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THE EFFECT OF GROWTH OPPORTUNITY, PROFITABILITY, CSR, FIRM SIZE, AND LEVERAGE ON EARNING RESPONSE COEFFICIENT

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ABSTRACT

The earnings response coefficient (ERC) measures the magnitude of a stock's abnormal return in response to the abnormal earnings components (unexpected earnings) reported by the company that issued the stock. This study, thus, aims to analyze the effect of growth opportunity, profitability, corporate social responsibility (CSR), company size, and leverage on the earnings response coefficient (ERC) in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sampling technique used in this study was purposive sampling. The sample of this study consisted of 180 companies that met the criteria as the unit of analysis. The analytical method employed was multiple linear regression analysis. The study results provide empirical evidence that CSR, firm size and leverage affected the earnings response coefficient. Meanwhile, growth opportunity and profitability did not affect the earnings response coefficient.

INTRODUCTION

The growth in investors in the Indonesian capital market, which occurs annually, is a sign that the market is developing and has more potential. This growth occurred during the COVID-19 pandemic and was dominated by domestic retail investors. Investors in making investment decisions, both buying and selling shares, need complete information about the actual condition of the company. The general condition of the company is described in the company's financial statements.

Financial statements are one of the information users employ in making decisions. Mainly, profit is a concern for certain parties in estimating management performance and accountability in managing resources and can be used to estimate company prospects in the future (Mahendra and Wirama, 2017). If the credibility of financial information is low, investor response will be bad. Investors' evaluation of a company's performance raises various reactions, which in turn can affect share prices so that stock prices around the issuance date tend to change.

Kusuma and Subowo (2018) stated that the coefficient measure that determines the response of stock prices to formations contained in accounting profit is called the earning response coefficient (ERC). ERC is the level of sensitivity of the market reaction to information on profit surprises (Sasongko, Kuning Puspawati, and Wijayanto, 2020). From this understanding, ERC is a measure of the abnormal return of a security in response to the unexpected income component reported by the company by issuing the security.

ERC aims to quantify a security's amount of abnormal return in reaction to the unexpected earnings component reported by the corporation that issued the relevant securities. ERC is also helpful to investors in their fundamental analysis of research models to ascertain how the market will respond to news of corporate profits.

The abnormal return itself is the difference between the security's realized and expected returns. On the other hand, unexpected return is the difference between the realized profit and the expected profit of a company. Immanuel and Prabowo (2021) explained ERC as a form of signaling theory in which the company will provide a signal in the form of an income report to stakeholders, which will then be responded to by stakeholders, resulting in a change in share prices. The high or low ERC that occurs depends on the quality of the profit presented (Abbas et al., 2020).

Moreover, the lack of credibility of financial statements reduces investor confidence in the quality of earnings, resulting in a low ERC value of the company. The ERC value is decreasing along with the decreasing public attention to the value of profit and other factors besides profit. Several factors can influence investor response in making decisions, and the current researchers focus on growth opportunity, profitability, corporate social responsibility (CSR), firm size, and leverage.

Growth opportunity is a chance for the business to grow in the future, which may be reflected through the business's assets. Opportunity growth will increase future profit expectations, thus affecting the company's ERC. Positive information about the company will increase its value, leading to an increase in ERC. However, negative information about the company can reduce its value and thus reduce ERC.

The capacity of a business to produce profits to raise shareholder value is referred to as profitability. Profitability shows the expected profit growth of the company in the future. The profits the company will generate in the future will attract investors to invest their capital. The ERC will be higher for companies with growth in accounting profit.

Further, many social cases and regulations oblige companies to carry out CSR, causing CSR information to become the main focus of investors, apart from profit data, in investment decisions. The broader the scope of corporate social responsibility information disclosure, the more information investors will have about the extent of their responsibility towards the company and the social and environmental impacts of the company's business activities.

Firm size measures its assets to demonstrate how well it manages its overall assets (Sasongko, Kuning Puspawati, and Wijayanto, 2020). Investors will increasingly respond to profits issued by companies if the company's assets are significant, and investors will invest more often in large companies because they are considered capable of improving company performance by increasing the quality of their earnings.

