

## Factors Affecting the Earnings Response Coefficient : Evidence in Indonesia

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### Abstract

*This study aims to analyze the effect of corporate social responsibility disclosure, growth opportunities, and firm size on the earnings response coefficient in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. This research is a quantitative study using panel balance data that collected using documentation techniques obtained through the website [www.idx.co.id](http://www.idx.co.id) and the official website of each company. This study used multiple linear regression panel data with the Eviews 12. There were 141 manufacturing companies with a purposive sampling technique. The results show that corporate social responsibility disclosure has a positive and significant effect on the earnings response coefficient. This indicates that increase corporate social responsibility disclosure would lead to increase the earnings respon coefficient. The growth opportunities has negative insignificant effect on the earnings response coefficient and firm size has positive insignificant on the earnings response coefficient. The negative coefficient implies that higher growth opportunity lead to decreases earnings respon coefficient .*

**Keywords:** *corporate social responsibility disclosure, growth opportunities, firm size and earnings response coefficient*

### 1. INTRODUCTION

Profit is the most important element in a company, profit shows the level of success of the company. The higher the profit, the more the company will develop. Profit also has deficiencies or weaknesses from various factors such as manipulation of data from the actual state of the company or vice versa so that clear information is needed through profit response using the Earning Response Coefficient (ERC) or profit response coefficient.

ERC is a measure of the rate of abnormal market return (abnormal return) of securities in response to the unexpected component of earnings (unexpected earnings) reported by the company to issue the securities . Earnings response coefficient aims to identify and explain differences in market response to earnings information. The ERC is a measure of the extent to which new earnings information is capitalized in stock prices. Regression between stock prices and accounting profit is the essence of ERC, with Cumulative Abnormal Return (CAR) used as a proxy for stock prices, while Unexpected Earning (EU) is a proxy for accounting profit

PT Kertas Tjiwi Kimia Tbk (TKIM), which had just released its 2022 financial report. The paper manufacturing company affiliated with the Sinar Mas Group recorded a decrease in net profit of 1% from 1,145,831,250,000 in 2021 to 1,130,560,000,000 in 2022. The decrease in net profit was minimal. TKIM succeeded in making efficiency from an operational standpoint which was also shown by a decrease in total operating expenses by 5%. The increase in general and administrative expenses by 12% was offset by a decrease in selling expenses by 12%. Even though TKIM experienced a decrease in profits but this did not affect the share price, TKIM was observed to have experienced an increase in TKIM's share price from IDR 6,400/unit to IDR 7,150/unit so that there was an increase of almost 12%. Quoted from (Jakarta, CNBC Indonesia)

PT Astra International Tbk in 2020 experienced an increase in profit, from 2019, namely 13,528,000,000 to 15,364,000,000. This was not followed by an increase in the company's share price, in 2019 the share price of PT Astra International Tbk was valued at 6,925, while in 2020 the share price actually decreased, namely 6,025. So it can be concluded that a decrease in profits is not always followed by a decrease

in stock prices and vice versa, an increase in profits is not always followed by an increase in stock prices. If you compare the stock price with the profit earned, you will get a number (coefficient) known as ERC. Problems regarding the increase and decrease in stock prices in the capital market make investors conduct stock price analysis to choose which stocks can produce the best return and the lowest risk for investment, therefore a tool is needed to measure the rise and fall of stock prices, namely ERC.

Corporate Social Responsibility (CSR) Disclosure aims to explain the various social impacts caused by companies on society (Adisusilo, 2011). Susetyo (2020) and Randhy (2021) revealed that CSR disclosure has a positive and significant effect on ERC. Meanwhile, Darmawan (2022) CSR Disclosure has insignificant effect on ERC,

Growth Opportunities are company growth that shows the company's opportunities through market assessment in maintaining its economic condition in the future. According to Rahmat in [1], the growth or failure of a company can be seen from the high and low margins, profits, and sales of a company.

High Growth Opportunities will have a high ERC. Because companies can easily withdraw capital to get profits or increase profits in the future. Research by Oktavia and Yanti (2022) shows that Growth Opportunities affect the ERC. However, research by [2] shows that Growth Opportunities have no effect on ERC

Firm size is a measure or amount of assets owned by a company to show the performance of a company in managing its total assets. [3] it is explained that firm size can be measured by total assets, total sales, and average sales. Firm size is a comparison between the size of the company that can show what risks are faced and influence the market in decision making. Large companies have more information than small companies. Large companies easily get large amounts of external capital than small companies, so that investors are more interested in investing in these companies.

