

**PROFITABILITY, COMPANY SIZE, AND PROFIT PERSISTENCE INFLUENCE
EARNING RESPONSE COEFFICIENT**

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ABSTRACT

The purpose of this study is to find out how Profitability, Firm Size, and Profit Persistence affect the Earnings Response Coefficient. In this research, the sample is made up of companies in the consumer goods sector that were listed on the Indonesia Stock Exchange from 2017 to 2021. The sample is made up of 16 companies that meet the sample criteria, which were set using a method called "purposive sampling." Profitability, as measured by the Return on Assets ratio, company size, as measured by the Natural Logarithm, and profit persistence, as measured by the regression coefficient between earnings in the current period and earnings in the past period, are the independent variables of this study. The Earnings Response Coefficient, which is measured by Abnormal Return and a few other stages, is the thing that this study is based on. The study's results show that: (1) Profitability has a small positive effect on the earnings response coefficient; (2) Firm size has a negative and significant effect on the earnings response coefficient; and (3) Profit persistence has a negative and significant effect on the earnings response coefficient

Keywords: Profitability, Company Size, Profit Persistence.

ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui bagaimana Profitabilitas, Ukuran Perusahaan, dan Persistensi Laba mempengaruhi Koefisien Respon Laba. Dalam penelitian ini, sampelnya adalah perusahaan-perusahaan sektor barang konsumsi yang terdaftar di Bursa Efek Indonesia pada tahun 2017 hingga 2021. Sampel terdiri dari 16 perusahaan yang memenuhi kriteria sampel, yang ditetapkan dengan menggunakan metode yang disebut "sampel bertujuan." Profitabilitas yang diukur dengan rasio Return on Assets, ukuran perusahaan yang diukur dengan Logaritma Natural, dan persistensi laba yang diukur dengan koefisien regresi antara laba periode berjalan dengan laba periode lalu merupakan variabel independen dalam penelitian ini. belajar. Koefisien Respon Laba yang diukur dengan Abnormal Return dan beberapa tahapan lainnya menjadi landasan penelitian ini. Hasil penelitian menunjukkan bahwa: (1) Profitabilitas mempunyai pengaruh positif kecil terhadap koefisien respon laba; (2) Ukuran perusahaan berpengaruh negatif dan signifikan terhadap koefisien respon laba; dan (3) Persistensi laba berpengaruh negatif dan signifikan terhadap koefisien respon laba..

Kata Kunci: Profitabilitas, Ukuran Perusahaan, Persistensi Laba.

INTRODUCTION

Many financial activities in the age of globalization make use of cutting-edge technology and data to conduct multi-company transactions. As a result, the economy's wheels are turning quite swiftly in

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both international and domestic markets. Because perceptions shift, business objectives can be easily attained. As a result, finance must be raised, and profitability has an impact on the company's strength and sustainability (Bărbuță-Mișu et al., 2019; Gleißner et al., 2022; Pangidoan, 2020).

For investors, the capital market is a viable investment option (Avgouleas, 2018). An investor can invest in various companies through the capital market by purchasing new securities issued or paid for on the capital market. Companies can obtain the necessary capital in the meanwhile by offering long-term financial solutions. Because only a few people control them, the existence of market capital permits investors to have healthy enterprises with future potential. The spread of ownership promotes the transparent development of businesses (Camisón-Zornoza et al., 2020; Hermuningsih, 2019).

