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INKUBIS: Jurnal Ekonomi dan Bisnis
Volume x, Issue x, xx-xx
e_ISSN: 2775-3913
https://inkubis.polteksci.ac.id/index.php/ink/index
DOI: doi.org/10.59261/inkubis.vxix.kodeartikel

Investor Analysis: Internal and External Determinants of Earnings Response Coefficient

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Article Info :
Article history:
Received: Month XX, 2026
Revised: Month XX, 2026
Accepted: Month XX, 2026

Keywords:
earnings response coefficient, default risk, systematic risk, earnings persistence, accounting conservatism, growth opportunities

Abstract

Background: Businesses with growth potential and promising prospects can attract investors in the stock market however unpredictability and market fluctuation make analysis necessary. Investors use financial reports to assess a company's financial performance, minimize risks arising from investing, and increase investment profit opportunities.
Objective: This study aims to obtain empirical evidence in regards to the effect of default risk, systematic risk, earnings persistence, accounting conservatism, and growth opportunities on earnings response coefficient in companies in the raw material sector, basic chemicals, agricultural chemicals, specialty chemicals, and construction materials sub-sector listed on the Indonesian Stock Exchange for the period 2021-2023 based on the Indonesia Stock Exchange Industrial Classification (IDX-IC).
Methods: Purposive sampling is used to obtain 22 companies and a total of 66 observation data that fulfill the criteria.
Results: The regression analysis results show that earnings persistence has a significant negative effect and growth opportunities have a significant positive effect. Meanwhile, default risk, systematic risk, and accounting conservatism do not influence the earnings response coefficient.
Conclusion: ...

To cite this article: Author 1., & Author 2. (20xx). Title Journal. *INKUBIS: Jurnal Ekonomi dan Bisnis*, x (x), xx-xx. https://doi.org/10.59261/inkubis.vxix.kodeartikel

INTRODUCTION

Investors have their judgment when deciding whether to invest in the company. One of their most used instruments is financial statements, as they provide structured and relevant information regarding a company's financial condition and performance. Investors will analyze financial statements to assess the company's potential in the future to increase their investment profit opportunities, including evaluating profitability, liquidity, and overall financial stability (Kothari et al., 2021).

Shares are financial instruments that reflect ownership of the company, representing a claim on the company's assets and earnings. The value of a company can be reflected in its stock price, which fluctuates based on market perceptions and available information. A higher stock price means many investors believe that the company has a high chance of growth and strong future performance. In contrast, a lower share price in a company can also be an indication that the company has financial and operational difficulties or faces uncertainty in sustaining its performance (Baker et al., 2021).

Among the various indicators available, profit is often one of the main measures investors use to evaluate a company's performance, as it directly reflects the company's ability to generate returns. However, reported earnings can be influenced by earnings management carried out by managers, which may reduce their reliability and lead to information asymmetry between

management and investors. As a result, alternative measures such as the earnings response coefficient (ERC) are used to better understand how the market reacts to earnings information and to help predict stock returns (Chandra et al., 2021). Every company has its own inherent risk, which is a factor that influences investment decisions since there is a possibility that the company cannot fulfill its financial obligations. This risk reflects the uncertainty faced by investors in allocating their funds and may affect their confidence in the company. Investors will assess management performance in regards to their responsibility in managing resources that have been trusted under them (Rici et al., 2023). For investors, the risk of default is an important factor to be considered before investing since the inability to pay the debt will create a significant loss for the investors, such as the loss of dividends and a decrease in share value. Other than default risk, companies also have a systematic risk which is a risk that arises from external factors such as inflation, changes in interest rates, and factors that occur in the global market. Systematic risk cannot be eliminated by portfolio diversification, making investors more careful in making investment decisions, especially during periods of high economic uncertainty.

Earnings prediction is done to allow investors to effectively calculate their investment profit opportunities and assess whether it is larger than the risk involved in investing. This process helps investors make more informed decisions by comparing expected returns with potential uncertainties. Earnings can be affected by a variety of factors, which requires investors to use various methods of analysis to obtain a more accurate forecast. When a company has stable earnings over time, it indicates that current earnings can be used to predict future earnings. Unrealized earnings can be misleading for users of financial statements; hence, low earnings quality can lead investors in the wrong direction. Earnings quality plays an important role in predicting future earnings, so effective management is needed to create a strategy for the company's long-term plans and maintain consistency in performance. For investors, earnings are considered to contain information about the share price of a company because earnings announcements will cause a reaction (Dechow et al., 2021).

