FACTORS AFFECTING EARNINGS GROWTH IN MANUFACTURING COMPANIES LISTED IN IDX

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Abstract— Earnings growth is a change of net income that increases compared to the net profit of the previous period. The purpose of this research is to obtain empirical evidence about the effect of the current ratio, debt to equity ratio, total asset turnover, and managerial ownership on earnings growth. The dependent variable of this research is earnings growth. The independent variable of this research is the current ratio, debt to equity ratio, total asset turnover, and managerial ownership. The data used in this research is secondary data. The samples are selected using purposive sampling. The samples of this study are public manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2019 period, that has issued audited financial statements at the end of December 31st, using Rupiah as the financial report currency, showing earnings growth, owning and presenting the information of managerial ownership. The research method used in this research is the multiple regression linear method. The results of this study are (1) current ratio has a significant negative effect on earnings growth, (2) debt to equity ratio has a significant negative effect on earnings growth, (3) total asset turnover has no effect on earnings growth, and (4) managerial ownership has no effect on earnings growth. Implication of this study is that companies need to maintain low debt ratio in order to focus in expanding business and growing earnings.

Keywords: Current Ratio (CR); Debt To Equity Ratio (DER); Managerial Ownership (MO); Earnings Growth (EG); Total Asset Turnover (TATO)

1. INTRODUCTION

1.1 Background

Manufacturing companies are industrial companies that purchase and process raw materials and convert them into various finished goods (Datar & Rajan, 2018). According to the Indonesia Stock Exchange (IDX), manufacturing companies are divided into several sectors, namely, the basic and chemical industry sector, the various industrial sector, and the consumer goods industry sector. The following is the data on the number of manufacturing companies for 2017-2020:

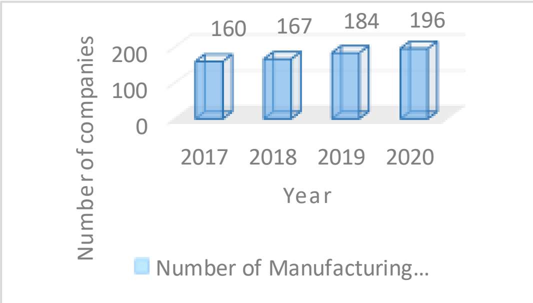

Figure 1. Number of Manufacturing Companies in 2017-2020
Source: IDX Statistics

Figure 1 shows the number of manufacturing companies that has been increasing from 2017-2020. Based on IDX Statistics, there were 11 companies listed on the IDX, 1 company entered the manufacturing sector, and 5 companies delisted on the IDX in 2018. Thus, the number of manufacturing companies in 2018 has increased to 167 manufacturing companies. In 2019, the number of manufacturing companies increased to 184 manufacturing companies, this happened as a result of 17 manufacturing companies listing on the IDX, 1 company moving to the manufacturing sector, and 1 company leaving the manufacturing sector. Then in 2020, there were 13 manufacturing companies listed on the IDX, 1 company moved to the manufacturing sector, and 2 companies left the manufacturing sector. Therefore, the total number of manufacturing companies for 2020 has increased to 196 companies.

The more the number of manufacturing companies, the tougher the competition among business people. Hence, companies need to develop the right strategy to survive, grow and develop their business. They are not only expected to be able to meet the demand for the domestic market but also the foreign markets. The more manufactured product sold to consumers will have an impact on the increased income for the company. Besides, it will show that the company has a good competitive value in the domestic market as well as in foreign markets.

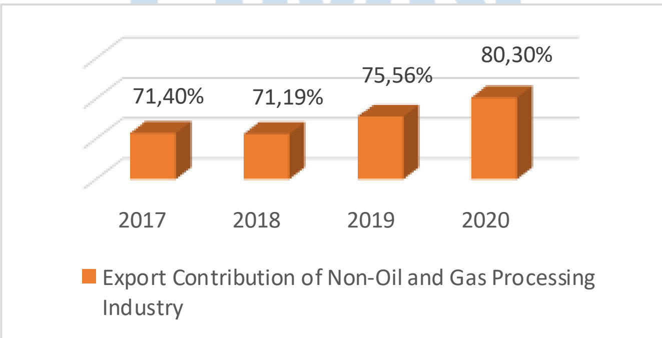

Figure 2 Export Contribution of Non-Oil and Gas Processing Industry 2017-2019
Source: www.kemenperin.go.id

Exports are goods and services produced in one country and sold to buyers in other countries (Hodijah & Angelina, 2021). According to Sayoga & Tan (2017) in Rahmawati, *et al.* (2020), exports play an important role in national development since the currency obtained from exports will increase a country's foreign exchange reserves that can be used to pay for imports, international trade transactions, and foreign debts.

Figure 1.2 shows the export contribution of the non-oil and gas processing industry to the total national exports in 2017-2020. The export value of the non-oil and gas processing industry fluctuated from 2017 to 2020, amounting to USD125.10, USD 130.09, USD 126.57, and USD 131.13. The increase in exports that occurred in 2018 was driven by several sectors that had double-digit export values, such as the food and beverage industry, basic metal industry, chemical industry, and textile industry (www.kemenperin.go.id). The decline in exports in 2019 was due to declining commodity prices and the trade war between the United States and China which reduced the volume of export trade (www.ekonomi.bisnis.com). Exports increased again in 2020, due to an increase in exports of the food industry sector to USD 31.09 billion from the previous USD 27.23 billion, as well as the export value of the base metal industry which also contributed the largest value to USD 24.25 billion. Although the value of manufacturing exports fluctuates, exports of the manufacturing industry contribute greatly to total national exports with a contribution value in 2018-2020 of 71.19%, 75.56%, and 80.30% (www.kemenperin.go.id).

