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The Influence of Leverage, Income Tax, and Dividend Payout Ratio on Income Smoothing

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A B S T R A C T

This study aims to analyze the influence of leverage, income tax, and dividend payout ratio on income smoothing practices among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. Income smoothing refers to managerial actions taken to stabilize reported earnings over time, often to reduce perceived risk and maintain favorable relationships with stakeholders such as investors, creditors, and shareholders. The research employs a quantitative approach using causal-comparative methods. The sample was selected through purposive sampling, resulting in 39 manufacturing companies with a total of 128 observation data after outlier adjustments. Data were obtained from annual financial reports published on the official IDX website. Hypothesis testing was conducted using multiple linear regression analysis with IBM SPSS version 25.

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INTRODUCTION

Financial statements serve as a crucial medium for communicating a company's financial performance to various stakeholders. These reports are instrumental in supporting economic decision-making by investors, creditors, and regulatory bodies. Among the components of financial statements, the income statement holds a vital role as it reflects the company's operational performance over a specific period. However, the validity and reliability of reported earnings often come into question, particularly due to potential manipulation through earnings management practices, one of which is income smoothing.

Income smoothing is a managerial strategy aimed at maintaining consistent earnings over time to present a stable and low-risk image to external parties Safitri, (2021); (Arya & Pamungkas, (2023). This practice is typically executed through accounting techniques such as timing the recognition of revenues and expenses. According to Chang et al., (2021) and Pratami et al., (2024) income smoothing not only enhances the perception of earnings stability but may also be used to conceal the company's true economic performance, potentially leading to opportunistic earnings manipulation and intentional financial misstatements.

The selection of PT Kimia Farma Tbk (KAEF) as an illustrative case in this study is grounded in its significant relevance to the research topic. This company became the center of public and regulatory attention due to the disclosure of dishonest financial reporting by its subsidiary, PT Kimia Farma Apotek (KFA), covering the period of 2021 to 2022. The issue was uncovered through an internal evaluation and restructuring program known as "Bersih-Bersih", initiated by the Ministry of State-Owned Enterprises (BUMN), which revealed the misuse of income smoothing practices. The case had a measurable impact, particularly on KAEF's 2023 financial performance, where KFA's operating expenses surged by 35.53% year-on-year to Rp4.66 trillion, thereby negatively affecting the parent company's net earnings.

This case is considered representative of broader challenges in the Indonesian manufacturing sector, especially regarding earnings management and financial transparency. Beyond KAEF, similar patterns of income smoothing and financial irregularities have been observed in other manufacturing firms such as PT Garudafood Putra Putri Jaya Tbk and PT Indofarma Tbk, which also faced regulatory scrutiny related to accounting practices and operational inefficiencies. These recurring cases highlight the urgency of examining the determinants of income smoothing within the manufacturing industry, particularly in the post-pandemic context where financial recovery, governance, and transparency are critical to long-term sustainability and national economic resilience. (CNN, 2024).

Previous studies have identified several factors that may influence a company's tendency to engage in income smoothing, including firm size, leverage, income tax, audit quality, and dividend policy. However, the present study focuses on three key variables that are considered to have a direct relationship with earnings smoothing behavior: leverage, income tax, and the dividend payout ratio.

Leverage represents the extent to which a company uses debt to finance its operations. High leverage not only indicates greater financial risk but may also incentivize managers to engage in income smoothing to maintain a positive image of the firm's ability to service debt obligations Tumanan & Ratnawati, (2021); Pangestu et al., (2023). Nonetheless, empirical findings on the relationship between leverage and income smoothing remain inconclusive Sari & Darmawati, (2021), Gunawan & Hardjunanto, (2020).

