

EFFECT OF DEFAULT RISK, ACCOUNTING CONSERVATISM, PROFIT PERSISTENCE AND AUDIT QUALITY ON EARNINGS RESPONSE COEFFICIENT (ERC) IN NON-FINANCIAL COMPANIES REGISTERED ON THE INDONESIAN STOCK EXCHANGE (IDX) IN 2019-2021

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ABSTRACT

This study aims to examine the effect of default risk, accounting conservatism, earnings persistence and audit quality on earnings response coefficient (ERC). The population in this study are non-financial companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021 with a total of 673 companies. Sampling in this study used purposive sampling and obtained as many as 118 companies with 354 observational data. This research is a quantitative research with secondary data sources including the company's annual financial reports obtained through the website www.idx.co.id and stock prices obtained through the site <http://finance.yahoo.com>. Data collection techniques in this study are the method of documentation and literature study. Data analysis in this study used panel data regression using EViews 12 software. The results showed that default risk had no significant effect on earnings response coefficient (ERC), accounting conservatism and earnings persistence had no significant positive effect on earnings response coefficient (ERC). And audit quality has a negative and significant effect on earnings response coefficient (ERC).

Keywords: Default Risk, Accounting Conservatism, Earnings Persistence, Audit Quality, Earnings Response Coefficient

1. INTRODUCTION

Profit information is often used to judge success or failure of the management of a company, where profit information can assist owners or other parties in making interpretations of the company's profit strength in the future (Eldest & Muslih, 2019). Economic decisions taken by investors based on information from financial reports are usually reflected in the behavior of market participants, known as market reactions (Fitriah, 2020). Profits that are informed in the financial statements will create different reactions for investors. The market reaction is indicated by changes in the company's market price (stock return) when the profits are announced. Ball and Brown (1968) state that there is a relationship between the earnings announced by the company and changes in stock prices. When a company announces an increase in profits, what happens is a positive trend of changes in stock prices and vice versa if the announced profits fall, what will happen is a negative change in stock prices. (Homan, 2018).

However, what Ball and Brown put forward is different from what happened to the technology company PT Solusi Sinergi Digital Tbk (WIFI). PT WIFI recorded a net profit that has increased by 25 times in 2021 compared to the previous year. Net profit for the current year was recorded at IDR 24.5 billion, an increase of 2584% compared to 2020 of IDR 924 million. The company noted that this positive performance was driven by the successful acceleration of project execution. However, this positive performance was not well received by the market, since the beginning of the year until last weekend's close (13/5/22), WIFI shares have weakened by 36.36% (source: CNBC Indonesia on 17/05/2022). Based on my Finances. com (05/07/2022) even though net profit has increased, in terms of profitability margins the growth is still relatively low with a Net Profit Margin (NPM) of 7%. In the last six months WIFI's share price fell by around -45% from 600s to 320s.

To further explain, the following illustrates some samples that explain the relationship between current year earnings, stock prices and the value of the earnings response coefficient (ERC). As can be seen in Figure 1 below, it shows that in 2021 PT Adhi Karya Tbk (ADHI) and PT Wijaya Karya Gedung Gedung Tbk (WEGE) experienced an increase in profits from the previous year, but the share price actually experienced a significant decline, this shows that investors gave a negative response which can be seen from the low value of the ERC in the two companies. Where ADHI got -0.01 and WEGE -0.06. This shows that increased profits are not always well responded by the market. Investors will assume that ADHI and WEGE lack information content (bad news).

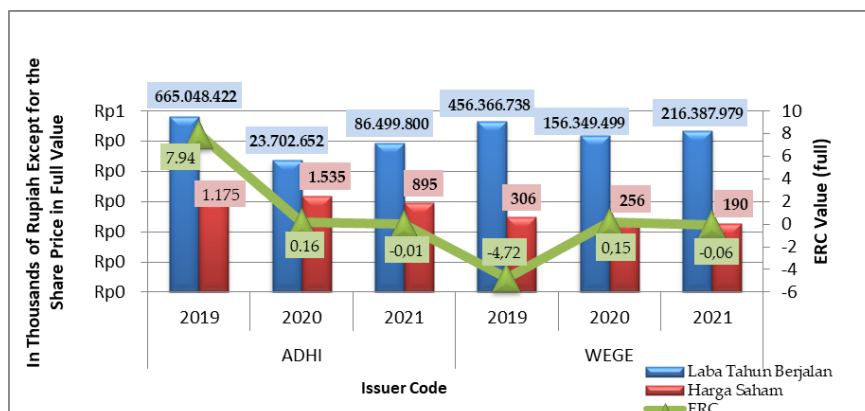


Figure 1 Profit Data for the Year, Share Price and ERC Value (In Annual)

