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The Influence of Political Connections on Income Smoothing with Institutional Ownership and Managerial Ownership as Moderating Variables in Manufacturing Companies Listed on the IDX

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Abstract

This study aims to analyze the effect of political connections on income smoothing and to determine whether institutional ownership and managerial ownership can moderate the relationship between political connections and income smoothing. This study uses political connections as the independent variable, income smoothing as the dependent variable, and institutional ownership and managerial ownership as moderating variables. This study uses secondary data from the annual reports of raw material companies listed on the Indonesia Stock Exchange for the period 2022-2024. The sample selection method used a purposive sampling method. Data analysis techniques used were descriptive statistical analysis, goodness of fit test, overall model test, multiple logistic regression analysis, coefficient of determination, hypothesis testing, and moderated regression analysis with the help of SPSS software version 27. The results show that political connections have a negative and significant effect on income smoothing. Institutional ownership has a negative and significant effect on income smoothing. Managerial ownership has a negative and significant effect on income smoothing. Institutional ownership and managerial ownership are unable to moderate the effect of political connections on income smoothing. Political connection, institutional ownership, and managerial ownership simultaneously have a significant effect on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Keywords: Income Smoothing, Institutional Ownership, Managerial Ownership, Political Connection

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INTRODUCTION

The increasingly competitive business environment demands that companies present high-quality financial reports as a basis for decision-making for stakeholders (Iswajuni & Luke, 2023). In practice, this demand is not always met by presenting financial information that objectively reflects the company's economic condition. One practice that is still found is income smoothing, where management smooths earnings to make fluctuations between periods appear more stable. While this practice does not always violate accounting standards, income smoothing has the potential to degrade the quality of financial information by obscuring the company's true performance and misleading users of financial statements in decision-making (Masriyah, Setiawan, & Anwar, 2025).

The phenomenon of income smoothing remains a concern for public companies in Indonesia, including the manufacturing sector. One case illustrating this issue occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA), where an investigation by Ernst & Young (2018) revealed inflated assets, receivables, and revenue, as well as inadequately disclosed transactions with related parties. This case demonstrates that pressure to maintain a company's performance image can drive management to manipulate financial reporting in an effort to maintain reported earnings stability (Ashrifa, Agung, Yunika, Putri, Nurtita, & Ayu, 2025).

One factor suspected of influencing income smoothing practices is political connections. Companies with connections to political actors have the potential to gain greater access to resources, regulatory protection, and legitimacy, which can provide a competitive advantage. However, this situation can also increase the opportunity for opportunistic behavior because management has greater flexibility to utilize political connections to maintain the company's image. Previous research has shown that political connections have the potential to increase income smoothing practices, especially when companies face high political pressure (Indarti & Widiatmoko, 2023; 'Azzah, Kusuma, & Niam, 2025).

The relationship between political connections and income smoothing is thought to be a non-existent relationship, but rather influenced by the effectiveness of corporate governance mechanisms. Institutional ownership acts as an external oversight mechanism that can increase the effectiveness of monitoring management actions, thereby limiting opportunistic behavior (Haura & Yuliandhari, 2024). On the other hand, managerial ownership is seen as capable of aligning management interests with shareholders, thereby minimizing agency conflicts and increasing the reliability of financial statements (Gernadi & Sparta, 2025). Therefore, these two governance mechanisms are thought to moderate the influence of political connections on income smoothing practices.

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Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between the principal (shareholders) and the agent (management), in which management is authorized to manage the company on behalf of the shareholders (Toni Simorangkir, & Kosasih, 2021). This relationship may give rise to agency conflicts because shareholders seek to maximize firm value, while managers may pursue their personal interests (Suteja, 2020). From the perspective of Agency Theory, political connections can intensify agency conflicts by providing management with greater access to resources, information, and political protection. This situation may encourage opportunistic behavior, including income smoothing practices, as a means of maintaining the company's performance image, preserving political relationships, and reducing pressure from shareholders and regulators.