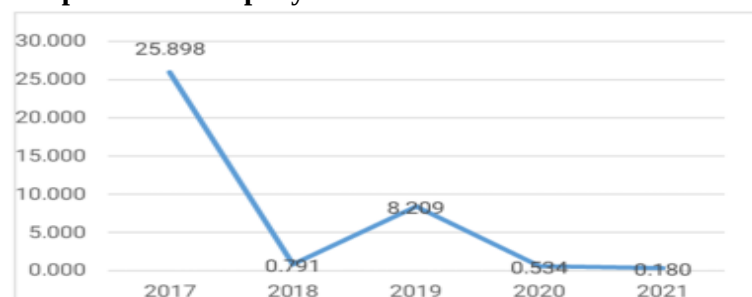
Profit becomes vital information for investors and information that the market responds to (Blanchard et al., 1993). Menicucci (2020b) explains that management is anticipated to be able to take action to improve earnings quality based on this notion. If the returns are not of high quality, investors may make poor selections. Given the numerous options for managers to manage earnings, the need of an earnings management mechanism that can balance the variations in profits of users of financial statement information cannot be overstated (Cudia et al., 2021). The earnings response coefficient can be used to gauge investor or market reactions to accounting profit data (Irawan & Talpia, 2021; Paramita et al., 2020).

The concept that underpins earnings response coefficient study is an investor's appraisal that begins with the circumstances surrounding the company's profit announcement date. Investors will react differently to reported earnings in this situation. If the company's reported earnings exceed investors' expectations, investors will increase the company's earnings and performance evaluation and buy shares; conversely, if the reported profit falls short of expectations, investors will make a downward correction and sell the company's shares (Paramita et al., 2020).

The earnings response coefficient (ERC) associated with accounting earnings is the sensitivity of the size of stock price swings to accounting earnings. ERC demonstrates how market analysis of reported corporate earnings information can be noticed from fluctuations around financial statement disclosure dates (Al-Baidhani et al., 2017). Each company has a unique ERC value based on how the reported information affects investor reaction and stock price (Gurusinga & Pinem, 2019; Sutrisna Dewi & Yadyana, 2019; Tamara & Suaryana, 2020).

According to Figure 1, investor reaction to business income tends to decline from 2017 to 2021. In 2017, the earnings response coefficient value was 25,898. Then it declined by 0.791 in 2018. However, the value of the earnings response coefficient grew by 8,209 in 2019. In contrast, the earnings response coefficient value declined dramatically in 2020 and 2021. The ERC value in 2020 was 0.534; in 2021, it was 0.180.

Figure 1. Investor Responses to Company Profits in the Consumer Goods Sector 2017-2021



Source: Processed data (2023)

Throughout the 2017-2021 timeframe, the value of the earnings response coefficient tends to drop due to a decrease in the company's share price and a stock price that does not move. According to Putriadita & Rahmawati (2021), the consumer goods industry's share price has certainly declined, and

this has led to investor interest in this sector also appearing as an actor since market players have switched to the technology sector. The issuer's financial performance in industries associated with people's daily needs for goods also declined as a result of dwindling public purchasing power as a result of increasingly tough competition in the consumption sector with the presence of internet shopping, which increased pressure to this sector. Unilever Indonesia Tbk (UNVR), for example, had its share price fall 40.87% year to date (YTD) to IDR 4,420. Mayora Indah Tbk (MYOR) shares have similarly been down 22.57% year to date to IDR 2,230.

Profitability, business size, and earnings persistence are all factors that influence the earnings response coefficient used in this study. The relationship between profitability and earnings response coefficient can be stated as follows: if the company's profitability is strong, profits earned will increase, influencing investors to invest their capital further (Khairina Rosyadah, Budi Andriani, 2021; Warren et al., 2018). The second component is corporate size; the more the company's overall assets, the larger the company's scale, and the greater the company's investor interest (Alberts & Archer, 1973; Chabachib et al., 2019; Efendi & Ulhaq, 2021). The third element is earnings persistence; the greater the consistency of profit turnover over time, the bigger the value of the acquisition response coefficient (Fatma & Hidayat, 2019). In this instance, the company's development can be based on earnings and continue to grow (Enke, 1970).

This study broadens understanding of profits and financial quality by investigating the effect of profitability, company size, and earnings persistence on the earnings response coefficient in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The findings of this study are intended to be taken into account when making decisions for both investors and the company itself.

METHOD

ERC is the investor reaction coefficient to earnings information derived from the regression of cumulative abnormal returns and unexpected earnings. According to Pangidoan (2020) research, ERC may be quantified in numerous phases, including:

The first stage involves searching for daily stock and market returns.