The ever-increasing contribution of the exports of non-oil and gas processing industrial goods to the total national exports shows the good performance of the manufacturing industry as it can produce the products to the needs of the export demand. The increasing contribution of exports also shows that more products are sold by the manufacturing industry abroad. The higher the volume of the export demand can also increase the company's income that affecting the profit earned (Ekasari & Baskara, 2018). The higher the export activity of a country, the more investors will get attracted. Therefore, the investment climate will be better (www.bcmeulaboh.beacukai.go.id). Various efforts have been made by the government, one of them is by encouraging an increase in Domestic Investment (PMDN) and Foreign Investment (PMA).

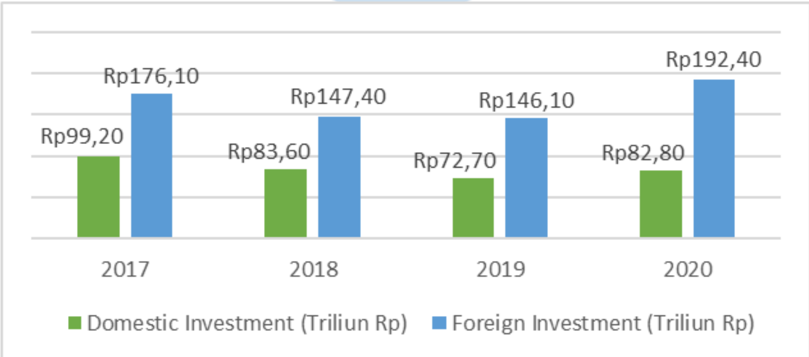

Figure 3. Realization of Investment in Manufacturing Sector in 2017-2020
Source: www.berkas.dpr.go.id

According to Law Number 25, Year 2007 (*Undang-Undang Nomor 25, Tahun 2007*) investment is all forms of investment activities, both by domestic investors and foreign investors to conduct business in the territory of the Republic of Indonesia. Domestic Investment (PMDN) is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by domestic investors using domestic capital. Foreign Investment (PMA) is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by foreign investors by using fully foreign capital or joint ventures with domestic investors.

The manufacturing sector is still attracting investors to invest their capital. In 2018-2019, the value of PMDN experienced a year-on-year decline, which was caused by fluctuations in the rupiah exchange rate and the trade war between the United States and China which resulted in a slowdown in the pace of investment and export growth. The number of PMDN investment projects increased in 2017-2020 consecutively from 4,513 projects, 5,080 projects, 7,709 projects, and 18,300 projects (www.bps.go.id). Labor absorption from PMDN in 2017-2020 was 408,971 people, 499,304 people, 520,171 people, and 611,335 people (www.berkas.dpr.go.id). During the economic pressure due to the Covid-19 pandemic, the realization of PMDN in 2020 showed an increase caused by the efforts of the Indonesia Investment Coordinating Board (BKPM) in completing abandoned investment projects in Indonesia totaling IDR 517.6 trillion (www.katadata.co.id). In addition, the increase in PMDN occurred due to government policies and programs in providing ease of doing business, providing loan facilities, and tax incentives (www.bps.go.id).

Foreign Investment realization in 2018-2019 declined due to the trade war between the United States and China, the lack of skilled workers, and the overlapping of foreign investment licensing regulations (www.finance.detik.com). The application of the Online Single Submission (OSS) was an obstacle in attracting foreign investment. The system development was not yet optimal, making it difficult for investors to invest (www.liputan6.com). The increase in Foreign Investment in 2020 was due to the discovery of a Covid-19 vaccine that gave investors confidence to invest in Indonesia and legal support through Undang-Undang Cipta Kerja which had a positive impact on Foreign Investment (www.money.kompas.com). Investors need to understand the company's performance before deciding to invest. Investors must assess whether the company to be invested in is a profitable company or not. Investors can understand information about company performance such as profit through financial statements. According to Avivah & Ardini (2018) profit is an increase in wealth or profits obtained by a company in a period.

The company certainly expects high sales to generate profits. Profits that increase every year indicate the company is in good condition. However, not all manufacturing companies can generate increased profits every year. Based on the financial statements of manufacturing companies, there were 60 out of 160 companies able to record profits in 2017, 66 out of 167 companies in 2018, and 55 out of 184 companies in 2019. It was recorded that only 28 companies were able to generate successive profit growth in 2018-2019 and 38 companies experienced consecutive profit declines in 2018-2019. There were only 18 Manufacturing companies that managed to record profit growth during 2017-2019, the rest were dominated by manufacturing companies that recorded declining profits and suffered losses. This underlies the writer to find out what factors can affect the earnings growth in manufacturing companies. The internal and external parties need to know the earnings growth information to make a decision. According to Kieso, *et al.* (2019) external parties include investors and creditors.

PT Wijaya Karya Beton Tbk. (WTON) posted a net profit of Rp486.35 billion in 2018, increasing from the previous year Rp337.12 billion. The increase in profit came from the company's revenue which reached Rp6.93 trillion in 2018, increasing from the previous year Rp5.36 trillion. With a significant increase in profit, investors appreciated the company's financial performance as reflected in the increase in WTON's share price as of February 27, 2019, which rose 18.03 percent to Rp. 550 per share after WTON announced its 2018 performance achievement. WTON distributed Rp. 145.92 billion in cash dividends or Rp. 17. 5 per share in the 2018 financial year, an increase from the previous year which was Rp. 12.13 billion or Rp. 12.13 per share (www.market.bisnis.com). Investors expect high-profit growth because the return opportunities obtained by investors will also be higher. The increase in the WTON stock price shows a positive appreciation from investors towards the financial performance of the company which has succeeded in obtaining increased profits. With earnings growth, the company has great potential to distribute higher dividends than the previous year.