Based on these phenomena and problems, this study aims to analyze the effect of political connections on income smoothing, with institutional ownership and managerial ownership as moderating variables in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This research is important because income smoothing practices remain an issue that affects the quality of financial reporting and stakeholder trust. The novelty of this study lies in examining the role of institutional ownership and managerial ownership as moderating variables in the relationship between political connections and income smoothing. It is hoped that this study will enrich the literature on earnings management practices and the role of corporate governance mechanisms in minimizing opportunistic management behavior.

The hypotheses of this study are as follows:

H_1: Political connection has a positive and significant effect on income smoothing in manufacturing companies listed on the IDX.

H_2: Institutional ownership has a positive and significant effect on income smoothing in manufacturing companies listed on the IDX.

H_3: Managerial ownership has a positive and significant effect on income smoothing in manufacturing companies listed on the IDX.

H_4: Institutional ownership moderates the effect of political connection on income smoothing in manufacturing companies listed on the IDX.

H_5: Managerial ownership moderates the effect of political connection on income smoothing in manufacturing companies listed on the IDX.

H_6: Political connection, institutional ownership, and managerial ownership simultaneously have a significant effect on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange (IDX).

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RESEARCH METHODS

This study uses secondary data obtained from the annual reports and financial statements of basic materials manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. The data were collected from the official IDX website and the respective companies' official websites and include financial information, ownership structure, and corporate governance data required to measure political connection, income smoothing, institutional ownership, and managerial ownership. The population consists of 85 basic materials manufacturing companies listed on the IDX during the study period. The sample was selected using purposive sampling, a non-probability sampling technique in which companies were chosen based on predetermined criteria to ensure the availability of relevant and reliable data for the analysis. Based on these criteria, 31 companies were selected as the research sample, resulting in 93 firm-year observations over the three-year period (2022–2024).

VARIABLE MEASUREMENT

Political Connection

Income smoothing is measured using the Index Eckel, which compares the variability of changes in earnings with the variability of changes in sales. Based on Siahaan (2024), Index Eckel is calculated using the following formula:

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

Where:
CV: Coefficient of Variation (standard deviation divided by average value)
ΔI = Change in net income between period *t* and period (t-1)
ΔS = Change in sales revenue between period *t* and period (t-1)
The calculation results are then classified into a dummy variable as follows:

- Eckel Index < 1 = The company engages in income smoothing.
- Eckel Index ≥ 1 = The company does not engage in income smoothing.

Income Smoothing

Political connection is measured by examining the profiles of the board of directors, board of commissioners, and audit committee disclosed in the company's annual report. Based on Kusumaningrum & Nahda (2022), the measurement is based on the following indicators:

- The presence of board members who currently hold or have previously held positions as government officials.
- Board members with a TNI or Polri background.

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- The direct involvement of board members in political parties, government institutions, or other political structures.

Political connection is measured using a dummy variable, where:

- 1 = The company has a political connection.
- 0 = The company does not have a political connection.

Institutional Ownership

In this study, institutional ownership refers to the proportion of a company's outstanding shares owned by institutional investors, such as banks, insurance companies, pension funds, and other investment institutions, which play an important role in effectively monitoring management. Based on Krisdina & Nugrahanti (2025), the measurement is calculated using the following formula:

$$\text{Institutional Ownership} = \frac{\text{Number of Shared Owned by Institutional Investor}}{\text{Total Outstanding Shares}} \text{ x } 100\%$$

Manajerial Ownership

In this study, managerial ownership is defined as the proportion of a company's outstanding shares owned by its management, including the board of directors and board of commissioners, who are actively involved in the company's decision-making process. This form of ownership is intended to align the interests of management with those of shareholders.

The measurement indicators are as follows:

- The percentage of shares owned by the board of directors.
- The percentage of shares owned by the board of commissioners.
- Management's participation in the company's strategic decision-making.