Income tax is another factor that may motivate earnings smoothing, as the corporate tax burden is directly influenced by reported pre-tax earnings. Managers may engage in smoothing to minimize tax obligations and reduce company costs during certain periods Mahendra & Jati, (2020); Christina et al., (2024). Yet, research results on this relationship have shown inconsistent outcomes. The dividend payout ratio, which indicates the portion of net income distributed to shareholders as dividends, is also hypothesized to influence income smoothing. Firms with high dividend payout ratios are often associated with stable performance and reduced risk, thus assumed to have lower incentives to smooth earnings. However, similar to the previous variables, studies examining the influence of dividend policy on income smoothing have produced mixed results Fauziah & Adi, (2021); Sesilia et al., (2021). In light of these considerations, this study aims to empirically examine the effect of leverage, income tax, and dividend payout ratio on income smoothing among manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period.

LITERATURE REVIEW

Agency Theory

Agency theory, as introduced by Jensen & Mackeling, (1976) provides a fundamental framework for understanding income smoothing practices. It highlights the existence of conflicts of interest between principals (owners) and agents (managers) due to asymmetric information. In this dynamic, managers often have better access to internal information and may act in ways that benefit themselves, including engaging in earnings management practices such as income smoothing (Silaban & Elly, 2020) To mitigate this conflict, external auditors play a critical role in validating financial statements and ensuring compliance with applicable accounting standards.

Income Smoothing

Income smoothing refers to deliberate managerial actions intended to reduce fluctuations in reported earnings to present a more stable financial performance. While performed within acceptable accounting practices, the goal of income smoothing is to enhance the company's attractiveness to investors and reduce perceptions of financial risk Suwandi et al., (2022); Bendesa et al., (2024); Maotama & Astika, (2020) explain that managers often smooth income to achieve earnings targets, manage tax obligations, and maintain corporate image, which in turn fosters investor confidence. From the agency theory perspective, smoothing income is also a response to the pressure of maintaining consistent cash flows and earnings in the eyes of external stakeholders (Widyantoro et al., 2023). Several measurement models exist for detecting income smoothing; among these, the Eckel Index is frequently used due to its ability to differentiate between smoothing and non-smoothing firms.

Leverage

Leverage is associated with the extent of a company's reliance on debt financing. Higher leverage implies greater financial risk, thereby encouraging management to present stable earnings through income smoothing to maintain creditor confidence and avoid covenant violations Felicia et al., (2024); Saputri et al., (2024). The Debt to Equity Ratio (DER) is a widely adopted measure of leverage, reflecting the proportion of shareholders' equity used to cover liabilities Fauziah & Adi, (2021). From an agency theory viewpoint, higher debt levels intensify the information gap between management and creditors, leading managers to smooth income as a strategy to demonstrate financial stability and fulfill loan obligations (Setyaningsih et al., 2021).

H_1**:** *Leverage Affects Income Smoothing*.

Income Tax

Income tax obligations are legally mandated for all taxpayers in Indonesia, both corporate and individual. Income smoothing is often linked to tax minimization strategies, as managers aim to reduce tax burdens by leveling out earnings over time Ayuningtyas & Kuntadi, (2023); Racheal & Asika, (2022). Agency theory suggests that managers, acting in their own interest, may underreport earnings in high-profit years to avoid tax spikes, whereas owners typically favor full disclosure of performance. As such, income smoothing becomes a mechanism to align managerial interests with long-term financial stability by avoiding excessive tax liabilities (Aurelia et al., 2024).

H_2: *Income Tax Affects Income Smoothing*.

Dividend Payout Ratio (DPR)

Dividend is a payment made by a business to its owners from time to time (Febe and Theotista, 2025). The dividend payout ratio represents the proportion of net income distributed to shareholders in the form of dividends. Firms with high DPRs are under pressure to maintain consistent dividend payments, which may prompt income smoothing when earnings decline Marcellino & Iskak, (2023); Safitri, (2021). Agency theory posits that investors perceive high and stable DPRs as positive signals of firm performance, thereby increasing expectations for continued payouts. Managers may therefore engage in income smoothing to meet shareholder expectations, reduce dividend volatility, and preserve investor trust Gunawan & Hardjunanto, (2020); Sesilia et al., (2021) In this study, the dividend payout is measured using dividend per share over earnings per share to accurately reflect shareholder returns on a per-unit basis.

