INVEST : Jurnal Inovasi Bisnis dan Akuntansi
Volume 6 No 2 (2025) Page : 494-506

Managerial Ability, Income Smoothing, and Firm Value: The Moderating Role of Information Asymmetry

Kemampuan Manajerial, Perataan Laba, dan Nilai Perusahaan: Peran Moderasi Asimetri Informasi

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ABSTRACT

This study examines the effect of managerial ability and income smoothing on firm value, with information asymmetry as a moderating variable. Using secondary data from the annual reports of companies in the consumer non-cyclical and consumer cyclical sectors listed on the Indonesia Stock Exchange (IDX) for 2021-2023, the study analyzed 192 observations. Panel data regression was applied with firm value (Tobin's Q) as the dependent variable, while managerial ability, income smoothing, as the independent variables and information asymmetry as the moderating variables. ROA and firm size were used as control variables. The results indicate that neither managerial ability nor income smoothing has a direct significant effect on firm value. However, information asymmetry positively affects firm value and significantly moderates the relationship between managerial ability and firm value in a negative direction. These findings suggest that transparency and information quality are crucial in enhancing the effectiveness of managerial strategies on firm value.
Keywords: *managerial ability, income smoothing, firm value, information asymmetry*

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh kemampuan manajerial dan perataan laba terhadap nilai perusahaan dengan asimetri informasi sebagai variabel moderasi. Penelitian menggunakan data sekunder yang diperoleh dari laporan tahunan perusahaan sektor consumer non-cyclical dan consumer cyclical yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2021–2023, dengan total 192 observasi. Analisis dilakukan menggunakan regresi data panel dengan nilai perusahaan (Tobin's Q) sebagai variabel dependen, kemampuan manajerial dan perataan laba sebagai variabel independen, serta asimetri informasi sebagai variabel moderasi. Return on Assets (ROA) dan ukuran perusahaan digunakan sebagai variabel kontrol. Hasil penelitian menunjukkan bahwa kemampuan manajerial maupun perataan laba tidak berpengaruh signifikan secara langsung terhadap nilai perusahaan. Namun, asimetri informasi memiliki pengaruh positif terhadap nilai perusahaan dan secara signifikan memoderasi hubungan antara kemampuan manajerial dan nilai perusahaan dengan arah negatif. Temuan ini menegaskan bahwa transparansi dan kualitas informasi menjadi faktor penting dalam meningkatkan efektivitas strategi manajerial terhadap nilai perusahaan.
Kata kunci: kemampuan manajerial, perataan laba, nilai perusahaan, asimetri informasi

1. Introduction

Firm value serves as a primary indicator of firm performance. Managers act as agents within a firm, while shareholders function as principals/owners. Shareholders rely on trusted parties to manage aspects they cannot oversee. Since high firm value is often interpreted as greater shareholder prosperity (Arsyad et al., 2021), financial statements are one of the tools reflecting managerial performance, which investors need to assess and predict the ability to

Submitted : August 16, 2025, Accepted : November 15, 2025, Published: December 8, 2025
e-ISSN (2745-4606), p-ISSN (2745-4614)
http://journal.al-matani.com/index.php/invest/index

generate cash flows from resources. These reports provide information that helps decision-making for various parties within the organization. Therefore, it is essential to remember that the accuracy and reliability of data in financial statements are crucial for management accountability and ensuring that users make the right decisions. The primary objective of financial reporting is to provide useful information for decision-making and enhance users' ability to assess a company's future performance (Baik et al., 2020). However, investors often focus on profit information without considering the procedures used (Beattie et al., 1994). This behavior encourages managers to engage in earnings management. Ashari et al. (1994) state that income smoothing often occurs in companies with low profitability and in risky industries, and this practice is highly influenced by profitability (Jatiningrum, 2020). Managers are responsible for making strategic decisions and planning company operations. The management strategies formulated by different managers can shape the company's future and contribute significantly to its value, especially during periods of rapid change and intense competition in the business environment.

