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Analysis of Income Smoothing Practices in PROPER Companies

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Abstract

This study aims to find out and analyze whether income smoothing practices exist in companies with the Corporate Performance Rating Program in Environmental Management (PROPER). The research sample consisted of 57 PROPER companies in the Indonesia Stock Exchange (IDX) from 2017 to 2021. The data were measured by the Index Eckel using quantitative descriptive analysis. The findings of this study reveal that several PROPER companies show signs of manipulating their revenue figures to create a smoother financial picture. Most companies that obtained a blue rating on PROPER indicated income smoothing whereas the green rating, not many companies indicated income smoothing. Conversely, no company with a gold PROPER rating indicates income smoothing. It can be concluded that the higher the PROPER rating obtained by a company, the lower the possibility of companies performing income smoothing. This research implies a conflict of interest and information asymmetry between the agent and the principal which motivates management to perform income smoothing. Therefore, with this theory, an equal distribution of interests between management and stakeholders will be obtained. The novelty of this research is the use of quantitative descriptive analysis for a more in-depth analysis of income smoothing by PROPER companies as compared to previous studies. Hence, this study showed empirical evidence on the difference between PROPER companies that carry out and do not carry out income smoothing.

Keywords: *income smoothing, Index Eckel, PROPER companies, smoothing practices*

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1. Introduction

Profitability is information on the income statement that gets the main attention in determining the company's performance and accountability to shareholders. In fact, external parties such as investors will tend to pay more attention on profit information of a company (Septia et al., 2013). This is used as a tool to find out the company's financial condition at the present and in the future. Hence, to attract investors' interest, companies are often motivated to take unwise actions to generate rising or stable profit information. Earnings management is one of the unwise actions that can be taken by a company, which can be in the form of efficient performance to increase estimated profits that interests external parties (Wali et al., 2019). One strategy of earnings management is the practice of income smoothing, the most popular and frequently practiced form (Ekadjaja et al., 2020). By doing income smoothing, the company will be between the minimum profit and maximum profit so that it remains at a stable profit level. Income smoothing can provide perceptions to investors regarding the stability of the profits obtained by the company so that the profits reported by the company are as expected by investors. This can mislead external parties in making decisions because the financial statement information provided does not reflect the actual condition of the company.

In addition to paying attention to the financial performance of the company, environmental performance is also an important consideration by the stakeholders. According to Dzikir (2020), investors will be more likely interested in investing in companies that maintain environmental sustainability and still prioritize the interests of stakeholders. Stakeholders have a favorable view of companies that have good environmental management and comply with applicable regulations. One way to assess company's environmental management is through its ranking in the Corporate Performance Rating Assessment Program in Environmental Management (PROPER). PROPER is a government policy that aims to improve corporate governance in sustainably managing the environment. The higher the company rating, the better the image of an environmentally friendly company to the public. However, the existence of a good company image through PROPER does not rule out the possibility for companies to practice income smoothing. In fact, PT Kimia Farma Tbk, a PROPER registered company, was proven to practice income smoothing (Maotama & Astika, 2020).

Several cases of income smoothing occur in companies in Indonesia such as PT Waskita Karya in 2009, PT Kimia Farma Tbk in 2002, PT Bank Lippo in 2002, PT Indofarma Tbk in 2004 and PT Ades Alfindo in 2001-2004. Evaluating these public cases provides notion that there are still many companies in Indonesia that practice income smoothing for several years. The alarming fact is that PT Kimia Farma Tbk is a company registered in PROPER. Hence, it is always possible for companies registered as PROPER to practice income smoothing.

