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Identification the Factors that Influence Profit Persistence

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Abstract
Profit quality is able to predict earnings in the future. Earnings persistence is an important topic of discussion because the information generated can be used by investors in determining earnings quality and firm value, thereby facilitating decision making. This study aims to determine the factors that influence profit persistence from the point of view of Audit Fee, Managerial Ownership and Institutional Ownership. The population of this study is all LQ45 companies registered at Indonesia Stock Exchange Period 2016-2022. Researchers used purposive sampling in the sampling technique so that 7 LQ45 companies were obtained with a total data of 49 data. The data used is secondary data. The analysis techniques in this study are descriptive analysis techniques, verification analysis with the classical assumption test, multiple linear analysis, analysis of the coefficient of determination, and hypothesis testing. The analytical tool in this study uses SPSS. The results of the study show that partially Audit Fee and Institutional Ownership has no effect on Profit Persistence, while Managerial Ownership has an effect on Profit Persistence. Simultaneously Audit Fees, Managerial Ownership and Institutional Ownership have no effect on Profit Persistence.

Keywords: Profit Persistence, Audit Fee, Managerial Ownership, Institutional Ownership

INTRODUCTION

Since the financial crisis of 1997, financial stability has become a significant issue for monetary and financial regulators. Southeast Asia, including Indonesia in deep crisis. Recovering from thisdesperate situation will depend on whether the nation can achieve the necessary political stability for implementing a difficult and complex agenda of economic reforms, and whether it will receive the necessary financial support form the international community (World Bank, 1998). The value of the currency fell, large companies went bankrupt, and financial statement fraud occurred everywhere. This mean that the amount of experience the auditor has doesn’t affectability of the external auditor to detect fraud (Ginanjar, et al., 2023). One of them is based on Indonesia's agreement with International Monetary Fund (IMF) in overcoming crisis problems. In December 1998, BI disbursed Rp 147.7 trillion of BLBI funds to 48 banks. The results of the BPK audit concluded that there had been indications of irregularities amounting to Rp 138 trillion (Safitri, 2020).

Financial statements are very important for companies because financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions (FASB, 2008). The financial performance of a company, reflects the company is financial condition and can be analyzed using financial analysis tools to show how good or bad the company’s financial condition is. To ensure that the company operates effectively and efficiently and achieves its goals, reviewing financial performance is one of the most appropriate steps that management can take to uphold the rights of its shareholders (Ginanjar & Setiawan, Corporate Governence Literature Review There is A Financial Perfomance Perspective, 2023). Pernyataan Standar Akuntansi Keuangan (PSAK) No.1 explain that financial statements have the purpose of providing information regarding the financial position, performance, and changes in the financial position of a company that is useful for a large number of users in decision making. Policies and decisions taken in the framework of the process of preparing financial statements, especially income statements, will determine the quality of profits.

Very broadly, we can think of the conventional base for profit as being equal to sales, less the cost to inputs including labour costs, and less the interest costs of serving debt. The costs of some inputs are typically 'capitalized', meaning that they are deducted over several periods-for example, investment in fixed assets is typically depreciated over several years (P. Devereux, et al., 2021). Profits generated each year are expected to remain persistent or even increase and the results of profits generated are consistent so that information can be understood and reliable.

Profit persistence is the company's ability to generate profits for the current year consistently and be able to produce quality profits. Information regarding profit persistence can help investors in assessing the quality of profits and the value of the company (Sinn, 2012). Related to the effect of profit persistence for users of financial statements, it is also very important to analyze the factors that can affect the persistence of company profits. Some factors that are thought to affect profit persistence include the effect of *audit fees,* managerial ownership and institutional ownership.

For the last few decades, audit quality has been the focus of research particularly after the Enron and WorldCom scandals (Almomani & Ayed, 2017). Audit fees are an indication of how well the audit quality is produced (Ghafran & O'Sullivan, 2017). Increased audit fees have an effect on increasing audit quality (Jadiyappa, N.; Hickman, L. E.; Kakani, R. K.; Abidi, Q., 2021). The results show that audit fees and auditor industry specialization have a positive effect on discretionary accruals, which means they reduce audit quality (Faisal, 2023). With high *audit fees*, it will increase the accuracy of auditors in the process of checking financial statements and can expand audit procedures used in the process of examining financial statements. The increase in auditor activities will have a positive impact on company management, it can motivate company management to minimize fraudulent practices within the company which will later have an impact on improving profit quality and portraying persistent profits in the company (Mahendra & Suardikha, 2020).