The relationship between managerial competence, income smoothing, and firm value has become an interesting topic in corporate finance and accounting. Managerial ability, which reflects managers' competencies and decision-making skills, significantly impacts company performance and, ultimately, firm value (García-Fernández et al., 2018). Similarly, income smoothing, a practice in which managers manipulate earnings to reduce volatility, can influence firm value.

According to Baik et al. (2020), highly capable managers can predict economic fluctuations and integrate more forward-looking data, such as cash flow projections, into their current earnings. This makes their profits more informative. Meanwhile, less experienced managers are less skilled at anticipating changes in their company's economy and engage in income smoothing without disruption.

Salno & Baridwan (2000) state that income smoothing uses specific techniques to reduce or increase profit figures in a particular period. Management often uses this practice to reduce reported income fluctuations and improve investors' ability to predict future cash flows. Previous research indicates managerial characteristics can influence a company's economic consequences, significantly affecting economics, accounting, and management. Managers with better capabilities take the initiative to adjust within the company to changing environments and take innovative steps to enhance their resources for long-term survival (Cyert & March, 1963; Thompson et al., 2003). Theoretically and practically, managerial ability is one of the primary human resources influencing firm value. In developing country markets, scarce resources such as financial, technical, infrastructure, and educated labor resources increase the importance of skilled human resources. Companies can increase their productivity by utilizing skilled human resources to achieve a competitive advantage and sustainable success in the market. Tran & Vo (2020) emphasize that human resources are essential in achieving sustainable performance, especially in developing countries.

Fosu et al. (2016) investigated the impact of information asymmetry on firm value. The findings revealed that low information asymmetry increased firm value during the financial crisis in the UK during the 2007/2009 period. Unlike normal conditions, during a crisis, long-term debt increases due to currency value uncertainty, and the purchasing power of a country's currency against another country's currency decreases. In this situation, information asymmetry typically increases, and firm value decreases. In line with Fosu et al. (2016), Huynh et al. (2020) examined the correlation between information asymmetry and firm value in firms listed on the Vietnam Stock Exchange. Unlike Fosu et al. (2016), who used a sample of companies in the UK, Huynh et al. (2020) selected companies listed in Vietnam due to their high debt ratios. The results indicate that information asymmetry has a negative effect on firm value. However, a lower reduction in information asymmetry increases firm value. McMullin et al. (2019) investigated the effect of firm value disclosure and found that increasing mandatory disclosure enhances firm value.

Research on the influence of managerial ability on firm value has been studied by Inam Bhutta et al. (2021) and Seifzadeh (2022). The studies by Inam Bhutta et al. (2021) and Seifzadeh (2022) show that high managerial ability contributes positively to firm performance and value. Managers who can manage company resources efficiently and effectively can increase productivity and profitability, which in turn increases firm value. This study uses data from emerging markets and finds that the effect of managerial ability is stronger in companies facing financial constraints (Inam Bhutta et al. (2021)).

Research on the influence of income smoothing has been conducted by Abogun et al. (2021); Akbari et al. (2019); and Sinuraya & Mayangsari (2024). Research by Abogun et al. (2021) and Akbari et al. (2019) shows that management often uses income smoothing to achieve income stability and meet market expectations. However, this practice can have negative impacts on firm value if detected by investors as a sign of dishonest management. Sinuraya & Mayangsari (2024) found that income smoothing can reduce investor confidence, especially under conditions of high information asymmetry, as investors may view the company's financial statements skeptically.

Research on the impact of information asymmetry on firm value has been conducted by Diantimala et al. (2022) and Fosu et al. (2016). Research by Diantimala et al. (2022) and Fosu et al. (2016) shows that information asymmetry can weaken the influence of variables such as managerial ability and income smoothing on firm value. Information asymmetry increases the risk of moral hazard and adverse selection, where investors may misjudge the risks and value of a firm due to insufficient information. This study emphasizes the importance of transparency and better information disclosure to reduce the negative impact of information asymmetry on firm value (Diantimala et al. (2022) and Fosu et al. (2016)).