In addition to the cases, several previously conducted studies provide the same findings. For instance, Setianingsih et al. (2018) showed that from the three sample companies, PT BMI practiced income smoothing, Vidianto et al. (2016) found Hotel X Solo to practice income smoothing, Fatimah et al. (2019) discovered 6 companies of the 10 sample companies to practice income smoothing and Septia et al. (2013) disclosed that 22 of the 73 sample companies practiced income smoothing. It is evident that conducted studies related to the practice of income smoothing focused on associative approach: find out the relationship between variables. There is still few research conducted on descriptive analysis to evaluate income smoothing practices and test empirically whether there is a difference between PROPER companies that carry out and do not carry out income smoothing. Of the previously conducted studies, Ladistra (2017), Tasman and Mulia (2019), Ekadjaja et al. (2020), Octisari et al. (2021), and Safira et al. (2022) provide evidence that financial leverage affects income smoothing. However, research by Suhartono and Hendraswari (2020), Susmitha and Zulaikha (2021) and Angelista et al. (2021) argued that financial leverage does not affect income smoothing. In addition, profitability can also influence the existence of income smoothing practices as supported by research conducted by Ladistra (2017), Tasman and Mulia (2019), Ekadjaja et al. (2020) and Sumani et al. (2021). However, Octisari et al. (2021) and Angelista et al. (2021) showed that profitability does not affect income smoothing. In addition, company size also influences income smoothing as evidenced by the studies of Tasman and Mulia (2019), Suhartono and Hendraswari (2020), Ekadjaja et al. (2020), Susmitha and Zulaikha (2021), Burhan and Malau (2021) and Sunetri et al. (2022). However, Desiyanti and Desaputra (2018) and Octisari et al. (2021) argued that company size does not affect income smoothing.

The evidence on the existence of income smoothing practices in many companies in Indonesia and the inconsistency of the results of previous research related to the factors that influence income smoothing are contributing factors for researchers to examine more deeply the practice of income smoothing in PROPER companies. The good company image through the PROPER rating does not rule out the possibility income smoothing practice. As compared to the previous studies, this research used descriptive approach to provide in-depth description and analysis not the causal relationships between variables (associative research). Hence, this study aims to analyze income smoothing practices in PROPER companies and test empirically difference between PROPER companies with or without income smoothing practices.

2. Literature review

2.1. Agency Theory

Agency theory is a contractual relationship between the principal and the agent to perform some services on their behalf and by giving decision-making authority to the agent (Jensen et al., 1976). Agency theory explains that both agents and principals have their interests in the company. In this case, the principal or stakeholder has an interest in getting the greatest benefit as quickly as possible for the investment he is making. Meanwhile, managers have an interest in getting incentives as big as they can get. To get these incentives, management sometimes takes unethical measure. In addition, the existence of information asymmetry between the company and stakeholders makes it difficult for management's actions to be monitored by stakeholders so that management can take unwise actions to get a good assessment of the performance carried out in managing funds and making decisions.

One of the unwise actions often used is income smoothing. With such good performance, stakeholders tend to provide incentives or bonuses to management. In practice, management must provide correct information on the condition of the company so that stakeholders know the actual condition of the company and can make decisions accordingly. Therefore, with the existence of agency theory, it is expected that management can carry out its responsibilities properly and stakeholders get correct information about the condition of the company to make the right decisions.

2.2. Income Smoothing

Income smoothing is a practice that reflects the efforts made by company management to reduce abnormal variations in earnings based on good accounting and management principles (Belkaoui, 2012). The practice of income smoothing is still mostly carried out by companies in Indonesia. This is evident from the existence of income smoothing cases carried out by companies such as PT Kimia Farma Tbk, which was proven to have carried out income smoothing in 2002, one of the PROPER companies. This is also supported by studies conducted by Setianingsih et al. (2018) with three sample companies and PT BMI indicated to do income smoothing. Similarly, Vidianto et al. (2016) disclosed Hotel X Solo to practice income smoothing. Fatimah et al. (2019) analyzed income smoothing in food and beverage industry companies showing 6 of 10 companies performed income smoothing, and Septia et al. (2013) performed analysis of income smoothing on non-manufacturing companies resulting to 22 out of 73 companies into income smoothing actions.

