Etikonomi
Volume 24(1), 2025: 233 - 246
P-ISSN: 1412-8969; E-ISSN: 2461-0771
https://doi.org/10.15408/etk.v24i1.38165

Determinant of Earnings Response Coefficient with Sales Growth as Moderating

I Gusti Ayu Asri Pramesti[1], Etty Murwaningsari[2*]
[1,2]**Faculty of Economics and Business, Universitas Trisakti, Indonesia**
E-mail: [1]221022204002@std.trisakti.ac.id, [2]etty.murwaningsari@trisakti.ac.id
[*)]**Corresponding Author**

JEL Classification:
L6
D21
G10

Received: 22 March 2024

Revised: 04 February 2025

Accepted: 09 February 2025

Available online: March 2025

Published regularly: March 2025

Abstract

Research Originality: This study provides a new perspective by including the less explored sales growth as a factor that could potentially strengthen or weaken the relationship between earnings and market response. Investigating sales growth is crucial, as it enhances investor perceptions of revenue growth, a key indicator of corporate success.

Research Objectives: This study analyzes the factors that affect earnings response coefficients in basic material and industrial companies listed on the Indonesia Stock Exchange in 2020–2022.

Research Methods: This study uses secondary data that consisted of 76 companies with 228 observations in the basic material and industrial sectors listed on the Indonesia Stock Exchange from 2020 to 2022. This research uses multiple linear regression analysis and the data distribution is panel data.

Empirical Results: The findings show that free cash flow has a positive effect on the earnings response coefficient, and systematic risk has a negative effect. Capital expenditure does not affect the earnings response coefficient. Sales growth, as moderation, can weaken systematic risk on the earnings response coefficient. **Implication:** This study had theoretical implications for examining the theory related to the earnings response coefficient. Practically, it provided investors with an overview of earnings quality, as shown by capital expenditure and free cash flow.

Keywords:

capital expenditure; free cash flow; systematic risk; sales growth; earnings response coefficient

How to Cite:

Pramesti, I. G. A. A., & Murwaningsari, E. (2025). Determinant of Earnings Response Coefficient with Sales Growth as Moderating. *Etikonomi, 24*(1), 233 – 246. https://doi.org/10.15408/etk.v24i1.38165.

INTRODUCTION

Information is a crucial element of human life, spanning social, cultural, defense, political, economic, and other fields. In the economic field, specifically in the capital market accounting domain, relevant, timely, and comprehensive information allows investors to make economic decisions and produce satisfactory outcomes (Sherlita & Ramadhian, 2021). Internal and external stakeholders can use financial statement earnings data to inform decisions and evaluate the prospects of businesses. Therefore, earnings quality is a crucial stakeholder concern (Mohmed et al., 2020). If the company earns a profit, it can be considered to have achieved its goals optimally because profit shows good financial performance. Earnings information for investors must be precise to show the condition of the company's performance (S. Kurniawati & Sulaeman, 2022).

Studies revealed a strong correlation between fluctuations in stock prices and earnings announcements (Assagaf et al., 2019). Earnings response coefficients (ERC) measure how investors react to information in the earnings component (Murwaningsari, 2008). Research related to ERC is an interesting topic to discuss because published financial reports concern investors, impacting the valuation of company shares. A strong market reaction to earnings information will be reflected in a high ERC (Siregar & Maksum, 2018).

The term "estimate" or "measurement" refers to the anomalous rate of return on securities (ERC) in reaction to unexpected earnings components disclosed by issuing businesses (Kim et al., 2021). As an important element for companies and investors, ERC can reflect good organizational value (Baroroh et al., 2022). Internal and external parties can consider earnings information in financial statements when making decisions and considering companies' prospects. This corresponds to the signal theory that management behavior provides relevant information to the market, allowing participants to analyze the information as either positive or negative (Rizki & Murwaningsari, 2022). Signal theory explains how both parties behave with different access to information (Rachmawati et al., 2022). Therefore, diligent attention to corporate earnings quality information is crucial for stakeholders. A measure used to quantify the market's reaction to capital market companies' earnings announcements is the equity return coefficient (ERC). This demonstrates the significance of a market response to announced profits. The quality of the financial reporting data on the presentation of these earnings and how it is portrayed in positive or negative signals determines whether a response is high or low (Nabi et al., 2023). Investors do not often respond positively to the information contained in the earnings component (Palupi, 2021).

