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THE EFFECT OF PROFIT PERSISTENCE CONSERVATISM AND GOOD CORPORATE GOVERNANCE ON THE PROFIT RESPONSE COEFFICIENT IN COMPANIES LISTED IN LQ45

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Abstract: The Urgency of this research is the difference in the reaction of the capital market to the announcement of the company's profit. These differences show that investors are not only paying attention to the size of the reported profits, but also considering the quality and sustainability of those profits. In this context, profit persistence is an important indicator because it reflects the company's ability to maintain profit performance in a sustainable manner. Persistent profits are perceived to have a higher predictive value, so they have the potential to cause a larger profit response coefficient. In addition, the implementation of Good Corporate Governance (GCG) is seen as a mechanism that can minimize agency conflicts and improve the quality of financial reporting. The GCG mechanism, such as the composition of the board of directors, the existence of an independent board of commissioners, and an audit committee, is expected to be able to improve the supervisory function of management so that profit management practices can be suppressed. On the other hand, accounting conservatism is a principle that is believed to improve the quality of financial statements through faster recognition of losses and postponement of recognition of unrealized profits. However, the role of accounting conservatism in influencing the profit response coefficient is also still a debate in the accounting literature, as the results of previous studies show mixed findings. This research was conducted by analyzing companies that are included in LQ45 in 2022-2024. The number of samples in this secondary study amounted to 45 data on the Company's annual financial statements.

Keywords: Profit Response Coefficient, Profit Persistence, Conservatism, Good Corporate Governance

INTRODUCTION

Profit is the main information in financial statements that investors use to assess the company's performance and prospects. The quality of profits is an important concern because it reflects the extent to which the reported profit is able to reflect the true economic condition of the company. Investors use profit information as the basis for making investment decisions, so quality profits are expected to provide reliable signals about the company's future performance.

However, the quality of profits can decrease due to a conflict of interest between management as an agent and the owner of the company as principal. The conflict has the potential to encourage management to manipulate profits for certain interests, which can ultimately mislead investors. Therefore, an effective supervisory mechanism is needed to minimize agency conflicts, one of which is through the implementation of Good Corporate Governance (GCG).

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GCG mechanisms, such as managerial ownership, independent board of commissioners, and audit committees, play a role in supervising management performance and ensuring the presentation of quality financial statements. The good implementation of GCG is expected to be able to suppress profit management practices so that the quality of profits can be improved. In addition, the application of accounting conservatism is also seen as an effort to improve the quality of financial statements by preventing companies from overreporting profits. Financial statements that are prepared conservatively are believed to be more reliable and trustworthy by investors.

Profits generated from quality and conservative financial statements tend to be sustainable. Profit persistence reflects the company's ability to maintain profits over time and has a high predictive value for future performance. Persistent profits are perceived as informative information and can elicit a positive reaction from the capital market.

The quality of profit in this study is proxied by the profit response coefficient, which is a measure that shows the extent to which investors respond to the company's announced profit information. The profit response coefficient reflects the strength of the relationship between accounting profit and abnormal stock returns. The higher the quality of profits, the stronger the market response to the profit information.

Phenomena in the capital market show that an increase in profits is often followed by an increase in stock prices, as happened in some public companies in Indonesia. However, the results of previous studies related to the influence of profit persistence, GCG mechanisms, and accounting conservatism on profit response coefficients still show inconsistent findings. These differences in results show that there are research gaps that need to be studied further.

Based on these conditions, this study was conducted to examine the influence of profit persistence, Good Corporate Governance, and financial statement conservatism on the profit response coefficient, in order to provide more comprehensive empirical evidence on the factors that affect profit quality and capital market response.