From the above phenomenon, it can be seen that the market response is not only seen from the profit side, meaning that profit alone is not enough to serve as the only basis for investors in making decisions. This indicates that there are other factors related to the company that affect investors' decisions. Earnings response coefficient (ERC) is an indicator that can be used to see how much the market responds to earnings information announced by the company (Irwan & Cahyaningsih, 2020). Scott explained that the information content of earnings can be seen by using the Earnings Response Coefficient (ERC), namely by describing and identifying differences in market reactions to market announcements. The magnitude of the relationship between earnings and stock returns is called the Earnings Response Coefficient (BG Siregar, 2018).

There are several factors that affect the earnings response coefficient (ERC), the first is default risk. Default risk is the company's failure to pay interest or principal on a timely basis. Default risk is a specific risk for each company so that it can affect the magnitude of the relationship between earnings and company stock returns (Eldest & Muslih, 2019). Uncertainty of risk will make investors more careful in making decisions about companies that have high risk. Results of research conducted (Darmawan et al., 2022) And (Goddess, 2020) proves that Default Risk affects the earnings response coefficient (ERC). However, these results are different (Eldest & Muslih, 2019) And (Fersela et al., 2021) which states that default risk has no effect on the earnings response coefficient. Besides default risk, another factor that influences the earnings response coefficient is accounting conservatism. According to Ratna (2004) accounting conservatism is a prudent reaction in the face of uncertain risks in the future. (Tjandra, 2020). The practice of accounting conservatism can be used to slow down revenue recognition, but speed up cost recognition (Savitri, 2016 in (Chandra, 2020). Results of research conducted (Aristawati & Rasmini, 2018) And (Holiawati et al., 2022) shows the results of accounting conservatism affect the earnings response coefficient. However, these results are different (Ariesta & Muhammad, 2022) that partially accounting conservatism has no effect on the earnings response coefficient.

Another factor that influences the earnings response coefficient is earnings persistence. Earnings persistence reflects the quality of the company's earnings and shows the company's ability to maintain profits from time to time, not only during certain events (NB Siregar & Maksum, 2018). The higher the company's profit, the higher the earnings response coefficient (ERC) (Jumaidi & Rijal, 2018). Research result (Agustina et al., 2022) shows that the results of earnings persistence have a significant effect on the earnings response coefficient. However, the results of these studies are different (Jumaidi & Rijal, 2018) which states that earnings persistence does not affect the earnings response coefficient. Apart from the three factors above, there are other factors that influence the earnings response coefficient, namely audit quality. High quality, relevant and reliable audited financial reports result from audits conducted effectively by qualified auditors (Elvianiet al., 2022). High quality auditors can detect acts of profit manipulation, which means that the audited income statement presents quality earnings. The more qualified the auditor, the investors will assume that the financial reports produced are of higher quality and better (Eksandy & Milasari, 2020).

The results of research conducted by (Wahyudi & Kadir, 2019) And (Sholihahet al., 2019) shows the results of audit quality have an effect on earnings response coefficient. However the research was done (Audrey & Setyarini, 2022) And (Kristanti & Almilia, 2019) The results show that audit quality has no effect on earnings response coefficient. Based on the research background, the purpose of conducting this research was to determine the effect default risk, accounting conservatism,

earnings persistence and audit quality earnings response coefficient (ERC) for non-financial companies listed on the Indonesian Stock Exchange (IDX) for 2019-2021.

2. LITERATURE REVIEW

Theoretical basis

Signal Theory

According to Suganda (2018: 15) signaling theory is a theory used to understand an action taken by management in conveying information to investors which can ultimately change investors' decisions in seeing the condition of the company. Symmetrical information is the ideal condition expected by investors (called the principal) when the company's management (agent) provides the information. Signaling theory is strongly related to the availability of information. Lack of information for outsiders will cause them to protect themselves by providing low value to the company. Companies can increase the value of the company by reducing information fraud (asymmetric information delivery). Giving signals to outsiders is one way to reduce information asymmetry. Information published as an announcement will provide a signal for investors in making decisions. The signal can be a positive signal (good news) or a negative signal (bad news). (Fauzan & Purwanto, 2017). If the signal given by the company is good news for investors, it will make the ERC value high, and if the signal given is bad news for investors, it will make the ERC value low.