This study examined the moderating effect of information asymmetry on the influence of managerial ability and income smoothing on firm value. There are still differences in the results of previous studies, and no research has examined the moderating effect of information asymmetry on the influence of managerial ability and income smoothing on firm value. This study focuses on companies in the non-cyclical and cyclical consumer sectors listed on the Indonesia Stock Exchange. These two sectors have unique and distinct characteristics regarding their response to economic changes, making them interesting to analyze in the context of managerial competence, income smoothing, and information asymmetry. This study has significant implications for deepening the understanding of how managerial competence and income smoothing influence firm value in the non-cyclical and cyclical consumer sectors of the Indonesia Stock Exchange, while considering the moderating role of information asymmetry.
When companies have managers with good managerial capabilities, but there is information asymmetry, will firm value decline? Similarly, will firm value decline when income smoothing and information asymmetry occur?

2. Literature Review

This study is based on agency theory about organizational processes, behavior, and outcomes. Agency theory provides insight and understanding of corporate processes and designs to address issues arising from principal-agent influences. According to Jensen & Meckling (1976), the principal-agent influence is defined as a contract in which one or more persons (principals) engage another person (agent) to perform some services on their behalf, involving the delegation of some decision-making authority to the agent. Zhai & Wang (2016) identified agency problems such as moral hazard, for example, shirking, adverse selection (making accounting choices that maximize reported income to obtain higher bonuses). The shirking problem arises because the principal cannot directly observe the manager's performance and can only assess the manager's performance based on the results communicated through annual reports (Vasiljevic, 2009, in Abogun et al.,2021). Furthermore,

adverse selection arises because the agent's compensation is based on performance measures (Panda and Leepsa, 2017, in Abogun et al., 2021). Monitoring strategies result in the following costs: monitoring costs, bonding costs, and residual costs. Monjed & Ibrahim (2020) state that in agency theory, managers voluntarily disclose more risk information to reduce information asymmetry about the level of corporate risk and thereby reduce agency costs.

Signaling Theory

Signaling theory was first introduced by Spence in 1973, explaining that internal parties within a company attempt to send signals to external parties to improve the company's image and convince potential investors of its bright future prospects. These signals contain information about management's efforts to meet the owners' wishes as well as information related to the company's current condition and future projections. This information is an important indicator for investors when making investment decisions because it reflects the company's sustainability. The signals given by the company can be interpreted as good news or bad news.

Signaling theory addresses the information asymmetry between management and stakeholders, where asymmetric information primarily concerns intentions or quality (Stiglitz, 2000). In this context, quality refers to how one party demonstrates its unobservable characteristics in exchange for a premium from the other party (Spence, 1973). On the other hand, intentions are related to reducing the moral hazard that may arise from the behavior of transacting parties (Holmstrom, 1979, in Musleh Al-Sartawi & Reyad, 2018). Based on signaling theory, managers reduce information asymmetry by voluntarily signaling information about the company's risks and risk management policies to external parties to differentiate their company from other companies that disclose less risk information and do not have such policies (Elshandidy et al., 2013).

Stakeholder theory

Stakeholder theory states that all stakeholders have the right to obtain information about company activities that may influence decision-making. (Deegan, 2002, in Rachmawati (2023). Stakeholder Theory emphasizes that companies must consider the interests of various parties involved, including employees, customers, suppliers, local communities, government, and shareholders. By considering the interests of all stakeholders, companies can create more harmonious and sustainable relationships, which in turn can improve the company's long-term performance.

Firm value

Investors and creditors will analyze financial statement information, generating positive signals if the company's value is good. Firm value reflects the results of efforts to achieve objectives and maximize stakeholder welfare (Meidawati & Puspita, 2023). Investors and creditors will refer to the company's value to decide whether to invest or provide loans. Investors and creditors can perceive firm value at the level of the company's success, as reflected in the share price. The higher the firm value, the greater the prosperity shareholders receive (Arsyad et al., 2021).

