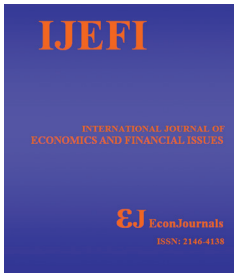

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The Effect of Earnings Smoothing and Earnings Informativeness on Firm Value with Managerial Ability as a Moderating Variable

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ABSTRACT

This study's goal is to find out how earnings informability and income smoothing affect firm value, with managerial ability as a moderating variable. A quantitative method was used, and financial statements that were listed on the Indonesia Stock Exchange served as the source of the data. The sample population comprised 255 companies within the Consumer Non-Cyclicals and Consumer Cyclicals sectors, with a 4-year study period from 2017 to 2020. In addition, a total of 154 companies were selected based on the inclusion criteria, and 616 observations were carried out. This study used data from an emerging market country, namely Indonesia, which was known as the most promising investment destination. The results showed that earnings smoothing did not affect firm value, while earnings informativeness had a significant effect. The relationship between income smoothing and firm value was unaffected by managerial skill, even though it increased the correlation between earning informativeness and firm value. In line with these findings, company leaders must choose managers with high skills in financial management. These skills can greatly influence the impact of earnings informativeness on firm value.

Keywords: Earnings Smoothing, Earnings Informativeness, Managerial Ability, Firm Value
JEL Classifications: M410, M480

1. INTRODUCTION

In financial accounting literature, earnings smoothing and earnings informativeness are essential topics that have been widely explored. Several studies have shown that the practice of earnings smoothing enhances the information content of the stock price. According to multiple studies, the practice of earnings smoothing enhances the information content of the stock price, which in turn affects future income. Consistent with earlier research, this improvement empowers market players to make better-informed choices regarding the distribution of capital resources (Salehi and Manesh, 2011). Moreover, the practice is often driven by managers' opportunistic incentives. These managers typically perceive that manipulating income information can offer insights into future performance. Earnings smoothing is the management of accruals (net income - CFO) to offset fluctuations in CFO (cash flow and accruals).

Earnings informativeness is the extent to which current-period stock returns reveal information about prospective future cash flows or earnings (Zarowin, 2002). In addition, management tends to take actions to increase and increase earnings when the income is relatively low and high, respectively. Managers engage in flattening due to various factors, including maximizing their wealth, reducing the perception of firm risk, increasing firm value, satisfying debt covenants, reducing tax and political costs, and increasing the accuracy of financial projections. This strategy can also be used to guarantee job security or to meet bonus targets (Healy, 1985; Fudenberg and Tirole, 1995; Arya et al. 1998). Income garbling is an equilibrium solution, according to contract theory, where the principal compensates the agent for taking on greater risk because the agent has an information advantage (Lambert, 1984; Demski and Frimor, 1999). In this case, the contract is effective, but the communication is deceptive. Because of this, reported earnings are no longer as indicative

of the company's future cash flows and earnings (Tucker and Zarowin, 2006).

Firm value is a highly significant factor as it serves as a key indicator of a company's performance. Within a company, managers act as agents, while shareholders function as principals/owners. Shareholders rely on trustworthy parties to manage aspects that cannot be overseen. Because higher levels frequently translate into greater shareholder prosperity, firm value is significant (Arsyad et al., 2021). In addition, financial reporting is one of the tools reflecting management performance, which is needed by investors in assessing and predicting the ability to generate cash flow from resources. These reports provide information aiding decision-making for various parties within an organization. Therefore, It is crucial to remember that the accuracy and dependability of the data in financial statements is essential to management's accountability, and ensuring precise decision-making by users. The primary aim of financial reporting is meant to offer decision-useful information and improve users' ability in assessing the company's future performance (Baik et al, 2020). However, investors often concentrate on earnings information without paying attention to the procedures used (Beattie et al., 1994). This behavior encourages the managers to carry out earnings management. Ashari et al. (1994) stated that earnings smoothing often occurs in companies with low profitability and those in risky industries, and this practice is largely influenced by profitability (Jatiningrum, 2000).