Related to this phenomenon, it is necessary to conduct studies to examine the factors that affect ERC. The potential factors are capital expenditure, free cash flow, and systematic risk. A corporation's ability to generate free cash flow may be impacted by changes to capital expenditure (Ullah & Ihsan, 2019). This viewpoint served as the foundation for the current study's investigation of the degree of market reaction to shifts in capital expenditure, free cash flow, and systematic risk. Several previous studies on ERC have differences. Assagaf et al. (2019), Irawati (2018), and Palupi (2021) found

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

that ERC is influenced by capital expenditure, free cash flow, and systematic risk. Ticoalu and Panggabean (2020), Kim et al. (2018), and Dirman (2020) found that capital expenditure, free cash flow, and systematic risk have a negative effect on the earnings response coefficient.

This study is innovative in utilizing sales growth as a moderating variable to analyze the interplay of capital expenditure, free cash flow, and systematic risk on the Earnings Response Coefficient (ERC). This novel approach has yet to be explored in existing literature. Sales growth is a moderating variable because sales growth reflects company performance (Nyame et al., 2020). Generally, sales growth indicates that a company has successfully attracted more investors to see how strong the investor reaction is. Companies that achieve consistent sales growth will earn more stable profits, which impact market reactions. The novelty of this research can contribute to providing new perspectives to investors by examining sales growth as a signal that moderates the earnings and price relationship. This research is important to provide management with an understanding of maintaining and increasing sales growth to influence market perceptions of earnings. In addition, sales growth provides an opportunity to indicate the company's operational success (Liu et al., 2021).

Liquidity and firm size variables were incorporated as control variables to mitigate the influence of extraneous factors. The primary objective was accomplished by addressing empirical issues pertinent to basic material and industrial companies listed on the Indonesia Stock Exchange (IDX). Companies' level of profitability is mostly determined by capital expenditure, which also indicates the possibility of larger returns. Assagaf et al. (2019) examined the influence of capital expenditure on ERC by choosing an example of the highly traded companies between 2007 and 2015. The findings demonstrated a strong positive effect. Similarly, Kim et al. (2021) observed differences in capital expenditure patterns between profit and loss-making companies in Australia.

Businesses with positive free cash flow demonstrate how much money is left over after funding and investments for operations (Qandhari et al., 2016; Irawati, 2018). The greater the free cash flow paid to shareholders; the more attention managers pay as agents of shareholders on company value. Therefore, prioritizing companies' value equally means prioritizing shareholders' welfare (Riswanti et al., 2022). Aritonang and Ariefianto (2022) and Riswanti et al. (2022) state that free cash flow had a favorable impact on ERC.

Investment has high uncertainty, so this research uses systematic risk as the risk associated with changes in the overall market. Investors must consider risk when investing (Siregar & Maksum, 2018). Research by Palupi (2021) and Kurniawati and Sulaeman (2022) found that systematic risk positively affects ERC. However, Hasanzade et al. (2014), Ticoalu & Panggabean (2020), and Baroroh et al. (2022) revealed that systematic risk has a negative effect on ERC.

This current study used sales growth as a moderator, an approach rarely adopted that could be the novelty of this research. Sales growth as moderation is expected to provide

additional insights into analyzing how earnings relate to market response. Wijayanti et al. (2020) examine CSR disclosure on ERC. Assagaf et al. (2019) examine leverage and capital expenditure with actual activities earnings management as a moderator. This research differs from previous research because it tests sales growth as a moderator. One of the parameters that can be used to determine how well companies increase revenue in a specific time is sales growth. According to Widyasari (2021), financial sustainability and growth of companies correlate with sales growth. In comparison with Wijaya et al. (2020), Dewi & Nataherwin (2020) discovered a favorable and significant effect of increasing sales on ERC.

This study was essential to supplement earlier research since it filled in gaps and explained the phenomena, especially after Covid 19, which affected the condition of the company and the capital market globally. ERC is one of the benchmarks for market reactions to company conditions that need to be evaluated so that the company receives a sound capital market assessment (Basuki et al., 2017). Additionally, it provided a broad overview of how capital expenditure, free cash flow, systematic risk, and sales growth, the moderating variable, interacted. According to ERC, companies could add value through the link between capital expenditure, free cash flow, systematic risk, and sales growth. The existence of differences in research and phenomena about stock price fluctuations motivates examining the effect of capital expenditure, free cash flow, and systematic risk by adding sales growth as a moderating variable on ERC. The research was conducted on raw material and industrial sector companies in Indonesia.