Managerial Capabilities

The literature on managerial competence highlights various corporate decision-making aspects that increase firm value. Chemmanur et al. (2009) state that management quality not only facilitates companies in obtaining higher premiums during IPOs but also helps companies improve their operational and market performance. In another study, Chemmanur et al. (2009) documented that the channel managers with good reputations and quality used to add value to the company. They found that companies with high-quality management use lower leverage, pay lower dividends, and have lower information asymmetry. High-quality managers can make

significant investments in positive NPV projects through their ability to generate funds internally and externally by attracting underwriters and institutional investors (Inam Bhutta et al., 2021).

Managers' ability to design efficient business processes and make value-added decisions is key to a company's success. Efficient business processes can be seen from the use of inputs and outputs produced by the company. Managers must communicate the company's performance as reflected in the financial statements to stakeholders. The preparation of financial statements is expected to provide information to investors and creditors when making decisions related to investments to be made. Managers' judgment in preparing the financial statement is required to increase the company's accounting value. (SeTin & Murwaningsari, 2018)

Income Smoothing

Beidleman (1973) defines income smoothing as management's effort to reduce abnormal profit variations to the extent permitted by sound accounting and management principles. Income smoothing is one form of profit management (Agrawal & Chatterjee, 2015; Demerjian et al., 2020; Tabassum et al., 2015). Managers use their discretionary power to alter profits through different accounting choices or change operations to meet profit targets (Cvetanovska and Kerekes, 2015, in Abogun et al., 2021). These targets may be set by management or demanded by a group of stakeholders (Chong, 2006, in Abogun et al. 2021). Profit management through income smoothing has made it difficult for investors to assess company performance, limiting their ability to evaluate companies accurately. This also leads to inefficient resource allocation between companies with low performance rankings and those with high rankings. (Abogun et al. 2021)

Information Asymmetry

Information asymmetry refers to the inequality in the amount of information different market participants possess (Dai et al., 2013). Accounting information is known to provide relatively accurate financial information to market participants. This information helps investors understand a company's operating activities and thus reduces information asymmetry between investors and management (Armstrong et al., 2010; Bhattacharya et al., 2013). The information environment tends to impose certain externalities on accounting information: the level of information asymmetry in a company can be reduced through an effective disclosure system, which provides a transparent information environment for a company's financial statements and the quality of accounting profits. (Dai et al., 2013)

Hypothesis Development

The Influence of Managerial Ability on Firm Value

Managers with higher levels of ability are expected to have greater awareness and understanding of the industry. Demerjian et al. (2013), in Seifzadeh (2022), evaluated the impact of individual managers on earnings quality using a measure of managerial ability. They found that managerial ability has a positive (negative) effect on accrual quality (recasting). Managers with high ability are expected to make more efficient, effective, and sophisticated assessments in evaluating and assessing the reflection of company transactions. Similarly, managerial style literature primarily involves managers who replace several companies; using the manager fixed effect, they measure the influence of managerial characteristics on company decision-making processes (Seifzadeh (2022). Research by Inam Bhutta et al. (2021) and Seifzadeh (2022) shows that managers with high capabilities can improve company productivity and profitability. These capabilities include efficient resource management and strategic decision-making that improve operational and market performance, ultimately increasing firm value.

H1: Managerial ability has a positive influence on firm value.

The Impact of Income Smoothing on Firm Value

Income smoothing practices carried out by managers to achieve their targets and influence their incentive bonuses are issues that may negatively impact organizational outcomes (Abogun et al., 2021). Organizational outcomes are multidimensional and can include financial performance, operational performance, stock market performance, or corporate failure. Opportunistic behavior by managers will influence the results obtained by the company. Thus, managers' personal motivation to engage in income smoothing will influence firm value (Abogun et al., 2021).

Research by Abogun et al. (2021) and Akbari et al. (2019) show that although income smoothing can achieve income stability, this practice can have negative effects if detected by investors as a sign of dishonest management. Sinuraya & Mayangsari (2024) also found that income smoothing reduces investor confidence, especially under conditions of high information asymmetry.

H2: Income smoothing has a negative effect on firm value.