The daily stock return is computed as follows:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

Where :

R_{it} : Return of stock of company i on day t.

P_{it} : The closing price of stock i on day t.

P_{it-1} : The closing price of stock i on day t-1.

The daily market return is calculated as follows:

$$R_{mt} = \frac{JCI_t - JCI_{t-1}}{JCI_{t-1}}$$

Where :

R_{mt} : Return on daily market investment.

JCI_t : The Jakarta Composite Index index for the day.

JCI_{t-1} : Day t-1 Jakarta Composite Index.

The following step is determining the abnormal return. A market-matched model is used to determine abnormal returns in this study. The following equation will then be obtained:

$$AR_{it} = R_{it} - R_{mt}$$

Where :

AR_{it} : Abnormal return of company i in the t-period

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R_{it} : Return of the company in the t-period.

R_{mt} : Market return in the t-period.

The next step is calculating the Cumulative Abnormal Return, which is obtained from the sum of the AR_{it} . By using the following formula:

$$CAR_{it}(-3, +3) = \sum AR_{it}$$

Where :

AR_{it} : Abnormal return of company i in the t-period

CAR_{it} : Cumulative Abnormal Return

The next step is calculating Unexpected Earnings (UE), which is measured using earnings per share measurement, as follows:

$$UE_{it} = \frac{AE_{it} + AE_{it-1}}{AE_{it-1}}$$

Where :

UE_{it} : Unexpected earnings of the company i in period t

AE_{it} : Profit after tax of company i in year t

AE_{it-1} : Profit after tax of company i in year t-1

The final step is to calculate the Earning Response Coefficient. The equation used to calculate the ERC is:

$$CAR = \alpha + \beta (UE) + \varepsilon$$

Where :

CAR : Cumulative Abnormal Return.

α : Constant.

β : Regression coefficient.

ε : Error component.

Profitability

According to Riyanti & Darto (2019), profitability is the ratio used to assess a company's capacity to create profit from its usual commercial operations. Profitability is determined by the return on assets (ROA), which is the ratio of net income to total assets.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

Firm Sizes

Firm size is the size of the company as determined by the balance sheet total assets at the conclusion of the fiscal year. The size of a firm reflects the value of its assets. The natural logarithm of the company's total assets is used to calculate its size (Juhandi et al., 2019).

$$\text{Size} = \ln(\text{Total Assets})$$

Earnings Persistence

Earnings persistence may be quantified using the regression coefficient between profits in the present and past periods, according to Menicucci (2020). Calculated methodically using the formula:

$$X_{it} = \alpha + \beta X_{it-1} + \varepsilon$$

Where :

X_{it} : Profit of company i in year t

α : Constant

β : Coefficient of regression results

X_{it-1} : Earning of company i in year t-1

X_{it-1} : Company i's earning in year t-1

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The Population and the Research Sample

The data utilized in this study includes secondary data pertaining to consumer products businesses listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. Purposive sampling is employed, and the population chosen as a study sample must fulfill particular sample requirements. The following are the criteria:

The data utilized in this study includes secondary data pertaining to consumer products businesses listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. Purposive sampling is employed, and the population chosen as a study sample must fulfill particular sample requirements. The following are the criteria:

1. Companies listed on the IDX in the consumer products industry from 2017 to 2021.
2. Consumer products companies that have filed for an initial public offering (IPO).
3. Consumer goods companies listed on the IDX that have released financial results for 2017-2021.
4. Consumer goods companies that did not post consecutive losses from 2017 to 2021.

Table 1. Results from sample selection

No.	Criteria	Total
1	Companies in the consumer goods category are being listed on the IDX from 2017 through 2021.	57
2	During the study year, there were IPOs in the consumer goods sector.	(16)
3	Companies that do not submit consecutive financial reports between 2017 and 2021 as a result of delisting	(8)
4	Companies that have had continuous negative earnings from 2017 to 2021.	(17)
	Total	16
	Total Research (5 x 16)	80

Source: Processed data (2023)

Data collection technique

The data collection technique in this study uses secondary data types, data obtained from the official IDX website in the form of documents in the format of financial reports for the consumer goods sector and the Yahoo Finance website to view company stock price data for a predetermined period, namely 2017-2021.

