The Effect of the Component of Good Corporate Governance, Leverage, and Firm Size in the Earnings Response Coefficient

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ABSTRACT: Earnings information is one of the important information for stakeholders that is used as consideration in making economic decisions. If the reported earnings are qualified and relevant, it is expected that the market will react quickly after the announcement is received. The strong market reaction to earnings information is reflected in the value of Earnings Response Coefficient (ERC). The aims of this study is to get the empirical evidence of The Effect of the Component of Good Corporate Governance, Leverage, and Firm Size in the Earnings Response Coefficient. The sample of this study was 48 firms for five years 2014-2018 in the Indonesia Stock Exchange with non-probability sampling method and purposive sampling technique. Collecting data with non-participant observation methods. The data analysis technique used is multiple linear regression. Based on the results of Leverage testing having a positive and significant effect, firm size has no significant positive effect, the board of directors has no significant positive effect, the audit committee has a significant positive effect and institutional ownership has no significant positive effect on the Earnings Response Coefficient.

Keywords: Good corporate governance, firm size

I. INTRODUCTION

Information about earnings in a company's financial statements has a very important role for a company and investors. Information obtained from financial statements is a guideline for companies to find out how much profit is obtained. In public, financial information is used as a tool for making business decisions. Earnings quality is the profits stated in the company's financial statements that reflect the company's true financial performance. Quality accounting profit is profit that has little or no perceived disturbance (perceived noise) in it and can reflect the company's actual financial performance (Sudarma and Ratnadi, 2015).

Earnings quality generally influenced by several things, one of them is influenced by differences in interests that occur between agent and principal. Agency theory explains that between principals and agents there are contractual relationships that bind them together with their various interests (Lestari and Cahyati, 2017). The existence of Agency conflict resulted in the emergence of information asymmetry between shareholders and company managers. This information asymmetry is also a factor influencing a company's investment because it will make investment decisions of less quality.

Measurement of earnings quality can be proxied by Earnings Response Coefficient (ERC). Earnings Response Coefficient is obtained from the regression between share price proxy and accounting profit. The share price proxy used is cumulative abnormal return (CAR), while the accounting profit proxy is Unexpected Earning (EU).

Many factors affect Earnings Response Coefficient, this study only focused to test a number of factors, namely components of good corporate governance, leverage and firm size. Good Corporate governance is a set of regulations governing the relationship between stakeholders, managers, creditors, the government and other shareholders relating to their rights and obligations or can be said as an effort to control the company. The mechanism of Good Corporate Governance is divided into two parts, internal and external. Internal mechanisms can be seen from the board of directors and the audit committee, while the external mechanism indicators can be seen from institutional ownership. By running these two mechanisms together, the company's good corporate governance system tries to motivate managers to maximize stakeholder value (Beiner et al., 2003).

The board of directors is the head of the company chosen by the shareholders to represent the interests of the shareholders in managing the company (Silfi, 2016). The audit committee has a very important and strategic role in maintaining the credibility of the process of preparing financial statements as well as to
maintain the creation of an adequate corporate supervision system and the implementation of good corporate governance (Nadirsyah and Muharram, 2016). The existence of an audit committee in a company can provide more oversight of the performance of company management and provide accurate, accurate information and assist the board of commissioners in analyzing the company's financial statements.

The firm size can be seen from the total assets. A big firm and have widespread stock tend to be better equipped to deal with a variety of business problems. The firm size is one of the information that can be used by investors to assess the company’s earnings in order to make investment decisions. Leverage is also considered to affect earnings quality. Leverage is the use of assets and sources of funds by companies that have fixed costs with the aim of increasing potential shareholder profits. Leverage is a financial ratio that is used to measure the funding of a company that comes from the use of debt (Anugerah and Suryanawa, 2019). The high level of leverage causes investors to fear investing which results in a relatively low market response, meaning that the greater the level of leverage the lower the quality of a company's earnings (Dhaliwal et al., 1991).