## **2. LITERATURE REVIEW**

### **Earning Respon Coefficient (ERC)**

ERC shows the magnitude of abnormal stock returns in response to unexpected earnings reported by companies that issue these shares, in other words ERC is the effect of unexpected earnings on cumulative abnormal returns, which is shown through the slope coefficient in the regression of abnormal stock returns with unexpected earnings[4]. Estimates of changes in stock prices that occur as a result of the company's profit announcements are entered into market information. The low ERC value indicates that earnings are less informative for investors for decision making.

### **Corporate Social Responsibility (CSR) Disclosure**

CSR is a business commitment to contribute to sustainable economic development, through cooperation with employees and their representatives, their families, the local community and the general public to improve the quality of life in a way that is beneficial for the business itself and for development [8]

Ha1: Corporate Social Responsibility has a significant positive effect on ERC

### **Growth Opportunities**

Growth Opportunities are a reflection of a company. Growth that occurs in a company will have a positive impact on several parties, both internal and external. The company's high growth reflects the wider reach of the company. High company growth shows good company performance, because there is an increase in company assets, equity, profits, and sales, this is very good for the company's future development [9].

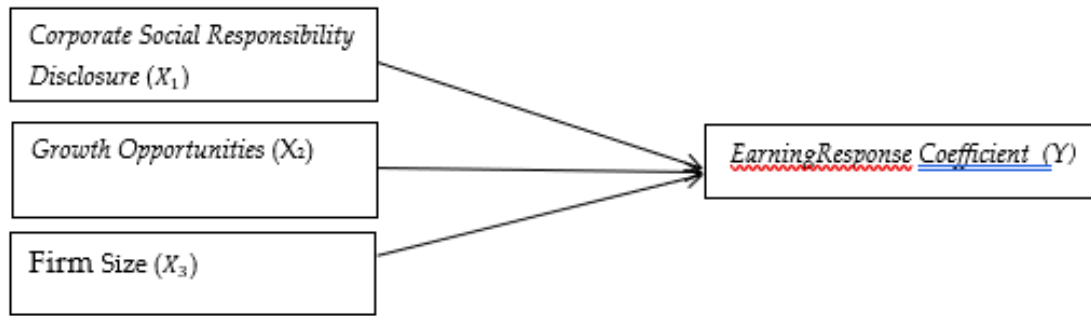
H2: Growth Opportunities have a significant positive effect on ERC

### **Firm Size**

Company size is the scale of the company seen from the company's total assets at the end of the year. The bigger the company, it will be the center of attention. Larger companies are more likely to notice better performance, because they are likely to be subject to tighter public scrutiny, and thus need to respond more openly to investor requests [10]. The size of the company is related to the quality of earnings, because the larger the size of a company's business continuity, the higher the company's ability to improve its performance[11].

H3: Company size has a significant positive effect on ERC.

### 3. CONCEPTUAL FRAMEWORK



### 4. RESEARCH METHODS

This research is a quantitative research with research objects namely CSR Disclosure, Growth Opportunities, and Company Size and ERC. Data in the form of financial reports obtained through internet media with the website [www.idx.co.id](http://www.idx.co.id), data on daily stock prices and daily JCI which are available on [www.finance.yahoo.com](http://www.finance.yahoo.com). The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. The sampling frame is: Manufacturing companies that publish annual reports consecutively in the 2019-2020 period, earn successive profits during the 2019-2021 period and have complete data related to research variables. Based on the sampling frame, the total population is 47 companies for 3 years so that the total observations are 141. Data collection techniques use the documentation method. The data analysis technique used panel data regression analysis which was processed using eviews 10 software.

**Table 1: Variable Operationalization**

Variabel	Indikator
<i>Earning Response Coefficient</i>	<ol style="list-style-type: none"> <li>1. <math>R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}}</math></li> <li>2. <math>RM_{it} = \frac{IHS_{gt} - IHS_{gt-1}}{IHS_{gt-1}}</math></li> <li>3. <math>AR_{it} = R_{it} - R_{mt}</math></li> <li>4. <math>CAR_{it} = CAR_{it}(-3, +3) = \sum_{t=-3}^{+3} AR_{it}</math></li> <li>5. <math>UE_{it} = \frac{EPS_t - EPS_{t-1}}{EPS_{t-1}}</math></li> <li>6. <math>CAR_{i(t-3,t+3)} = \alpha + \beta UE_{it} + \epsilon</math></li> </ol>
<i>Corporate Social Responsibility Disclosure</i>	$CSRI_j = \frac{\sum X_{ij}}{n_j}$
<i>Growth Opportunities</i>	$MBR = \frac{\text{market value}}{\text{book value of equity}}$
<i>Firm Size</i>	$\text{Firm Size} = \ln(\text{Total Aset})$

### 5. RESULT

Statistics descriptive shows the mean, median, maximum, and minimum values of each variable used in this studi. Statistics descriptive presented in table 2.

