EARNINGS RESPONSE COEFFICIENT (ERC): MARKET REACTION TO EARNINGS ANNOUNCEMENT

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ABSTRACT

This study Aimed to Obtain empirical evidence, examine and explain the factors (leverage, profitability, size and persistence) that Affect earnings response coefficient (ERC) with voluntary disclousure and timeliness as an intervening variable and its application in the financial statements at Manufacturing Companies listed in the Indonesia Stock Exchange from 2010 to 2014.

Research on the relationship between stock returns with income to Determine the extent of Reviews their relationship are many who use earnings figures as the dependent variable regressed with stock returns as the independent variables are calculated by different methods. There are other methods that can be used to measure income, by using a variable Earning Response Coefficient (ERC) Plan for the data analysis in this study will be conducted using path analysis with apliksi Analisys of Moment Structure (AMOS) version 18.

The results of the research there is influence persistence towards Earning Response Coefficient (ERC), but there is no influence of leverage, profitability, size, and voluntary tineliness disclousure towards Earning Response Coefficient (ERC). There is significant influence towards Voluntary Disclosure Leverage but the profitability of the voluntary disclousure did not show a significant effect. There is no effect on the profitability and timeliness of variable size, but the persistence of earnings against Timeliness Showed the opposite result. Voluntary disclousure and Timeliness an intervening variable for the effect of leverage, profitability, size and persistence of earnings.

Keywords: *Earning Response Coefficient (ERC), voluntary disclosure, timeliness*

1. Preliminary

Accounting information in the form of financial statements is a means which informs the company's performance to the parties with an interest in the company, especially for investors who need the information in making an investment decision, because in the financial statements contained the information required by the parties concerned with company.

Ball and Brown (1968) disclose information about the contents of the analysis if the unexpected change in the positive earnings have abnormal rate of return on average positive and vice versa if it is negative then it has an abnormal rate of return on average negative, in other words, the information contained in figures accounting profit real handy if different from the profit expectations of investors, this indicates that the market reaction reflected in stock price movements around the announcement date. Relations accounting earnings and stock returns have a positive relationship statically and significant. In this case the rise and fall of income will affect the rise and fall of stock returns in the same direction. While the magnitude of the relationship earnings and stock returns measured by *Earning Response Coefficient* (ERC.)

Some researchers who tested *Earning Response Coefficient (ERC)* tries to tie *Earning Response Coefficient (ERC)* with other factors such as the *size Earning Response Coefficient (ERC)* (Easton and Zmijewski, 1989) and *Leverage* by *Earning Response Coefficient (ERC)* (Dhaliwal et al, 1991), (Sri Mulyani 2003). Lang and Lundholm (1993) examined the factors affecting the level of disclosure found that companies that have a correlation *of return* and *earnings* lower more disclosure, in other words *Earning Response Coefficient (ERC)* negatively related to *disclosure*. Murwaningsari (2008) and Paramita (2011) examines the path analysis, using voluntary disclousure as an intervening variable. Research on the relationship with the voluntary disclosure *Earning Response Coefficient (ERC) is* still rarely done with inconsistent results.

Research on the relationship between stock *returns* with income to determine the extent of their relationship are many who use earnings figures as the dependent variable regressed with stock *returns* as the independent variables are calculated by different methods. The problem in this study is whether other methods also can be used to measure income, by using a variable *Earning Response Coefficient (ERC)* may indicate that the profit has information content which is reflected in the stock price.

Furthermore, this study examines the effect of direct and indirect *earnings response coefficient (ERC)* with *Voluntary disclousure* and *Timeliness* placed as a intevening variable, to answer the research problems.

The purpose of this study was to obtain empirical evidence, examine and explain the factors *(leverage, profitability, size* and persistence of *earnings)* that affect e *arnings response coefficient* (ERC) with *voluntary disclousure timeliness* as an *intervening variable* and the persistence of earnings as a control variable and its application in the financial statements at Manufacturing Companies listed on the Indonesia Stock Exchange.

2. Theoretical Framework and Hypothesis filing

2.1. Capital Structure Theory

Capital structure theory to explain the influence changes in capital structure to the company's value, if investment decisions and dividend policy are held constant. In other words, if the company's own capital partially replace it with debt or conversely whether the stock price will change, if the company does not change the financial decisions of other (Van Horne and Wachowicz, 2005).

The capital structure is best for the company's high growth rate is different from the company's growth rate is low. Companies with a high growth rate, in conjunction with*leverage,* you should use debt as a source of financing in order to avoid the cost of agency *(agency cost)* between shareholders with the company's management, otherwise the company with a low growth rate should use *equity* as a source of funding for the use of debt will require the company to pay interest regularly.

2.2. Agency Theory

Scott (2000) states that the company has many contracts, for example, the employment contract between the company and its managers and the loan contract between the company and its creditors. The employment contract in question is a contract between the owners of capital to the company manager. Where between the *agent* and the *principa l*wants to maximize *the utility* of each with the information held.

But on the one hand, *agents* have more information *(full information)* compared with the *principal* on the other side, causing the *asimetry information.* More information is owned by the manager may trigger to perform actions in accordance with the wishes and interests to maximize *utility* his. As for the owners of capital in this case the investor, it would be difficult to effectively control the actions taken by management because it has little information exists. Therefore, sometimes the specific policies carried out by the management company without the knowledge of the owner or investor capital.

Jensen and Meckling (1976) has developed an analytical treatment of the relationship manager and the owner. In its findings, there is a conflict of interest if a manager has a stake less than the amount of the company's shares, which give rise to *agency problems.* Owners partly caused the manager does not have the main goal to increase the prosperity of the owner to solve *agency problems* have required additional expenses that are called *agency cost.*

2.3. Signaling Theory and Information Asymmetry

Signaling theory address issues of information asymmetry. This theory is based on the premise that managers and shareholders do not have the same access to company information. No specific information known only to the managers, while shareholders do not know that information. So, there is information asymmetry *(asymmetric information)*between managers and shareholders. As a result, when a company's capital structure changes, it can bring information to shareholders which would result in the value of the company changed. In other words, going on a sign or signal *(signaling).*

Signal theory explains that the company is of good quality would deliberately give a signal to the market. Thus the market is expected to differentiate good and bad quality. To be effective then the signal should be caught and perceived market well, and not easily imitated by other companies were of poor quality. This theory reveals that investors can distinguish between companies that have a high value to the companies that have low values by observing its capital structure.

