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Research Article

The Hidden Link Between Cash Holding, Profitability, Firm Value, and Income Smoothing Practices

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Abstract
This study aims to examine the effect of Cash Holding, Profitability, and Firm Value on Income Smoothing. Cash Holding in this study is measured by the ratio of cash and cash equivalents to total assets, Profitability is measured using Return on Assets (ROA), Firm Value is measured using Price Book to Value (PBV) and Income Smoothing is measured using the Eckel Index. The research procedure used is quantitative. This study uses a sample of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) during the period 2013-2017. This study uses secondary data, namely company financial reports obtained from the official IDX website and Yahoo Finance. The analysis method used is multiple linear regression. The results of the study indicate that the variables of cash holding, profitability, and firm value have a significant effect on income smoothing. Managerial Implications The results of this study provide important implications for the management of manufacturing companies, especially in the consumer goods sector, that the management of cash holding, profitability, and firm value must be carried out carefully because they have been proven to have a significant effect on income smoothing practices.

Keywords: Cash Holding, Profitability, Firm Value, Income Smoothing.

JEL Classification: G32, G34, M41

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1. Introduction
In the era of increasingly competitive global business, financial reporting quality has become a central issue in maintaining the credibility of companies in the eyes of investors and stakeholders. Financial statements are the main source of information used by external parties to assess company performance and prospects. One of the most important elements in these reports is profit (earnings), which reflects management performance, investment risks, and future growth potential (Subramanyam, 2014). However, because of the pressure to meet expectations from stakeholders, many managers are tempted to manipulate earnings through practices known as earnings management. Among the various forms of earnings management, income smoothing has become

one of the most common strategies (Belkaoui, 2011; Scott, 2015).

Income smoothing refers to deliberate efforts by management to reduce earnings fluctuations over time, with the goal of making reported earnings appear more stable (Foster, 1986; Poll, 2004). Such practices are often justified as a way to reduce investor risk perception and stabilize stock prices. However, income smoothing raises concerns about transparency and the reliability of financial reporting. Past cases in Indonesia, such as Garuda Indonesia in 2018 and PT Timah in 2015, illustrate how manipulation of reported earnings has misled investors and triggered public criticism (DetikFinance, 2019; Okezone, 2016). These cases show the urgency of examining the factors that encourage companies to engage in income smoothing.

Previous studies suggest that several internal and external factors can influence income smoothing practices. Among them, cash holding, profitability, and firm value have been consistently highlighted (Candrawati et al., 2017; Dewi & Latrini, 2016; Arum et al., 2017). Cash holding represents the liquidity position of a company, profitability indicates the efficiency of asset utilization in generating income, while firm value reflects investor perceptions as measured through stock performance. Each of these variables has a theoretical and empirical connection to managerial incentives in disclosing or concealing income smoothing.

Cash holding plays a crucial role in corporate financial strategy. High levels of cash holding can serve as a buffer for operational and investment needs, but they can also create agency conflicts between managers and shareholders. Managers may be motivated to smooth income in order to justify large cash reserves or to signal financial stability (Talebnia & Darvish, 2012). Empirical research by Candrawati et al. (2017) and Mambraku and Hadiprajitno (2014) found that cash holding has a positive relationship with income smoothing, as companies with higher cash balances are more likely to engage in smoothing to portray a stable financial performance.

Profitability is another factor strongly linked to income smoothing. Firms with higher profitability are under pressure to maintain stable earnings trends in order to sustain investor confidence. Studies show that firms with higher Return on Assets (ROA) are more likely to smooth earnings to manage perceptions of sustainable growth (Yanti & Dwirandra, 2019; Indrawan et al., 2018). On the other hand, some research suggests that very high profitability may reduce the need for smoothing, as strong performance itself provides positive signals to the market (Arum et al., 2017). These contradictory findings indicate that the relationship between profitability and income smoothing is not yet fully conclusive.