The results of the study by (Sadiah and Priyadi, 2015), Silviya and Maryono (2017) and Heni and Sinta (2017) showed that firm size had a significant positive effect on earnings quality. In contrast to research conducted by Oktarya (2014) and Sukmawati, et al (2014), Natasha and Novia (2018) stated that company size had no significant effect on earnings quality. Research conducted by Lin and Lee (2016) and Lina (2017) states that leverage affects earnings quality, while (Wati and Putra, 2017) and (Assagaf, et al. 2019) state that leverage has no effect on Earnings Response Coefficients. This study chose the location of the research, namely all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2017 period. Manufacturing companies are used as samples because manufacturing companies are the type of business with the most number of companies compared to other types of businesses and are more attractive to investors to be a place to invest.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Leverage is a measure of the amount of assets financed with debt. Leverage as one of the efforts to increase corporate profits, can be a benchmark in seeing the behavior of managers in terms of earnings management. Based on signal theory, variable leverage is one of the factors that can provide important information for investors. Investors are expected to catch signals, signals that indicate that the company has prospective prospects in the future (Arianti and Purbawangsa, 2019).

Sadiah and Priyadi (2015) in his research proved that leverage has a negative effect on ERC. Companies with high leverage cause investors to assume that the company will prioritize payment of debt rather than dividends (Darabali & Saitri, 2016). Based on these explanations, the following research hypotheses can be formulated:

\[ \text{H}_1 \]: leverage has a negative effect on Earnings Response Coefficient

Firm size is a scale where large companies can be classified according to various ways, including: total assets, market capitalization, number of employees, market value of shares, sales logs and others (Reyhan, 2014). Company size is negatively related to ERC. The negative relationship is due to the amount of information available throughout the year on large companies that will cause investors to get less reaction. (Collins & Kothari, 1989).

Erma and Nursiam (2014) concluded that the larger the size of the company, the company is considered to have more information than smaller companies. The greater the size of a company, the going concern of the company will be higher in improving financial performance so that companies do not need to cheat in managing financial statements. Then it can be said that company size has a positive effect on earnings quality (Dira and Astika, 2014). According to Jaya and Wirama (2017) states that there is a positive influence between company size and ERC. Based on the explanation above, the hypothesis that will be proposed by the researcher is:

\[ \text{H}_2 \]: Firm size has a positive effect on Earnings Response Coefficient

The board of directors is the head of the company chosen by the shareholders to represent the interests of the shareholders in managing the company (Anggraeni and Hadi, 2014). The results of a study conducted by Simamora et al. (2014) found strong evidence that the board of directors had a positive influence on earnings quality.

\[ \text{H}_3 \]: The board of directors has a positive effect on the Earnings Response Coefficient

According to Simamora et al. (2014) states that the audit committee is a committee formed by the board of directors whose job is to carry out independent oversight of the process of financial reporting and external audit. The existence of an effective audit committee is one aspect of the assessment in the implementation of good corporate governance. According to Teoh and Wong (1993) stated that the role of the audit committee is very important in influencing the quality of the company's earnings which is important information available to the public and can be used by investors in valuing companies. Based on the explanation above, the hypothesis that will be proposed by the researcher is:
H0: The audit committee has a positive effect on the Earnings Response Coefficient

Institutional ownership is ownership of shares of financial institutions such as insurance companies, banks, pension funds, and investment banking. Institutional ownership does not always increase the value of the company or bring qualified earnings, institutional ownership can reduce the value of the company when the institutional interests are in line with the interests of managers (Hsu & Wang, 2015). Institutional ownership can reduce the tendency of management to utilize discretionary in financial statements so as to provide the quality of reported earnings. Rahma’s research (2014) shows the results that ownership of stock institutions affects earnings quality. Institutional ownership has a positive and significant effect on Earnings Response Coefficient because when management has a portion of a company’s ordinary shares, management will tend to improve its performance by reporting earnings according to the actual situation. Share ownership by management can also reduce the risk of agency problems that can harm stakeholders (Lestari and Cahyati, 2017). Based on the explanation above, the hypothesis that will be proposed by the researcher is:

H0: Ownership of stock institutions has a positive effect on Earnings Response Coefficient

III. METHODS

This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) by accessing the website www.idx.co.id to download secondary data in the form of annual reports published by manufacturing companies in the 2014-2018 period. The variables used in this study consisted of two types of variables namely the dependent variable (Y) in the form of Earnings Response Coefficient while the independent variables consisted of leverage (X1), company size (X3), board of directors (X4), audit committee (X5) and institutional ownership (X6). Leverage ratio is a ratio that measures how much a company is financed with debt. To measure the capital structure using the formula from Dhaliwal et al. (1991) as follows:

\[ \text{Lev}_i = \frac{\text{TU}_i}{\text{TA}_i} \]

The firm size is proxied by the natural log of total assets, the aim is to reduce the significant difference between large companies and small company sizes so that total asset data can be normally distributed.