METHODS

The population of this study is industrial and raw material companies listed on the Indonesia Stock Exchange from 2020 to 2022. The selection of three years with the argument that the results of this study provide a stable picture compared to annual or quarterly data. In addition, the three-year period can help identify patterns that may not be visible in a shorter period. Purposive sampling is carried out for populations that do not meet the criteria and are not selected as research samples. The secondary data for this study, took a quantitative approach. Furthermore, a purposive sampling method was used according to the following requirements in Table 1.

Table 1. Study Sample

No	Sampling Criteria	Total
1	Basic Material and Industrial companies listed on IDX in 2020-2022.	123
2	Companies that deal with basic materials and industry but do not release financial reports in 2020–2022	(5)
3	Basic material and industrial companies that do not have data related to study variables in 2022-2022.	(20)
4	Basic material and industrial companies that present foreign currency financial statements.	(22)
5	Number that meets the criteria.	76
6	Total data sampled for the period 2020-2022 (76x3 years).	228

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

Based on the results of purposive sampling, the number of companies that meet the criteria is 76 companies as the object of research and 3 years of observation period so that there are 228 total research data. This study uses multiple linear regression analysis and the data distribution is panel data. Modeling using panel data techniques can be done using three alternative processing approaches. These approaches are the Common Effect Method (CEM), the Fixed Effect Method (FEM), and the Random Effect Model (REM) method. Multiple linear regression analysis with panel data distribution was adopted. The model has the following structure:

$$ERC_{it} = \beta 0_{it} + \beta_1 CAPEX_{it} + \beta_2 FCF_{it} - \beta_3 SR_{it} + \beta_4 SG_{it} + \beta_5 CAPEX*SG_{it} + \beta_6 FCF*SG_{it} - \beta_7 SR*SG_{it} + \beta_7 Lev_{it} + \beta_8 FS_{it} + e_{it}$$

Remarks: ERCEarnings response coefficient, CAPEX capital expenditure, FCF Free cash flow, SR Systematic Risk, SG Sales growth, $CAPEX*SG_{it}$ Capital expenditure moderated by sales growth, $FCF*SG_{it}$ Free cash flow moderated by sales growth, $SR*SG_{it}$ Sytematic Risk moderated by sales growth, Lev Leverage, FS Firm Size.

The independent variables of this study consist of capital expenditure, free cash flow, and systematic risk. The dependent variable is earnings response coefficient, the moderating variable is sales growth. This study also uses control variables, namely leverage and firm size.

RESULT AND DISCUSSION

One technique for characterizing the condition of quantitative data in a study is descriptive statistics. The analysis can be used to obtain results on average or mean values, as well as maximum or minimum values for each variable. An overview of the descriptive statistics of the variables are given in Table 2.

Table 2. Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.
ERC	-4,39E-08	0,024880	0,795890	-8,067910	0,549498
CAPEX	0,245265	0,001239	9,441849	-0,998955	1.409983
FCF	0,117011	0,075449	3,673331	-0,219338	0,303170
SR	0,006460	0,002450	0,169600	0,000100	0,015617
SG	0,369430	0,049382	13.69641	-0,981913	1.863024
LEV	1.371602	0,828479	41.48009	-5.587262	3.403438
FS	14,28592	14,25186	18,76056	10,20607	1,580286

Note: ERC: earnings response coefficient, CAPEX: capital expenditure, FCF: free cash flow, SR: systematic risk, SG: sales growth, LEV: leverage, FS: Firm Size

Source: Data processing

Table 3 displays the values of 228 sample data processed during the study, including median, mean, maximum, standard deviation, and minimum. The ERC variable has a minimum variation level between -8.067910 and a maximum of 0.795890, with an

average of -4.39E-08 and a standard deviation value of published earnings information of 0.549498, which means the market responds negatively to ERC.

The independent variable CAPEX varies between a minimum value of -0.998955 to a maximum value of 9.441849 with an average of 0.245265, which shows the minimum value and has a standard deviation level of 1.409983 from its average value. The independent variable free cash flow data variation ranges from a minimum value of -0.219338 to a maximum of 3.673331 with an average value of 0.117011, indicating that the distribution of this variable data is at the maximum value with a standard deviation of 0.303170 greater than the average value. The systematic risk variable data variation ranges from a minimum value of 0.000100 to a maximum of 0.169600 with an average value of 0.006460, indicating that the distribution of this variable data is at the maximum value with a standard deviation of 0.015617 greater than the average value.