2.4. Efficient Market Theory

Fama (1970) categorizes the efficient market hypothesis into three forms of the efficient market is weak, the market is efficient half strong, very strong and efficient market.Weak form efficient market hypothesis states that stock prices already reflect all prior information / historically. Shape half strongly suggests that all the information that has been published reflected in stock prices. Being strong form states that stock prices reflect all the information including the *inside information.* The research provides empirical evidence of the predictability of stock *returns* in *time-series* using the original information is closely related to proving weak form efficient market hypothesis. However, please note that although the stock *return* proved to be predicted by using historical information, can not automatically be claimed that capital markets are not efficient.

The theory underlying the semi strong market hypothesis about the information *value relevance* earnings (earnings announcements influence on investor reaction). value relevance earnings information proving that earnings have a known *value relevance* of its impact on investor reactions are described in the stock price. The greater profit invetor then the reaction will be higher. to measure the *value relevance* information to determine

the relationship of profit or earnings to stock returns can be measured using *earnings coeffisient response (ERC).*

2.5. Earning Response Coefficient (ERC)

Earnings quality may be indicated as the ability to gain information to respond to the market. In other words, earnings are reported to have a response force *(power of response).* The strong market reaction to earnings information reflected by the *earnings response coefficients (ERC),* shows the quality of reported earnings. Scott (2010), *Earning Response Coefficient (ERC)* is one measure or proxy is used to measure the quality of earnings (Collins *et al.* 1984).

Cho and Jung (1991) classifying the theoretical approach *Earning Response Coefficient (ERC)* into two groups: (1) assessment model based on economic information*(information economics based valuation model)* as developed by Holthausen and Verrechia (1988) and Lev (1989) which indicates that the strength of investor response to the information signal gain is a function of the uncertainty in the future. The greater the *noise* in the system of reporting companies (the lower the quality of earnings), the smaller*Earning Response Coefficient (ERC)* and (2) assessment model based on *time series* earnings *(time series based valuation model)* as developed by Beaver, Lambert and Morse (1980).

Calculation of *Earnings Response Coefficient (ERC)* can be done in two ways (Ambarwati, 2008: 130), namely: 1). *Cross Sectional* known as *pool regresion,* in this case the*ERC* will be the same for all companies, usually in one industry. (Imhoff and Lobo, 1992). 2). *Time Series* or *firm specific coeffisient,* that each company has a number *forcast ERC*obtained from previous years. (Teets and Wasley, 1996). Accuracy *Time Series* is higher than the *pool regresion,* because the *R-square* value generated *Time Series* method is higher than the *pool regresion.* (Chandrarin, 2002).

Beaver (1968) defines, *Earning Response Coefficient (ERC)* or the earnings response coefficient is the slope coefficient on earnings. Earnings response coefficients measure the strength of the stock price in response to the accounting profit. Coefficient accounting profit may indicate the quality of corporate profits.

2.6. leverage

According to Brigham and Houston (2001: 14), Financial *leverage (financial leverage)* is a measure that indicates the extent to which the securities fixed income (debt and preferred stock) used in the structure of capital. Financial *leverage* shows the proportion of the use of debt to finance investment.

Leverage ratio is the proportion of total debt to *equity* shareholders. The ratio is used to provide an overview of the capital structure of the company, so it can be seen the risk of non-collection of a debt (Luciana and Ikka, 2007).

2.7. Profitabilitas

Profitability is the ability of a company to make a profit (profit) in a given period. Profitability ratios as a means of measuring financial performance, profitability assessment is the process to determine how well the business activities carried out company to achieve its strategic objectives, eliminates waste-waste and presenting timely information to implement continuous improvement.

Return on Equity (ROE) according to Houston (2001), capital gains itself is a ratio used to measure the benefit of the owner's investment capital and is calculated by dividing the net income (net profit after tax) with its own capital.

2.8. Size (company size)

In the study of Fitriani (2001) there are three alternatives that are used to calculate the *size* of the company, ie total assets, net sales and market capitalization. In the study of Fitriani (2001) company *size* measured by total assets, because she thinks the total assets of more shows company *size* compared to market capitalization.

2.9. Voluntary disclousure

Hendricksen and Breda defines disclosure *(disclosure)* as providing some of the information needed for optimal operation of an efficient capital market. The information disclosed in the annual report of listed companies can be grouped into two categories, namely the expression compulsory *(mandatory disclosure)* and voluntary expression *(voluntary disclosure).* The phrase is the information required to be disclosed by issuers governed by capital market regulations in a country. While the voluntary expression of a disclosure of information beyond the minimum requirements of the prevailing capital market regulations. The Company has the discretion to make voluntary disclosures in the annual report, causing the diversity of expression of a voluntary or a wide variation among companies (Widisatuti, 2002: 76).

2.10. timeliness

Decision of the Chairman of Capital Market Supervisory Agency and Financial Institution Number: Kep-431 / Bl / 2012 About Submission of Annual Report Issuer or Public Company said Issuer or Public Company that statement registration has become effective shall submit an annual report to Bapepam and LK maximum of 4 (four) months after the fiscal year ends. Timely submission of financial statements is a factor that raises questions for users of financial statements regarding the credibility or quality of the report (Murwaningsari: 2010).

Syafrudin (2004) examined the effect of inaccuracy when the earnings response coefficients and concluded that the inaccuracy of financial reporting time has an effect on the credibility or quality of earnings. It is based on the argument that the inaccuracy of time, for the users of the information will be perceived that the information contained in the financial statements is information that contains *noise* (interference). As for the *noise* that arises these are factors that affect the quality of earnings, which in turn is reflected in the earnings response coefficients.

2.11. Persistence of Earnings

The persistence of accounting profit according to Scott (2003) is a revision in accounting profit is expected in the future *(expected future earnings)* that is implied by the accounting profit for the year *(current eamings)*. The present value of the revision of future earnings can estimate the present value of the revised future benefit ekspektasiannya front, ie in the stock price (Kormendi and Lipe, 1997). The smaller the value of the future revision of the accounting profit (increasingly persistent accounting profit), the stronger the accounting profit relationships with *abnormal return* (the greater the earnings response coefficients).

