The Influence of Capital Structure, Growth Opportunities and Earnings Persistence on Earnings Response Coefficient

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Article History: Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 20 April 2021

Abstract : This study aims to obtain empirical evidence of how it affects capital structure, growth opportunities and earnings persistence on earnings response coefficient. The coefficient in the construction and building sub-sector service companies listed in Indonesia Stock Exchange (IDX) 2013-2017 period. Data analysis and hypothesis testing using panel data regression analysis. The results showed that the variable Capital structure has a negative and insignificant effect on earnings response coefficient. Growth opportunity has a significant positive effect on earnings response coefficient. Earnings persistence has a significant positive effect on earnings response coefficient.

Keywords: Earnings Response Coefficient, Growth, Earnings Persistence, Capital Structure

1. Introduction

Accounting information is the content of information that obtained from financial statement through fundamental analysis techniques. Financial statements aim to provide data that relate to companies that are required in the investment decision-making process.

The concept of the value relevance and decision usefulness of accounting information are interrelated. There are emphasizes how accounting information has a value relevant for user and financial statements can be more useful. It means describes how investors react to information announcements accounting. The reaction of investors prove that the content of accounting information are very important for their consideration in the investment decision making process (Scott, 2009).

Value relevance is the reporting of accounting numbers that predict market values equity. It cannot be separated from the relevant criteria of financial accounting standards. The amount of accounting figure would be relevant if that amount which is presented reflects the information that is relevant to an assessment company (Mayang, 2004). And one of the most paid attention to accounting information on the financial statements is profit. Markets that react to earnings announcements show that the earnings announced by the company contain information. This indicates the value relevance of earnings to share prices as a form of market reaction.

To test the information content of earnings, there are two approaches, namely association approach and events approach. Association studies are often referred to as studies
earnings response coefficient (ERC) (Soewardjono, 2005; Maluleke & Dlamini, 2019).

Earnings Response Coefficient (earnings response coefficient) is a measure of the amount of abnormal return of a security in response to the component of unexpected earnings reported by the company that issues the security (Scott, 2015). An increase in profit is good news and a decrease in profit is bad news. Good news provokes a change in confidence from investors about the company's future performance. Investors will invest in companies that have increased profits or have high profits and will make the company's stock price increase (Scott, 2015).

In fact, PT Pembangunan Perumahan Tbk (PTPP) experienced an increase in net profit by 74.7% but PTPP's share price decreased by 36.3% ,. PT Wijaya Karya. Tbk (WIKA) experienced an increase in profit of 46.66% but experienced a decrease in share price of 36.25%. PT Waskita Karya. Tbk (WSKT) experienced an increase in net profit of 137.9% but its share price decreased by 27.51%. PT Adhi Karya Tbk (ADHI) obtained a net profit of Rp. 2015.07 billion, an increase in net profit increased by 78% but the share price of PT ADHI has decreased by 17%. (Sugiyanto, 2017). PT. AKR Corporindo. Tbk (AKRA) experienced an increase in profit of 61%, but PT AKRA's share price decreased by 2.2% (Rahmayanti, 2015).

2. Literature Review

Factors that affect earnings response coefficient (ERC) include capital structure, growth opportunities and earnings persistence (Scott, 2015). Capital structure is a comparison of long-term debt and equity (Harjito, 2010). Companies that have high levels of debt and increase in profit will be good news for debtholders and bad news for shareholders. ERC for companies that have a high level of debt will be lower than companies that have little or no debt (Scott, 2015). Paulina (2014) shows that capital structure has a significant positive effect on the ERC. Amin (2018) show that capital structure has no influence on the ERC.

Growth opportunities are the company's ability to develop investment opportunities advantage in the future to increase value firm (Tandelilin, 2010). The market will be more aware of growth opportunities before they realize net income and thus will bid on the share price, the higher the growth opportunity, the higher the ERC (Scott, 2015). Gholamreza (2013) shows that there is a relationship between growth opportunities and the ERC. But Suwarno (2017) show that growth opportunity has no influence on the ERC.