Firm value, often proxied by Price to Book Value (PBV), also influences managerial incentives in financial reporting. Higher firm value increases expectations from investors, which may motivate managers to stabilize reported earnings to maintain a positive market perception (Salvatore, 2002; Husaini & Sayunita, 2016). Research by Arum et al. (2017) showed a significant positive relationship between firm value and income smoothing, indicating that companies with higher market valuations tend to engage in smoothing practices. However, contrasting evidence from Anggriani et al. (2017) found that firm value did not have a significant effect, suggesting that this relationship may depend on industry context and market conditions.

Despite the growing number of studies, the literature still shows inconsistent results regarding the influence of cash holding, profitability, and firm value on income smoothing. Some studies support a significant positive relationship (Candrawati et al., 2017; Yanti & Dwirandra, 2019), while others suggest weak or even insignificant effects (Erni & Suaryana, 2018; Anggriani et al., 2017). These inconsistencies highlight the research gap that justifies the need for further investigation, particularly in the Indonesian manufacturing industry, where competition is intense, and the demand for reliable financial reporting is high.

Based on the above discussion, this research aims to examine the influence of cash holding, profitability, and firm value on income smoothing disclosure in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The objectives are threefold: (1) to analyze the partial effect of each variable on income smoothing, (2) to test the simultaneous influence of cash holding, profitability, and firm value, and (3) to provide practical implications for investors and regulators

in assessing the transparency of financial reports. The novelty of this study lies in its focus on the combined effect of these three variables, using recent data and a specific sectoral context, thus contributing to both the academic literature and practical decision-making.

2. Literature Review and Hypothesis

Literature Review

Cash Holding

Cash holding is the amount of cash a company holds to finance operational activities and face future uncertainty (Mambraku, 2014). From an agency theory perspective, excess cash can trigger conflicts of interest because managers tend to use these funds for personal gain, including income smoothing (Jensen, 1986). Research by Candrawati et al. (2017) and Dewi & Latrini (2016) shows that cash holding has a positive effect on income smoothing, meaning the greater the company's cash holdings, the greater the management's tendency to smooth income. However, research by Erni & Suaryana (2018) found that cash holdings had no significant effect on income smoothing, resulting in inconsistent results.

Profitability

Profitability reflects a company's ability to generate profits from its assets (Sartono, 2010). Signaling theory suggests that companies with high profitability tend to send positive signals to investors. However, management also has the potential to smooth earnings to maintain stability and maintain its image (Scott, 2006). Research by Yanti & Dwirandra (2019) and Hastuti (2017) indicates that profitability has a positive effect on income smoothing. Conversely, research by Lestarilay (2017) indicates that profitability has no effect on income smoothing.

Firm Value

Firm value is investors' perception of a company's prospects, as reflected in its stock price (Salvatore, 2002). The higher the firm value, the greater the pressure on managers to maintain their reputation and attract investors, potentially encouraging income smoothing practices (Belkaoui, 2007). Research by Arum et al. (2017) found that firm value had a significant positive effect on income smoothing, while Anggriani et al. (2017) found no effect.

Hypothesis

The Effect of Cash Holding on Income Smoothing

Cash holding is the amount of cash a company holds to finance operational activities and face future uncertainty (Mambraku & Hadiprajitno, 2014). Based on agency theory, high cash holdings can create agency conflicts because managers have the potential to use cash for personal gain, one of which is through income smoothing practices (Jensen, 1986). Previous research supports the effect of cash holdings on income smoothing. Candrawati et al. (2017) demonstrated that cash holdings have a positive effect on income smoothing. Similar results were found by Dewi & Latrini (2016) and Antari et al. (2017), who stated that the greater a company's cash holdings, the greater the tendency to practice income smoothing. However, Erni & Suaryana (2018) found a different result, stating that cash holdings had no significant effect on income smoothing.

H1: Cash holdings influence income smoothing disclosure.

