CHAPTER V

CONCLUSIONS AND IMPLICATIONS

A. Conclusions

Based on the results of research on the effect of firm size and financial leverage on income smoothing with an independent board of commissioner as a moderator with the object of research on non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2020-2022 period which has been explained in the previous chapter, it can be concluded that:

1. Firm size has a positive effect on income smoothing, is accepted.
2. Financial leverage has no significant effect on income smoothing.
3. Independent board of commissioner is able to weaken the effect of firm size on income smoothing.
4. Independent board of commissioner is unable to weaken the effect of financial leverage on income smoothing.

B. Implications

1. Theory Implications

This study uses two theories that support each hypothesis, these theories include positive accounting theory and agency theory. The results showed that the first hypothesis (H_1) was accepted, where firm size has a positive effect on income smoothing. This proves that firm size has an influence on income smoothing and is in accordance with positive accounting theory in the political cost hypothesis, while for research implications in this theory can be used to support research related to the effect of firm size on income smoothing. Large companies tend to practice income smoothing because to avoid political costs that have an impact on the increase in tax costs that must be paid by the company, an example of a company that is suspected of practicing income smoothing is PT Akasha Wira Internasional Tbk (ADES).

However, it is different from the research results for the second hypothesis (H_2) which is rejected because of the difference in the direction of the relationship from financial leverage to income smoothing, which is negative. The negative effect of financial leverage on income smoothing is not in accordance with positive accounting theory in the debt covenant hypothesis. So the implications of this theory cannot support research related to the effect of financial leverage on income smoothing. The theory can be replaced by using signal theory which is more in line with the results of research related to the effect of financial leverage on income smoothing.

Signal theory explains that companies with high levels of financial leverage encourage creditors to pay more attention and be stricter in conducting supervision. Stricter supervision can reduce the possibility of dysfunctional behavior by management so as to minimize the company to carry out income smoothing. Conversely, companies with a low level of financial leverage will tend to do income smoothing, this is because when the financial leverage of the company is low, management will try to get larger loans from creditors. The income smoothing practice carried out by management aims to show creditors that the company has a low risk. This can provide a signal to creditors so that they are interested in lending their funds to the company.

The research results on the third hypothesis can be accepted, Independent board of commissioner is able to weaken the influence of firm size on income smoothing. These results are in accordance with agency theory, in which the role of the independent board of commissioners who have a supervisory and control function over management performance can weaken the relationship from firm size to income smoothing. So that the research implications in agency theory can be used to support research related to the independent board of commissioner as a moderator or weakener of the firm size relationship to income smoothing.

However, in this study, agency theory cannot be used to support research related to the independent board of commissioners as a moderator or weakener of the relationship between financial leverage and income smoothing because the research results in the fourth hypothesis (H_4) are rejected, independent board commissioners are considered unable to weaken the effect of financial leverage on income smoothing and should look for a theory that is more in line and can solve problems in the study.

2. Practical Implications

   a. Academics

The research implications of the effect of firm size and financial leverage on income smoothing with independent board of commissioner as a moderator have a impact on academics. This research has potential to develop the science literature and serve as reference in further research on the relationship between firm size and financial leverage on income smoothing with independent board of commissioner as a moderator. The implications of this study can also provide new insights into how internal company factors can affect income smoothing practices, and the existence of external factors that play a role in weakening the impact of the relationship.

b. Investor

The implications of research on the effect of firm size and financial leverage on income smoothing with independent board of commissioner as a moderator have important implications for investors. Research results can assist investors create better investment decisions by taking into account the actual performance of the company. Investors can use the research results to evaluate company performance by looking at the potential for a company to practice income smoothing or not in its financial statements, especially in aspects contained in the variables in this study.

c. Company

The implications of research on the effect of firm size and financial leverage on income smoothing with independent board of commissioner as a moderator have important implications for the company. The results of this study can provide information to companies regarding the impact that may occur when companies practice income smoothing so that it can be taken into consideration when deciding whether the company needs to do income smoothing.

C. Research Limitations

In conducting research related to the variables studied in this study, researchers also faced several limitations in this research process. First, this study only uses a sample of non-cyclical consumer sector companies listed on the IDX, so the results of this study cannot be generalized to other industries. Second, the period used was only three observation periods during 2020-2022, during this period there was a pandemic of COVID 19 which caused some companies to experience losses and can not be included in the purposive sampling criteria, this results in a smaller data samples obtained. Third, this study obtained the results of the coefficient of determination test where firm size and financial leverage can only explain income smoothing by 21.8%.

Based on the limitations mentioned above, researchers can provide several recommendations for further research, namely further research is expected to expand the research sample by increasing the sector and observation period studied so that the data generated can be more accurate and significant. Furthermore, further research is expected to add other independent variables outside the firm size and financial leverage variables that can affect income smoothing. Some of the variables suggested by researchers to be used as additional variables include company age and bonus compensation which have not been studied too much and can add other moderating variables outside the independent board of commissioners, for example good corporate government which is a more complex variable.