Earnings Response Coefficient (ERC)

According to Scotts (2015) defines ERC is the coefficient used to measure the magnitude of stock returns in response to earnings announced by the company. According to Hardiana (2022) Earnings Response Coefficient is a reaction to the announcement of a company's earnings which shows the quality of the earnings disclosed. The high or low ERC is determined mainly by the comprehension obtained from the information contained in the company's profits. Kartadjumena (2010) states that a strong market reaction to earnings information will be reflected in the high earnings response coefficient, conversely, a weak market reaction to earnings information will be reflected in the low earnings response coefficient (ERC). (Nasibah, 2019).

Default Risk

Default risk is the company's failure to pay interest or principal on a loan in a timely manner (Fersela et al., 2021). Default risk is a risk that is specific to each company that has the possibility to affect profits and stock returns of the company (Nuriyanto et al., 2020). Default risk is something that investors pay close attention to.

Accounting Conservatism

According to Irawati et al., (2022:44) The principle of conservatism is a concept that recognizes expenses and liabilities as soon as possible even though there is uncertainty about the results, but only recognizes income and assets when it is certain that they will be received. Conservatism is a management action by anticipating no profits more quickly and recognizing losses more quickly. The practice of accounting conservatism can slow down revenue recognition but speed up cost recognition (Chandra, 2020).

Profit Persistence

Profit persistence is the company's ability to maintain its profits so that they remain stable from year to year and also to be able to predict profits in the coming year (Maulana & Triana, 2021). Earnings persistence is the current earnings capability which is expected to be able to explain future earnings reflecting the quality of the company's earnings indicating that the company can maintain its earnings from time to time. (Adam et al., 2019).

Audit Quality

According to Purba & Umar, (2021) Audit quality is the auditor's ability to detect errors in financial statements and report them to users of financial statements that adjust the audit to auditing standards. According to Sholihah et al., (2019) Audit quality is an image or good name that is obtained for a job well done by its clients in their responsibilities as an auditor. Audit quality is important to ensure the reliability of the company's financial statements and the continuity of the company.

Influence Between Variables

Effect of Default Risk on Earnings Response Coefficient

If in a market there are companies with information on high debt levels in the future, it is likely that these companies will not receive a good response from investors so that the value of the Earnings Response Coefficient will weaken. So it can be said that the higher the Default risk of a company, the

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lower the Earnings Response Coefficient will be (Ferella et al., 2021). If the default risk of a company is getting bigger, it will affect the response of investors and will reduce the ERC (Santioso et al., 2020).

Based on the description above, the research hypothesis is proposed as follows:

H1: Default risk affects the earnings response coefficient.

Effect of Accounting Conservatism on Earnings Response Coefficient

Conservative accounting principles reflect the minimum profit a company can obtain so that profits prepared using a conservative method are not exaggerated profits, so they can be considered quality profits. (Goddess, 2004) in (Marlina & Anna, 2018). Usually companies are very careful when presenting the value of company assets and profits. Companies that practice accounting conservatism as an effort to give a signal to investors that the precautionary measures that have been taken are that the information presented is relevant and reliable. This signal is then expected to be received by investors and then projected into changes in stock prices or commonly called stock abnormal returns (Holiawati et al., 2022). According to Aristawati & Rasmini, (2018) in his research stated that accounting conservatism has a positive effect on the earnings response coefficient. This means that the higher the accounting conservatism in the company, the earnings response coefficient will increase.

Based on the description above, the research hypothesis is proposed as follows:

H2: Accounting conservatism affects the earnings response coefficient.

Effect of Profit Persistence on Earnings Response Coefficient

The higher the earnings response coefficient will go in the same direction as the higher the firm's profit persistence which indicates quality earnings (Ahabba & Sebrina, 2020). So that the more persistent changes in earnings from time to time, the higher the Earnings Response Coefficient (ERC) value. This explains that the profit earned by the company can continue to increase in the future. The high market response to company profits can be reflected in the high Earnings Response Coefficient (ERC) value, where the higher the Earnings Response Coefficient (ERC) value of a company, the higher the quality of the profits generated by the company. (Chandra, 2020).

Based on the description above, the research hypothesis is proposed as follows:

H3: Earnings persistence affects the earnings response coefficient.

