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THE EFFECT OF COMPANY SIZE, LEVERAGE, LIQUIDITY, AND INFLATION RATE ON EARNINGS GROWTH

(Case Study on Industrial Sector Companies Listed on the Indonesia Stock Exchange 2017-2021)

Deni Setiawan
Departement Management, Kuningan University
20190510204@uniku.ac.id

Yasir Maulana
Departement Management, Kuningan University
yasir@uniku.ac.id

Fauziyah Adzimatinur
Departement Management, Kuningan University
f.adzimatinur@uniku.ac.id

ABSTRACT

This study aims to determine the Effect of Company Size, Leverage, Liquidity and Inflation Rate on Profit Growth Case Studies in Industrial Sector Companies both partially and simultaneously. The research methods used in this study are descriptive and verificative methods. This study uses secondary data in the form of company financial statements which are analyzed using penel data regression which includes classical assumption tests, model selection, coefficients of determination and hypothesis testing (F test and t test). The population in this study was 54 companies for 5 years. The samples in this study were taken using purposive sampling into 42 companies for 5 years and 210 data were observed. The results of this study show that (1) company size, leverage, liquidity and inflation rate simultaneously have a significant effect on profit growth, (2) company size has a positive and significant effect on profit growth, (3) leverage has a negative and significant effect on profit growth, (4) liquidity has a negative and insignificant effect on profit growth, (5) inflation rate has a negative and significant effect on profit growth.

Keywords: Company Size, Leverage, Liquidity and Inflation Rate, and Profit Growth.

JEL Classification: G10

INTRODUCTION

Background

The rapid economic development at this time has an impact on business competition which is becomingincreasingly fierce as well. More and more new companies are emerging from various fields, be it companiesengaged in services or industry. As a result, entrepreneurs are required to always innovate both on products and on attractive marketing processes, so that they can become winners in the market and so that the company can continue to maintain the survival of thecompany.

The company has the main objective, namely to generate profits (Reeve et al., 2017) which can then beused to develop the business and maintain the survival of the company. For creditors and investors, profit can provide information about whether or not a company's performance is good.

According to Harahap (2018) profit is the difference from revenue minus how much the costs incurred in obtaining this income, profit is usually expressed in units of money. Profit canbe used by a company to obtain additional financing in carrying out its operational activities. If a company experiences losses, it will cause bankruptcy. But on the contrary, a company will survive and be able to develop its company if the company is able to obtain a high net profit.

The measure that is often used to determine the success or failure of a company in carrying out its management is

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the profit it earns. Profit is the main objective in the company's financial management, anincrease in profit growth each year willprovide positive information about financial performance (Agustina, 2016).The profit earned by the company is influenced by the company's ability to carry out its financial management, so an estimate of the profit is needed. Estimation of profits can be done by analyzing financial statements as an indicator of future profit growth (Aminet al., 2022).

A total of 54 companies in the industrial sector listed on the Indonesia Stock Exchange in 2017-2021 were usedin this study. Based on the Indonesia Stock Exchange Industry Classification, the industrial sector includescompanies that sell products and services generally consumed by non- consumer industries. Indonesia isincluded in the top 10 with the categoryof industrialized countries around the world. This is because the industrial sector is the sector with the largest contribution of more than 20% to the national economy. This shows that the industrial sector in Indonesia is very developed and has good business prospects. Therefore, companies are required to always improve their performance optimally, effectively, and efficiently in order to become winners in the market and be able to increase profits (Maulida et al., 2021).

Graph 1. shows the average profitgrowth in industrial sector companies, consumer goods sector, primary, and the raw goods sector listed on the Indonesia Stock Exchange for the 2017-2021 period:

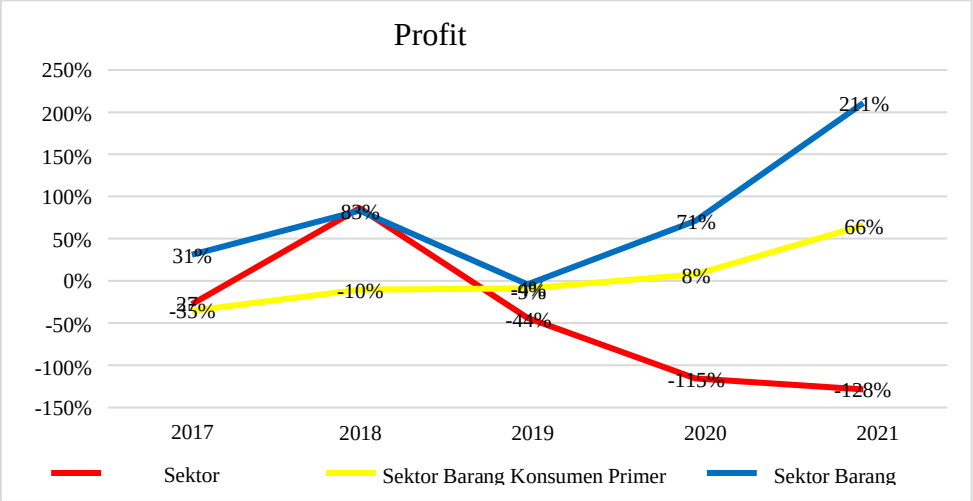

Chart 1. Average Profit Growth in the Three Sectors Listed on the Indonesia StockExchange for the 2017-2021 Period

According to Suryani and Habibie (2017), good profit growth is indicated bya stable increase in profit growth every year. Conversely, a decrease in profit growth from year to year indicates poor profit growth. Graph 1.1 shows the average profit growth in the industrial sector which is not good, because it only experienced one increase in profit growth, namely in 2017-2018 from -27% to 86%. Then in the following years therewas a significant decrease in profit growth, namely in the 2018-2021 period from 86% to -128%.

The other two sector companies, namely primary consumer goods sector companies and raw goods sector companies have better profit growth than the industrial sector. Because, during 2017-2021 the two sectors had a positive profit growth trend. As in the primary consumer goods sector, it experienced an increase from 2018, 2019, 2020 and 2021 of -10%, -9%, 8% and 66%. The raw goods sector experienced an increase in 2018, 2020 and 2021 of 83%, 71% and 211%. Then only experienced one decline in 2019, which amounted to -4%.

According to Fahmi (2014) financial performance is a measuring tool that can be used to analyze the extent to which the company carries out its operational activities using the rules of financial implementation properly and correctly. In other words, financial performancecan be used to estimate how much profitwill be obtained in the future. Profitgrowth is

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one part of the company's financial performance which is reflected by financial ratios. In general, financial ratios are classified into four, namely activity ratios, profitability ratios, liquidity ratios, and solvency/ leverage ratios (Kasmir, 2016).

In addition to financial ratios, several factors can affect profit growth according to Putri and Santoso (2020), namely company size, sales level, changes in past profits, company age andleverage level. In addition to internal company factors, earnings growth canalso be influenced by external company factors, such as economic growth and inflation rates. Along with the increasingdirection of the economic system towards a free market system, the greater the influence of external conditions on company performance(Agustina, 2016).

According to Sitanggang (2013), one of the factors that influence the capital structure is the size of the company, because the bigger a company is, the more additional capital the company will get so that it will affect the company's profit growth. Based on previous research Alfitri and Sitohang (2018), stated that company size has a positive and significant effect on profit growth. Meanwhile, research by Gulo et al. (2021), states that company size has no effect on profit growth.

According to Gunawan and Wahyuni (2013) high debt to equity has an unfavorable impact on company performance because the higher the level of debt means that the interest expense will also increase, so this will reduce profits or profits. Conversely, theower the debt to equity ratio indicates better performance, because the greater the funding provided by the company willhave an impact on the greater rate of return, so this can affect profit growth.

Based on previous research, Sandjaja and Suwaidi (2021) state that leverage has a positive and significant effect on earnings growth. Meanwhile, in the research of Gulo et al. (2021), state that leverage has a negative and significant effect on earnings growth.