The higher the income, the higher *persistence Earning Response Coefficient* (ERC), this is related to the strength of earnings. *The persistence of* earnings reflects the quality of corporate profits and show that the company can retain earnings over time. Kormendi and Lipe (1987) showed that the *persistence of* earnings is positively related to *Earning Response Coefficient* (ERC). Collins and Kothari (1989) also found a positive relationship between the estimated ERC and persistency by using changes in earnings as a proxy for*unexpected earnings.* In contrast to Ali and Zarowin (1992) who found that the estimated *error* on *Earning Response Coefficient* (ERC) is negatively associated with *persistence.*This is due to several previous analyzes of the relationship between *Earning Response Coefficient* (ERC) and persistency is excessive.

Murwaningsari (2008) states there is a negative effect of *leverage* on *Earning Response coëficient (ERC).* Research results in line with Dhaliwal, Lee and Farger (1991) proved that *Leverage* negatively affect earnings response coefficients are *Earning Response Coefficient (ERC).* Companies that *leverage* its high level means having a greater debt than capital. Thus, if an increase in profits, the benefit is the *debtholders,* so the better the condition of corporate profits, the more negative the response of shareholders, as shareholders considered that such profits just hang creditors.

Wolk and Tearney (1980) stated the disclosure concerning the provision of information required by the authorities and the voluntary by the company, in the form of financial statements, the information after the date of the financial, management analysis on the company's operating future, financial predictions and operations in the will come, and additional financial statements that include uangkapan by segment and other informai beyond cost.

Imhoff (1992) in Ainun Na'im and Fuad Rahman (2000) states quality as an important attribute in a accounting information. Although the quality of accounting still has a double meaning many researchers are using the *index of disclousure methodology* suggests that the quality of the disclosure can be measured and used to assess the potential benefits of the annual report.

Results of Murwaningsari study (2008) revealed the size of the company *(size)* in the issue *Earning Response Coefficient (ERC)* is used as a proxy for the stock price informativeness. Research inserting variable *size* as a control variable. The results showed that the size of the company's significant negative effect on *Earning Response Coefficient (ERC).* The larger the size of the company will have more information than a small company. The results support the research Chaney and Jeter (1991) and Collins and Kothari (1989).

Hypothesis 1a: *Leverage has an influence on Earning Response Coefficient (ERC)*
Hypothesis 1b: *Leverage has an influence on Voluntary disclousure*
Hypothesis 1c: *Profitability has an influence on Earning Response Coefficient (ERC)*
Hypothesis 1d: *Profitability has an influence on Voluntary disclousure*
Hypothesis 1e: *Profitability has an influence on Timeliness*
Hypothesis 1f: *Size has an influence on Earning Response Coefficient (ERC)*
Hypothesis 1g: *Size has an influence on Timeliness*
Hypothesis 1h: *The persistence of income has an influence on Earning Response Coefficient (ERC)*
Hypothesis 1i: The persistence of income has an influence on Timeliness
Hypothesis 1j: *Voluntary disclousure have an influence on Earning Response Coefficient (ERC)*
Hypothesis 1k: *timeliness has an influence on Earning Response Coefficient (ERC)*

Murwaningsari (2008) investigated the effect of variable *Leverage* & *Size* of the *respose Earning Coefficient (ERC)* with *Voluantry disclosure & Timelinness* as *intervening*variables, as well as putting the persistence of earnings, growth, reputation auditor and the auditor's opinion as control variables. The study concluded there is a negative influence between *leverage* against *Earning Response coëficient* (ERC) and the *Size* of the *Earning Response coëficient (ERC),* the positive influence to *Leverage* with *Voluantry disclousure*and *Voluantry disclousure Earning Response coëficient (ERC).* As for *Size* and *timeliness* found no significant effect and variable *Voluantry disclousure* and *Timelinness* according to research, is not an *intervening* variable. While the research Paramita (2011) concluded that *Voluantry disclousure* an intervening variable for the effect of size on *Earning Response coëficient (ERC).*

Hypothesis 2a: *Leverage and Profitability has an influence on Earning Response Coefficient (ERC) through Voluntary disclousure*

Hypothesis 2b: *Size and persistence of income has an influence on Earning Response Coefficient (ERC) through Timeliness*

Briefly conceptual framework that explains the effect of *leverage, size,* either directly or through *Timeliness* of the *Earning Response Coefficient (ERC),* can be seen in Figure 1.

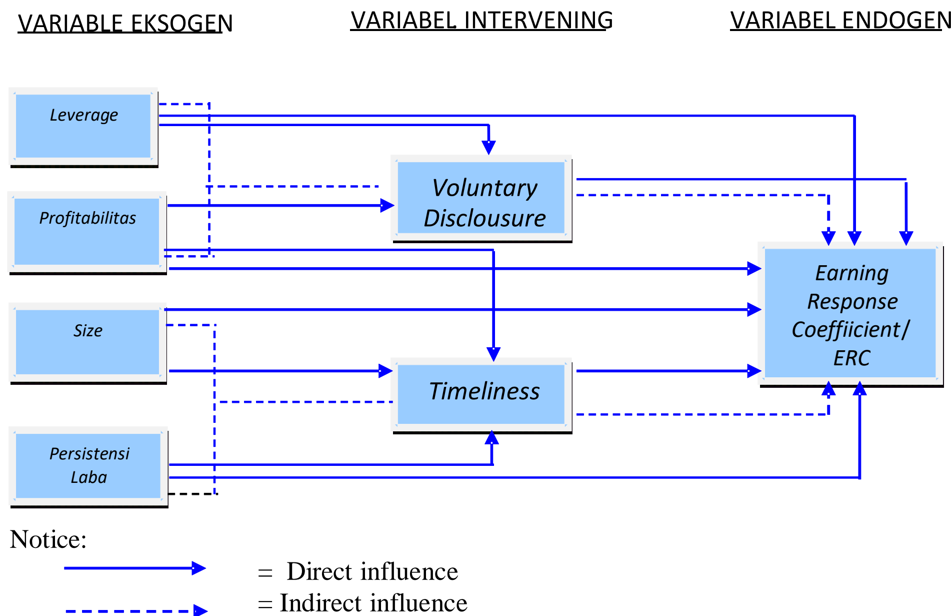

Figure 1. Research Conceptual Framework

3. Research methods

3.1. Model Research

This study examined the direct and indirect influence on *Earning Response coëficient (ERC),* the research model to test the hypothesis:

$$ERC = \beta_0 + \beta_1 \text{ Disc} + \beta_2 \text{ TIME} + \beta_3 \text{ LEV} + \beta_4 \text{ PROB} + \beta_5 \text{ SIZE} + \beta_6 \text{ EP} + \varepsilon_{it} \quad (1)$$