Accounting conservatism is a management approach to dealing with existing possibilities by recognizing all expenses but not all revenues. This approach is intended to reduce the risk of overstating financial performance and to provide a more cautious view of the company's condition. Investors will need to be more careful in making investment decisions since they need to conduct a deeper analysis of the recognition of expenses and revenues in the financial statements presented by the company. Investors often utilize indicators of company opportunities to predict future profit growth; hence, growth opportunities often affect market expectations and investor reactions. In the capital market, stock investment is always related to uncertainty, so earnings information alone is not sufficient for investor consideration in investing (Ma & Jeong, 2022).

Signaling theory is a concept where company management provides signals to investors based on their view of the company's future prospects. This is important because investors rely on available information to reduce uncertainty when making investment decisions. If management believes the company has good prospects, such as expecting profits to increase in the future, they will send positive signals to investors. Investors will then respond according to the signals given by management. When the signals are positive, investors are more likely to buy the company's shares, which can lead to an increase in stock price. This theory arises because management and investors have access to different information. Since management is directly involved in running the company, they need to provide signals to investors about the company's performance and future prospects (Rusli et al., 2023).

Default risk arises from the costs that a company must bear for the use of its assets, particularly when these costs are high relative to the assets owned. This condition reflects the company's financial burden and its ability to manage obligations effectively. The higher these costs, the greater the company's inherent risk, which in turn may lead to higher expected returns for investors. However, despite the potential for higher returns, investors are generally risk-averse and tend to avoid companies with high levels of risk, preferring those that offer more stable returns with lower uncertainty. One of the key indicators of such risk is the level of debt held by the company. A higher level of debt indicates greater financial leverage, which increases the company's obligation to meet fixed payments regardless of its financial performance. Investors may perceive a highly leveraged company as a negative signal, as profits generated through debt

financing are often prioritized for debt repayment rather than being distributed to shareholders. In addition, high levels of debt lead to increased interest expenses, which can reduce overall profitability and ultimately decrease the potential returns available to investors (Baker et al., 2021). This situation may also weaken investor confidence, as the company is seen as having a higher likelihood of financial distress. From the discussions outlined above, the following hypothesis can be proposed:

H1: Default Risk has a negative effect on the Earnings Response Coefficient.

Systematic risk is the risk arising from activities that occur in the market as a whole. Market situations and circumstances such as government policies or pandemics, which are unpredictable and beyond the company's control, are considered systematic risks. This type of risk affects all companies in the market and cannot be avoided through diversification. As a result, even well-performing companies may still be impacted by unfavorable market conditions. The more volatile and uncertain the market is, the higher the risk faced by the company. The higher the systematic risk, the greater the uncertainty regarding the company's survival in the long run and its ability to generate profits to be distributed to investors. This uncertainty can reduce investor confidence and make them more cautious in allocating their funds. A very high systematic risk may cause some companies to incur losses or even go bankrupt if they are not able to adapt and respond quickly to market conditions. This will create significant losses for investors, as it means there will be no profit to be shared and the company's poor prospects will cause the stock price to decline. According to signaling theory, high systematic risk signals a lower likelihood that investors will obtain the expected returns, as the probability of the company's survival becomes smaller (Yuliandhari & Fadila, 2024). In such conditions, investors may shift their investments to safer assets to minimize potential losses. Considering the points raised earlier, the hypothesis that follows is:

H2: Systematic Risk has a negative effect on the Earnings Response Coefficient.

Earnings persistence is the capability of using present income to forecast future income, and persistent income will create expectations for future income generated (Nasution et al., 2022). Persistent profit from year to year is an indication of competent management in controlling the company's costs in relation to its revenues and managing the company's ability to generate high revenues that result in high profits. A highly competent management will gain the trust of investors to manage the funds that they have invested in the company. In addition, stable earnings reflect consistency in the company's operational performance over time. Investors will be more confident in investing in companies that have persistent profits, as it provides more certainty that they will obtain the expected returns. Earnings persistence is also an indicator of future earnings. If company profits consistently increase from year to year, then it is likely that the company will continue to generate profits in the future, making returns to investors more predictable. This condition also reduces information uncertainty faced by investors when making investment decisions. Persistent earnings provide a positive signal to investors because they reduce the risk of investors not receiving the expected returns. Reflecting on the points discussed above, the hypothesis we propose is:

H3: Earnings persistence has a positive effect on the Earnings Response Coefficient.