Moderating Effect of Information Asymmetry on the Influence of Managerial Ability and Firm Value

Research by Diantimala et al. (2022) and Fosu et al. (2016) shows that information asymmetry can increase moral hazard and adverse selection risks. In conditions of high information asymmetry, investors may find it difficult to accurately assess managerial ability, thereby reducing the positive impact of managerial ability on firm value.

H3: Information asymmetry weakens the positive influence of managerial capability on firm value.

The Moderating Effect of Information Asymmetry on the Influence of Income Smoothing and Firm Value

Research by Diantimala et al. (2022) and Fosu et al. (2016) also shows that information asymmetry can exacerbate the negative impact of income smoothing. When information asymmetry is high, investors become more skeptical of financial statements that may have been manipulated, which can further reduce firm value.

H4: Information asymmetry weakens the negative influence of income smoothing on firm value.

3. Methods

This study is quantitative research aimed at finding empirical evidence regarding the ability of managerial competence and income smoothing to influence firm value, considering the moderating role of information asymmetry. This study uses secondary data from audited annual reports and stock prices at the time of financial statement issuance for companies in the non-cyclical and cyclical consumer sectors listed on the Indonesia Stock Exchange from 2021 to 2022. Based on purposive sampling, the sample size consists of 65 companies that meet the criteria.

Operational Definitions of Variables and Their Measurements

Firm value

Firm value reflects the results of efforts in achieving objectives to maximize stakeholder welfare (Meidawati & Puspita, 2023). In this study, firm value is measured using Tobin's Q, which is the Market Equity Value plus Total Debt divided by total assets (Machokoto et al., 2021), formulated as:

Tobins Q = (MVE+D)/TA

Where

MVE = market value of equity to book equity

D = Debt
TA = Total Assets

Managerial Capability

Managerial capability in this study uses data envelopment analysis (DEA) from Demerjian et al. (2012) as used by Shelih & Wang (2024), with the following model.

Maxit = (Salest)/(COGSt+SGAt+PPEt+OtherIntant)

Where:
Sales = Total Sales
COGS = Cost of Goods Sold
PPE = net property, plant, and equipment
OtherIntan = Other Intangible Assets

Income smoothing

Income smoothing is a management effort to reduce abnormal variations in profit to the extent permitted by sound accounting and management principles (Beidleman, 1973). The income smoothing index, which results from the sales variation coefficient and the income coefficient, is used to measure income smoothing variables. The income smoothing index is calculated using the Eckel Index (1981), which is formulated as follows:

PL = CVΔI/CVΔS

Where
CVΔI= Profit variation coefficient (change in profit over one period)
CVΔS = Sales variation coefficient (change in sales over one period)

Information asymmetry

Asymmetry in this study is measured using the bid-ask spread from Leuz & Verrecchia, (2000) as used by Diantimala et al. (2022) with the formula:

$SPREAD= ((ask_{it}-bid_{it}))/(((ask_{it}+bid_{it})/2)) \times 100$

Where:
Spread = the difference between the ask price and the bid price of a company's shares
Ask Price = the highest ask (sell) price of a company's shares
Bid Price = the lowest bid (buy) price of a company's shares

Control Variables

Company Size

Company size is measured using:
Size = Ln Total Assets

Profitability

Profitability is measured using:
ROA = Income: Total Assets

4. Results and Discussion

Descriptive Statistics are shown in Table 1.

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Firm Value	195	0.0208	0.3734	0.1446	0.0612
Managerial Ability	195	-0.1080	0.3822	-0.0035	0.0499
Income Smoothing	195	-1.3833	0.6017	-0.0331	0.2036
Information asymmetry	195	-0.4096	0.2676	-0.0217	0.1443
Firm Size	195	24.8072	32.8600	28.9724	1.6131
Profitability (ROA)	195	0.0003	0.3020	0.0789	0.0597

Descriptive statistics show that the average firm value is 0.1446 with a standard deviation of 0.0612, indicating that the majority of companies have relatively low and homogeneous valuations. The income smoothing variable has a negative average value (-0.0331) with a fairly large spread (standard deviation of 0.2036), indicating that some companies tend not to perform income smoothing consistently. Managerial ability also has an average value close to zero (-0.0035). Information asymmetry has a negative average (-0.0217) with considerable variation, indicating that most companies are relatively open in terms of information, although there are some with high levels of asymmetry.