**Table 2:  
Statistic Descriptive**

	X1	X2	X3	Y
Mean	-1.150445	-1.899386	3.360219	-1.857371
Median	-1.109660	-1.731171	3.352839	-1.942941
Maximum	-0.579035	0.886365	3.511382	17.75930
Minimum	-1.945911	-8.715644	3.063846	-8.734106
Std. Dev.	0.280654	1.604066	0.063174	2.885553
Skewness	-0.369204	-0.692015	-0.460823	2.281997
Kurtosis	2.743020	4.026779	5.705984	17.40576

Table 3 shows p -Value on Chow test 0,0062<0,05 and Hausman Test 0,3528>0,05, so the best model is Random Effect Model (REM)

**Table 3  
Model section using chow test and Hausman Test**

Test	Prob.
Chow	0,0062
Hausman	0,3528

Table 3 shows p -Value on Chow test 0,0062<0,05 and Hausman Test 0,3528>0,05, so the best model is Random Effect Model (REM)

Table 4 Random Effect Model (REM)

Variabel	Coefficient	Signifikansi
C	-0,107	0,737
<i>Corporate Social Responsibility Disclosure (X1)</i>	0.967	0.000
<i>Growth Opportunities (X2)</i>	-0.006	0.107
Company Size (X3)	0.020	0.831
R <sup>2</sup>	0,954	
Adjusted R <sup>2</sup>	0,952	
F statistic	828.9152	
Prob.		0,0000

Based on Table 4. the results of calculations from the random effect estimation regression test, the panel data regression model is:

$$Y = -0.107 + 0.967 (X1) - 0.006(X2) + 0.020(X3)$$

## 6. DISCUSSION

### Effect of Corporate Social Responsibility Disclosure on ERC

The results of the study concluded that CSR disclosure has a positive and significant effect on ERC. This shows that the high level of corporate social responsibility disclosure has an effect on the high level of ERC. They assume that companies that issue CSR Disclosures will provide benefits in the future in prioritizing the welfare of society and nature. Thus, companies that have good performance through CSR disclosure will receive an active response from investors through increasing stock prices. This has an impact on high profits thereby affecting the increase in ERC.

The results of this study are in line with the research of [1] and [5]. This information allows estimation of the profit prospects that the company can generate in the future, so that investors can make decisions to become shareholders. This will result in an increase in share prices due to high market demand.

## Effect of Growth Opportunities on ERC

The results of the study concluded that Growth Opportunities had no significant negative effect on ERC. Companies that have high growth opportunities usually have low dividend yields, because companies that have high growth opportunities require high funds to develop the company's operations with fixed asset investment. Thus the profit earned by the company will be used to finance the company's growth rather than being distributed to shareholders to avoid underinvestment problems, namely not carrying out all investment projects that are positive for the company.

The results of this study are in line with the research of [2] and [8]. This proves that investors do not see expectations for growth opportunities in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021, so it can be concluded that investors are more interested in companies that get profits or capital gains quickly.

## Effect of Firm Size on ERC

The firm size will not affect the response of investors to earnings. Investors have the notion that the size of the company has the potential to have a high level of business risk when the company generates large profits. Large companies may have a high amount of debt to finance the company's operations. If the ERC value is positive, it indicates that the investor response is increasing towards profit information, whereas if the ERC value is negative, it indicates that the investor response is decreasing towards company profit information. So that investors think that large companies cannot always provide large profits and vice versa, small companies do not rule out the possibility of providing high profits for their investors. The results of this study are in line with the research of [6] and [7]. This shows that firm size is not an important consideration for investors in making decisions, but investors are more concerned with the rate of return that will be given in the future [12]

## 7. CONCLUSION

Based on the results the authors draw the following conclusions The CSR Disclosure has a positive and significant effect on ERC. This means that if CSR Disclosure increases, it will increase ERC significantly. Growth Opportunities has negative and insignificant effect on ERC. This means that if the Growth Opportunities increase, the ERC will not be significantly reduced The company size has positive and insignificant effect on ERC. This means that if the size of the company increases, it will increase ERC not significantly.

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