Accounting conservatism is an approach where profits and assets are expected to be small in amount, while costs and liabilities are expected to be high, so that the company anticipates potential losses (Darmawan et al., 2024). This approach emphasizes prudence in financial reporting to avoid overstating financial performance. The application of accounting conservatism describes a worst-case scenario where all costs are recognized and the profit generated is relatively small; hence, financial statements are presented in a more cautious or pessimistic way. When a company applies accounting conservatism, it does not take into account all possible profits, creating the possibility that future profits may be higher than those reported under conservative accounting. This difference can provide additional assurance to investors regarding the reliability of reported earnings. Investors tend to be more confident in investing in companies that generate profit even when using conservative accounting principles, as it indicates that the company can still perform well under less favorable conditions. For investors, this serves as a positive signal since they will at least receive the expected return based on conservative estimates, or potentially even higher returns. The application of accounting conservatism also creates a sense of trust among investors, as the company is less likely to overstate profits merely to attract

investment. As a result, financial information becomes more credible and useful for decision-making. Drawing from the discussion above, the following hypothesis emerges:

H4: Accounting Conservatism has a positive effect on the Earnings Response Coefficient.

Growth opportunity is the company's potential to further develop and increase its operational scope to increase its value and obtain higher profits in the future. This potential reflects the company's ability to expand its market share and improve its long-term performance. Companies with high growth opportunities have a high possibility to develop into bigger companies if the company management is competent. As the company grows, it can also diversify its business activities and reduce dependence on a single source of income. The bigger the company, the more sources of income that it can generate from. In addition, larger companies have a higher bargaining power against suppliers and benefit from economies of scale so that they can save cost per unit. Higher revenue and lower costs will result in greater profit for the company; this will give a positive signal to investors because the higher the profit, the higher the amount of return that will be shared with investors. This positive signal can increase investor interest and attract more capital into the company. Moreover, the stock price of the company will rise as it grows, increasing the investment return opportunities for investors (Putri & Siregar, 2022). Given into account the above discussions, the hypothesis to consider is:

H5: Growth opportunities have a positive effect on the Earnings Response Coefficient.

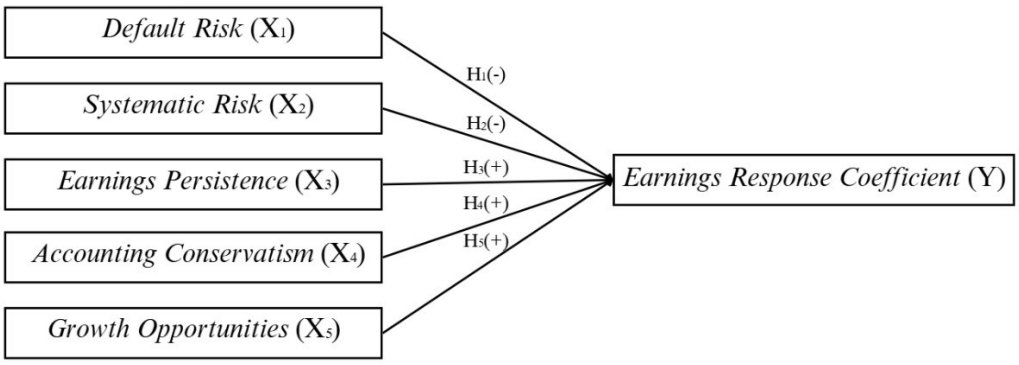

Figure 1. Research Model Framework

METHOD

This study used a population of companies in the basic chemicals, specialty chemicals, and construction materials sub-sector listed on the Indonesia Stock Exchange for the period 2021-2023. The data used in this study is secondary data obtained from financial and annual reports. Purposive sampling is used to obtain 22 companies and a total of 66 observation data that fulfill the criteria.