In this case :

ERC_{it} = Coefficient response to the company's profit in period t
$disc_{it}$ = Voluntary disclosure (voluntary disclosure)
time = Timeliness of financial reporting (timeliness)
LEV_{it} = Le *verage* company *i* in period t
EP_{it} = Persistence of earnings the company i in period t
$PROB_{it}$ = Probability of firm i in period t
$SIZE_{it}$ = Magnitude of firm i in period t
ε_{it} = Component *error* firm *i* in period t

3.2. Population and Sample Research

The study population includes all companies listed on the Indonesia Stock Exchange by using purposive sampling method. Companies sampled must meet the following criteria:

1. Companies whose shares remain actively operating from 2010 until December 2014, and to publish audited financial statements on a regular basis.
2. The Company did not experience losses during the estimation period.
3. Has the complete data is used as a variable in this study and consistently reported in Bapepam.

3.3. Operational Variables

The operational definition of variables and dimensions are as follows:

Leverage Variable

Leverage is calculated using the formula *Debt to Equity Ratio (DER),* which compares the total debt to total equity capital. (Dhaliwal: 1991)

Profitability Variable

The ability to generate profits using the formula's ability to generate profits with their own capital or profitability of equity (ROE). (Burgstahler & Dichev: 1997)

Size Variable (Scale Company)

Company *size* was measured by using a natural log (Ln) total *assets* (Jogiyanto, 2000)

Timeliness variable

Timeliness is the span of the announcement of the annual financial statements have been audited (auditee) to the public, namely the length of days it takes to announce the annual financial statements have been audited to the public, since the company's fiscal year closing date until the date of submission to Bapepam.

Persistence Variable Gain

Variable earnings persistence in this study was developed from Scott (2003) and Kormendi & lipe, 1987, with the following formula:

$$X_{it} = \alpha + \beta X_{it-1} + \varepsilon \qquad (2)$$

In case this:

X_{it} = Profit company i year t

X_{it} - 1 = Earnings company i year t-1

β = persistence profit

ε = component error

Variable Earnings Response Coefficient

Earning Response Coefficient variable in this study was developed from models Cho and Jung (1991). *Earnings Response coefficient (ERC)* will becalculated from *slope* $\alpha_1$on relationships *CAR* with *UE* after controlled Annual *return.*

$$CAR_{it} = A_0 + \alpha_1 UE_{it} + \alpha_2 R_{it} + \varepsilon_{it} \qquad (3)$$

In case this :

CAR_{it} = *comulatif abnormal retur* sidelines of a period long experienced at an ± 5 days from publication report finance

UE_{it} = *unexpected earnings*

R_{it} = *return* Annual

ε_{it} = component *error* i on period t.

Value α_1 for each sample are value of ERC, that different for each company *(Time series mode l)*

3.4. Technical Analysis Data

Technical analysis of the data in this study will be done by using path analysis with software Analisys of Moment Structure (AMOS). In this study, conducted through direct testing and it indirectly on the dependent variable.

1. *Testing directly between Leverage, Size and Timeliness of the Earning Response Coefficient (ERC).*

Testing hypotheses using *path analysis* to determine the relationship of the variables tested simultaneously. Relationships theoretical phenomenon, empirical research and development of hypotheses can be seen from the *path diagram. P-value* in this study using a *level of significant* 5% (alpha 0.05). In the process of testing the hypothesis if p> 0.05 means that the hypothesis has any real or significant influence between the variables in the hypothesis, and vice versa.

2. *Testing Indirect between Leverage and Size tehadap Earning Response Coefficient (ERC) with Timeliness as an intervening variable*

In the *intervening* testing, basic decision is to compare the coefficient indirect effect coefficient of direct influence. Coefficient direct influence of two variables in the tablemultiplied *Standardiedz Direct Effect.* Then the results will be compared, if the coefficient indirect effect *(Indirect Effect)* greater than / equal to than the direct influence coefficient*(Direct Effect),* then the variables tested an *intervening* variable, and vice versa.

1. **Results and Discussion**

4.1. Path Testing Results Analysis

Path test results anlysis showed various types of *fit index* used to measure the degree of correspondence between the model hypothesized by the data presented have fulfilled the criteria.Data also meets the criteria *cr* normal distribution with *a kurtosis* of 0.45 means that the whole or *multivariate* normal distribution of data for is within the range of -1.96 to 1.96. Data were analyzed showed no *outliers* in *univariate level,* the value of *the determinant of the covariance matrix* = 3,290,397,404.884 these results identify the value away from zero (very large), thus the assumption of *multicollinearity* and *singularity* fulfilled because there are no *multicollinearity* or *singularity* in research data.

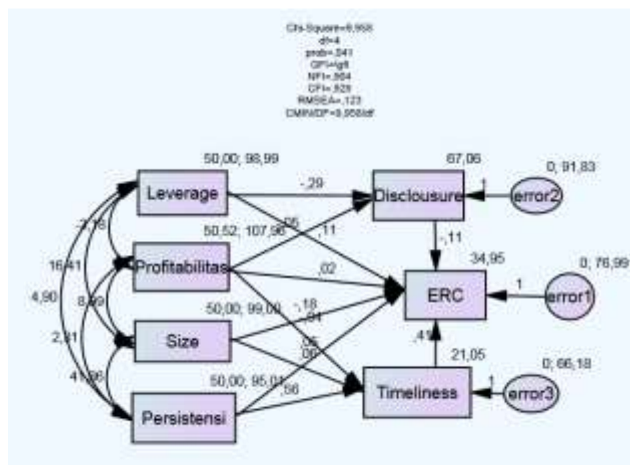

Figure 2. Path Analysis Model

<u>Testing the hypothesis directly</u>

Table 1. *Regression Regression Weight (default model)*

			estimate	CR	P	Information
disclousure	<---	leverage	-, 287	-2.966	, 003	significant positive
timeliness	<---	profitability	-, 037	-, 472	, 637	Not significant
disclousure	<---	profitability	-, 052	-, 557	, 578	Not significant
timeliness	<---	size	, 056	, 612	, 540	Not significant
timeliness	<---	persistency	, 561	6.028	***	significant positive
ERC	<---	leverage	, 113	1.204	, 229	Not significant
ERC	<---	profitability	.019	, 227	, 821	Not significant
ERC	<---	size	-, 183	-1.790	, 073	Not significant
ERC	<---	persistency	, 447	, 598	***	significant positive
ERC	<---	disclousure	-, 109	-1.123	, 262	Not significant
ERC	<---	timeliness	, 414	3,759	***	significant positive