Based on previous researchSandjaja and Suwaidi (2021), state that according to Agustina (2016) a high current ratio shows how much effectiveness a company has in fulfilling its short-term debt obligations, so that the company will be free from the inability to pay which can cause an increase in the penalty burden so that it will increase the profit earned by the company. Based on previous research Sandjaja and Suwaidi (2021), state that liquidity has a positive and significant effect on profit growth. Meanwhile, in the research of Endri et al. (2020), statethat liquidity has a negative effect on profit growth, stating that leverage has a positive and significant effect on profit growth. Meanwhile, in the research of Gulo et al. (2021), state that leverage has a negative and significant effect on earnings growth.

According to Karlina (2017) the inflation rate is an annual percentage increase in the general price level asmeasured by the consumer price index or other price indices. The inflation rate inthe economic system on the one hand hasalways been a relatively frightening specter because it can paralyze production capabilities and also weaken purchasing power which leads to a consumption and production crisis. The inflation rate can affect profit growth because it can weaken consumer purchasing power, so that the level of sales becomes lower. Based on previous research Ardian and Sari (2022), state that the inflation rate has a positiveeffect on profit growth. Meanwhile, research conducted by Dewi et al. (2021), states that the inflation rate has a negative effect on earnings growth.

Research Problem

Based on the background above, the problem formulations in this study are:

1) Do Company Size, Leverage, Liquidity, and Inflation Rate jointly affect Earnings Growth?
2) How does Company Size affect Earnings Growth?
3) How does Leverage affect Earnings Growth?
4) How does Likuditas affect Profit Growth?
5) How does the Inflation Rate affect Profit Growth?

Research Objective

In line with the formulation of the problem above, the purpose of this research is to produce empirical facts and

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identify:

1) The Effect of Company Size, Leverage, Liquidity, and Inflation Rate together on Earnings Growth.
2) The Effect of Company Size on Earnings Growth.
3) The Effect of Leverage on Earnings Growth.
4) Effect of Liquidity on Profit Growth.
5) Effect of Inflation Rate on Earnings Growth.

LITERATURE REVIEW

Signalling Theory

According to Brigham and Houston (2014) a signal is an actiontaken by a company to provide clues for investors about how management views the company's prospects. Signalling theory emphasizes the importance of information released by the company on investment decisions of parties outside the company. Information is a very important element for investors and business people because information essentially presents information, records or descriptions both for past, current and future circumstances for the survival of a company (Sari and Wahidahwati, 2018).

Profit growth

According to Harahap (2018) profit growth is a ratio used to explain the company's ability to increase the company's net profit compared to the previous year. The profit used in this study is net profit where, profit for the year after interest and tax. According to Sandjaja and Suwaidi's research (2021) profit growth can be calculated using the formula:

$$\textbf{Profit Growth} = \frac{Profit\ Year_t - Profit\ Year_{t-1}}{Profit\ Year_{t-1}}$$

Company Size

According to Brigham and Houston (2014) company size is an indicator that describes the financial strength of the company. Total assets on the year-end balance sheet and net sales can be a reflection of the size of a company. Firm size can be measuredby transforming the total assets ownedby the company into the natural logarithm. Company size is proxied using the natural log of total assets withthe aim of reducing excessive data fluctuations (Murhadi, 2013). Accordingto research by Meidiyustiani et al. (2021) company size can be calculated using the formula:

Company Size = Ln (Total Assets)

Leverage

According to Fahmi (2014) solvency or leverage can show the ability of a company to fulfill its obligations to pay debts in a timelymanner. In this study, the leverage ratio is proxied by the Debt to Equity Ratio (DER). According to Kasmir (2016)debt to equity ratio is a ratio used to determine the ratio of debt to equity, by comparing all debt including current debt with all equity. Leverage to determine the amount of fundsprovided by the company owner with those provided by the borrower (creditor), if the measurement results of the ratio are high, then the funding uses more debt. DER calculation formula:

$$\text{Debt to Equity Ratio} = \frac{\textbf{Total Debt}}{\textbf{Total Equity}}$$