Effect of Audit Quality on Earnings Response Coefficient

To obtain good quality earnings information, it is necessary to have good audit quality as well. So if the company has good audit quality it will encourage investors to give a good response as well, thus making a high ERC value (Audrey & Setyarini 2022). According to research (Wahyudi & Kadir, 2019) shows that the quality of the auditor has an influence on the earnings response coefficient which indicates that the quality of the auditor is able to influence the earnings response coefficient. A qualified auditor will certainly carry out quality checks, including reported earnings (Elviani et al., 2022).

Based on the description above, the research hypothesis is proposed as follows:

H4: Audit quality has an effect on the earnings response coefficient.

Research Conceptual Framework

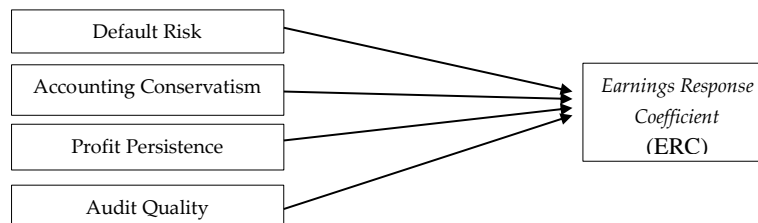


Figure 2 conceptual framework Study

3. METHOD OF IMPLEMENTATION

The object of this research is default risk, accounting conservatism, earnings persistence and audit quality on the earnings response coefficient. The research location in this study is a non-financial company listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The population in this study are all non-financial companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021 consisting of 673 companies. The sampling technique uses purposive sampling, namely the sampling method based on certain criteria.

The criteria taken in this study are as follows:

1. Non-financial company listed on the Indonesia Stock Exchange (IDX) from 2019-2021.
2. Non-financial companies that can be accessed during the observation period.
3. Non-financial companies that earn profits consecutively during the observation period.

4. Non-financial companies reporting financial statements in rupiah.
5. Non-financial companies that have complete data and meet the measurement of research variables during the observation period.

Table 1 Sample Selection Based on Criteria

No	Criteria	Total
1.	Non-financial companies listed on the Indonesia Stock Exchange (IDX) during 2019-2021	673
2.	Non-financial companies that cannot be accessed during the observation period	(142)
3.	Non-financial companies that did not earn success during the observation period	(287)
4.	Non-financial companies reporting financial statements in foreign currency	(42)
5.	Non-financial companies that have incomplete data and do not meet the measurement of research variables during the observation period	(31)
Number of Samples		171
Outliers Data		(53)
Final Sample Amount		118
Number of Observations (3 years)		354

Source: Processed Data, 2023

In this study there are 53 companies that are included in the outliers. Outliers are data that has unique characteristics that look very different from other observational data that appear at extreme values. In this study, extreme and too broad forms of data or values were eliminated from the research sample. This is because the existence of data that has extreme data can interfere with the data regression process so it must be avoided.

The type of data in this study is quantitative data in the form of secondary data which includes the annual financial reports of non-financial companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021 which can be accessed via the website www.idx.co.id and market data in the form of stock prices, company returns and market returns obtained from the site <http://finance.yahoo.com>. The data analysis method in this study is panel data regression analysis which is an analysis used to measure how much influence the independent variables have on the dependent variable. The regression equation as follows:

$$ERC = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information:

- ERC = Earnings Response Coefficient
- A = Constant
- B = Regression Coefficient
- X1 = Default Risk
- X2 = Accounting Conservatism
- X3 = Profit Persistence
- X4 = Audit Quality

Variable Operational Definition

Dependent Variable

Earnings Response Coefficient

According to Holiawati et al., (2022) *earnings response coefficient* can be measured using the slope of the coefficient in the regression of abnormal stock returns (CAR) with earnings surprise (UE). The formula for calculating ERC is as follows:

$$CAR_{it} = \alpha + \beta UE_{it} + e$$

Information:

- CAR : Cumulative abnormal returns company i in period t
- α : Constant
- B : ERC
- EU : Unexpected Earning
- e : error

Fortunately, calculating ERC requires the following steps:

- The first stage is calculating Cumulative Abnormal Return (CAR).