The company's profit information is also needed by creditors. PT Sri Rejeki Isman Tbk. (SRIL), a textile and garment company, experienced a decline in financial performance. In 2020, SRIL experienced a decrease in net profit of US$ 85.32 million, a decrease from the previous year which was US$ 87.65 million. The decline in net profit occurred amid an increase in the company's revenue of US $ 1.28 billion in 2020, an increase from the previous year of US $ 1.18 billion. The decrease in profit was due to an increase in the cost of goods sold to US$ 1.05 billion and selling expenses also increased to US$ 19.93 million (www.cnbcindonesia.com). During a decline in financial performance, SRIL was sued in court on April 19, 2021, for the Suspension of Debt Payment Obligations (PKPU). The lawsuit was filed by CV Prima Karya and PT Bank QNB with a lawsuit amounting to Rp. 5.5 billion and Rp. 100.9 billion, respectively (www.market.bisnis.com). Based on the lawsuit, SRIL has filed a debt restructuring with an extension of up to 15 years and proposes to cancel all interest, fines, and other costs related to the debt (www.bisnisindonesia.id). The PKPU submitted by the creditor shows that the creditor doubts SRIL's ability to repay the loan along with the interest that is due. This shows that earnings growth information is very important to be known by creditors to determine whether or not to lend and see the debtor's ability to repay the loan.

According to Kieso, *et al.* (2019), internal parties are the company management who use earnings information to make decisions. PT Arwana Citramulia Tbk. (ARNA), a ceramics producer, posted sales in 2019 of Rp2.15 trillion, an increase from the previous year which was Rp1.97 trillion. ARNA also posted a net profit in 2019 of Rp217.67 billion, an increase from the previous year of Rp158.20 billion (www.idnfinancials.com). With increased profits, ARNA expanded its new factory in Mojokerto to increase its market share. The factory expansion fund came from the capital expenditure of Rp165 billion. ARNA also innovated several new factories by reducing the use of liquefied natural gas energy. It was done by installing heat recovery and purchasing digital printing machines. Throughout 2019, ARNA was able to save gas expenses of up to Rp. 14.30 billion (www.industri.kontan.co.id). The factory expansion carried out by ARNA shows that earnings growth information is important for the management in making decisions related to company operations.

Earnings growth shows the company has good financial performance and the ability to manage and use available resources to earn a profit (Rachmawati & Handayani (2014) in Panjaitan, 2018). According to Susyana & Nugraha (2021), earnings growth can be calculated by the net income for the current year, minus the net profit of the previous year, then divided by the net profit of the previous year.

According to Kieso, *et al.* (2019) current ratio is the ratio used to evaluate the company's liquidity and ability to pay the short-term debt. The higher the current ratio, the greater the current assets compared to current liabilities, which indicates that the company is more able to pay off the short-term debt with current assets. The higher the current ratio indicates the company has more working capital that can be used to purchase inventory. Hence, it can increase sales and generate profits. Companies can implement the just-in-time inventory method in the production activities where the raw material inventory is ordered according to the orders from the customers and the raw material delivery is adjusted to the time needed for the production process, to reduce inventory buildup and reduce storage costs.

Increased sales offset by cost efficiency will result in high profit. The higher profit than the previous year's profit indicates earnings growth.

According to Kieso, *et al*. (2019) debt to equity ratio is a ratio that describes the ratio of liabilities and capital used for company funding and shows the ability of its capital to meet all obligations. The lower the debt to equity ratio, the lower the total debt compared to the total equity, which indicates that the proportion of funding originating from debt is smaller than the company's capital. Small debt financing can reduce funding loans from creditors thereby reducing the company's burden to pay interest costs on loans. Companies can use the available capital to increase the purchase of raw materials which are then processed into finished goods so that sales will be higher and the profits generated will be greater. In addition, companies can make payments to suppliers before the due date to get a payment discount so that the purchase value of raw materials can be reduced. Reduced expenses can increase the profit generated by the company. The higher profit than the previous year's profit indicates earnings growth.

According to Kieso, *et al*. (2019) total asset turnover is a ratio used to measure how efficiently a company uses assets to generate sales. The higher the total asset turnover, the greater the net sales compared to the average total assets. This indicates the more effective use of assets in generating sales. Companies can switch production technology from manual to robotics by purchasing more sophisticated and modern production machines controlled by robots which can make the production process faster. Thus, more products are produced and the sales are increased. Modern production machines can reduce the defective production results and also the scrap or residual material resulting from the production process. The salary expense can also be reduced because all the company's production processes have been replaced by robotics. Companies can establish credit sales policies by providing discounts for consumers who can pay off their debts before the due date. This will be an attraction for consumers to pay off their debts before the due date to reduce the company's bad debts. Increased sales offset by cost efficiency will result in high profits. The higher profit than the previous year's profit indicates earnings growth.

Managerial ownership is the ownership of common stock owned by directors and commissioners. Managerial ownership makes management responsible for the business and avoids activities that potentially harm the company (Tarigan (2007) in Hanifah, *et al.*, 2020). The higher the managerial ownership, the higher the proportion of shares owned by the directors and commissioners compared to the number of shares outstanding. With the commissioners and directors as shareholders, it will further optimize the company's performance and can generate profits for shareholders. Commissioners and directors can implement a policy of substitution of imported raw materials in the production process to reduce the company's dependence on imports and reduce the cost of purchasing raw materials. In addition, the company can lease unused fixed assets so that it can generate non-operating income for the company. Increased sales offset by cost efficiency will result in high profits. The higher profit than the previous year's profit indicates earnings growth.

This study is a replication of the research of AWS, *et al.* (2018). The difference with the previous research is that this research uses the research object of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019 and adds managerial ownership variables from the research of Martini & Siddi (2021). The researcher did not use the net profit margin variable from the AWS research, *et al.* (2018) because this ratio has described profitability which is directly related to the dependent variable in this study. The research problem is: does (1) current ratio, (2) total asset turnover, (3) managerial ownership have a positive effect on earnings growth? And (4) does debt to equity ratio have a negative effect on earnings growth?