Liquidity

According to Kasmir (2016) theliquidity ratio serves to show or measure the company's ability to fulfill its maturing obligations, both obligations to parties outside the company and within the company. In this study, liquidity is proxied by the current ratio. According to Cashmere (2016) the current ratio is a ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed as a whole. Current ratio calculation formula:

$$\textbf{Current Ratio} = \frac{Current\ Asset}{Current\ Liabilities}$$

Inflation Rate

According to Agustina (2016) the inflation rate is a continuous increase in general prices. Meanwhile, according to Karlina (2017) the inflation rate is an annual percentage increase in the general price level as measured by the consumer price index or other priceindex. The Consumer Price Index (CPI) is an index number that shows the pricelevel of goods and services that consumers must buy in a certain period.The Consumer Price Index can be obtained from the official website of the

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Badan Pusat Statistik (BPS) and can be calculated using the following formula (Amrullah and Widyawati,2021):

$$\text{Inflation} = \frac{\text{IHKt} - \text{IHKt}-1}{\text{IHKt}-1} \text{ X } 100\%$$

Reseacrh Framework

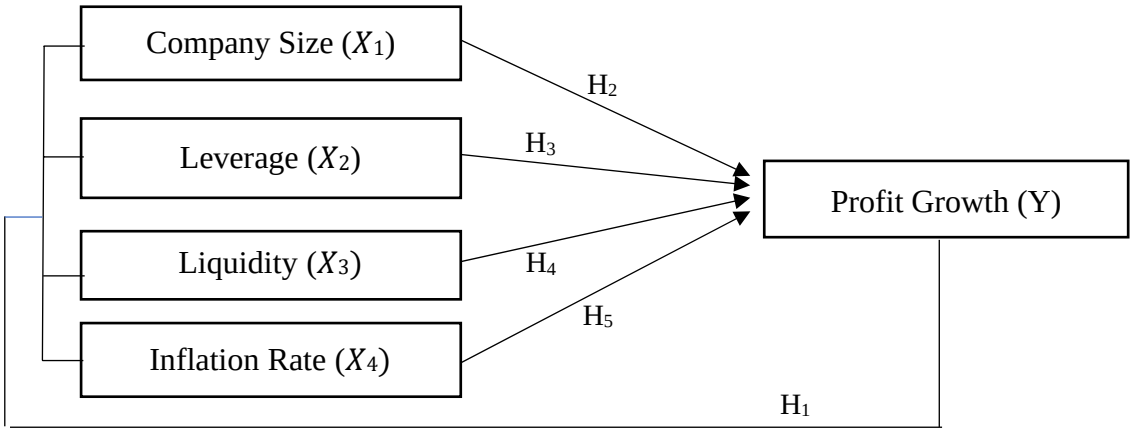

Figure 1. Research Pramework

Hypothesis

Then the hypothesis developed in this study is as follows:

H_1 : Company size, leverage, liquidity and inflation rate simultaneously affect earnings growth.

H_2 : Company size has a positive effecton earnings growth.

H_3 : Leverage *has a negative effect on earnings growth*.

H_4 : Liquidity has a positive effect on profit growth.

H_5 : Inflation rate has a negative effecton earnings growth.

RESEARCH METHOD

This research uses descriptive and verification methods. According to Sugiyono (2016) descriptive method is a method used with the aim of analyzing data by describing the data that has been collected without the aim of making conclusions that apply to generalized or general. While theverification method is a method carried out on a certain population or sample with the aim of testing a predetermined hypothesis (Sugiyono, 2016).

Data Source

In the research, the data taken issourced from secondary data. Where according to (Sugiyono, 2016) secondary data is a data source that does not directly provide data to data collectors. Research using secondary data is carried out by library research. The data obtained is financial statement data obtained from the Indonesia Stock Exchange. Then the inflation rate data used in this study was obtained from the official website of the Badan Pusat Statistik (BPS).

Population and Research Sample

The population used in this studyare the company's financial statements and annual reports of all industrial sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period. In this study using purposive sampling technique forsampling. The criteria for using the sample used in this study consist of: Industrial Sector companies listed onthe IDX for the 2017-2021 period. Industrial Sector companies that do not present complete financial reports from 2017-2021.Based on the criteria determined above, a sample of 42 industrial sector companies was obtained.

