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Corporate Social Responsibility (CSR), Firm Size, Profitability, and Leverage On Earnings Response Coefficient (ERC) (An Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange for the period of 2015-2018)



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ABSTRACT

This study aims to examine the effect of corporate social responsibility (CSR), firm size, profitability, and leverage on the earnings response coefficient (ERC). The type of this research was quantitative. The type of data used was secondary data obtained from <u>www.idx.co.id</u>. The population involved in this study was the manufacturing companies that were listed on the Indonesia Stock Exchange during the 2015-2018 period. Whereas, this research sample was determined by purposive sampling method in accordance with predetermined criteria. The analytical method employed was multiple linear regression analysis. The results of this study indicated that variables that had an effect on the earnings response coefficient were corporate social responsibility and firm size, while profitability and leverage had no impact on the earnings response coefficient.

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INTRODUCTION

Financial statements are a structured presentation of the financial position and financial performance of an entity. Financial statements aim to provide information regarding the financial position, performance, and changes in the financial position that are beneficial for most users in economic decision making (Martani et al., 2014: 9). Parties who have a right to obtain company financial information are those who have an interest in the development of a company (stakeholder). In the company's financial statements, the management uses financial statements to be able to make decisions that are beneficial for the continuity of the company's development. Whereas, for investors, the company's financial statements can also be useful in making economic decisions.

Market reactions are economic decisions made by investors based on information obtained from financial statements that are generally reflected in the actions of market participants. During the earnings announcement, the market reaction shows that there is a significant change in market prices (stock returns) of certain companies. The striking change in return price, in question, is that there is a significant difference between the actual return and expected return.

As a basis for decision making, earnings are performance measure that shows success for a company, which is usually employed by investors and creditors. Profit is also a concern for certain parties in estimating the performance and accountability of management in managing resources and can be utilized to estimate the company's prospects in the future.

The announcement of earnings in the capital market causes the market to react, which can be seen from the movements of stocks and investors in investing. Profit has limitations that are affected by the calculation assumptions and possible manipulations carried out by company management, so other information is needed besides earnings to predict the company's stock returns, namely the earnings response coefficient (Kurnia and Sufiyati 2015).

According to Suwardjono (2010), the earnings response coefficient is the sensitivity of stock returns to every rupiah profit or surprise profit. The definition can also be clarified further with the understanding from Sasongko (2019), who explains the earnings response coefficient is the level of sensitivity of the market reaction to the earnings surprise information. From this understanding, some also explain that ERC is a measure of the abnormal return of a security in response to the unexpected earnings component reported by the company that issued the security (Scoott, 2009 in Kurnia and Sufiyati, 2015). Abnormal return is the difference between the realized return and expected return of a security. Whereas, unexpected earnings is the difference between realized profit and expected profit of a company. The higher the ERC, the higher the stock return that can be expected. By using ERC, investment decision making by investors is easier.

ERC value decreases along with the decrease in people's attention to the value of profit and increasingly pay attention to other factors beyond profit. Other factors that can influence investor responses in making decisions are Corporate Social Responsibility (CSR), systematic risk, and growth opportunities (Suyekti and Wondabio, 2007).

The results of empirical research on the influence of CSR disclosure on ERC conducted by previous researchers have identified the existence of market appreciation of CSR information on ERC, which was still rarely done and has not shown consistent results. Research conducted by Utaminingtyas and Ahalik (2010) found that the results of disclosure of corporate social responsibility could increase the coefficient of earnings response. It could be interpreted that social disclosure information in the company could influence investors' reactions to earnings announcements and was strengthened by other information disclosures as part of voluntary disclosures. It is consistent with research conducted by Murwaningsari (2008), who stated that voluntary disclosure had a positive effect on ERC. In contrast, Sayekti and Wondabio (2007), in their research using the cross-sectional ordinary least square (OLS) regression model, found that the level of CSR information disclosure in the company's annual report had a negative effect on ERC. It is in line with research conducted by Hidayati and Murni (2009) and Imroatussolihah (2013). However, research by Restuti and Nathaniel (2012) revealed that CSR disclosure had no effect on ERC. It can be said that investors have not paid attention to the social information disclosed in the company's annual financial report as information

that can influence investors in making investment decisions.

