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The Analysis of Factors Affecting the Profit Response Coefficient

Kurnia Intan Kusuma*[1] and, Subowo[2]

[1,2]*Accounting Department, Faculty of Economics, Semarang State University*

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ABSTRACT

The purpose of this study is to analyze firm size, growth opportunities, earnings persistence, systematic risk, and corporate social responsibility disclosure as a factors that affecting earnings response coefficient. The population in this study is a manufacturing company listed on the Indonesia Stock Exchange (IDX) for 3 years consecutively from 2014 until 2016 that was 122 companies. By using purposive sampling method, 60 unit samples were chosen for sample in this observation. This study uses secondary data in the form of financial statements, annual reports, closing stock prices and Composite Stock Price Index (CSPI). The analytical technique used multiple linear regression analysis. The results showed that growth opportunity, earnings persistence and corporate social responsibility disclosure have a significant positive effect on earnings response coefficient while firm size and systematic risk does not affect the earnings response coefficient. The conclusion of this research is growth opportunity, earnings persistence and corporate social responsibility disclosure increasing market response when firm published their earnings.

INTRODUCTION

Earning is one of the information used by investors in making decisions. This is due to earnings perceived can provide a lot of information about the condition of a company where the information obtained is used to assess the performance of a company. Investors' assessment on a company's performance raises a variety of responses which can later affect stock prices as a result the stock price around the date of publication tends to change. Setiawati et al., (2014) mention the size of the coefficient that measures stock price response to the information contained in accounting earnings called the earnings response coefficient (ERC).

High and low ERC that occurs depends on the quality of earnings presented (Rofika, 2015). Companies with a good earning quality are companies that have sustainable and stable profits (Risdawaty & Subowo, 2015). This qualified earnings can be used to provide an overview about financial conditions that are close to actual so that the decisions taken give unexpected earnings and abnormal returns that tend to be small. Ball & Brown (1968)Ball and Brown (1968 revealed that if unexpected earnings are positive then the average abnormal return is positive whereas if unexpected earnings are negative then the average abnormal return will be negative as well.

The changes of abnormal return on unexpected earnings is not always in the same direction, as happened with PT Astra Auto Part Tbk (AUTO) where unexpected earnings that occurred in 2015 were negative but the company's stock price around the date of publication tended to increase more than market share prices resulting in abnormal returns has a positive value. Likewise, in 2016, the unexpected earnings of AUTO was positive but the abnormal return that occurred on average was negative.

The difference in changes in abnormal returns to unexpected earnings shows that investors in responding to earnings publications not only to see the profits presented but also to consider various factors. Scott (2011) mentions factors that can influence market responses including beta, capital structure, earnings quality that is proxied by earning persistence, company growth, differences in investor expectations, and firm size as a proxy for price informativeness.

The research on the market response to earnings publications have also been carried out by previous researchers with diverse findings. Research conducted by

* *E-mail: prastipradita@gmail.com*
Address: L2 Building 2nd floor, Campus Sekaran, Gunungpati, Semarang, Indonesia, 50229

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Sandi (2013) as well as Kurniawan & Khafid (2016) show investors are more interested in large-sized companies whereas Susanto (2012) indicates the size of the company has a negative effect on the ERC. In research conducted by Indra et al., (2011) was mentioned that the size of the company has no effect on the ERC. Related to the opportunity factor for growth, Silalahi (2014), Rofika (2015) and Hasanzade et al., (2013) proving the opportunity to grow has a positive effect on ERC whereas Imroatussolihah (2013) and Farizky (2016) showing the opportunity to grow does not affect on the ERC.

Earning persistence in research conducted by Delvira & Nelvirita (2013) found has a positive effect on the ERC whereas Afni et al.(2014) and Malahayati et al. (2015) show earning persistence has a negative effect on the ERC. Different result is also found by Mashayekhi & Aghel (2016) who show that earning persistence has no effect on ERC. Findings related to systematic risk in the study of Widayanti et al. (2014) show that investors less respond to companies with a high level of risk whereas Indra et al. (2011) investor shows that systematic risk is still responded to well or positively by investors. Different with Silalahi (2014) who shows the risk does not affect on the ERC.