The Effect of Profitability on Income Smoothing

Profitability reflects a company's ability to generate profits (Sartono, 2010). Based on signaling theory, companies with high profitability tend to send positive signals to investors. However, to maintain stable performance, management may engage in income smoothing to make profits appear consistent (Scott, 2006). Several studies have shown that profitability has a significant effect on income smoothing. Hastuti (2017) found that profitability has a positive effect on income smoothing practices. This finding is consistent with research by Yanti & Dwirandra (2019) and Ayunika & Yadnyana (2018), which found that companies with high ROA are more likely to engage in income smoothing. Conversely, research by Lestarilay (2017) found that profitability has no significant effect on income smoothing.

H2: Profitability influences income smoothing disclosure.

The Effect of Firm Value on Income Smoothing

Firm value is investors' perception of a company's prospects, which is often linked to its stock price (Salvatore, 2002). Based on agency theory, managers strive to maintain a company's image by maintaining profit stability, one way of doing this is through income smoothing. The higher the company's value, the greater the pressure on management to maintain a reputation that remains attractive to investors (Belkaoui, 2007). Research by Arum et al. (2017) shows that firm value has a significant positive effect on income smoothing. A similar finding was also found by Fachrorozi et al. (2017), who demonstrated that stock value, as a proxy for firm value, encourages income smoothing practices. However, Anggriani et al. (2017) found a different finding, namely that firm value had no significant effect on income smoothing.

H3: Firm value influences income smoothing disclosure.

The Effect of Cash Holding, Profitability, and Firm Value on Income Smoothing

Based on agency theory and signaling theory, internal company factors such as cash holdings, profitability, and firm value can influence managers' decisions regarding income smoothing. The higher the cash, profitability, and firm value, the greater the tendency for managers to smooth earnings to appear stable. Research by Candrawati et al. (2017) demonstrated that cash holdings and profitability have a positive effect on income smoothing. Research by Antari et al. (2017) also found that cash holdings and profitability simultaneously influence income smoothing. Furthermore, Arum et al. (2017) found that firm value also plays a significant role in influencing income smoothing.

H4: Cash holdings, profitability, and firm value simultaneously influence income smoothing disclosure.

3. Data and Method

Type of Research

The relationship between the variables to be studied is called the research paradigm. In accounting research, five paradigms are recognized: positivist, interpretivist, critical, postmodernist, and spiritual. In this study, the paradigm used is positivist. The positive paradigm is theory verification, namely matching or testing theories with empirical facts. The positivist paradigm, also known as the functionalist paradigm, has two methods for conducting research: quantitative and qualitative methods. The type of research used in this study is quantitative. According to Sugiyono (2017), quantitative methods are passivistic because they are based on the philosophy of positivism. This method is also called the discovery method because it is used to discover and develop various new sciences and technology.

Population and Sample

According to Sugiyono (2017), a population is a generalized area consisting of objects/subjects with certain qualities and characteristics determined by the researcher to be studied and then conclusions drawn. Meanwhile, according to Sekaran and Bougie (2017), a population refers to the entire group of people, events, or things of interest that researchers wish to investigate. The population in this study was 43 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2013-2017 period. A sample was taken from this population. According to Sekaran and Bougie (2017), a sample consists of a few members selected from the population. In other words, only a few elements form the sample; not all elements of the population are included. In this study, the sampling method used was purposive sampling.

Data Collection Method

Data Types and Data Sources

The types of research data are based on their sources, namely secondary data and primary data. According to Sugiyono (2017), Primary data is data obtained directly from field studies, observations, interviews, and questionnaires, which are then distributed to a sample of respondents who meet the criteria and are considered representative of the entire population. Secondary data is data obtained from other parties indirectly related to research, such as company history, company scope, organizational structure, books, journals, theses, literature, articles, and internet sites. In this

study, the type of data used is secondary data, namely financial reports from IDX and Yahoo Finance. The data collected from these financial reports includes cash, cash equivalents, net income after tax (EIT), total assets, price per share, book value per share, and sales.