Data analysis method

Data analysis in this study was carried out using descriptive statistics, classical assumption tests, multiple linear regression analyses, hypothesis testing, and R2 test. This test was carried out using SPSS 22.

DISCUSSION

Research Result

a. Hypothesis Testing

Table 2. T-Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,116	,468		2,387	,020
X1_ROA	,143	,629	,027	,227	,821
X2_SIZE	-,064	,022	-,373	-2,874	,006
X3_PL	-,148	,056	-,333	-2,639	,010

a. Dependent Variable: Y_ ERC

Source: Processed data (2023)

A degree of freedom of 65 and a t-table of 1.99714 were obtained after testing one dependent variable and three independent variables with a significance level of 5%. According to the data in table 2, the profitability variable (X1) has a t - statistic of 0.227 > 1.99714 (t-table) with a significance level of 0.821 > 0.05 (alpha), suggesting that H1 is rejected, showing that the profitability variable has a largely negligible and positive influence on ERC. Table 2 also displays the t - statistic for the firm size variable (X2) of -2.874 1.99714 (t-table) with a significance level of 0.006 < 0.05 (alpha), suggesting that H2 is accepted and that the variable Firm size has a partially significant and negative influence on ERC. In table 2, the earnings persistence variable (X3) has a t - statistic value of -2.639 1.99714 (t-table) with a significance level of 0.01 < 0.05 (alpha), showing that H3 is accepted, indicating that the persistence variable has a substantial and negative influence on ERC.

b. F-Test

Table 3. F-Test Results

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	3,205	3	1,068	3,848	,014 ^b
Residual	17,767	64	,278		
Total	20,971	67			

a. Dependent Variable: Y_ ERC

b. Predictors: (Constant), X3_PL, X1_ROA, X2_SIZE

Source: Processed data (2023)

An f-table of 2.75 is determined with a degree of freedom of 64 and an alpha of 5% (0.05). According to the f-test findings in table 3, the f statistic is 3.848 > 2.75 (f-table) with a significance level of 0.014 < 0.05 (alpha), indicating that Ha is accepted. As a result, it is possible to conclude that profitability, company size, and profits persistence all have a major impact.

c. Determination Coefficient Test

Table 4. R² Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,391 ^a	,153	,113	,52688

a. Predictors: (Constant), X3_PL, X1_ROA, X2_SIZE

b. Dependent Variable: Y_ERC

Source: Processed data (2023)

According to the results of the coefficient of determination (R²) test in table 4, the Adj-R Square value is 0.113, suggests that the earning response coefficient (ERC) in the consumer goods sector on the IDX during the 2017-2021 period can be influenced by profitability, company size, and earnings persistence is 11.3 percent, while the remaining 88.7 percent is influenced by other variables outside the model studied.

Effect of Profitability on Earning Response Coefficient

The results of this study are the profitability variable measured using return on assets (ROA) showing a significance level of 0.821 with a regression coefficient of 0.143 which means that the profitability variable has an insignificant and positive effect on ERC. The results of this study also agree with the research of Kartadjuma & Sujana (2021) and Pangidoan (2020), which explain that profitability is not a significant factor in terms of consideration for investors in making investment decisions. However, the signal theory was unsuccessful in implementing this research hypothesis because the company failed to attract market responses related to profitability as measured using ROA, which can only explain the magnitude of the rate of return on assets to market participants. Thus, investors will look for other factors far more attractive in the company's earnings announcement. However, this study's results contradict with Angela & Iskak (2020), who believe that profitability has a significant and negative effect on ERC