Based on the tests conducted, this study uses a fixed effect model. The classical assumption tests show no problems with heteroscedasticity and multicollinearity. The initial model tests the influence of managerial ability and income smoothing on firm value without considering the moderating role of information asymmetry, as shown in Table 2. The regression results indicate that the variables income smoothing and managerial ability do not significantly affect firm value with p-values of 0.8292 and 0.1158, respectively. The information asymmetry variable has a significant positive effect on firm value with a p-value of 0.0210. The control variables Profitability (ROA) and Firm Size have a significant effect on firm value. Profitability (ROA) shows a positive effect ($p < 0.001$), while Firm Size shows a negative effect ($p = 0.0012$).

Table 2 Initial Hypothesis Testing

Variable	Coefficient	t-Statistic	Prob.	Conclusion
C	0.325650	4.792459	0.0000	
Managerial Ability	-0.120949	-1.580215	0.1158	H1 rejected
Income Smoothing	-0.004021	-0.216095	0.8292	H2 rejected
Information asymmetry	0.061200	2.328335	0.0210	
Profitability (ROA)	0.532820	8.282979	0.0000	
Firm Size	-0.007697	-3.278089	0.0012	
Adjusted R-squared	0.2814			
F-statistic	15.9589			
Prob (F-statistic)	0.000			

These results indicate that, under general conditions, managerial ability and income smoothing practices are not able to explain variations in firm value directly. However, information asymmetry increases firm value, which can occur when investors give a premium to firms with limited or high-risk information.

The second model adds two interaction variables: ISXIA (the interaction between income smoothing and information asymmetry) and MAXIA (the interaction between managerial ability and information asymmetry). The results in table 3 indicate that income smoothing, managerial ability, and the interaction between income smoothing and information asymmetry remain insignificant in explaining firm value. The interaction between managerial

ability and information asymmetry has a significant negative effect on firm value (p = 0.0067). Control variables Profitability (ROA) and Firm Size remain significant.

Table 3. Moderating Effect Hypothesis testing

Variable	Coefficient	t-Statistic	Prob.	Conclusion
C	0.331375	4.885315	0.0000	
Managerial Ability	-0.022842	-0.274682	0.7839	H1 rejected
Income Smoothing	-0.005453	-0.288459	0.7733	H2 rejected
Managerial Ability *Information asymmetry	-3.268445	-2.741718	0.0067	H3 accepted
Income Smoothing *Information asymmetry	-0.031308	-0.205880	0.8371	H4 rejected
Profitability (ROA)	0.485349	7.384304	0.0000	
Firm Size	-0.007771	-3.318286	0.0011	
Adjusted R-squared	0.286668			
F-statistic	13.79290			
Prob (F-statistic)	0.000000			

These results support hypothesis H3, which states that information asymmetry weakens the influence of managerial ability on firm value. Under asymmetric information conditions, managerial ability cannot be adequately reflected by the market and tends to reduce firm value due to the emergence of investor distrust. Conversely, the interaction between income smoothing and information asymmetry is not significant, so hypothesis H4 is not proven in this study.

Discussion

The findings show that managerial ability does not have a significant direct effect on firm value; however, when moderated by information asymmetry, the relationship becomes significant with a negative direction. This indicates that the effectiveness of managerial ability in enhancing firm value is highly dependent on the level of information transparency. When information asymmetry is high, managerial decisions become harder for investors to evaluate, which reduces—rather than strengthens—the positive impact of managerial ability on firm value. This is consistent with Diantimala et al. (2022) and Fosu et al. (2016), who found that information asymmetry weakens the market's ability to assess managerial quality and diminishes its influence on firm valuation.