The sales growth moderation variable varies from a minimum of -0.981913 to a maximum of 13.69641 with an average value of 0.369430, which illustrates that the variable data is distributed in the range of minimum values, the standard deviation is greater than the average value, namely in the range of 1.863024. The leverage variable as control shows an average value of 1.371602, which shows a minimum value of 41.48009 with a standard deviation of 3.403306, greater than the average value. Firm size as a control variable shows an average value of 14.28592 with a minimum value of 10.20607 with a standard deviation of 1.580286, smaller than the average value.

Table 3. Testing Three Models

Variable	COMMON		FIXED		RANDOM	
	Beta	Prob	Beta	Prob	Beta	Prob
C	0.114128	0.0000	-4.721237	0.0000	0.495437	0.1792
CAPEX	0.002959	0.3337	0.006375	0.4841	0.033462	0.1568
FCF	0.023097	0.0030	0.083396	0.0009	0.136085	0.3708
SYSTEMATIC RISK	0.116499	0.3548	-1.547728	0.0012	-0.360771	0.6645
SG	0.001330	0.7486	0.046022	0.0000	0.021981	0.4831
CAPEX*SG	-0.001143	0.1325	-0.007413	0.0002	-0.009170	0.1509
FCF*SG	0.005855	0.5214	-0.090795	0.0030	-0.061218	0.3749
SYSTEMATIC RISK*SG	-0.232047	0.4317	2.955134	0.0023	-1.256969	0.4955
LEVERAGE	7.10E-05	0.9635	-0.007388	0.0171	-0.012658	0.4116
FS	-0.013029	0.0000	0.322198	0.0000	-0.035022	0.2221
Goodness of Fit Model						
Adj R-squared	0.180639		0.724129		0.037188	
Prob F-stat	0.000000		0.000000		0.598283	
Model selection tests						
Chow Test	Cross-section Chi-square		Prob		Decision	
	108.520911		0.0069		FEM Accepted	
Hausman Test	Cross-section random		Prob		Decision	
	31.833932		0.0002		FEM Accepted	

Source: Data processing

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

This research uses time series and cross-sectional panel data, so it is necessary to test the most appropriate panel data model for it. Three models are to be tested: the common effect model, the fixed effect model, and the random effect model. The three models will be tested using three tests: the Chow test, the Hausman test, and the Lagrange multiplier test.

The best model to utilize for panel data testing—Common, Fixed, or Random effect models—was identified using the Chow test. Table 4 shows the result of Chow test. The table indicates the likelihood of the cross secrion occurring Chi-square, which is less than 0.05 and indicates that Ho is rejected, and Ha is authorized, is 0.0069. Therefore, fixed effect model was deemed the most suitable.

Table 4. Chow Test Results

Effect Test	Statistic	d.f	Prob
Cross-section F	1.1622252	-75.143	0.2205
Cross-section Chi-Square	108.520911	75	0.0069

Source: Data processing

To determine which of the Fixed and Random effect models was best suited for panel data testing, the Hausman test was utilized. The findings are displayed in Table 5. According to Table 5, there is a 0.0002 chance of a random cross-section, indicating that Ho is rejected, and Ha is approved. Chow and Hausman tests showed fixed effect as the most suitable model. Therefore, there was no need for Lagrange multiplier testing to determine the most suitable model.

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob
Cross-section Random	31,833932	9	0,0002

Source: Data processing

This test is a regression method used when the distribution of research data is not normal or there are outlier data. When researchers compile regression models and conduct assumption tests, it is often found that regression assumptions are violated, the transformation performed will not eliminate or weaken the influence of outliers, which ultimately biases predictions. In this situation, robust regression that is resistant to the influence of outliers is the best method. Robust regression is used to detect outliers and provide results that are resistant to the presence of outliers (Chen, 2002).

The robustness test results are shown in Table 6. Table 6 shows that the robustness test results of the adjusted R-square value are positive, and the robustness results are consistent. Hypothesis test results with the selected model, FEM, are presented in Table 7. The first hypothesis examined whether capital expenditure influenced ERC. This finding rejects the hypothesis by showing that capital expenditure does not affect ERC. Capital expenditure value signaled to investors that companies could invest in long-term assets,

potentially increasing ERC. It could also foster companies' growth and future profits, indicating a positive response from investors. Capital expenditures do not always affect how investors respond to announced earnings information because investors are more focused on short-term earnings performance may pay less attention to capital expenditures (Kim et al., 2021). The insignificant results indicate that the high and low capital expenditure generated will not affect the company's stock return. The results of this study are supported by Assagaf et al. (2019) and Sherlita and Ramadhian (2021), which show that capital expenditure hurts ERC.