Leverage is a ratio that shows how a firm's

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debt and capital relate. It shows how much of the company is financed by debt or outside sources and how much of its capacity is represented by capital. Companies with high debt can affect the desire of investors to invest since there is a risk in paying debts. Although companies with considerable risk can promise high returns, the level of uncertainty, on the other hand, is also high. Leverage can also reduce ERC because accounting profit will provide information about the entire company's value, not only the equity value (Lasmida & Ekadjaja, 2020).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Efficient Market Theory

The theory of an efficient capital market was first put forward by Fama (1970), which asserted that prices formed in the market reflect existing information. In an efficient capital market, information that enters the market will be responded to quickly by the market, resulting in changes in stock prices. Based on this theory, information on the increase or decrease in earnings must also be consistent with the stock price at the time of the earnings announcement (Ratnasari, 2022).

Investors' rationality, efficiency, and randomness serve as the foundation for this theory. Market participants with superior knowledge will pressure others to acquire more accurate information to prevent losses. The efficient capital market theory was employed in this study to analyze how firm size, growth opportunity, earnings persistence, and systematic risk affected ERC.

Signaling Theory

According to the signaling theory, managers can provide investors with a company's financial reports based on their decisions on investment return. In this case, the manager or company is a party expected to know more about the company's value in the future than anyone else. If external parties lack information about the company, it can cause them to protect themselves by giving a low company assessment.

Announcement of earnings is one form of a signal given by the company. The announcement of profit information will affect market reactions (Widiatmoko and Kentris Indarti, 2018). A positive response will increase the ERC value. And vice versa, a negative response shows a lack of expectations of future company profits by investors so that ERC decreases.

Legitimacy Theory

Legitimacy theory elucidates that a firm has a contract with the community to carry out operations based on the ideas of justice, which also explains how companies react to different interest groups to justify corporate actions. Voluntary disclosure and reporting of social activities in the form of corporate social responsibility disclosure is a form of legitimacy in the business world. Implementing the social contract is intended to ensure the company's survival.

Earning Response Coefficient

The earnings response coefficient (ERC) calculates the size of an abnormal return on a stock concerning an abnormal earnings component (unexpected earnings) recorded by the corporation that issued the shares. ERC is also an estimate of changes in the company's stock price due to the company's earnings information being announced to the market. When there is a profit announcement, investors have expectations of the published information.

The market will respond to published earnings reflected in the company's stock price movement. The market response will be more robust if the accounting profit is high quality. ERC is measured by the coefficient slope in the regression of abnormal stock returns and unexpected earnings reported by the company.

Growth Opportunity

Growth opportunity describes the company's growth prospects in the future. The market assessment of the possibility of a company's growth can be seen from the share price formed as an expected value of the future benefits to be obtained. Shareholders will give a more significant response to companies with high growth opportunities. It happens because companies with high growth opportunities will provide high benefits in the future for investors (Ramadani & Darmayanti, 2022).

The higher the growth of a company, the greater the potential income generated by the company in the future. It gives a positive signal of increasing investor prosperity so that this condition will improve market response. Companies with high growth opportunities are considered to have better opportunities to attract capital in the market. It results in the company's performance in the next period, and the profits generated can increase, so investors tend to respond to companies with high growth opportunities.

Studies by Sasongko, Kuning Puspawati, and Wijayanto (2020) and Ramadani and Darmayanti (2022) showed the influence of growth opportunity on ERC. Based on the description above, companies with high growth opportunities tend to have high ERC values. Therefore, the first hypothesis of this study is as follows:

H1: Growth opportunity affects the earnings response coefficient.

Profitability

Profitability is a ratio measuring the income or success of a company's operations in a certain period. This ratio also measures the effectiveness of a company's management and can affect the company's liquidity position and ability to grow. It is demonstrated by the profit generated from sales and investment income.

A positive signal in the form of profit is good news that investors always expect from the companies where they invest. When a company announces a profit, investors respond quickly to this information because profit is considered profitable in the dividend distribution. Therefore, the higher the profitability, the greater the response from investors, so the company will try to generate high profits to increase stock prices. The amount of investor response to profits will also impact the high ERC value.