In addition, the results of previous researchers also found that the ERC mean values that were calculated were still very low as in the research conducted by Sandi (2013) amounting to 0.014; Indra et al. (2011) amounting to 0.119 as well as Silalahi (2014) amounting to 0.129. The low ERC value indicates that earnings are less informative for investors in making decisions (Gunarianto et al., 2014). Therefore, investors tend to pay attention to factors outside earnings such as disclosure of corporate social responsibility / CSR (Daud & Syarifuddin, 2008)[and (3]. This finding is supported by Darwanis et al. (2013) who show CSR disclosure can improve investor response while the research of Melati and Kurnia (2013) shows the direction of a negative relationship. Dewi (2015) who shows that disclosure of CSR does not affect on the ERC.

Based on the phenomena and previous research that give different results, the researchers try to re-examine and re-analyze the factors that influence the market response to the earnings publication. The purpose of this study is to analyze and obtain empirical evidence about the influence of firm size, growth opportunities, earning persistence, systematic risk, and CSR disclosure to the ERC. Referring to the research conducted by Rofika (2015), this research uses the variables studied by Rofika (2015) by replacing capital structure variable with non-financial variables that are felt to increase the adjusted R^2 value, namely CSR disclosure.

This study uses the theory of capital market efficiency and legitimacy theory. The theory of capital market efficiency was first put forward by Fama (1970) who stated that prices formed in the market are a reflection of existing information (Gumanti, 2011: 327). In efficient capital markets, information that enters the market will be responded quickly by the market resulting in changes in stock prices so that it is very difficult for investors to obtain abnormal returns excessively or continuously.

Legitimacy theory is a theory that arises because of the social contract between the company and the community. The implementation of the social contract is intended to guarantee the sustainability life of the company. This is due to the influence of wider community can determine the allocation of financial resources and other economic sources so that companies tend to use financial-based performance and disclosure of environmental information to justify or legitimize the company's activities with the community (Gray et al., 1994). The theory of capital market efficiency in this study is used to assess the influence of firm size, growth opportunities, earning persistence, and systematic risk to the ERC while the legitimacy theory is to assess the effect of CSR disclosure on the ERC.

Firm size is a proxy of stock prices informatization (Susanto, 2012). Large-scale companies are more careful and transparent in conveying information (Kurniawan and Khafid, 2016). This information is generally available throughout the year so investors can easily assess the performance of companies. Indra et al. (2011) mention firm size can be used to determine the ability of a company to deal with uncertainty. Large companies generally have a large enough total assets that indicate the companies are at a maturity stage so that the level of uncertainty over the profits earned tends to be lower.

According to the theory of capital market efficiency, the market will respond quickly to a new information coming in that pushes stock prices to change where this reaction generally occurs at the time of earning publication. In large-sized companies, the amount of information available throughout the year causes investors tend to have decisions before earnings are published. In addition, large-sized companies are also considered to have a low level of uncertainty over the profits generated. This has resulted in investors being less likely to respond at the time of earning publication. The research conducted by Susanto (2012) shows that large companies tend to get less response in the publication of profits because the profits generated are relatively stable. In line with Afni et al.(2014) who show the market react less when large companies announce their profits.

H_1: Firm size has a negative effect on earnings response coefficients

Growth opportunity is a good prospect that can bring profit for a company (Indra et al., 2011). Market valuation on the possibility of a company's growth can be seen from the stock price formed as an expectation value for future benefits to be obtained (Farizky, 2016). Companies with a high growth opportunity is considered more easily to obtain additional capital that can be used to support its operational activities so that profits generated increase.

In the theory of capital market efficiency, it is stated that the market will react to a new information that enters the market so that corporate stock price tends to change where this reaction generally occurs when the publication of profits. Companies with high growth opportunities are considered to have better opportunities in attracting capital in the market. This result in the performance of the company in the next period can increase as well as the profits generated so that investors tend to respond to companies with high growth opportunities.

The research conducted by Hasanzade et al., (2013) show the opportunity to grow significantly influences on the ERC. Consistent with Indra et al. (2011) who show that the greater the chance to grow, the higher the chance the company will obtain or increase profits in the future. Similar result is also revealed Rofika (2015) who states that high growth opportunities will attract investors to invest.

H_2 : Corporate growing opportunity has a positive effect on earnings response coefficients.