Firm size, according to Titik Aryati and Zafira Zaenal's (2016) research, shows that it is a measure or a size of assets owned by a company to indicate a company's performance in managing its total assets. Investors will increasingly respond to a profit published by the company if a company's assets are large, and investors more often invest in large companies because they are considered able to improve the performance of the company by increasing the quality of its profits. The results of their study indicate that firm size did not have a significant effect on the earnings response coefficient (ERC). This study is also in line with research from Ivan Kurnia and Sufiyati (2015, Gunawan Santoso (2015), and Medy Nisrina M (2016), which also revealed the results that firm size did not significantly influence earnings response coefficient (ERC). However, different research conducted by I Gusti, et al. (2016), Bita Mashayekhi and Zeynab Lotfi Aghel (2016), and Muwarningsari (2008) found that firm size had a significant impact on earnings response coefficient (ERC).

Profitability is the company's ability to generate profits. Profitability shows the expected profit growth of the company in the future. It is because profits that will be generated by the company for the future will attract investors to invest their capital. From the results of research by I Gusti, et al. (2016) and Gunawan Santoso (2015), it was stated that profitability did not significantly influence the earnings response coefficient (ERC). These results differ from the results of research conducted by Gusti et al. (2016), Mahboobe Hasanzade, et al. (2013), and Medy Nisrina M (2016), which uncovered that profitability results had a significant effect on earnings response coefficient (ERC).

Leverage indicates how much a company relies on funding from debt to finance its business operations. The higher the level of leverage of a company will cause the low response to the market and can have a negative impact on the value of ERC. It is because if a company that has a high level of leverage reports a profit, the company will prioritize debt payments to creditors rather than dividend payments to investors so that investor responses will be negative. Research conducted by Nofianti (2014), Dewi and Putra (2017) proved that leverage had a negative effect on ERC. Whereas, the results of research by Delvira and Nelvirita (2013), Nurdiyah (2015), and Hasanzade et al. (2013) concluded that leverage had no significant influence on ERC.

Several studies have been carried out on the earnings response coefficient (ERC) on companies listed in the Indonesia Stock Exchange, but there are still different results in each study (research gap). It could be caused by differences in the nature of the independent variables, the dependent variables, and the intervening variables, which were examined, as well as the different observational periods, and so on. In this study, researchers try to make a difference with previous studies by extending research, which is by analyzing data for four periods to test whether the variables affect the earnings response coefficient (ERC) at different times. The next difference lies in the independent variables, namely Corporate Social Responsibility (CSR), Firm Size, Profitability, and Leverage, as well as the dependent variables, including Earning Response Coefficient (ERC). Based on this description, the researchers want to investigate earning response coefficient with the title: THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR), FIRM SIZE, PROFITABILITY, AND LEVERAGE ON EARNINGS RESPONSE COEFFICIENT (ERC) (An Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange for the period of 2015-2018).

LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

Market Efficiency Theory

According to Hartono (2013: 609), a market will be said to be efficient if no one, either an individual investor or an institutional investor, is able to obtain an abnormal return. Conversely, the market is said to be inefficient if one or several market participants can enjoy an abnormal return in a long period of time. Market efficiency is tested by looking at abnormal returns that occur.

Signaling Theory

Signaling theory is assumed that managers can provide information about the company regarding financial statements for investors based on return on investment decisions. In this case, the manager/company is a party who can be expected to know more about the value of the company in the p-ISSN:1411-6510 e-ISSN:2541-6111

future than anyone. It is because if external parties are lacking in obtaining information about the company, it can cause them to protect themselves by giving a low evaluation for a company. Signaling theory is a theory that explains and arises because of the impetus for companies to provide financial statement information to external parties. With capital market studies, managers must give clues to investors and inform them to be able to make investment decisions (Ivan Kurnia and Sufiyati, 2015).

