

EARNINGS RESPONSE COEFFICIENT AND ITS ASSOCIATION WITH FIRM SIZE, LEVERAGE, AND EARNINGS PERSISTENCE: SUSTAINABILITY IMPLICATIONS

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Abstract

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The earnings response coefficient (ERC) reflects how the market reacts to a company's earnings announcements. Several factors, such as firm size, leverage, and earnings persistence, are often associated with ERC, as they are believed to influence investors' perceptions of earnings quality. However, the relationship between these variables and ERC remains debated. Wulandari and Herkulanus (2015) state that ERC can serve as an indicator of earnings quality, while Ahabba and Sebrina (2020) note that its relationship with financial indicators varies across industries. This study investigates the impact of firm size, leverage, and earnings persistence on ERC in manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. A purposive sampling method is applied, producing a final sample of 47 firms. The data is analyzed using EViews 12, applying classical assumption testing, panel data regression, and hypothesis testing. The findings reveal that firm size, leverage, and earnings persistence do not significantly affect ERC. This supports the findings of Dewi and Putra (2022), who reported similar outcomes in the Indonesian context. These results suggest that investors may consider other variables when responding to earnings announcements. Future research should expand the sample, observation period, and scope of variables.

Keywords: Firm Size, Leverage, Profit Persistence, Earnings Response Coefficient

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1. INTRODUCTION

Financial statements serve as a fundamental tool for companies to communicate information regarding their financial activities and condition, which can be

utilized by various stakeholders, particularly investors (Markonah & Prasetyo, 2022). One of the most critical components of financial statements is corporate earnings, which play a crucial role in investment decision-making (Cahaya et al., 2024;

Prakosa et al., 2022; Suryandari et al., 2024). Investors typically rely on earnings information to evaluate a company's performance and formulate their investment strategies, including decisions on purchasing, selling, or retaining shares. However, the earnings figures presented in financial statements do not always provide an accurate depiction of a company's actual financial position due to earnings management practices and inadequate disclosures. Consequently, a more reliable measure is required to assess earnings quality with greater accuracy.

Earnings quality is a vital consideration for stakeholders who utilize financial statements for contractual and investment purposes. Accounting earnings that are minimally distorted by perceptual biases (perceived noise) and effectively represent a company's genuine financial performance are considered to be of high quality. One of the most widely adopted methods for evaluating earnings quality is the earnings response coefficient (ERC). According to Wulandari and Herkulanus (2015), ERC quantifies the market's reaction to a company's earnings announcement. A higher ERC signifies a stronger market response to reported earnings, indicating superior earnings quality that can serve as a reliable basis for investment decisions. Conversely, a lower ERC suggests diminished earnings quality, making it more difficult for investors to predict a company's future earnings performance.

The market's reaction to earnings information is reflected in share price movements following the announcement of financial statements in the capital market. One of the key determinants of this reaction is the quality of reported earnings. Poor earnings quality may result in misguided investment decisions and potentially reduce a company's valuation. As a result, investors require additional information to evaluate the reliability of reported earnings. In this regard, ERC functions as an indirect measure of earnings quality, offering feedback on the effectiveness of financial statement presentation and ensuring the information provided is more useful to stakeholders.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2018 to 2021. The manufacturing sector was selected due to its strategic significance in Indonesia's economy and its vulnerability to macroeconomic fluctuations, including interest rate shifts, inflation, and exchange rate volatility (Karunia et al., 2023). Additionally, manufacturing firms generally have more complex capital structures and more detailed financial reporting compared to other industries, making them particularly attractive to long-term investors. Given the range of factors influencing investment decisions, this study seeks to determine the variables affecting ERC, specifically firm size, leverage, and earnings persistence.

Firm size is an indicator that reflects a company's overall condition and characteristics. According to Novari and Lestari (2016), firm size can be classified based on total assets, total sales, and the number of outstanding shares. Larger firms generally exhibit greater financial stability and easier access to external financing than smaller firms, thereby fostering greater investor confidence. Research conducted by Muharramah and Hakim (2021) and Herdirinandasari and Asyik (2016) suggests that firm size has an impact on ERC.

Leverage represents the extent to which a company finances its operations through debt as opposed to equity. According to Harahap (2013), leverage is typically measured using the debt-to-equity ratio. Companies with high leverage levels often face increased financial risk, which may weaken the market's response to earnings reports. However, research findings on the influence of leverage on ERC remain inconclusive. While Dewi and Putra (2022) found that leverage does not significantly affect ERC, a study by Imroatussolihah (2013) suggests that leverage does indeed have an impact.

Earnings persistence refers to a company's ability to sustain stable earnings over an extended period. As noted by Penman and Zhang (1999, as cited in Salsabiila et al., 2017), firms with more persistent earnings provide a more accurate indication of future earnings potential, thereby strengthening investor confidence. Research by Ahabba and Sebrina (2020) demonstrates that earnings persistence affects ERC. Consequently, the greater the earnings persistence, the more likely investors are to respond positively to a company's earnings announcement.

Based on the aforementioned context, this study aims to examine the impact of firm size, leverage, and earnings persistence on the ERC in manufacturing firms listed on the IDX from 2018 to 2021. The findings are expected to contribute to a deeper understanding of the factors influencing market reactions to earnings information and offer valuable insights for investors in making more informed and rational investment decisions.