RESULTS AND DISCUSSION

Descriptive Statistics

The following are the results of descriptive analysis of the variables

Classical Assumption Test

Normality Test

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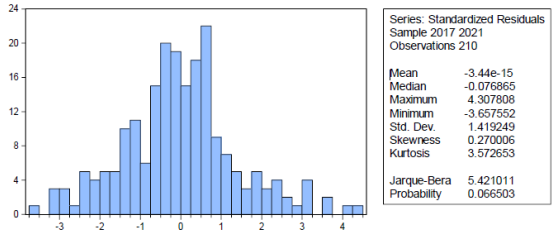

Source: Output Eviews Ver 9.0
Figure 2. Normality Test Results

Based on Figure 2. the results of the normality test above, it can be seenthat the probability value or p-value is 0.066503> 0.05, it can be concluded Multicollinearity Test that the data used is normally distributed and the regression model fulfills the normality test.

Table 2. Multicollinearity Test

	UP	DER	CR	TI
UP	1.000000	0.108426	0.007454	-0.026311
DER	0.108426	1.000000	-0.661117	0.073184
CR	0.007454	-0.661117	1.000000	-0.030585
TI	-0.026311	0.073184	-0.030585	1.000000

Sources: Output Eviews Ver 9.0Based on table 2. above, it can
be seen that there are no independent variables whose coefficient is> 0.80 so it can be concluded that there is no multicollinearity in the regression model.

Heteroscedasticity Test
Table 3. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.363636	0.357699	1.016599	0.3105
UP	0.016031	0.022599	0.709358	0.4789
DER	0.085048	0.050898	1.670957	0.0963
CR	0.049731	0.059322	0.838330	0.4028
TI	4.228183	5.130041	0.824201	0.4108

Source: Output Eviews Ver 9.0

Based on table 3. the results above, the probability on Company Sizeis 0.4789 > 0.05 so there is noheteroscedasticity, the pr obability on Leverage is 0.0963 > 0.05 so there is no heteroscedasticity, the probability on Autocorrelation Test Current Ratio is 0.4028 > 0.05 so there is no Heteroscedasticity, the probability on Inflation Rate is 0.4108 >
0.05 so there is no heteroscedasticity. This means that in this study there is no heteroscedasticity.

Table 4. Autocorrelation Test Results

R-squared	0.123994	Mean dependent var	-0.345807
Adjusted R-squared	0.106902	S.D. dependent var	1.424515
S.E. of regression	1.346222	Sum squared resid	371.5244
F-statistic	7.254187	Durbin-Watson stat	1.990401
Prob(F-statistic)	0.000018		

Source: Output Eviews Ver 9.0

Based on table 4. above, it is known that the Durbin-Watson stat value is 1.990401 with 210 observationsand 4 independent variables. Then based on the hypothesis criteria there is no autocorrelation with d_U < d_W < 4-d_U. Obtained d_L = 1.74513, (4-d_L = 4-1.74513 = 2.25487) and d_U = 1.80305, (4-d_U = 4-1.80305 = 2.19695). So that the formula d_L < d_U < d_W < 4-d_U < 4-d_L then 1.74513 < 1.80305 < 1.990401 < 2.19695 < 2.25487 which means that there is no autocorrelation.

Regression Model Selection Test
Chow Test
From the chow test results it can be concluded that the Cross Section Chi-Square value is 0.0008 <0.05 so that H0 is rejected. Then the fixed effect model is better than the common effect.
Hausman Test
From the results of the Hausman test it can be concluded that the probability value of Cross-Section Random is 1.0000> 0.05 so that H0 isaccepted, so it can be concludedthat the best model is to use the Random Effect Model.
Langrange Multiplier Test
From the results of the Langrange multiplier test, it can be concluded that the Cross-Section Breusch- Pagan value shows a result of 0.0425 <0.05. So that H0 is rejected and H1is accepted. So the model that is considered better than the Langrange multiplier test is the Random Effect Model for the panel data regression equation.