Table 6. Robustness Test Results

Variable	Coefficient	Std. Error	z-Statistic	Prob
C	0.142851	0.048748	2.930374	0.0034
CAPEX	-0.001013	0.004380	-0.231247	0.8171
FCF	-0.000652	0.017385	-0.037520	0.9701
SYSTEMATIC RISK	-0.693782	0.384258	-1.805508	0.0710
SG	-0.006421	0.004125	-1.556639	0.1196
CAPEX*SG	-0.001397	0.001283	-1.089315	0.2760
FCF*SG	0.001996	0.009493	0.210261	0.8335
SYSTEMATICRISK*SG	0.438159	0.616000	0.711297	0.4769
FS	-0.007700	0.003357	-2.293534	0.0218
LEVERAGE	-0.001056	0.001528	-0.691555	0.4892
ROBUST STATISTICS	0.142851	0.048748	2.930374	0.0034
Robust Statistic				
R-squared	0.043046	Adjusted R-squared		0.003539
Rw-squared	0.089735	Adjust Rw-squared		0.089735
Akaike info criterion	329.5416	Schwarz criterion		366.1963
Deviance	1.311939	Scale		0.064856
Rn-squared statistic	13.96263	Prob(Rn-squared stat.)		0.123661

Source: Data processing

The second hypothesis assessed how free cash flow affected ERC. The results substantiated the idea, which showed that free cash flow positively impacted ERC. Since free cash flow represented the company's present and anticipated future cash flow, investors viewed it favorably (Mostafa, 2016). Positive free cash flow indicated available funds for business activities after investment and funding (Irawati, 2018). This research shows that free cash flow is important in increasing the market response to earnings announcements, as the ERC reflects. This study indicates that the higher the free cash flow generated will affect the company's stock return. The high value of free cash flow usually indicates good earnings quality because it shows the company's ability to generate cash from operating activities (Purnawarman et al., 2020). Therefore, earnings announcements supported by high free cash flow get a better response and increase ERC. The outcomes supported Ullah and Ihsan's (2019) finding that there was a favorable correlation between free cash flow and ERC.

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

Table 7. Hypothesis Test Results

The selected model is FEM Dependent Variable ERC				
Variable	**Prediction**	**t-statistik**	**p-value**	**Description**
C		-4,721237	0,0000	
CAPEX	+	0,006375	0,2420	H1 rejected
FCF	+	0,083396	0,0004	H2 accepted
SR	-	-1,547728	0,0006	H3 accepted
SG		0,046022	0,0000	
CAPEX*SG	+	-0,007413	0,0001	H4 rejected
FCF*SG	+	-0,090795	0,0015	H5 rejected
SR*SG	-	-2,955134	0,0011	H6 accepted
LEV		-0,007388	0,0085	
FS		0,322198	0,0000	
Goodness of Fit Model				
Adj R-squared		0,278736		
Prob F-stat		0,000059		

Source: Data processing, signification 5%

Where: ERC = Earnings response coefficient, CAPEX = Capital expenditure, FCF = Free cash flow, SR = Systematic Risk, SG= Sales growth, CAPEX*SGit = Capital expenditure moderated in response to by sales growth, FCF*SGit = Free cash flow moderated by with sales growth, SR*SG = Systematic Risk moderated by sales growth, LEV = Leverage, Fs = Firm size

The third hypothesis investigates the negative impact of systematic risk on the Earnings Response Coefficient (ERC). The findings confirm that systematic risk adversely affects ERC, supporting the hypothesis. This relationship exists because risk is a fundamental component of stock price valuation; lower risk leads to a higher ERC, resulting in a favorable investor response. Conversely, higher risk diminishes the stock price response (Wiguna & Murwaningsari, 2022). With high systematic risk, investors tend to focus more on information related to market risks, such as government policies and geopolitical conditions. Hence, earnings information and stock prices weaken, impacting ERC (Ticoalu & Panggabean, 2020). The results indicate that high systematic risk can reduce the relevance of earnings information in influencing stock prices because investors tend to focus on external factors rather than corporate profits, so the market response to earnings information is weakened. Therefore, high systematic risk can reduce ERC (Basuki et al., 2017). This research is supported by Kurniawati and Dwimulyani (2018), who states that systematic risk has a negative effect on ERC.