Several studies showed factors that encourage companies to practice income smoothing such as financial leverage (Ladistra, 2017; Tasman & Mulia, 2019; Ekadjaja et al., 2020; Octisari et al., 2021; Safira et al., 2022), and profitability (Ladistra, 2017; Tasman & Mulia, 2019; Ekadjaja et al., 2020; Sumani et al., 2021). While there are many studies on income smoothing analysis, there is still few that conducted an in-depth analysis of the income smoothing carried out by PROPER companies.

2.3. Corporate Performance Rating Assessment Program in Environmental Management (PROPER)

In addition to paying attention to the financial performance of the company, environmental performance is also an important factor considered by stakeholders. Dzikir (2020) argues that investors would be more likely interested in investing in companies that preserve the environment and still prioritize the interests of stakeholders. Issues on the environment such as concerns on reduced environmental resilience such as global climate change, sea level warming, loss of vegetation and biodiversity, environmental damage, ecosystem change and other impacts of pollution, encourage awareness of the importance of regulatory arrangements in environmental management. To increase awareness of environmental management by the public and to maintain sustainable development that pays attention to the environment and meets community needs without reducing the potential for meeting the needs of the next generation, the government issued a policy Corporate Performance Rating Assessment Program in Environmental Management (PROPER).

According to the Regulation of the Minister of Environment and Forestry of the Republic of Indonesia Number 1 of 2021, the Corporate Performance Rating Assessment Program in Environmental Management (PROPER) is an evaluation of the performance of those in charge of businesses and/or activities in the field of environmental management. PROPER is a form of supervision of environmental management while still paying attention to transparency and social commitment to environmental management. This rating is then announced to the public regularly every year to measure the company's environmental management. The higher the rating of the company, the better the company's image to the public. This good image will increase the trust of the community resulting to a positive impact to the company. However, the good company image attained through PROPER does not rule out the possibility for income smoothing practices. This was best exemplified by the PT Kimia Farma Tbk proven to practice income smoothing although registered as a PROPER company (Maotama & Astika, 2020).

2.4. Conceptual Framework

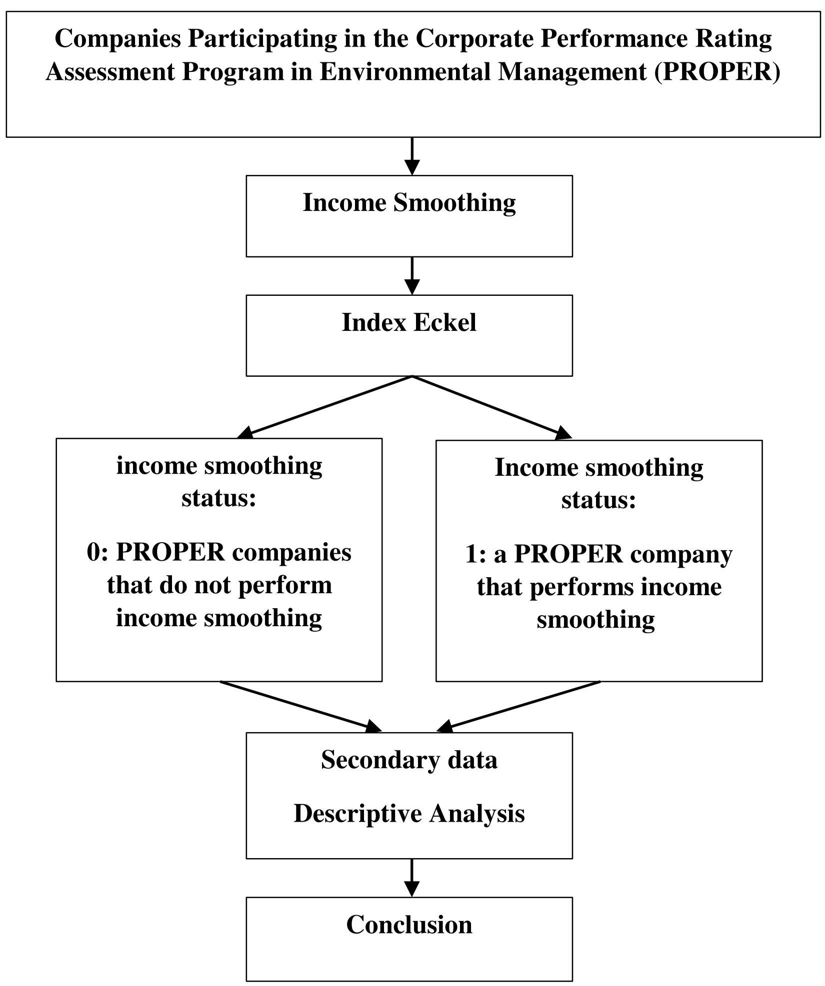
This study aims to analyze income smoothing practice in PROPER companies. It uses Agency Theory, which explains the contractual relationship between the agent and the principal. The agent in this study is the management of the PROPER company while the principal is the company's stakeholders. This research is based on the existence of a conflict of interest between the agent and the principal and the existence of information asymmetry between the agent and the principal.