The rest of this paper is structured as follows. Section 2 provides a review of the relevant literature and the development of the hypotheses. Section 3 outlines the research methodology, including sample selection and analytical tools. Section 4 presents the empirical results. Section 5 discusses the results. Section 6 concludes the study and offers suggestions for future research.

2. LITERATURE REVIEW

2.1. Signaling theory

Signaling theory elucidates how companies communicate information to external parties, particularly investors, regarding their financial standing and prospects (Mayzona & Rusmanto, 2025). According to Gumanti (2012), this theory arises due to information asymmetry between corporate management and external stakeholders. Management has access to more precise and comprehensive information about the company's condition compared to investors or other external parties (Connelly et al., 2025). As a result, companies must issue signals that assist investors in evaluating prospects.

The information conveyed by companies may act as either a positive signal (good signal) or a negative signal (bad signal) (von Deimling et al., 2022). A positive signal is demonstrated when a company exhibits strong performance and promising financial prospects, thereby bolstering investor confidence and influencing investment decisions (Mustikasari & Mukhlisin, 2021; Ridhasyah et al., 2024). Conversely, if the disclosed information reflects unfavorable company conditions, it may function as a negative signal, reducing investor interest (Pangestuti et al., 2022). One of the most prevalent forms of signaling is financial reporting, which represents corporate transparency in disclosing financial performance and conditions.

Within the context of this study, signaling theory underpins the analysis of how earnings quality, as measured by the ERC, can affect investor decision-making. ERC signifies the extent of market reaction to a company's earnings announcement. If reported earnings are of high quality and deliver a positive signal to investors, ERC will rise, signifying a stronger market response to the information. Conversely, if reported earnings are of low quality or involve earnings management practices, ERC tends to be lower, suggesting that investors perceive the earnings information as less credible.

2.2. Agency theory

Agency theory examines the relationship between shareholders, who act as principals, and corporate management, who serve as agents (Ardillah & Vanesa, 2022). Within this dynamic, shareholders delegate the responsibility of managing the company to executives, with the expectation that they will maximize corporate value and shareholder wealth (Boivie et al., 2021; Jensen & Meckling, 1976). However, due to the separation between ownership and management, conflicts of interest often arise between managers and shareholders, leading to agency problems (Bosse & Phillips, 2016).

These conflicts materialize when managers prioritize personal interests over shareholder objectives (Basheer et al., 2021). A common example is earnings management, where managers manipulate accounting figures to present more favorable earnings than the company's actual financial condition, either to attract investors or meet specific performance targets (Bosse & Phillips, 2016). Such practices can distort earnings information, reducing the overall quality of financial statements.

In this study, agency theory is instrumental in explaining how variables such as firm size, leverage, and earnings persistence influence the quality of reported earnings, ultimately impacting ERC. For instance, highly leveraged firms may have greater incentives to manipulate earnings to sustain creditor and investor confidence. Meanwhile, larger firms typically exhibit stronger corporate governance, which enhances earnings quality and mitigates agency conflicts.

2.3. Theoretical framework and research hypotheses

The ERC serves as a critical indicator of how the market reacts to a company's earnings announcement. ERC reflects the degree of sensitivity in stock prices to reported accounting earnings, making it a valuable tool for investors in assessing investment opportunities. Several factors influence ERC, including firm size, leverage, and earnings persistence. By exploring the relationship between these factors and ERC, this study aims to establish how corporate characteristics shape market reactions to earnings information.

2.3.1. The effect of firm size on ERC

Firm size represents a company's level of experience and capacity in managing assets and investment-related risks (Chodorow-Reich et al., 2022). Larger

companies generally have greater access to financial resources, more professional management structures, and stronger corporate governance frameworks. As a result, they are more likely to report high-quality earnings, instilling greater confidence among investors (Novianti, 2014).

Moreover, larger firms typically have more publicly available information, enabling investors to better assess future financial prospects and reducing uncertainty regarding cash flows. Consequently, investor reactions to earnings announcements tend to be more pronounced, leading to higher ERC values. Prior studies by Herdirinandasari and Asyik (2016) and Naimah and Utama (2006) suggest that firm size positively influences ERC. Based on this premise, the first hypothesis proposed in this study is:

H1: Firm size affects the ERC.

2.3.2. The effect of leverage on ERC

Leverage measures the extent to which a company relies on debt as a source of financing (Arhinful & Radmehr, 2023). Higher leverage indicates a greater dependence on external funding, which increases financial risk. Companies with substantial leverage often experience significant financial burdens, potentially restricting managerial flexibility in pursuing profitability. This can lead to diminished earnings quality and reduced investor confidence, ultimately resulting in a weaker market reaction to reported earnings (Dewi & Putra, 2022).

However, in certain cases, high leverage may also convey a positive signal to creditors and shareholders if it is utilized to finance profitable investments. Consequently, the impact of leverage on ERC remains a subject of debate within financial literature. While Suardana and Dharmadiaksa (2018) found that leverage does not influence ERC, research by Sarahwati and Setiadi (2022) suggests otherwise. Given these divergent findings, this study aims to reassess the relationship between leverage and ERC, leading to the formulation of the following hypothesis:

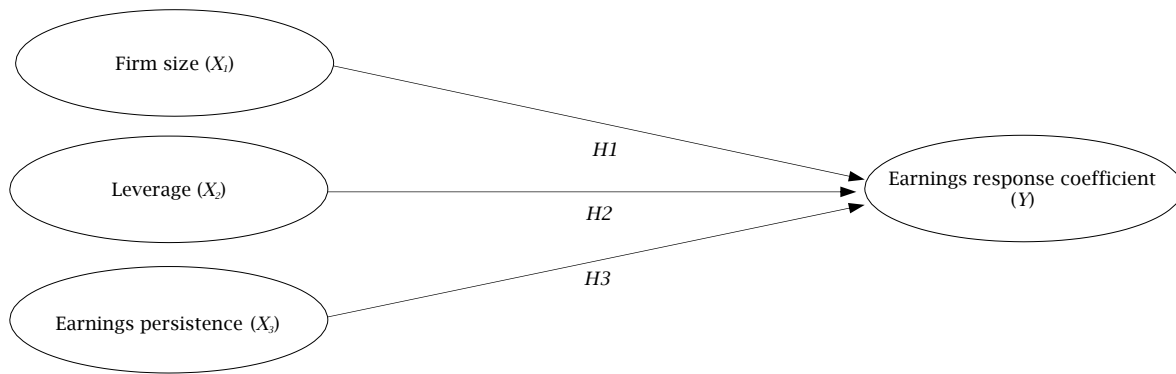
H2: Leverage affects the ERC.

2.3.3. The effect of earnings persistence on ERC

Earnings persistence refers to a company's ability to sustain stable and recurring earnings over time, which serves as an indicator of earnings quality (Khuong et al., 2022). More persistent earnings provide investors with greater certainty in forecasting future financial performance, thereby fostering confidence in reported earnings (Alao et al., 2024). In essence, higher earnings persistence leads to an elevated ERC, reflecting a stronger market response to corporate earnings disclosures (Dewi & Nataherwin, 2020).

Investors tend to favor companies with high earnings persistence, as it offers a more stable outlook on future earnings prospects. Prior research by Ardianti (2018) also supports the notion that earnings persistence positively influences ERC. Consequently, the third hypothesis proposed in this study is:

H3: Earnings persistence affects the ERC.

Figure 1. Conceptual framework

3. RESEARCH METHODOLOGY

3.1. Research design

This study adopts a quantitative approach, utilizing secondary data derived from the financial reports of manufacturing firms listed on the IDX for the 2018–2021 period. It follows a longitudinal study design, meaning data is gathered over a set period to examine the influence of firm size, leverage, and earnings persistence on the ERC over time. A longitudinal approach is chosen as it allows for a more precise identification of trends and patterns in the relationships between these variables (Sekaran & Bougie, 2016).

Alternatively, this research could also be conducted using a cross-sectional design to capture a snapshot of firm behavior in a single reporting year, enabling comparison between companies at a particular point in time. Moreover, a qualitative or mixed-methods approach might provide richer insights into the contextual factors affecting investor perceptions and the market's reaction to earnings announcements.

3.2. Unit of analysis

The unit of analysis in this research consists of manufacturing companies that meet the following criteria: 1) listed on the IDX throughout the 2018–2021 period; 2) have complete annual financial reports; 3) use the Indonesian Rupiah (IDR) as the reporting currency and prepare financial statements as of December 31; 4) report positive earnings throughout the study period; 5) disclose all necessary information required for this research. By applying these strict selection criteria, this study aims to ensure validity and reliability in identifying the factors influencing ERC.

3.3. Population and sample

The population comprises all manufacturing companies listed on the IDX between 2018 and 2021. The sample is selected through purposive sampling, a method in which firms are chosen based on predefined criteria aligned with the research objectives (Karunia et al., 2024; Sekaran & Bougie, 2016). The sampling criteria include: 1) companies that remained listed on the IDX throughout the study period; 2) firms that published financial statements as of December 31 annually; 3) companies that did not report financial losses between 2018 and 2021; 4) firms that use IDR in

financial reporting; 5) companies that provide complete data relevant to the study.

3.4. Data type, data sources, and data collection methods

This study utilizes secondary data sourced from the IDX via its official website (www.idx.co.id) and the respective official websites of the selected firms. The collected data comprises audited annual financial statements in numerical form, ensuring accuracy in analysis (Markonah & Prasetyo, 2022). Data collection is conducted through: 1) literature review; 2) documentation techniques, which involve accessing and analyzing the financial reports of manufacturing firms that satisfy the research criteria from 2018 to 2021.

3.5. Operational definitions of variables

This study employs three independent variables and one dependent variable. The dependent variable is the ERC, while the independent variables comprise firm size, leverage, and earnings persistence. The definitions and measurement methods for each variable are outlined below.

3.5.1. Earnings response coefficient

The ERC is a coefficient derived from the regression between stock price proxies and accounting earnings (Scott, 2009). In this study, stock price is represented by the cumulative abnormal return (CAR), while accounting earnings are proxied by unexpected earnings (UE). Measurement of ERC:

1) Calculating CAR:

- Abnormal return (AR) is calculated using:

$$AR_{it} = R_{it} - Rm_{it} \quad (1)$$

where, AR_{it} = Abnormal return of company i in period t ; R_{it} = Actual return of company i in period t ; Rm_{it} = Market return in period t .

- Actual return (R) is calculated as:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad (2)$$

where, R_{it} = Actual return of company i in period t ; P_{it} = Closing stock price of company i in period t ; P_{it-1} = Closing stock price of company i in the previous period.

- Market return (Rm) is calculated as:

$$Rm_{it} = \frac{IHS G_t - IHS G_{t-1}}{IHS G_{t-1}} \quad (3)$$

where, Rm_{it} = Market return in period t ; $IHS G_t$ = Composite Stock Price Index (IHS G) in period t ; $IHS G_{t-1}$ = IHS G in the previous period.

