ABSTRACT

This research is aimed to analyze the factors that influence Earnings Response Coefficient (ERC) in the manufacturing company listed in Indonesia Stock Exchange. This research used seven factors which are firm size, beta risk, earnings persistence, growth opportunities, capital structure, board composition and audit quality. It based on the different market response toward earnings information of some companies over the others. The sample of this research is 132 companies selected by using purposive sampling method. This research tested the hypotheses by using multiple regression analysis models.

The result of this research found that firm size gives no significant influence because it also used as the proxy for other firm characteristics. Beta risk gives negative significant influence toward ERC because higher beta risk will increase the portfolio risk. Earnings persistence gives no significant influence toward ERC because the investors less response the persistence in earnings change and consider the others information to make investment decision. Growth opportunities give positive significant influence toward ERC because it indicate other success in future project and easy to attract capital. Capital structure gives negative significant influence toward ERC because the good news in high leverage company will give benefit to the debtholders over the stockholders. Board composition gives negative significant influence toward ERC because the investors doubt about the ability of independent directors in monitoring the management and decrease the financial statement fraud. The audit quality gives no significant influence toward ERC because the investors only concern to the amount earnings number rather than the accuracy of the earnings.

Keywords: Earnings Response Coefficient (ERC), firm size, beta risk, earnings persistence, growth opportunities, capital structure, board composition, audit quality.