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THE EFFECT OF EARNING PERSISTENCE AND GROWTH OPPORTUNITIES ON FUTURE EARNING RESPONSE COEFFICIENT WITH PUBLIC OWNERSHIP AS MODERATION

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KEYWORDS
earning persistence; growth opportunities; FERC; public ownership

ABSTRACT
The role of public ownership in moderating the effect of earning persistence and growth opportunities on the future earnings responses' coefficient is the focus of this study. Understanding the background of these concepts provides context for the research. This study aims to determine the role of public ownership in moderating the effect of earning persistence and growth opportunities on future earnings responses coefficient. This research uses companies in the Consumer Cyclicals sector and the Consumer Non-Cyclicals sector during the 2018-2021 period. Sampling method with purposive sampling. The results of this study indicate that earnings persistence affects the Future Earning Responses Coefficient. Growth Opportunities have no effect on the Future Earning Responses Coefficient. The role of public ownership is able to strengthen the effect of earning persistence and Growth Opportunities on Future Earning Responses Coefficient.

INTRODUCTION

Business is one way to maximize the country's economy which includes several elements that need to be run and managed properly. One of the company's goals is the success of the shareholders (investors). Profitability is one of the factors potential investors consider when they consider investing. The majority of potential investors carry out their investments in order to obtain dividends from the profits generated by the company. To generate consistent returns, investors need to know the profit (income) of the company. Where the return obtained comes from profits, thus investors are required to predict future earnings.

Accounting profit information is the most important information used to predict profits and stock returns in the future. Statement of Financial Accounting Concept (SFAC) No. 1 explains that company income is useful as an evaluation of company performance, helps evaluate representative long-term profits, predicts future income and assesses investment risk. According to Cho and Jung (1991), profits presented in a financial report can generate various responses indicating market reactions to earnings information.

Starting from research related to the Future Earning Response Coefficient (FERC) which was carried out (Ball, 1968) was to test profit information. According to Collins et al., (1994). Future Earnings Response Coefficient is an approach that functions to measure the amount of information about future earnings as reflected in changes in current earnings. In this case, the Future Earnings Response Coefficient is usually used in predicting future earnings. Various factors that affect the Future Earnings Response Coefficient include Growth Opportunity and Public Ownership.

Profit information is the most important information in making decisions, where good decisions are obtained if you have quality profits. Where quality earnings are earnings that can predict future earnings (Penman & Zhang, 2002). On the other hand, earnings quality is the

ability of earnings to reflect the truth about company profits and to support predicting future earnings, considering the persistence and stability of earnings (Bellovary, 2005). Persistent profit is profit that has a tendency not to fluctuate and can be used as a description of the sustainability of future profits. In this case, earnings persistence is the most important part because the more persistent a profit is, the more investors will have the ability to predict future earnings. Whereas,

Some of the phenomena related to company cases that occur such as the low probability that a number of companies will experience a decline in share prices will result in a decrease in the level of investor confidence which is a cause of a decrease in company performance. The phenomenon that causes the persistence of earnings is questionable because profits that fluctuate sharply in a short span of time show that the company cannot maintain the profits it is currently getting or guarantee future profits. Because management often uses profits to attract potential investors, management designs these profits to influence investors' decisions. Companies need persistent profits to show good company performance in the eyes of shareholders or creditors.

The results of research conducted by Mulyani et al., (2007) the results show that Earnings persistence has a positive influence on the future earnings response coefficient (FERC). The higher the persistent profit, the greater the company's profit, and the more significant the future earnings response coefficient (FERC). So, through persistent profit information it shows that the company can cause a positive market reaction for the company. Ekky (2016) explains that earnings persistence has a positive influence on the future earnings response coefficient (FERC). On the other hand, Susanto (2012) and Buana (2014) explains that persistent earnings have no effect on the future earnings response coefficient (FERC). Where income smoothing is a pattern applied by management by adding or subtracting profits to minimize profit fluctuations presented in financial reports.

Growth opportunities describe the company's growth opportunities in the future. The view of the market (shareholders or investors) on the growth potential of a company can be seen from the stock price which is the expected value of future benefits. Shareholders are more responsive to companies with high growth potential. According to Palup (2006), this is because companies with high growth potential are able to provide great benefits for investors in the future.