1.2 Literature Review and Hypotheses

1.2.1 Signalling Theory

According to Brigham and Houston (2006) in Ifada & Puspitasari (2016) signal theory is an action taken by management by providing information to investors related to management's perspective on the company's prospects in the future. According to Morris (1987) in Mediawati & Afiyana (2018), signaling theory was developed to deal with the problem of information asymmetry by increasing the signaling of information from parties who have more information to stakeholders who have less information. If the profit reported by the company increases, the information can be categorized as a good signal because it indicates the company's condition is good (AWS, *et al.*, 2018).

1.2.2 Earning Growth

According to Susyana & Nugraha (2021) earnings growth is the percentage of the increased profit earned by the company. The ever-increasing earnings growth shows that the company has a good financial condition (Avivah & Ardini, 2018). Good financial performance will increase investor confidence to invest in the company (Nilamsari, *et al.*, 2021). Net income can be used as a measure of the company's performance during a certain period. Profit is generated when the income earned exceeds the expenses incurred. Revenue can be recognized when all of the following conditions are met (Institute of Indonesia Chartered Accountants, 2018), which consists of (1) the entity has transferred the significant risks and benefits of ownership of the goods to the buyer (2) the entity no longer continues to manage; associated with ownership of the goods or carry out an effective control over the goods sold (3) the amount of revenue can be measured reliably (40 the economic benefits associated with the transaction will probably flow to the entity (5) the costs incurred or to be incurred in correlation with the sale transaction can be measured reliably.

1.2.3 Current Ratio

According to Kieso, *et al.* (2019) current ratio is a widely used measure for evaluating a company's liquidity and short-term debt-paying ability. A high current ratio shows the company is able to pay off its short-term obligations so that the company can avoid the inability to pay obligations which can lead to an increase in the burden of loan penalties (Panjaitan, 2018). According to the Institute of Indonesia Chartered Accountants (*Ikatan Akuntan Indonesia, 2018*) assets are resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Assets are classified into current assets and non-current assets. Current assets are cash and other assets a company expects to convert into cash, sell, or consume either in one year or in the operating cycle, whichever is longer (Kieso, *et al.*, 2018). The company classifies assets as current assets if all of the following criteria are met (Institute of Indonesia Chartered Accountants, 2018), which consists of (1) the entity expects to realize the asset, or intends to sell or use it, in the normal operating cycle (2) the entity owns assets for trading purposes (3) the entity expects to realize the asset within 12 months after the reporting period (4) cash or cash equivalents (as stated in PSAK 2: Statement of Cash Flows) unless the asset is restricted in exchange or its use to settle a liability at least twelve months after the reporting period.

A current liability is a debt that a company expects to pay within one year or the operating cycle, whichever is longer (Kieso, *et al.*, 2019). The company classifies liability as a current liability if all of the following criteria are met (Institute of Indonesia Chartered Accountants, 2018):

1) The entity expects to settle the liability in its normal operating cycle.
2) The entity holds the liability for trading purposes.
3) The liability is due to be settled within 12 months after the reporting period.
4) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

According to Kieso, *et al.* (2019) the difference between the value of current assets and current liabilities is called working capital. Working capital is the capital used to finance the daily operations of the company, which consists of cash, accounts receivable, inventories, and securities. The available working capital can be used by the company to expand sales and increase production which will then increase the company's income and profits (Arifin, 2018). According to research by Petra, *et al.* (2020), Panjaitan (2018), Krisnandi, *et al.* (2019), and Yetty, *et al.* (2018) the current ratio has a positive and significant effect on earnings growth. In contrast to the research of Susyana & Nugraha (2021), the current ratio does not affect earnings growth.

Ha$_1$: Current ratio has a positive effect on earnings growth.

1.2.4 Debt to Equity Ratio

According to Kieso, *et al.* (2019) debt to equity ratio is a ratio that describes the ratio of liabilities and capital used for company funding and shows the ability of own capital to meet all obligations. A low debt to equity ratio indicates better company performance, lower debt can reduce loan costs to increase profit growth (Panjaitan, 2018). According to Kieso, *et al.* (2018) liabilities are present obligations of the company arising from past events, the settlement of which resulted in an outflow of company resources. Liabilities are divided into current liabilities and non-current liabilities. Current liabilities are obligations that must be paid by the company within one year or one company operating cycle. Non-current liabilities are obligations that are expected to be settled in more than one year. Equity is the remaining profit in the company's assets after deducting all liabilities. Equity is classified in the statement of financial position with the following categories (Kieso, *et al.*, 2018):

1) Share capital is capital that comes from the issuance of company shares with a par value.
2) Share premium which shows the excess par value paid by shareholders for the shares issued to them.
3) Retained earnings are the company's retained earnings that are not distributed to the owners of the entity.
4) Accumulated other comprehensive income is the total of all other comprehensive income.
5) Treasury shares are shares that are bought back by the company after being issued and sold to the market.
6) Non-controlling interest (minority interest) is the ownership interest of minority shareholders in subsidiaries that have been consolidated by the holding company.

According to research by Syahida & Agustin (2021), Puspasari, *et al.* (2017), and Lestari, *et al.* (2019) debt to equity ratio has a negative and significant effect on earnings growth. In contrast to Martini & Siddi's (2021) research, the debt to equity ratio does not affect earnings growth.

Ha$_2$: Debt to equity ratio has a negative effect on earnings growth.

1.2.5 Total Asset Turnover

According to Martini & Siddi (2021) total asset turnover is a ratio that measures the company's ability to create sales by using all assets owned by the company. The credit sales system allows customers to pay in installments for the products they buy with several credit terms provided by the seller. Credit sales terms among others are (1) terms n/30, the terms of payment with a due date of 30 days from the date of purchase (2) terms 2/10, n/30, the terms of payment with a maturity limit of 30 days from the date of the transaction, but if the buyer can pay off his debts in less than 10 days, he will get a discount of 2 percent (3) EOM (end of the month) terms, the terms of payment with a due date at the end of the current month (4) terms n/10, EOM, the terms of payment of payment made no later than 10 days after the end of the month (5)terms 2/10, EOM, the terms of payment with a maturity date at the end of the current month, but if the payment is made 10 days after the transaction date, you will get a discount of 2 percent.