Earnings persistence is an income that has the ability to repeatedly generate future earnings indicators by the company. Profit is said to be persistent, if current earnings can be used as a measure of future earnings (Delvira and Nelvirita, 2013). The expectations of the ERC will be higher with good news on current earnings which are expected to last into the future, because current year earnings provide an indication of the company's future performance (Scott, 2015). Yohanes (2013) research results show that earnings persistence has an influence on ERC. Marisatusholekha (2015) research results show that earning persistence has no affect on the ERC.

The Effect of Capital Structure, Growth Opportunities and Earnings Persistence on the Earnings Response Coefficient (ERC)

ERC information for companies with high leverage levels will be lower than companies with little or no debt (Scott, 2015). The opportunity for a company to grow, the higher it is to grow, the higher the chance for the company to earn a profit in the future so that its ERC will be higher (Scott, 2015).

The Earnings Response Coefficient will be higher when current earnings are good, because it will continue into the future. Current earnings provide a better indication of the company's future performance (Scott, 2015).

3. Method

The population of this research is 80 financial reports of construction and building service companies which are listed on the Indonesia Stock Exchange for the period 2013-2017. In this study the sampling technique used was purposive sampling. Purposive sampling is a sampling technique used to obtain samples based on a specific target group (Edison, 2018). The sample used in this study were 40 financial reports from 8 companies for 5 years.

4. Result and Discussion

Table 1
Chow Test Result

Redundant Fixed Effects
Tests Pool: POOL
Test cross-section fixed effects

	Effects Test Statistic	d.f.	Prob.
Cross-section F	0.506882	(7,29)	0.8217
Cross-section Chi-square	4.617015	7	0.7066

Table 1 shows that the chi-square cross-section of 0.7066 is greater than 0.05 (0.7066> 0.05), so it can be concluded that this study uses a common effect model and it is not necessary to carry out the hausman test.

Table 2
Data Panel Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	-0.833819	0.308829	-2.699941	0.0105
Capital	-0.792043	0.511137	-1.549569	0.1300
Structure	0.940497	0.408577	2.301886	0.0272
Growth	0.064120	0.017581	3.647149	0.0008
Persistence				

Table 2 shows a regression equation is obtained as follows:

Y = -0,833819 -0,792043 (X1) + 0,940497 (X2) + 0,064120 (X3) + e

From the regression model it can be explained that: a. If α = a constant of -0.833819, it shows that when the independent variable of capital structure, growth opportunity and earnings persistence is considered constant (0), then the dependent variable earnings response coefficient is -0.833819. b. If the regression coefficient value of the Capital Structure variable is -0.792043, it means that if the capital structure increases by 1 unit, the other variables are considered constant (0). Then the earnings response coefficient decreases by -0.792043. c. If the regression coefficient value of the Growth Opportunity variable is 0.940497, it means that if the growth opportunity increases by 1 unit, the other variables are considered constant (0). Then the earnings response coefficient increases by 0.940497. d. If the regression coefficient value of the Profit Persistence variable is 0.064120, it means that if the earnings persistence increases by 1 unit, the other variables are considered constant (0). Then the earnings response coefficient increases by 0.064120.

The table above shows that the capital structure coefficient value is -0.79204 and the probability for the capital structure variable is 0.1300. This result means that the capital structure has a negative and insignificant effect on the Earnings Response Coefficient. The table above shows that the growth opportunity coefficient value is 0.940497 and the probability for the growth opportunity variable is 0.0272. This result means that growth opportunities have a significant positive effect on the Earnings Response Coefficient. The third hypothesis states that earnings persistence has a significant positive effect on the Earnings Response Coefficient.

The earnings persistence coefficient value is 0.064120 and the probability for the earnings persistence variable is 0.0008, which means that the result is smaller than the significance level of 0.05 (0.0008 <0.05). This result means that earnings persistence has a significant positive effect on the Earnings Response Coefficient.