Cumulative abnormal returns in formulated:

$$CAR_{it(-5+5)} = \sum_{-5}^{+5} AR_{it}$$

Where:

- CAR_{it(-5+5)} : Cumulative abnormal returns company i on day t, for 11 days of observation
- Sickle : Abnormal Returns

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The steps for calculating CAR are as follows:

- 1) Calculating Abnormal Return (AR) with the formula:

$$AR_{it} = R_{it} - R_{mt}$$

Information:

AR_{it} : Abnormal return for company i on day t

R_{it} : Annual return of company i period t

R_{mt} : Return of the market index in the t-period

- 2) Calculating Abnormal Return obtained from finding daily stock returns and daily market returns, Daily stock returns can be calculated by:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

Information

R_{it} : Return of the company's stock on day t

P_{it} : The closing price of company i shares on day t

P_{it-1} : The closing price of company i's shares on day t-1

- 3) Calculating market share returns is obtained by the formula:

$$R_{mt} = \frac{IHSG_{it} - IHSG_{it-1}}{IHSG_{it-1}}$$

Information:

R_{mt} : Market return on day t

JCI_{it} : Composite stock price index on day t

JCI_{it-1} : Composite stock price index of the previous day

- The second stage is calculating unexpected earnings (EU). The following is the formula for finding unexpected earnings (EU) according to (BG Siregar, 2019):

$$UE_{it} = \frac{EPS_{it} - EPS_{it-1}}{EPS_{it-1}}$$

Information:

UE_{it} : Unexpected earnings company i in period t

EPS_{it} : Earnings per share of company i in period t

EPS_{it-1} : Earnings per share of company i in the previous period

Independent Variable

Default Risk

Default risk is the company's failure to pay interest or principal on a loan in a timely manner (Fersela et al., 2021). The Debt To Equity Ratio (DER) is also a leverage ratio that can measure a company's default risk variable to determine the company's financial health by comparing the amount of the company's total debt with the company's total equity. Default risk is formulated as follows (Fersela et al., 2021):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Accounting Conservatism

Conservatism is a management action by anticipating no profits more quickly and recognizing losses more quickly. The practice of accounting conservatism can slow down revenue recognition but speed up cost recognition (Chandra, 2020). Conservatism is calculated based on the Givoly & Hayn (2000) model, measured on an accrual basis, namely the difference between the company's profit and cash flow from the company's operating activities and then divided by the company's total assets, then multiplied by minus one (-1) with the following formula (Chandra, 2020):

$$CONACC_{it} = \frac{(\text{Net Income} + \text{Depresiasi} - \text{operating cash flow})}{\text{Total Asset}} \times -1$$

Profit Persistence

Earnings persistence is the current earnings capability which is expected to be able to explain future earnings reflecting the quality of the company's earnings indicating that the company can maintain its earnings from time to time. (Adam et al., 2019). Profit persistence is measured by using the ratio of changes in current income, namely profit before tax this year minus profit before tax for the previous year divided by total assets, formulated as follows (Adam et al., 2019):

$$PL = \frac{\text{profit before tax}_t - \text{profit before tax}_{t-1}}{\text{Total Asset}}$$

Audit Quality

According to Sholihah et al., (2019) Audit quality is an image or good name that is obtained for a job well done by its clients in their responsibilities as an auditor. Audit quality is important to ensure the reliability of the company's financial statements and the continuity of the company. Audit quality is proxied by using the size of a public accounting firm or KAP. KAP size uses a dummy variable measurement with a nominal scale measured by the formula (Sholihah et al., 2019):

KA: Score 1 for companies that use Big Four or affiliated KAP audits, and score 0 for companies that use Non Big Four KAP audits.

4. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

The results of the descriptive statistical test for the research variables can be seen in table 2 below:

Table 2 Descriptive Statistical Analysis

	ERC	DEFAULT_R...	KONSERVAT...	PERSISTE...
Mean	0.029797	0.646594	-0.015185	0.008009
Median	0.008124	0.509845	-0.005813	0.005813
Maximum	1.926898	1.989027	0.245330	0.590219
Minimum	-1.632032	0.001969	-0.482121	-0.535222
Std. Dev.	0.400903	0.461134	0.095682	0.087932
Skewness	0.253308	0.974843	-1.456979	0.546832
Kurtosis	8.158320	3.293708	8.099803	22.60571
Jarque-Bera Probability	396.2576 0.000000	57.34118 0.000000	508.8622 0.000000	5687.306 0.000000
Sum	10.54809	228.8943	-5.375352	2.835225
Sum Sq. Dev.	56.73525	75.06366	3.231741	2.729437
Observations	354	354	354	354