According to Kieso, *et al.* (2018) there is a five-step process for revenue recognition:

1) Identify the contract with customers, with criteria (1) the parties have approved the contract (2) identification of the rights of the parties is established (3) payment terms are identified (4) the contract has commercial substance (5) it is probable that the consideration will be collected.
2) Identify the separate performance obligations in the contract. A performance obligation is a promise to provide a product or service to a customer.
3) Determine the transaction price. The transaction price is the amount of consideration that a company expects to receive from a customer in exchange for transferring goods and services. Companies must consider the following factors: (1) Variable consideration. Companies use either the expected value, which is a probability-weighted amount, ot the most likely amount in a range of possible amounts to estimate variable consideration. (2) Time value of money. Companies account for the time value of money if the contract involves a significant financing component (interest), the fair value is determined either by measuring the consideration received or by discounting the payment using an imputed interest rate. (3) Non-cash consideration. When companies receive consideration in the form of foods, services, or other non-cash consideration, companies generally recognize revenue on the basis of the fair values of what is received. (4) Consideration paid or payable to the customer. Consideration paid or payable may include discounts, volume rebates, coupons, free products, or services.
4) Allocate the transaction price to the separate performance obligations. Methods for estimating standalone selling price (Kieso, *et al.*, 2018): (1) Adjusted market assessment approach, evaluate the market in which it sells goods or services and estimate the price that customers in that market are willing to pay for those goods or services. (2) Expected cost plus a margin approach, forecast expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service. (3) Residual approach, if the standalone price of good or service is highly variable or uncertain, then a company may estimate the standalone selling price by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract.
5) Recognize revenue when each performance obligation is satisfied. Companies recognize revenue over a period of time if one of the following three criteria is met: (1) The customer receives and consumes the benefits as the seller performs. (2) The customer controls the asset as it is created or enhanced. (3)The company does not have an alternative use for the asset created or enhanced and either (a) the customer receives

benefits as the company performs and therefore the task would not need to be re-performed, or (b) the company has a right to payment and this right is enforceable.

Assets are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Current assets are cash and other assets a company expects to convert into cash, sell, or consume either in one year or in the operating cycle, whichever is longer. Non-current assets are those not meeting the definition of current assets. Company assets can be categorized into fixed assets if they have a physical form, assets are not intended for sale, have an economic useful life of more than one financial year, assets are used to support the company's normal activities, and these assets have a material value (Kieso, *et al.*, 2018). According to Ihsan & Muslih (2020), Endri, *et al.* (2020), Lestari, *et al.* (2019), Syahida & Agustin (2021) total asset turnover has a positive and significant effect on earnings growth. In contrast to Martini & Siddi's (2021) research, total asset turnover has no effect on earnings growth.

Ha_3 : Total asset turnover has a positive effect on earnings growth.

1.2.6 Managerial Ownership

According to Melinda (2008) in Hanifah, *et al.* (2020) managerial ownership is the proportion of ordinary shares owned by management consisting of directors and commissioners. According to Wahyuni & Prayogi (2019), managerial ownership has the following benefits:

1) Managerial ownership helps management to manage the company as desired by the owner of the company.
2) Managerial ownership helps managers make the right decisions to provide better profits for the owners of the company.

Based on the Regulation of the Financial Services Authority (POJK) No. 33/POJK.04/2014, the board of directors has the authority and is fully responsible to carry out management functions in accordance with appropriate policies and the objectives and goals outlined in the corporate articles of association and representing the company inside or outside the court. The Board of Directors is in charge of running and being responsible for the management of the Company. A Public Company must have at least 2 (two) members of the Board of Directors. According to the Law of the Republic of Indonesia Number 40 of 2007, those who can be appointed as members of the Board of Directors are individuals who are capable of carrying out legal actions, unless within 5 (five) years prior to their appointment have:

1) Declared bankrupt;
2) Become members of the board of directors and/or the board of commissioners who were convicted of causing a company to be declared bankrupt; or
3) Convicted of criminal offenses resulting in state financial loss and/or related to the financial sector.

Based on the Regulation of the Financial Services Authority (POJK) No. 33/POJK.04/2014, the board of commissioners is an organ of a company that is in charge of conducting a general and/or specific oversight and providing advice to the board of directors. The board of commissioners has the duty of supervision and is responsible for the supervision of management policies, general management, and providing advice to the board of directors. The board of commissioners is required to establish an audit committee to support its duties and responsibilities. The board of commissioners is also authorized to temporarily suspend members of the board of directors by stating the reasons. A public company must have at least 2 (two) members of the board of commissioners. If the board of commissioners consists of 2 (two) members, 1 (one) of them shall be an independent commissioner. If the board of commissioners consists of more than 2 (two) members of the board of commissioners, the number of independent commissioners must be at least 30% (thirty percent) of the total members of the board of commissioners. 1 (one) of the members of the board of commissioners shall be appointed as the chief commissioner or president commissioner. According to the Law of the Republic of Indonesia Number 40 of 2007, those who can be appointed as members of the board of commissioners are individuals who are capable of carrying out legal actions, unless within 5 (five) years prior to their appointment have:

1) Declared bankrupt;
2) Become members of the board of directors and/or the board of commissioners who were convicted of causing a company to be declared bankrupt; or
3) Convicted of criminal offenses resulting in state financial loss and/or related to the financial sector.

In the Financial Services Authority Regulation No. 33/POJK.04/2014, the Independent Commissioner must fulfill the following requirements:

1) Not a person who worked or had the authority and responsibility to plan, lead, control, or supervise the activities of the Company within the last 6 (six) months;
2) Does not directly or indirectly own shares at the Company;
3) Does not have an affiliation with the company, members of the board of commissioners, members of the board of directors, or the main shareholders of the company;
4) Does not have a business relationship, which is directly or indirectly associated with the business activities of the company.