\[ \text{Size} = \ln(\text{Assets}) \]

The board of directors is the head of the company chosen by the shareholders to represent the interests of shareholders in managing the company (Selfi, 2014). Thus, the formula for calculating the board of directors is as follows:

\[ \text{The Board of Directors} = \text{The number of directors} \]

The audit committee is a committee formed by the company’s board of commissioners, whose task is to help carry out checks or research that are deemed necessary for the implementation of the directors’ functions in managing the company (Effendi, 2009). So the formula for calculating the audit committee is as follows:

The Audit Committee = The number of Audit Committee Members

Wahyu and Ramantha (2017) explained that institutional ownership is the ownership of shares of a company by institutions or institutions such as insurance companies, banks, pension funds, mutual funds, leasing, investment, and ownership of other institutions. The formula for calculating institutional ownership is as follows:

\[ KI = \frac{\text{SI}}{\text{SI}} \times 100\% \]

Earning Response Coefficient (ERC) is an effect of every dollar of unexpected earnings on stock returns and is usually measured by the coefficient slope in the regression of abnormal returns and unexpected earnings of the average level of abnormal returns. This study uses a window period of 7 days of observation, which is 3 days before the date of annual earnings announcements and 3 days after the announcement of annual earnings.

To get daily abnormal returns, it is calculated using the market adjusted model with the formula:

\[ \text{AR}_i = \text{AR}_{it} = \text{RM}_{it} - \text{MR}_{it} \]

Whereas, the daily stock return is measured by the following formula:

\[ \text{R}_{it} = \frac{\text{P}_{it} - \text{P}_{it-1}}{\text{P}_{it-1}} \]

Market Return (RM) is measured by the following formula:

\[ \text{RM}_{it} = \frac{\text{IHSG}_{it} - \text{IHSG}_{it-1}}{\text{IHSG}_{it-1}} \]
IHSG_t \quad : \text{Composite stock price index on day-t } \\
IHSG_{t-1} \quad : \text{Composite price index on day } t-1 \\

To get the CAR value, it can be calculated with the following formula:

\[
\text{CAR} = \sum_{t=-3}^{n} AR_t 
\]

\[
(8)
\]

Notes:
- \text{CAR} \quad : \text{Addition of abnormal company stock return } I \text{ during the window period 3 days before and 3 days after the date of annual earnings announcement.}
- \text{AR}_t \quad : \text{abnormal stock returns to } i \text{ during the window period.}

As for the EU, it is measured using measurements made by Hartono (2000), as follows:

\[
\text{UE}_{it} = \frac{(E_{it} - E_{it-1})}{E_{it-1}}
\]

\[
(9)
\]

Notes:
- \text{UE}_{it} \quad : \text{Company Unexpected earning } i \text{ in the } t-\text{period}
- \text{E}_{it} \quad : \text{Accounting earnings on the company } i \text{ in the } t-\text{period}
- \text{E}_{it-1} \quad : \text{Accounting earnings on the company } i \text{ in } t-1\text{-period}

The earnings response coefficient is estimated using the firm specific coefficient methodology (FCSM) approach. ERC can be calculated by referring to the model used by Suaryana (2006) with a regression model, as follows:

\[
\text{CAR}_t = \alpha_0 + \alpha_1 \text{UE}_{it} + \varepsilon 
\]

\[
(10)
\]

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in the period 2014-2018, it is used because it is the latest data and to continue previous research and as a reference for further research. In this study the sample used was part of manufacturing companies listed on the Indonesia Stock Exchange in the 2014-2018 period in accordance with predetermined criteria.

The data analysis technique used is using multiple linear regression analysis techniques using the SPSS (Statistical Product and Service Solution) program. Multiple linear regression is a statistical tool that aims to help predict the value of a dependent variable (Main, 2016: 77). Hypothesis testing uses multiple regression analysis techniques with the results of the analysis expressed in the form of linear equations as follows:

\[
\text{ERC} = \alpha + \beta_1 \text{LEV} + \beta_2 \text{SIZE} + \beta_3 \text{DIR} + \beta_4 \text{KA} + \beta_5 \text{KI} + \varepsilon 
\]

\[
(11)
\]