METHODS

This study uses a quantitative method to analyze the influence of company size and financial performance on the company's share price in LQ 45 in 2022-2024. This research procedure is carried out by searching for periodic financial statements in companies that are included in the LQ45 index, while the company is a public company listed on the Indonesia Stock Exchange. The total population in this study is 45 companies.with a total of 93 samples obtained

This research is a causality research which analyzes the relationship or influence of cause and effect. The form of causality relationships requires an inferential statistical analysis tool that is able to explain the relationship, in order to answer the research problem, the collected data is processed using multiple linear regression analysis

RESULT AND DISCUSSION

After collecting raw data, the researcher proceeds to the testing stage according to the research methodology that is in accordance with the research based on the journal and previous research. This stage uses the latest and most accurate version of SPSS 25 in data processing. The first stage is carried out is a classic Assumption Test which begins with conducting a normality test

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One-Sample Kolmogorov-Smirnov Test

N		96
Normal Parametersa,b	Mean	7.0958
	Std. Deviation	4.30227
Most Extreme Differences	Absolute	.243
	Positive	.243
	Negative	-.129
Test Statistic		.243
		.200c

Based on the results of normality with one Kolmogorov Smirnov sample, it can be assumed that the data in this study is normally distributed, with the value of asymp sig (2 tailed) which is the determinant of being above 0.05, or 0.200> 0.05 so that there is no uneven or extreme data that can damage the research model.

The next stage is to test the value of multicollinearity which is presented with the following table:

Coefficientsa

Model		Collinearity Statistics	
		Tolerance	LIVE
1	(Constant)		
	PL	.980	1.020
	COULD	.982	1.019
	GCG	.964	1.037

In the table presented above, it can be seen that the results of the multicollinearity test show that there are no symptoms of multicollinearity in this study, where there are no other independent variables that affect the dependent variables. This result can be seen from the tolerance value which must be >0.1 and the VIF value which must be below 10.

The next stage is to conduct a heteroscedasticity test which is presented in the table as follows:

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Say.
		B	Std. Error	Beta		
1	(Constant)	-.334	1.390		-.240	.811
	PL	-.023	.049	-.050	-.473	.637
	COULD	-.006	.013	-.050	-.473	.638
	GCG	.115	.257	.048	.449	.655

a. Dependent Variable: absres

In this stage of the heteroscedasticity test, it can be explained that there are no symptoms of heteroscedasticity that can be seen from the Sig value of > 0.05 where all independent variables in this study have a Sig value above 0.05. The results of this study test prove that there are no bound variables outside the model in this study.

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The last stage of the classical assumption test is the autocorrelation test which will be presented as follows:

Model Summaryb

Model	Change Statistics			
	df1	df2	Sig. F Change	Durbin-Watson
1	3	89	.000	2.102

Based on the results of the autocorrelation test with Durbin-Watson, the Durbin-Watson value was obtained as 2.102. With the number of observations as many as 93 and the number of independent variables as many as 3, at a significance level of 5%, a dL value of 1.5966 and a dU of 1.7295 were **obtained.** The value is then compared with the DW value, so that 1.7295 < 2.102 < 2.2705 (4 − 1.7295) **is obtained.** Thus, it can be concluded that the regression model does not experience autocorrelation symptoms**.**

The next stage is that the researcher conducts multiple linear regression tests to test the feasibility and results of the research model, which is presented in the table as follows

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Say.
		B	Std. Error	Beta		
1	(Constant)	-1.360	1.696		-.802	.425
	PL	.007	.059	.012	.127	.900
	COULD	.074	.016	.452	4.736	.000
	GCG	.316	.313	.097	1.008	.316

a. Dependent Variable: CAR

The t-test is used to test the influence of each partially independent variable on the dependent variable, in this case the profit response coefficient is compared to a significant level that must be below the standard of 0.05 from the result of its partial relationship with the independent variable of the study.

Based on the results of the regression test, the values of each independent variable can be explained as follows:

The value of t calculating profit persistence is 0.127, while the t table is 1.987. 0.127 <1.987

In addition, its significant value is 0.900 > 0.05, which can be concluded H_0 is accepted and H_1 is rejected. This means that profit persistence has no significant effect on the dependent variable.

