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The Influence of Financial Performance, Company Size, and Capital Structure on the Earnings Response Coefficient with Corporate Social Responsibility as a Moderating Variable

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Abstract

This study aims to examine how financial performance, firm size, and capital structure influence the Earning Response Coefficient (ERC). Additionally, it investigates the Importance of Corporate Social Responsibility (CSR) as a significant influencing factor within this framework. The focus of this analysis is on banking companies that are listed on the Indonesia Stock Exchange (IDX) during the period from 2021 to 2023. The sample for this study includes 39 banking institutions, and data was collected from their annual financial and sustainability reports available on the IDX website. The findings indicate that financial performance and company size negatively impact ERC, whereas capital structure has a positive impact on ERC. However, CSR does not significantly influence the financial performance of ERC. Additionally, company size does not appear to affect ERC. Instead, CSR strengthens the ERC, and it weakens the effect of capital structure on the ERC. For further research, they can add other variables, such as company growth and timeline. Expanding the sample and adding a research period will provide more comprehensive results.

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Introduction

Corporate finance reporting is important for investors and creditors, especially regarding profit information. Profit is measured to assess the company's success and prospects in the market, as well as returns for investors. However, not all profits are well received because the quality of profit information varies. Profit manipulation by management can reduce its quality (El Kavi & Amin, 2024). Profit information is used to evaluate company performance, estimate future profit potential, and predict cash flow. Companies can choose accounting methods that affect the quality of earnings, so a deep understanding of financial statements is essential for users (Kurniawan & Aisah, 2020).

Investors like companies that show high profits, as this leads to higher dividends and more willingness to invest. Company managers should share honest and accurate profit information. Some managers, however, commit fraud by changing financial statements due to pressure to show good profits (Septiano et al., 2022).

The phenomenon stated in this study is the market reaction to business information, especially in the context of banking companies in Indonesia. This study emphasizes how customer financial reports and embezzlement reports can affect investor and creditor awareness of company performance. This industry serves as the research object, specifically the banking sector, where actual cases like Bukopin Banque are experiencing financial difficulties and manipulating financial reports.

In 2018, CNN Indonesia reporter Banjarnahor (2018) stated that Bank Bukopin had to fix its financial report from 2015 to 2017 due to indications of manipulation related to credit cards. This manipulation caused unreasonable commission income, which changed the 2016 net profit to Rp185.56 billion, down from Rp1.08 trillion. The provision for financial asset losses was also revised to Rp797.65 billion. Its equity was changed to Rp6.91 trillion. This case came to the attention of OJK and BEI three years later, showing that this problem could escape supervision.

From this phenomenon, market response is not only influenced by the company's profits. Financial specialists do not, as seen, create choices based on the rate of return. Other variables also impact their choices. One way to see the showcase reaction to profit data is through the Profit Reaction Coefficient (ERC). ERC shows that a photo solidifies the relationship between profit and stock returns, highlighting the difference in how market participants respond to profit announcements. This relationship is called the Profit Reaction Coefficient (ERC) (Nasriani et al., 2023).

Previous studies have explored the relationship between profit, earnings, company scale, capital structure, and corporate social responsibility (CSR) using the earnings feedback coefficient (ERC). For example, studies by Wahasusmiah and Indriani (2022) show that profits affect ERC, while other studies, such as Cantyawati Dewi (2021), show the opposite. Research by Nataliantari et al. (2020) indicates that company size affects ERC, whereas Lasmida and Ekadjaja (2020) found no significant impact. This study also mentions research showing that CSR affects ERC, as stated by Immanuel Prabowo (2021), but also notes that several other studies have found this effect. Therefore, this study seeks to fill the space in existing documents by exploring the factors that affect ERC within insurance companies in Indonesia.

Several components affect ERC, one of which is financial performance. Financial performance measures the company's capacity to create profits from transactions, resources, and share capital. High-profit values indicate good company performance in generating profits. Investors and clients tend to pay more for products from companies that actualize ERC well, thereby increasing productivity. Research by Wahasusmiah and Indriani (2022); Qoys et al. (2023); Zuhdi et al. (2024) indicates that financial performance affects ERC. However, studies by Cantyawati and Dewi (2021); Angela Iskak (2020); and Hakim et al. (2023) indicate that financial performance has no impact on ERC.

Firm size can be a key factor affecting ERC, specifically the size of a company based on its resources. Companies with larger resources tend to have better earnings quality, better data access, better opportunity expansion, better execution stability, and better stock liquidity. These components increase investor confidence and ERC value. Research of Nataliantari et al. (2020); Rahmawati et al. (2021); Okalesa et al. (2022) states that firm size affects ERC. Meanwhile, research of Lasmida and Ekadjaja (2020); Apriani and Mutumanikam (2021); Sa'diyah et al. (2023) states that firm size does not affect ERC.