Growth opportunities in terms of future return expectations, both companies and investors will both benefit because growth opportunities can maximize the company's ERC (R. W. Scott, 2003). Bad or good news about current earnings can shed light on a company's future growth opportunities, resulting in a higher ERC. Profits that are assessed according to history cannot show the ability to grow in the future, but the situation is different if current profits show high profits from various company investment projects, this can show the market that the company is experiencing rapid growth in the future. Where this growth continues to come through sustainable probabilities, which increase the company's total assets.

The company's success with current investments also leads the market to suggest that the company will continue to be successful in the future. The company is intended as a company that develops or grows so that it is able to obtain capital from investors as a source of further growth. Thus, the higher the company's current growth rate, the higher the company's ERC (W. Scott, 2009).

Research conducted by Wiguna and Murwaningsari (2022), found that growth has no effect on FERC. WCR as a moderator of the effect of SR and Growth on FERC weakens the previous effect. However, the research results are not in line with Muwarningsari (2013) which shows that the growth opportunity results have a positive effect on the Future Earnings Response Coefficient.

Based on the inconsistency of research results that occurred in previous studies, it is possible that there are variables or other factors that influence one variable to another (Handayani & Andyarini, 2020). Therefore, in overcoming these problems, the difference in this study is to add a moderating variable in the form of public ownership which is expected to drive the influence of earnings persistence and growth opportunities on FERC.

The research that the researchers will carry out has the aim of testing and providing empirical evidence regarding the effect of growth opportunities and profit persistence on the future earnings response coefficient which is moderated by public ownership in companies in the Non-Primary Consumer Goods (Consumer Cyclicals) and Primary Consumer Goods (Consumer Non-Cyclicals) sectors listed on the Indonesia Stock Exchange for the 2018-2021 period.

This research uses several grand theories, among others, signaling theory is that company executives have better information about their company so they wish to provide this information to investors so that the company's stock price increases (Ross, 1977). In addition, the signals that can be shown by the company include financial information that can be considered capable of minimizing uncertainty regarding the company's prospects in the future (Wolk et al., 2001).

In the agency model, a system is created that includes both parties, thus a work contract is needed between the management (agent) and the owner (principal). Jensen and Meckling (2019) states that the agent and principal relationship is a contractual relationship between one or more people (principal) that binds other people (agents) to carry out various services on their behalf which involve delegating various decision-making powers to agents.

Profit persistence is profit that can be used as profit itself. This means that current earnings can be used as an indicator of future earnings. According to Tucker & Zarowin (2006a), the more persistent a profit is, the more informative the profit is, and the less persistent a profit is, the less informative the profit is. Earnings persistence is a measure of earnings quality from the slope of the current earnig regression coefficient on lagged earnings. Theories related to accounting profit figures that lead to earnings persistence depend on the following assumptions. First, this theory assumes that stock prices are similar to the present value of expected future dividends. Second, this theory assumes that current and future profitability provide information to investors regarding current and future dividends. Third, this theory assumes that earnings (or more broadly financial statements) provide information to investors regarding current profitability and future expectations Nichols and Wahlen (2004).

Market assessment of the possibility of a company to grow can be seen from the share price that is formed into an expected value of the future benefits to be obtained. In this case, investors will give a greater response to the company through high growth possibilities. This is because companies that have high growth possibilities will also provide high benefits in the future for shareholders.

Brown (2001); Muwarningsari (2013); Henny (2017), explains that growth opportunities are something that investors, including institutional investors, hope for, because growth opportunities can give positive signals to shareholders regarding future earnings information.

The market that reacts to the announcement of earnings shows that the earnings conveyed by the company have information content. Where this indicates the relevance of accounting earnings on stock prices as a form of market reaction. According to Lipe (1990), predictability of accounting profit is the ability of accounting profit in the past to predict accounting profit in the future, and is shown in the variance of earnings shock in accounting profit in time series. As for those who explain that the Future earnings response coefficient is a prediction of future earnings in order to see how much information is obtained from future earnings along with changes in present earnings (Collins et al., 1994).