Source: Eviews Output 12, 2023

Based on table 2 above, the results of the dependent variable's descriptive statistics, namely the response coefficient (ERC), show the lowest (minimum) value of -1.632032. The highest value (maximum) is 1.926898. And the average value (mean) is 0.029797 and a standard deviation of 0.400903. Descriptive statistics for the independent variable default risk show a minimum value of 0.001969, a maximum value of 1.989027, an average value of 0.646594 and a standard deviation of 0.461134. Thus, the average DER ratio is < 1 which indicates that the company's default risk is low. Descriptive statistics for the independent variable accounting conservatism show a minimum value of -0.482121, a maximum value of 0.245330 and a standard deviation value of 0.095682. By obtaining an average value of accounting conservatism -0.015185 then the principles of conservatism mean the sample company is low. The descriptive statistics of the earnings persistence variable show a minimum value of -0.535222, a maximum value of 0.590219 and an average of 0.008009 and a standard deviation value of 0.087932. The average value of 0.008009 > 0 indicates that the company is persistent.

Panel Data Regression Analysis

Panel Data Regression Model Determination:

1. Chow test

Table 3 Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.285273	(117,232)	0.0548
Cross-section Chi-square	176.882982	117	0.0003

Based on table 3 above it can be seen that the value *Probability Cross-Section Chi-Square* of 0.0003. These results indicate that the value of the Probability Cross-Section Chi-Square is less than 0.05 (0.0003 < 0.05) so that the selected model is the Fixed Effect Model.

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2. Hausman test

Table 4 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	22.085802	4	0.0002

Source: EViews output 12.2023

Based on table 4, it shows that the random cross-section probability value is 0.0002. The random cross-section probability value is 0.002 less than 0.05 (0.0002 <0.05) so the best regression model used in this study is the Fixed Effect Model.

The results of the Chow test and the Hausman test show the same results, namely the Fixed Effect model, so the Langrange Multipler test (LM Test) is not necessary.

Panel Data Regression Model Results

Table 5 Results of Panel Data Regression Model Fixed Effect Model

Sample: 2019 2021
 Periods included: 3
 Cross-sections included: 118
 Total panel (balanced) observations: 354

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.568237	0.146612	3.875781	0.0001
DEFAULT_RISK	0.011854	0.150068	0.078991	0.9371
KONSERVATISME_AKUNTANSI	0.337868	0.288249	1.172138	0.2423
PERSISTENSI_LABA	0.138708	0.257754	0.538139	0.5910
KUALITAS_AUDIT	-2.156159	0.471925	-4.568862	0.0000

Source: Eviews Output 12.2023

Based on table 5 above, the regression equation results can be obtained as follows:

$$ERC = 0.568237 + 0.011854 (X1) + 0.337868 (X2) + 0.138708 (X3) - 2.156159 (X4)$$

Classic assumption test

1. Multicollinearity Test

Table 6 Multicollinearity Test Results

	DEFAULT_R...	KONSERVAT...	PERSISTE...	KUALITAS_...
DEFAULT_RISK	1.000000	0.012926	-0.090953	0.016500
KONSERVATISME_AKUNTANSI	0.012926	1.000000	-0.213008	0.137724
PERSISTENSI_LABA	-0.090953	-0.213008	1.000000	0.004677
KUALITAS_AUDIT	0.016500	0.137724	0.004677	1.000000

Source: EViews output 12.2023

Table 6 above shows that the correlation value between the independent variables (default risk, accounting conservatism, earnings persistence and audit quality) is less than 0.80. Thus, it can be concluded that there is no multicollinearity problem between the independent variables.

2. Heteroscedasticity Test

Table 7 Heteroscedasticity Test Results-Glejser

Heteroskedasticity Test: Glejser
 Null hypothesis: Homoskedasticity

F-statistic	0.386804	Prob. F(4,349)	0.8181
Obs*R-squared	1.562457	Prob. Chi-Square(4)	0.8155
Scaled explained SS	2.764351	Prob. Chi-Square(4)	0.5980

Test Equation:
 Dependent Variable: ARESID
 Method: Least Squares
 Date: 03/23/23 Time: 21:18
 Sample: 1 354
 Included observations: 354

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.246453	0.031539	7.814289	0.0000
DEFAULT_RISK	-0.007919	0.037449	-0.211462	0.8327
KONSERVATISME_AKUNTANSI	0.022098	0.185811	0.118927	0.9054
PERSISTENSI_LABA	-0.221351	0.201086	-1.100776	0.2718
KUALITAS_AUDIT	-0.017606	0.039990	-0.440259	0.6600

Source: Eviews Output 12, 2023

Based on the Glejser test results in table 7, it is known that the probability value of the default risk variable is $0.8327 > 0.05$. The probability value of accounting conservatism is $0.9054 > 0.05$. The probability value of profit persistence is $0.2718 > 0.05$ and the probability value of audit quality is $0.6600 > 0.05$. So it can be concluded that the data does not occur heteroscedasticity.