The measurement is calculated using the following formula:

$$\text{Managerial Ownership} = \frac{\text{Number of Shared Owned by Managers}}{\text{Total Outstanding Shares}} \text{ x } 100\%$$

Data Analysis Techniques

The collected data were processed using Statistical Package for the Social Sciences (SPSS) version 27. The data were then analyzed using descriptive statistical analysis, model fit test, overall model fit test, logistic regression analysis, the coefficient of determination (R^2), hypothesis testing, and Moderated Regression Analysis (MRA).

Model fit was assessed using the Hosmer and Lemeshow Goodness-of-Fit Test and the Overall Model Fit Test. A Hosmer and Lemeshow p-value > 0.05 indicates that the logistic regression model fits the observed data adequately. Overall model fit was evaluated by comparing the −2 Log Likelihood (−2LL) values of Block 0 and Block 1,

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where a decrease in the −2LL value indicates an improvement in model fit. The coefficient of determination (R^2) measures the extent to which the independent variables explain the variation in the dependent variable. An R^2 value closer to 1 indicates greater explanatory power of the regression model, while a value closer to 0 indicates limited explanatory ability. The Wald test was used to examine the partial effect of each independent variable on the dependent variable at a 5% significance level. A p-value < 0.05 indicates that the independent variable has a significant effect on the dependent variable, whereas a p-value > 0.05 indicates that the effect is not statistically significant. The Omnibus Test of Model Coefficients was used to examine the simultaneous effect of all independent variables on the dependent variable in the logistic regression model. At a 5% significance level, a p-value < 0.05 indicates that the independent variables have a significant effect on the dependent variable, whereas a p-value > 0.05 indicates that they do not have a statistically significant joint effect.

Logistic regression analysis was employed to examine the effect of political connection on income smoothing, which was measured as a binary dependent variable (0 = non-income smoothing; 1 = income smoothing). To test the moderating effects of institutional ownership and managerial ownership, Moderated Regression Analysis (MRA) was conducted by incorporating interaction terms between the independent and moderating variables. The regression models are as follows:

$$Y=a+b_1X+b_2Z_1+b_3Z_2 +e \quad (1)$$

$$Y=a+b_1X+b_2Z_1+b_3Z_2+ b_4X.Z_1+b_5X.Z_2+e \quad (2)$$

Where:
Y: Income Smoothing
α: Konstanta
X: Political Connection
Z_1: Institutional Ownership
Z_2: Manajerial Ownership
$X.Z_1$: Moderasi antara Political Connection dengan Institutional Ownership
$X.Z_2$: Moderasi antara Political Connection dengan Manajerial Ownership
b_1-b_5: Koefisien regresi
e: Error

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is an analysis method used to describe or illustrate the characteristics of data without drawing general conclusions.

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Table 1. Results of Descriptive Statistical Analysis of Political Connection Variables

Description	Frequency	%
Not Indicated	57	61.3
Indicated	36	38.7
Total	93	100

Source: SPSS 27 (data processed by the author, 2026)

Table 1 shows that 57 companies (61.3%) have no political connections (a score of 0), while 36 companies (38.7%) are indicated to have political connections (a score of 1). These results indicate that the number of companies without political connections is greater than the number of companies with political connections.

Table 2. Results of Descriptive Statistical Analysis of Variables Income Smoothing

Description	Frequency	%
Not Indicated	45	48.4
Indicated	48	51.6
Total	93	100

Source: SPSS 27 (data processed by the author, 2026)

Table 2 shows that 45 companies (48.4%) were not indicated to be engaging in income smoothing practices (a score of 0), while 48 companies (51.6%) were indicated to be engaging in income smoothing practices (a score of 1). These results indicate that the number of companies not engaging in income smoothing practices is greater than the number of companies engaging in income smoothing practices.