- CAR is computed as:

$$CAR_{it} = \Sigma AR_{it} \quad (4)$$

where, CAR_{it} = Cumulative abnormal return of company i in year t ; AR_{it} = Abnormal return of company i in period t .

The CAR is measured over a seven-day event window, covering three days before, one day during, and three days after the earnings announcement.

- 2) Calculating UE:

$$UE_{it} = \frac{E_{it} - E_{it-1}}{E_{it-1}} \quad (5)$$

where, UE_{it} = Unexpected earnings of company i in period t ; E_{it} = Accounting earnings of company i in period t ; E_{it-1} = Accounting earnings of company i in the previous period.

- 3) Calculating ERC:

$$CAR_{it} = \alpha_0 + \alpha_1 UE_{it} + \varepsilon \quad (6)$$

where, CAR_{it} = Cumulative abnormal return of company i within the $\pm$ three-day window from the financial report announcement date; UE_{it} = Unexpected earnings of company i in period t ; α_1 = ERC value; α_0 = Constant; ε = Standard error.

3.5.2. Firm size

Firm size (X_1) represents the scale of a company's operations and can be measured through various indicators, including total assets, market value, or log size (Novianti, 2014). This study measures firm size using the natural logarithm of total assets, as it is a more stable metric than other proxies.

$$Firm\ size = \log (total\ asset) \quad (7)$$

3.5.3. Leverage

Leverage (X_2) denotes the extent to which a firm utilizes debt in its capital structure (Fahmi, 2020). In this study, leverage is measured using the debt-to-equity ratio (DER), which reflects the ratio of total debt to equity.

$$DER = \frac{Total\ debt}{Total\ equity} \quad (8)$$

3.5.4. Earnings persistence

Earnings persistence (X_3) reflects a company's ability to maintain stable earnings over time (Kasiono & Fachrurrozie, 2016). It is measured using the ratio of earnings before interest and tax (EBIT) to the number of outstanding shares.

$$PL = \frac{EBIT}{Outstanding\ share} \quad (9)$$

where, PL = Earnings persistence; $EBIT$ = Earnings before interest and tax for the respective year.

4. RESULTS

4.1. Description of the research object

This study aims to assess the impact of firm size, leverage, and earnings persistence on the ERC. The research population consists of manufacturing firms listed on the IDX, with data sourced from the official website (www.idx.co.id). The sample was selected using a purposive sampling technique, where firms were chosen based on specific criteria to ensure alignment with the research objectives. From a total of 164 manufacturing firms, 47 companies met the established selection criteria.

Table 1. Research sample

No	Description	Count
1.	Manufacturing firms listed on IDX from 2018 to 2021	164
2.	Manufacturing firms not classified under the "main" board	(77)
3.	Manufacturing firms with incomplete financial reports	(3)
4.	Manufacturing firms reporting in US dollars (\$)	(16)
5.	Manufacturing firms without consistent profits over four years	(21)
Total eligible sample		47

4.2. Descriptive statistics

Descriptive statistics provide an initial summary of the variables examined in this study, offering insight into the characteristics of the selected sample. Based on the descriptive statistical analysis, 47 manufacturing firms listed between 2018 and 2021 were studied. The data analysis was performed using EViews 12, with the results summarized in Table 1.

Table 2. Descriptive statistics

Measurement	ERC (Y)	Firm size (X_1)	Leverage (X_2)	Earnings persistence (X_3)
Mean	0.415604	10.12234	4.259050	8288.864
Median	0.000000	10.00000	0.460584	65.16772
Maximum	72.52144	13.00000	507.3056	480068.0
Minimum	-53.44910	2.000000	1.97E-10	6.21E-07
Standard deviation (S.D.)	7.352345	1.806385	38.95314	55344.69
Skewness	3.261651	-0.614298	11.97714	7.207481
Kurtosis	66.52106	4.393226	151.3914	54.74240
Jarque-Bera	31940.25	27.02914	176984.8	22599.70
Probability	0.000000	0.000001	0.000000	0.000000
Sum	78.13349	1903.000	800.7014	1558306.
Sum of squared deviation	10108.65	610.1862	283743.9	5.73E+11
Observations	188	188	188	188

The *ERC* variable exhibits a minimum value of -53.4491 and a maximum value of 72.5214. A standard deviation of 7.3523, significantly exceeding the mean value of 0.4156, highlights substantial variations in market reactions to corporate earnings. The presence of extreme values indicates that certain companies experience either highly positive or highly negative investor responses to earnings disclosures.

Firm size values range from 2.00 to 13.00, with an average of 10.1223. This suggests that the majority of firms in the sample are large enterprises. A standard deviation of 1.8064 indicates a moderate level of dispersion, implying that firm size remains relatively stable across the sample.

Leverage ranges from a minimum of 1.97E-10 (almost zero) to a maximum of 507.3056, with a mean value of 4.2591. The exceptionally high standard deviation of 38.9531 compared to the mean reflects considerable discrepancies in leverage levels among firms. Some companies operate with substantial debt, while others maintain very low leverage ratios.