One of the factors influencing the practice of smoothing is management compensation bonuses (Healy, 1985). In line with previous studies, Healy (1985) stated that managers who cannot achieve profit targets tend to manipulate income by transferring future earnings to present income or vice versa. Bangun (2023) stated that investors' focus on profit often diverts attention from the procedures used, creating a loophole for managers to engage in this practice. These findings are consistent with previous studies that earnings smoothing is typically carried out to reduce fluctuations in reported revenue and improve investors' ability to forecast future cash flows (Cecilia, 2012).

According to Beidleman (1973), the application of managerial strategies to lessen income stream fluctuations is known as smoothing. In addition, this is a conscious action taken by managers using various methods, including depreciation techniques, postponing sales, and revenue recognition (Salehi and Gholami, 2015). The ability of managers to independently select accounting methods used in preparing financial statements facilitates window-dressing efforts by exploiting weaknesses in accounting standards. It is important to note that smoothing is considered an effective method for increasing the informativeness of earnings (Baik et al, 2020). Studies have demonstrated that managers with higher skill levels possess a more cohesive understanding of business concepts than managers with lower skill levels (Coff, 1999, Holcomb et al., 2009). According to Baik et al. (2020), These findings support the notion that highly skilled people can use profit equalization as a way to lessen information asymmetry. In the meantime, those with low skill levels can also minimize income and possible expenses related to bad equalization choices, like misrepresenting financial statements and damaging reputations.

Fuadi et al, (2022) showed that earnings smoothing significantly reduced informativeness, and the relationship was weakened by managers with high ability. Furthermore, several variables have been found to influence how informative earnings are, including managerial ability, which has a favorable impact. Manager ability increase the informativeness of earnings reported by the company. Managers with good abilities often focus on profits that are more permanent and not temporary and this is reflected in the company's performance. Lukita (2022) demonstrated that managerial skill has been demonstrated to improve earnings quality and has a positive impact on earnings quality. Putra (2022) stated that the factor increased informative earnings management. Furthermore, this study also underscored the significance of manager stewardship behavior, comprising informative earnings management and the provision of high-quality information to shareholders.

According to Baik et al. (2020), managers with high abilities possess the ability to predict economic fluctuations and integrate a greater amount of forward-looking data, such as projected cash flows, into their current earnings. This makes their earnings more informative. In the meantime, inexperienced managers are less adept at anticipating shifts in their company's economy and executing noise-free earnings smoothing (Baik et al., 2020). According to Salno and Baridwan (2000), earnings smoothing comprises the use of certain techniques to minimize or increase the old amount in a certain period. Management often engages in this practice to reduce fluctuations in reported revenue and improve investors' ability to predict future cash flow.

According to Kamin and Ronen (1978), manager-controlled firms were more likely to flatten earnings more frequently than owner-controlled firms. In line with these findings, Haeri (2009) concluded that smoothing could be used as a tool to increase stock prices on the stock exchange. The outcomes supported Noorani's (2007) claim that this strategy has no effect on the returns of businesses that are listed on the Tehran Stock Exchange. According to Chan and Hameed (2006), companies with low earnings quality typically experienced a decrease in returns after reports. This is because investors perceive the low earnings quality and modify the stock price accordingly. Baik et al. (2020) concluded that equalization by highly capable managers increased stock price information about future cash flows. Furthermore, equalization is beneficial when used by highly capable individuals with high information asymmetry. Saifaddin (2020) asserts that earnings smoothing enhances firm value. Businesses' worth has no bearing on this practice, according to Oktyawati and Agustia (2014). Companies that engage in this practice and others do not see a difference in returns, according to a study by Salno and Baridwan (2000). Samlawi (2000) concluded that there was a significant difference in average returns. Owa et al. (2019) showed that income smoothing affected firm value, and this was consistent with Abogun and Adigbole (2021) who found a negative effect.

