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THE RELATIONSHIP BETWEEN RETURN ON ASSETS AND FIRM SIZE IN INFLUENCING THE LEVELING OF COMPANY PROFITS

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Abstract

This study aimed to examine the influence of a company's characteristics on income smoothing practices among listed companies on the Indonesian Stock Exchange. The factors being discussed were return on assets and firm size. Index Eckel is used to determining income smoothing. The study used 11 companies listed on the Indonesia Stock Exchange between 2012 and 2015. The hypothesis was tested using multiple regression. The first hypothesis examined the influence of return on assets on income smoothing practice. The second hypothesis was used to investigate the impact of firm size on income smoothing. The third hypothesis reviewed the effect of return on assets and firm size on income smoothing. The result of this study indicated that 11 out of 20 companies which were used as samples committed to income smoothing. The multiple regression output showed that return on asset and firm size does not significantly influence income smoothing.

Keywords: *ROA, Firm Size, Company Profits*

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INTRODUCTION

In making investment decisions in the capital market, the most fundamental need for external parties (investors and creditors) is accounting information. Onesource of accounting information is financial statements. Data in the form of financial statements aims to assess management's performance, help estimate representative profit capabilities in the long run, predict profits, interpret investment risks, and others (Lutfitasari & Lutfillah, 2019).

One of the essential and needed information by external parties is profit. Most external parties or investors tend to focus on the profit information in the financial statements regardless of the processes or procedures used to generate profit information when analyzing a company's financial statements. Investors assume that if a company has a stable profit shows that the performance of the company's management is good so that their rate of return can be guaranteed and avoid risk. Therefore, management tends to take actions that can make financial statements good.

The practice of profit levelling is closely related to profit management, i.e. the practice of profit management is affected by conflicts of interest between management (agent) and the owner (principal) when all parties strive to achieve and maintain the desired level of prosperity (Value, 2018). Management does not expect profit conditions that show fluctuating trends. The tendency that will appear on the part of management is malfunctioning behaviour, namely income smoothing practices or profit levelling. This is a way to achieve a fictitious display of company profit information. The parties who fund the company survive or increase the value of their investment in the company.

Profit levelling is a normalization of profits carried out by companies by reducing fluctuations that are deliberately done to achieve a specific trend or level desired. This raises the argument that the company's management did wrong and did not provide information based on the qualitative characteristics of the presentation of financial statements. The reason for-profit flattening aims to improve relationships with creditors, investors and employees and flatten the business cycle through psychological processes (Widhianingrum, 2012). Assuming that the company's profit is engineered, the financial ratio is also in engineering. Information on financial ratios that have been engineered becomes the basis for decision-making and policy means for internal and external parties. Indirectly the decisions and policies taken are things that cannot be accounted for, or accountability is weak.

Several factors can influence profit levelling. Among them is profitability, in this case, especially return on assets (ROA). A financial sector company's Return on assets (ROA) significantly affects profit levelling. If the company has a high ROA, it indicates that the profit earned by the company is high. Management can easily manage its profits with high profits (Framita, 2018). Companies with high profits will tend to practice profit levelling because the company will lower profits when obtaining high yields. The results of this study are also supported by research conducted where research was conducted in Property and Real Estate companies, with the results of Return On Asset (ROA) affecting Profit Leveling.

Backed by research showed that ROA affects profit levelling (Rahayu et al., 2015). However, this result contradicts the results of the study achieved, which obtained

profitability results (ROA) do not affect profit levelling (HS et al., 2014).

In addition to Return on Asset (ROA), the company's size (Firm Size) also affects profit levelling. Research shows that the company's size (Firm Size) affects profit levelling. The greater the total value of the company's assets reflects that the company has assets that are getting higher in the matter, so it can be said that the size of a company can be seen from the small total value of a company's assets. The research results showed that the company's size (Firm Size) does not affect Profit Leveling Practices. She was also supported by research that showed that the company's size (Firm Size) does not affect Profit Leveling Practices (Yoanita & Khairunnisa, 2021).