The existence of conflicts of interest and theoretical asymmetry between agents and principals can encourage unwise actions, especially those carried out by company management. Company management, which is an agent, has more information about the company's internal conditions compared to the principal. This can motivate company management to take earnings management actions. One of the earnings management practices that is often used by companies is the practice of income smoothing. In Agency Theory, it is expected that agents are always transparent in carrying out their duties and it is hoped that this theory will create an equal distribution of interests between agents and principals.

To determine whether a company practices income smoothing or not, the study used the Index Eckel calculation. The Index Eckel is the most widely used measuring tool in determining and analyzing income smoothing practices in companies. This is based on previous researches conducted by Septia et al. (2013), Kustono and Lasado (2015), Vidianto et al. (2016), Setianingsih et al. (2018), Desiyanti and Desaputra (2018), Manukaji and Juliana (2018), Tasman and Mulia (2019), Fatimah et al. (2019), Suhartono and Hendraswari (2020), Ekadjaja et al. (2020), Sumani et al. (2021), Octisari et al. (2021), Susmitha and Zulaikha (2021), Burhan and Malau (2021), Angelista et al. (2021), Abogun et al. (2021), Safira et al. (2022), and Sunetri et al. (2022). In analyzing the practice of income smoothing in PROPER companies using Index Eckel, coefficient of variation of changes in profit and the coefficient of variation of changes in sales were compared. The Index Eckel value for companies that do not perform income smoothing is ≥ 1, while the Index Eckel value for companies that do income smoothing is < 1. Based on these premises, the conceptual framework used as a guide as well as the research direction in this study is shown in figure 1.

Figure 1

Conceptual Framework



3. Methodology

3.1 Research design

This study used descriptive research method and quantitative approach to describe the phenomenon or events of income smoothing practices in PROPER companies. Quantitative data in the form of PROPER company financial reports are collected through the official websites of the Indonesia Stock Exchange (IDX), the Ministry of Environment and Forestry, and the official websites of 57 PROPER companies.

3.2 Sample size

The sample in this study included 57 PROPER companies listed on the Indonesia Stock Exchange (IDX) for 2017-2021 with a total of 285 data observations. This sample includes company with complete data following the criteria that provide information about the company's financial condition and environmental management to support research results. The sampling method was carried out using a purposive sampling by determining certain criteria needed in the study. The sample criteria determined in this study are:

1) All companies registered as PROPER companies in 2017-2021
2) PROPER participating companies registered on the IDX in 2017-2021
3) PROPER participating companies that publish complete financial reports consecutively in 2017-2021.