When highly skilled managers are present, earnings smoothing is likely to increase the informativeness of income and stock prices about future performance. These individuals have superior ability to assess the future performance of their companies. By using earnings smoothing to communicate company value, highly

skilled managers, Use their knowledge to predict shifts in the company's financial outlook, per Baik et al. (2020). The purpose of this study was to ascertain how income smoothing affected firm value. The effect of this practice is strengthened by managers with high abilities. Compared to this study, Baik et al. (2022) examined earnings smoothing through the study of development management and informative income. The study also looked at the connection between earnings smoothing and managerial skill. Salehi and Gholami (2015) conducted a study on the association of income smoothing and investment efficiency on firm value. Therefore, the formulation of the problems in this study are (1) Does income smoothing practice have an effect on firm value? (2) Does earnings informativeness have an effect on firm value? (3) Does managerial experience make the relationship between income smoothing and the informativeness of earnings with respect to firm value stronger? As per previous reports, investors can anticipate that the findings of this study will furnish them with insights into the significance of managerial competencies concerning income smoothing strategies and the informativeness of earnings with respect to firm valuation.

2. LITERATURE REVIEW

2.1. Income Smoothing and Firm Value

Investors are likely to prefer companies with a more stable or flat profit stream. By decreasing the cost of debt and the probability of filing for bankruptcy, income smoothing may raise the firm's value. In addition, Hermuningsih and Wardani (2009) stated that firm value was an individual's perception, which was often associated with stock prices. Therefore, the term indicated that potential investors were willing to pay a certain price when the organization was sold. The increase in value showed the company's achievement in line with the demands of the investors. In line with these studies, Pradipta and Susanto's (2019) examined firm value, firm size, and income smoothing. Based on the results, firm value had a positive effect on earnings smoothing, indicating that management's actions in managing earnings were correct and were considered successful in fulfilling investors' wishes. When Abogen and Adigbole (2021) looked at how earnings smoothing affected firm value in the regulated securities market—which was influenced by market risk—they found a sizable detrimental effect. Mahulae's study (2021) focused on performance in generating operating profit and its relationship with firm value. The findings also indicated that the value of pharmaceutical institutions listed on the Indonesia Stock Exchange was negatively impacted by earning aggressiveness and income smoothing, partially and simultaneously. These findings were consistent with Fuadi et al, (2022) that earnings smoothing significantly reduced informativeness. Consequently, businesses that applied this idea typically had a detrimental impact on firm value.

Ha_1: Income smoothing has a negative effect on firm value.

2.2. Earnings Informativeness and Firm Value

In order to determine whether earnings smoothing could improve the past and present earnings' capacity to forecast cash flows and earnings in the future, Tucker and Zarowin (2006) conducted a study. According to the study, companies with higher smoothing had more information about their future income fluctuations in their current stock price than other companies. Furthermore, Baik et al. (2022) investigated if applying this idea through research and development management was linked to more illuminating profits. The research revealed that, although it was not as strong as equalization through accruals, research development and management (R&D), which is a component of management activities, was associated with more informative earnings. Additionally, the results showed that analyst income forecasts that were less scattered and more accurate were associated with R&D-based smoothing. Furthermore, Baik et al. (2022) investigated if applying this idea through research and development management was linked to more illuminating profits. The research revealed that, although it was not as strong as equalization through accruals, research development and management (R&D), which is a component of management activities, was associated with more informative earnings. Additionally, the results showed that analyst income forecasts that were less scattered and more accurate were associated with R&D-based smoothing. Tudor-Tiron (2019) looked into the degree of smoothing and how it affected how informative earnings are. According to the findings, businesses in the UK displayed lower smoothed earnings than those in France and the Netherlands. Moreover, it was discovered that businesses adopted this idea more widely in the years following IFRS. In order to gather empirical data regarding the concept's impact on the manufacturing income of companies listed between 2005 and 2007 on the Indonesia Stock Exchange (IDX), Agustiningsih (2009) conducted a study. The study's findings suggested that corporate income had less informative value. Numerous studies demonstrated that positive firm value information was provided by informative earnings.

Ha_2: Earnings Informativeness has a positive effect on firm value.