Earning persistence is an expected earnings revision in the future which is implied by current year's earnings associated with changes in stock prices (Penman, 1992)which is defined as the revision in expected future earnings that is implied by a current earnings innovation. Permanent earnings innovations are associated with higher multipliers than transitory ones. This stream of research stems from Kormendi and Lipe (1987. Khafid (2012) states that sustainable earnings are profits with better quality. This persistent earning can help investors make decisions (Malahayati et al., 2015). This is because persistent earnings can be used as the earning indicator of the next period so that the decisions taken can provide optimal benefits.

According to the theory of efficient capital markets, the market will respond quickly to a new information that coming in so that the stock price changes where this response generally occurs at the time of earning publication. Companies with profits which are more likely to be responded by the market. This is due to the profit presented can be used as an indicator to predict earning in the next period so that the expected earnings that occur tend to be low and the abnormal returns generated also have low value.

Hanifah and Khafid (2016) mention the more persistent earnings generated by the company, the higher the quality of earnings that will affect the rate of return that will be obtained by investors. Consistent with Delvira & Nelvirita (2013) who prove that the market reaction is higher for information that is expected to be consistent (permanent) in the long term compared to temporary information so that the more persistent or permanent the information over time, the higher the ERC.

H_3 : Earnings persistence has a positive effect on earnings response coefficients

Systematic risk is a change in securities as a result of economic changes that affect market overally (Gumanti, 2011). Investors will reduce the risk level of a stock by paying more attention to investments with a high level of risk (Susanto, 2012). Companies with high systematic risk are considered difficult to deal with existing changes so that the profits generated tend to decline.

According to the theory of capital market efficiency, the market will react quickly to new information that enters the market so that it pushes the stock price to change where this reaction generally occurs at the time of profit publication. Companies with high systematic risk tend to be less considered by investors. This is due to the companies are considered not able to minimize risk which may happen result in the profits generated tend to experience losses so that investors prefer to invest in the companies with low systematic risk.

Research of Imroatussolihah (2013) shows the higher the risk of a stock, the more uncertain the return will be in the future. Likewise with the research of Hasanzade et al., (2013) which shows the more risky return expected in the future, the smaller the investor's response to the company. Consistent with research of Widayanti et al.(2014) which states that the higher the company's risk, the lower the ERC.

H_4 : Systematic risk has a negative effect on earnings response coefficients

Solikhah (2016) mentioned CSR disclosures in annual reports is a form of communication on the social and environmental impacts of organizational economic activities for special groups and the entire community. Disclosure of CSR is expected to provide additional information to investors other than those already included in accounting earning (Darwanis et al., 2013). According to legitimacy theory, a company has a social

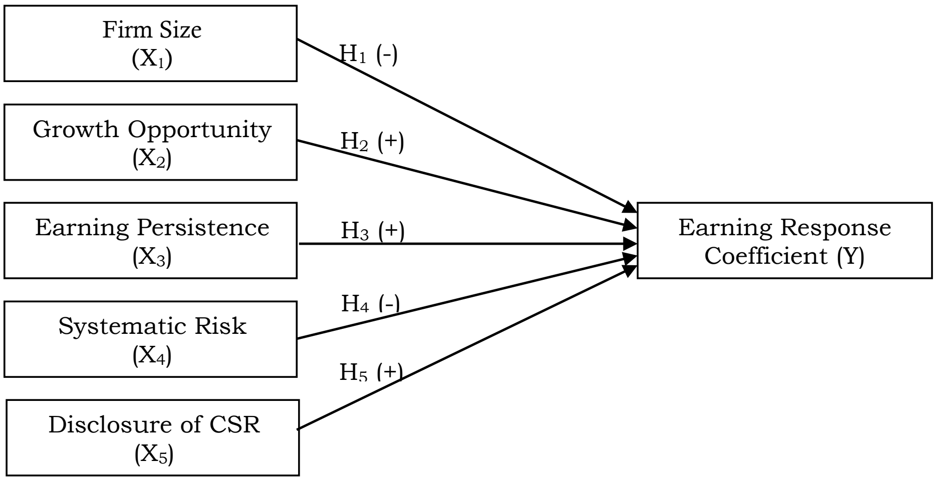

Figure 1. Theoretical Framework

contract with the community where in carrying out its operations, the company is expected to not only pay attention to the profits generated both also consistently be responsible for the social environment which can later give the legitimation for the company. This legitimacy is considered to be able to provide better survival in the future (Imroatussolihah, 2013). This causes investors to respond to companies that carry out CSR activities and disclose them in annual reports.