The *earnings persistence* variable varies widely, with a minimum value of 6.21E-07 and a maximum of 480068.0, while the mean is 8288.864. The substantial standard deviation of 55344.69, significantly exceeding the mean, highlights extreme

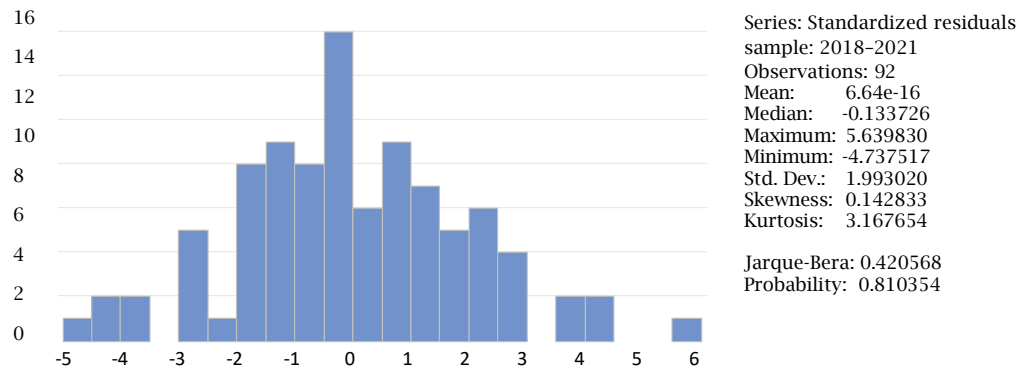
fluctuations in earnings persistence. While some firms maintain stable earnings over time, others experience significant volatility.

Overall, the analysis reveals notable variations in market responses to earnings (ERC), leverage levels, and earnings persistence across companies, while firm size remains relatively consistent. These findings suggest that investor reactions, financial structures, and earnings stability significantly differ among Indonesian manufacturing firms.

4.3. Classical assumption tests

The normality test is conducted to assess whether the data used in this study follows a normal distribution. The Jarque-Bera Test in EViews 12 is employed, with the criterion that a probability value greater than 0.05 indicates normally distributed data. The initial test results show a probability value of 0.000000, implying that the data does not conform to a normal distribution. To resolve this issue, the data is transformed using the natural logarithm method, and extreme outliers are removed. Following this transformation, the sample size is reduced from 196 to 96, and the probability value increases to 0.798738 (> 0.05), confirming that the data now satisfies the normality assumption.

Figure 2. Normality test after extreme data transformation



The multicollinearity test is conducted to determine whether a high correlation exists among the independent variables in the regression model. This is assessed using the centered variance inflation factor (VIF), where a VIF value below 10 indicates the absence of multicollinearity. The results reveal that all independent variables have centered VIF values below 10, confirming that multicollinearity is not a concern in this study's model.

Table 3. Multicollinearity test results

Variable	Coefficient variance	Uncentered VIF	Centered VIF
C	1.801788	40.24782	NA
X_1	0.016471	39.41507	1.006381
X_2	0.114211	2.396050	1.010575
X_3	2.74E-11	1.027328	1.012054

The heteroscedasticity test is performed to ensure that the variance of residuals in the regression model remains constant (homoscedastic). The White heteroskedasticity test is utilized, using the probability value of the Chi-square statistic as a reference. The results yield a probability value

of 0.2458 (> 0.05), indicating no heteroscedasticity issue in the regression model, thereby enabling further analysis.

Table 4. Heteroscedasticity test results

<i>F-statistic</i>	1.295801	<i>Prob. F (9,82)</i>	0.2519
<i>Obs * R-squared</i>	11.45524	<i>Prob. Chi-square (9)</i>	0.2458
<i>Scaled explained SS</i>	11.43415	<i>Prob. Chi-square (9)</i>	0.2471

The autocorrelation test is conducted to determine whether residuals from different time periods are correlated. The Breusch-Godfrey serial correlation Lagrange multiplier (LM) test is used, with the criterion that a Chi-square probability value greater than 0.05 indicates no autocorrelation. The results show a probability value of 0.8628 (> 0.05), confirming that autocorrelation is not present in the research model.

Table 5. Autocorrelation test results

<i>F-statistic</i>	0.138771	<i>Prob. F (2,90)</i>	0.8706
<i>Obs * R-squared</i>	0.295135	<i>Prob. Chi-square (2)</i>	0.8628

4.4. Panel data regression estimation

A panel data regression model is constructed using a combination of time-series and cross-sectional data. There are three estimation methods for panel data regression: the common effect model (CEM), the fixed effect model (FEM), and the random effect

model (REM). These three approaches are evaluated to determine the most appropriate model for this study.

The CEM assumes that all cross-sectional units (companies) share the same intercept and slope. The results of this model are shown in Table 6.

Table 6. Results of the common effect model regression

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	-1.069568	1.340521	-0.797875	0.4271
X_1	-0.025898	0.128165	-0.202066	0.8403
X_2	0.185962	0.337502	0.550994	0.5830
X_3	1.34E-06	5.23E-06	0.255844	0.7987
R-squared	0.004335	Mean dependent var.		-1.190457
Adjusted R-squared	-0.029608	S.D. dependent var.		1.997355
S.E. of regression	2.026707	Akaike info criterion		4.293207
Sum squared resid.	361.4638	Schwarz criterion		4.402850
Log likelihood	-193.4875	Hannan-Quinn criterion		4.337460
F-statistic	0.127727	Durbin-Watson stat.		1.616101
Prob (F-statistic)	0.943424			

The findings indicate that the p-values for firm size (X_1) = 0.8403, leverage (X_2) = 0.5830, and earnings persistence (X_3) = 0.7987 all exceed 0.05. This suggests that these variables do not have a significant influence on the ERC. Additionally, the R-squared value is 0.004335 (0.43%), indicating that the independent variables explain only 0.43% of

the variation in the dependent variable. The F-statistic probability is 0.943424, confirming that the model is statistically insignificant.