Data Collection Techniques

Data collection techniques are the methods used to obtain data. The purpose of data collection is to find/obtain the required data. Data collection techniques are generally divided into three: interviews, observation, and documentation. In this study, the researcher used documentation as the data collection technique. According to Sugiyono (2017), documents are records of events/incidents that have already occurred. This technique was conducted by collecting and utilizing manufacturing financial report data for the 2013-2017 period, including balance sheets, profit and loss statements, equity, and other data obtained from IDX and Yahoo Finance.

Data Analysis Method

Data analysis is the stage of the research process where data is collected, organized, and managed to answer the research problem. According to Sugiyono (2017), data analysis occurs after all data from respondents has been collected. This activity involves classifying data based on variables and respondent types, stabilizing data based on variables from all respondents, presenting data for each studied variable, and performing calculations to test the proposed hypotheses. In this study, the researcher used the Statistical Package for Social Science (SPSS) data processing software to test the research hypotheses.

4. Results

Normality Test

Ghozali (2018) stated that the normality test aims to determine whether the confounding variables or residuals in a regression model have a normal distribution. There are two ways to detect whether the residuals are normally distributed: graphical analysis and statistical testing

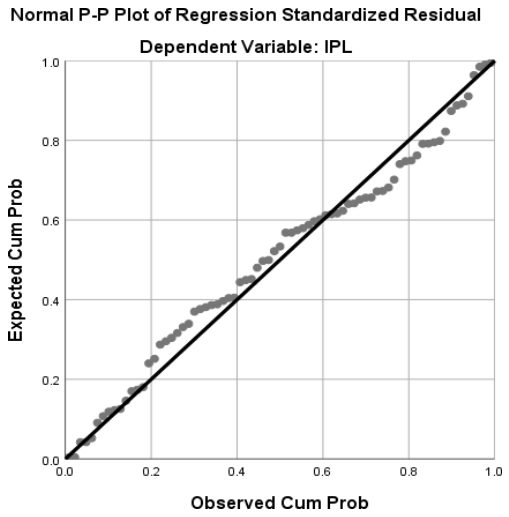

Figure 1. Normal P-Plot Graph of Cash Holdings, Profitability, and Firm Value Against Income Smoothing

Based on Figure 2, the histogram shows a normal distribution pattern, and the normal P-Plot graph shows the points spread around the diagonal line. Therefore, it can be concluded that the regression model meets the assumption of normality. Testing for normality using a graph can be misleading if not carefully considered, as it visually appears normal.

Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between independent variables in the regression model (Ghozali, 2018). The presence or absence of multicollinearity in

a regression model can be determined from the tolerance value and variance inflation factor (VIF). The tolerance value limit is 0.10, and the VIF limit is 10. If the tolerance value is below 0.10 or the VIF value is above 10, multicollinearity is present. The results of the multicollinearity test can be seen in Table 1 below:

Table 1. Multicollinearity Test Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.003	.910		02	.274		
CHA	-7.130	2.630	-.301	-2.711	.008	.922	1.085
ROA	10.179	4.302	.263	2.366	.021	.920	1.086
PBV	.569	.184	.336	3.089	.003	.965	1.036

Source: Processed results (2017)

The analysis results show that the Tolerance value indicates that no independent variables have a tolerance value <0.10, meaning there is no correlation between the independent variables with a value greater than 95%. The Variance Inflation Factor (VIF) calculation also shows the same result, namely that no independent variable has a VIF value >10. Therefore, it can be concluded that there is no multicollinearity between the independent variables in the regression model.