Three regression models can be used which are the common effect model, fixed effect model, and random effect model. To determine the right model, the Chow test is carried out to determine the right model between the common model and the fixed model, and then continued with the Hausman test is to determine the right test between the fixed effect model and the random effect model. The regression equation used in this study is as follows:

$$ERC_{i,t} = \alpha + \beta1(Lev)_{i,t} + \beta2(SR)_{i,t} + \beta3(EP)_{i,t} + \beta4(AC)_{i,t} + \beta5(OP)_{i,t} + \mu_{i,t}$$

ERC = Earnings Response Coefficient
Lev = Default Risk
SR = Systematic Risk
EP = Earnings Persistence
AC = Accounting Conservatism GO = Growth Opportunities
μ = Error

Measurements

Table 1. Measurement Each Variable

Var	Formula	Sources
Dependent Variables		
ERC	CARit = α + βUEit + e Description: CAR = cumulative abnormal return UE = unexpected earnings α = constant β = earnings response coefficient *e* = error	(Rici et al., 2023)
UEit	$UE = \frac{EPS_t - EPS_{t-1}}{EPS_{t-1}}$	
CAR	$CAR = \sum_{t=-3}^{t=+3} AR_{it}$	
AR_{it}	$AR_{it} = R_{it} - R_{mt}$ Description: AR_{it} = abnormal return company R_{it} = stock return R_{mt} = market return	
Stock Return	$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$ Description: R_{it} = stock return P_{it} = closing stock price at t (days) P_{it-1} = closing stock price at t-1 (days)	
Market Return	$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$ Description: R_{mt} = market return $IHSG_t$ = composite indeks at t (days) $IHSG_{t-1}$ = composite indeks at t-1 (days)	
Independent Variables		
Default Risk	$\text{Leverage} = \frac{\text{Total Debt}}{\text{Equity}}$	(Rici et al., 2023)
Systematic Risk	$R_{it} = \alpha + \beta R_{mt} + e$ Description: R_{it} = stock return R_{mt} = market return α = constants β = systematic risk *e* = error	(Rici et al., 2023)
Earnings Persistence	$X_{it} = \alpha + \beta X_{it-1} + e$ Description: X_{it} = Profit of company i in year t	(Darmawan et al., 2024)

	X_{it-1} = Company i's profit in year t-1 α = constants β = earnings persistence e = error	
Accounting Conservatism	$AC = \frac{NI + \text{Dep} - CFO_{x-1}}{\text{Total Asset}}$	(Embuningtiyas, 2023)
Growth Opportunity	$\text{PER} = \frac{\text{Stock Price}}{\text{EPS}}$	(Nasution et al., 2022)

RESULTS AND DISCUSSION

The descriptive statistical test is used to determine the variable description of mean, standard deviation, maximum, minimum and slope of the distribution of data carried out on each variable of this study, namely ERC, LEV, SR, EP, AC, and GO. The results of the descriptive statistical test can be seen in Table 2.

Table 2. Descriptive Statistics

	N	Mean	Med	Max	Min	Std. Dev.
ERC	66	-2.659	-2.479	3.515	-9.107	2.166
Lev	66	0.393	0.356	1.019	0.318	0.170
SR	66	2.716	2.020	9.946	0.503	1.987
EP	66	1.463	1.034	12.969	0.959	1.966
AC	66	0.204	0.190	0.735	0.021	0.113
GO	66	304.949	5.498	4733.663	1.191	939.797

Based on the descriptive statistics in Table 2, this study uses 66 company samples from period 2021-2023. The earnings response coefficient variable shows a maximum value of 3,515 and a minimum value of -9,107 with a median value of -2,479, a mean value of -2,659 and a standard deviation of 2,166. The default risk variable shows a maximum value of 1,019 and a minimum value of 0,318 with a median value of 0,356, a mean value of 0,393 and a standard deviation of 0,170. The systematic risk variable shows a maximum value of 9,946 and a minimum value of 0,503 with a median value of 2,020, a mean value of 2,716 and a standard deviation of 1,987. The earnings persistence variable shows a maximum value of 12,969 and a minimum value of 0,959 with a median value of 1,034, a mean value of 1,463 and a standard deviation of 1,966. The accounting conservatism variable shows a maximum value of 0.735 and a minimum value of 0.021 with a median value of 0.190, a mean value of 0.204 and a standard deviation of 0.113. The growth opportunities variable shows a maximum value of 4733,663 and a minimum value of 1,191 with a median value of 5,498, a mean value of 304,949 and a standard deviation of 939,797.