The FEM assumes that each company has a distinct intercept. The results for this model are displayed in Table 7.

Table 7. Results of the fixed effect model regression

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	-0.560289	3.360781	-0.166714	0.8683
X_1	-0.070858	0.299349	-0.236706	0.8139
X_2	-0.343556	1.863285	-0.184382	0.8545
X_3	6.95E-05	7.69E-05	0.903316	0.3711
Effects specification				
Cross-section fixed (dummy variables)				
R-squared	0.498055	Mean dependent var.		-1.190457
Adjusted R-squared	0.007022	S.D. dependent var.		1.997355
S.E. of regression	1.990330	Akaike info criterion		4.521331
Sum squared resid.	182.2250	Schwarz criterion		5.782225
Log likelihood	-161.9812	Hannan-Quinn criterion		5.030238
F-statistic	1.014300	Durbin-Watson stat.		3.156691
Prob (F-statistic)	0.480574			

As with the CEM, the p-values for all independent variables remain above 0.05, signifying that they do not significantly affect the ERC. However, the R-squared value is 0.498055 (49.80%), indicating that approximately half of the variance in the dependent variable is explained by the independent variables. Despite this, the F-statistic probability of

0.480574 suggests that the model is still not statistically significant.

The REM assumes that differences across companies are random and uncorrelated with the independent variables. The results of this model are summarized in Table 8.

Table 8. Results of the random effect model regression

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	-1.072700	1.370439	-0.782742	0.4359
X ₁	-0.025162	0.130921	-0.192190	0.8480
X ₂	0.185902	0.357320	0.520268	0.6042
X ₃	1.36E-06	5.30E-06	0.257123	0.7977
Effects specification				
			S.D.	Rho
Cross-section random			0.498976	0.0591
Idiosyncratic random			1.990330	0.9409
Weighted statistics				
R-squared	0.004050	Mean dependent var.		-1.106224
Adjusted R-squared	-0.029903	S.D. dependent var.		1.933509
S.E. of regression	1.963180	Sum squared resid.		339.1586
F-statistic	0.119275	Durbin-Watson stat.		1.722433
Prob (F-statistic)	0.948552			
Unweighted statistics				
R-squared	0.004330	Mean dependent var.		-1.190457
Sum squared resid.	361.4658	Durbin-Watson stat.		1.616136

Similar to the previous models, the p-values for all independent variables remain greater than 0.05, indicating that they do not significantly affect the ERC. The R-squared value is 0.004050 (0.40%), suggesting that the independent variables explain only 0.40% of the variation in the dependent variable. The F-statistic probability of 0.948552 confirms that the model is statistically insignificant.

4.5. Selection of panel data regression model

To determine the most suitable regression model, three statistical tests were conducted: the Chow test, the Hausman test, and the LM test. The Chow test compares the CEM and the FEM by examining the probability value of cross-section F. The results show a p-value of 0.4013 (greater than 0.05), suggesting that the CEM is preferred over the FEM.

Table 9. Results of the Chow test

Effects test	Statistic	d.f.	Prob.
Cross-section F	1.077290	(42,46)	0.4013
Cross-section Chi-square	63.012604	42	0.0195

The Hausman Test is performed to determine whether the FEM or the REM is more appropriate. The results indicate a p-value of 0.8107 (greater than 0.05), suggesting that the REM is more suitable than the FEM.

Table 10. Results of the Hausman test

Test summary	Chi-squared statistic	Chi-squared d.f.	Prob.	
Cross-section random	0.960780	3	0.8107	
Cross-section random effects test comparisons				
Variable	Fixed	Random	Var (Diff.)	Prob.
X_1	-0.070858	-0.025162	0.072469	0.8652
X_2	-0.343556	0.185902	3.344154	0.7722
X_3	0.000069	0.000001	0.000000	0.3747

Table 13. Model feasibility test and R-squared results

Measurement	Value	Measurement	Value
R-squared	0.004335	Mean dependent var.	-1.190457
Adjusted R-squared	-0.029608	S.D. dependent var.	1.997355
S.E. of regression	2.026707	Akaike info criterion	4.293207
Sum squared resid.	361.4638	Schwarz criterion	4.402850
Log likelihood	-193.4875	Hannan-Quinn criterion	4.337460
F-statistic	0.127727	Durbin-Watson stat.	1.616101
Prob (F-statistic)	0.943424		

The F-test shows a probability value of 0.943 (> 0.05), suggesting that firm size, leverage, and earnings persistence do not collectively influence ERC. Furthermore, the coefficient of determination (R^2) is 0.004 (0.4%), indicating that the independent variables account for only 0.4% of the variation in ERC, while the remaining 99.6% is explained by external factors outside the scope of this study.

Based on these findings, the CEM is identified as the most suitable model, with the following regression equation:

$$ERC = -1.069 - 0.025FZ + 0.186LV + 1.34EP \quad (10)$$

This regression output supports the earlier conclusion that none of the independent variables: firm size (FZ), leverage (LV), and earnings persistence (EP), show a statistically significant effect on the ERC, as all their p-values are greater than 0.05.