2.3. Income Smoothing, Earnings Informativeness, Firm Value, and Managerial Ability

According to Demski (1998), equalization was preferable in efficient contracting when diligent (more capable) managers could accurately predict future outputs Coff (1999) came to the conclusion that managers with high ability knew more about business than others did. Baik (2011) found a positive correlation between managerial skill and revenue forecast accuracy. When a manager with weak forecasting abilities took on significant debt from the future to boost current performance and future performance fell short of expectations, smoothing could lead to increased earnings volatility. This was because future earnings realization was worse than those who did not perform smoothing. High-skill managers were more likely to gain net benefits from the concept than others with low skills. In line with these findings, Fuadi et al. (2022) stated that earnings smoothing significantly reduced informativeness, and the relationship was weakened by high-ability managers. Furthermore, several factors had been reported to affect earnings informativeness, such as the capability of the leader. Managers with good abilities focused on profits that were more permanent and not temporary, which could reflect the company's performance. According to Lukita (2022), managerial ability had a positive effect on income quality. Putra (2022) stated that it increased informative earnings management. The study also evaluated the stewardship behavior of managers, who

demonstrated a propensity to manage earnings in an informative manner and to give shareholders better information. Thus, a hypothesis was put forth in this study.

Ha3: Managerial ability strengthens the influence between income smoothing and firm value.

Ha4: Managerial ability strengthens the influence between earnings informativeness and firm value.

3. DATA AND METHODOLOGY

3.1. Population and Sample Selection

Public companies in the Consumer Goods Industry Sector of the Indonesia Stock Exchange made up the study's sample population. The population of the Consumer Non-Cyclicals and Consumer Cyclicals Sectors on the Indonesia Stock Exchange was 255 companies, utilizing 616 observations and a 4-year (2017-2020) study period (4 years x 154 companies) (Table 1).

The demographic was selected because it represented a sector with promising prospects and significant resilience to economic downturns. The primary consumer goods sector, also known as consumer non-cyclical, was an industry that showed growth trends closely related to increases in population and income. In broader terms, consumer cyclicals comprised a group of stocks that were sensitive to economic conditions and the company's business cycle. Meanwhile, the industry known for the creation and dissemination of goods and services was the cyclical consumer sector, also known as non-primary consumer goods, which were significantly influenced by economic conditions. Using the purposive sample approach, the study's companies were chosen in accordance with its inclusion criteria. These included businesses that went public in 2017 and released financial reports from 2017 to 2020. They were also listed with a stock exchange until 2020. Furthermore, during the observation period, the financial reports cannot have two consecutive years of losses.

3.2. Variable Measurement and Empirical Method

3.2.1. Income Smoothing

The income smoothing index, which is the product of the sales variation coefficient and the earnings coefficient, is used to measure the income smoothing variable. Meanwhile, the income smoothing index is calculated based on the Eckel Index (1981) which is formulated as follows:

Table 1: Numbers of companies as a sample

No.	Subsector name	Numbers	Numbers
1	Consumer Non-Cyclicals	140	
2	Consumer Cyclicals	115	
3			
4			255
5	Incomplete data (information needed in data processing)		101
6	Number of Samples used		154

Source: https://www.idx.co.id/id/data-pasar/data-saham/daftar-saham/, accessed November 2022

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

Information:
CV ΔI: Coefficient of variation of earnings (change in earnings in one period)
CV ΔI: Coefficient of variation of sales (changes in sales in one period).

According to Eckel (1981) a company is classified into the smoother group if:

The following formula is used to determine the sales coefficient of variation (CV):

$$CV_t^{sales} = \frac{\delta_{i\,sales}}{\bar{X}_i^{sales}}$$

The following formula is used to determine the earnings' coefficient of variation (CV):

$$CV_i^{earnings} = \frac{\delta_{i\,earning}}{\left|\bar{X}\right|_t^{earning}}$$

Description:
$\delta_{i\ sales}$ = Sales standard deviation
$\delta_{i\ earning}$ = The earnings standard deviation
X_i^{sales} = means of sales
$\left|\bar{X}\right|_t^{earning}$ = means of earnings

From the calculation of the income smoothing index, companies were categorized into smoother and non-smoother classes. In data analysis, smoother and non-smoother companies were represented by dummy variables, namely 1 and 0, respectively.