The fourth hypothesis explored the potential enhancement of the effect of capital expenditure on the Earnings Response Coefficient (ERC) through sales growth. However, the findings indicate that sales growth does not bolster the positive impact of capital expenditure on ERC, thus leading to the non-acceptance of the hypothesis. This outcome may be attributed to the volatile global economic environment experienced by companies post-COVID-19, resulting in increased market skepticism toward long-term investments. Sales growth cannot strengthen the effect of capital expenditure on ERC, which may

be due to investors focusing more on company profitability than capital expenditure. Sales growth does not provide a direct signal in influencing market perceptions, which may impact sales growth, not being able to moderate the results of this study.

Contrary to Dewi and Nataherwin (2020), the data shows that sales growth has a good and large impact on ERC. The results of this study do not support the assumption that sales growth as a pure moderator is not proven. Therefore, the moderating variable, namely sales growth, functions as a moderator predictor, which indicates its role solely as an independent predictor variable in the existing relationship model.

The five hypotheses examined whether an increase in sales would bolster free cash flow's impact on ERC. The data indicated the inability to accept or reject the hypothesis, which demonstrated that sales growth did not enhance the beneficial effect of free cash flow on ERC. Furthermore, investors might not respond positively to companies' sales growth and fail to influence free cash flow and ERC. The results were consistent with those of Istianingsih et al. (2020), who stated that growth proxied by sales growth did not affect ERC and FERC. Likewise, free cash flow did not impact ERC, according to Riswanti et al. (2022). The results of this study do not support the assumption that sales growth as a pure moderator is not proven. Therefore, the moderating variable, sales growth, serves as a moderator predictor, indicating its role solely as an independent predictor variable in the established relationship model.

The sixth hypothesis examines whether sales growth, as a moderating variable, attenuates the negative impact of systematic risk on the Earnings Response Coefficient (ERC). Statistical analysis supports this hypothesis, demonstrating that sales growth mitigates the adverse effect of systematic risk on ERC. This finding suggests that sales growth can enhance company revenue, fostering investor confidence in management. Consistent sales growth increases investor confidence, stabilizes stock valuation, and reduces systematic risk (Widiatmoko & Indarti, 2018). This research was conducted by Hasanzade Yuliandhari, who found that systematic risk has a negative effect on ERC. Therefore, sales growth is a quasi-moderator that acts as a moderating and predictor variable.

CONCLUSION

This study found that free cash flow has a positive effect, and systematic risk has a negative effect on ERC. However, sales growth can weaken the relationship between systematic risk and ERC. Sales growth did not amplify the positive effects of free cash flow and capital expenditure due to post-COVID-19. These changes affected companies' ability to convert sales growth into free cash flow. Economic uncertainty and industry instability might also hinder capital acquisition. In addition, sales growth, capital expenditure, free cash flow, and systematic risk could vary significantly based on each company's specific characteristics and conditions. Leverage was a control variable and did not affect ERC. Leverage may not be a major consideration for investors when making investment

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

decisions, as seen by the lack of an influence on ERC. Investors appeared to focus primarily on earnings information without considering the company's level of leverage. Firm size as a control variable is proven to affect ERC, which means that firm size is a consideration for investors in investing.

This study contributed to theories concerning investor responses to earnings quality announced by companies and presented potential factors influencing ERC. This research provides practical implications for investors in making the right decision by considering capital expenditures, free cash flow, and income information. The policy implies that companies are more transparent in financial reporting, especially regarding earnings quality and supporting aspects such as risk management, sales growth, and free cash flow. This can increase investor confidence and increase market sensitivity to information about earnings. Regulators should encourage more detailed financial reporting rules, especially concerning ERC matters.

REFERENCES

Assagaf, A., Murwaningsari, E., Gunawan, J., & Mayangsari, S. (2019). Factors Affecting the Earning Response Coefficient with Real Activities Earning Management as Moderator: Evidence from Indonesia Stock Exchange. *Asian Journal of Economics, Business and Accounting*, *11*(2), 1–14.