Research by Ratnasari (2022) and Sherlia Herdirindanasari (2020) found that profitability positively affected ERC. Based on the description above, companies with high profitability tend to have high ERC values. Therefore, the second hypothesis of this study is as follows:

H2: Profitability affects the earning response coefficient.

Corporate Social Responsibility

The business world no longer pays attention to financial reports (single bottom line) but also to three crucial aspects, including financial, environmental, and social aspects (triple bottom line). Many companies disclose information on social responsibility or corporate social responsibility (CSR) in corporate annual reports, which are still voluntary, as one of their business strategies and to comply with established regulations.

CSR is one of the pieces of information disclosed by the company in its annual report. CSR disclosure is believed to increase investor reaction to earnings announcements, which ERC can measure. CSR disclosure is also expected to provide additional information to investors besides what is already included in accounting profit. Even though the primary purpose of these activities is not to increase company profits, these activities will impact the company's profit response coefficient.

In the research of Kusuma and Subowo (2018), Sasongko, Kuning Puspawati, and Wijayanto (2020), and Immanuel and Prabowo (2021), CSR disclosure affected ERC. Based on the description above, companies with CSR disclosures have high ERC values. Therefore, the third hypothesis of this study is as follows:

H3: Corporate social responsibility affects the earnings response coefficient.

Firm Size

Firm size is a scale in which the size of a company can be classified in various ways, including total assets, net sales, and market capitalization. One of the benchmarks indicating the size of the company is the size of the company's assets. The bigger the firm size, the more investors pay attention to the company.

Large companies are considered to have good performance and systems to control, manage, and deal with all the assets owned by the company. Effective and efficient control, management, and dealing with company assets have the potential to generate profits. Thus, as seen from its total assets, the larger the company's size, the more investors respond positively to the announced earnings.

Research by Sasongko, Kuning Puspawati, and Wijayanto (2020) and Sherlia Herdirindanasari (2020) revealed that firm size influenced ERC. Based on the description above, the fourth hypothesis of this study is as follows:

H4: Firm size affects the earnings response coefficient.

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Leverage

Investors will be cautious in buying shares issued by companies due to the risks they will face. Even though the return investors will get is high, if faced with considerable risk, investors will think again about investing. Companies with high debt will cause investors and creditors to be more careful as it can cause a company's default risk to be borne by creditors, and there is no guarantee by the government.

With the condition of high debt owned by the company, it will cause investors to be slow in making decisions or even not interested in investing through the purchase of the company's shares. Under these conditions, the company's ERC will decrease, causing the company's stock price to fall (Budi, 2019).

Studies carried out by Sarahwati *et al.* (2021), Suardana and Dharmadiaksa (2018), and Lasmida and Ekadjaja (2020) revealed that leverage affected ERC. Based on the description above, the fifth hypothesis of this study is as follows:
H5: Leverage affects the earnings response coefficient.

RESEARCH METHOD

Population and Sample

This research is quantitative by processing research data using statistics. Quantitative data were obtained using secondary data from annual reports and financial statements of each manufacturing company listed on the IDX for the 2019-2021 period obtained through www.idx.co.id. The sampling method used in this study was purposive sampling, meaning that the samples were taken deliberately and selected based on particular specific needs. The samples in this study were manufacturing companies listed on the IDX for three years, starting from 2019-2021. The samples in this study were taken based on the following provisions: (1) Manufacturing companies listed on the Indonesia Stock Exchange during the observation period of 2019-2021; (2) Presenting annual reports and financial reports for the 2019-2021 observation period; (3) Companies that did not suffer losses in the 2019-2021 observation period; (4) Providing data information to be used as a factor analysis of each variable during 2019-2021.