H_3: Income Tax Affects Income Smoothing.

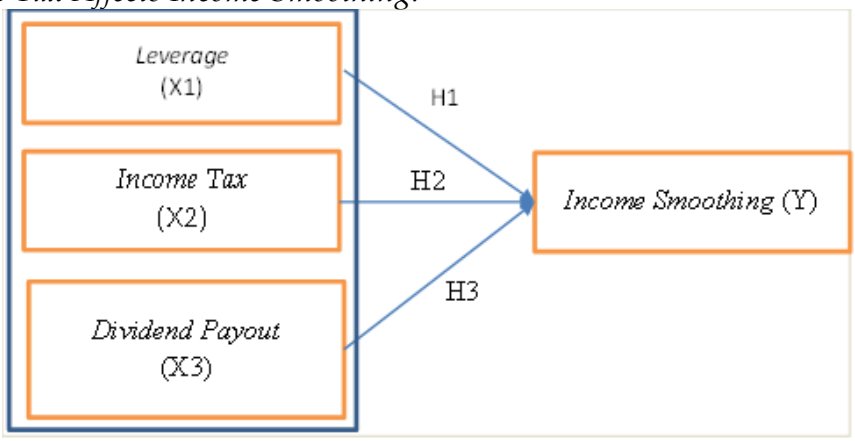

Figure 1. Conceptual Framework

This research contributes by providing empirical evidence on how leverage, income tax, and dividend payout ratio influence income smoothing practices in manufacturing companies listed on the IDX during the post-pandemic period (2020–2023). The findings help stakeholders understand how companies manage earnings under financial pressure and regulatory demands. Practically, it supports better corporate governance, encourages financial transparency, and aids policymakers in formulating strategies to strengthen the resilience of the manufacturing sector and national economy.

METHODOLOGY

The following research topic is based on secondary data from the manufacturing sector listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. Manufacturing companies listed on the IDX were selected because they tend to have complex organizational structures and the potential to generate significant income, which may lead them to engage in income smoothing practices. This study aims to analyze the influence of leverage, income tax, and dividend payout ratio on income smoothing, as reflected in the financial statements of companies listed on the Indonesia Stock Exchange (IDX).

The research population consists of 165 manufacturing companies from three major sectors: the basic and chemical industry (including pulp and paper, cement, animal feed, plastic and packaging, chemicals, wood processing, metals, and porcelain/glass), the miscellaneous industry (tools and machinery, textiles and garments, electronics, cables, automotive, and components), and the consumer goods industry (food and beverages, pharmaceuticals, cigarettes, cosmetics, and household goods). Based on purposive sampling, only 39 companies met the research criteria. The selection was based on purposive sampling, applying specific inclusion criteria to ensure data relevance and reliability. These criteria included: (1) the company consistently published complete annual financial reports for the entire observation period 2020–2023; (2) the availability of required data related to the independent variables—leverage, income tax, and dividend payout ratio; and (3) the company did not experience delisting, merger, acquisition, or major corporate restructuring during the research period.

A large number of companies were excluded due to incomplete or inconsistent financial disclosures, suspension of trading, or lack of key variable data. Therefore, although the initial population was substantial, only 39 companies met the rigorous data requirements, ensuring the validity and robustness of the empirical analysis. This study specifically focuses on the manufacturing sector due to its strategic importance and unique financial characteristics within the national economy, especially in the context of the post-pandemic recovery period. The manufacturing sector has been one of the largest contributors to Indonesia's Gross Domestic Product (GDP) and plays a critical role in employment, export activity, and industrial resilience.