Heteroscedasticity Test

According to Ghozali (2018), the heteroscedasticity test aims to test whether there is inequality in the variance of the residuals from one observation to another in the regression model. One way to determine this is by looking at the Scatterplot graph. If there is a certain pattern, such as a wavy pattern, widening and then narrowing, then heteroscedasticity is indicated. However, if there is no clear pattern, and the points are spread above and below the number 0 on the Y-axis, then heteroscedasticity is not present. The results of the heteroscedasticity test can be seen in Figure 2, as follows:

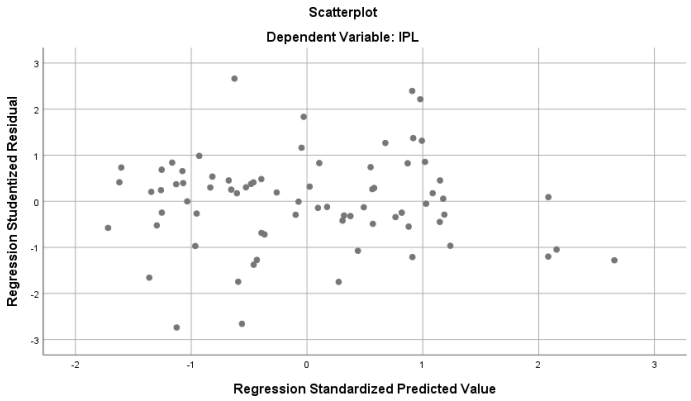

Figure 2. Heteroscedasticity Test Results – Scatterplot Graph

The analysis results show no clear pattern, and the points are spread above and below the 0 (zero) mark on the Y-axis. Therefore, it can be concluded that there is no heteroscedasticity in the regression model, making it suitable for predicting the effect of cash holdings, profitability, and firm value on income smoothing.

Autocorrelation Test

According to Ghozali (2018), the autocorrelation test aims to determine whether there is a correlation between the error confounding factor in period t and the error confounding factor in period t-1 (previous). One way to determine this is with a Run Test. The results of the autocorrelation test are shown in Table 2:

Table 2. Autocorrelation Test Results

Test Value[a]	.24825
Cases < Test Value	37
Cases >= Test Value	38
Total Cases	75
Number of Runs	32
Z	-1.510
Asymp. Sig. (2-tailed)	.131

Source: Processed results (2017)

The analysis results show that the Asymp. Sig. (2-tailed) is greater than 0.05 (0.131 > 0.05), which means H0 is accepted. Therefore, it can be concluded that the residuals are random, meaning there is no autocorrelation between the residual values.

Partial Test Results (t-Statistic Test)

The t-statistic test essentially indicates the extent to which an individual explanatory/independent variable influences the variation in the dependent variable. The test was conducted using a significance level of 0.05 (α=5%). Based on probability values, the results of the partial test (t-Statistic Test) can be seen in Table 3 below:

Table 3. Partial Test Results (t-Statistic Test)

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model	B	Std. Error	Beta		
(Constant)	-1.003	.910		-1.102	.274
CH	-7.130	2.630	-.301	-2.711	.008
ROA	10.179	4.302	.263	2.366	.021
PBV	.569	.184	.336	3.089	.003

Source: Processed results (2017)

Based on the results of the t-statistic test (partial) in Table 3, it can be concluded that the cash holding (CH) variable has a negative effect on income smoothing, as indicated by a significance value of 0.008 < 0.05. Meanwhile, the profitability (ROA) variable has a positive effect on income smoothing with a significant value of 0.021 < 0.05. Furthermore, the firm value (PBV) variable also has a positive effect on income smoothing, as indicated by a significant value of 0.003 < 0.05.

Coefficient of Determination (R2) Test Results

According to Ghozali (2018), the coefficient of determination (R2) essentially measures the model's ability to explain variations in the dependent variable, namely income smoothing, as measured using the Checkel index. The results of the coefficient of determination (R2) can be seen in Table 4 below:

Table 4. Results of the Coefficient of Determination (R2) Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.437[a]	.191	.157	2.96957	1.712

Source: Processed results (2017)

Based on Table 4, the results of the coefficient of determination (R2) test show an R-squared (R2) of 0.191, or 19.1%. Therefore, it can be concluded that the variables cash holdings, profitability, and firm value influence the dependent variable by 0.191, or 19.1%. The remaining 80.9% is influenced by other factors not examined in this study, such as leverage, financial risk, audit committee, and firm size.