There Effect Between Leverage to Earning Response Coefficient (ERC)

Leverage ratio is the proportion of total debt to *equity* shareholders. The ratio is used to provide an overview of the capital structure of the company. The survey results revealed that there was no significant effect of *Leverage* by *Earning Response Coefficient (ERC).* This can be seen from the probability value (p-value) of 0.029.

Hypothesis testing results showed no influence of variables *leverage* against *Earning Response Coefficient* (ERC). This means that there is no inter-relationship between the ratio *of debt to ratio* or the ratio between debt and *equity* with the response given by shareholders on corporate profits. The capital structure of the company does not give effect to shareholders to respond to the company's reported earnings. This can happen due to shareholders or investors assume that creditors will only receive interest costs are relatively fixed, while the excess profits will be part of the benefits (claims) for shareholders.

High *leverage* does not mean that only *debtholder* who would benefit, but shareholders will also receive part of the profits of the company. Because large or small profits from the company, *debtholder* will still receive at a relatively steady rate, so that the profits received by the company will be responded positively by shareholders.

Ratios *Leverage* is the ratio of debt to *equity* and will move in tandem with the debt to *equity* if a company can use the *assets* are at a higher return than the cost of debt, will increase the return on capital. If not, the company's debts exceed assets, the cost of debt can be greater than the return on *assets* . In the long term, this will lead to bankruptcy. So investors should take this into consideration when investing in a company with a ratio of *leverage* is high, especially in times of rising interest rates. So that the shareholders of this will affect the profits will respond. Although *debtholder* received flowers are relatively fixed, however large or small reception shareholders to be obtained is the value after interest payments on debt to *debtholder*. The greater the interest paid each period it will further reduce corporate profits.

There Effect Between *Leverage* Against *Voluntary disclousure*

The results showed that a significant difference between the *Leverage* on *Voluntary Disclosure* . It is characterized by a probability value (p-value) of 0,003, which means p-value below 0.05. That is a hypothesis which assumed a significant difference between *Leverage* and *Voluntary Disclosure* proven.

Companies with high capital structure publicize to the public so that potential investors or investors can menggunkannya as consideration of investment. But in fact, although the company presents a report tahuanan form of voluntary disclosure, completeness index is presented each year has not changed. This means that the company presents the voluntary disclosure based on the report-lapoaran previous year, regardless of the increase or decrease in capital structure. This is likely due to the disclosure of the annual report the company voluntarily reported to BAPEPAM only as additional disclosures above minimum mandatory disclosure as required by law, while the voluntary disclosure reported without required by regulations.

There Effect Between *Profitability* Of *Earning Response Coefficient (Erc)*

The results showed there was no influence significant between *Profitability* against *Earning Response Coefficient (ERC)* with a p-value of 0.821.

Profitability is one indicator of the success of the company to be able to generate profits for the company. The reported earnings which would then be addressed by investors.*Return on Equity* is a capital gain itself is the ratio used to measure the benefit of the owner's investment capital and is calculated by dividing the net income (net profit after tax) with its own capital. Response profit in companies with high profitability found to be greater than those of companies with low profitability. Profitable companies able to complete the operation that is being run at the moment, which is indicated by earnings.

There Effect Between *Profitability* of the *Voluntary disclousure.*

Against the hypothesis testing the effect of *profitability* on *voluntary disclousure* showed no significant effect. Value regresion weight of the regression relationship between*profitability* variable to *voluntary disclousure* shown in a negative estimate of the value of -0.052 on the probability value (p-value) of 0.578 (p = 0.578> 0.05).

Financial profitability of the company which is a measure of financial performance in terms of the company's financial condition will be reflected in the financial statements presented by the company. However, companies with high profitability can not be certain to complete all the items of voluntary disclosure in its annual report.

There Effect between *Profitability* against *Timeliness.*

Against the hypothesis testing the effect of *profitability* on *Timeliness* showed no significant effect. Value regresion weight of the regression relationship between *profitability*variable on *Timeliness* shown in a negative estimate of the value of -0.037 on the probability value (p-value) of 0.637 (p = 0.637> 0.05).

Profitability ratios as a means of measuring financial performance, profitability assessment is the process to determine how the business activities carried out company to achieve its strategic objectives and presenting timely information to implement continuous improvement. The company's ability to generate profits associated with the presentation to the public (Carslaw & Kaplan: 1991) in which the company makes a profit the higher will publish its report on time, compared to companies that suffered losses.

But in some companies there are obstacles in the timely submission of financial statements. So companies with high profitability can not be ascertained in the timely submission of financial statements.

There Effect Between *Size* Of *Earning Response Coefficient (Erc)*

The results showed that *Size* does not have significant influence with *Earning Response Coefficient (ERC)*. It is characterized by a probability value (p-value) of 0.073, which means p-value above 0.05.

Hypothesis testing results showed no effect real between the *size* of the *Earning Response Coefficient (ERC)*. The results of the study can be interpreted that the size of the company does not affect the earnings response coefficients or other assumptions that company size is not significant in explaining *Earning Response Coefficient (*ERC). The results of this study also proves that the size of the company does not provide additional explanatory power for the difference in earnings response coefficients.

Firm size may affect the reported earnings of companies which responded by investors. Based on the argument that the more extensive information available on large companies provide a better form of consensus on economic profit. The more information available about the activities of large companies, the easier for the market to interpret the information in the financial statements. However, the availability of information is not only given by the company with a large scale, so the size of the company does not provide additional explanatory power against earnings response.

There Effect Between *Size* Of *Timeliness*

Results of testing the hypothesis of the influence of *size* on *Timeliness* obtained significant results that the p-value 0.540 p-value is above 0.05. That is a hypothesis which assumed a significant relationship between the *size* by *Timeliness* is not proven.

