the primary focus of creditors, rather than short-term profit fluctuations. Therefore, cash flow stability and project feasibility are of primary concern to creditors rather than annual net income statements.

For example, PT Adaro Energy Indonesia Tbk disclosed in its annual report that the majority of its funding comes from long-term institutional loans with maturities exceeding 10 years. In this case, creditors focus more on the project's ability to generate stable cash flows than on accounting profits. With this financing structure, the pressure to engage in income smoothing due to leverage is reduced.

Furthermore, the increased oversight of the energy industry by capital market authorities and independent auditors also reduces the likelihood of managers manipulating earnings, despite high levels of debt. A study by Sari and Mulyadi (2021) found that the effect of leverage on income smoothing is significantly reduced when companies are closely monitored by regulators.

This study's findings align with those of Rahmawati and Mawardi (2019), who showed that the debt-to-equity ratio (DER) has no effect on income smoothing practices in public companies in Indonesia. This finding is supported by research by Febrianti and Nurlina (2022), who analyzed energy sector companies and found that leverage has only a marginal effect on earnings management decisions, particularly in companies with strong governance. International research by Chen and Li (2022) in the context of energy companies in China also showed similar results, indicating that a company's debt structure does not significantly encourage income smoothing practices when the company has stable operating cash flows and is focused on long-term projects.

Thus, it can be concluded that Financial Leverage is not the main factor driving Income Smoothing in energy sector companies, because the industry characteristics and financing patterns are different compared to other sectors such as manufacturing or services.

CONCLUSION

Based on the results of a panel data regression analysis of 43 observations of energy sector companies from 2022 to 2024, as well as a series of statistical tests using classical assumption tests, panel regression model selection, t-tests, F-tests, and coefficients of determination, the following key findings can be concluded:

1. Cash Holding (CH) has no significant effect on income smoothing practices. This indicates that a company's cash level is not a determinant of income smoothing practices in the energy sector.
2. The Dividend Payout Ratio (DPR) has a negative and significant effect on income smoothing. The higher the dividends distributed, the lower the company's tendency to engage in income smoothing.

3. Financial Leverage (DER) has no significant effect on income smoothing, indicating that debt financing is not always a driving factor in income smoothing in energy sector companies.

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