Research of Daud & Syarifuddin (2008)[and (3] show that companies that disclose CSR can increase ERC. Research of Darwanis et al. (2013) also showed similar result, namely the disclosure of CSR has a positive effect on the ERC, but the effect is calculated still to be low. In line with Holbrook (2013) who showed that markets tend to ignore companies that have social environmental problems.

H_5: Disclosure of corporate social responsibility has a positive effect on earnings response coefficients.

RESEARCH METHOD

The method used in this study was a quantitative method. The data used were secondary data in the form of financial statements, annual reports, corporate stock prices, and the Composite Stock Price Index (CSPI). The population of this study was manufacturing companies listed on the Indonesia Stock Exchange in 2014 to 2016, which were 122 companies. Samples were selected using purposive sampling method and obtained a sample of 20 companies each year of observation with a total of 60 units of analysis.

The variables in this study include the dependent variable and the independent variable. The dependent variable studied is the earnings response coefficient calculated by regression of abnormal return with unexpected earnings. Meanwhile, the independent variables includes firm size measured by Ln of total assets, growth opportunities measured by market to book ratio, earnings persistence measured by regression of earnings t with t-1, Systematic risk measured by regression of the company's stock price with market share prices, and CSR disclosure is calculated based on the CSR Global Reporting Index G.3 index.

The method of data collection used the literature study method by reviewing some literature and documentation study by collecting data needed in research. This study used multiple linear regression analysis to examine the hypothesis proposed which have previously been carried out the classical assumption test consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The analytical tool used in this study was IBM SPSS 21.0.

Table 1. The Stages of Research Sample Selection

Samples Criteria	Beyond Criteria	Number
Manufacturing companies listed on the Indonesia Stock Exchange in 2014-2016		122
Publishing financial reports and annual reports	7	115
Using Rupiah (Rp.)	23	91
Ended as at 31st December	4	87
Having a positive profit	47	40
Presenting daily stock prices	6	34
Make disclosures of CSR	2	32
Data Outlier	12	20
Sample per year		20
Total samples (2014-2016)		60

Source: Secondary data processed, 2017

Table 2. The Operational Definition of Variables

Variables	Operational Definition	Measurement Method
Dependent Variable: Earning Response Coefficient (ERC)	The share price response to information contained in accounting profits (Setiawati et al., 2014)	$CARit = \alpha + \beta UEit + \varepsilon it$ $ERC = \beta$ (Melati and Kurnia, 2013)
Independent Variables: Firm Size (LN_ASET)	The description of the size of the company which seen from various ways including total assets, total asset logs, sales, and market share prices (Kurniawan and Khafid, 2016)	Size = ln asset (Rofika, 2015)
Growth Opportunity (GROWTH)	Good prospects that can bring profit for the company (Indra et al., 2011)	Market to book ratio: Equity market prices Book value of equity (Indra et al., 2011)

The Continuation of Table 2. The Operational Definition of Variables

Variables	Operational Definition	Measurement Method
Earning Persistence (PRSTNS)	Revised earnings which are expected in the future that are implied by current year's earnings associated with changes in stock prices (Penman, 1992)which is defined as the revision in expected future earnings that is implied by a current earnings innovation. Permanent earnings innovations are associated with higher multipliers than transitory ones. This stream of research stems from Kormendi and Lipe (1987.	$Profit_t = \alpha + \beta Profit_{it-1}$ Earning Persistence = β (Rofika, 2015)
Systematic Risk (BETA)	Securities changes are a result of economic changes that affect the market as a whole (Gumanti, 2011)	Rit = αit + βitRMt + εit Systematic Risk = β (Rofika, 2015)
The Disclosure of Corporate Social Responsibility (CSRD)	Forms of communication for the social and environmental impacts of organizational economic activities for special groups and the entire community (Solikhah, 2016)	(Dewi, 2015)

Source: Various References, 2017

RESULTS AND DISCUSSIONS

Descriptive statistical analysis is used to describe the variables in the study seen from the minimum, maximum, mean, and standard deviation values. Descriptive statistical analysis can be seen in Table 3.