Model Interpretation
Based on the estimation methodbetween the Common Effect Model, Fixed Effect Model, and Random Effect Model regression with the selection of the chow test model, hausman test, and langrange multiplier test, theRandom Effect Model was selected for the panel data regression equation. Then the following are the estimation results of the Random Effect Model:

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$$Y_{PL} = 2.943378 + 0.126795_{UP} - 0.276526_{DER} + 0.057815_{CR} - 60.91925_{TI} + 0.6805756_{ABMM} + 0.579928_{AMFG} - 0.080887_{AMIN} - 0.389120_{APII} - 0.412270_{ARKA} - 0.137259_{ARNA} - 0.655891_{ASGR} - 0.247523_{ASII} + 0.142116_{BHIT} - 0.058845_{BMTR} - 0.088292_{BNBR} + 0.451360_{CAKK} - 0.176321_{CTTH} + 0.570454_{DYAN} - 0.279179_{HEXA} + 0.051330_{ICON} + 0.012073_{IKBI} - 0.359981_{IMPC} + 0.362463_{INDX} - 0.405726_{INTA} - 0.211661_{JECC} - 0.323197_{JTPE} + 0.051068_{KBLI} - 0.108026_{KBLM} + 0.187907_{KIAS} + 0.320755_{KOBX} - 0.020166_{KOIN} + 0.067922_{KONI} + 0.055699_{LION} - 0.013710_{MARK} + 0.084119_{MDRN} - 0.193457_{MFMI} + 0.497790_{MLIA} - 0.121182_{MLPL} - 0.329493_{SCCO} + 0.025472_{SKRN} - 0.565475_{SPTO} + 0.465409_{TIRA} + 0.229228_{TOTO} - 0.039312_{UNTR} + 0.145374_{VOKS} + 0.235748_{ZBRA} + e_{it}$$

Determination Coefficient Test Results (R2)

Table 5. Test Results of the Coefficient of Determination (R2)

R-squared	0.123994	Mean dependent var	-0.345807
Adjusted R-squared	0.106902	S.D. dependent var	1.424515
S.E. of regression	1.346222	Sum squared resid	371.5244
F-statistic	7.254187	Durbin-Watson stat	1.990401
Prob(F-statistic)	0.000018		

Source: *Output Eviews Ver 9.0*

Based on table 5. The results of the Determination Coefficient Test (R2), obtained an adjusted r-squared value of 0.106902. This value shows that 11% of changes in the dependent variable can be explained by the determining variables in the model, namely company size, leverage, liquidity and inflation rate, while the remaining 89% is influenced by other variables or factors not discussed in this study.

Hypothesis Testing Results and Discussion

Simultaneous Test Results (F Test)

Table 6. Simultaneous Test Results (F Test)

R-squared	0.123994	Mean dependent var	-0.345807
Adjusted R-squared	0.106902	S.D. dependent var	1.424515
S.E. of regression	1.346222	Sum squared resid	371.5244
F-statistic	7.254187	Durbin-Watson stat	1.990401
Prob(F-statistic)	0.000018		

Source : Output Eviews Ver 9.0

Based on table 6. the simultaneous test results show that the F_{count} value is 7.254187 with a significance level of 0.000018. F_{table} value with with df1 = Number of variables - 1 = 5 - 1 = 4 and df2 = n - k =210 - 4 = 206. By using the α (0.05) or 5% level. Acceptance of H1 is evidenced by the calculation results that the valueof F_{count} > F_{tabel} (7.254187 > 2.42) and probability 0.000018 < 0.05, so it can be concluded that company size, leverage, liquidity and inflation rate have a significant effect on earnings growth. (**Hypothesis 1 Accepted**).

Partial Test Results (t Test)

Table 7. Partial Test Results (t Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.943378	0.983308	2.993345	0.0031
UP?	0.126795	0.063151	2.007801	0.0460
DER?	-0.275626	0.136510	-2.019083	0.0448
CR?	0.057815	0.157078	0.368066	0.7132
TI?	-60.91925	12.64061	-4.819327	0.0000

Source: Output Eviews Ver 9.0

Based on table 7. partial test results above, testing the effect of company size variables on earnings growth shows the t_{ount} statistical value of 2.007801. The t_{table} at the significance level α = 0.05 df = (n-k) = (210-4) = 206 obtained a t_{table} of 1.652284. When compared with the t_{count} value with the t_{table} value, the t_{count}> t_{table}, namely 2.007801 > 1.652284 with a probability value < 0.05, namely0.0460 < 0.05, meaning that company size partially has a significant positive effect on earnings growth. (**Hypothesis 2 is accepted**).