Table 3Goodness of Fit Test

R-squared	0.429879	Mean dependent var	-0.948329
Adjusted R-squared	0.382369	S.D. dependent var	1.709607
S.E. of regression	1.343572	Akaike info criterion	3.523180
Sum squared resid	64.98670	Schwarz criterion	3.692068
Log likelihood	-66.46361	Hannan-Quinn criter.	3.584245
F-statistic	9.048154	Durbin-Watson stat	1.902634
Prob(F-statistic)	0.000134		

Adjusted R-squared is 0.382369. This result shows that the variables of Capital Structure, Growth Opportunity and Profit Persistence contribute 38.24% to the Earnings Response Coefficient while the remaining 61.76% is explained by other variables not examined.

Effect of Capital Structure on Earnings Response Coefficient Capital structure is measured by leverage, namely Debt to Equity Ratio (DER), a good DER is below 100%, which means that the portion of own capital is greater than the portion of debt. The data researched shows the condition of the construction and building sub-sector service companies that are used by the majority of which have a capital structure above 100%. The average capital structure that occurs in the construction and building sub-sector is 201.97%. The maximum value of the capital structure of the construction and building sub-sector service companies is 527.78%. This shows that the capital structure in the construction and building sub-sector service companies has a higher level of debt than its own capital. Because the majority of companies have the same conditions, namely DER above 100%.

Thus, the capital structure factor is not a concern for investors to make investment decisions.

2. The Influence of Growth Opportunities on the Earnings Response Coefficient Growth opportunities are measured by the market to book value ratio, the results of the market to book value ratio are good, that is, if the results are above 100% which indicates that the company's growth opportunity is good. The data studied showed various results from those with values above 100% to below 100% and there were very large results. So that growth opportunities are considered by investors. Investors will have more confidence in companies that have a large

growth opportunity than companies that have small growth opportunities (Farizky, 2016). Thus, growth opportunities are a factor to consider in making corporate investment decisions.

3. The Effect of Profit Persistence on the Earnings Response Coefficient. Good earnings persistence is if the results are above 100% which indicates that ongoing profits are obtained from the results of company operations and will persist into the following periods. The data studied shows varying persistence and there are significant changes, either an increase in profit or a decrease in profit. So that persistence is a determining factor in the company's investment policy. Market reaction is higher to information which is expected to be consistent in the long term than information that is temporary. Profit announcements will be more reacted to by investors because the company has succeeded in finding methods to increase efficiency than earnings announcements due to asset sales. Due to the sale of assets, it is not certain that it can be repeated in the next period (Delvira & Nelvrita, 2013). Investors can have a better indication of the company's future performance if the company has persistent profits (Hasanzande, Darabi, & Mahfoozi, 2013). So that earnings persistence is a factor to consider in making company investment decisions.

5. Conclusions

1. Capital structure has no significant negative effect on earnings response coefficient in building construction service companies listed on the Indonesia Stock Exchange for the period 2013-2017.

2. Growth opportunities have a significant positive effect on earnings response coefficient in building construction service companies listed on the Indonesia Stock Exchange for the period 2013-2017.

3. Earnings persistence has a significant positive effect on earnings response coefficient in building construction service companies listed on the Indonesia Stock Exchange for the period 2013-2017.

6. Suggestions

1. Companies should generate profits that are not only high-value profits but alsobe maintained or constant for the next period. Because persistent earnings will give investors confidence to invest and make a good earnings response coefficient. Accordance with the results of research which shows that earnings persistence affects the earnings response coefficient. Another factor that must be considered is growth opportunities. Improve the company's capital structure so that the proportion of debt is not bigger than its own capital so that it produces a good debt to equity ratio, thereby attracting investors to invest.

2. Investors should be more careful and wise in responding to information on profits generated by a company, not too quick to make investment decisions. Pay attention to factors such as growth opportunities and earnings persistence to ensure companies that have high returns will actually provide investment returns.

3. Further Researchers; a) Adding other factors that affect of earnings response coefficient, such as earnings quality, investment opportunity set, audit quality, and others. b) Expanding the research subject.

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