Large enterprises are more consistent for timely than small firms to inform the financial statements, since many large companies is highlighted by the community (and Hugh Dyer, 1975). Then, according to Schwartz and Soo (1996) that large companies have more knowledge about the rules. Therefore, large companies more obey the rules regarding the timeliness than smaller companies. The result find empirical evidence that firm size affects the timeliness of reporting.

This study proved the opposite, meaning that timeliness is not only determined by the size of the company. Awareness of the company will be rules on reporting time limit or encourage companies to report their financial statements more timely.

There Effect Between *Persistence of Earnings* Against *Earning Response Coefficient (ERC)*

Results of testing the hypothesis of the influence of *earnings persistence* against *Earning Response Coefficient (ERC)* obtained significant results that the p-value 0.000 p-value is above 0.05. That is a hypothesis which assumed a significant relationship between *earnings persistence* against *Earning Response Coefficient (ERC)* is proved.

The higher the *persistence of* earnings, the higher *Earning Response Coefficient* (ERC), this is related to the strength of earnings. *The persistence of* earnings reflects the quality of corporate profits and show that the company can retain earnings over time.

There is the influence of *persistence* against *Timeliness*

Results of testing the hypothesis of the influence of *earnings persistence* against *Timeliness* obtained significant results that the p-value 0.000 p-value is above 0.05. That is a hypothesis which assumed a significant relationship between *earnings persistence* against *Timeliness* proven.

The persistence of earnings reflects the quality of corporate profits and show that the company can retain earnings over time. Companies reporting earnings will tend to be persistent financial reports in a timely manner, because the hope of reported earnings will be immediately responded by investor.

There Influence between *Timeliness* of the *Earning Response Coefficient (ERC)*

Hypothesis testing against the influence *Timeliness* of the *Earning Response Coefficient (ERC)* obtained results that are not significant at the p-value was 0.402 means p-value above 0.05. That is the hypothesis that suspect there is a significant positive effect between *Timeliness* with *Earning Response Coefficient (*ERC) is unfounded. Correlation coefficient values shown in the value estimate is 0,000. This value is far from the values of 0.5 and that can mean there is no correlation between the variables *Timeliness* with*Earning Response Coefficient (ERC).*

There Effect of *Voluntary disclousure* against *Earning Response Coefficient (ERC)*

Against the hypothesis testing effects of *Voluntary disclousure* against *Earning Response Coefficient (ERC)* obtained results that are not significant at the p-value was 0.262 means p-value above 0.05. That is the

hypothesis that suspect there is a significant positive effect between *Voluntary disclousure* with *Earning Response Coefficient (*ERC) is unfounded.

The more voluntary disclosure, the higher the response of shareholders on corporate earnings. In other words, reported earnings have the power response. While the strength responsive to the information presented is strongly influenced by the extent of voluntary disclosure in the annual report. The influence of the relationship *voluntary disclousure*against *Earning Response Coefficient (ERC)* in the study can be interpreted voluntary disclosure does not have a strong influence. This could be because investors have confidence on *expectations of return,* which is based on publicly available information. However, these beliefs are still affected by how investors absorb the information received and make revisions.

Testing the hypothesis indirectly

As for testing the hypothesis indirectly or through intervening variables, can be seen in Table 2.

Table 2. The results of hypothesis formulation Indirectly

Direct Contact	Effect Indirect	The calculation results	Value *)	Information
LEVERAGE → ERC	Leverage → Disclousure Disclousure → ERC	(-0,06)(-0,11) = 0,002	0,003	significant weak
PROFITABILITAS → ERC	Profitabilitas → Disclusure Disclousure → ERC	(-0,054)(-0,11) = 0,01	-0,01	significant weak
PROFITABILITAS → ERC	Profitabilitas → Timeliness Timeliness → ERC	(-0,039)(0,417) = -0,016	-0,01	significant weak
SIZE →ERC	Size → Timeliness Timeliness → ERC	(0,056)(0,417) = 0,023	0,023	significant weak
PERSISTENSI → ERC	Persistensi → Timeliness Timeliness → ERC	(0,549)(0,417) = 0,223	0,232	significant strong

Sumber data: data diolah
*) *Standardiedz Indirect Effect*

There Effect of *Leverage* on *Earning Response Coefficient* (ERC) through *Voluntary disclousure*

Based on the results of the calculation of direct influence between variable *leverage* to variable *Voluntary disclousure* (-0.06) and the direct influence of variables *Voluntary disclousure* to variable *Earning Response Coefficient (ERC)* (0,011) of the obtained results (0,002). The direct effect is shown in the results of *standardized indirect effect* to the effect of *leverage* on *Earning Response Coefficient (ERC)* of 0,003. This means that the *Voluntary disclousure* an intervening variable to an indirect relationship between the variables *leverage* to variable *Earning Response Coefficient (ERC)* . The coefficient of indirect is 0,003, the value is below 0.05 so that the indirect effect resulting weak.

There Influence *Profitability* against *Earning Response Coefficient (ERC)* through *Voluntary disclousure*

Based on the results of the calculation of direct influence between variable *Profitability* to variable *Voluntary disclousure* (-0.054) and the direct influence of variables*Voluntary disclousure* to variable *Earning Response Coefficient (ERC)* (-0.11) -0.001 obtained results.

These results are significant to the direct effects shown in the results of *standardized indirect effect* influences *profitability* against *Earning Response Coefficient (ERC)* of -0.010. This means that the *Voluntary disclousure* an intervening variable for the indirect effect between variables *Profitability* to variable *Earning Response Coefficient (ERC)* . The coefficient of -0.010 indirectly, the value is below 0.05 so that the indirect effect resulting weak.

Influence *Profitability* against *Earning Response Coefficient* (ERC) through *Timeliness*

Based on the results of the calculation of direct influence between variable *Profitability* to variable *Timeliness* (-0.039) and the direct influence of variables *Timeliness* to variable *Earning Response Coefficient (ERC)* (0.417) -0.016 obtained results.

These results are significant to the direct effects shown in the results of *standardized indirect effect* influences *profitability* against *Earning Response Coefficient (ERC)* of -0.010. This means that the *Timeliness* an intervening variable for the indirect effect between variables *Profitability* to variable *Earning Response Coefficient (ERC)* . The coefficient of -0.010 indirectly, the value is below 0.05 so that the indirect effect resulting weak.