3.3 Dataset

The data used in this research is in the form of PROPER company financial statements for 2017-2021 and the PROPER rating of each company. Data were obtained from the official website of the Indonesian Stock Exchange (IDX), the official website of the Ministry of Environment and Forestry of the Republic of Indonesia, and the official website of each PROPER company. The components of the financial statements used are the company's net profit and sales for 2017-2021, which are used to measure whether the company is doing income smoothing or not. Meanwhile, the company's PROPER rating is used to analyze the company's performance in carrying out environmental management.

3.4 Data analysis

This study used descriptive data analysis. The data collected is in the form of financial statements of participating PROPER companies, which include components of net profit and sales as well as the PROPER rating of each company for 2017-2021. Firstly, the PROPER ratings obtained from each company during 2017-2021 was assessed to evaluate the company's environmental performance. Afterwards, the Index Eckel was calculated to find out whether the company is practicing income smoothing or not by using the following formula:

$$\textbf{Index Eckel} = \frac{CV\ \Delta I}{CV\ \Delta S} \qquad \textbf{(1)}$$

where:

ΔI : Change in profit in one period

ΔS : Change in sales in one period

CV : The coefficient of variation of the variable is the standard deviation divided by the expected value

The formula used to determine the value of CV ΔI or CV ΔS is as follows:

$$\textbf{CV } \Delta\textbf{I \& CV } \Delta\textbf{S} = \sqrt{\frac{\sum(\Delta X_i - \bar{X}\Delta)^2}{n-1}} : \ \bar{X}\Delta \qquad \textbf{(2)}$$

where:

CV : The coefficient of variation of the variable is the standard deviation ΔI/ΔS

ΔI : Change in profit in one period (income)

ΔXi : Change in profit (I) or change in sales (S) in a period (income)

ΔS : Change in sales in one period (sales)

$\Delta\bar{X}$: Average change in sales in a period (sales)

N : The number of years observed

After the calculations using the Index Eckel, an analysis is performed to determine whether the participating PROPER companies indicate practice of income smoothing or not. According to Eckel (1981), (1) Eckel's index for companies with no indication of income smoothing practices is ≥ 1. Companies that do not practice income smoothing are given a score of 0; (2) the Index Eckel for companies that are indicated to practice income smoothing is < 1. Companies that carry out income smoothing actions are given a score of 1.

This study also conducted an average difference test (t-test) to find out the difference between PROPER companies that perform income smoothing and PROPER companies that do not perform income smoothing.

4. Findings and Discussion

4.1 Findings

Descriptive Statistics. This study conducted data analysis using descriptive method to provide an overview and description of the data processed. The descriptive statistical test was carried out through the IBM SPSS 25 application program. Through statistics, information was obtained regarding the minimum value, maximum value, mean (mean) and standard deviation of the research components. Descriptive statistical data from the research components can be seen in table 1.

Table 1

Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
Profit	285	-4.E12	3.E14	4.14E12	2.247E13
Sale	285	6.E10	3.E15	5.81E13	3.147E14
Valid N (listwise)	285				

Source: SPSS Output Results

Table 1 shows that the lowest value of PROPER company profit is -4.E12 or a loss of IDR 4,000,000,000,000, the highest value is 3.E14 or IDR 300,000,000,000,000, the average PROPER company profit is 4.14E12 or equal to IDR 4,140,000,000,000 with a standard deviation value of 2,247E13. As for the PROPER company's minimum sales value of 6.E10 or IDR 60,000,000,000, the maximum sales value is 3.E15 or IDR 3,000,000,000,000,000, the average sales value is 5.81E13 or IDR 58,100,000. 000,000 with a standard deviation value of 3.147E14.

Mean Difference Test (t-test). The mean difference test (t-test) is used to empirically test whether there is a difference between PROPER companies that perform income smoothing and PROPER companies that do not. With H1, there is a difference between PROPER companies that carry out income smoothing and PROPER companies that do not carry out income smoothing.

