

Does CSR Affects Earnings Announcements?

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ABSTRACT

This study examines the effect of corporate social responsibility (CSR) disclosure, beta, and growth on earnings announcements in manufacturing sector companies listed on the Indonesia Stock Exchange. The sample was selected using the purposive sampling method during the 2018-2020 period. Using multiple linear regression analysis, this study found that the wider the corporate social responsibility (CSR) disclosure, the lower the investor's reaction. Investors increase their reaction to companies that have a high systematic risk. Companies that have high growth will cause high investor reactions to earnings announcements. Company size significantly increases market reaction. Moreover, profitability is not a signal for investors to invest.

Keywords: CSR, Systematic Risk, ERC.

1. INTRODUCTION

Profit information submitted by the company is a reference for investors to invest because positive and negative profits obtained from the company's income statement will affect stock returns. Accounting profit is closely related to the company's valuation, represented by stock prices. The Earnings Response Coefficient (in the future referred to as ERC) is defined as the effect of each dollar of unexpected earnings on stock returns. It is usually measured by the slope coefficient in abnormal stock returns and unexpected earnings (Cho and Jung: 1991). This coefficient measures the response of stock prices or equity market value to the information in accounting earnings. The low ERC indicates that earnings are less informative for investors to make an economic decision. Every event in the capital market will cause a reaction from market participants, one of which is an earnings announcement. The market will react, which can be seen from the movement of shares. Every increase in profit is only sometimes followed by a positive change in stock prices, namely an increase in stock prices. On the contrary, when profits experience a decrease in profits, the stock price does not always decrease. This condition indicates that investors need information about the company's financial condition, profit information, and other information (Mulyani et al., 2007). The value of ERC has decreased along with the decrease in people's attention to the value of profit and more attention to other factors outside of profit.

According to Sidik (2019) on CNBC Indonesia, PT Kedawung Setia Industri Tbk (KDSI) posted a net profit of Rp. 76.76 billion in 2018, an increase of 11.32% compared to Rp's same period in 2017. 68.96 billion. The increase in net profit is different from the company's share price movement, which corrected 2.98% at Rp 1,140/share level. The article shows that a strengthening share price only sometimes follows increased profits, and a decrease only sometimes follows losses in stock prices. Investors may have other considerations apart from the value of profits to determine investment decisions. This incident became the impetus to examine what factors affect ERC.

Several factors that influence the behavior of earnings response coefficients are CSR (Lang and Lundholm: 1993), systematic risk or BETA (Collins & Kothari, 1989; Lipe, 1990), growth (Collins & Kothari, 1989), firm size (Collins & Kothari, 1989). and Rayburn, 1987; Easton and Zmijewski, 1989) and Leverage (Dhaliwal et al, 1991). This study aims to develop previous research on the effect of CSR, BETA, and growth opportunities on earnings announcements using data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020 as a research sample.

2. THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Signalling Theory

The signaling theory originated from "The Market for Lemons," which introduced asymmetric information. This theory found that when buyers have no information related to product specifications and only have a general perception of the product, buyers will value all products at the same price, whether the product is the same or not. High-quality or low-quality, to the detriment of sellers of high-quality products (Akerlof, 1970). The condition in which one of the parties conducting a business transaction has more information than the other party (the buyer) is called adverse selection (Scott, 2009). According to Akerlof (1970), adverse selection can be reduced if sellers communicate their products by giving signals in the form of information about the quality of the products they have. Akerlof's (1970) thinking was developed by Spence (1973) in the basic equilibrium signaling model. Spence (1973) illustrates the job market and suggests that superior-performance companies use financial information to send signals to the market. From his research, Spence (1973) also found that the cost of a signal on awful news is higher than good news and that companies with awful news send signals that are not credible. This signal motivates managers to disclose private information to reduce information asymmetry to send a good signal (good news) about the company's performance to the market.