From a financial behavior perspective, manufacturing firms typically operate under high fixed costs, long production cycles, and volatile market demand, which increases the likelihood of earnings management practices such as income smoothing. These companies often aim to present stable financial performance to maintain investor confidence and meet regulatory expectations.

Moreover, the manufacturing sector was among the most severely impacted by the COVID-19 pandemic, facing disruptions in supply chains, production processes, and sales. As such, it provides a highly relevant context for examining how companies manage earnings amid financial stress and uncertainty. The findings from this study are expected to provide meaningful insights for regulators, investors, and company management to strengthen transparency, governance, and long-term financial stability within the sector.

This study applies a causal-comparative research design, which examines cause-and-effect relationships (Sugiyono, 2024). The purpose of this design is to determine the impact of independent variables on the dependent variable. The independent variables in this study include Leverage (X1), Income Tax (X2), and Dividend Payout Ratio (X3), while the dependent variable is Income Smoothing.

Table 1. Variable Measurement

Variable	Measurement	Scale
Income Smoothing (Y)	$Indeks\ Eckel \frac{CV\Delta I}{CV\ \Delta S}$ $\Delta I : Change\ in\ profit\ between\ year\ n\ and\ year\ n-1$ $\Delta S : Changes\ in\ income\ between\ year\ n\ to\ year\ n-1$ CV : Coefficient of variation N : observation period Mahfudhoh, N., & Asyik (2020); Marcellino & Iskak (2023); Sintia Dewi (2023).	Nominal
Leverage (X1)	$DER = \frac{Total\ Debt}{Shareholders'\ Equity}$ Nirmanggi & Muslih (2020); Sintia Dewi (2023); Pratami *et al*., (2024)	Ratio
Income Tax (X2)	$Income\ Tax = EBT - EAT$ Nirmanggi & Muslih (2020); Ayuningtyas & Kuntadi (2023); Alen & Imam (2023).	Nominal
Dividend Payout (X3)	$Dividend\ Payout\ Ratio = \frac{dividend\ per\ share}{earning\ per\ share}$ Fauziah & Adi (2021); Marcellino & Iskak (2023); Sintia Dewi (2023).	Ratio

Data Processed in 2025

This study uses purposive sampling, a method in which samples are selected based on specific criteria deemed relevant to the characteristics of the population (Riyanto & Hatmawan, 2020). The sample includes manufacturing companies listed on the Indonesia Stock Exchange that meet the following criteria:

1. Published annual financial statements for the period 2020–2023.
2. Reported financial data in Indonesian rupiah.
3. Recorded profits during the study period.
4. Distributed dividends between 2020 and 2023.

RESEARCH RESULT

Data Presentation

This section summarizes the research findings based on the analysis of each factor used in the regression model. The final part of this study focuses on one dependent variable Income Smoothing and three independent variables: Leverage, Income Tax, and Dividend Payout Ratio. The study uses secondary data obtained from annual reports accessed through the official websites of each company. The data were then processed using SPSS version 25 and Microsoft Excel. The sample consists of manufacturing companies listed and reviewed by the Indonesia Stock Exchange (IDX).

Table 2. Purposive Sampling

No	Criteria	Total
1	Companies Operating In The Manufacturing Sector Between 2020 And 2023	165
2	Companies That Experienced Losses Between 2020 And 2023	(81)
3	Companies That Report Financial Statements In Foreign Currencies	(15)
4	Companies That Were Delisted From The Idx In The Period 2020 – 2023	(1)
5	Companies That Did Not Distribute Dividends In The 2020 – 2023 Period	(29)
6	Total Sample Of Companies	39
7	Research Period 2020 – 2023	4 Years
8	Total Data For The Period 2020 – 2023	156
9	The Number Of Data Outliers	(28)
10	Number Of Observation Data	128

Data Processed in 2025

Descriptive Statistical Analysis

Table 3. Descriptive Statistic

	Minimum	Maximum	Mean	Std Deviation
Income Smoothing	0,02	0,70	0,25	0,18
Leverage	0,06	1,59	0,56	0,41
Income Tax	-825	1,01	2,00	2,56
Dividend Payout Ratio	0,02	1,91	0,52	0,36

Processed Data (IBM SPSS 25), 2025.