Table 3. Results of Descriptive Statistical Analysis Institutional Ownership Variables and Managerial Ownership

Variables	N	Min	Max	Mean	Std. Dev
Z1	144	0	99.95	67,1619	31.94574
Z2	144	0	92.52	14,0560	25.85106

Source: SPSS 27 (data processed by the author, 2026)

Institutional ownership ranged from 0.03% to 99.78%, with a mean value of 60.2658%, indicating that most sample companies had relatively high institutional ownership. Meanwhile, managerial ownership ranged from 0.0002% to 91.11%, with a mean value of 18.6192%, indicating that managerial ownership was relatively low among the sample companies.

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Goodness of Fit Test

Goodness of fit test using the Hosmer and Lemeshow's with a significance level of 0.05. A logistic regression model is considered fit when the significance value exceeds 0.05. The Hosmer and Lemeshow test produced a Chi-Square value of 11.298 with a significance value of 0.185 (> 0.05), indicating that the logistic regression model fits the observed data and is suitable for further hypothesis testing.

Overall Model Test

The overall model test was assessed by comparing the -2 Log Likelihood (-2LL) values between the initial model (Block 0) and the final model (Block 1). A decrease in the -2LL value indicates an improvement in model fit. As shown in Table 4.9, the -2LL value decreased from 128.829 in Block 0 to 101.642 in Block 1, indicating that the logistic regression model provides a better fit and is appropriate for further analysis.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) is a statistical measure used to determine how much the independent variable is able to explain the variation in the dependent variable in a regression model.b The results show that the Nagelkerke R Square value is 0.338, indicating that political connection, institutional ownership, and managerial ownership explain 33.8% of the variation in income smoothing, while the remaining 66.2% is explained by other factors outside the research model.

Multiple Logistic Regression Analysis and Partial Test

The purpose of the t-test is to determine how much influence the independent variable has on explaining the variance of the dependent variable. This test serves as the basis for deciding whether to accept or reject a research hypothesis, taking into account the relative importance of each independent variable.

Table 4. Logistic Regression and Partial Test Results

Model	B	SE	Wald	df	Sig.	Exp(B)
X	-1.427	0.529	7.276	1	0.007	0.240
Z_1	-0.066	0.020	10.954	1	0.001	0.936
Z_2	-0.094	0.025	14.071	1	0.000	0.910
(constant)	6.448	1.783	13.079	1	0.000	631.290

Source: SPSS 27 (data processed by the author, 2026)

Based on Table 4, the constant value is 6.448. The political connection variable has a regression coefficient of -1.427 with a significance value of 0.007 (< 0.05), indicating that political connections have a negative and significant effect on income

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smoothing. The institutional ownership variable has a regression coefficient of -0.066 with a significance value of 0.001 (< 0.05), while managerial ownership has a regression coefficient of -0.094 with a significance value of 0.000 (< 0.05). These results indicate that institutional ownership and managerial ownership also have a negative and significant effect on income smoothing. Thus, the higher the political connection, institutional ownership, and managerial ownership, the lower the tendency of a company to practice income smoothing.

Simultaneous Test

The simultaneous test in this study uses the F-test to determine whether all independent variables jointly influence the dependent variable. This test is conducted to assess the regression model's ability to explain changes in the dependent variable as a whole. If the significance value is less than 0.05, the independent variables simultaneously have a significant effect on the dependent variable. The simultaneous test results show a Chi-square value of 27.187 with a significance value of 0.000 (< 0.05). These findings indicate that political connection, institutional ownership, and managerial ownership simultaneously have a significant effect on income smoothing, suggesting that the regression model is statistically significant.

Moderated Regression Analysis (MRA)

Moderated regression analysis (MRA) testing is conducted by examining the significance of the interaction variable coefficients. If the interaction coefficient is significant (Sig. value < 0.05), then the moderator variable is proven to moderate the relationship between X and Y. Conversely, if it is not significant, then the moderator variable does not have a moderating role in the model.