According to research by Martini & Siddi (2021), Subiyanti & Zannati (2019), and Hanifah, *et al.* (2020) managerial ownership has a positive and significant effect on earnings growth. In contrast to research by Anggraeni & Ardini (2020), managerial ownership has no effect on earnings growth.

Ha4 : Managerial ownership has a positive effect on earnings growth.

1.3 Research Model

The research model can be formulated as follows:

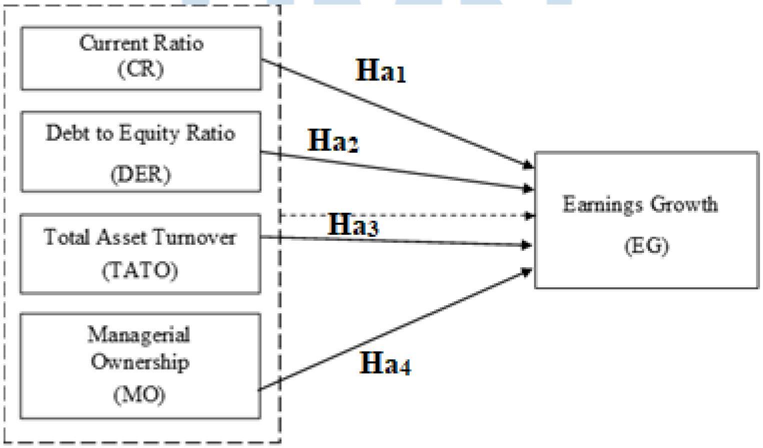

Figure 4. Research Model

2. RESEARCH METHODOLOGY

2.1 Research Objective

The objects in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2017-2019. The research method used in this research is causal study. A causal study is a type of research that is designed to elaborate on one or some problem (Sekaran & Bougie, 2016). This study was conducted to determine the effect of the current ratio, debt to equity ratio, total asset turnover, and managerial ownership on earnings growth.

2.2 Dependent Variable

Earnings growth is the change in profit that increases compared to the profit of the previous period. The formula for calculating earnings growth is (Susyana & Nugraha, 2021):

$$\mathrm{EG} = \frac{\text{Net income year (t)} - \text{Net income year (t} - 1)}{\text{Net income year (t} - 1)}$$

2.3 Independent Variables

1. **Current Ratio**

   Current ratio (CR) is a ratio that measures the company's short-term debt-paying ability using current assets. The formula for calculating the current ratio is (Kieso, *et al.*, 2019):

$$\mathrm{CR} = \frac{\text{Current asset}}{\text{Current liabilities}}$$

2. **Debt to Equity Ratio**

   Debt to equity ratio (DER) is the ratio between debt and equity owned by the company that is used as a source of funding. The formula for calculating debt to equity ratio is (Ross, *et al.*, 2016):

$$\mathrm{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

3. **Total Asset Turnover**

   Total asset turnover (TATO) is a ratio that measure the company's ability to use its asset to generate sales. The formula for calculating total asset turnover is (Kieso, *et al.*, 2019):

$$\mathrm{TATO} = \frac{\text{Net Sales}}{\text{Average Total Asset}}$$

$$\text{Average Total Asset} = \frac{\text{Beg. balance of total asset} + \text{End. balance of total asset}}{2}$$

4. **Managerial ownership**

   Managerial ownership (MO) is the proportion of shares owned by the company's management that consist of directors and commissioners. The formula for calculating managerial ownership is (Barokah & Putra, 2020):

$$\mathrm{MO} = \frac{\text{Number of shares owned by director and commissioner}}{\text{Number of outstanding shares}}$$

2.4 Data Collection Technique

The data used in this study is secondary data that is obtained from available sources (Sekaran & Bougie, 2016). The secondary data needed in this study is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. The company's financial report data was obtained through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id and the company's official website.

2.5 Sampling Techniques

The sampling technique was purposive sampling method in accordance with predetermined criteria.

2.6 Data Analysis Technique

The data analysis method used in this research is multiple linear regression analysis using SPSS data processing software. The tests carried out in this study include descriptive statistics, normality tests, classical assumption tests (including multicollinearity test, autocorrelation test, heteroscedasticity test), and hypothesis testing (including correlation coefficient, coefficient of determination, F statistic test, t statistic test).

3. RESULTS AND DISCUSSION

3.1 The Research Object

Table 1.Result of the Sample Selection Process

No	Criteria	Total
1.	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) in a row during the 2017-2019 period.	154
2.	Manufacturing companies that successively publish annual financial reports as of December 31 on the Indonesia Stock Exchange (IDX) during the 2017-2019 period.	147
3.	Manufacturing companies that report consecutively audited financial statements during the 2017-2019 period.	147
4.	Manufacturing companies that use Rupiah as the financial report currency consecutively during the 2017-2019 period.	120
5.	Manufacturing companies that have positive net income and experience successive profit growth during the 2017-2019 period.	18
6.	Manufacturing companies that have managerial ownership and present managerial ownership information during the 2017-2019 period.	13
Number of the companies used as samples		13

3.2 Descriptive Statistics

Descriptive statistics provide an overview or description of data seen from the average value (mean), standard deviation, maximum, minimum, and range (Ghozali, 2018). The following are the results of descriptive statistical tests in this study:

Table 2. The Results of Descriptive Statistics

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
CR	39	3.6257	1.0320	4.6577	2.547091	1.0827475
DER	39	1.7601	.1864	1.9466	.677567	.4467029
TATO	39	1.8161	.7371	2.5532	1.315015	.3559947
KM	39	.3731	.0001	.3732	.105335	.1233352
PL	39	1.3975	.0049	1.4023	.323163	.3343477
Valid N (listwise)	39					

Based on table 2, the number of observations (N) in this study is 39. In the profit growth variable, the mean value obtained is 0.323163 which indicates that the net profit of the companies used as the research sample is able to grow on average by 32.3163% per year. year compared to the net income in the previous period. The mean value of the current ratio variable is 2.547091, which shows that the average company that is used as a sample in the study has a current asset of 2.547091 times the current liabilities of the company. The mean value of the debt to equity ratio variable is 0.677567, indicating that the average ratio between liabilities and equity is 0.677567: 1. The mean value of the total asset turnover variable is 1.315015, indicating that every 1 rupiah of assets can generate sales. net of 1.315015 rupiah. The mean value of the managerial ownership variable is 0.105335, which indicates that the average company that is used as the research sample has managerial ownership of 10.53% compared to outstanding shares.