Variable Operational Definition and Measurement

Dependent Variable

Earning Response Coefficient

The dependent variable in this study was the earning response coefficient/ERC (Y). ERC is the effect of unexpected earnings on CAR, shown through the slope coefficient in the regression of abnormal stock returns with UE. It denotes that ERC is CAR's reaction to the earnings announced by the company. The reaction depends on the quality of the profits generated by the company. ERC can be measured in several steps. The first step is calculating the CAR; the second is calculating the EU and the ERC value.

a. Calculating the cumulative abnormal return (CAR)

When accounting profit is published, it is calculated in the short event window for seven days (three days before the event, one day after the event, and three days after the event), which is considered sufficient to detect abnormal returns that occur. CAR is formulated as follows (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

$$CARi,t = \sum ARi,t$$

Where:
CARi,t = CAR of company *i* during the event window
ARi,t = Abnormal return for company *i* in period *t*

Abnormal return can be calculated by the following formula (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

$$ARi,t = Ri,t - Rm,t$$

Where:
ARi,t = Abnormal return for company *i* in period *t*
Ri,t = The daily return of company *i* shares in period *t*
Rm,t = Market daily return in period *t*

To calculate the company's daily stock return, the following formula was used (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

$$Ri,t = (Pi,t - Pi,t\text{-}1) / (Pi,t\text{-}1)$$

Where:
Ri,t = The daily return of company *i* in period *t*
Pi,t = The value of the company's stock price *i* in period *t*
Pi,t-1 = The value of the stock price of company *i* in period *t*-1

Calculating the market's daily return was done by formula (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

Rm,t = (IHSG,t - IHSG,t-1) / (IHSG,t-1)

Where:
Rm,t = Daily market return in period *t*
IHSG,t = Composite Stock Price Index in period *t*
IHSGt-1 = Composite Stock Price Index in period *t*-1

b. Calculating unexpected earnings (EU)

UE was determined by the following formula (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

UEi,t = (Ei,t -,Ei,t-1) / (Ei,t-1)

Where:
Ei,t = Earnings per share (EPS) of company *i* in period *t*
Ei,t-1 = Earnings per share (EPS) of company *i* in period *t*-1

3) Calculating earnings response coefficient (ERC)

To calculate the earnings response coefficient (Sasongko, Kuning Puspawati, and Wijayanto, 2020):

CARi,t = α + β (UEi,t) + ε

Where:
CAR = Cumulative Abnormal Return
α = Constant
β = The coefficient indicating ERC
UE = Unexpected Earning
ε = error

Independent Variables

Growth opportunity

A change (increase or reduction) in the company's total assets constitutes a growth opportunity. The measurements utilized in this study refer to research used by (Ukhriyawati and Dewi, 2019). Growth opportunity was measured by the formula:

Growth opportunity = (Total asset of i,t - Total asset of i,t-1) / (Total asset of i,t-1)

Profitability

In general, ROA defines profitability, which is the capacity of an organization to produce profits over an extended period. The mathematical equation is (Darmawan, 2022):

ROA = Net profit/Total asset

Corporate social responsibility

CSR disclosure is about the extent of information about social, environmental, and community activities. CSR disclosure used the 2016 GRI (Global Reporting Initiative) criteria to indicate CSR disclosure. CSR assessment employed a dummy model system: when the required criteria were available in the company, the company was given a value of 1, and if the required criteria were not found in the company, it was given a value of 0. To calculate CSR (Immanuel and Prabowo, 2021), the formula is as follows:

CSR = Total CSR disclosure score/Number of GRI Version 2016 indicators

Firm size

A company's firm size is a measurement of the assets it has to demonstrate how well it manages its overall assets. Total assets were converted to the natural logarithm. To calculate the firm size (Sari and Rokhmania, 2020):

Firm size = natural log (total assets)

Leverage

Leverage is a measurement used to assess how much a business depends on its creditors to finance its assets. Leverage can be measured using the debt-equity ratio (DER), comparing the amount of debt with the amount of equity. Investors and companies usually use this ratio to assess how much a company's debt is compared to the company's capital. Leverage was measured by DER (Tamara and Suaryana, 2020):

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Leverage = Total liabilities/Equity

Data analysis technique

This research was tested using linear regression analysis. The multiple linear regression equation models to be tested are as follows:

$$ERC = \alpha + \beta 1GO + \beta 2P + \beta 3CSR + \beta 4FS + \beta 5L + e$$

Where:
ERC = Earning response coefficient
α = Constant
β1- β5 = Regression coefficient
GO = Growth opportunity
P = Profitability
CSR = Corporate sosial responsibility
FS = Firm size
L = Leverage