The second factor in this study that is thought to affect profit persistence is managerial ownership. Managerial ownership is a state where managers own shares of the company, or in other words managers not only act as managers of the company but also as shareholders of the company. The increasing proportion of share ownership will affect the company's performance which is reflected in the increasing profit persistence (Ratih Adiani Giri & Ari Surya Darmawan, 2022).

Another factor in the study that is thought to affect profit persistence is institutional ownership. Institutional ownership is the shareholders of a company by governments, financial institutions, incorporated institutions, and other institutions. The greater the institutional ownership, the greater the institutional power and related institutions to supervise the company's management in all activities carried out. The existence of institutional investors is considered capable of monitoring a company to get the effectiveness of every decision decided by managers or management. So, this will result in an impetus to optimize financial performance including profit persistence (Surya Abbas & Agria Praditha).

RESEARCH METHOD

Data collection techniques are the most strategic step in research because the main purpose of research is to obtain data (Sugiyono, 2014). Without knowing the data collection technique, the researcher will not get data that meets the data standards set. This research will later use purposive sampling in its sampling so that 7 LQ45 companies will be obtained with a total of 49 data. Purposive sampling is a technique of taking data by selecting a predetermined sample (Sugiyono, 2014).

The data used is secondary data. Secondary data is primary data that has been processed in detail and applied well by primary data collectors which are usually formed in tables or diagrams of (Umar, 2013). Analytical techniques in this study are descriptive analysis techniques, verificative analysis with classical assumption tests, multiple linear analysis, determination coefficient analysis, and hypothesis tests. Technical descriptive analysis is a statistic that can be needed to describe data by describing or describing the data that has been incorporated as it is without making the final results generally accepted (Sugiyono, 2014). Verification Analysis with classical assumption tests is carried out to get more precise results in multiple regression analysis, then classical assumption testing is carried out so that the results obtained are regression equations that have the properties of the Best Linear Unbiased Estimator (BLUE) while the meaning of verification or quantitative analysis in quantitative research data analysis uses statistics.

The statistics used can be both descriptive and inferential. The data from the analysis was then presented and given a discussion then gave birth to a table, frequency distribution table, line graph, bar graph, pie graph, and pictogram (Sugiyono, 2014). The quantitative or verification analysis steps will be used in this study are multiple linear analysis techniques and determination coefficient techniques. The multiple linear analysis technique is an association analysis that is used simultaneously to examine the effect of two or more independent variables on one variable depending on the interval scale (Narimawati, 2010) while for the analysis of the coefficient of determination The magnitude of the influence of Production Cost (X1), Working Capital (X2) and Total Debt (X3) on Net Profit (Y), can be known using the analysis of the coefficient of determination or abbreviated as Kd obtained by squaring the correlation coefficient is: Kd = R2 x 100% (Narimawati, 2010). Hypothesis is a temporary answer to the formulation of the research problem, where the formulation of the research problem has been stated in the form of a sentence question (Sugiyono, 2014).

RESULTS AND DISCUSSIONS

The object of this study is an LQ45 company listed on the Indonesia Stock Exchange (IDX) for the 2016-2022 period. The LQ45 Index is an index that contains 45 stocks that have gone through a selection process with high liquidity as well as several other criteria such as liquidity, as well as good company growth prospects and has a high market capitalization and trading frequency (Bions, n.d.).

Descriptive Analysis

Table. 1 Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
AUDIT_FEE	35	39412	130162852	7393803.23	24718342.308
MANAGERIAL_OWNERSHIP	35	.0000002	.0020062	.000441000	.0006717520
INSTITUSIONAL_OWNERSHIP	35	.4891529	.9717632	.637580897	.1313542873
PROFIT_PERSISTENCE	35	.0011367	.1066627	.016156705	.0236144462
Valid N (listwise)	35				

Source: SPSS 25 output, data processed by researchers 2023

Classical Assumption Test

Normality Test

The normality test is a test that aims to test whether in a regression model the independent variable and the dependent variable or both have a normal distribution or not (Ghozali, 2018). The normality test in this study was carried out with the *Kolmogorov-Smirnov test* (K-S), normal graph and *P-Plot* histogram graph test.

Table. 2 Normality Test

One-Sample Kolmogorov-Smirnov Test		
N		35
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.04228501
Most Extreme Differences	Absolute	.098
	Positive	.098
	Negative	-.057
Test Statistic		.098
Asymp. Sig. (2-tailed)		.200[c,d]

Source: SPSS 25 output, data processed by researchers 2023

The value of *Asymp. Sig.* (2-tailed) is 0.200. From these results it can be seen that the significance value with the *Kolmogorov Smirnov Test* for all variables is more than 0.05, so it can be concluded that the data are normally distributed.