Capital structure affects ERC, functioning as a company's financial framework. The optimal capital structure combines long-term debt and equity in a way that maximizes the company's value while ensuring financial stability. The primary source of funding comes from the combination of debt and equity and must consider environmental, social, and governance factors. Integration of ERC principles into capital structure strategies can support sustainable growth and increase investor confidence. The study of Darmawan (2022); Fransiska, (2023); Manurung et al. (2023) stated that capital structure influences ERC. However, studies by Rahmawati Asyik (2020), Rachma (2022), and Qoys et al. (2023) indicate that capital structure does not impact earnings response coefficients (ERC).

CSR has become an important need in the modern era, not just a trend. Companies that ignore social and environmental responsibility risk being left behind, as consumers and investors today increasingly favor those committed to sustainability and community welfare (Prihatiningrum & Ayem, 2021). ERC encourages companies to integrate environmental, social, and governance (ESG) considerations into their strategies and operations. This approach to corporate social responsibility (CSR) seeks to create lasting value for both the company and its stakeholders. Research of Immanuel and Prabowo (2021); Baskoro et al., (2021); Aprilia and Rahayu (2023) states that CSR affects ERC. However, research by Nuriyanto et al. (2020) and Noegroho et al. (2023) states that CSR does not affect ERC.

Given the inconsistency of previous research findings, this study aims to explore how these variables interact and affect ERC and how CSR can moderate the relationship. This study aims to offer a more in-depth understanding of the factors that shape market responses to earnings information within the banking sector.

The main distinction between this study and prior research is that it focuses on the insurance sector in Indonesia and adds CSR as a moderating variable. Previous research has primarily concentrated on independent variables like audit quality and investor protection. In contrast, this study redirects its focus to financial performance, company size, and capital structure. In addition, this study also emphasizes the importance of CSR in the modern context, where companies are expected to focus not only on profit but also on social responsibility and sustainability. Thus, this study provides a new perspective that is relevant to current developments in the world of business and finance.

This study provides new insights into the relationship between financial performance, firm size, capital structure, and CSR in Indonesian insurance companies. It provides empirical evidence that is useful to help investors and creditors better understand the factors that shape investment decisions. CSR is considered important to increase investor and other stakeholder trust, as well as its impact on firm performance. This study also fills a gap in the existing literature by adding new insights into how insurance companies can improve market responsiveness through good earnings management and social responsibility.

This study contributes both theoretically and practically. Theoretically, this study extends the literature on ERC by including CSR as moderation and testing the consistency of ERC determinants in the insurance sector. While practically, this study provides guidance for investors and analysts in assessing earnings quality and the impact of CSR on firm value.

Literature Review

Hypothesis Development

The Influence of Financial Performance on Earning Response Coefficient (ERC)

Legitimacy theory suggests that organizations strive to function within the established norms and values of their societies. When a company achieves high profitability, it signals to stakeholders that it is performing effectively, thereby enhancing its credibility in the eyes of the public. As Aisyah Juardi (2023) suggests, companies with high profits are likely to attract positive reactions from shareholders, leading to increased stock prices. This aligns with the findings of Assagaf and Tyas (2021); Septiano et al. (2022); Rialdy and Lubis (2024), and others, indicating that profitability is a significant determinant of ERC. The positive correlation between profitability and ERC can be attributed to the market's perception of a company's operational efficiency and its potential for future growth. So, it can be concluded that the hypothesis is as follows:
H1: *Profitability influences the Earning Response Coefficient (ERC)*

The Effect of Firm Size on the Earning Response Coefficient (ERC)

Signaling theory explains how companies communicate their quality and performance to the market. Larger firms typically have more resources and provide more comprehensive information, which can lead to stronger signals regarding their financial health (Pambudi et al., 2022). This is supported by research Wahasusmiah and Indriani (2022); Lafasya et al. (2023); Sakinah and Putra (2024); Kamila and Ilmiani (2024) indicating that larger companies often exert a more pronounced influence on the market. Thus producing the following hypothesis:
H2: *Company size affects the Earning Response Coefficient (ERC)*

The Effect of Capital Structure on the Earning Response Coefficient (ERC)