Table 3. The Results of Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ERC	60	-0.21	0.24	-0.0005	0.09372
LN_ASET	60	25.62	33.20	29.3894	2.07038
GROWTH	60	0.12	2.70	1.0778	0.63970
PRSTNS	60	-0.88	1.78	0.4768	0.54658
BETA	60	-2.11	3.75	0.6634	1.17286
CSRD	60	0.03	0.33	0.1674	0.07120

Source: Output SPSS, 2017

Based on the results of descriptive statistics in Table 3, it is known that the mean ERC value of -0.0005 indicates that the market average is less responsive to published profits. The mean value of firm size of 29.3894 shows that total assets in the sample companies tend to be average. The mean value of growth opportunity > 1 with the mean earning persistence and systematic risk <1 show the sample company evenly has opportunity to grow low with the generated profit is quite persistent and the level of systematic risk that occurs tends to be low. In addition, the mean value of CSR disclosure which is far from number 1 shows that the disclosures made are still very limited.

Based on Table 4, in the nonparametric normality test one sample Kolmogorov-Smirnov and heteroscedasticity test using glejser test, it is obtained a significance value of> 0.05 which shows the research data is normal distributed and homoscedasticity. In the multicollinearity test, all the research variables have VIF values ≤10 and tolerance ≥ 0.10 so that there is no multicollinearity. The autocorrelation test using the Durbin-Watson test obtained 4-du <d <4-dl result wherein the result could not be concluded whether there was autocorrelation or not so that the nonparametric Runs Test is carried out and obtained a significance value> 0.05 indicating there is no autocorrelation. Based on these results, it can be concluded that the regression model is free from the classical assumption test.

The result of determinant coefficient obtained adjusted R^2 value of 0.227 which indicates that 22.7% of the variation in the dependent variable is influenced by firm size, growth opportunities, earning persistence, systematic risk, and CSR disclosure and the rest is determined by other factors. In the multiple regression analysis the following equation is obtained:

$$ERC = 0.114 + -0.10LN\_ASET + 0.058\ GROWTH + 0.054\ PRSTS + 0.003\ BETA + 0.455\ CSRD \quad (1)$$

Table 4. The Results of Classical Assumption Test

Variables	Normality test (1-KS Test)	Multicollinearity Test		Autocorrelation Test (Run Test)	Heteroscedasticity Test (Glejser Test)
		Tolerance	VIF		
ERC	0,293			0,298	
LN_ASET		0.776	1.289		0.914
GROWTH		0.883	1.132		0.112
PRSTNS		0.873	1.146		0.716
BETA		0.918	1.089		0.722
CSRD		0.857	1.166		0.885
Significance	>0.05	≥0.10	≤10	>0.05	>0.05

Source: Output SPP, 2017

The Effect of Firm Size on Earning Response Coefficients

The result shows that the significance value of the firm size> 0.05, it can be concluded that the size of the company does not affect on the ERC, thus Hypothesis 1 is rejected. The result of this study does not support the theory of capital market efficiency where investors do not pay attention to the size of the company in response to publication of earnings. This finding also does not support research of Widayanti et al. (2014) which

Table 5. The Conclusion of Hypothesis Test Results

No	Hypothesis	Explanation	β	*Sig.*	α	Result
1	H_1	Firm size has a negative effect on earnings response coefficients	-0.10	0.110	0.05	Rejected
2	H_2	Growth opportunities have a positive effect on earnings response coefficients	0.058	0.002	0.05	Accepted
3	H_3	Earnings persistence has a positive effect on earnings response coefficients	0.054	0.013	0.05	Accepted
4	H_4	Systematic risk has a negative effect on earnings response coefficients	0.003	0.765	0.05	Rejected
5	H_5	Disclosure of CSR has a positive effect on earnings response coefficients	0.455	0.007	0.05	Accepted

Source: Secondary data processed, 2017

indicates the size of the company negatively affects on the ERC. Large companies are considered to have more information available to investors in making investment decisions resulting in less information on earnings now so the investors tend not to respond at the time of publication.