RESULTS AND DISCUSSION

Descriptive statistical analysis provides an overview of the variables, which can be seen in Table 1 below:

Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
ERC	180	-2.35	1.10	-0.07	0.43
Growth opportunity	180	-0.46	2.52	0.08	0.23
Profitability	180	0.00	0.41	0.07	0.07
CSR	180	0.11	0.61	0.23	0.10
Firm size	180	26.15	33.49	28.84	1.43
Leverage	180	0.00	3.82	0.79	0.62
Valid N (listwise)	180				

Based on Table 1, the number of samples in the study (N) after the outliers were carried out was 180. Thus, it can be inferred that manufacturing companies listed on the IDX from 2019 to 2021 had a mean ERC of -0.07. In other words, the market average was less responsive to published profits. The mean growth opportunity of 0.08 indicates that the company was experiencing positive growth from the previous year. The mean profitability proxied by ROA was 0.07. In addition, the company's ability to generate net profit was 7% of total assets.

The mean value of CSR disclosure was 0.23, meaning that the mean CSR disclosed was 21 items out of 89 items that should be disclosed. Besides, the firm size's mean was 28.84, which signifies that the mean total assets of manufacturing companies for the 2019-2021 period were IDR 12,003,752,520,828.00. Then, the mean leverage proxied by a DER of 0.79 denotes that the company's ability to settle all of its obligations was 79% of equity.

Classical Assumption Test

Normality Test

The normality test in this study used the CLT (Central Limit Theorem) test. If the number of observed data is large enough (n is more than 30), the data results are getting closer to normal. In this study, the number of n was 180, greater than 30. It indicates that the data in this study were normally distributed.

Multicollinearity Test

The multicollinearity test results showed that all independent variables had a tolerance of more than 0.10 and a VIF value of less than ten, so it can be concluded that the regression model was free from multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test results using the scatter plot graph revealed no clear pattern, and the points spread above and below the zero on the Y axis. Thus, it can be inferred that the regression model did not contain a heteroscedasticity problem.

Autocorrelation Test

The autocorrelation test results obtained a DW (Durbin Watson) value of 1.850. Since this study had five independent variables and a total sample size of 180, DU tables < DW statistics < (4-DU tables); 1.8135 < 1.850 < 2.1865, the data did not have autocorrelation.

Hypothesis Testing

Multiple Linear Regression Results

Table 2. Multiple Linear Regression Test Results

Model	Coefficients	t	Sig.
(Constant)	3.094	4.095	0.000
Growth Opportunity	-0.256	-1.797	0.074
Profitability	-0.630	-1.459	0.146
CSR	1.205	3.298	0.001
Firm Size	-0.123	-4.385	0.000
Leverage	0.208	-3.584	0.000

Based on Table 2, a regression equation could be made, which would complement the results found in the study:

$$ERC = 3.094 - 0.256GO - 0.630P + 1.205CSR - 0.123FS + 0.208DR + \varepsilon$$

F-Test Results

Table 3. F-test results

Model		F	Sig.
	Regression	5.255	.000[b]
1	Residual		
	Total		

From Table 3, the F-test results uncovered a significance value of 0.000. Because the significance value produced by the F-test was less than 0.05, it can be concluded that the multiple regression model met the requirements and could be said to be a fit regression model.

Coefficient of Determination (R^2)

Table 4. Determinant Coefficient (R^2) Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.362[a]	0.131	0.106	0.41101

Table 4 shows that the Adjusted R Square value was 0.106 or 10.6%. It denotes that the independent variables, namely growth opportunity, profitability, CSR, firm size, and leverage, could explain the variation of the dependent variable, i.e., the earning response coefficient (ERC) of 0.106 or 10.6%. In comparison, the remaining 89.4% were explained by other variables not included in this study.