Table 3. Summary of Panel Specification

Tests	Value	Result
Chow Test	Prob > F = 0.239	Common model
Hausman Test	Prob > chi2 = 0.790	Random model
LM Test	Prob > chibar 2 = 0.465	Common model

Table 4. Hypotesis Result with CEM

	Coefficient	p-value
C	-1.757	0.026
Lev	-0.304	0.819
SR	0.065	0.578
EP	-0.546	0.000
AC	-1.781	0.372
GO	0.001	0.008
R2	0.336	
Prob-F Stat	0.000	
N	66	

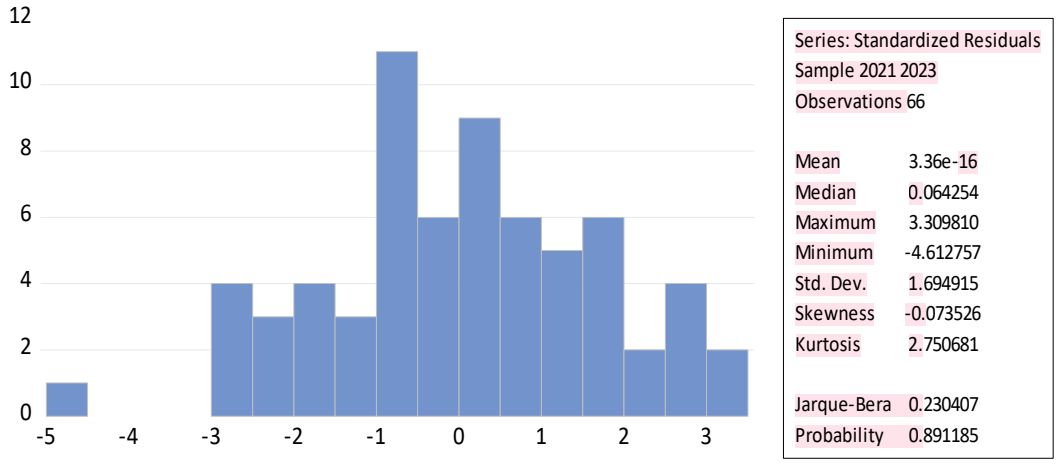

Figure 2. Normality Test

Table 5. Multicollinearity Test

	LEV	SR	EP	AC	GO
LEV	1.000000	-0.164795	0.141439	-0.014847	-0.032086
SR	-0.164795	1.000000	0.030171	0.131165	0.223093
EP	0.141439	0.030171	1.000000	0.013378	-0.090652
AC	-0.014847	0.131165	0.013378	1.000000	-0.152458
GO	-0.032086	0.223093	-0.090652	-0.152458	1.000000

Table 6. Autocorrelation Test

Root MSE	1.682025	R-squared	0.387430
Mean dependent var	-2.659150	Adjusted R-squared	0.336383
S.D. dependent var	2.165559	S.E. of regression	1.764123
Akaike info criterion	4.059693	Sum squared resid	186.7278
Schwarz criterion	4.258752	Log likelihood	-127.9699
Hannan-Quinn criter.	4.138350	F-statistic	7.589603
Durbin-Watson stat	2.025753	Prob(F-statistic)	0.000014

Table 7. Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	1.752126	Prob. F(5,60)	0.1366
Obs*R-squared	8.408904	Prob. Chi-Square(5)	0.1351
Scaled explained SS	6.083185	Prob. Chi-Square(5)	0.2982

Based on the results of the coefficient of determination test presented in Table 4, the Adjusted R Square value is 0.336. This indicates that approximately 33.6% of the variation in the earnings response coefficient (ERC) can be explained by the independent variables used in this study, namely default risk, systematic risk, earnings persistence, accounting conservatism, and growth opportunities. Meanwhile, the remaining 66.4% is influenced by other variables not included in the regression model, suggesting that there are additional factors outside this study that may also play an important role in determining the ERC. Furthermore, the results of the F-test show a probability value of 0.000, which is below the significance level of 0.05. This implies that all independent variables—default risk, systematic risk, earnings persistence, accounting conservatism, and growth opportunities—jointly have a significant effect on the earnings response coefficient. In other words, the regression model used in this study is considered to be fit and capable of explaining the relationship between the independent variables and the dependent variable simultaneously. Based on the partial test results presented in Table 2, each independent variable shows different effects on the earnings response coefficient. The coefficient value of default risk (proxied by leverage) is -0.303 with a significance value of 0.819, indicating

that default risk has a negative but not statistically significant effect on the earnings response coefficient. This suggests that variations in leverage do not meaningfully influence investor responses to earnings information.