The value of t calculating conservatism is 4.736 above the t table with a significance of 0.000 < 0.05 which can be concluded that the value of conservatism has a significant positive effect on the profit response coefficient

The T-value of good corporate governance was 1.008 < out of 1.987 with a significant value of 0.316> 0.05 which means that the gcg variable does not have a significant effect on the dependent variable

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	F Change

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1	.450a	.202	.175	1.38708	.202	7.527

The proportion of variance of dependent variables that can be explained by independent variables in this research model which means that about 20.2% of the data variation can be explained by this regression model. The rest came from other independent variables outside of this research model

ANOVA

Model		Sum of Squares	df	Mean Square	F	Say.
1	Regression	43.444	3	14.481	7.527	.000b
	Residual	171.234	89	1.924		
	Total	214.678	92			

The regression model with 3 variables where Profit Persistence, Conservatism and Good corporate governance is statistically significant in explaining the variability of dependent variables, because the p value (Sig.) is 0.000 < 0.05. which means that the 3 independent variables simultaneously affect the Profit Response Coefficient.

CONCLUSION

The results showed that profit persistence did not have a significant effect on the Profit Response Coefficient (ERC). The result is shown by a calculated t value of 0.127 which is smaller compared to the t table of 1.987 and a significance value of 0.900 which is greater than 0.05. Thus, the hypothesis that the persistence of profit has an effect on ERC is unacceptable. The results of this study are in line with the research of Rahayu (2012) which found that profit persistence has no relationship with the profit response coefficient in manufacturing companies listed on the Indonesia Stock Exchange. Similar results were also found by Adam, Nurdin, and Imam which showed that profit persistence had no effect on the Earnings Response Coefficient (ERC). Thus, the results of this study reinforce empirical evidence that the level of profit persistence is not necessarily a factor that determines the strength or weakness of the market's response to company earnings information.

Furthermore, the results of the study show that conservatism has a positive and significant effect on the Profit Response Coefficient. This is indicated by a calculated t value of 4.736 which is greater than the table t of 1.987 and a significance value of 0.000 which is smaller than 0.05. The conservatism regression coefficient of 0.074 indicates a positive relationship direction. These results show that the higher the level of conservatism in financial reporting, the higher the market response to corporate earnings information. The results of this study are in line with the research of Adhi (2013) who found that the conservatism of financial statements proxied with accrual has a positive and significant effect on the profit response coefficient. A similar result was also found by Rahayu (2012), which shows a positive relationship between profit conservatism and profit response coefficient. Thus, the results of this study have received empirical support from previous research.

Meanwhile, Good Corporate Governance (GCG) has no significant effect on the Profit Response Coefficient. The result is shown by a calculated t value of 1.008 which is smaller than the t table of 1.987 and a significance value of 0.316 which is greater than 0.05. Thus, the hypothesis that GCG has an effect on ERC is unacceptable. These results show that the GCG mechanism used in the study has not been able to have a significant influence on the market response to the company's profit information. Previous research in Indonesia such as Akbar and Achyani (2020), Abrar (2015), and Sujarwati, Khoirunisa, and Firmansyah (2022) also specifically examined GCG and corporate

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governance in relation to ERC, so that the research can be used as a comparison in explaining the results of this research. However, the results of research on the influence of GCG on ERC still show variations, so differences in GCG proxies, company characteristics, research period, and company sector can be one of the reasons for the difference in results.

Overall, the results showed that of the three independent variables tested, only conservatism was proven to have a positive and significant effect on the Profit Response Coefficient. Meanwhile, profit persistence and Good Corporate Governance did not show a significant influence on ERC. The results show that the market response to profit information in the research sample is more related to the quality of accounting information reflected through conservatism than to the persistence of profit and GCG mechanisms.

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