Multicollinearity Test

The multicolonicity test aims to test whether the regression model found a correlation between independent variables. A good regression model should'nt have correlation among independent variables (Ghozali, 2018). If independent variables correlate with each other, then these variables are not *orthogonal.*

Table 3. Multicollinearity Test Results

	Collinearity Statistics	
Model	Tolerance	VIF
AUDIT_FEE	.952	1.050
MANAGERIAL_ OWNERSHIP	.921	1.085
INSTITUSIONAL_ OWNERSHIP	.882	1.134

Source: SPSS 25 output, data processed by researchers 2023

Based in the table, it shows that the Tolerance value of the Audit Fee variable is 0.952, the Tolerance value of the Managerial Ownership variable is 0.921, and the Tolerance value of the Institutional Ownership variable is 0.882, each independent variable has a Tolerance value of > 0.10. Meanwhile, the VIF value of the Audit Fee variable is 1.050, the VIF value of Managerial Ownership is 1.085, and the VIF value of the Institutional Ownership variable is 1.134, each independent variable has a VIF value of < 10. So, it can be concluded that the regression model in this study did not occur multicollinearity.

Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors in period t with errors in period t-1 (previous). Autocorrelation arises because successive observations over time are related to each other.

Table 4. Multicollinearity Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.560[a]	.313	.215	.79877	2.031

Source: SPSS 25 output, data processed by researchers 2023

Based on the results of the analysis in table, it shows that the value of d (Durbin Watson) is 2.031. To find out the value of du and the value of dl can be seen in the Durbin Watson table. The number of samples N = 35 and the number of independent variables K = 3, then the values dl = 1.2833 and du = 1.6528. Based on the basic table of DW decisions, the equation in accordance with this study is du < d < 4-du where 1.6528 < 2.031 < 4-1.6528 so that 1.6528 < 2.031 < 2.3472. So, it can be concluded that the basis of the decision is not rejected, meaning that there is no positive and negative autocorrelation.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another, If the variance from the residual of one observation to another observation is fixed, then it is called homoscedasticity and if different it is called heteroscedasticity (Ghozali, 2018).

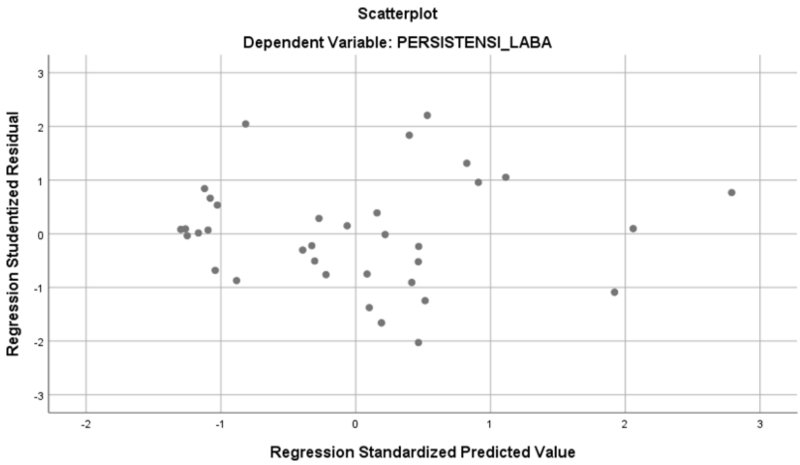

Figure 1. Heteroscedasticity Test Results
Source: SPSS version 25 output, self-processed data (2022)

The *scatterplot graph* shows points spread randomly and scattered both above and below the number 0 on the Y axis, so it can be concluded that there is no heteroscedasticity in the regression model, so the regression model is feasible to be used to predict the dependent variable based on the input of independent variables namely *audit fees*, managerial ownership and institutional ownership.

Multiple Linear Regression Analysis

Multiple linear regression is used for research that has more than one independent variable, multiple linear regression analysis is used to determine the direction and how much influence the independent variable has on the dependent variable (Ghozali, 2018).