Hypothesis Test Results (t-test)

The extent to which each independent variable contributes to the explanation of the dependent variable was examined using the t-test. The rule was that the hypothesis might be accepted if the significant value was less than 0.05. The results that followed were based on Table 4:

a. The growth opportunity variable had a significance value of 0.074, more significant than 0.05 or 5%. Thus, it can be concluded that H1 was rejected, meaning that growth opportunity did not affect ERC.
b. The profitability variable, which had a significance value of 0.146, means it was more significant than 0.05 or 5%. Hence, it can be concluded that H2 was rejected, so profitability did not affect ERC.
c. The CSR variable had a significance value of 0.001, which means it was less than 0.05 or 5%. Therefore, it can be concluded that H3 was accepted, indicating that CSR affected ERC.
d. The firm size variable had a significance value of 0.000, less than 0.05 or 5%. Thus, it can be concluded that H4 was accepted, denoting that firm size affected ERC.
e. The leverage variable had a significance value of 0.000, less than 0.05, or 5%. Hence, it can be concluded that H5 was accepted, so leverage affected ERC.

Discussion

a. Growth opportunity does not affect the earnings response coefficient (ERC).

Growth opportunities that did not affect ERC indicate that growth opportunities were not a signal influencing investors in making decisions regarding reported earnings. In other words, low or high corporate growth values did not affect the quality of corporate earnings. Profits in companies that experienced high growth would not be responded to better by investors in the form of an increase in stock prices compared to profits in companies that experienced low growth.

Growth opportunities in the form of a rise in corporate assets may boost the business's productivity and revenue, but it does not ensure higher profitability. Even though there is more income, the corporation still has more expenses. Additionally, more reliable businesses are taken into account by investors when making decisions, meaning that the returns from these businesses can be relied upon.

Company growth is one of the considerations for investors with a long-term perspective. However, the results of this study indicate that investors did not respond to company growth on reported earnings, so investors in manufacturing companies in Indonesia might tend to focus on short-term investments. Long-term capital gains rather than expecting higher long-term returns cause company growth not to affect ERC.

The results of this study are consistent with the research by Sari and Rokhmania (2020) and Immanuel and Prabowo (2021), which found that growth opportunities did not affect ERC.

b. Profitability does not affect the earnings response coefficient (ERC).

As determined by ROA, profitability had no impact on ERC because it is not a standard in investment. Since ROA merely explains the rate of return on assets to investors, investors are less interested in profitability as defined by this metric. Investors, in this instance, were more concerned with the other side of investing, such as the return on the investment's shares.

A company's profitability will affect investors' investment policies to provide returns per the company's capabilities. In this study, investors did not pay much attention and made the level of profitability a fundamental priority in their decision-making considerations before investing. Hence, the company's profitability did not affect investors in making decisions.

In addition, investors do not consider profitability sufficiently in making investment decisions. Investors assume that the company's ability to generate profits will benefit debtholders more if the company has sizeable long-term debt. High profitability proxied through ROA does not necessarily describe the profit investors desire because companies with high profitability are feared or suspected of practicing earnings management. Investors do not always respond well to high or low profitability to profit information in the form of rising stock prices.

The findings of this study concur with those of Immanuel and Prabowo (2021) and Sari and Rokhmania (2020), which came to the same conclusion that ERC was unaffected by profitability.

c. Corporate social responsibility (CSR) influences the earnings response coefficient (ERC).

Investors valued the social responsibility information provided in the company's annual report; hence, CSR disclosure impacted ERC. CSR disclosure has a positive impact on the company to elevate the company's image, which will indirectly increase sales volume. In addition, investors also use CSR information as a consideration in making investment decisions, aside from income information. Investors will respond to CSR reports disclosed by companies in annual reports for investment decision-making.

The relationship between CSR disclosure and ERC corroborates with signal theory as a general research theory. CSR is a positive sign influencing investors in making company-reported profits decisions. The positive signals from investors related to CSR explain that companies carrying out CSR activities also pay attention to the interests of stakeholders, not only the interests of shareholders. Attention to the interests of these stakeholders increases the potential for future earnings, which investors will respond favorably in the form of an increase in share prices.

This finding is consistent with the legitimacy theory, in which organizations that engage in socially responsible behavior can gain legitimacy from the public, ensuring their long-term viability. Companies that engage in CSR activities can also bring value to the business since the market responds better to them because they are seen as more trustworthy when communicating their efforts and disclosing them in annual reports.