Systematic risk has a coefficient value of 0.065 with a significance value of 0.578, which indicates a positive but not significant effect on the earnings response coefficient. This finding implies that market-wide risk does not significantly alter how investors react to earnings announcements. In contrast, earnings persistence has a coefficient value of -0.546 with a significance value of 0.000, indicating a significant negative effect on the earnings response coefficient. This means that higher earnings persistence is associated with a lower market response to earnings information, likely because stable earnings are more predictable and contain less new information for investors. Accounting conservatism shows a coefficient value of -1.781 with a significance value of 0.372, indicating a negative but not significant effect on the earnings response coefficient. This suggests that the application of conservative accounting practices does not significantly influence investor reactions to reported earnings. Growth opportunities have a coefficient value of 0.001 with a significance value of 0.008, indicating a positive and statistically significant effect on the earnings response coefficient. This implies that companies with higher growth potential tend to generate stronger investor reactions to earnings announcements, as such firms are perceived to offer greater future returns.

The normality test in this study was conducted using a sample of 66 companies from the basic chemicals, agricultural chemicals, specialty chemicals, and construction materials sub-sectors listed on the Indonesia Stock Exchange (IDX) during the period of 2021–2023. The data processing and analysis were carried out using EViews version 12. The purpose of the normality test is to determine whether the residuals in the regression model are normally distributed, as normality is one of the key assumptions required to ensure the validity of statistical inference in regression analysis. The normality of the data was assessed using the Jarque-Bera test, which evaluates whether the skewness and kurtosis of the residuals match those of a normal distribution. Based on the test results, the Jarque-Bera value obtained is 0.230407, with a corresponding probability value of 0.891185. Since the probability value is significantly higher than the commonly used significance level of 0.05, the null hypothesis stating that the data are normally distributed cannot be rejected.

Based on the results presented in Table.7 , the correlation matrix shows the relationships among all independent variables, where negative values are disregarded in the interpretation. The correlation value between default risk and systematic risk is 0.164795, while the correlation between default risk and earnings persistence is 0.141439. Furthermore, the correlation between default risk and accounting conservatism is 0.014847, and the correlation between default risk and growth opportunities is 0.032086. In addition, the correlation between systematic risk and earnings persistence is 0.030171, while the correlation between systematic risk and accounting conservatism is 0.131165, and the correlation between systematic risk and growth opportunities is 0.223093. The correlation between earnings persistence and accounting conservatism is 0.013378, and between earnings persistence and growth opportunities is 0.090652. Lastly, the correlation between accounting conservatism and growth opportunities is 0.152458. All of these correlation values are relatively low and fall well below the commonly accepted threshold of 0.85. This indicates that there is no strong linear relationship among the independent variables included in the regression model. Therefore, it can be concluded that the model does not suffer from multicollinearity issues.

In this study, there are five independent variables (k = 5) with a total sample size of 66 observations (n = 66). The autocorrelation test was conducted using the Durbin-Watson (DW) test at a significance level of 5% to determine whether there is a correlation between residuals in the regression model. Based on the Durbin-Watson table, the upper bound value (dU) is 1.7675, while the value of 4 − dU is 2.2325. The calculated Durbin-Watson statistic from the regression results is 2.025753. Since this value falls within the range of dU < DW < 4 − dU (1.7675 < 2.025753 < 2.2325), it can be concluded that there is no autocorrelation in the regression model. This result indicates that the residuals are independent from one observation to another, meaning that there is no systematic pattern in the error terms. The absence of autocorrelation suggests that the regression model satisfies one of the key classical assumptions, ensuring that the estimated coefficients are efficient and reliable. Therefore, the model can be used for further analysis and

hypothesis testing without concerns related to autocorrelation issues.