3.2.2. Firm value

Brealey et al. (2007) stated that firm value summarized investors' collective assessment of the well-being of a company, both its current performance and future projections. In line with previous studies, firm value was the result of performance, which was perceived by stockholders in stock exchange activities and reflected in the stock price (Solihin, 2004). The market value of equity was calculated by multiplying the price per share by the total number of outstanding shares (Horngen et al., 2000). Furthermore, firm value could be measured by stock price (closing stock price) (Abogen and Adigbole, 2020). In this study, using Tobin's Q, the firm value assessment was modified from Dahya et al. (2008). This approach was used to examine the link in market performance

Table 2: Classification of the smoother group (Eckel, 1981)

Description	Criteria
CVΔI > CV AS	Performing income smoothing Actions
CVΔI > CV AS	Not Performing income-smoothing actions

as one of the reflections in the measuring of business value and to reflect the anticipated growth of listed companies. In keeping with these findings. Dahya et al. (2008) state that Tobin's Q can be computed as the ratio of the book value of assets divided by the book value of assets minus the book value of equity plus the market value of equity. Furthermore, Joni et al. (2020) employed additional measurement techniques.

3.2.3. Earnings informativness

Information about the company could be obtained from continuous operation, leading to the possession of certain knowledge about future earnings based on the current stock price. In addition, this level of predictive ability was expected to affect the market reaction. The ability to predict future earnings was measured by the current stock price, which could serve as a signal of future earnings. The condition was often referred to as earnings informativeness, where changes in the current stock price captured changes in investors' expectations of future earnings. It was important to note that the measurement of this variable was adopted from Baik et al. (2020), which was also used by Fuadi et al. (2022), namely cash flow operating t+1 divided by total assets t-1.

3.2.4. Managerial ability

The DEA method, created by Demerjian et al. (2012), was used to measure managerial ability. A statistical process known as "decision-making units" (DMUs) was used to assess the relative effectiveness of these separable entities. Each DMU changed some inputs, such as labor and capital, into outputs, such as revenue and income. As opposed to more widely used efficiency measurements like return on assets and other profitability ratios, the definition of DEA efficiency was the ratio of outputs over inputs. The equation contained n DMUs, m inputs, and s outputs. Companies were used as DMUs, and their publicly accessible financial statements were used to examine one output and seven inputs. Income was the only criterion used to assess the effectiveness of a management team; the team with the highest income from a given set of inputs was deemed capable. Among the inputs needed for the production process were Net Property, Plant and Equipment (PP&E), Net Operating Leases, Net R&D, Purchased Goodwill, Other Intangible Assets, Cost of Inventory, and Selling, General, and Administrative Expenses (SG&A). The amount of revenue created by these inputs was dependent on managerial ability, as each was left up to managerial discretion.

In the first step, managers' efficient use of a firm's resources (capital, labor, and innovative assets) in generating revenue in comparison to their industry peers was estimated using the frontier analysis method of Data Envelopment Analysis (DEA). Regression analysis was used in the second stage to eliminate the factors influencing firm-level efficiency. The management team was held responsible by Demerjian et al. (2012) for the inexplicable efficiency. To put it simply, superior managers produced higher sales for a given amount of work than inferior managers. Due to the limited data available, the measurement of managerial ability was adapted from Demerjian et al (2012), Isnugrahadi and Kusuma (2009), and Fuadi et al. (2022), which adopted the method Isnugrahadi and Kusuma (2009). Regressing the four research inputs—total assets, number of employees, selling/general/administrative expense, and total inventory—with a single revenue output allowed for the measurement to be completed.

3.2.5. Firm Size

Total assets served as a proxy for the company's size (Darniaty and Murwaningsari, 2020; Rachmawati, 2019, Rafi and Murwaningsari, 2022). The following is the firm size parameter:

Size = Ln of Total Asset. Firm size in this study was used as a control variable.