The trade-off theory of capital structure proposes that companies weigh the advantages of debt, such as tax shields, against the potential costs associated with financial distress. By carefully structuring their capital mix, firms can increase their overall value and bolster investor confidence (Linda et al., 2024). Companies with lower debt levels are often perceived as more stable, which can lead to a more favorable market response to earnings announcements. This relationship is supported by the findings of Kusumawati et al., (2021); Manurung et al. (2023); Oktaviani and Wirianata (2024), indicating that capital structure significantly influences ERC. Thus producing the following hypothesis:
H3: *Capital structure affects the Earning Response Coefficient (ERC)*

CSR as a Moderator of Financial Performance and ERC

Agency theory addresses the conflicts of interest between stakeholders, particularly between managers and shareholders. High profitability can enhance a company's CSR initiatives, which in turn can improve transparency and reduce information asymmetry (Safitri et al., 2021; Lestari et al., 2023; and Ardiyani et al., 2024). By engaging in CSR, companies can signal their commitment to ethical practices, which can positively impact market responses to their financial performance. The moderation effect of CSR on the profitability-ERC relationship suggests that companies that effectively communicate their CSR efforts may experience a stronger positive market response to earnings announcements. The conclusions to draw are:
H4: *Corporate Social Responsibility (CSR) can influence the connection between profitability and the Earning Response Coefficient (ERC)*

CSR as a Moderator of Firm Size and ERC

Stakeholder theory highlights the significance of considering the interests of all stakeholders in corporate decision-making. Larger companies typically possess greater resources to invest in corporate social responsibility (CSR) initiatives, which can strengthen their reputation and improve relationships with stakeholders (Kusumawati et al., 2021; Manurung et al., 2023; Oktaviani & Wirianata, 2024). This can lead to a more favorable market response to earnings announcements, as stakeholders may perceive larger firms with strong CSR practices as more responsible and trustworthy. The moderation effect of CSR suggests that

the positive impact of company size on ERC is amplified when firms actively engage in CSR. So, the hypothesis that can be concluded is:
H5: *CSR can moderate the relationship between company size and Earning Response Coefficient (ERC)*

CSR as a Moderator of Capital Structure and ERC
Similar to the previous hypotheses, signaling theory applies here as well. A strong CSR program can serve as a signal of good management and long-term viability, which can positively influence investor perceptions of a company's capital structure (Savitri & Wahidahwati, 2021; Wardani & Lestari, 2022). Companies with a balanced capital structure and robust CSR practices may be viewed more favorably by investors, leading to an increased ERC. Conversely, if CSR efforts are lacking, even a well-structured capital mix may not yield a positive market response. So, the hypothesis to conclude is:
H6: *CSR can moderate the relationship between capital structure and Earning Response Coefficient (ERC)*

Method

The term "populace" refers to the entire collection of people, events, or things that researchers aim to study. In this specific research, the population includes all banking companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The research sample, on the other hand, consists of a smaller subset of individuals or entities chosen from this broader population for data collection and analysis.

This study employs a purposive sampling method involving the intentional selection of specific companies based on specific inclusion criteria. The criteria include: a) banking companies that have been continuously listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023; b) banking companies that possess detailed financial and non-financial data relevant for the same period concerning the variables analyzed in this study; and c) banking companies that have published complete annual reports and sustainability reports within the 2021 to 2023 timeframe.

Table 1. Variable measurement

Variable	Measurement	Reference
Earning Response Coefficient (ERC)	$CAR_{i(t-3,t+3)} = \alpha + \beta UE_{it} + \varepsilon$	Oktaviani and Wirianata (2024)
Corporate Social Responsibility (CSR)	$CSR\ Ij \frac{\sum xij}{nj}$	Wahyuningsih and Rakhmadhani (2024)
Financial performance of the company that can be measured using	$ROA = \frac{Net\ Profit}{\text{Total Assets}} x\ 100\%$	Nurkamila and Firmansyah (2024)
Firm size	Ln (Total Assets)	Indradi and Sulistyowati (2024)
Capital Structure	$DAR = \frac{Total\ Debt}{Total\ Assets} x\ 100\%$	Lenas and Tellu (2024)

This study utilizes moderated regression analysis (MRA) to explore the relationship between the earnings response coefficient (ERC) and its independent variables: profitability, firm size, and capital structure, with corporate social responsibility (CSR) acting as a moderating factor. Data processing was performed using IBM SPSS version 26, a well-regarded statistical tool commonly used in financial and business research.

The analysis unfolds in several stages, beginning with descriptive statistical analysis to summarize the primary characteristics of the data. Subsequently, classical assumption tests, including normality, multicollinearity, heteroscedasticity (heterostatic), and autocorrelation (histories), are employed to assess the suitability of the data for regression analysis. The MRA is then utilized to assess the relationships between ERC and both the independent variables and the moderating factor. Additionally, hypothesis testing is carried out using t-tests and F-tests to determine the significance of each independent variable's impact on ERC, including the moderating variables.