Legitimacy Theory

Legitimacy theory begins with the existence of a social contract between the community and companies in using economic resources (Imroatussolihah, 2013). Meanwhile, according to Sayekti and Wondabio (2007), the legitimacy theory is that a company has a contract with the community to carry out activities based on the values of justice, and how the company responds to various interest groups to legitimize the company's actions. Voluntary disclosure and reporting of social activities in the form of disclosure of corporate social responsibility is a manifestation of legitimacy in the business world.

Corporate Social Responsibility (CSR)

Changes in stock prices move in accordance with investors' expectations of future profits so that the value of information disclosed regarding the announcement of earnings figures will affect the behavior of investors in making decisions (Ball and Brown in Jayanti, 2012). The value of the information disclosed includes disclosure of corporate social responsibility, while investor behavior is the investor's response to the announcement of the company's annual report. In accordance with previous research, Sayekti and Wondabio (2007) state that if uncertainty about the company's future prospects is high, then ERC will also be high. Information disclosed by the company in its annual report is supposed to reduce uncertainty about the company's future prospects. CSR is one of the information disclosed by the company in its annual report. CSR disclosure is believed to reduce investor reaction to earnings announcements that can be measured by ERC. In general, the results of the above studies identify market appreciation of CSR information disclosed by the company in its

annual report. Although the main purpose of these activities is not to increase the company's profit, these activities are expected to have an impact on the company's earnings response coefficient. Thus, the hypothesis of this study is:

H1: Disclosure of Corporate Social Responsibility affects the Earnings Response Coefficient (ERC).

Firm Size

According to Chusnulia et al. (2014), larger firms will pay attention to better performance because they tend to be subjects of public research, so they need to be more open to stakeholder requests. Large firms are relatively more stable and more capable of generating profits than small sized ones. Large firms provide much non-accounting information, such as capital structure, disclosure of social responsibility, and corporate strategic plans. Thus, a larger firm is expected to provide more information disclosure when compared to a smaller firm. Firms with a larger size are generally more focused than smaller sizes because the impact caused by them is extensive and large. Therefore, firms with larger sizes have the initiative to disclose more information when compared to smaller firms, because after all, their survival depends on the end of relationships with stakeholders.

H2: Company size influences the Earnings Response Coefficient (ERC)

Profitability

Profitability is the ability of a company to generate profits at the level of sales, assets, and certain share capital. Profitability is essential to be considered to know the extent of investment to be made by investors in a company that is capable of providing returns in accordance with the level required by investors. The profitability of a company will affect investors' policies on investments made. The company's ability to generate profits will be able to attract investors to invest their funds in order to expand their business. On the contrary, the low level of profitability will cause investors to withdraw their funds. Research by Arfan and Ira A (2008) showed that partially, the profitability variable of the company did not significantly influence the earnings response coefficient. However, according to the research of Satyaningtyas (2009), it revealed that the results of testing the seventh hypothesis in the study indicated that profitability was positively

related and significantly affected the earnings response coefficient. Thus, the hypothesis of this study is:

H3: Profitability affects the Earnings Response Coefficient (ERC)

Leverage

The risk of default is usually seen from the level of leverage that is owned. Leverage is a tool to measure how far a company depends on funding from debt in financing company assets. The use of debt is usually intended to assist companies in developing their production activities so that the company can generate higher profits. For investors, the higher the profit generated means increasing the rate of return to be received by the owner. Therefore, indirectly, the use of debt can increase corporate profits, which means prospering its shareholders. Companies with high leverage identify that they use more debt than the capital they have. The higher the level of leverage, the heavier the financial burden faced by the company, so that it has a high level of risk as well. The high level of risk reflects the possibility that the company cannot repay obligations or debts in the form of principal or interest. Therefore, investor responses tend to be low for companies with high levels of leverage because investors lack confidence in the company's published earnings, and it causes investors to be afraid to invest in these companies. Investors assume that when a company announces profit, it will be allocated first to pay the debts to creditors rather than dividends. Weak investor response due to high leverage can undoubtedly reduce the Earning Response Coefficient at the company concerned. The results of research by Nofianti (2014), Dewi and Putra (2017), Dhaliwal et al. (1991), Moradi et al. (2010), and An (2015) proved that leverage had a negative effect on ERC. However, Valipor and Moradbeygi's (2011) research found a different result, which was a positive relationship between leverage and earnings quality. Based on these studies, the hypothesis that can be formulated is:

H4: Leverage influences the Earning Response Coefficient (ERC)

RESEARCH METHODS

Population, Samples, and Sampling Techniques

This type of research was quantitative research with the data used were secondary data sourced from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange in 2015-2018. The data were obtained through direct access from the Indonesian Stock Exchange website (www.idx.com). The population in this study was the manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2015-2018. Whereas, the sampling in this study employed a purposive sampling method, which is a sample selection technique based on specific criteria. The sample selection criteria were as follows: (1) Manufacturing companies included in the Basic Industry and Chemicals sector. (2) Companies listed on the Indonesia Stock Exchange from 2015-2018. (3) Companies included in the industry group that published annual financial reports during the observation period from 2015 to 2018. (4) Manufacturing companies that had positive profits using the rupiah currency as the currency of financial reporting. (5) Companies that had data regarding Corporate Social Responsibility.

Definition of Operational Variables and their Measurements

Dependent Variable

Earnings Response Coefficient

Scoott (2015) defines ERC as a market reaction to earnings information published by companies that can be observed from stock price movements around the date of publication of financial statements. ERC could be obtained from the regression between the proxy of stock prices and accounting earnings. The share price proxy used was the cumulative abnormal return (CAR), while the accounting profit proxy was unexpected earnings (EU).

The earnings response coefficient of accounting is the effect of unexpected earnings on CAR, which is shown through the slope coefficient in the regression of abnormal returns of shares with the EU. It indicates that ERC is a CAR reaction to earnings announced by the company. The reaction given depends on the quality of earnings generated by the company (Diantimala, 2008). The calculation of earnings response coefficient is as follows:

Calculating Cumulative Abnormal Return (CAR)

CAR, when accounting earnings were published, was calculated in a short event window for seven days (three days before the event, one day of the event, and three days after the event), which was considered sufficient to detect abnormal returns that occurred due to the publication of earnings before the confounding effect influenced the abnormal return. CAR was formulated as follows:

$$CAR_{i,(t-3,t+3)} = \sum_{t-3}^{t+3} ARi, t$$

Where:

 $CAR_{i,(t-3,t+1)}$ = Cumulative abnormal return of company i for 3 days before and after accounting profit is published on time t

Ari,t = Abnormal return of company i on day t

To calculate the abnormal return, it used the formula (Suwardjono, 2014):

$$ARi,t = Ri,t - Rmi,t$$

Where:

ARi,t = Abnormal return of company i in the t-year

Ri,t = Company return in the t-year Rmi,t = Market return in the t-period

To obtain an abnormal return, first, the company's return and market return must be calculated. The company return was calculated by the formula (Suwardjono, 2014):

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

Where:

Rit= Return of company stock i on the t-day Pt = The closing price of the stock on the t-day Pt-1 = The closing price of the stock on day t-1 The market return was calculated by the formula (Jogiyanto, 2007):

$$R_{mt} = \frac{IHSG_i - IHSG_{i-t}}{IHSG_{i-t}}$$

Where:

Rmt = daily market return

 $IHSGit = index of the composite stock \\ price on day t$

IHSGit-1 = index of composite stock price on day t -1

Meanwhile, the Unexpected Earning (EU) was calculated using measurements (Jogiyanto, 2007).

$$UE = \frac{E_{it} - E_{it-1}}{E_{it-1}}$$

Where:

UE = Unexpected earnings of the company i in the t-year

Eit = Corporate accounting profit i in the t-year

Eit-1 = company's accounting income i in the previous year period (t-1)

To calculate the Profit Response Coefficient (Dwikarya, 2008):

$$CAR_{i(t-3,t+3)} = \beta_0 + \beta_1 UE_{i,t} + \varepsilon$$

Where:

CARit = Cumulative abnormal return of company i during period t

UEi,t = Profit that is not expected by company i in period t

 $\beta_0 = a \text{ constant}$

 β_1 = the surprise profit coefficient, which is ERC

 ε = standard error

Independent Variables

Corporate Social Responsibility (CSR)

CSR disclosure is the extent of information about social, environmental, and community activities. CSR Disclosure used the 2016 version of the GRI (Global Reporting Initiative) criteria as an indicator of CSR disclosure. The CSR information contained in the annual report would be compared with the 2016 version of the GRI standard which, is divided into two standards, consisting of four series, namely:

1. Universal Standards (series 100): This series includes three Universal standards,

such as GRI 101 (Platform), GRI 102 (General Disclosure), and GRI 103 (Management Approach).

 Standards for Specific Topics (Series 200, 300, 400): Series 200 (Economic Topics), 300 (Environmental Topics), and 400 (Social Topics) include many specific topic standards. These series are used to report information on organizational impacts related to economic, environmental, and social topics (e.g., Indirect Economic Impacts, Water, or Staffing)

According to Sayekti and Wandabio (2007), each item disclosed was given a value of 1 and which was not disclosed was given a value of 0. Furthermore, the scores of each item were summed to obtain an overall score for each company; the formula is:

$$CSDI_{j} = \frac{\sum X_{Ij}}{n_{i}}$$

Note:

CSDI : Corporate Social Responsibility Disclosure Index of the company j.

Xij : Dummy variable; a score of 1 for disclosed CSR items and a score of 0 for undisclosed items.

Nj : The number of items for company j, nj = 133.

Firm Size

The proxy used in this variable is the total assets of the company. In this study, the total assets used were real values without rounding. Total assets would be transformed into natural logarithms. The formula is:

Size = Ln (Total Asset)

Profitability

Firm profitability shows the ratio between earnings and assets, or capital that produces profits. In other words, profitability is the ability of a company to generate profits during a specific period generally formulated as L/A, where L is the amount of profit obtained during a specific period, and A is an asset that generates a certain profit. The possibility of generating profits referred to in this study, of course, was the ability to generate profits employing all assets owned (return on assets = ROA). The mathematical equation is (Setiawati et al., 2004):

$$ROA = \frac{Net \ profit}{total \ asset}$$

Leverage

Leverage ratio is a measure of how much a company is financed with debt originating from creditors used with capital. The indicator used to measure the level of leverage was the Debt to Equity Ratio (DER), with the formula:

$$DER = \frac{total \, liability}{equity}$$

In this study, the model used was multiple regression analysis. It was employed to test the relationships and effects resulting from several independent variables on one dependent variable. It was also utilized to estimate the average population value or the value of the average dependent variable based on the value of the independent variable. This analysis can also measure the strength of the relationship between the variables used and show the direction of the relationship between these variables. The regression model used to test the hypothesis in this study has been formulated as follows:

$$ERC = \alpha + \beta_1 CSR + \beta_2 UP + \beta_3 P + \beta_4 L + \varepsilon$$

Where:

ERC	= Earnings Response Coefficient
α	= A constant
$\beta_1 CSR$	= Corporate Social Responsibility
$\beta_2 UP$	= Firm Size
$\beta_3 P$	= Profitability
$\beta_4 L$	= Leverage
ε	= Standard Error

RESULTS AND DISCUSSION

Classic Assumption Test

Normality Test

The normality test in this study used the Kolmogorov Smirnov One-Sample Test and the results obtained are as follows:

Table 1V. 1 Normality Test			
Test	Unstandardized Residual		
Kolmogorov-Smirnov Z	1,355		

Asymp. Sig. (2-Tailed) 0,051

Source: Results of the SPSS Data Process, 2019

Based on the results of the normality test above, it was found that Asymp. Sig showed a result of 0.051 or 5.1%. It indicated that the data had been normally distributed because of the Asymp value. Sig was higher than 0.05 or 5%.