Baroroh, N., Yanto, H., Khafid, M., Jati, K. W., & Setyowati, D. A. (2022). Determinant of Earnings Response Coefficient on the Indonesian and Singaporean Stock Exchanges During the COVID-19 Pandemic. *Investment Management and Financial Innovations*, *19*(4), 132–145.

Basuki, S. A., Nahar, A., & Ridho, M. (2017). Conservatism Accountancy, Profit Persistence and Systematic Risk Towards The Earnings Responses Coefficient. *Sriwijaya International Journal of Dynamic Economics and Business*, *1*(1), 77–102. https://doi.org/10.29259/sijdeb.v1i1.77-102.

Chen, C. (2002). Robust Regression and Outlier Detection with the ROBUSTREG Procedure. *Proceedings of the Proceedings of the Twenty-Seventh Annual SAS Users Group International Conference*.

Dewi, S., & Nataherwin, N. (2020). The Effects of Leverage, Sales Growth, Firm Size, and Corporate Social Responsibility Disclosure on Earnings Response Coefficient. *Proceeding the 8th International Conference of Entrepreneurship and Business Management Untar (ICEBM 2019)*.

Dirman, A. (2020). Financial Distress: The Impacts of Profitability, Liquidity, Leverage, Firm Size, and Free Cash Flow. *International Journal of Business, Economics and Law*, *22*(1), 17–25.

Hasanzade, M., Darabi, R., & Mahfoozi, G. (2014). Factors affecting the earnings response coefficient: An empirical study for Iran. *European Online Journal of Natural and Social Sciences*, *2*(3), 2551.

Irawati, W. (2018). The Effect of Free Cash Flow, Size, and Growth with Profitability as Moderating Variable on Earning Response Coefficient in Property Sector. *EAJ (Economic and Accounting Journal)*, *1*(1), 76–86.

Istianingsih, I., Trireksani, T., & Manurung, D. T. H. (2020). The Impact of Corporate Social Responsibility Disclosure on the Future Earnings Response Coefficient (ASEAN Banking Analysis*)*. *Sustainability, 12*(22), 9671. https://doi.org/10.3390/su12229671.

Kim, S., Saha, A., & Bose, S. (2021). Do Capital Expenditures Influence Earnings Performance: Evidence from Loss-Making Firms. *Accounting & Finance*, *61*, 2539–2575.

Kim, Y. C., Seol, I., & Kang, Y. S. (2018). A Study on the Earnings Response Coefficient (ERC) of Socially Responsible Firms. *Management Research Review*, *41*(9), 1010–1032. https://doi.org/10.1108/MRR-01-2017-0024.

Kurniawati, H., & Dwimulyani, S. (2018). Determinants of Earnings Response Coefficient (ERC) and its impact on trading volume. *International Review of Management and Business Research*, *7*(4), 787–800.

Kurniawati, S., & Sulaeman, A. (2022). The Influence of Stakeholder Engagement and Transformational Leadership on Business Sustainability. *Jurnal Bisnis dan Manajemen*, *23*(1), 45–65.

Liu, T., Jiang, Y., & Hao, L. (2021). Short-Sale Refinancing and Earnings Response Coefficient: Evidence from China. *International Journal of Accounting & Information Management*, *29*(1), 127–146. https://doi.org/10.1108/IJAIM-03-2020-0030.

Mohmed, A., Flynn, A., & Grey, C. (2020). The Link between CSR and Earnings Quality: Evidence from Egypt. *Journal of Accounting in Emerging Economies*, *10*(1), 1–20. https://doi.org/10.1108/JAEE-10-2018-0109.

Mostafa, W. (2016). The Incremental Value Relevance of Cash Flows and Earnings Affected by Their Extremity: UK Evidence. *Management Research Review*, *39*(7), 742–767. https://doi.org/10.1108/MRR-03-2015-0069.

Murwaningsari, E. (2008). Pengujian Simultan: Beberapa faktor yang Mempengaruhi Earning Response Coefficient (ERC). *Simposium Nasional Akuntansi XI. Pontianak*, 23–24.

Nabi, M. N., Liu, Z., & Hasan, N. (2023). Investigating the Effects of Leaders' Stewardship Behavior on Radical Innovation: A Mediating Role of Knowledge Management Dynamic Capability and Moderating Role of Environmental Uncertainty. *Management Research Review*, *46*(2), 173–195. https://doi.org/10.1108/MRR-04-2021-0276.