Effect of *Size* on *Earning Response Coefficient* (ERC) through *Timeliness*

Influence indirectly between variables *Size* variable *ERC* through intervening variables *Timeliness.* Based on the calculation of direct influence between variable *Size* variable*Timeliness* (0.056) and the direct influence of variables *Timeliness* to variable *Earning Response Coefficient (ERC)* (0.417) results are obtained 0,023 ,

These results are significant to the direct effects shown in the results of *standardized indirect effect* influences *Size* on *Earning Response Coefficient (ERC)* amounted to 0,023. This means that the *Timeliness* an intervening variable for the indirect effect between variables *Size Size* variable *Earning Response Coefficient (ERC)* . The coefficient of indirect is 0,023, the value is below 0.05 so that the indirect effect resulting weak.

Effect of *persistence* against *Earning Response Coefficient* (ERC) through *Timeliness*

Influence indirectly between variable *persistence* to variable *ERC* through intervening variables *Timeliness.* Based on the calculation of direct influence between variable*persistence* to variable *Timeliness* (0.549) and the direct influence of variables *Timeliness* to variable *Earning Response Coefficient (ERC)* (0.417) results are obtained 0.223 ,

These results are significant to the direct effects shown in the results of *standardized indirect effect* influence *persistence* against *Earning Response Coefficient (ERC)* of 0.232. This means that the *Timeliness* an intervening variable for the indirect effect of variable *persistence* to variable *Earning Response Coefficient (ERC)* . The coefficient of indirect is 0.232, the value is above 0.05 so that the indirect impacts generated strong.

5. Conclusions, Implications and Limitations Research

5.1. Conclusion

Conclusion This study is not a significant difference between *Leverage*, *Profitability, size* and *Timeliness* as well as *Voluntary disclousure* against *Earning Response Coefficient (ERC), whereas* the effect of *earnings persistence* against *Earning Response Coefficient (ERC)* obtained significant results. There is a significant relationship between*leverage* against the *Voluntary Disclosure* and the effect was not significant between the *profitability* of the *voluntary disclousure* . Influence *Profitability* against *Timeliness* and *size*showed no significant effect whereas the effect of *earnings persistence* against *Timeliness* significant influence.

Voluntary disclousure and *Timeliness* an intervening variable for the effect of *leverage, profitability, size* and persistence of earnings.

5.2. Implication

Results of research on *leverage, profitability, size, earnings persistence, voluntary disclosure, timeliness* and *Earning Response Coefficient (ERC)* is associated to encourage information presented can be useful for the analysis and investment decision making. This study also will provide benefits for researchers further examined and revealed other factors that could affect *Earning Response Coefficient (ERC)* , either directly or indirectly.

5.3. Research limitations

This study did not consider other events that have economic consequences, such as the distribution of dividends, mergers and changes in accounting policies. The events that led to the economic consequences resulting *Earning Response Coefficient (ERC)* produced are not good enough for their *compounding effect.*

Research on the factors affecting *Earning Response Coefficient (ERC)* either directly or indirectly, has a lot to do with the secondary data (quantitative), it is necessary also examined the factors *Earning Response Coefficient (ERC)* qualitatively. It is with this in mind that the investor or investors who will provide a response to personal income is as irrational, besides investors also often fused her personal identity into a collective identity. So the response of investors to the company's profit in turn is a manifestation of the psychological condition of investors, not only because of the information (Goodnews / badnews) the company's financial statements.

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Appendix

Part Testing Results Analysis with AMOS

Assessment of normality (Group number 1)

variable	min	max	skew	cr	kurtosis	cr
persistency	20.790	63.070	-1.235	-5.040	1,883	3.844
Size	21.750	70.460	-, 428	-1.748	, 429	, 876
profitability	37.270	88.030	1,374	5.610	1,318	2.691
leverage	37.270	88.030	1,461	5.966	1.941	3.962
timeliness	27.310	66.450	-, 257	-1.049	-, 614	-1.254
disclousure	27.310	66.450	-, 266	-1.084	-, 646	-1.319
ERC	31.790	71.420	, 606	2,473	-, 114	-, 233
multivariate					, 954	, 425

Estimates (Group number 1 - Default model)

Scalar Estimates (Group number 1 - Default model)

Maximum Likelihood Estimates

Regression Weights: (Group number 1 - Default model)

			estimate	SE	CR	P	Label
disclousure	<---	leverage	-, 287	, 097	-2.966	, 003	par_7
timeliness	<---	profitability	-, 037	, 079	-, 472	, 637	par_10
disclousure	<---	profitability	-, 052	, 093	-, 557	, 578	par_11
timeliness	<---	size	, 056	, 091	, 612	, 540	par_13
timeliness	<---	persistency	, 561	, 093	6.028	***	par_15
ERC	<---	leverage	, 113	, 094	1.204	, 229	par_8
ERC	<---	profitability	.019	, 085	, 227	, 821	par_9
ERC	<---	size	-, 183	, 102	-1.790	, 073	par_12
ERC	<---	persistency	, 447	, 118	, 598	***	par_14
ERC	<---	disclousure	-, 109	, 097	-1.123	, 262	par_16
ERC	<---	timeliness	, 414	, 110	3,759	***	par_17

Standardized Regression Weights: (Group number 1 - Default model)

			estimate
disclousure	<---	leverage	-, 286
timeliness	<---	profitability	-, 039
disclousure	<---	profitability	-, 054
timeliness	<---	size	, 056
timeliness	<---	persistency	, 549
ERC	<---	leverage	, 114
ERC	<---	profitability	, 020
ERC	<---	size	-, 185
ERC	<---	persistency	, 047
ERC	<---	disclousure	-, 110
ERC	<---	timeliness	, 417

Total Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 561	, 056	-, 037	, 000	, 000	, 000
disclousure	, 000	, 000	-, 052	-, 287	, 000	, 000
ERC	, 279	-, 160	.010	, 144	, 414	-, 109

Standardized Total Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 549	, 056	-, 039	, 000	, 000	, 000
disclousure	, 000	, 000	-, 054	-, 286	, 000	, 000
ERC	, 276	-, 162	.010	, 145	, 417	-, 110