3.3 Normality Test

The following are the results of the data normality test using the Kolmogorov-Smirnov test with the exact Monte Carlo test:

Table 1. The Result of Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			39
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.28968081
Most Extreme Differences	Absolute		.142
	Positive		.142
	Negative		-.091
Test Statistic			.142
Asymp. Sig. (2-tailed)			.047[c]
Monte Carlo Sig. (2-tailed)	Sig.		.389[d]
	95% Confidence Interval	Lower Bound	.379
		Upper Bound	.398

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. Based on 10000 sampled tables with starting seed 2000000.

Table 3.3 shows the results of the Kolmogorov-Smirnov test have a significance value of Monte Carlo Sig. (2-tailed) is 0.389. So it can be concluded that the data has been normally distributed because the significance value of the test results is greater than 0.05.

3.4 Classic Assumption Test

3.4.1 Multicollinearity Test

The following are the results of the multicollinearity test:

Table 2. The Result of Multicollinearity Test

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	CR	0,469	2,130
	DER	0,459	2,179
	TATO	0,810	1,234
	KM	0,875	1,143
a. Dependent Variable: PL			

Based on table 4, the tolerance value for each independent variable is more than 0.10 and the VIF value for each variable is less than 10. So it can be concluded that in the regression model there is no multicollinearity.

3.4.2 Autocorrelation Test

The following are the results of the autocorrelation test by using Durbin-Watson:

Table 3. The Result of Durbin-Watson Test

Model Summary[b]	
Model	Durbin-Watson
1	1,822
a. Predictors: (Constant), KM, DER, TATO, CR	
b. Dependent Variable: PL	

The Durbin-Watson value is 1.822. In this study, there were 39 observations with 4 independent variables. So it is known that the value of dL = 1.2734 and the value of dU = 1.7215 were obtained from the Durbin-Watson table with 0.05 level of significance. The value of d = 1.822 indicates that du < d < 4-du, where the value of d is above the value of du which is 1.7215 and is below the value of 4-du which is 2.2785. So it can be concluded that there is no positive or negative autocorrelation in this study.

3.4.3 Heteroscedasticity Test

The following are the results of the heteroscedasticity test:

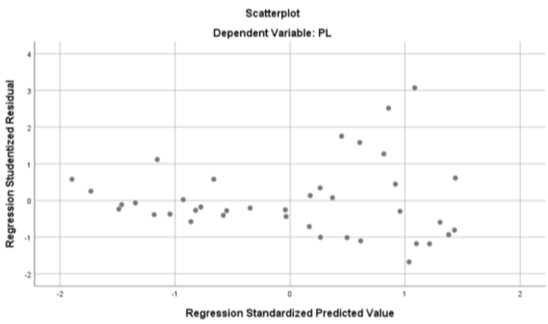

Figure 5. Scatterplot Graph

Based on the chart above, it can be seen that the dots spread randomly either above or below the number 0 on the Y-axis and do not form a certain regular pattern such as wavy, widening, and then narrowing. So it can be said that the regression model does not occur heteroscedasticity.

3.5 Hypothesis Testing

3.5.1 Correlation Coefficient Test (R)

The following are the results of the correlation coefficient test:

Table 4. The Result of Correlation Coefficient Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.499[a]	.249	.161	.3062472

a. Predictors: (Constant), KM, DER, TATO, CR

b. Dependent Variable: PL

The value of the correlation coefficient (R) in this study was 0.499 or 49.9%. According to (Sugiyono, 2017) the value of the correlation coefficient which is in the interval 0.4 - 0.59 has a moderate correlation. Thus, it can be concluded that the relationship between the independent variable and the dependent variable in this study has a moderate correlation.

3.5.2 Coefficient of Determination Test (R^2)

Based on table 3.6, the value of Adjusted R Square is 0.161 or 16.1%. This shows that the ability of the regression model with independent variables, which are the current ratio, debt to equity ratio, total asset turnover, and managerial ownership in explaining the dependent variable, which is earnings growth, is 16.1%. While the remaining 83.9% is explained by other variables not tested in this study.

3.5.3 Simultaneous Significance Test (F Statistical Test)

The following are the results of the F statistical test:

Table 7. The Result of F Statistical Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.059	4	.265	2.823	.040[b]
	Residual	3.189	34	.094		
	Total	4.248	38			

a. Dependent Variable: PL

b. Predictors: (Constant), KM, DER, TATO, CR

The significance value in this study was 0.04, less than 0.05. So it can be said that all independent variables, which are the current ratio, debt to equity ratio, total asset turnover, and managerial ownership simultaneously have a significant influence on the dependent variable that is profit growth. The calculated F value > F table is 2.823 > 2.65 so it can be concluded that the sample regression function in estimating the actual value is correct or the model is fit because the calculated F value is greater than the F table value, which means the independent variables, which are the current ratio, debt to equity ratio, total asset turnover, and managerial ownership can predict the dependent variable, that is earnings growth.