The LM test assesses whether the REM is superior to the CEM. The p-value from the Breusch-Pagan test is 0.4403 (greater than 0.05), indicating that the CEM remains the most appropriate model for this study.

Table 11. LM test results

Measurement	Cross-section	Time	Both
Breusch-Pagan	0.580491 (0.4461)	0.014979 (0.9026)	0.595470 (0.4403)
Honda	0.761900 (0.2231)	0.122387 (0.4513)	0.625285 (0.2659)
King-Wu	0.761900 (0.2231)	0.122387 (0.4513)	0.300821 (0.3818)
Standardized Honda	0.983747 (0.1626)	0.565759 (0.2858)	-4.367043 (1.0000)
Standardized King-Wu	0.983747 (0.1626)	0.565759 (0.2858)	-2.346080 (0.9905)
Research results	--	--	0.595470 (0.4058)

4.6. Panel data regression analysis

This study applies three statistical tests to assess the impact of independent variables on the dependent variable: partial test (t-test), model feasibility test (F-test), and coefficient of determination test (R^2).

Table 12. Results of the t-test

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	-1.069568	1.340521	-0.797875	0.4271
X_1	-0.025898	0.128165	-0.202066	0.8403
X_2	0.185962	0.337502	0.550994	0.5830
X_3	1.34E-06	5.23E-06	0.255844	0.7987

The t-test results reveal that all independent variables (firm size, leverage, and earnings persistence) have probability values greater than 0.05. This indicates that none of these variables has a statistically significant effect on the ERC.

The constant value of -1.069 indicates that if all independent variables are equal to zero, ERC would be negative. Firm size has a coefficient of -0.025, suggesting a negative association, where an increase in firm size tends to lower ERC. Leverage, with a coefficient of 0.186, shows a positive direction, implying that higher leverage might increase ERC. Similarly, earnings persistence has a positive coefficient of 1.34, indicating a potential increase in ERC when earnings are more stable. However, these effects are not statistically significant and should be interpreted with caution.

Furthermore, the R-squared value of 0.004 (or 0.4%) implies that the model explains only a very small portion of the variation in ERC. This suggests that other factors outside the current model may have a stronger influence on market reactions to earnings information.

Integrating this regression analysis into the overall discussion, it becomes clear that although the equation helps describe the direction

of each variable's influence, it does not provide strong explanatory power. Therefore, future research should consider incorporating additional variables that may better capture the complexity of what drives ERC.

5. DISCUSSION

5.1. The influence of firm size on ERC

Firm size is often regarded as a determinant of the ERC. However, the findings of this study reveal that firm size does not significantly impact ERC. The t-test results show a probability value of 0.427 (> 0.05), indicating the absence of a significant relationship between firm size and ERC. Consequently, *H1*, which posits that firm size influences ERC, is rejected.

This result suggests that investors do not consider firm size a primary factor in responding to a company's earnings (Dewi & Puspaningsih, 2019). Investors acknowledge that both large and small firms can produce either high-quality or low-quality earnings. In other words, firm size is not a reliable determinant of earnings quality or investment decisions. Instead, investors tend to focus on other, more relevant factors when evaluating market responses to a company's earnings.

Furthermore, small firms may, in certain cases, demonstrate stable and high-quality earnings, whereas large firms do not necessarily guarantee strong financial performance. This implies that both large and small companies have equal opportunities to generate earnings that can be trusted by investors. Thus, firm size does not play a dominant role in shaping market reactions to earnings announcements.

These findings are consistent with Dewi and Putra (2022), who also found that firm size does not affect ERC. However, they contrast with studies such as Muharramah and Hakim (2021), who found a positive relationship in the context of Indonesian manufacturing firms. The lack of significance in this study may reflect differences in market structure, investor behavior, or transparency in emerging markets like Indonesia.

Although statistically insignificant, the direction of the coefficient is negative, suggesting that larger firms may actually reduce market responsiveness to earnings in this sample. This might be explained by investor skepticism regarding large firms' operational efficiency or the possibility of earnings management. Therefore, while the effect is not strong enough to be conclusive, the direction still provides insight that deserves attention in future research.

5.2. The influence of leverage on ERC

The t-test results indicate that leverage has a probability value of 0.583 (> 0.05), signifying that leverage does not influence the ERC. This contradicts *H2*, leading to its rejection. In investment decision-making, investors do not always prioritize a company's leverage level. A highly leveraged company may be experiencing growth, and while higher leverage increases financial risk, it can also present greater return potential for investors.

These findings align with the research by Suardana and Dharmadiaksa (2018), which also found no significant relationship between leverage and ERC. The relationship between leverage and ERC has been widely studied in academic research, with

substantial evidence suggesting no significant influence. Kusumawati et al. (2023) proposed that leverage might impact ERC, but Assagaf et al. (2019) found that earnings management plays a more dominant role in affecting ERC. This suggests that leverage's effect on ERC is overshadowed by other factors such as earnings management.

Additionally, Paramita et al. (2020) demonstrated that when a company reports higher-than-expected earnings, leverage does not substantially impact ERC. This reinforces the idea that market reactions to earnings depend more on investors' perceptions of earnings quality rather than leverage levels. Osesoga (2023) also supported this notion, stating that leverage does not significantly influence earnings quality when examined alongside other moderating variables.

Similarly, Dewi and Nataherwin (2020) indicated that while leverage may have negative effects in certain cases, its overall impact on ERC is insignificant when considering other variables such as sales growth and corporate social responsibility (CSR) disclosure. Research by Suharja and Ardiansya (2019), further suggests that growth opportunities have a greater influence on ERC compared to leverage.