Table 5. Test Results Moderated Regression Analysis

Model	B	SE	Wald	df	Sig.	EXP(B)
X	2.293	4.703	0.238	1	0.626	9.900
Z_1	-0.058	0.025	5.308	1	0.021	0.944
Z_2	-0.081	0.030	7.249	1	0,007	0.923
X*Z_1	0.038	0.054	0.494	1	0.482	0.963
X*Z_2	-0.116	0.104	1.229	1	0.268	0.891
(constant)	5.642	2.204	6.553	1	0.010	281.999

Source: SPSS 27 (data processed by the author, 2026)

Based on Table 5, the interaction variable between political connections and institutional ownership has a significance value of 0.482 (> 0.05), while the interaction between political connections and managerial ownership has a significance value of

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0.268 (> 0.05). These results indicate that neither institutional ownership nor managerial ownership is able to moderate the relationship between political connections and income smoothing, so the two variables neither strengthen nor weaken the relationship.

DISCUSSION

The Influence of Political Connections on Income Smoothing

The results of the study indicate that political connections have a negative and significant effect on income smoothing in raw materials manufacturing companies listed on the Indonesia Stock Exchange for the 2022–2024 period. This is indicated by a coefficient value of -1.427 with a significance level of 0.007 (< 0.05), thus the first hypothesis (H_1) which states that political connections have a positive effect on income smoothing is rejected.

This finding aligns with agency theory, which explains that political connections can increase oversight from the government, regulators, and stakeholders, thereby limiting management's opportunities for opportunistic behavior, including income smoothing. Companies with political connections tend to face higher demands for transparency and accountability, thus exercising greater caution in preparing financial reports and maintaining the company's reputation.

The results of this study are consistent with Kusuma (2023) which found that political connections have a negative effect on income smoothing. However, this finding differs from Krisdina & Nugrahanti (2025), Anggraini, Subroto, and Andayani (2023), as well as Tee (2020) which found a positive influence, and also differed from Kusumaningrum & Nahda (2022) which stated there was no effect. These differences in results indicate that the influence of political connections on income smoothing practices can be influenced by company characteristics, governance quality, and regulatory conditions in each research period.

The Effect of Institutional Ownership on Income Smoothing

The results of the study indicate that institutional ownership has a negative and significant effect on income smoothing in raw materials manufacturing companies listed on the Indonesia Stock Exchange for the 2022–2024 period. This is indicated by a coefficient value of -0.066 with a significance level of 0.001 (< 0.05), thus the second hypothesis (H_2) which states that institutional ownership has a positive effect on income smoothing is rejected.

This finding aligns with agency theory, which explains that institutional ownership serves as an effective oversight mechanism for management actions. Institutional investors possess greater monitoring capabilities and resources, thus limiting opportunistic behavior, including income smoothing practices. The higher the proportion

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of institutional ownership, the stronger the oversight of management, resulting in more transparent and objective financial reporting.

The results of this study are consistent with Lestari & Aprilia (2020) which found that institutional ownership had a negative effect on income smoothing. However, this result differs from Andiani & Astika (2019), Fadillah & Luthan (2023), as well as Burhan & Malau (2021) which found a positive influence, and also differed from Angelista, Ratih, and Arfamaini (2021), Krisdina & Nugrahanti (2025), as well as Kusumaningrum & Nahda (2022) which states there is no effect. This difference indicates that the influence of institutional ownership on income smoothing practices can be influenced by company characteristics, governance effectiveness, the level of institutional ownership concentration, and regulatory conditions during the study period.

The Influence of Managerial Ownership on Income Smoothing

The results of the study indicate that managerial ownership has a negative and significant effect on income smoothing in raw materials manufacturing companies listed on the Indonesia Stock Exchange for the 2022–2024 period. This is indicated by a coefficient value of -0.094 with a significance level of 0.000 (< 0.05), thus the third hypothesis (H_3) which states that managerial ownership has a positive effect on income smoothing is rejected.

This finding aligns with agency theory, which explains that management share ownership can align the interests of management and shareholders. The greater management's share ownership, the greater the incentive to increase the company's long-term value, thus reducing the tendency to engage in income smoothing. Managerial ownership also encourages management to present higher-quality financial reports and maintain the company's credibility.