**Hypothesis test
t test (Partial Test)**

Table 8 T test results

Sample: 2019 2021
 Periods included: 3
 Cross-sections included: 118
 Total panel (balanced) observations: 354

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.568237	0.146612	3.875781	0.0001
DEFAULT_RISK	0.011854	0.150068	0.078991	0.9371
KONSERVATISME_AKUNTANSI	0.337868	0.288249	1.172138	0.2423
PERSISTENSI_LABA	0.138708	0.257754	0.538139	0.5910
KUALITAS_AUDIT	-2.156159	0.471925	-4.568862	0.0000

Based on table 9 above, the results of the t test can be concluded as follows:

1. The t-count value of the default risk variable is 0.078991 and the t-table value is 1.649 which indicates that $0.078991 < 1.967$ and a significance level of 0.9371 so that it can be concluded that default risk has no significant effect on the earnings response coefficient (ERC), so that H1 is rejected.
2. The t-count value of the accounting conservatism variable is 1.172138 and the t-table value is 1.649 which indicates that $1.172138 < 1.967$ and a significance level of 0.2423 so that it can be concluded that accounting conservatism has a not significant positive effect on the earnings response coefficient (ERC). so that H2 is rejected.
3. The t-count value of the earnings persistence variable is 0.538139 and the t-table value is 1.649 which indicates that $0.538139 < 1.967$ and a significance level of 0.5910 so that it can be concluded that earnings persistence has a not significant positive effect on the earnings response coefficient (ERC). so that H3 is rejected.
4. The t-count value of the audit quality variable is -4.568862 and the t-table value is -1.649 which indicates that $-4.568862 < -1.967$ and a significance level of 0.0000 so that it can be concluded that audit quality has a negative and significant effect on the earnings response coefficient (ERC), so that H4 is accepted.

Effect of Default Risk on Earnings Response Coefficient

Based on statistical results, the coefficient value of the default risk variable is positive, which is equal to 0.011854 which indicates a unidirectional relationship. This is possible for companies with high debt levels to indicate that companies can use their assets at a rate of return that is higher than their debt so that companies can increase profits. However, this is contrary to the theory that default risk should have a negative relationship where if default risk increases, it will make the value of the earnings response coefficient decrease, so it can be concluded that the higher the company's DER is not followed by a decrease in the earnings response coefficient. And a significance value of $0.9371 > 0.05$ so that H1 is rejected. The results of the study show that the company's default risk is not a factor that is considered important by investors in making investment decisions. High or low default risk owned by the company is not able to influence the earnings response coefficient. This is because default risk information is only addressed to creditors and is the responsibility of management, so that good news on profits generated by the company will be used to pay debts to creditors rather than investors. So that investors judge that the profit reported by the company cannot describe the profit that will be obtained in the future. Therefore, investors prefer not to respond to the company's default risk level related to earnings information.

The results of this study are in line with the research conducted(Santioso et al., 2020)And(Fersela et al., 2021)which shows the default risk results do not affect the earnings response coefficient. As well as research conducted(Tania, 2018)also shows that default risk has no effect on the earnings response coefficient. Companies with a high level of risk are certainly avoided by the market, even though the default risk as measured by DER shows low results, but it turns out that this also does not affect the earnings response coefficient.

Effect of Accounting Conservatism on Earnings Response Coefficient

Based on statistical results, the coefficient value of the accounting conservatism variable is positive, which is equal to 0.337868 which indicates a unidirectional relationship between accounting conservatism and earnings response coefficient, where if conservatism increases, earnings response

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coefficient also increases and if conservatism decreases, earnings response coefficient also increases. decrease. However, the significance value shows 0.2423 where the value is greater than 0.05 and H2 is rejected, so it is concluded that accounting conservatism has a not significant positive effect on the earnings response coefficient (ERC). The results of the study show that the principle of corporate accounting conservatism is not the main factor influencing investors' decision making. Although accounting conservatism has a positive but not significant relationship. This is because investors do not understand how conservative accounting principles are, so they decide to buy shares of a company based on other factors. It should be noted that accounting conservatism is an action taken by management using the principle of slowing down revenue recognition, accelerating cost recognition, increasing debt valuation and lowering asset valuation.(Chandra, 2020). So that investors do not really know whether or not the principle of accounting conservatism exists in the company.