Descriptive statistics reveal variations in income smoothing practices among manufacturing firms. PT Budi Starch & Sweetener Tbk (BUDI) recorded the lowest income smoothing value at 0.02382. PT Darya Varia Laboratoria Tbk (DVLA) showed the highest income smoothing value at 0.70802. The average income smoothing value across the sample is 0.2553. The standard deviation of 0.1841 reflects moderate variation, indicating that most firms' smoothing practices cluster near the mean, with limited presence of extreme values. This

supports the conclusion that variability in income smoothing across companies is not substantial**.**

The descriptive analysis indicates notable variation in leverage levels among the observed manufacturing companies. PT Supreme Cable Manufacturing and Commerce Tbk (SCCO) reported the lowest leverage in 2021 at 0.06727. In contrast, PT Wijaya Karya Beton Tbk (WTON) recorded the highest leverage in 2022 at 1.59703. The average leverage across the sample is 0.5663. The standard deviation of 0.4162 reflects a substantial disparity in leverage levels among firms, pointing to varying financial strategies and risk profiles. These differences contribute to the heterogeneity in income smoothing behavior, as firms with higher debt burdens may be more inclined to manage earnings to meet stakeholder expectations.

The descriptive results reveal a wide disparity in corporate income tax payments among the sampled companies. PT Nippon Indosari Corpindo Tbk (ROTI) reported the lowest income tax in 2020, -8252744699. In contrast, PT Charoen Pokphand Indonesia Tbk (CPIN) recorded the highest income tax payment in 2021, amounting to over 1014536000000. The average income tax value across the sample was approximately 2.00924015073. The high standard deviation of 256527140168,27396000 highlights a substantial gap in tax contributions among firms, indicating unequal tax exposure and further emphasizing the heterogeneous financial and operational conditions across the manufacturing sector.

The analysis of the Dividend Payout Ratio (DPR) shows considerable variation among the observed firms. PT Alkindo Naratama Tbk (ALDO) recorded the lowest DPR in 2021 at 0.02177, indicating a conservative dividend policy. In contrast, PT Phapros Tbk (PEHA) reported the highest DPR in 2023 at 1.91000. The average DPR was 0.5207. The standard deviation of 0.3673 indicates substantial variation in dividend distribution strategies among companies, reinforcing the idea that firms with aggressive or stable dividend policies may be more inclined to manage earnings compared to those with conservative or irregular dividend distributions.

Normality Test

Table 4. Normality Test

Monte Carlo Sig. (2-tailed)	Sig.		,068[d]
	99% Conffidence Interval	Lower Bound	,062
		Upper Bound	,75

Processed Data (IBM SPSS 25), 2025.

The results of the One-Sample Kolmogorov-Smirnov Test using Monte Carlo analysis indicate that the regression model does not violate the normality assumption. This is evidenced by the Monte Carlo Sig. (2-Tailed) value of 0.068, which exceeds the significance threshold of 0.050. Therefore, the regression residuals are considered to be normally distributed, confirming that the normality assumption is fulfilled. As a result, the model is deemed appropriate for further statistical analysis.

Multicollinearity Test

Table 5. Multicollinearity Test

Coefficients[a]			
Model		Collienearity Tolerance	Statistics VIF
1	Leverage	,999	1,001
	Income Tax	,997	1,003
	Dividend Payout Ratio	,998	1,002
a. Depedent Variable : Income Smoothing			

Processed Data (IBM SPSS 25), 2025.