CSR and ERC

Disclosing CSR can encourage investor confidence that the company has provided services to the environment, which reduces the risk of being sued by the company due to actions that damage the environment and increase the company's going concern, which will give a good signal. By issuing CSR, the company provides information that the company has more income that can be used to carry out CSR and can also prosper investors. Investors are interested in investing in companies that increase the level of ERC. CSR disclosure has a significant negative effect on ERC, meaning that the more comprehensive CSR disclosure, the lower the market response to earnings announcements. (Sayekti & Wondabio: 2007; Kusumawardhani & Nugroho: 2010; Siregar: 2018)) According to Rahayu and Kartika (2017), if the company discloses CSR widely, the expected return will decrease because the allocation of CSR funds taken from company profits is too large. On the other hand, CSR has a significant positive effect on ERC. The more comprehensive the CSR disclosure, the higher the market response to earnings announcements (Albra & Fadila: 2017; Kurnia et al.: 2019). Indriaty and Tania (2018) argue that companies that disclose CSR will have a high level of sustainability because companies are concerned with profit and prioritize the welfare of society and nature. Wulandari and Wirajaya (2014) argue that CSR does not affect ERC. CSR is not attractive to investors because investors are more concerned with the company's financial performance than CSR disclosure (Kristanti & Almilia, 2019). Based on previous research, the first hypothesis is:

Ha1: Corporate Social Responsibility affects The Earnings Response Coefficient.

BETA and Earnings Response Coefficient

Systematic risk is inherent and must be faced when investors make investments. Systematic risk cannot be avoided by diversifying such as interest rates, government policies, inflation, and others. As a systematic risk, BETA has a significant negative effect on ERC. The higher the level of systematic risk, the lower the level of ERC (Mulyani and Asyik: 2007; Suardana and Dharmadiaksa: 2018). Awawdeh et al. (2020) argue that the type of investor who does not like risk will reduce his interest in companies with a high risk.

On the other hand, systematic risk has a significant positive effect on ERC. The higher the level of systematic risk, the higher the level of ERC (Kurniawati & Dwimulyani, 2018). Investors who invest in the short term do not pay much attention to market risk when earnings are announced, so the higher market risk is not considered a bad signal for investors (Kurniawati & Dwimulyani, 2018). Basuki et al. (2017) and Rahayu and Kartika (2017) argue that systematic risk does not affect ERC. Investors need more information about systematic risk, so beta as a systematic risk can not be used to make investment decisions (Fauzan and Purwanto: 2017). Based on previous research, the first hypothesis is:

Ha2: BETA affects The Earnings Response Coefficient.

Growth Opportunity and Earnings Response Coefficient

If a company gets a high profit, then that profit can be used to invest in company assets (Scott, 2015, p. 167). Growth opportunities are the company's ability to manage funds by investing these funds in certain areas within the company with the hope of getting profits in the future. Growth opportunities have a significant positive effect on ERC, meaning that the higher the level of growth opportunities, the higher the market response to earnings announcements (Indriaty and Tania: 2018; Kusuma and Subowo: 2018; Suharja and Ardiansya: 2019). Companies with high growth opportunities will potentially earn profits in the future (Suardana & Dharmadiaksa, 2018). On the other hand, the opportunity to grow significantly negatively affects ERC. The higher the level of opportunity for growth, the lower the level of ERC (Kurniawati and Dwimulyani: 2018; Kristanti and Almilia: 2019). Companies with high growth rates usually have low dividend rates (Widiatmoko & Indarti, 2018). It happens because the company's profits will be focused on developing the company rather than the welfare of investors. Imroatussolihah (2013) and Fitriah (2020) prove that growth opportunities do not affect ERC. Based on previous research, the first hypothesis is:

Ha3: Opportunity To Grow affects The Earnings Response Coefficient.

3. RESEARCH METHODS

This article is a quantitative study, with the research sample being manufacturing companies listed on the Indonesian stock exchange for the 2018-2020 period. The sampling method used in this study is a purposive sampling method that uses the criteria for taking research samples. The criteria used in this research are consistently being listed on the Indonesia Stock Exchange (IDX), issuing financial reports ending on December 31, using Rupiah currency, generating positive profits, and not doing stock splits or reverses. This study used panel data consisting of 111 firm years of data.

4. MEASUREMENT OF VARIABLES

Earning Response Coefficient (ERC)

According to Rahayu and Kartika (2017), the value of the earning response coefficient is the regression coefficient between the proxies of market reactions as measured by cumulative abnormal returns (CAR) and proxies of profits as measured by unexpected earnings (EU). The CAR measurement is calculated for 15 months daily, from January 1, 2018, to March 31, 2019, and uses a ratio scale following the research of Sayekti and Wondabio (2007) with the following formula:

- a) Earnings Response Coefficients (ERC):

$$CAR_{it} = \beta_0 + \beta_1 UE_{it} + \varepsilon$$

where:

CAR_{it} = Cumulative abnormal return of a company i in period t

β₀ = Constant

β₁ = Coefficient of regression results (ERC)

UE_{it} = Unexpected earnings of a company i in period t

ε = error

- b) To find the value of the CAR, the calculations used are:

$$CAR_{it} = \sum AR_{it}$$

where:

CAR_{it} = Cumulative abnormal return of a company i in period t

AR_{it} = Abnormal return of a company i in period t

- c) The abnormal return value is obtained from:

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

where:

AR_{it} = Abnormal return of a company i in period t

R_{it} = Stock Return of a company i in period t

RM_{it} = Market Return pasar of a company i in period t

- d) Company Stock Return is obtained from:

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

where:

R_{it} = Stock Return from a company i on day t

CP_{it} = Closing price from stock i on day t

CP_{it-1} = Closing price from stock i on day t-1

- e) Market Return is obtained from:

$$RM_{it} = \frac{IHSG_{it} - IHSG_{it-1}}{IHSG_{it-1}}$$

where:

RM_{it} = Market Return from a company i on day t

IHSG_{it} = Composite stock price index on day t

IHSG_{it-1} = Composite stock price index on day t-1

f) Unexpected earnings is obtained from:

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

Dimana:

- UE_{it} = Unexpected earnings of a company i in period t
 EPS_{it} = Earnings per share of a company i in period t
 EPS_{it-1} = Earnings per share of a company i in period t-1
 P_{it-1} = The share price of company i at the end of period t-1

Corporate Social Responsibility

Companies carry out corporate social responsibility disclosure to inform the public and the government that the company has contributed to the environment. CSR information is viewed from the annual report and compared with the Global Reporting Initiative (GRI) standards. The guide used is GRI G4, with the number of items used 91 items. The formula used using a ratio scale according to the procedure of Kristanti and Almilia (2019):

$$CSRI = \frac{\sum X_{ij}}{n_j}$$

where:

- $CSRI$ = Corporate social responsibility disclosure index of a company j
 X_{ij} = Dummy variable: 1 = if item i is disclosed, 0 = if item i is not disclosed
 n_j = The number of items disclosed by the company j, $n_j \leq 91$

BETA

It is calculated using the same period as the CAR, which is 15 months. The formula used using a ratio scale following Awawdeh et al. (2020), namely:

$$R_{it} = \beta_0 + \beta_1 R_{mt} + \varepsilon$$

where:

- R_{it} = Stock Return of a company i in period t
 β_0 = constant
 β_1 = Systematic Risk (BETA)
 R_{mt} = Market Return of a company i in period t
 ε = error

Growth Opportunity

Opportunity to grow is measured by a ratio scale using the market-to-book ratio formula following Awawdeh et al. (2020), namely:

$$MTBR \text{ (Market to Book ratio)} = \frac{\text{Market Value}}{\text{Book Value}}$$

Control Variables

There are two control variables, namely Company Size and Profitability. Proxy Size to equalize the total assets of each company, then use the natural logarithm of total assets. While Profitability is measured using a ratio scale by calculating return on assets.

5. RESULT

Table 1 describes the descriptive statistics of this study. This table shows the score of each variable's maximum, minimum, and standard deviation values and the interaction value of each variable with unexpected earnings.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CAR	111	3.778	6.374	4.619	0.415
Unexpected Earnings	111	-0.238	0.529	0.007	0.076
CSR	111	5.208	80.804	30.693	15.451
Systematic Risk	111	-0.769	1.729	0.455	0.574
Growth	111	0.070	82.444	3.401	10.502
UE_CSR	111	-7.224	30.924	0.322	3.347
UE_SR	111	-0.088	0.149	0.007	0.032
UE_Growth	111	-0.850	1.965	0.021	0.211
Leverage	111	0.125	2.655	0.628	0.469
UE_Lev	111	-0.126	0.760	0.009	0.080
Size	111	25.796	33.474	28.667	1.827
UE_Size	111	-6.769	14.734	0.223	2.110
Valid N (listwise)	111				

Source: Eviews output

The test results in this study are listed in Table 2 as follows:

Table 2. Results		
Variable	Model 1	Model 2
C	4.864600 (0.0000)	33.70219 (0.0001)
UNEXPECTED_EARNINGS	3.258246 (0.0101)	-17.45439 (0.2250)
CSR_D	-0.012384 (0.0568)	-0.003885 (0.5397)
SYSTEMATIC_RISK	0.128952 (0.2147)	0.105345 (0.2714)
GROWTH	0.012632 (0.2975)	0.018444 (0.1589)
SIZE		-1.009843 (0.0007)
LEVERAGE		-0.248724 (0.2786)
UE_CSRD	-0.070456 (0.1232)	-0.019039 (0.7208)
UE_SR	4.472631 (0.0242)**	3.454364 (0.0690)*
UE_GROWTH	-0.144805 (0.7903)	-0.115286 (0.8241)
UE_SIZE		0.728915 (0.1686)
UE_LEV		-1.139662 (0.4523)
Adjusted R-squared	0.440156	0.526942
*sig $\alpha=10\%$; ** sig $\alpha=5\%$; *** sig $\alpha=1\%$		
Source: eviews output		