By employing this analytical approach, the study seeks to provide robust empirical evidence regarding the determinants of ERC within the banking sector. The equation of this research analysis is as follows:

First Equation (Direct Effects)
$ERC=\alpha+\beta_1FP+\beta_2FS+\beta_3CS+\beta_4CSR+\epsilon$

Second Equation (Interaction Effects)
$ERC = \alpha + \beta_1FP + \beta_2FS + \beta_3CS + \beta_4CSR + \beta_5(CSR*FP) + \beta_6(CSR*FS) + \beta_7(CSR*CS) + \varepsilon$

Description:
ERC: earning response coefficient, α: constant value, β1-7: variable coefficient value, FP: financial performance, FS: firm size, CS: capital structure, CSR: corporate social responsibility, ε: error

Result and Discussion

This study presents descriptive statistics to provide an overview of key variables, including Earnings Response Coefficient (ERC), Return on Assets (ROA), firm size, and capital structure (Debt to Asset Ratio/DAR), which are relevant in assessing market reactions and financial conditions in the banking sector. The dependent variable, ERC, ranges from -50.67 (Bank Pan Indonesia Tbk) to 6.78 (Bank Panin Dubai Syariah), with an average of -0.8124. This suggests that, on average, investors respond negatively to earnings announcements in the banking industry, possibly due to skepticism over earnings quality. The high standard deviation (5.43) indicates wide variability in market responses. ROA, representing financial performance, varies from -0.18 (Bank Raya Indonesia Tbk) to 0.08 (Bank BTPN Syariah), with a mean of 0.0054. This low average implies that most banks operate near breakeven, and the small standard deviation (0.0297) reflects limited dispersion across banks.

Firm size, measured by the natural logarithm of total assets, ranges from 28.41 to 35.32, with an average of 31.68. The relatively high standard deviation (1.76) indicates substantial heterogeneity in bank size, which may affect strategic capacity and investor perception. Capital structure, captured by DAR, ranges from 0.04 to 0.91, with an average of 0.7053. This indicates that many banks rely heavily on debt financing. The variability (standard deviation of 0.2402) reflects differing risk appetites and funding strategies across institutions.

Table 2. Descriptive statistic

Variable	Obs	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	117	-0.180	0.080	0.005	0.029
Firm Size	117	28.410	35.32	31.679	1.763
Capital Structure	117	0.040	0.910	0.705	0.240
Earning Response Coeffisient	117	-50.670	6.780	-0.812	5.433
Corporate Social Responsibility	117	0.710	1.000	0.895	0.068

Source: Data processed 2025

Table 3 shows indicate that the VIF (Variance Inflation Factor) value is below 10, ranging from 1.059 to 1.410. The Resistance esteem is additionally over 0.10, extending from 0.709 to 0.944. This implies that there is no multicollinearity.

Table 3. Multicollinearity result

Variable	Beta	t	Sig	Tolerance	ViF
Intercept	0.871	0.967	0.336		
Financial Performance	-2.193	-1.556	0.123	0.877	1.140
Firm Size	-0.031	-1.161	0.248	0.709	1.410
Capital Structure	-0.022	-0.111	0.912	0.770	1.299
Corporate Social Responsibility	0.057	0.093	0.926	0.944	1.059

Source: Data processed 2025

Table 4. Moderated Regression Analysis

Variable	Beta	t	Sig
Intercept	30.834	19.853	0.000
Financial Performance	-1.909	-4.996	0.000
Firm Size	-0.817	-19.393	0.000
Capital Structure	0.764	2.752	0.007
Corporate Social Responsibility	-26.544	-19.094	0.000
Financial Performance *CSR	-0.114	-0.323	0.747
Firm Size *CSR	0.699	18.502	0.000
Capital Structure *CSR	-.614	-2.319	.023

Source: Data processed 2025

Discussion

The Effect of Financial Performance on Earnings Response Coefficient (ERC)

Based on the hypothesis test results, it is evident that the independent variable X1, specifically financial performance, negatively impacts ERC. The significance value of 0.000, which is smaller than 0.05 or 5%, indicates that H0 is rejected. However, the count produces a negative value, indicating that financial performance hurts ERC.