Table 2

Mean difference test (t-test)

Levene's Test for Equality of Variances			t-test for Equnality of Means					95% Confidence Interval of the Difference	
	F	**Sig.**	**t**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**Lower**	**Upper**
Equal variances assumed	1.106	0.298	-1.882	55	0.065	-11.47469	6.09699	-23.69332	0.74395
Equal variances not assumed			-2.333	38.723	0.025	-11.47469	4.91921	-21.42701	-1.52236

Source: SPSS Output Result

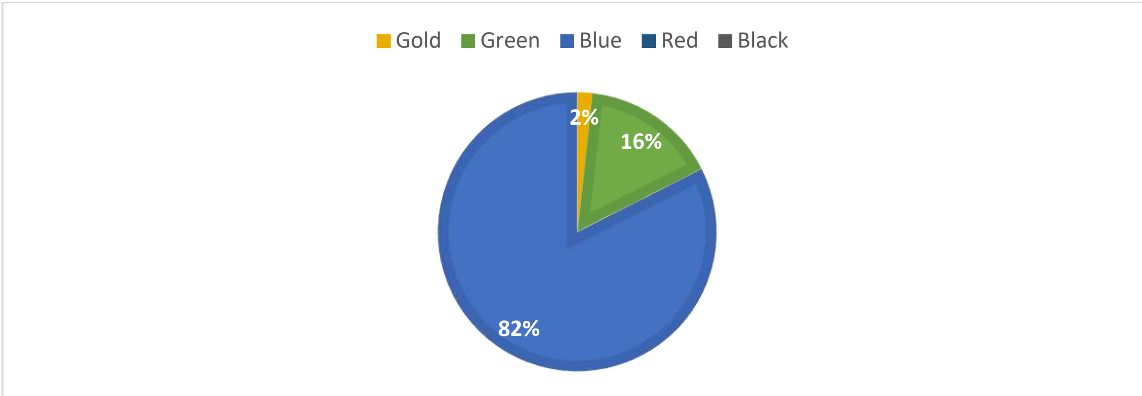
Based on the results of the average difference test, the Sig. (2 tailed) has a value greater than 0.05, which is equal to 0.065, which means that there is no significant difference between companies that perform income smoothing and companies that do not perform income smoothing.

PROPER Rating Analysis. The Corporate Performance Rating Program in Environmental Management (PROPER) has 5 levels of ratings from the highest to the lowest, namely gold, green, blue, red and black. Every company has its ranking every year. In this study, the company's PROPER rating for 2017-2021 was averaged by giving a score to each PROPER rating. The company's PROPER rating for 2017-2021 is depicted in figure 2.

Based on Figure 2, it is disclosed that of the 57 companies as study samples, the highest percentage of PROPER ratings that most companies got was PROPER ratings in blue, which was 82% or as many as 47 participating PROPER companies. In addition to the blue rating, of the 57 PROPER participating companies sampled, 16% of the companies received a green PROPER rating, comprising 9 companies. The 2% or 57 companies had PROPER rating in gold, which was only obtained by 1 company. There were no companies that received PROPER ratings in red and black.

Figure 2

PROPER Rating

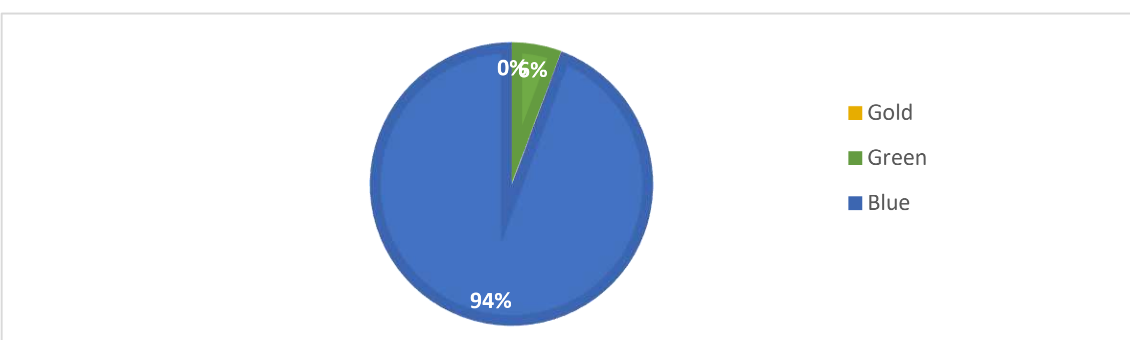


Source: Research processed data (2022)