Notes:
- \alpha \quad : \text{Constanta}
- \beta_1 \quad : \text{Regression Coefficient of Leverage}
- \beta_2 \quad : \text{Regression Coefficient of Firm size}
- \beta_3 \quad : \text{Regression Coefficient of the board of directors}
- \beta_4 \quad : \text{Regression Coefficient of audit committee}
- \beta_5 \quad : \text{Regression Coefficient of Institutional ownership}
- \text{LEV} \quad : \text{Leverage}
- \text{SIZE} \quad : \text{Firm size}
- \text{DIR} \quad : \text{Board of Directors}
- \text{KA} \quad : \text{Audit committee}
- \text{KI} \quad : \text{Institutional ownership}
- \varepsilon \quad : \text{Standard error}

IV. RESULT AND DISCUSSION

Descriptive statistics describe a data that is seen from the average value (mean) standard deviation (standard deviation), the maximum and minimum values of each variable. Descriptive statistical testing is intended to provide information about the proxy characteristics of the research variables and analyze so that the samples used in the study do not provide generalized conclusions. Table 1 illustrates the results of descriptive statistics.
Based on the descriptive statistical results in Table 1, the above statistical description is as follows:

LEV variables that describe leverage with a total of 48 samples have a minimum value of 0.140 at PT. ULTJ and a maximum value of 0.797 at PT. STAR. The mean value of the leverage variable is 0.382 where the value indicates that 38.92 percent of the total assets are financed by debt. A standard deviation of 0.182 indicates that there is a deviation in the value of leverage against the average value of 0.182.

SIZE variable that describes the size of the company with 48 samples has a minimum value of 21.845 at PT. AKPI and a maximum value of 32.209 at PT. INCI. The mean value of the leverage variable is 27.885. The standard deviation value of 2.071 indicates that there is a deviation in the value of the company size against the average value of 2.071.

DIR variable that describes the board of directors with 48 samples has a minimum value of 2 at PT. PYFA and PT. STAR and a maximum value of 11 at PT. TOTO. The average value (mean) of the board of directors variable is 6 where the value is close to the minimum value which means the level of the board of directors produced by manufacturing companies that are sampled in this study are still low. A standard deviation of 2.277 indicates that there was a deviation from the board of directors' values to an average value of 2.278.

KA variable that describes the audit committee with 48 samples have a minimum value of 3 and a maximum value of 5 at PT. WTON. The average value (mean) of the audit committee variable is 3 where the value is close to the minimum value which means that the level of the audit committee produced by manufacturing companies that are sampled in this study is still low. The standard deviation value of 0.393 indicates that there was a deviation from the audit committee's value to the average value of 0.393.

KI variable that describes institutional ownership with 48 samples has a minimum value of 16.810 at PT. SKBM and a maximum value of 92.660 at PT. DVLA. The mean value of the variable institutional ownership is 66.202, which indicates that 66.20 percent of the company's shares are owned by insurance companies, banks, leasing and other institutional ownership. The standard deviation value of 18.520 indicates that there is a deviation in the value of institutional ownership over the average value of 18.520.

ERC variable that describes Earnings Response Coefficient with 48 samples has a minimum value of -0.175 at PT. DVLA and a maximum value of 0.192 at PT. TSPC. The mean value of the Earnings Response Coefficient variable is 0.009 where the value approaches the minimum value, which means that the Earnings Response Coefficient produced by manufacturing companies that are sampled in this study are still low. A standard deviation of 0.074 indicates that there is a deviation of the Earnings Response Coefficient to the average value of 0.074.

Multiple linear regression analysis is used to determine the effect of leverage (X₁), company size (X₂), board of directors (X₃), audit committee (X₄) and institutional ownership (X₅) on Earnings Response Coefficient in manufacturing companies listed on the Indonesia Stock Exchange. The results of data processed by SPSS, using multiple linear regression analysis models are presented in Table 2. below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Hypothesis</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.526</td>
<td>0.175</td>
<td>-3.006</td>
<td>0.004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>0.134</td>
<td>0.059</td>
<td>0.330</td>
<td>2.274</td>
<td>0.028</td>
<td>Rejected</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.009</td>
<td>0.005</td>
<td>0.255</td>
<td>1.809</td>
<td>0.078</td>
<td>Rejected</td>
</tr>
<tr>
<td>DIR</td>
<td>0.001</td>
<td>0.004</td>
<td>0.026</td>
<td>0.192</td>
<td>0.849</td>
<td>Rejected</td>
</tr>
<tr>
<td>KA</td>
<td>0.052</td>
<td>0.026</td>
<td>0.278</td>
<td>2.023</td>
<td>0.049</td>
<td>Accepted</td>
</tr>
<tr>
<td>KI</td>
<td>0.001</td>
<td>0.001</td>
<td>0.229</td>
<td>1.708</td>
<td>0.095</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

\[ F_{\text{Hitung}} = 2.964 \]

\[ \text{Sig. } F_{\text{Hitung}} = 0.022 \]

\[ R^2 = 0.261 \]

\[ \text{Adjusted } R^2 = 0.173 \]
As the results of multiple linear regression in Table 2 the following equation is obtained:
\[
Y = -0.526 + 0.134X_1 + 0.009X_2 + 0.001X_3 + 0.052X_4 + 0.001X_5
\]