Nyame-Asiamah, F., & Ghulam, S. (2020). The Relationship between CSR Activity and Sales Growth in the UK Retailing Sector. *Social Responsibility Journal*, *16*(3), 387–401. https://doi.org/10.1108/SRJ-09-2018-0245.

Palupi, A. (2021). Relationship Between Income Smoothing and Earnings Announcement.

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165

In. Barnett, W. A., & Sergi, B. S. (Eds.), *Environmental, Social, and Governance Perspectives on Economic Development in Asia, 29A*. Leeds: Emerald Publishing Limited.

Purnawarman, A., Handayati, P., & Firmansyah, R. (2020). The Effect of Free Cash Flow (FCF) On Agency Cost and Financial Performance in Financial Sector Companies Registered in Indonesia Stock Exchange (BEI) 2015-2016. *International Journal of Accounting & Finance in Asia Pasific (IJAFAP)*, *3*(3), 69–75.

Qandhari, S. G. A., Khan, M. M. S., & Rizvi, W. (2016). The Relationship between Cash Flow and Capital Expenditure in the Sugar Industry of Pakistan. *The Journal of Developing Areas, 50*(6), 341–353.

Rachmawati, S., Murwaningsari, E., & Augustine, Y. (2022). The Influence of Green Competitive Advantage to Value Relevance of Earning and Book Value. *International Journal of Social and Management Studies*, *3*(6), 17–30.

Riswanti, D. M., Suratno, S., & Anwar, C. (2022). Determinan Faktor Fundamental dan Non-Fundamental Terhadap Earnings Response Coefficient (ERC) dengan Free Cash Flow sebagai Variabel Intervening. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, *8*(1), 133–152. https://doi.org/10.34204/jiafe.v8i1.5082.

Rizki, A. F., & Murwaningsari, E. (2022). Effect of Corporate Performance, Voluntary Disclosure on Earnings Response Coefficient (ERC) Moderated Liquidity. *International Journal of Advanced Research in Economics and Finance*, *4*(1), 99–111.

Sherlita, E., & Ramadhian, M. G. F. (2021). The Influence of Capital Structure, Growth Opportunities and Earnings Persistence on Earnings Response Coefficient. *Turkish Journal of Computer and Mathematics Education*, *12*(8), 1021–1025.

Siregar, N. B., & Maksum, A. (2018). Influence of Systematic Risk and Persistence to Earnings Response Coefficient with Corporate Social Responsibility as Moderating Variable: The Case on Oil Plantation Company in Indonesia and Malaysia. *KnE Social Sciences*, *3*(10 SE-Articles). https://doi.org/10.18502/kss.v3i10.3442

Ticoalu, N. Y., & Panggabean, R. R. (2020). Earnings Persistence, Systematic Risk, Audit Quality, and Earnings Response. *Proceeding the 1st International Congress on Regional Economic Development, Information Technology and Sustainable Business.*

Ullah, H., & Ihsan, A. (2019). Earnings Response Coefficient as a Determinant of Dividend Policy: Testing Free Cash Flow Theory on Non-Financial Dividend Paying Firms in the Pakistan Stock Exchange. *Business Review*, *14*(1), 53–67.

Widiatmoko, J., & Indarti, M. G. K. (2018). The Determinans of Earnings Response Coefficient: An Empirical Study for the Real Estate and Property Companies Listed on the Indonesia Stock Exchange. *Accounting Analysis Journal*, *7*(2), 135–143. https://doi.org/10.15294/aaj.v7i2.27321.

Widyasari, V. E. (2021). Faktor yang Mempengaruhi Earnings Response Coefficient Perusahaan Manufaktur di Bursa Efek Indonesia. *Jurnal Paradigma Akuntansi*, *3*(4), 1468–1477.

Wiguna, S., & Murwaningsari, E. (2022). The Effect of Systematic Risk, Operating Cash Flow and Growth Opportunities on Future Earnings Response Coefficients (FERC), Working Capital as A Moderation Variable. *International Journal of Social and Management Studies*, *3*(2), 34–45. https://doi.org/10.5555/ijosmas.v3i2.111.

Wijayanti, I., Mawardi, R., & Halim, A. B. (2020). The Effect of Corporate Social Responsibility Disclosure, Leverage, Firm Size, and Profitability Toward Earnings Response Coefficient. *International Journal of Innovation, Creativity and Change*, *13*(3), 1202–1216.

https://journal.uinjkt.ac.id/index.php/etikonomi
DOI: https://doi.org/10.15408/etk.v24i1.38165