Table 5. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-8.593	1.634		-5.260	.000
	AUDIT_FEE	.086	.096	.147	.891	.380
	MANAGERIAL_OWNERSHIP	-.249	.095	-.438	-2.612	.014
	INSTITUSIONAL_OWNERSHIP	-.691	1.113	-.106	-.621	.539

Source: SPSS 25 output, data processed by researchers 2023

The results above can be seen that the regression equation formed is:
$Y = \alpha + \beta1 . X1 + \beta2 . X2 + \beta3 . X3 + \varepsilon$
$Y = -8{,}593 + 0{,}086\ X1 - 0{,}249\ X2 - 0{,}691\ X3 + \varepsilon$

From the above equation, it can be concluded that:
1. The constant value in the regression model of 8.593 is negative, meaning that if audit fees, managerial ownership and institutional ownership have a value of (0) then the persistence of profit is 8.593.
2. The regression coefficient of audit fee of 0.086 is positive, meaning that every increase in one unit of audit fee will increase profit persistence by 0.086. Vice versa, that every decrease in one unit of audit fee will decrease profit persistence by 0.086, assuming other variables are considered constant.
3. The regression coefficient of managerial ownership of 0.249 is negative, meaning that every increase in one unit of managerial ownership will decrease the persistence of profit by 0.249. Vice versa, that every decrease in one unit of managerial ownership will increase the persistence of profit by 0.249, assuming the other variables are considered constant.
4. The regression coefficient of institutional ownership of 0.691 is negative, meaning that every increase in one unit of institutional ownership will decrease the persistence of profit by 0.691. Conversely, each decrease in one unit of institutional ownership will increase the persistence of profit by 0.249, assuming the other variables are considered constant.
5. E *(epsilion)* is a disruptive error that occurs in the forecast or forecast of profit persistence (Y) caused by factors other than audit fees, managerial ownership and institutional ownership that affect profit persistence but cannot be taken into account.

Coefficient of Determination Analysis

The coefficient of determination (R^2) is used to measure the magnitude of the model's ability to explain the variation of the dependent variable (Profit Persistence) caused by independent variables, namely *Audit Fee*, Managerial Ownership and Institutional Ownership.

Table 6. Coefficient of Determination Analysis

Model	Correlations		
	Zero-order	Partial	Part
AUDIT_FEE	.139	.158	.143
MANAGERIAL_OWNERSHIP	-.398	-.425	-.421
INSTITUTIONAL_OWNERSHIP	-.016	-.111	-.100

Source: Output SPSS 25, data processed by researchers 2023

1. To determine the magnitude of the effect of *audit fees* on profit persistence, the Kd formula is used as follows:
   Kd = $r^2 \times 100\%$
   = $0{,}139^2 \times 100\%$
   = 1,93%

   Based on the calculation above, it can be seen that the contribution or effect of *audit fees* on profit persistence is 1.93% and the remaining 98.07% (100-1.93) is determined by other variables that are not explained in the study.
2. To determine the magnitude of the influence of managerial ownership on profit persistence, the formula Kd is used as follows:
   Kd = $r^2 \times 100\%$
   = $-0{,}398^2 \times 100\%$
   = 15,8%

   Based on the calculation above, it can be seen that the contribution or influence of managerial ownership on profit persistence of 15.8% and the remaining 84.2% (100-15.8) is determined by other variables that are not explained in the study.
3. To determine the magnitude of the influence of institutional ownership on profit persistence, the Kd formula is used as follows:
   Kd = $r^2 \times 100\%$
   = $-0{,}016^2 \times 100\%$
   = 0,03%

   Based on the calculation above, it can be seen that the contribution or influence of institutional ownership on profit persistence is 0.03% and the remaining 99.97% (100-0.03) is determined by other variables that are not explained in the study.

Hypothesis

This test basically shows how far one independent variable has an individual influence in explaining the variation of the dependent variable, namely to see whether the variables *audit fee*, managerial ownership and institutional ownership have their own effect on profit persistence.

Table 7. Partial Test (t test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8.593	1.634		-5.260	.000
	AUDIT_FEE	.086	.096	.147	.891	.380
	MANAGERIAL_OWNERSHIP	-.249	.095	-.438	-2.612	.014
	INSTITUTIONAL_OWNERSHIP	-.691	1.113	-.106	-.621	.539

Source: SPSS 25 output, data processed by researchers 2023

CONCLUSION

Based on the results of research and discussion on the effect of *audit fees*, managerial ownership and institutional ownership on profit persistence in LQ45 companies listed on the Indonesia Stock Exchange for the 2016-2022 period, the following conclusions can be drawn:

1. *Audit fees* have no effect on profit persistence. This shows that the size of the *audit fee* cannot determine the persistence of profits.
2. Managerial ownership affects the persistence of profits. This shows that the size of the share ownership owned by the manager or management can determine the persistence of profits.
3. Institutional ownership affects profit persistence. This shows that the size of the number of shares owned by the institution cannot determine the persistence of profits.
4. *Audit fees*, managerial ownership and institutional ownership have no effect on profit persistence. This shows that the existence of *audit fees*, managerial ownership and institutional ownership cannot determine the persistence of profits in the company.

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