The results of this study are consistent with Utami, Evana, and Yuliansyah (2020) who found that managerial ownership had a negative effect on income smoothing. However, this result differs from Wahyuni, Abbas, Hidayat, and Anggraeni (2023), Yunitasari & Agustiningsih (2022), as well as Angelina & Munandar (2023) which found a positive influence, and also differed from Andiani & Astika (2019), Angelista et al. (2021), and Krisdina & Nugrahanti (2025) which states there is no influence. This difference indicates that the influence of managerial ownership on income smoothing practices can be influenced by company characteristics, governance mechanisms, ownership structure, and regulatory conditions during the study period.

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***Institutional Ownership* Moderating the Influence of Political Connections on Income Smoothing**

The results of the study indicate that institutional ownership is unable to moderate the relationship between political connections and income smoothing in raw material manufacturing companies listed on the Indonesia Stock Exchange for the 2022–2024 period. This is indicated by the significance value of the interaction variable (political connections × institutional ownership) of 0.482 (> 0.05), thus the fourth hypothesis (H_4) which states that institutional ownership is able to moderate the relationship is rejected.

Based on agency theory, institutional ownership is expected to strengthen management oversight and reduce opportunistic behavior. However, research shows that this monitoring function has not been able to influence the relationship between political connections and income smoothing practices. This indicates that the presence of institutional investors is not yet effective in limiting the impact of political connections on corporate financial reporting policies.

The results of this study are in line with Kusumaningrum & Nahda (2022) which states that institutional ownership is unable to moderate the relationship between political connections and income smoothing. On the other hand, this result differs from Krisdina & Nugrahanti (2025) who found that institutional ownership moderates this relationship. These differences in findings indicate that the effectiveness of institutional ownership as a monitoring mechanism is influenced by company characteristics, the level of institutional investor involvement, and the state of corporate governance.

***Managerial Ownership* Moderating the Influence of Political Connections on Income Smoothing**

The results of this study indicate that managerial ownership is unable to moderate the relationship between political connections and income smoothing, as indicated by the interaction variable's significance value of 0.268 (> 0.05). Therefore, the third hypothesis is rejected. Based on agency theory, managerial ownership should be able to align the interests of management and shareholders, thereby reducing opportunistic behavior, including income smoothing practices.H_5

However, the findings of this study indicate that managerial ownership has not been effective in controlling the influence of political connections on these practices. This condition is thought to be caused by the low proportion of share ownership held by management, thus limiting their influence on the company's strategic decision-making. Furthermore, decisions related to the use of political connections are determined more by controlling shareholders than by management. These research findings align with Krisdina & Nugrahanti (2025) who also found that managerial ownership was unable to moderate the relationship between political connections and income smoothing.

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The Simultaneous Effect of Political Connection, Institutional Ownership, and Managerial Ownership on Income Smoothing

The results indicate that political connection, institutional ownership, and managerial ownership simultaneously have a significant effect on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The Omnibus Test of Model Coefficients produced a significance value of 0.000 (< 0.05), indicating that the regression model is statistically significant. Consistent with Agency Theory, the findings suggest that income smoothing is influenced by the interaction of political connection and corporate governance mechanisms. Political connection may increase management's incentive to maintain earnings stability, whereas institutional ownership and managerial ownership strengthen monitoring and reduce opportunistic behavior. Therefore, these variables jointly influence the likelihood of income smoothing.

CONCLUSION

Based on the findings, this study concludes that political connection, institutional ownership, and managerial ownership each have a significant negative effect on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. These findings indicate that stronger political connections, higher institutional ownership, and greater managerial ownership reduce the likelihood of income smoothing practices. Furthermore, institutional ownership and managerial ownership do not moderate the relationship between political connection and income smoothing. However, political connection, institutional ownership, and managerial ownership simultaneously have a significant effect on income smoothing, indicating that these variables collectively influence the likelihood of income smoothing practices.

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