Multicollinearity Test

Multicollinearity test aims to test the regression model, whether there is a high correlation between independent variables. The results of multicollinearity testing in this study are as follows:

Table 1V. 2
Multicollinearity Te

Multiconnearity lest						
Variable	Collinearity Statistics		Explanation			
	Tolerance VIF					
(Constant)						
CSR	0,864	1,157	No Multicollinearity Occurs			
UP	0,913	1,096	No Multicollinearity Occurs			
Р	0,830	1,205	No Multicollinearity Occurs			
L	0,852	1,174	No Multicollinearity Occurs			

Source: Results of the SPSS Data Process, 2019

Based on the results of the multicollinearity test above, it indicated that there was no one independent variable that had a VIF value higher than 10, and the tolerance value had a value above 0.10, meaning that the regression model has been free from the presence of a high correlation between the independent variables. Thus, the model was free from multicollinearity.

Heteroscedasticity Test

Heteroskedasticity testing aims to test whether the regression model occurs in the variance of the residual inequality from one observation to another. The results of heteroscedasticity testing in this study using glacier test obtained the results, as follows:

Table 1V. 3	
Heteroscedasticity Test	

Sig	Explanation
0,343	No Heteroscedasticity Occurs
0,099	No Heteroscedasticity Occurs
0,090	No Heteroscedasticity Occurs
0,242	No Heteroscedasticity Occurs
	Sig 0,343 0,099 0,090 0,242

Source: Results of the SPSS Data Process, 2019

Based on heteroscedasticity testing, it showed that all independent variables had a significant value above 0.05 or 5%, meaning that the regression model was free from the inequality of variance from one residual to another observation. Thus, it could be concluded that the model was free from heteroscedasticity.

Autocorrelation Test

Autocorrelation test aims to test whether, in a linear regression model, there is a correlation between the confounding errors in the period t with the confounding errors in the period t-1 (previous) (Santoso, 2008: 219 in Itsnaini and Subardjo, 2017). The test was carried out employing the Durbin Watson (DW) test with the following provisions: (1) DW value, which value is above 2, means that there is a negative autocorrelation, (2) DW value between -2 to 2 means that there is no autocorrelation or free from autocorrelation, (3) DW value that is small or below -2 means that there is a positive autocorrelation. This study utilized the Durbin Watson test, and the results obtained are as follows:

Table 1V. 4 Autocorrelation Test

Model	Variable	Durbin-	Conclusion	
		Watson		
1	ERC	1,570 No Autocorrelation		
Happens				
Source: Results of the SPSS Data Process, 2019				

Based on the above table, the D-W value of 1.570 was obtained at -2 < 1.570 > 2, indicating that the regression model was free from autocorrelation.

Hypothesis Testing Multiple Linear Regression Test

Mode

1

Hypothesis testing in this study employed multiple linear regression test to examine the independent variables on the dependent variable. The results of hypothesis testing are as follows:

Table 1V. 5 Multiple Linear Analysis Test Results					
el	Variable	Coefficient	t	Sig	Conclusion
	(Constant)	0,227	1,588	0,116	
	CSR	0,305	2,369	0,020	H, is

COIL	0,000	2,007	0,020	11,10
				accepted
UP	-0,012	-,2,198	0,31	H ₂ is
				accepted
Р	0,089	0,418	0,677	H ₃ is
				rejected
L	0,010	1,021	0,310	H ₄ is
				rejected
F count	2,634			
R ²	0,110			
Adjusted R ²	0,068			
Sig.	0,040			

Source: Results of the SPSS Data Process, 2019

The hypothesis test results above show the multiple linear regression equation, as follows:

ERC = 0,227 + 0,305 CSR - 0,012 UP + 0,089 P + 0,010 L + e

F Test

The F test basically shows whether all the independent variables entered in the model are fit or not. The results of the F test presented in table 5 states that F-count had a value of 2.634, with a significant level of 0.040. Because the significant value was smaller than 0.05, it could be concluded that the independent variables, including Corporate Social Responsibility (CSR), Firm Size, Profitability, and leverage, indicated a fit model. It shows that simultaneously, the Earnings Response Coefficient could be explained by the variables

of Corporate Social Responsibility (CSR), Firm Size, Profitability, and Leverage.