Obyek research was conducted on public so-called state-owned enterprises. In Indonesia, there are 120 state-owned enterprises (Hastuti et al., 2022). However, only 20 state-owned enterprises have gone public. Among them are more transparent companies. The government, through the Ministry of State-Owned Enterprises (BUMN), continues to encourage STATE-OWNED companies to offer more initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX). The reason is that SOEs listed on the stock exchange are more transparent, and SOEs can obtain new sources of funds without relying on the State Budget (APBN). According to the Deputy for Restructuring and Business Development of the Ministry of SOEs, any profits obtained by STATE-OWNED companies are listed on the stock exchange; besides, STATE-OWNED companies can receive new sources of funding that can be used for development, including the addition of working capital and business expansion. In addition, conducting an IPO will facilitate the company's entry into the money market (Panjaitan & Afiezan, 2021).

If it becomes an open company, it must improve its performance, service quality, reporting system, and good governance practices. As a result, all company management will be more professional and qualified. Moreover, of course, it can increase confidence in loan access.

This research tests the relationship between Return On Asset (ROA) and Firm Size in influencing profit sales, especially in public soes where the government still owns the majority shareholding.

LITERATURE REVIEW

Profit Alignment (Income Smoothing)

Profit Leveling is in line with profit management, which also uses agency theory. Profit levelling is an action that is done deliberately to reduce the variability of reported profits that can reduce market risk to the company's shares. Besides that, profit levelling is also defined as a deliberate effort to minimize fluctuations in profit that are considered normal for the company and use accounting techniques to reduce net profit fluctuations for several years.

According to the occurrence, the levelling of profits according to the event can be grouped into two types: (1) Natural smoothing, stating that profit levelling inherently produces a flat profit flow. (2) Intentional Smoothing is usually associated with management actions. Intentional smoothing can be classified into two namely (Natalia, 2019): First, Real Smoothing is an effort taken by management to respond to changing economic conditions. It can also mean a transaction that is actually to be made or not done based on the flattening effect on profits and Second, Artificial Smoothing is a

deliberate effort to artificially reduce the variability of profit flow. This profit levelling applies accounting procedures to move costs and revenues from one period to a specific period.

Profit Leveling Goals

Profit Leveling is to improve the company's image in the eyes of external parties and show that the company has low risk. Moreover, it stated the purpose of profit levelling, among others: (1). Improve the company's image in the eyes of external parties and show that the company has a low risk. (2). Provide relevant information in predicting future profits. (3). Increase business relationship satisfaction, (4) Increase external parties' perception of management capabilities, (5). Increase management compensation (Kustiani & Ekawati, 2006).

Return on Total Assets (Return On Assets / ROA)

The return on total assets (Return On Assets), which is sometimes called the return on investment (Return On Investment), tries to measure the effectiveness of the company utilizing all its resources. Make a profit. The profit used is before Interest and tax (EBIT) in calculating ROA compared to the total investment or total assets used in operations. Return On Assets (ROA) describes the company's financial performance in generating a net income from assets used for the company's operations (Stevani & Nuraidha, 2021). ROA is used to determine the company's performance based on the company's ability to use the number of assets owned. ROA will be able to cause appreciation and depreciation of stock prices. The company's financial performance in generating a net income from the investments used will impact the company's shareholders. The growing ROA illustrates that the company's performance improves, and shareholders will benefit from the dividends received by increasing or increasing stock prices. Return On Assets (ROA) is a form of profitability ratio that can measure the company's ability with the general funds invested in assets and used for the company's operations in the company.

Meanwhile, according to Kasmir, the result of investment development or better known as Return On Investment is a ratio that shows the return (return) on the number of assets used in the company. ROI is also a measure of management's activities in managing its investments. Furthermore, Return On Assets shows the company's ability to generate profits from the assets.

Company Size (Firm Size)

The determination of the size of this company is based on the company's total assets. The company's size is a scale that can be classified the company’s size according to in various ways, including tangible assets, sales, log size, stock market value, market capitalization and others that are all highly correlated. The size of the company is only divided into three categories, namely large companies (large firms), medium-sized companies (medium sizes), and small companies (small firms). Larger companies have a more excellent drive to level profits than smaller ones because larger companies are subject to scrutiny (tighter scrutiny from the government and the general public).

The company's size indicates the size of small wealth (assets) owned by a company (Winanda & Putra Astika, 2021). The company's size can generally be interpreted as a comparison of the size or smallness of an object. Companies with significant total

assets show that the company has reached the maturity stage where the company's cash flow is already positive and has good prospects in a relatively stable period to generate profits compared to companies that have total small assets.

Total assets are the most appropriate proxy for measuring the company's size. The total value of assets reflects the company's wealth or wealth. Thus, it can be assumed that the greater the total value of assets, the greater the company's size and the company performance can be said to be good because the company strives to keep increasing the value of its assets.