4. EMPIRICAL RESEARCH

4.1. Diagnostics Test

In this study, several classic assumption tests were used before the study hypotheses were tested. Table 2 displays the outcomes of the tests conducted on the traditional assumptions:

The normality test was performed to see whether the data was regularly distributed. The normality test was carried out using the One-Sample Kolmogorov-Smirnov Test. The subsequent standards, predicated on Santoso (2014):

1. Sig. value or probability value <0.05, There was an abnormal distribution.
2. Sig. value or probability value >0.05, normal distribution.

The figure that follows displays the findings of the study's normalcy test:

Several steps were taken to carry out this normality test, including removing outlier data. These steps comprised the reduction of 616 observations to 480 through the removal of 136 observations. The process was carried out using the winsorizing method (winsorization) which was a statistical transformation. This technique involved restricting extreme values in statistical data in order to lessen the impact of potentially false outliers. In this study, the method was applied to 3% of the initial data both for the highest value and the lowest value.

The multicollinearity test was used to determine whether the regression model found a link between the independent variables. Multicoloniearity was demonstrated by the tolerance value and variance inflation factor (VIF). Multicollinearity was not present

Table 3: Classical assumption test results

Normality Test	Sig.	0.000
Test of Normality	Sig.	0.000
Multicollinearity Test	Tolerance	VIF
Income Smoothing	0.996	1.004
Earnings Informativeness	0.972	1.029
Managerial Ability	0.987	1.014
Size	0.961	1.040
Heteroscedasticity Test, Gletser Test		Sig.
Income smoothing		0.182
Earnings informativeness		0.514
Managerial ability		0.103
Size		0.172
Autocorrelation test		DW Statistic
Durbin Watson model		1.837

Table 4: Multiple linear regression test results

	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig
(Constant)	1.302	0.086		15.121	0.000
	2.811	0.565	0.258	4.975	0.000
	−0.12	0.099	−0.006	−0.119	0.905
	3.9760	0.000	0.008	0.161	0.875

Dependent Variable: Firm Value

in the independent variables of the regression model when the VIF value was <10 and the tolerance value was more than 0.10.

None of the independent variables had a value <0.10, according to the tolerance value calculation results, indicating the absence of correlation. Comparable results were found when calculating the Variance Inflation Factor (VIF), which showed that no independent variable had a value >10. Consequently, it could be said that the independent variables in the regression model did not exhibit multicollinearity.

The purpose of the heteroscedasticity test was to determine if the residuals of different observations differed in variance. It was referred to as homoscedasticity when the variance between the residuals of one observation and another was constant, and heteroscedasticity when it varied. A homoscedastic model, or one without heteroscedasticity, is a decent regression model, according to Ghozali (2021). Given that Table 2's heteroscedasticity test's significance value was higher than 5%, the heteroscedasticity assumption was met.

The autocorrelation test was run to see if confounding errors in period t and confounding errors in period t-1 (previous) were connected. If there was any correlation, it was called an autocorrelation problem (Ghozali, 2011: 110). The Durbin-Watson test was also used to determine whether autocorrelation symptoms were present or absent (DW test). According to Table 2, DW was <4-1.837 (2.163) or <1.837, and 1.837 was more than the upper limit (du) of 1.827. This indicated that it could be concluded that there was no autocorrelation.

5. RESULTS AND DISCUSSION

Analyze the relationship between business value, managerial skill, and the income smoothing index using the regression equation:

$$NP = \beta_0 + \beta_1 IS + \beta_2 EI + \beta_3 IS*KM + \beta_4 EI*KM + \beta_5 SZ + \beta_6 ROA + \varepsilon$$

NP = Firm Value (Market value of shareholder equity in the company)
IS = Income Smoothing (Smoother = 1 and 0 = non smoother)
KM = Managerial Ability
EI = Earnings Informativeness
B1, β2, β3, β4, β5, β6 = Variable coefficient
ε = Error.