3.5.4 Individual Parameter Significance Test (t Statistical Test)

The following are the results of the t statistical test:

The results of the t-statistical test shown in table 3.8 can be explained as follows:

Table 3.5 The Result of t-Statistical Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.273	.357		3.561	.001
	CR	-.209	.067	-.678	-3.124	.004
	DER	-.462	.164	-.618	-2.816	.008
	TATO	-.071	.155	-.076	-.459	.649
	KM	-.095	.431	-.035	-.220	.827

a. Dependent Variable: PL

1. The current ratio (CR) has a significance value of 0.004, less than 0.05. The calculated t value is -3.124, greater than the t table value of 2.03224. So it can be concluded that the current ratio has a negative and significant effect on earnings growth. Ha_1 which states that the current ratio has a positive effect on earnings growth cannot be accepted or rejected.
2. Debt to equity ratio (DER) has a significance value of 0.008, less than 0.05. The calculated t value is -2.816, greater than the t table value of 2.03224. So it can be concluded that the debt to equity ratio has a negative and significant effect on earnings growth. Ha_2 which states the debt to equity ratio has a negative effect on earnings growth is acceptable.
3. Total asset turnover (TATO) has a significance value of 0.649, greater than 0.05. The calculated t value is -0.459, smaller than the t table value of 2.03224. So it can be concluded that total asset turnover has no effect on earnings growth. Ha_3 which states that total asset turnover has a positive effect on earnings growth cannot be accepted or rejected.
4. Managerial ownership (MO) has a significance value of 0.827, greater than 0.05. The calculated t value is -0.220, smaller than the t table value of 2.03224. So it can be concluded that managerial ownership has no effect on earnings growth. Ha_4 which states that managerial ownership has a positive effect on earnings growth cannot be accepted or rejected.

3.6 Discussion

3.6.1 The effect of Current Ratio on Earnings Growth

The current ratio variable significantly affects earnings growth because it has a significance value below 0.05. The t value of -3.124 indicates a negative effect. This means that any increase in the current ratio will reduce earnings growth. Based on the data, it is because samples are dominated by companies with a current ratio below the average. Current assets are dominated by accounts receivable and inventories. Despite having a below-average current ratio, receivable turnover and inventory turnover have high values so that companies still have high sales and increase cash receipts from customers. The company is also able to maintain the expenses incurred to not exceed the increase in sales therefore still manage generate earnings growth, despite the low current ratio.

The results of this study are in line with the research of Susyana & Nugraha (2021) research that the current ratio has no effect on earnings growth. However, it is not in accordance with the research of Petra, *et al.* (2020), Panjaitan (2018), Krisnandi, *et al.* (2019), and Yetty, *et al.* (2018) which stated that the current ratio has a positive and significant effect on earnings growth.

3.6.2 The Effect of Total Asset Turnover on Earnings Growth

The variable of total asset turnover has no effect on earnings growth as it has a significant value above 0.05 with a t value of -0.459 indicating a negative effect. Data in this study is dominated by companies that have a total asset turnover below the average. The assets owned are more dominant in current assets in the form of trade receivables with a high receivable turnover value. The company's non-current assets are dominated by machines. Companies can make maximize usage of their machines as reflected in the increase in the usage of raw materials. Maximum utilization of machines makes sales increase. Despite having a total asset turnover below the average, the companies can still increase sales and keep expenses low so that it can still generate earnings growth.

The results of this study are in line with the research of Martini & Siddi (2021) which states that total asset turnover has no effect on earnings growth. However, this is not in line with research conducted by Ihsan & Muslih (2020), Endri, *et al.* (2020), Lestari, *et al.* (2019), and Syahida & Agustin (2021) which stated that total asset turnover had a positive and significant effect on earnings growth.

3.6.3 The Effect of Managerial Ownership on Earnings Growth

The managerial ownership variable has no effect on earning growth because it has a significant value above 0.05 with a t value of -0.220 indicating a negative effect. The data is dominated by companies that have below-average managerial ownership. Directors and commissioners who have managerial ownership are dominated by management who have an educational background in business and economics so that they can help management to make the right business decisions. The right business decisions are reflected in the high sales generated. The company can also keep the expenses low. Apart from sales, management also generates income for the company from other income. The high increase in sales and income from other income allows the company to generate earnings growth despite the low managerial ownership.

The results of this study are in line with research by Anggraeni & Ardini (2020) which says managerial ownership has no effect on earnings growth. However, this is not in line with research conducted by Martini & Siddi (2021), Subiyanti & Zannati (2019), and Hanifah, *et al.* (2020) which showed managerial ownership had a positive and significant effect on earnings growth.

4. CONCLUSION, IMPLICATIONS, SUGGESTION, LIMITATION

4.1 Conclusion

This study aims to examine the effect of the current ratio, debt to equity ratio, total asset turnover, and managerial ownership on profit growth partially and simultaneously in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019. The conclusions of this study are as follows:

1) Current ratio has a significant negative effect on earnings growth, therefore Ha_1 is rejected.
2) Debt to equity ratio has a significant negative effect on earnings growth, therefore Ha_2 is accepted.
3) Total asset turnover has no effect on earnings growth, therefore Ha_3 is rejected.
4) Managerial ownership has no effect on earnings growth, therefore Ha_4 is rejected.

4.4 Implications

The implication of the results of this study is that the company must have a low debt-to-equity ratio. This means that the source of funding originating from the company's capital must be greater than the total debt owed. With a smaller total debt, the interest expense that must be paid by the company will be smaller and the company will avoid the risk of being unable to pay debt and interest. The company can focus on increasing sales, hence it will generate a current year's profit that is greater than the previous year's profit, which will then result in earnings growth.

4.3 Suggestion

Extending the research period and using other company sectors such as the property sector. Adding other independent variables that might affect earnings growth such as sales growth and inventory turnover.

4.4 Limitation

This study has several limitations. The research period is only during the 2017-2019 period with a sample of 13 manufacturing companies. Besides, other variables that affect earnings growth are not examined in this study. This is indicated by the adjusted R^2 value in this study of 16.1% and the remaining 83.9% is explained by other variables not examined in this study.

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