5. Discussion

Cash Holdings Influence Income Smoothing

Research results show that cash holdings influence income smoothing practices. This can be explained through agency theory, where management often uses available cash for specific purposes, including maintaining the stability of reported earnings. Research by Candrawati et al. (2017) and Dewi & Latrini (2016) supports this finding by stating that the higher the cash holdings, the greater the likelihood of management engaging in income smoothing practices. In an Islamic context, this practice is considered to contain elements of gharar (uncertainty) and tadlis (fraud), because reported earnings information does not reflect the actual situation.

Profitability Influences Income Smoothing

Profitability has also been shown to influence income smoothly. Companies with high profitability tend to engage in income smoothing to maintain a good image among investors and reduce fluctuations in reported earnings. This finding aligns with Yanti and Dwirandra (2019) and Hastuti (2017), who stated that profitability significantly increases the likelihood of income smoothing. From an Islamic perspective, although profit-seeking is permitted, financial statement manipulation remains prohibited as it violates the principle of honesty.

Firm Value Influences Income Smoothing

Firm value has also been found to influence income smoothing. Companies with high value tend to maintain stable earnings reports to maintain market confidence. Arum et al. (2017) and Husaini and Sayunita (2016) found that high firm value encourages management to engage in income smoothing as a strategy to reduce investors' perceived risk. However, from an Islamic perspective, this practice remains unethical because it misleads external parties regarding the company's true condition.

Cash Holdings, Profitability, and Firm Value Simultaneously Influence Income Smoothing

These three variables simultaneously influence income smoothly. This indicates that management decisions regarding income smoothing are not influenced by a single factor, but rather by a combination of liquidity, profitability, and perceived firm value. This finding is consistent with Husaini and Sayunita (2016) and Alexandri and Winny (2014), who emphasize that income smoothing is a complex managerial practice involving various financial factors.

6. Conclusion

This study analyzes the influence of cash holdings, profitability, and firm value on income smoothing in consumer goods manufacturing companies listed on the Indonesia Stock Exchange during the 2013–2017 period. The results indicate that cash holdings have a significant negative effect on income smoothing, indicating that the higher a company's cash holdings, the lower its propensity to engage in income smoothing. Conversely, profitability has a significant positive effect on income smoothing, indicating that the higher the level of profitability, the higher the company's propensity to engage in income smoothing. Firm value also has a significant positive effect on income smoothing, indicating that the higher the firm value, the greater the likelihood of income smoothing. Simultaneously, all three independent variables cash holdings, profitability, and firm value have been shown to influence income smoothing.

The managerial implication of these findings is that company management needs to be careful in managing cash, profitability, and firm value, as all three have a direct influence on the propensity to practice income smoothing. Management should emphasize the principles of transparency and accountability in preparing financial reports to maintain investor and stakeholder trust. With efficient cash management, healthy profitability improvement, and continuous strengthening of corporate value without manipulation practices, the company is not only able to improve its positive image in the eyes of investors but can also maintain compliance with the principles of good corporate governance.

Recommendation

Companies are advised to manage cash holdings more efficiently to minimize the incentive for income smoothing and ensure optimal liquidity usage. Managers should focus on improving profitability through sustainable strategies rather than manipulating earnings, while also maintaining firm value transparently to strengthen investor trust. Investors are encouraged to analyze financial statements critically, considering the possibility of earnings management. Regulators and policymakers should enhance monitoring mechanisms and enforce stricter disclosure requirements to prevent misleading reporting practices, thereby promoting fairness, accountability, and good corporate governance in the capital market.

Limitations and avenue for future research

This study is limited to manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange during 2013–2017, which may restrict the generalizability of the findings. The use of secondary data and multiple regression analysis may not fully capture other qualitative factors influencing income smoothing. Future research could expand the sample to different sectors or countries, apply longer observation periods, and incorporate additional variables such as corporate governance, ownership structure, or audit quality to provide a more comprehensive understanding of the determinants of income smoothing practices.

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