Based on the results, the Tolerance and Variance Inflation Factor (VIF) values for each independent variable are as follows: Leverage (Tolerance = 0.999; VIF = 1.001), Income Tax (Tolerance = 0.997; VIF = 1.003), and Dividend Payout Ratio (Tolerance = 0.998; VIF = 1.002). Since all Tolerance values are greater than or equal to 0.10 and all VIF values are below 10, there is no indication of multicollinearity within the regression model. This suggests that the independent variables do not exert significant influence on each other. Thus, the absence of multicollinearity supports the stability of the regression model and confirms its suitability for further analysis.

Heteroscedasticity Test

Table 6. Heteroscedasticty Test

			Unstandardized Residual
Spearman's rho	Leverage	Sig. (2-tailed)	**,948**
	Income Tax	Sig. (2-tailed)	**,289**
	Dividend Payout Ratio	Sig. (2-tailed)	**,348**

Data Processed using IBM SPSS 25, 2025.

The test results indicate that the correlation between Leverage and the residual significance value is 0.948, while the correlations for Income Tax and Dividend Payout Ratio are 0.289 and 0.340, respectively. Using a 0.05 significance level, none of the independent variables show a statistically significant relationship with the residuals. This suggests that heteroscedasticity is not present in the regression model, and the residuals exhibit constant variance (homoscedasticity). Thus, the model meets one of the key classical assumptions, reinforcing its validity and robustness for further regression analysis and reliable interpretation of findings.

Autocorrelation Test (Runs Test)

Table 7. Run Test

Runs Test	
Aysmp. Sig. (2-tailed)	,156

Data Processed using IBM SPSS 25, 2025.

The results indicate that there is no autocorrelation in the regression model, as the significance level is 0.156, which is greater than the 0.05 threshold. This suggests that the residuals are randomly distributed, meaning the model does not violate the autocorrelation assumption. The absence of a systematic pattern among the residuals confirms that the observations are independent, thereby validating the regression results and supporting broader interpretation and further analysis.

Coefficient of Determination (R^2)

Table 8. Coefficient of Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,279[a]	,078	,055	,17897955

Processed Data (IBM SPSS 25), 2025

After accounting for the variables included in the model, the results indicate that Leverage, Income Tax, and Dividend Payout Ratio collectively explain approximately 5% of the variation in Income Smoothing. This suggests that the independent variables have a limited explanatory power, while the remaining 94.5% of the variation is attributed to other factors outside the scope of this study.

F-Test (Simultaneous Significance Test)

Table 9. F - Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,334	3	,111	3,479	,018[b]
	Residual	3,972	124	,032		
	Total	4,306	127			

Processed Data (IBM SPSS 25), 2025

The test results show that the significance level is below the 0.05 threshold, indicating that the regression model is statistically significant as a whole. This means that Leverage, Income Tax, and Dividend Payout Ratio simultaneously have a significant effect on Income Smoothing.

t-Test

Table 10. t-Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,232	,037		6,188	,000
	Leverage	-,074	,038	-,168	-1,943	,054
	Income Tax	4,206E-14	,000	,059	,678	,499
	Dividend Payout Ratio	,110	,043	,219	2,540	,012
a. Dependent Variable: Income Smoothing						

Processed Data (IBM SPSS 25), 2025

The results indicate that Leverage has a significance level of 0.054, slightly above the 0.05 threshold, suggesting it does not have a statistically significant effect on Income Smoothing. Similarly, Income Tax shows a significance level of 0.499, indicating no meaningful impact on Income Smoothing. In contrast, Dividend Payout Ratio (DPR) has a significance level of 0.012, which is below 0.05, demonstrating a significant influence. This implies that firms are more likely to engage in income smoothing as DPR increases. Overall, among the three independent variables, only Dividend Payout Ratio significantly affects Income Smoothing, while Leverage and Income Tax do not.