Return On Asset (ROA) Relationship with Profit Alignment

ROA change shows a change in management's ability to generate profits by utilizing assets used in operating activities. The greater the roa change, the more significant the fluctuation of management's ability to create profits (Sutaryani & Suardikha, 2018). This affects investors in predicting gains and predicting risks in investments so that it has an impact on investor confidence in the company. In connection with that, management is motivated to carry out profit-levelling practices so that the reported profits are not contradictory to increasing investor confidence in the company. Thus, the more likely direction is to practice profit levelling.

Low or declining profitability fluctuations tend to flatten profits. This is triggered if the company determines bonus compensation based on the profit generated. High profitability indicates that the company's performance is good and vice versa. A low level of profitability will make the company tend to do profit levelling practices. The company flattens profits so that the company looks more stable. A flat profit is expected to show that the company has a good performance even though its profitability is low.

Company Size Relationship (Firm Size) to Profit Levelling

Large companies are subject to stricter scrutiny or more stringent examinations from the government and the general public, so companies tend to make efforts to get a good assessment from the general public. This then encourages the company to level the profit to give a good impression to the general public, especially investors.

The greater the total value of the company's assets reflects that the company has assets that are getting higher in the matter, so it can be said that the small size of a company can be seen from the small total value of a company's assets. The larger the company's size, the larger the company gets attention related to the company's performance. Large companies tend to avoid drastic profit increases because they will be burdened with more outstanding taxes. The larger the size of a company, the less chance of managers doing profit-levelling practices. To maintain their shares in the company, there is an effort to level profits so that the profits displayed can meet shareholders' expectations.

METHODS

The population used in this study is a public state-owned company or state-owned company listed on the Indonesia Stock Exchange, as many as 20 companies in 2014-2017. The company sampled in this study was determined by purposive sampling techniques, which are methods based on

specific considerations. The criteria used to select a sample are as follows:

1. Publicly listed state-owned enterprises / listed on the Indonesia Stock Exchange
2. Financial statement data available and presented in total during the observation period
3. Companies that get Profit.
4. Companies that have a positive Return On Asset value

11 state-owned enterprises can be used as research samples from the criteria set.

This research is a type of causative research. Judging from the source, the data used is secondary data in the form of financial statements in the form of financial data and ratios of state-owned enterprises listed on the Indonesia Stock Exchange. While based on the time of collection, this data is cross-sectional time-series data (pooling data) collected from time to time. The data collection technique used in this research is a documentation technique. The author collects financial statement data in economic data and ratios from the Indonesia Stock Exchange.

RESULTS AND DISCUSSION

Regression Model Feasibility Test

The first step is using the *Hosmer and Lemeshow Test*. You cannot know that the logistic regression model is the right thing. It will be seen as the fit and sieve of the model as a whole.

Table. 1
Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	3.930	6	.686

The results of the Fujian above obtained a Chi-Square value of 3,930 with a sig value of 0.686. From these results, the sig value is greater than the alpha value of 0.05. This means that this regression model is worth using for further analysis because there is no noticeable difference between the predicted classification and the observed classification.

Model Overall Test (*Overall Model Fit*)

To determine if the free variables added to the model significantly improved, the model used statistic -2LogL.

Table. 2
Block 0: Beginning Block
Iteration History[a,b,c]

Iteration		-2 Log-likelihood	Coefficients Constant
Step 0	1	17.416	.933
	2	17.397	1.010
	3	17.397	1.012
	4	17.397	1.012

a. Constant is included in the model.
b. Initial -2 Log-Likelihood: 17,397
c. Estimation terminated at iteration number 4 because parameter estimates were less than .001.

Block Number = 0 (Beginning Block) is the first model with only constants without free variables obtained a value of *-2 Log-Likelihood* of 17,397.

Table. 3
Block 1: Method = Enter
Iteration History[a,b,c,d]

Iteration		-2 Log-likelihood	Coefficients Constant	X1	X2
Step 1	1	16.547	5.077	.021	-.245
	2	16.468	6.230	.025	-.304
	3	16.467	6.313	.025	-.308
	4	16.467	6.313	.025	-.308

a. Method: Enter
b. Constant is included in the model.
c. Initial -2 Log-Likelihood: 17,397
d. Estimation terminated at iteration number 4 because parameter estimates were less than .001.