Income Smoothing Analysis. To find out whether a company is indicated for income smoothing or not, this study used the Index Eckel measurement. The components of the financial statements used to measure the Index Eckel are the company's net profit and sales. Based on the results of the calculation of the Index Eckel, it was revealed that 61% of companies have an Index Eckel value of less than 1, which means that 61% of companies are indicated to practice income smoothing, while 39% of companies have an Index Eckel value of more than 1, which means 39% of companies are not indicated to practice income smoothing. This means that several PROPER companies are still indicated to practice income smoothing so that reported profits are not too volatile or uniform every year. Meanwhile, when viewed from the PROPER rating of each company, the description is shown in figure 3.

Figure 3

PROPER rating of each company



Source: Research processed data (2022)

Based on figure 3, it is evident that of the 61% (35 companies) that practice income smoothing, 94% of them are with blue PROPER rating and 6% of them are labelled with a PROPER rating of green. Meanwhile, PROPER companies with gold ratings do not indicate income smoothing practices. When viewed from the PROPER rating obtained by each company, of the 57 PROPER participating companies, 82% of the companies or the equivalent 47 PROPER participating companies had a blue rating during 2017-2021. Of these companies with a blue PROPER rating, 70% indicated that they were doing income smoothing during 2017-2021, which is equivalent to 33 companies. In terms of the green PROPER rating, out of the 57 companies, 16% of the companies or the equivalent 9 companies had a green PROPER rating. Of the 9 companies with a green PROPER rating, 22% indicated that they were doing income smoothing, which is equivalent to the 2 companies with a green rating. In the gold PROPER rating, there are as many as 2% or the equivalent of 1 company that has a gold PROPER rating but has no indication of income smoothing practices.

4.2 Discussion

PROPER is a government program conducted to evaluate a company's environmental management. Each rating reflects the company's performance level in managing the environment, which can determine the company's image in the society. The higher the rating obtained by the company, the better the company's image in society, and vice versa. The results of the analysis show that of the 57 PROPER companies, there are no companies with red and black PROPER ratings. This shows that each company has carried out environmental management following the requirements in accordance with the applicable regulations. Of the 57 companies as samples, 82% of them are with a blue PROPER rating, 16% with a green PROPER rating, and 2% with a gold PROPER rating. The blue rating is given to companies that have made environmental management efforts in accordance with the requirements and applicable laws and regulations. This means that the company with blue PROPER rating has implemented environmental management in accordance with the requirements but still within the existing minimum standard level. The 82% of companies is equivalent to 47 companies with blue rating during 2017-2021. Of the 47 companies with blue rating, 70% indicated that they were carrying out income smoothing during 2017-2021, which is equivalent to 33 companies. This provides argument that a company with a good PROPER rating and has carried out environmental management in accordance with the requirements does not guarantee the absence of unethical practices in reporting its profits. Similarly, the PROPER rating is not an absolute assurance of ethical practices in the reporting of company income. With the data showing majority of the companies with minimum requirements achieved in the PROPER rating, the results provide additional argument that companies with lower ratings have higher tendencies of unethical practices such as income smoothing.

Out of the 57 companies as research sample, 16% of them or equivalent to 9 companies had a green PROPER rating. Of the 9 companies with a green rating, 22% indicated that they were doing income smoothing, which is equivalent to the 2 companies. In terms of the green rating, this indicates that as many as 16% of the PROPER participating companies have carried out environmental management beyond compliance through implementing an environmental management system and utilizing resources efficiently and carrying out social responsibility properly. This means that the company has carried out environmental management above the required minimum standard and already has aspects that support environmental management such as having an environmental management system, energy efficiency, and other aspects that support management, but this has not been carried out in a sustainable manner. However, 22% of the companies with a green PROPER rating still have indications of practicing income smoothing in 2017-2021.