The constant value of -0.526 with a negative value, the regression equation shows that the value of the variable leverage, company size, board of directors, audit committee and institutional ownership is constant, then there is a tendency that earnings quality is negative at 0.526.

LEV regression coefficient (leverage) of 0.134 means that if leverage increases by one unit, then ERC will increase by 0.134 assuming the other independent variables are considered constant.

The SIZE regression coefficient (company size) of 0.009 means that if the size of the company increases by one unit, the ERC will increase by 0.009 assuming the other independent variables are considered constant. The regression coefficient of the DIR (board of directors) of 0.001 means that if the size of the company increases by one unit, the ERC will increase by 0.001 assuming the other independent variables are considered constant.

The KA (audit committee) regression coefficient value of 0.052 means that if the size of the company increases by one unit, the ERC will increase by 0.052 assuming the other independent variables are considered constant. Regression coefficient KI (institutional ownership) of 0.001 means that if the size of the company increases by one unit, the ERC will increase by 0.001 assuming the other independent variables are considered constant.

Based on Table 2, it can be seen that the adjusted R square value is 0.173 or 17.3%. This means that 17.3% Earnings Response Coefficient is influenced by variables of the audit committee, board of directors, institutional ownership, leverage and size of the company, while the remaining 82.7% is explained by other factors not explained in this research model.

Based on the results of the model feasibility test in Table 2 above it can be seen that the significance level of the t-test is 0.028 where the figure is smaller than α = 0.05. This shows that the model used in this study is feasible to be used as an analytical tool to test the effect of independent variables on the dependent variable.

The first hypothesis of this research is to find out whether leverage has a negative effect on Earnings Response Coefficient. Based on the results of testing the influence of leverage (X1) on the Earnings Response Coefficient in Table 2, it is known that the significance level of the t-test is 0.028 where the figure is smaller than the real level in this study that is α = 0.05 with the value of the leverage regression coefficient of 0.134. The coefficient of this study shows the positive value between leverage and ERC.

This result supports the signal theory that explains that high-quality companies prefer external funding sources or internal-sourced funding rather than issuance of new shares. Companies that use high debt to finance their assets are considered high risk, because it will provide a high interest expense to the company, but in good economic conditions the high debt used to fund its assets can also produce good quality earnings.

The results of this study are in line with research conducted by Dewi and Putra (2017) which states that leverage has a positive effect on ERC, and Sadiah and Priyadi (2015) which states that leverage has a negative effect on ERC. The results of this study are not in line with previous studies by Darabali and Sairti, (2016) which state that leverage has no effect on ERC.

Based on the results presented in Table 2 shows that the firm size variable (X2) has no effect on Earnings Response Coefficient, thus, H2 is rejected. These results support the theory of signals that the signal is an action taken by the company’s management, which can provide instructions to investors about how management views the company's perspective. (Brigham and Houston: 2013). The firm size does not affect the earnings response coefficient because investors will assume that large companies can not always provide large profits, and vice versa, small companies does not rule out the possibility of providing high returns for investors.

The results of this study are in line with research conducted by Irawati (2012), and Jaya and Wirama, (2017) which results that company size has no effect on earnings response coefficient. The results of this study are not in line with research conducted by Anita and Anggraini (2019) which states that company size has a negative effect on ERC and Kurnia et al., (2019) which states company size has a positive effect on earnings quality.

The third hypothesis of this study is to find out whether the board of directors has a positive effect on Earnings Response Coefficient. Based on the results of testing the influence of the board of directors (X3) on the Earnings Response Coefficient (Y) shown in Table 2, it is known that the significance level of the t-test is 0.849 where the rate is greater than the real level in this study that is α = 0.05 with a coefficient value Board of Directors regression of 0.001.