While in Block Number = 1, entering constants and variables is free to obtain a value of *-2 Log-Likelihood* of 16,467. The reduction of the initial -2LL value with the value of -2LL in the next step indicates that the hypothesis model fits the data. For the results in this study, there was a decrease in the initial -2LL value (in block 0), which was 17,397, with -2LL in the next step (in block 1), which was 16,467, so the hypothesis model is fit with data.

Determination Coefficient Test

To find out the ability of independent variables to describe dependent variables, used *Coxx and Snell R Square* and *Nagelkerke R Square* values. The coefficient of determination on logistic regression can be seen in the value of *Nagelkarke R Square*. *Nagelkarke R Square* values can be interpreted like *R Square* values on multiple regressions.

Table. 4
Model Summary

Step	-2 Log-likelihood	Cox & Snell R Square	Nagelkerke R Square
1	16,467[a]	.060	.088

a. Estimation terminated at iteration number 4 because parameter estimates were less than .001.

Nagelkerke R Square value of 0.088 and Cox & Snell R Square value of 0.060, which indicates that the ability of independent variables to explain dependent variables is 0.088 or 8.8% and the remaining 91.2% other factors in the region. Outside the model that describes the dependent variable.

Hypothesis Testing

Testing this hypothesis is intended to determine the relationship between Return On Asset and Firm Size in influencing Profit Alignment. Obtained the following results :

Table. 5
Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp (B)
Step 1[a]	X1	.025	.114	.047	1	.828	1.025
	X2	-.308	.366	.710	1	.399	.735
	Constant	6.313	6.800	.862	1	.353	551.672

a. Variable(s) entered on step 1: X1, X2.

Effect of Return on Assets (ROA) on Profit Alignment

Based on the table above, variable X1, Return On Asset, shows that the calculated value of Wald is 0.047, smaller than the *chi-square* table value with df 1 of 3.84, and the probability value is 0.828 > 0.05. This result means that H0 1 is received, and the variable Return On Asset (ROA) has no effect on Profit Leveling. This result agrees with research conducted by Tia (2015) which states that profitability (ROA) does not affect profit levelling. This is also in line with a study conducted by Harris (2013) that profitability does not affect profits. In line with Suryandari's research (2012), ROA does not affect profit levelling in manufacturing companies. High profitability in an enterprise has the potential to be in the public spotlight, so, likely, the company did not carry out actions that could harm its reputation. This may be the cause of management factors that are reluctant to level profits through profitability because it can harm the company's reputation.

The Effect of *Firm Size* on Profit Alignment

In variable X2, Firm Size shows that the value of Wald calculates 0.710 more minor than the *chi-square* table value with df 1 of 3.84 and the probability value of 0.399 > 0.05. This result means that H0 1 is accepted.

Variable Firm Size also does not affect Profit Alignment. This is in line with research conducted by Harris (2013), where the company's size does not affect profit levelling. The effect of the company's size on the levelling of profits is biased because the company's managers have different personal interests without seeing whether the company is large or small in carrying out the practice of profit levelling. The results of this study are different from Suryandari's research (2012) and Peranasari's research (2014), showing that the size of the company has a positive effect on profit levelling,

Simultaneous Test (Omnibus test of model coefficient)

Omnibus tests aim to determine whether Return On Asset (ROA) and Firm Size affect Profit Alignment. Omnibus test results are as follows:

Table. 6
Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	.930	2	.628
	Block	.930	2	.628
	Type	.930	2	.628

The test results above can be seen in 2 ways, namely, with a chi-square count value of 0.930 with df 2 smaller than the chi-square table of 5.99 and by looking at the level, Its significance of 0.628 is more significant than 0.05 then from both tests it can be said that H03 is accepted. This means that variable Return On Asset and Firm Size simultaneously do not affect Profit Leveling.

CONCLUSION

This study showed that both Return On Asset (ROA) and Firm Size had no effect either partially or simultaneously. This could be due to management estimating investor considerations, not from Return On Asset and Firm Size. This means that investors do not look critically at the size of the total assets owned by the company. Moreover, do not consider the return or risk that will be received through the small assets owned by the company so that management is not motivated to level profits by using these variables.

This research has limitations, namely, researchers researching public SOEs only. So for further investigation, it needs to be added to SOEs that have not been public (IPO) so that it can be seen whether all SOEs are levelling or not. It is also necessary to add other studied variables such as Financial Leverage or Liquefaction Rate for further research.

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