DISCUSSION

The Influence of Leverage on Income Smoothing

Based on partial regression analysis, Leverage shows a significance level of 0.054, slightly above the 0.05 threshold, indicating no statistically significant effect on Income Smoothing. Although theoretically, Leverage is expected to influence income smoothing as suggested by agency theory, which posits that higher debt levels increase pressure from creditors, prompting managers to stabilize earnings the findings of this study show otherwise. These results align with previous studies by Angelista et al. (2021), Sesilia et al. (2021), Marcellino and Iskak (2023), and Christina et al. (2024), which also found no significant relationship between Leverage and Income Smoothing. One possible explanation is that companies with high leverage in this study are still able to meet their financial obligations, reducing the incentive for managers to engage in earnings management. Thus, while agency theory may predict a relationship, in practice, this influence may not manifest when companies are financially stable. Therefore, the effect of Leverage on Income Smoothing is context-dependent and influenced by a firm's financial health and governance practices.

The Influence of Income Tax on Income Smoothing

The findings of this study indicate that Income Tax has no significant effect on Income Smoothing, as evidenced by a significance level of 0.499. This supports the rejection of the second hypothesis (H2), which proposed that Income Tax affects Income Smoothing. Similar results were reported by previous studies, including Christina et al. (2024) and Nirmanggi and Muslih (2020), which also found no significant relationship between Income Tax and Income Smoothing. Although agency theory suggests that managers may be motivated to smooth earnings to reduce tax burdens and increase net income, this study shows that in the context of manufacturing companies, tax is not a dominant factor driving income smoothing behavior. Instead, firms may rely more on tax planning strategies and operate under strict fiscal oversight and financial reporting transparency, reducing the need for income smoothing as a tax minimization tool. Therefore, while theoretical frameworks suggest a link between taxation and earnings management, the empirical evidence does not always support this relationship, as it depends on regulatory environments and firm-specific policies.

The Influence of Dividend Payout Ratio on Income Smoothing

From the perspective of agency theory, companies with high dividend payout policies face pressure to consistently distribute dividends. To meet these expectations, management may engage in income smoothing to stabilize earnings and ensure regular dividend payments. A high Dividend Payout Ratio (DPR) often requires steady profits, prompting firms to adopt income smoothing strategies to avoid sharp earnings fluctuations. The results of this study support this view, showing that DPR significantly influences Income Smoothing ($p = 0.012 < 0.05$), thereby supporting Hypothesis 3. Similar findings were reported by Fauziah and Adi (2021) and Safira et al. (2022), who also found a positive relationship between DPR and Income Smoothing. Companies with high dividend policies tend to manage earnings to maintain investor expectations and reduce the risk of share price volatility caused by inconsistent earnings. Thus, DPR not only affects income smoothing practices but also plays a role in sustaining investor confidence and preserving firm value.

CONCLUSIONS AND RECOMMENDATIONS

1. For Company Management
   Manufacturing companies should strengthen their internal financial monitoring systems to reduce the incentive for income smoothing. Transparent financial reporting and accurate tax planning are essential to ensure sustainable business practices and to maintain investor trust, especially in the post-pandemic recovery phase.
2. For Investors and Analysts
   Investors are advised to pay closer attention to financial indicators such as leverage ratios, effective tax rates, and dividend policies, as these variables may signal the presence of earnings management behavior. Conducting a comprehensive financial analysis before investment decisions can help mitigate risks associated with manipulated earnings.

3. For Regulators and Policymakers:
   Regulatory authorities such as the Financial Services Authority (OJK) and the Ministry of State-Owned Enterprises (for SOEs) are encouraged to improve the enforcement of disclosure regulations and implement stricter supervision of financial reporting, particularly in sectors vulnerable to income smoothing. Guidelines for consistent and transparent dividend policies may also reduce earnings manipulation driven by short-term performance targets.

ADVANCED RESEARCH

Further studies may consider expanding the scope beyond the manufacturing sector or incorporating moderating variables such as corporate governance, audit quality, or firm size to better understand the dynamics of earnings management in different contexts and sectors.

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