Studies by Gunawan et al. (2021) also found that company growth positively impacts ERC, but the role of leverage is minimal in comparison. These findings emphasize that leverage has a limited role in shaping market reactions to company earnings. Instead, profitability, corporate growth opportunities, and financial management strategies have a more substantial impact on ERC (Aiffa & Nadhifah, 2024; Viriany, 2022).

From a theoretical perspective, leverage is expected to have a negative impact on ERC because high debt levels increase financial risk. While the results of this study do not support this statistically, the positive coefficient contradicts common expectations. This may suggest that investors view leverage in some Indonesian manufacturing firms as a sign of growth financing rather than risk, especially when earnings remain positive. This insight opens a pathway for more nuanced research into how leverage is perceived in different contexts.

5.3. The influence of earnings persistence on ERC

The t-test results indicate that earnings persistence has a probability value of 1.34 (> 0.05), suggesting that earnings persistence does not influence the ERC. This contradicts *H3*, leading to its rejection. In this study, earnings persistence is not a primary indicator used by investors to assess a company's future earnings potential. Due to fluctuations in earnings, investors find it challenging to use earnings persistence as a basis for investment decisions. Moreover, the coefficient value of earnings persistence, which is close to zero, indicates that company earnings do not follow a stable pattern, making future earnings difficult to predict. These findings are in line with research by Dewi and Rahayu (2018), which also found no significant influence of earnings persistence on ERC.

The relationship between earnings persistence and ERC is a widely debated topic in financial and accounting research. While earnings persistence measures the consistency of company earnings over time, ERC reflects the stock market's response to earnings surprises. Some studies suggest that earnings persistence does not always have a consistent relationship with ERC. In certain industries, the relationship may even be negative.

For instance, Ahabba and Sebrina (2020) discovered that earnings persistence had a negative and insignificant relationship with ERC in the manufacturing sector, while in the financial sector, the impact was significantly positive. This implies that the influence of earnings persistence on ERC varies by industry, making it difficult to generalize findings across different business sectors.

Similarly, Jumaidi and Rijal (2018) found that earnings persistence, when examined alongside systematic risk and other financial factors, does not have a significant effect on ERC. This suggests that higher earnings persistence does not necessarily enhance market perceptions of earnings quality. Istianingsih et al. (2020) further found that earnings persistence does not influence CSR disclosure or the future earnings response coefficient (FERC), reinforcing the idea that certain earnings components may be temporary and less relevant to ERC predictions.

Moreover, research by Cheng et al. (2009) suggests that losses incurred by a company are less informative for predicting future cash flows, thereby reducing ERC. In such cases, firms experiencing losses may pursue strategic decisions such as restructuring or liquidation, further complicating the relationship between earnings persistence and ERC. The uncertainty surrounding a company's future earnings weakens the relevance of earnings persistence as a determinant of ERC.

This study adds to the body of literature by confirming the inconsistent nature of earnings persistence's influence on ERC. While economic theory suggests that stable earnings should enhance investor confidence and increase ERC, the results of this study show otherwise. The positive coefficient, though statistically insignificant, aligns with the theoretical expectation that more consistent earnings can lead to a more predictable stock price response. However, due to high earnings variability in the sample, this relationship may not be strong enough to influence investor behavior in practice.

Hence, these findings reinforce the argument that investors in emerging markets may rely more on qualitative disclosures, industry trends, or external economic signals rather than purely on accounting-based indicators such as persistence when responding to earnings announcements.

6. CONCLUSION

This study explored the influence of firm size, leverage, and earnings persistence on the ERC within manufacturing companies listed on the IDX from

2018 to 2021. While the empirical findings indicate that none of the three independent variables significantly affect ERC, these results offer meaningful implications for both researchers and practitioners.

The absence of a significant relationship between firm size and ERC implies that investors may prioritize operational efficiency and earnings reliability over company scale when interpreting earnings information. Likewise, leverage does not appear to be a primary concern for investors, possibly due to varying perceptions of debt in the context of business growth and risk tolerance. Meanwhile, earnings persistence, although theoretically linked to market valuation, does not exhibit a strong influence on ERC, indicating that investors may rely more on other signals such as earnings quality, transparency, or macroeconomic indicators when making investment decisions.

From a managerial perspective, these insights underscore the need for manufacturing firms to prioritize high-quality earnings reporting, transparent disclosures, and prudent financial management to build investor trust. Emphasis should also be placed on strategic initiatives that align with sustainable business practices and sound corporate governance, as these may more effectively influence market perceptions and investor reactions.

This study is not without limitations. First, the analysis is restricted to a four-year period, which may not fully capture long-term investor behavior or broader economic cycles. Second, the study focuses solely on manufacturing firms, limiting the generalizability of findings to other sectors. Third, the ERC was measured using market reactions within a narrow event window, which might not reflect delayed or sector-specific investor responses.

Future research should therefore consider expanding the time frame to detect longer-term patterns, incorporating a broader industry sample, and including additional variables such as profitability, earnings management, audit quality, or macroeconomic controls. Furthermore, exploring investor sentiment and behavioral factors could enrich the understanding of how market participants interpret and respond to earnings announcements.

By addressing these limitations and broadening the analytical scope, future studies can provide more comprehensive insights into the dynamics shaping ERC and offer practical guidance for corporate strategy and financial reporting.

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