Determination Coefficient Test (R²)

The coefficient of determination value is basically used to measure how far the ability of a model to explain the variation of the dependent variable. The coefficient of determination (Adjusted R2) in table IV.5 showed a value of 0.068. It could be interpreted that the independent variables of Corporate Social Responsibility (CSR), Company Size, Profitability, and Leverage, could explain the independent variable of Earning Response Coefficient by 6.8%. Then, the remaining 93.2% was influenced by other variables outside the model.

T-Test

A T-test is used to test the research hypothesis about how far the influence of each independent variable in explaining the dependent variable. The criteria are applied if the significant value is less than 0.05, then the hypothesis can be accepted. Based on table 5, the following results were obtained:

- a. The significant value of Corporate Social Responsibility (CSR) showed a value of 0.020, meaning that Corporate Social Responsibility (CSR) had an effect on the Earning Response Coefficient. It was because the significance value of Corporate Social Responsibility (CSR) of 0.020 was declared smaller than the specified criteria, which was a significance value of 0.05. Thus, it could be concluded that H₁ was accepted.
- b. The significant value of the Firm Size indicated a value of 0.031, which means that the Size of the Firm influenced the Earning Response Coefficient. It was due to the significant value of the Company Size of 0.031, which was stated to be smaller than the specified criteria, namely the significance value of 0.05. Therefore, it could be concluded that H_2 was accepted.
- c. The significant value of profitability showed a value of 0.677, meaning that profitability had no impact on the

Earning Response Coefficient. Because the significance value of profitability of 0.677 was stated to be greater than the specified criteria, which was a significance value of 0.05, it could be concluded that H_3 was rejected.

d. The significant value of Leverage indicated the value of 0.310, which means that Leverage has no influence on the Earnings Response Coefficient. It was because the Leverage significance value of 0.310 was stated to be greater than the specified criteria, which was a significance value of 0.05. Thus, it could be concluded that H_4 was rejected.

Discussion

Effect of Firm Size on Earnings Response Coefficient (ERC)

Based on the results of statistical research, Firm Size showed the t-value of -2.198, with a significant level of 0.031, which was smaller than 0.05. Thus, it could be concluded that H2 was accepted.

This study indicated that there was an influence of Firm Size on Earnings Response Coefficient (ERC). The results of this study are in line with research conducted by Kosa (2014), but contrary to research conducted by Diantimala (2008), Murwaningsari (2009), Kurnia and Sufiyati (2015), Gunawan Santoso (2015), and Medy Nisrina M (2016)), which stated that the size of the firm was proven to have no effect on the earnings response coefficient. Large firm size would increase the value of the earnings response coefficient. Larger companies tend to have higher public demand for information compared to smaller companies. Therefore, large companies will find it easier to innovate by utilizing the assets they have. These innovations will have a major effect on company profits.

Effect of Profitability on Earning Response Coefficient (ERC)

Based on the results of statistical research, Profitability indicated a t-value of 0.0.418, and the significant level of 0.677 was greater than 0.05, so it could be concluded that H3 was rejected. Based on the results of hypothesis testing that has been done, it showed that profitability did not affect the Earning Response Coefficient with the direction of a positive coefficient, meaning that the higher the profitability of a company will increase investor response to earnings information. Thus, the third hypothesis in this study, which stated that profitability affected the Earning Response Coefficient, was rejected. It indicated that profitability was not a sufficient factor considered by investors in making investment decisions.