Theoretically, these findings align with Armstrong et al. (2010), who emphasize the fundamental role of information quality and financial reporting in corporate governance and market discipline. When firms fail to provide transparent and reliable information, market participants struggle to distinguish between competent managerial actions and opportunistic behavior, leading to reduced confidence in management decisions.

Furthermore, income smoothing is found to have no significant influence on firm value, either directly or when moderated by information asymmetry. This suggests that smoothing practices do not meaningfully alter investor perceptions. Investors may already anticipate such practices or consider income smoothing as a common managerial strategy, thereby discounting its relevance in decision-making. This result is in line with earlier studies by Ashari et al. (1994) and Beidleman (1973), which argue that market participants eventually recognize income-smoothing patterns, reducing its potential impact on firm valuation.

Akbari et al. (2019) also found that income smoothing does not inherently increase firm value, as it may be perceived as a form of earnings management that reduces the credibility of financial reporting. Likewise, Baik et al. (2020) suggest that while highly capable managers may smooth earnings more efficiently, the market remains cautious because smoothing can obscure the firm's true economic performance.

Regarding the control variables, profitability (ROA) exerts a positive and significant effect on firm value. This finding reaffirms that profitability remains one of the most critical indicators used by investors to assess corporate performance and future prospects. Arsyad et al. (2021) assert that profitability strongly influences investor behavior because it reflects the firm's ability to generate sustainable returns.

Firm size, on the other hand, shows a negative effect on firm value. This may indicate that larger firms tend to be evaluated more conservatively by investors due to higher agency risks and operational complexity. The findings are consistent with Chemmanur et al. (2009), who argue that larger firms often face greater information-processing challenges and higher levels of asymmetric information due to the breadth of their operations.

Overall, the study underscores the crucial role of information transparency in maximizing the impact of managerial strategies on firm value. Even highly capable managers cannot enhance firm valuation effectively when information asymmetry is high. Additionally, income smoothing appears to have limited influence on investor perception, whereas profitability remains a central determinant of firm valuation.

5. Conclusion

This study examines the influence of managerial ability and income smoothing on firm value, considering the moderating role of information asymmetry, and incorporating control variables such as firm size and profitability. Based on the results of panel regression analysis on 195 observations of companies in the non-cyclical and cyclical consumer sectors listed on the Indonesia Stock Exchange during 2021–2023, it can be concluded that: managerial ability and income smoothing do not have a significant direct effect on firm value. This indicates that internal management strategies are not yet strong enough or have not been accepted by the market as a signal of value enhancement. Information asymmetry has a positive direct effect on firm value. This finding indicates that under conditions of limited information, investors tend to assign higher valuations to firms—likely because expected returns offset risk factors. Information asymmetry has been proven to negatively and significantly moderate the relationship between managerial ability and firm value. This means that in conditions of high information asymmetry, managerial ability, which should increase firm value, has the potential to decrease it due to a lack of investor confidence in management. The interaction between income smoothing and information asymmetry does not significantly affect firm value. Smoothing practices are not strong enough to influence investor perceptions, either in open or closed information conditions. Profitability (ROA) consistently has a positive effect on firm value, while firm size has a negative impact. This reaffirms that financial performance remains the primary consideration in investor valuation.

The findings of this study have managerial and policy implications. For managers, it is essential to ensure that strategies are accompanied by transparent information disclosure to receive positive market responses. For investors, it is essential to be more cautious in evaluating management strategies, especially in conditions with high levels of information asymmetry. For regulators, it is essential to encourage improvements in the quality of information disclosure to optimize the role of managerial capabilities in creating firm value.

This study has limitations regarding sample scope, which only covers two industry sectors and a relatively short observation period (three years). Additionally, the measurement of managerial ability and income smoothing is still based on a quantitative approach, which may not capture all dimensions of managerial strategy.

Further research is recommended to expand the scope of industries and the period, test other variables such as corporate governance (GCG) or managerial ownership as moderating or mediating variables, and apply a mixed methods approach to delve deeper into the influence of managerial and informational factors.

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