Effect of Company Size on Earning Response Coefficient

Based on the results of the study, it was found that the significance value of the natural logarithmic variable of firm size was 0.006, and the regression coefficient was -0.064, which could mean that the variable firm size had a significant and negative effect on ERC. These results indicate that company size is an essential factor for investors investing in companies in the consumer goods sector. This research agrees with Angela & Iskak (2020), who explain that investors assume large companies that have resilience in dealing with various problems they face so that investors can reduce fears of bankruptcy risk and not provide profits in the future. Large companies are considered capable of delivering more and more detailed information, which makes the company's stock price more informative. However, this can result in reduced information from the company's accounting profit. The results of this study are also in line with Pratiwi & Sasongko (2021), which states that company size has a significant and negative effect on ERC. However, this is contrary to the study by Apriani & Mutumanikam (2021), which says that company size has no significant impact on ERC.

Effect of Profit Persistence on Earning Response Coefficient

The results of this study indicate that the earnings persistence variable has a significance level of 0.010 with a coefficient value of -0.148 which means that the earnings persistence variable has a significant and negative influence on ERC. This agrees with the statements of Fatma & Hidayat (2019) and Cahyani & Muanifah (2022), stating that high-profit persistence can show current profit figures indicating company performance in the next period in the long term repeatedly. Even though earnings persistence affects ERC, the results of this study have not been able to support the statements of market

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efficiency theory and signal theory, where both approaches assume that information will be in line with stock price movements because in this study, if earnings persistence increases, it can reduce investor response. The results of this study agree with the research of Cahyani & Muanifah (2022), which states that earnings persistence has a significant negative effect on ERC. However, this is contrary to a study by Apriani & Mutumanikam (2021), which says that earnings persistence positively impacts ERC.

CONCLUSION

This study examines the effect of profitability, company size, and earnings persistence on the earnings response coefficient in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period. The results found in this study are the effect of the profitability ratios as measured using Return On Assets (ROA), indicating a significant and negative influence on the earnings response coefficient. This means showing where profitability is not an important consideration factor for investors when deciding to invest. The company can generate profits if the magnitude of a company's profitability is not a benchmark. Then, the effect of firm size as measured using the natural logarithm of total assets shows that the results of this study have a negative and significant impact on the earnings response coefficient. This indicates that company size is essential for investors when making investment decisions. Investors assume that large companies are companies that can survive the problems they have faced. In addition, the results of the study also show the effect of earnings persistence (PL), which is measured using the regression coefficient between the current period's earnings and the previous period's earnings, that the results of this study have a negative and significant effect on the earnings response coefficient. This means that high earnings persistence indicates that the current period's profit figure can repeatedly tell the company's performance in the next period and the long term. However, investors tend to be oriented for a short time to obtain capital gains, so the higher the persistence. This research still has limitations, including only using three independent variables and one dependent variable with a minimal period, namely in 2017-2021. In addition, the data used is for consumption sector companies only listed on the IDX.

Future research should add other independent variables influencing the earning response coefficient, such as capital structure, systematic risk, company growth, and others. In addition, it is recommended to use a different sector and a more extended observation period to provide a more significant number of samples. In addition, the advice that can be given by research to consumer sector companies is that for the profitability variable, it is expected to use proxies other than Return On Assets (ROA) such as Return On Equity (ROE), EBITDA Margin, Net Profit Margin (NPM) and others. So that the value of the resulting earnings response coefficient can be higher and make potential investors more confident about the company's ability to generate profits. Then, for the company size variable, it is hoped that it can be used as one of the considerations to improve the company's financial performance, not to practice earnings manipulation so that potential investors respond well. Then, for the earnings persistence variable, it is hoped that it can be used as a reference material for the evaluation of company steps and performance; it can also be carried out to examine the impact of company policies in maintaining future profits so that potential investors respond favorably and are interested in investing.

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ISSN: 2406-8721 (Media Cetak) dan ISSN: 2406-8985 (Media Online)

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ISSN: 2406-8721 (Media Cetak) dan ISSN: 2406-8985 (Media Online)

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ISSN: 2406-8721 (Media Cetak) dan ISSN: 2406-8985 (Media Online)

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