Based on table 7. partial test results above, testing the effect of leverage variables on earnings growth shows the t_{count} statistical value of - 2.019083, the absolute value is2.019083.The t_{table} value at thesignificance level α = 0.05 df = (n-k) = (210-4) = 206 obtained a t_{table} of 1.-652284 When compared with the t_{count} value with the t_{table} value, $|t_{count}| < |t_{table}|$ ie $|-2.019083| < |1.652284|$ with a probability value < 0.05, namely 0.0448< 0.05, meaning that leverage partiallyhas a significant negative effect on earnings growth.(**Hypothesis 3 is accepted**).

Based on table 7. partial test results above, testing the effect of liquidity

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variables on earnings growth shows the t_{count} statistical value of 0.368066. The t_{table} value at the significance level α = 0.05 df = (n-k) = (210-4) = 206 obtained a t_{table} of 1.652284. When compared with the t- $_{count}$ value with the t_{table} value, t_{count} < t_{table}, namely 0.368066 < 1.652284 with a probability value of 0.7132 > 0.05, meaning that liquidity partially has a negative and insignificant effect on earnings growth. (**Hypothesis 4 is rejected**).

Based on table 7. the partial testresults above, testing the effect of theinflation rate variable on earnings growth shows the t_{count} statistical value of - 4.819327, the absolute value of 4.819327. The t_{table} value at the significance level α = 0.05 df = (n-k) = (210-4) = 206 obtained a t_{table} of - 1.652284. When compared with the t- $_{count}$ value with the t_{table} value, $|t_{count}| < |t_{table}|$ ie | -4.819327 | < | 1.652284 with a probability value <0.05, namely 0.0000 < 0.05, meaning that the inflation rate partially has a significantnegative effect on earnings growth. **(Hypothesis 5 is accepted).**

CONCLUSION

The Effect of Company Size, Leverage, Liquidity, and InflationRate on Earnings Growth

The results of the first hypothesis in this study are to examine the effect of company size, leverage, liquidity, and inflation ratesimultaneously on earnings growth,based on the test results in the F test (Simultan) show that company size, leverage, liquidity, and inflation rate simultaneously have a significant effecton earnings growth. This is in line with the research of Gulo et al. (2021) and Dewi et al. (2022) which has a significant effect on earnings growth.

Effect Of Company Size On Earnings Growth

Based on the results of testing thesecond hypothesis that the companysize variable has a positive and significant effect on earnings growth, this positive effect indicates that company size has a direct influence onearnings growth. According to Alfitriand Sitohang (2018), companies with large sizes have access to large sources of funds such as the capital market and banks in order to increase investment costs to increase their profits. Thus, theopportunity to increase profits in largecompanies is higher than that of small companies, this will have an impact onthe company's profit growth. So that profits that increase from the previous year will have implications forincreasing the company's profit growth,Referring to signaling theory emphasizes the importance ofinformation released by the company on investment decisions of parties outside the company. The size of the company using total assets explainsthat the composition of large totalassets can be used as a guarantee forthe company in increasing profits sothat it can be a reference for investors to invest their capital.

This is in line with research conducted by Petra et al. (2020), which states that company size has a positiveand significant effect on earnings growth, and is strengthened by research conducted by Alfitri and Sitohang (2018) and Avivah and Ardini (2018).

Effect Leverage on Earnings Growth.

Based on the results of testing the third hypothesis that the leverage variable partially has a negative and significant effect on earnings growth, this negative effect indicates that leverage has the opposite direction to earnings growth. Gulo et al. (2021) state that the higher the leverage of a company, the greater the risk the company has. Because, the company ismore dependent on obtaining capital from outside parties to finance its operational activities, this will increase the company's burden and reduce the profit earned by the company. Thus, the higher the level of leverage, the lower the profit growth obtained by thecompany.