Public ownership is the level of company share ownership by the general public (public) outside the company environment. According to Wijayanti (2020), company ownership by the general public has great power within the company because it is able to influence the company through the mass media which are all seen as the voice of the community (public).
The formulation of the research hypothesis is as follows:
H1: Earnings persistence has a positive effect on the future earnings response coefficient
H2: Growth opportunities have a positive effect on the future earnings response coefficient.
H3: Public Ownership strengthens the positive effect of earnings persistence on the future earnings response coefficient.
H4: Public Ownership strengthens the positive effect of earnings persistence on the future earnings response coefficient.

RESEARCH METHODS

This research is a type of causality research that examines the influence between variables according to previous studies (Sekaran & Bougie, 2016). The unit of research analysis is the Consumer Cyclicals sector and the Consumer Non-Cyclicals sector which are listed on the Indonesia Stock Exchange. The data used is time series data for 2018-2021, namely the company's annual report and sustainability report obtained from the company's official website. The research population is 210 companies. The sample collection method used was purposive sampling. So the research sample totaled 51 companies with a period of 4 years, so the data used in this study amounted to 204.

Earnings persistence is used in assessing earnings quality because earnings persistence has predictive value, thus it can be used by stakeholders in evaluating past, present and future events (Hanlon & Heitzman, 2010). Earnings persistence shows the ability of profits that can be used as future earnings. The more persistent a profit is, the higher the expectation of an increase in future profits. According to Abousamak (2018), earnings persistence can be obtained by the formula:

$$\mathbf{EARj,t+1 = \alpha + \beta 1 EARs_{J,t} + Ut+1}$$

Notes: EAR = net income before extraordinary items and discontinued operations, deflated by the average of total assets. β= coefficient of earnings persistence regression results.

Freeman et al. (1982) argue that β1 measures the persistence of the accounting rate of return on assets (ie, income). The closer β1 is to one, the more aggregate earnings persistence appears in the model. In other words, productive performance is not pure while also not following a random walk.

This public ownership refers to research (Lestari & Hermanto, 2015) where the measurement is calculated from the percentage (%) of public share ownership that can be observed from the annual financial reports.

The future earnings response coefficient is a measurement to predict future earnings, meaning how much information related to cash flow or future earnings is capitalized into stock prices. According to Tucker and Zarowin (2006a), the FERC measurement used in this study is the CKSS model in the regression equation of the future earnings response coefficient, with the formula:

$$\mathbf{\mathit{Rt} = b0 + b1\ X\ t\ -1 + b2\ X\ t + b3\ X\ t3 + b4\ R\ t3 + et}$$

Notes: Rt = Stock return in year t, Xt-1 = Earning per share (EPS) for year t-1 divided by the

stock price at the beginning of year t, Xt = Earning per share (EPS) for year t divided by the stock price at the beginning of year t, Xt3 = Total earnings per share (EPS) for years t+1 to t+3, divided by the stock price at the beginning of year t, Rt3 = Aggregate stock return for years t+1 to t+3, et = Error

The coefficient on past earnings (t-1) = (b1) is predicted to be negative, the future earnings response coefficient (FERC) = (b3) is predicted to be positive, the earnings response coefficient (ERC) = (b2) is predicted to be positive, the coefficient on future returns = (b4) is predicted to be negative.

Tucker and Zarowin (2006b), explains that Stock Return can be calculated using the formula contained in (Rachmawati, 2021):

$$\mathbf{Rt = Pt\text{-}Pt\text{-}1/Pt\text{-}1}$$

Notes: Pt-1 = stock price for period t-1, Pt = stock price for period t, Rt = realized return

The control variables in this study consist of company size reflected in the company's total assets. Company size in this study is measured by the formula (Murwaningsari & Rachmawati, 2017; Tonay & Murwaningsari, 2022): Size = Ln Total Assets. Then the other control variable is Leverage, which is the ratio of the total book value of debt to total assets. Thus, this ratio shows how far the debt can be covered by its assets. Leverage is calculated using the debt to assets ratio (DAR) (Murwaningsari, 2014), namely total assets divided by total debt. Growth control variable uses the formula: net profit - net profit t-1 / net profit t-1.

This analysis method is carried out by using Eviews to process research data. The first analysis is descriptive statistics and using the regression model estimation method using panel data can be carried out through various approaches, including: Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). To manage panel data, it can be carried out by selecting the right model through various tests (Basuki & Prawoto, 2017), namely: Chow Test, Hausman Test and Langrange Multiplier Test. Then a hypothesis test was carried out consisting of an individual test (t test), simultaneous test (F test) and the coefficient of determination (R2).