This is in line with research conducted by(Aritonang & Ariefianto, 2022)which states that the use of accounting conservatism principles has not been able to influence investors' decisions because investors do not see accounting conservatism as an investment appraisal and investors prefer companies that provide information on actual financial conditions. As well as research conducted(Irwan & Cahyaningsih, 2020)which states that accounting conservatism has no effect on the earnings response coefficient (ERC).

Effect of Earnings Persistence on Earnings Response Coefficient

Based on the statistical results, the coefficient value of the earnings persistence variable is positive, which is equal to 0.138708 which indicates a unidirectional relationship between earnings persistence and earnings response coefficient where if earnings persistence increases, the earnings response coefficient also increases and if earnings persistence decreases, the earnings response coefficient also decreased. However, a significance value of 0.5910 where the value is greater than 0.05 and H3 is rejected, so it is concluded that earnings persistence has a not significant positive effect on the earnings response coefficient (ERC). These results indicate that earnings persistence is not a factor in determining market response. Earnings persistence reflects the quality of the company's earnings which shows that the company is able to maintain its profits from time to time(NB Siregar & Maksun, 2018). Although earnings persistence has a positive but not significant relationship. This is because there is a transitory component in earnings which causes earnings to be less relevant for measuring the earnings response coefficient. The transitory component is a component that only affects profit in the year concerned, but does not affect the future. Suppose there is an increase in profits caused by the sale of fixed assets or the termination of a business activity. For investors there is no reason to expect profits like this to be repeated in the future. So it is not responded by investors.

This also shows that changes in profits that occur in the company are considered normal by investors. Because most investors see current or present profits compared to future profits, even though the company has shown positive (persistent) earnings persistence for the future. This is in line with research conducted by(Jumaidi & Rijal, 2018)And(Utami & Yudowati., 2021)which states that earnings persistence does not affect the earnings response coefficient (ERC).

Effect of Audit Quality on Earnings Response Coefficient

Based on the statistical results, the coefficient value of the audit quality variable is negative, namely -2.156159 which indicates that if audit quality increases, the earnings response coefficient will decrease and if audit quality decreases, the earnings response coefficient will increase. And a significance value of 0.0000 where the value is smaller than 0.05 and H4 is accepted, that audit quality has a negative and significant effect on the earnings response coefficient (ERC). These results indicate that audit quality is able to influence the earnings response coefficient (ERC). In this study, audit quality provides a value that can reduce or reduce the earnings response coefficient. This decrease occurred because companies that were audited by the big four KAPs would continuously receive negative responses from investors. Investors will assume that companies that use KAP big four will incur a larger burden so that they can reduce the profit allocation owned by the company. A decrease in the allocation of company profits will certainly have an impact on the results that will be received by investors, so that the dividends that will be distributed will be reduced and result in a decrease in the earnings response coefficient (ERC).

The results of this study are in line with research conducted by(Wahyudi & Kadir, 2019)which states that audit quality has a negative and significant effect on earnings response coefficient (ERC) and research(Sholihahet *al.*, 2019)with the results of audit quality affecting the earnings response coefficient (ERC).

5. CONCLUSIONS AND SUGGESTIONS

Based on testing of the research results that have been carried out above regarding the effect of default risk, accounting conservatism, earnings persistence and audit quality on earnings response coefficient (ERC) in non-financial companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021, it is concluded that default risk does not have a significant effect on the earnings response coefficient (ERC), accounting conservatism and earnings persistence have a not significant positive effect on the earnings response coefficient (ERC) and audit quality has a negative and significant effect on the earnings response coefficient (ERC). It is recommended for further research to develop other variables that are considered to influence the earnings response coefficient such as Corporate Governance, Intellectual Capital, Sustainability Reporting, Profit Growth, Capital Intensity or other variables that can affect ERC. Because the independent variables in this study were only able to influence the dependent variable by 8%. And can add a longer observation period.

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