Direct Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 561	, 056	-, 037	, 000	, 000	, 000
disclousure	, 000	, 000	-, 052	-, 287	, 000	, 000
ERC	, 047	-, 183	.019	, 113	, 414	-, 109

Standardized Direct Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 549	, 056	-, 039	, 000	, 000	, 000
disclousure	, 000	, 000	-, 054	-, 286	, 000	, 000
ERC	, 047	-, 185	, 020	, 114	, 417	-, 110

Indirect Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 000	, 000	, 000	, 000	, 000	, 000
disclousure	, 000	, 000	, 000	, 000	, 000	, 000
ERC	, 232	, 023	-, 010	, 031	, 000	, 000

Standardized Indirect Effects (Group number 1 - Default model)

	persistency	size	profitability	leverage	timeliness	disclousure
timeliness	, 000	, 000	, 000	, 000	, 000	, 000
disclousure	, 000	, 000	, 000	, 000	, 000	, 000
ERC	, 229	, 023	-, 010	, 031	, 000	, 000

Sample covariances (Group number 1)

	persistency	size	profitability	leverage	timeliness	disclousure	ERC
persistency	95.012						
size	41.856	99.001					
profitability	2,305	8.989	107.957				
leverage	4.904	16.414	-3.185	98.990			
timeliness	55.522	28.673	-2.231	5.375	98.995		
disclousure	14.405	-14.886	-4.661	-28.269	19.971	100.190	
ERC	18.803	-, 676	-, 224	13.620	36.711	-2.490	94.991

Condition number = 5.325
eigenvalues
198.009 138.457 112.468 97.353 67.382 44.280 37.186
Determinant of sample covariance matrix = 33,305,304,343,991.600

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Title of article

EARNINGS RESPONSE COEFFICIENT (ERC): MARKET REACTION TO EARNINGS ANNOUNCEMENT

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RESEARCH

Year	Title	Publiser
2012	Pengaruh Firmsize terhadap Earning Response Coefficient (ERC) dengan Voluntari disclousure sebagai variabel intervening	Jurnal Penelitian ilmu Ekonomi WIGA, ISSN:2088-0944 Vol.1 (1 Maret 2012)
2012	Pengaruh Leverage, size dan Voluntary disclousure terhadap Earning Response Coefficient (ERC)	Jurnal Penelitian ilmu Ekonomi WIGA, ISSN:2088-0944 Vol. 2 (2 September 2012)
2013	Pengaruh Earnings Response Coefisien terhadap harga saham	Jurnal Penelitian ilmu Ekonomi WIGA, ISSN:2088-0944 Vol.3 (1 Maret 2013)
2013	Pecking Order Hypotesis Teory: Pengaruh Opportunity Investment dan Resiko Bisnis terhadap Capital Expenditure	Jurnal Penelitian ilmu Ekonomi WIGA, ISSN:2088-0944 Vol.3 (1 September 2013)
2014	Audit ekternal sebagai variabel intervening untuk faktor-faktor yang mempengaruhi kinerja keuangan koperasi	Prosiding SEMNAS 2014 Hasil_Hasil Penelitian (Unmas Denpasar) ISBN 978-602-18622-4-7
2014	Timeliness sebagai variable intervening untuk pengaruh size dan leverage terhadap Earning Response Coefficient (ERC)	Jurnal Penelitian ilmu Ekonomi WIGA, ISSN:2088-0944 Vol.4 (1 Maret 2013)
2014	Infuence Income Smoothing Toward Earnings Response	Prosiding Seminar & Ekspose Hasil Penelitian dan Pengabdian masyarakat 2104 (Kopertis VII) ISBN: 978-602-72162-0-4
2015	Timeliness Mediating Effect on Influence of Corporate Social Responsibility (CSR) Disclousure dan Voluntary Disclousure Toward Informativeness of Earnings	Procceding Seminar Internasional The 1st Joint Conference Indonesia Malaysia Bangladesh Ireland (IJCIMBI) 2015 ISSN: 2442-4676
2015	Internet Financial Report: Respon pasar sebelum dan sesudah tanggal publikasi	Ekonomika Jurnal Ekonomi Vol. 8 No. 2 Desember 2015 ISSN: 1978-9998

ORAL PRESENTATION

Year	Title	Publiser
2014	Audit ekternal sebagai variabel intervening untuk faktor-faktor yang mempengaruhi kinerja keuangan koperasi	Prosiding Semnas hasil-hasil penelitian 2014 ISBN: 978-602-18622-007-4-7 Unmas Press
2014	TIMELINESS: Sebagai variabel intervening untuk faktor-faktor yang mempengaruhi respon laba	Prosiding Semnas hasil-hasil penelitian 2014 ISBN: 978-602-71148-0-7 Unmuh Jember
2014	Pengaruh Earnings Response Coefisien terhadap harga saham	Prosiding Semoinar dan Ekspose Hasil Penelitian dan Pengabdian Kepada Masyarakat 2014 ISBN: 978-602-72162-0-4 Kemendikbud Kopertis wilayah VII
2015	Timeliness Mediating Effect on Influence of Corporate Social Responsibility (CSR) Disclousure dan Voluntary Disclousure Toward Informativeness of Earnings	Procceding Seminar Internasional The 1st Joint Conference Indonesia Malaysia Bangladesh Ireland (IJCIMBI) 2015 ISSN: 2442-4676

STATEMENT

I, the undersigned explained by the fact all the information and explanations about the data, Qualifications and experience that we have.

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STATEMENT

I, the undersigned explained by the fact all the information and explanations about the data , qualifications and experience that we have.

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2. Develop a business proposal
3. Small Business Management Consultants
4. Trainer Motivator and Fasilitator Training Accounting Manajement and entrepenuership (since 1999 at Course Institution named LPKSPB Megistra Utama)

ORAL PRESENTATION

Year	Title	Publiser
2015	Timeliness Mediating Effect on Influence of Corporate Social Responsibility (CSR) Disclousure dan Voluntary Disclousure Toward Informativeness of Earnings	Procceding Seminar Internasional The 1st Joint Conference Indonesia Malaysia Bangladesh Ireland (IJCIMBI) 2015 ISSN: 2442-4676

STATEMENT

I, the undersigned explained by the fact all the information and explanations about the data , qualifications and experience that we have.

Lumajang, Juni 25, 2016

(Kurniawan, SE, Ak, CA, CIBA)