The purpose of this study is to examine the effect of Earning persistence and Growth opportunities on FERC moderated by Public Ownership. Solimun (2011) states that there are 4 (four) groupings of moderating variables, namely:

1) Homologizer moderator: a variable that has the potential to become a moderating variable, does not interact with the independent variables and the dependent variable.
2) Quasi moderator: a variable that moderates the influence between the independent variables and the dependent variable. The moderating variable interacts with the independent variables as well as being the independent variable.
3) Pure moderator: a variable that moderates the influence between the independent and dependent variables. Pure moderating variables interact with independent variables without becoming independent variables.
4) Predictor moderator: the moderating variable only acts as an independent variable.

The model in this study is included in the predictor moderator.

The method used is panel data. Panel data is defined as a combination of data over time (time series) and data between companies (cross section). The research model is as follows:

$$\mathbf{FERC = a + EP + GO + EP*PO + GO*PO + SIZE + LEV + GROWTH + e}$$

Note: FERC = future earnings response coefficient, EP = Earning Persistence, GO =

Growth opportunities, PO = Public Ownership, EP*PO = Earning Persistence with moderation of Public Ownership, GO*PO = Growth opportunities with moderation of Public Ownership, SIZE = Company size, LEV = Leverage, Growth = company growth, e = Error

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Based on the data obtained, the company population during the study period was 210 companies. Researchers conducted purposive sampling to obtain complete data. So, based on purposive sampling, this study only used 51 companies with 204 sample data.

This study uses descriptive statistics to determine sample size, minimum, maximum, average and standard deviation. The following is a table with descriptive statistical results:

Table 1. Descriptive Statistics

Variables	Means	Median	Maximum	Minimum	std. Dev.
EP	0.0000	-0.1337	7.4739	-0.2285	0.6929
GO	0.0881	0.0774	4.4163	-0.8983	0.3661
PO	23.4442	21.4350	67,3800	0.0000	17.2854
EP*PO	-1.0716	-1.9636	186.7720	-14.0360	14.6126
GO*PO	1.8172	0.5690	46.5463	-26.1289	6.8131
Lev	0.4181	0.4100	2.0649	0.0665	0.2261
SIZE	29.3557	29.4237	32.8204	25.6294	1.3897
gr	0.8732	0.1190	47.0762	-0.9738	4.4346

Source: Processed Data, 2023

Based on table 1 shows that the earning persistence variable has a minimum value of -0.2285 and a maximum value of 7.4739. The average earning persistence is 0.0000, with a standard deviation value of 0.6929. The data on this variable is said to be good because the data distribution is homogeneous which can be seen in the average value greater than the standard deviation (0.0000 > 0.6929).

The growth opportunities variable has a minimum value of -0.8983 and a maximum value of 4.4163. The average growth opportunities are 0.0881, or 8.81%, meaning that the average company in the Consumer Cyclicals sector and the Consumer Non-Cyclicals sector is because in 2020 there was the Covid-19 pandemic which caused several companies to experience a decrease in revenue.

The public ownership variable has a minimum value of 0.0000 and a maximum value of 67.3800. The average value of public ownership is 23.4442 with a standard deviation of 17.2854. This means that the data in this variable is said to be good because the distribution of the data is homogeneous which can be seen in the average value which is greater than the standard deviation (0.0000 > 17.2854).

Best Model

Determination of the best model in panel data regression with common effects, fixed effects, and random effects models. These three techniques are used in panel data regression to obtain the right model in estimating panel data regression. In determining the model used, the best test is carried out based on the Chow test, Hausman test, and Langrange Multiplier test which aims to get the best model.