Referring to signalling theory which emphasizes the importance ofinformation released by the company on investment decisions of parties outside the company. Leverage using the debt to equity ratio can be a reference for investors to secure capital in companies that have a low level of leverage, with a low level of leverage of a company, investors will avoid the risk of losses that will be incurred due to the company's inabilityto fulfill its obligations.

This is in line with research conducted by

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Rosali et al. (2020), which states that leverage has a negative and significant effect on earnings growth, and is strengthened by research conducted by Gulo et al. (2021) and Hendarwati and Syarifudin (2021).

Effect of Liquidity on Earnings Growth

Based on the results of testing the fourth hypothesis that the liquidity variable partially has a negative andinsignificant effect on earnings growth. this negative effect indicates that liquidity has a relationship that is not one-way with earnings growth. According to Ningsih and Utiyati (2020), a high current ratio is followed by a decrease in company profits, a decrease in company profits is causedby the amount of debt owned. This means that the company has short-termdebt that exceeds current assets, sothat the company has difficulty paying short-term debt when meeting its obligations, because current asset turnover produces lower returns than fixed assets.

Referring to signalling theory which emphasizes the importance ofinformation released by the company on investment decisions of parties outside the company. Liquidity as measured using the current ratio can bea reference for investors to invest in companies that have a low level ofliquidity, with a low level of liquidity indicating that the company can manage its current assets well so as to increase the company's profit growth. By considering this, investors will invest in the right company.

This is in line with research conducted by Amin et al. (2022) which states that liquidity has a negative andinsignificant effect on earnings growth, and is reinforced by research conducted by Rosali et al. (2020) and Endri et al. (2020).

Effect of Inflation Rate on Earnings Growth

Based on the results of testing the fifth hypothesis, the inflation rate variable partially has a negative and significant effect on earnings growth. This negative effect indicates that the inflation rate has the opposite directionto earnings growth, Dewi et al. (2022) state that an increase in the rupiah exchange rate has an impact on increasing the inflation rate in a country, which affects the profit growth of companies in that country. When the inflation raterises, it is followed by an increase in commodity prices which causes a reduction in consumer purchasing power. This condition certainly has an impact on the decline in the company'ssales level which results in reduced profits earned by the company, so thatwith the increase in the inflation rate, the lower the profit growth obtained bythe company.

This is in line with research conducted by Dewi et al. (2022) which states that the inflation rate has a negative and significant effect onearnings growth, and is strengthened byresearch conducted by Ulfa and Retnani(2018).

SUGGESTIONS

Based on the research results and conclusions above, there are several things that researchers suggest, namely: Based on the results of research on company size, leverage, liquidity and inflation rate simultaneously affect earnings growth, so in decision making, investors must consider company size, leverage, and liquidity in a company. As well as investors must consider the current inflation rate.

Based on the research results that company size has a significant positive effect on earnings growth, investors must be selective in choosing companies to invest their capital by looking at the level ofcompany size. Because a good company has a high level of companysize so that it affects the high rate of profit growth. So that investors will invest in the right company.

Based on the research results that leverage has a significant negative effect on earnings growth, investors must be selective in choosing companies to invest their capital by looking at the company's leveragelevel. Because a good company has a low level of leverage so that it affects the high level of profit growth. So that investors will invest in the right company.

Based on the research results that liquidity has a negative and insignificant effect on earnings growth, investors must be selective in choosing companies to invest their capital by looking at the

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company's liquidity level. Because a good company has a low level of liquidityso that it affects the high level of profit growth. So that investors will invest in the right company.

Based on the research results that the inflation rate has a significant negative effect on earnings growth, investors must know the amount of inflation rate that is happening. Because a high inflation rate willreduce the company's profit growth. So that when investors will invest inthe company at the right time.

Based on the analysis results obtained from the determination test, it shows that company size,leverage, liquidity and inflation ratecontribute or influence 11% to profitgrowth, while the remaining 89% is influenced by other variables not examined. So for further researchers, it is expected to add other independent variables that canaffect earnings growth such as company age, sales level, past profitchanges, economic growth, capital, earnings, interest rates, and other financial ratios.

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