The results of this study are consistent with the research of Sasongko, Kuning Puspawati, and Wijayanto (2020), Immanuel and Prabowo (2021), and Kusuma and Subowo (2018), which concluded that CSR disclosure affected ERC.

d. Firm size affects the earnings response coefficient (ERC).

Firm size affected ERC because large companies would attract more investors to invest; seen from the high total assets of the company, it would increase the earnings response coefficient (ERC). It denotes a positive relationship between firm size and ERC. For this reason, the larger the firm size, the greater the ERC of the company.

Throughout the year, big businesses also give out much non-accounting information. Investors use this data to analyze financial statements to forecast business conditions and lower uncertainty. Large organizations typically have more reporting requirements, which implies that ERC will also rise in large organizations.

Companies with significant total assets will make creating innovations for company development easier. The higher the innovations made by the company will affect the company's ability to generate profits. Investors will be more responsive to companies with higher profits.

The results of this study are consistent with the research of Darmawan (2022) and Sasongko, Kuning Puspawati, and Wijayanto (2020), which inferred that firm size affected the earnings response coefficient (ERC).

e. Leverage affects the earnings response coefficient (ERC).

It can be claimed that investors considered the company's leverage level while making their investment selections because there was a leverage effect on the earnings response coefficient (ERC). Investors are less likely to trust companies with substantial leverage in their reported profits. It is because there is a presumption that paying obligations first will be more important than paying dividends from this profit. Investors will react more slowly to announced firm financial information if they lack confidence.

Companies with high leverage proxied by DER can reflect that the company has more significant debt than equity. If companies have information on high debt levels in the future market, these companies will likely not receive a good response from investors, so the value of the earnings response coefficient will weaken. Thus, it can be said that the higher the leverage of a company, the lower the earnings response coefficient.

A high level of leverage at the company signifies an increase in the value of profits, which will benefit debtholders because the debtor believes that the company will be able to make debt payments. It affects investors but is responded to negatively by investors since they will assume that the company prioritizes debt payments compared to dividend payments. It indicates that information regarding company leverage can be one-factor investors pay attention to in making investment decisions.

The results of this study are in accordance with research by Lasmida and Ekadjaja (2020), Sarahwati *et al.* (2021), and Suardana and Dharmadiaksa (2018), which concluded that leverage had an impact on the earnings response coefficient (ERC).

CONCLUSION

a. Growth opportunity does not affect the earnings response coefficient (ERC); a company's high or low growth opportunity does not impact ERC.
b. Profitability does not affect the earnings response coefficient (ERC); a company's high or low profitability does not affect ERC.
c. Disclosure of corporate social responsibility (CSR) influences the earning response coefficient (ERC); the extent of a company's CSR disclosure influences ERC. The more the percentage of CSR disclosure in a company, the more ERC will increase. Conversely, the smaller the percentage of CSR disclosure, the lower the ERC.
d. Changes in firm size affect the earnings response coefficient (ERC); the size of the firm size affects the earnings response coefficient (ERC).
e. Changes in leverage affect the earnings response coefficient (ERC); a company's high or low leverage affects the earnings response coefficient (ERC).

Limitations

a. This research was only conducted within the scope of manufacturing companies listed on the Indonesia Stock Exchange for only three years, 2019-2021.
b. The test results for the coefficient of determination (Adjust R square) showed that the dependent variable explained the variation of the dependent variable, namely the earning response coefficient (ERC), of 0.106 or 10.6%. In comparison, the remaining 89.4% is explained by other variables not included in this study.
c. The unexpected earnings (ERC) coefficient calculation in this study used regression together so that the constants of all companies were the same.

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Recommendation

a. This study used a sample of manufacturing companies listed on the IDX in the 2019-2021 period. The subsequent researchers can expand the research object based on the IDX-IC classification of companies listed on the Indonesia Stock Exchange. In addition, researchers can extend the study period, such as five to seven years, so that the results can better describe long-term conditions and provide more accurate results.

b. Further research can examine other variables affecting the earnings response coefficient (ERC), such as earnings persistence, audit quality, or reporting lag.

c. Future research can calculate the coefficient of unexpected earnings (ERC) with each regression per company.

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