Table 2. Chow, Hausman and Langrange Multiplier Test

testing	Prob.	Significant	Selected Model
ChowTest	0.8767	0.05	Common Effects Model
Hausman test	0.9716	0.05	Random Effects Model
LM Test	0.2417	0.05	Common Effects Model

Source: Processed Data, 2023

The Chow test is used in order to determine the best approach between the Common Effect Model (CEM) and Fixed Effect Model (FEM) approaches. The hypothesis test is as follows: If the p-value of the chi-square cross-section <0.05 then Ho is rejected, Ha is accepted (FEM), If the p-value of the chi-square cross-section is > 0.05 then Ho is accepted, Ha is rejected (CEM). The table above shows that the p-value cross section chi-square is 0.0075 <0.05, so it can be said that Ha is accepted, which means that the Fixed Effect Model (FEM) is more appropriate to use the regression equation estimation model.

The Hausman test is carried out if in the Chow test, the model chosen is FEM. The Hausman test is used in order to determine the best approach between the Random Effect Model (REM) and Fixed Effect Model (FEM) approaches. The result of testing using this test is to find out whether the panel data regression technique using the Generalized Least Square method (random effect model) is better than panel data regression using the Least Square Dummy Variable method (fixed effect model). The hypothesis test is if the p-value cross section random > 0.05 then H0 is accepted or Ha is accepted (REM), however if the p-value cross section random is <0.05 then Ha is accepted or H0 is rejected (FEM). From the table above it can be seen that the p-value of random cross section is 0.1809 > 0.05,

The Langrange multiplier test was carried out to determine whether the right model is the Common Effect Model (CEM) or the Random Effect Model (REM). As for the hypothesis test, the p-value of Breusch Pagan > 0.05 means that H0 is accepted or Ha is rejected (CEM). However, if the p-value of Breusch Pagan <0.05 then Ha is accepted or H0 is rejected (REM). From the table above, it is obtained that the p-value of Breusch Pagan is 0.1036 > 0.05, so it can be said that Ha is accepted, which means that the Common Effect Model (CEM) model is more appropriate to use as a regression equation estimation model.

Hypothesis Testing

Before carrying out further analysis stages, there are statistical tests which include: F test, t test, and test of the coefficient of determination.

Table 3. Statistical Test Results Using the Fixed Effect Model Approach

Variables	coefficient	t-Statistics	Prob.	
C	0.317	4,131	0.000	***
EP	0.004	2,607	0.010	***
GO	-0.001	-0.774	0.440	
PO	0.001	4,053	0.000	***
EP_PO	-0.001	-3,170	0.002	***
GO_PO	0.001	20,949	0.000	***
Lev	0.020	1,664	0.098	
SIZE	-0.012	-4,005	0.000	***
gr	-0.006	-3,037	0.003	***
Lagged FERC	-0.229	-1,373	0.172	
R-squared	0.155	Mean dependent var	-0.002	
Adjusted R-squared	0.102	SD dependent var	0.383	
SE of regression	0.362	Sum squared residue	18,783	

Variables	coefficient	t-Statistics	Prob.
F-statistics	2,909	Durbin-Watson stat	1.151
Prob(F-statistic)	0.003	***	

Source: Processed Data, 2023

The results of the F statistical test show that the probability value of the F statistic is less than the 5% significance level (0.003 <0.05), so that earnings persistence and growth opportunities together have a significant effect on the future earnings response coefficient.

To analyze the effect partially carried out using the t test. The probability value of the earning persistence variable is greater than the 5% significance level (0.01 <0.05) so that partially earnings persistence influences the future earnings response coefficient. The growth opportunities variable has a probability value of 0.440 > 0.05 so that partially growth opportunities have no effect on the future earnings response coefficient. Earning persistence variable moderated by public ownership has a probability value of 0.002 <0.05, which means that public ownership is able to strengthen the influence of earnings persistence on the future earnings response coefficient. The growth opportunities variable moderated by public ownership has a probability value of 0.000 <0.

The coefficient of determination (Adjusted R-Squared) in this study has a value of 0.102, meaning that the ability of the independent variable to explain the variance of the dependent variable is 10.2%, while 42.69% is influenced by other variables not included in this study.

Effect of earnings persistence on future earnings response coefficient

Based on the results of the t test indicating that the earnings persistence variable has an influence on the future earnings response coefficient, the results of this study are in line with research (Mulyani et al., 2007) which states that earnings persistence has a positive effect on the earnings response coefficient. Therefore, the more constant the change in income from time to time, the higher the level of profit coefficient, because this condition indicates that the profit generated by the company continues to increase.