Based on these results it can be said that the more boards of directors in a company do not affect the level of Earnings Response Coefficient. The level of little or the number of directors does not affect the Earnings Response Coefficient. The absence of influence of the board of directors variable on earnings quality...
does not originate from the large number of directors in the company but from decisions taken at the General Meeting of Shareholders (GMS).

The board of directors in a company will determine the policy or strategy to be taken both in the short term and long term. The company's condition is actually known by the directors, but the decision is still taken at the General Meeting of Shareholders (GMS). Law Number 40 of 2007 concerning limited liability companies in article 92 paragraph (4) states that the General Meeting of Shareholders (GMS) stipulates the division of duties and management authority among members of the board of directors, in this case the board of directors consists of two or more directors so that there are still limited authority of directors. The results of this study are in line with research conducted by (Machfoedz, 2006) and Oktaviani et al., (2016) which results that the board of directors has no effect on earnings response coefficient. The results of this study are not in line with research conducted by Edi and Suyadi (2018) which states the board of directors has a positive and significant effect on the Earnings Response Coefficient.

The fourth hypothesis of this study is to find out whether the audit committee has a negative effect on Earnings Response Coefficient. Based on the results of testing the influence of the audit committee (X5) on the Earnings Response Coefficient in Table 2, it is known that the level of significance of the t test is 0.049 where the number is smaller than the real level in this study that is $\alpha = 0.05$ with the value of the leverage regression coefficient of 0.052. The coefficient of this study which shows a positive value between the audit committee and ERC.

Earnings Response Coefficient between companies that form an audit committee is statistically greater than companies that do not form an audit committee. This shows that the market evaluates that the reported profits by companies that form audit committees are of better quality than earnings reported by companies that do not form audit committees. Higher Earnings Response Coefficient on companies that form audit committees shows that the market considers the committee to carry out its role well, especially in monitoring the financial reporting process (Suairyana, 2005).

The results of this study are in line with research conducted by Nadirsyah and Muharram (2016) and Reyhan (2014) which states that there is an influence of the audit committee on the earnings response coefficient. However, this study is not in line with research conducted by Puspita (2018) which shows that the audit committee has no significant effect on earnings quality.

The fifth hypothesis of this study is to find out whether institutional ownership has a positive effect on Earnings Response Coefficient. Based on the test results of the influence of institutional ownership (X5) on Earnings Response Coefficient in Table 2, it is known that the level of significance of the t test is 0.049 where the figure is smaller than the real level in this study that is $\alpha = 0.05$ with a leverage regression coefficient of 0.052. The coefficient of this study which shows a positive value between the audit committee and ERC.

Financial statements are the product of management so that institutional ownership outside the company cannot influence what management reports in the financial statements including earnings quality. The results of this study are in line with research conducted by Widjayanti, (2018) which states that there is no influence between institutional ownership and Earnings Response Coefficient. However, this research is not in line with research conducted by Rahma (2014) and Nadirsyah and Muharram (2016) which shows that institutional ownership has a positive effect on Earnings Response.

V. CONCLUSION

Leverage has a positive effect on earnings response coefficient. So even if the leverage is higher as long as it is still in a good ratio, it will increase the market’s response to the company's shares when the earnings are announced. The firm size has no effect on Earnings Response Coefficient. In this study concluded that the size of the company does not affect Earnings Response Coefficient, company size can only be used to classify companies into large, medium or small companies so that the size of the company does not significantly influence the Earnings Response Coefficient.

The Board of Directors has no effect on Earnings Response Coefficient. Many or at least the board of directors does not affect the amount of Earnings Response Coefficient. The absence of the influence of the board of directors on ERC is not derived from the number of directors in the company but from the decisions taken at the General Meeting of Shareholders (GMS).

The audit committee has a positive and significant effect on Earnings Response Coefficient. The market considers that reported earnings by companies that form audit committees are of better quality compared to earnings from companies that do not form audit committees.

Institutional ownership does not affect Earnings Response Coefficient. Institutional ownership as a controlling mechanism in the preparation of financial statements has little effect on the market through institutional ownership.

Further studies Earnings Response Coefficient extends the period of the research sample so that further research results can show more accurate results, so that it can obtain results from research that can be
used more broadly and the benefits will be more valuable to many readers. The company management is expected to pay more attention to the relevance of the value of earnings information that will be submitted to the public so that it can provide a positive assessment of the community on the company’s performance. Investors are expected to be more careful in investing, and be careful of the Earnings Response Coefficient issue so that they avoid investment losses.

REFERENCES