Based on the results presented in Table.8 , the value of Prob. Chi-Square (5) is 0.1351. Since this value is greater than the significance level of 0.05, it indicates that there is no evidence of heteroscedasticity in the variables used in this study. In other words, the variance of the residuals is constant across observations, fulfilling the assumption of homoscedasticity in the regression model. This result suggests that the model does not suffer from heteroscedasticity problems, meaning that the error terms are distributed evenly and do not show systematic patterns. As a consequence, the estimates produced by the regression model are considered reliable and unbiased. Therefore, it can be concluded that the data in this study meet the heteroscedasticity assumption, and the model is appropriate to be used for further analysis using multiple linear regression.

Discussion

The results presented in Table 4 indicate that default risk does not have a statistically significant impact on the earnings response coefficient (ERC). This finding is in line with the research conducted by Nurhuda and Darmayanti (2024), which similarly concluded that default risk does not significantly influence the earnings response coefficient. This suggests that the market does not necessarily incorporate default risk as a primary consideration when responding to earnings information. One possible explanation for this phenomenon is that companies with higher default risk often possess greater access to capital or are more willing to utilize external financing to expand their operations. This expansion may take various forms, such as increasing marketing expenditures to enhance brand visibility and drive higher sales, investing in advanced technologies to improve product quality and operational efficiency, or exploring new market opportunities. As a result, these strategic initiatives can support company growth and increase the potential to generate higher profits in the future, which in turn may attract investors despite the associated risks. Furthermore, the concept of risk and return plays a crucial role in investor decision-making. According to financial theory, higher risk is generally associated with the potential for higher returns. Therefore, not all investors will avoid companies with high default risk. Instead, some investors—particularly those with a higher risk tolerance—may be attracted to such companies because they offer the possibility of superior returns compared to more stable, low-risk investments. For these investors, small and stable returns may be less appealing, as their primary objective is to maximize their return on investment.

The result in Table 4 shows that systematic risk has no significant effect on the earnings response coefficient (ERC). This finding is consistent with the study conducted by Rici et al. (2023), which also concludes that systematic risk does not significantly influence the earnings response coefficient. This implies that the level of market-wide risk faced by a company does not materially alter how investors respond to earnings announcements. Systematic risk, which reflects the overall uncertainty in the market caused by macroeconomic factors such as interest rates, inflation, and economic cycles, is inherently unavoidable and affects all firms to some extent. Because this type of risk cannot be eliminated through diversification, investors generally acknowledge its presence as a normal part of investing. As a result, rather than avoiding systematic risk, investors tend to incorporate it into their overall investment strategies and required rates of return. From an investment perspective, higher systematic risk is often associated with the potential for higher returns, in line with the fundamental risk–return trade-off. Therefore, many investors are not discouraged by high levels of systematic risk, as long as the expected returns are sufficient to compensate for that risk. Instead of seeking perfectly stable market conditions—which are rarely achievable—investors are more inclined to identify companies that demonstrate resilience and the ability to perform well even under volatile and unpredictable economic environments.

The result in Table 4 shows that earnings persistence has a negative and statistically significant effect on the earnings response coefficient (ERC). This finding appears to contradict the results reported by Sandy & Mulya (2025), who also found that earnings persistence negatively affects the earnings response coefficient; however, the contradiction may lie in the interpretation or context of the relationship rather than the direction itself. In this study, the negative effect suggests that higher earnings persistence actually leads to a lower market response to earnings information. Companies with high earnings persistence generally exhibit

stable and consistent income over time. This condition is commonly associated with firms that have reached the maturity stage in their business life cycle, where sales levels tend to be stable or even stagnant. At this stage, the company typically operates in a well-established market, with predictable demand and relatively controlled expenses. Operational efficiency is often high, and uncertainties are lower compared to companies in earlier growth stages. While this stability might be viewed positively from a risk perspective, it may reduce the attractiveness of the company from an investment standpoint. From an investor's perspective, firms in the maturity stage often offer limited growth opportunities. Since their products or services have already saturated the market, there is minimal room for expansion. Over time, these companies may even face the risk of entering a decline stage, where consumer preferences shift toward new or more innovative alternatives. As a result, future sales growth becomes uncertain or potentially decreasing. This expectation reduces investor enthusiasm, as the potential for capital gains driven by stock price appreciation becomes limited.