The better the earnings quality, the higher the predicted FERC value, investors view that current earnings predict returns and future profits (Tucker & Zarowin, 2006). According to Collins et al (1994), the market's response to earnings is influenced by various factors, namely the informativeness of the market price, the higher the informativeness of the stock price, the greater the information content of accounting earnings, thus, the FERC can decrease if the informativeness of the stock price decreases. The more informative a stock price is, the more earnings persistence it will increase, thus this study, in addition to measuring the informativeness of stock prices through FERC, also observes earnings persistence (Tucker & Zarowin, 2006). The higher the earnings persistence, the more informative the profit generated by the company and the higher the FERC value. Thus, persistent profit information shows that the company can build a positive market reaction for the company.

Effect of Growth Opportunities on future earnings response coefficient

The results of the second hypothesis show that growth opportunities have no effect on the future earnings response coefficient. The results of the hypothesis in this study are consistent with research (Wiguna & Murwaningsari, 2022), namely growth opportunities have no effect on FERC. This condition means that companies with low growth opportunities tend to have a negative profit surprise which is a signal for investors in the capital market that in the end they are not able to increase the company's stock price. This means that the opportunity for

the company to grow is low, the less likely it is for the company to obtain profits from the company in the future.

Effect of earnings persistence on future earnings response coefficient moderated by public ownership

Based on the results of testing the moderating variable, it shows that public ownership can strengthen the effect of earnings persistence on the future earnings response coefficient, where Widhianningrum (2012) explains that public ownership has a partial effect on income smoothing practices carried out by management. This is because the higher the level of ownership by the public, it will force management to be better at conveying company profit information. Luo et al. (2006); Cohen and Langberg (2009); Huang and Wright (2015), explained that public ownership provides an opportunity for companies to maximize public trust in public ownership, thereby providing guarantees for loans received from other parties to the company.

Effect of Growth Opportunities on future earnings response coefficient moderated by public ownership

The results of testing the moderating variable indicate that public ownership is able to strengthen the effect of growth opportunities on the response coefficient of future earnings. In Henny and Sha (2020) with growth opportunities as a moderating variable will be able to strengthen the relationship between the future earnings response coefficient (FERC) and managerial ownership. These results prove that growth opportunities have a statistically significant effect on strengthening the positive relationship between FERC and managerial ownership. These results are in line with Brown (2001), Muwarningsari (2013) and Henny (2017) which prove that management tends to maximize firm value with opportunities for company growth that tend to increase.

The company has the same opportunity to develop or grow. As the company grows, FERC will be able to respond well. This means that the FERC value will increase. Meanwhile, if the company does not experience growth, it will cause FERC to decline. (Collins & Kothari, 1989) in (Mulyani et al., 2007) shows that several companies with growth opportunities will have the same situation with a good ERC. Conditions indicate a greater opportunity for their company to grow, if the company's opportunities are higher, it means to get or increase the many profits that the company is currently getting.

CONCLUSION

This study aims to obtain empirical evidence of the influence of earnings persistence, growth opportunities on the response coefficient of future earnings with public ownership as moderation. Based on the results of the tests conducted, it can be concluded that earnings persistence has a positive effect on the response coefficient of future earnings. Growth opportunities have no effect on the future earnings response coefficient. The role of public ownership is able to strengthen the effect of earnings persistence on the future earnings response coefficient. The role of public ownership is able to strengthen the effect of growth opportunities on the response coefficient of future earnings.

The limitation of this study is that the value of the previous year's stock price is higher than the value of the stock price in the study year. This causes the value of the response coefficient of future earnings to be minus. This is because in 2020 the covid-19 pandemic occurred which had an impact on the market price of companies in the sectorConsumer Cyclicals and the Consumer Non-Cyclicals sectordecrease.

The implication of this research is that companies pay more attention to factors that can affect the response coefficient of future earnings, in order to assist companies in attracting investors to invest in their companies and for investors, growth opportunity factors are not necessarily things that need attention that affect the response coefficient of future earnings. future, because there is persistence of earnings and other factors that may affect the response coefficient of future earnings; Suggestions for future research, can carry out further research related to the informativeness of current earnings and future earnings by doing the following things: increase the number of research samples and add a longer time period including the future period in order to obtain results related to better informative future earnings**.**

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