In line with research conducted by Indra et al.(2011), this study shows that firm size does not affect the ERC. This can be due to the manufacturing companies data used in this study have a large total assets that indicate the company is at the maturity stage where the company is considered more capable of generating profits and promising returns. Therefore, investors do not consider the size of the company in making a decision, but tend to pay attention to returns or risks obtained in the future (Suwarno et al., 2017)

The Effect of Growth Opportunities on Earning Response Coefficients

The results showed a significance value of the opportunity to grow <0.05 with the direction of positive relations, it can be concluded that the opportunity to grow has a significant positive effect on ERC so Hypothesis 2 is accepted. The results of this study support the theory of capital market efficiency where investors pay attention to the growth opportunity of the company in responding to the publication of earning. Companies with high growth opportunities are considered more able to face competition so that it is easier to develop. Companies with high growth opportunities are also considered to be able to easily attract existing capital in the market so that performance in the next period can increase and the generated profits also increase.

The result of this study is in line with the result of the study conducted by Indra et al.(2011) and Widayanti et al.(2014) which show that the greater the chance to grow, the higher the chance the company gets or adds to the profit that can be generated in the next period. There is a research of Susanto (2012) which mentions that investors are motivated to invest in long-term profits so that they will consider the company with a good chance of growth.

The Effect of Earning Persistence on Earning Response Coefficients

The result shows the significance of earnings resistance <0.05 with the direction of a positive relationship indicating a significantly positive effect on the earnings response coefficient so Hypothesis 3 is accepted. The result of this study supports the theory of capital market efficiency where the market will consider the level of profitability of a company in responding to the publication of earnings. This is because persistent earnings can be used as an indicator to predict the amount of profit generated in the next period so that investment decisions made can provide optimal benefits.

In line with the research conducted by Hasanzade et al., (2013) which shows that earnings persistence has a positive effect on the ERC. Likewise, with the research conducted by Maisil and Nelvirita (2013) which shows that the market reaction is higher towards profits that have increased continuously or steadily in the future. A company that is stable in generating profits is considered more credible in presenting financial statements so that it can be used as a predictor of future earnings.

The Effect of Systematic Risk on Earning Response Coefficients

The result of this study indicates that systematic risk does not affect on the earnings response coefficient, so Hypothesis 4 in this study is rejected. This study does not support the theory of capital market efficiency where investors do not pay attention to the level of systematic risk of a company in responding to published profits. The result of this study is also not supportive the findings of Delvira & Nelvirita (2013) as well as Hasanzade et al., (2013) which shows that even though the stock price does not decrease due to the risks that occur but the market will still react negatively due to the emergence of these risks.

This finding is in line with the result of the study conducted by Silalahi (2014) which shows systematic risk does not affect on the ERC. This study shows investors do not pay attention to systematic risk in responding to earnings. This can be because most of the systematic risk calculation data in this study sample is 67% with systematic risk <1 which indicates a low level of systematic risk. Therefore, investors tend not to pay attention to systematic risks, and choose to pay attention to the company's liquidity risk which can provide a low unexpected earnings level (Cheng & Nasir, 2010)

The Effect of Corporate Social Responsibility Disclosures on Profit Response Coefficients

This study obtains the significance value of CSR disclosure <0.05 with the direction of a positive relationship that shows CSR disclosure has a significant positive effect on ERC so that Hypothesis 5 is accepted. This finding is in line with the legitimacy theory, where companies that carry out their responsibility activities can gain legitimacy from the community so that the company's survival in the long-term can be guaranteed. Companies that carry out CSR activities can also provide more value for the company because they are considered more credible in delivering their activities so that the market will respond more to companies that carry out CSR and disclose it in annual reports.

This research supports the result of research conducted by Daud & Syarifuddin (2008)[and (3] which shows that corporate social responsibility disclosure has a positive effect on earnings response coefficients. But not in the research carried out by Silalahi (2014) which cannot show the influence of CSR disclosure on ERC. The study shows that investors in making decisions tend to continue to pay attention to the profits generated by the company so that information outside the financial sector is less considered.

CONCLUSIONS AND SUGGESTIONS

Based on the result of data testing and discussion, it can be concluded that the variables of growth opportunity, earnings persistence, and CSR disclosure significantly influence the ERC, while firm size and systematic risk show no effect on ERC. The result of this study indicates persistent profit, high growth opportunities, and disclosure of corporate social responsibility can improve market response to the publication of corporate profits.

Suggestions for further researchers can use different measurements and add other factors that can influence earnings response coefficients such as corporate governance in research of Haryanto (2014) so that the amount of the adjusted R^2 obtained can be increased. The next researcher can also expand the object of research by using more than one type of industry to increase the generalization of research data.

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