Using SPSS, Moderated Regression Analysis (MRA) was the analytical tool utilized to assess if management competence may increase or decrease the link between income smoothing and firm value. The test findings were initially done in order to assess the independent variables of earnings informativeness on company valuation and income smoothing. The Table 3 displays the outcomes of the data processing:

Table 5: Determination Test

Model	R	R Square	Adjusted R square	Std. Error of the estimate
1	0.259[a]	0.067	0.059	0.93578

Predictors: (Constant), Size, Income Smoothing, Earnings Informativeness
Dependent Variable: Firm Size

Table 3 demonstrates that, with a significance value of 0.905>0.05, income smoothing had no discernible effect on the company value. This finding was inconsistent with Abogen and Adigbole (2021) and Mahulae (2021), where a negative effect was recorded. In addition, the significance value of the earnings informativeness variable was 0.00 <0.05, indicating the presence of a significant impact on firm value. This showed that informative earnings tended to provide an increase in firm value. The study's control variable, the company size variable, has a significance value of 0.872>0.05. These results showed that there was no significant relationship between the variable.

The R^2 value, as indicated in the Table 4, indicates the degree to which the independent variable variation affected the dependent variable variation.

The R2 value of this test was 0.067, indicating that the combined influence of the variation of income smoothing and earnings informativeness was 6.7%, while the rest was the variation of other variables outside this study. Modified Regression Analysis, or MRA, was used to test for moderation. The test's outcomes are displayed in Table 5.

The significant value of the interaction variable between income smoothing and managerial skill is 0.085>0.05. This indicated that managerial talent or ability was unable to lessen the effect of income smoothing variables on company value. In line with these findings, the significance value of the interaction variable of earning informativeness with managerial ability was 0.001 <0.005. Consequently, the effect of the earning informativeness variable on firm value was able to be moderated by the managerial ability variable. The beneficial impact of earnings informativeness on company value was reinforced by managerial abilities. The study's findings supported those of Tucker and Zarowin (2006) and Putra (2022), who found that higher-quality information was provided to shareholders (firm value) and that informative earnings management was typically associated with skilled managers. The significant value of the size interaction variable

Table 6: Moderating test results

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig
(Constant)	1.389	0.50		27.641	0.000
Managerial ability	−2.9120	0.000	−0.030	−0.286	0.775
Income Smoothing with Managerial Ability	1.7670	0.000	0.131	1.729	0.085
Earnings Informativeness with Managerial Ability	−1.8400	0.000	0.195	−3.324	0.001
Size with Managerial Ability	1.2790	0.000	0.059	0.630	0.529

Dependent Variable: Firm Value

Table 7: Determination test

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	0.214[a]	0.046	0.035	0.94777

Predictors: (Constant), Size with Managerial Ability, Earnings Informativeness with Managerial Ability, Earnings Smoothing with Managerial Ability, Managerial Ability
Dependent Variable: Firm Size

as a control variable with managerial ability was 0.025> 0.005. This suggested that the impact of the size variable on firm value could not be mitigated by the managerial ability variable. The study's control variable, company size, was unable to improve the correlation between size and firm value. This outcome showed that the manager's abilities, combined with the company's size, were insufficient to raise the enterprise value. Moreover, the model summary table demonstrated the extent of the influence in this instance.

After moderating (managerial skill), there was a 3.5% difference in the influence of income smoothing and earning informativeness on firm value, according to the R square value of 0.035 that was obtained (Table 6). Other variables that were not looked at in this study had an influence of 94.5%.

6. CONCLUSION

In conclusion, income smoothing did not affect firm value, while earnings informativeness had a significant effect. The relationship between earnings informativeness and firm value was strengthened by managerial ability, However, there was no improvement in the correlation between company valuation and income smoothing. Therefore, it was important to choose managers who had skills in financial management due to the influence of the variable on firm value. One of the study's many flaws was the existence of missing data, which reduced the study's ability to be broadly applied. Governance, corporate strategy, and leadership could all be used as potential influences on firm value in future research.

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