The result in Table 4 shows that accounting conservatism has no significant effect on the earnings response coefficient (ERC). This finding is consistent with the study conducted by Navin and Suwarno (2024), which also concluded that accounting conservatism does not significantly influence the earnings response coefficient. This indicates that the level of conservatism applied in financial reporting does not meaningfully alter how investors respond to earnings information disclosed by the company. Accounting conservatism refers to a prudential reporting approach in which companies tend to recognize expenses and potential losses more quickly, while delaying the recognition of revenues and gains until they are more certain. As a result, financial statements prepared under conservative accounting principles often present lower reported income and asset values compared to more neutral accounting approaches. While this method is intended to reduce the risk of overstating financial performance, it can also lead to the understatement of a company's true economic condition. From an investor's perspective, this conservative bias may reduce the perceived reliability or usefulness of reported earnings, particularly for those who focus heavily on net income as a basis for investment decisions. Investors seeking higher returns may view conservative financial statements as less informative because they do not fully reflect the company's potential profitability. The understatement of income and assets may create a perception that the company is underperforming, even when its actual economic performance is stronger.

The result in Table 4 shows that growth opportunities have a positive and statistically significant effect on the earnings response coefficient (ERC). This finding is consistent with the study conducted by Handi et al. (2022), which also concludes that growth opportunities positively influence the earnings response coefficient. This indicates that the market tends to respond more strongly to earnings information released by companies that are perceived to have high growth potential. Investors are generally more attracted to companies with substantial growth opportunities because such firms are expected to expand their operations, increase their market share, and generate higher future cash flows. As a company grows, its operational scale also increases, allowing it to enhance its revenue streams and strengthen its competitive position in the market. This growth potential becomes a key signal for investors that the company is capable of delivering better financial performance in the future. In addition, companies with strong growth opportunities are often able to take advantage of economies of scale, which enable them to reduce average costs as production increases. This cost efficiency can lead to higher profitability, particularly reflected in improved net profit margins. A higher net margin is an attractive indicator for investors, as it suggests that the company is not only generating more revenue but also managing its costs effectively, thereby increasing the portion of income that could potentially be distributed to shareholders or reinvested for further growth.

CONCLUSION

The findings of this research lead to several important conclusions. First, default risk is found to have no significant effect on the earnings response coefficient (ERC), indicating that higher leverage may instead be perceived by investors as an opportunity to obtain higher investment returns rather than as a deterrent. Second, systematic risk also does not significantly affect the ERC, suggesting that investors are generally accustomed to market-wide uncertainties and have already incorporated such risks into their expectations and decision-making processes.

In contrast, earnings persistence is found to have a negative effect on the earnings response coefficient. This implies that companies with stable and predictable earnings tend to receive a weaker market response, as investors are more inclined toward firms that offer higher return potential rather than merely stable performance. Furthermore, accounting conservatism is shown to have no significant effect on the ERC, which may be explained by the tendency of investors to perceive conservatively reported financial statements as less reflective of the company's true economic performance, thereby reducing their reliance on such information. On the other hand, growth opportunities are proven to have a positive and significant effect on the earnings response coefficient, indicating that firms with strong growth prospects are more likely to elicit stronger reactions from investors due to their potential to generate higher future returns. Based on these findings, company management should focus on developing strategies that emphasize growth and expansion rather than maintaining a stagnant position. This can be achieved through various initiatives, such as introducing new products, expanding into new markets, or pursuing mergers and acquisitions to enhance the company's scale and competitiveness. Companies that demonstrate strong growth potential are more likely to attract investor interest and generate positive market reactions. In addition, management should strive to ensure that earnings show consistent improvement over time, as increasing profitability signals greater opportunities for investment returns and further strengthens investor confidence. However, this study has several limitations that should be acknowledged. The research is limited to companies within the basic chemicals, specialty chemicals, and construction materials sub-sectors, which may restrict the generalizability of the findings. Different results may emerge if the analysis is extended to companies operating in other sectors with different characteristics and risk profiles. Moreover, this study only examines a limited set of independent variables, namely default risk, systematic risk, earnings persistence, accounting conservatism, and growth opportunities. Future research is recommended to include a broader range of sectors as well as additional variables that may influence the earnings response coefficient, in order to provide a more comprehensive understanding of the factors affecting market reactions to earnings information.

ACKNOWLEDGEMENT

If any, acknowledgement can be stated here. This section displays authors' appreciation to sponsors, fund donors, resource persons, or parties who have an important role in conducting research.

AUTHOR CONTRIBUTION STATEMENT

If any, Author Contribution

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