The researchers' argument to support this statement is related to the existence of a negative and insignificant relationship due to the current economic conditions that triggered low-risk-averse investors to sell shares as well as simultaneously so as to reduce stock prices significantly. Whereas, in these conditions, high-risk-averse investors actually buy shares, due to their optimism with a comprehensive study of undervalued stock values when inflation will provide a good return in the long run (Setyaningtyas, 2009). In addition, investors assume that the company's ability to generate profits will be more profitable for debt holders if the company has large long-term debt; high profitability, which is proxied through ROA, does not necessarily describe the profit desired by investors because companies that have high profitability are worried or suspected of carrying out management practices earnings (Iin and Ssubowo, 2005).

These results are not in accordance with the research of Hasanzade et al. (2013), Erma et al. (2014), and Rosa (2013), which obtained the result that profitability had a significant effect on ERC. Every time there is an increase in profits in a company, the investor's response to the company also increases. It means investors will respond highly to the earnings information. The results of this study proved that the size of the profitability obtained by the company affected the ERC so that it could be used to increase ERC in the future compared to companies with low profitability.

However, the results of this study support research conducted by Cristine (2008),

Muhammad and Ira (2008), and Yulius (2012), which argued that profitability did not have a significant effect on ERC. It could happen because researchers used positive and negative earnings values in calculating the value of ROA. According to Zahroh (2005), companies with negative earnings had a lower ERC compared to companies that had positive profits.

The implication of this research is that profitability has no significant effect on ERC, indicating that investors do not pay much attention and make the level of profitability a basic priority consideration in making decisions before investing. Therefore, the profitability of a company does not affect investors in making investment decisions. Investors may be more concerned with the rate of return seen from the investment they do.

Effect of Leverage on Earning Response Coefficient (ERC)

Based on the results of statistical research, Leverage showed a t-value of 0.1,021, and a significant level of 0.310 was greater than 0.05, so it could be concluded that H4 was rejected.

The results of this study indicated that leverage did not affect ERC. The results of this study are not in accordance with the research results of Sayekti (2007) and Ambarwati (2008) stating that companies with high debt levels of profit would be prioritized for creditors, while investors would get a share after creditors, and did not rule out the possibility of default risk. Also, if it occurred continuously, it would cause bankruptcy risk.

The results of this study are consistent with the results found by Cahyaningsih (2009), who researched the effect of leverage on ERC in the financial industry. Empirical studies conducted did not find any influence between leverage on ERC. This difference is due to the object of research by Cahyaningsih (2009) was the financial sector in which debt in this industry is one of the main activities carried out, namely collecting and distributing funds. Debt is one of the external sources of funds used to channel funds to the public. The greater the debt held, the higher the ability to channel funds, and it will be able to increase profits. This study used high-profile (nonfinancial) corporate objects, so debt is an additional fund for the company's operational activities.

CONCLUSION

- a. Corporate Social Responsibility (CSR) affected the Earnings Response Coefficient (ERC.
- b. Company size influenced the Earnings Response Coefficient (ERC).
- c. Profitability did not affect the Earnings Response Coefficient (ERC).
- d. The Leverage variable had no impact on the Earnings Response Coefficient (ERC)

Research Limitations

- a. The data used in this study only employed secondary data with the 2015-2018 observation period.
- b. The sample used in this study was only manufacturing companies listed on (IDX), so the results of this study cannot represent all the existing company sectors.
- c. The analysis showed that the independent variable was only able to express a little effect on the Earnings Response Coefficient (ERC), which was around 6.8%.

Recommendation

- a. By adding the research period, it is expected to provide better research results.
- b. Further research can add other sectors or can use the entire company in order to generalize the research results.
- c. Future studies are expected to add other variables, so that they can be used as variables in subsequent Earnings Response Coefficient (ERC) research, such as earnings persistence, systematic risk, conservatism, growth opportunities, default risk, etc., which may influence the Earnings Response Coefficient (ERC).

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