Moreover, there are as many as 2% or equivalent to 1 company that has a gold PROPER rating. This indicates that the company has consistently shown environmental excellence in production and service processes, as well as conducting business that is ethical and responsible to society. In terms of the results, only few companies have consistently implemented environmental management above the required minimum standard values and have also made efforts to develop communities sustainably.

The practice of income smoothing carried out by companies can be done through various possible strategies. These strategies are used by companies to keep profits looking stable by reducing fluctuations in company profits. Based on the numbers that seem abnormal, the study concludes that there are several possible strategies that management can implement to practice income smoothing, such as adjusting the useful life of fixed assets, reducing the cost of acquiring fixed assets, increasing or decreasing allowance for impairment of receivables, conducting transactions in special relationships, shifting income and expenses between companies by transacting with companies in one holding company, charging amortization costs, acquiring profitable companies, not recording the allowance for inventory values, not recording the allowance for receivables, not estimating the value of inventories in process and carrying out a recording of investment in shares using the equity method. The practice of income smoothing, which is part of this earnings management, can be carried out by companies as an effort to minimize corporate tax payments (Wali, 2021).

Based on the results of the research, it can be concluded that the higher the PROPER rating obtained by a company, the lower the percentage of companies performing income smoothing. Similarly, the lower the PROPER rating, the greater the percentage of companies performing income smoothing. The results of this study are in line with research conducted by Vidianto et al. (2016) disclosing that Hotel X Solo performed income smoothing to reduce the variability of reported company profits. In addition, the results are congruent with that of Setianingsih et al. (2018), where 1 out of the 3 sample companies found to practice income smoothing measures to keep its profits looking stable. The results concur with the explanations of Fatimah et al. (2019) that companies normally take advantage of opportunities in transactions related to income and expenses.

5. Conclusion

Based on the results of the study, it is evident that companies classified as PROPER show signs of manipulating their revenues to create a smoother financial picture. Most companies that obtained a blue rating on PROPER indicated income smoothing whereas only few companies in the green rating. Therefore, this study concluded that the higher the PROPER rating obtained by the company, the lower the possibility of practicing income smoothing. Similarly, the lower the PROPER rating, the greater the chances of companies performing income smoothing. Based on the results of the average difference test, there is no significant difference between companies that perform income smoothing and companies that do not perform income smoothing.

The results imply several decision-related action to both the company and stakeholders. As such, this can be used as input to and bases for evaluation on investment decisions to companies with PROPER rating. With the clear uncertainties as to the ethical practices of companies on disclosure of profit and the potential misleading characteristics of companies due to PROPER rating, stakeholders need to be more cautious on choosing companies to invest in. Since the presentation of company income can be improper due to smoothing practices, stakeholders need crucial evaluations through various parameters. Similarly, investors and potential investors need to look at the ratings and figures disclosed and reported by the companies. However, a wise investor must not only look at the income figures but also evaluate the company's environmental management rating. Given the results of the study, stakeholders need to look beyond the rating to evaluate the company's performance.

This study only analyzed income smoothing that occurs in PROPER companies and does not examined in detail the factors that influence the income smoothing itself. Given the limitation of the study, further studies are encouraged on assessing income smoothing in PROPER companies including the factors influencing income smoothing practices such as company size, bonus plans, and financial leverage. In addition, this study considered income smoothing analysis carried out as a whole on dataset from 2017-2021 while companies have different PROPER ratings each year. Similarly, researchers also have difficulties in averaging the PROPER ratings obtained by companies during 2017-2021 because ratings are expressed in qualitative not quantitative form. Therefore, further research can provide a score for each rating obtained from the highest to the lowest and then look for the average PROPER rating of the company during the year of observation.

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