Model 1 looks at CSR, Systematic risk, and growth's effect on ERC. While model 2 adds control variables, namely firm size and Leverage. Based on table 2, it can be seen that there is an increase in adj R2, namely the factors that affect ERC from Model 1 and Model 2. Model 1 influences ERC's CRS, systematic risk, and growth opportunity by 44.01%, while other factors outside the model influence the rest. In model 2, when entering the control variable, the adj r2 increases. It means that 52.79% of ERC is influenced by variables in model 2, while other factors outside the model influence the rest.

The interaction between unexpected earnings and corporate social responsibility (UE_CSRD) on cumulative abnormal returns (CAR) is consistently insignificant in model 1 and model 2. Thus, Ha1 is rejected, meaning corporate social responsibility does not affect ERC. According to Hidayati & Murni (2009), several things that cause CSR disclosures do not affect ERC, one of which is that investors need to trust CSR reports disclosed by management. Silalahi (2014) argues that investors are generally oriented toward short-term performance, while CSR shows medium and long-term performance. Hidayati & Murni (2009) stated that investors only buy shares for trading (not holding shares for a long time). Therefore, investors do not consider the disclosure of CSR information. Every exposure provided by the company requires a large enough cost to reduce the company's profit which will reduce the profit earned by investors (Sayekti and Wondabio: 2007; Rahayu and Kartika: 2017; Siregar: 2018). The more comprehensive CSR disclosure is the possibility that increasing investor concerns about the use of company profits allocated to fund CSR will reduce the returns investors will get (Rahayu and Kartika: 2017). This study shows that investors need to be proven to appreciate CSR well and are not used as a basis for making investment decisions. As one of the stakeholders, investors need to be given more facilities for information about the company's social and financial activities that will impact the response to earnings announcements.

Table 2 shows that systematic risk (UE_SR) consistently affects ERC (in model 1 and model 2). Thus, Ha2 is accepted. The higher the systematic risk, the higher the market response to earnings announcements. Beta is estimated by the market model, where this risk cannot be eliminated by diversifying the formation of an asset portfolio. Investors who are risk-takers will increasingly react to stocks that have high risk because they hope to get a significant return (Kurniawati & Dwimulyani, 2018).

Growth Opportunity (UE_GROWTH) is not proven significantly affect ERC (Model 1 and Model 2). It indicates that ha3 is rejected. This result is in line with Imroatussolihah (2013) and Fitriah (2020). It is likely because growth opportunities are associated with dividends (Widiatmoko & Indarti, 2018). Companies with high growth opportunities need high funds for the company's operational development by investing in fixed assets and not being distributed to shareholders in the form of dividends.

Firm size has been shown not to affect the market reaction. It shows the interaction between unexpected income and firm size (UE_SIZE) on the cumulative abnormal return (CAR) in model 2. Large companies, in general, will disclose more information than small companies so that investors can use this information in making investment decisions. However, this is insignificant because investors only consider the economic value in their short-term analysis of stocks. The relationship between leverage and investor reactions in the capital market can be seen in the interaction between unexpected income and Leverage (UExLEV) on the cumulative abnormal return (CAR) in model 2. That means that Leverage does not affect ERC. It shows that the company will not give a good signal to investors that the company is in good condition, which results in no market reaction to its leverage value. Investors are more concerned with current economic conditions (Sasongko et al., 2020).

6. CONCLUSION

This study concludes that investors do not react to CSR disclosure, although it indicates that investors appreciate CSR information. CSR disclosure is more than necessary to convince investors because provides more long-term than short-term benefits, while Indonesian investors tend to buy shares for short-term trading rather than long-term holding (Hidayati & Murni, 2009). Investors tend to use CSR information for making investment decisions if the company announces CSR information without earnings information. If CSR information is disclosed with other information, investors' reactions to CSR information reduce the relevance earnings information. Beta as a systematic risk factor is shown to attract market reactions. Company growth and firm size are found to be insignificant in affecting ERC, even though larger companies have more information to convey to investors. Moreover, investors' reactions are not influenced by leverage information.

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