While legitimacy theory suggests that strong financial performance should enhance market confidence, this study demonstrates that low-profit quality, unmet market expectations, and investor skepticism can lead to a negative ERC. This implies that companies must not only report profits but also ensure that earnings are credible, sustainable, and aligned with investor expectations to maintain legitimacy and a positive market response. According to Darmawan et al. (2022), the reason why profitability cannot affect ERC is that although reported profits reflect profitability, the market's reaction to this figure does not depend entirely on the level of profitability but rather on market expectations of future profits and how well those profits meet or disappoint those expectations. One of the reasons underlying the limited influence of profitability on ERC is the value of market expectations. If reported profits are lower than expected by investors, changes in stock prices can be substantial, even though the company continues to show positive profitability.

Another factor that can adversely affect ERC's profitability is the research object's findings from 2,021 to 2023, which indicate that insurance and banking companies experienced poor profit quality. Based on the measurement of Return on Assets (ROA), the results obtained are relatively low. The results obtained during the 3 years of observation were only a few companies that had a return on assets above 5%. This is one of the factors that causes profitability to hurt ERC in this study. This finding aligns with research by Angela & Iskak (2020) and Ginting et al. (2024), which indicates that Return on Assets (ROA) negatively impacts the Earnings Response Coefficient (ERC).

The Effect of Firm Size on Earnings Response Coefficient (ERC)

Based on the hypothesis test results, the independent variable X2, specifically film size, negatively impacts ERC. The significance value of 0.000, which is smaller than 0.05 or 5%, indicates that H0 is rejected. However, the count produces a negative value, indicating that size hurts ERC.

The adverse effect of firm size on ERC contradicts the principles of signaling theory. According to signaling theory, larger firms are expected to communicate more effectively with investors due to their greater resources and established reputations. This should ideally lead to a more favorable market response to their earnings announcements. However, the results of this study indicate that larger firms may experience a diminished ERC.

According to research conducted by Rengganis (2024), larger companies tend to have more assets and higher complexity. This often results in the information conveyed to the market being less clear and more difficult for investors to analyze. This ambiguity can lead to a reduction in market response to earnings reports, which ultimately has negative implications for ERC. In addition, high total assets can create unrealistic expectations, so when earnings performance does not meet expectations, the market reaction becomes more negative and depresses ERC. Finally, larger company size is often accompanied by high risks associated with managing complex assets. This risk makes investors more cautious in responding to earnings reports, which can result in a smaller reaction to the earnings information disclosed. As a result, even though the reported earnings are pretty good, the size of the company and the potential risks it faces can reduce the overall ERC. This finding aligns with research by Angela and Iskak (2020); Efrinal and Astuti (2023); and Ginting et al. (2024), which suggests that a firm's size negatively impacts the Earnings Response Coefficient (ERC).

The Impact of Capital Structure on the Earnings Response Coefficient (ERC)

Based on the results of the hypothesis test, it is indicated that the independent variable X2, which represents capital structure, positively influences the economic return on capital (ERC). The significance value of 0.007, which is smaller than 0.05 or 5%, indicates that H0 is rejected. On the other hand, the count produces a positive value, indicating that capital structure has a positive effect on ERC.

In contrast, the positive influence of capital structure on ERC aligns well with the trade-off theory. This theory posits that while debt financing can provide tax benefits and enhance profit potential through leverage, it also introduces risks such as bankruptcy and agency costs. The results of this study, which show a significant positive effect of capital structure on ERC, suggest that a well-structured capital mix can enhance investor confidence. When a company balances its capital structure optimally, it signals to the market that the company can utilize its resources efficiently, leading to a more substantial and profitable reaction from investors to earnings announcements.

Consequently, the dynamics of capital structure significantly influence investors' perceptions of a company's financial well-being and its potential for future growth. This study aligns with earlier research conducted by Wahasusmiah and Indriani (2022); Linda et al. (2024); and Rengganis (2024), indicating that capital structure positively affects the Earnings Response Coefficient (ERC).

CSR as a Moderator of Financial Performance and ERC

The results of the hypothesis test revealed that the significance value associated with the interaction between financial performance and CSR was noteworthy, with a p-value of 0.747 (<0.05). In conclusion, CSR does not moderate the connection between financial performance and ERC.

Agency theory suggests that CSR can mitigate conflicts between principals (owners) and agents (managers) by aligning their interests through ethical practices and long-term value creation, thereby enhancing investor trust and strengthening the link between profitability and Earnings Response Coefficient (ERC). However, the study's findings contradict this, indicating that CSR fails to effectively moderate this relationship, as investors may perceive CSR disclosures as lacking credibility or informativeness, leading to skepticism and a focus on short-term financial performance rather than long-term CSR benefits, thus undermining its role in aligning interests.

Stakeholder theory expands on agency theory by highlighting the need to address the interests of all stakeholders—such as employees, customers, suppliers, and the community—rather than focusing solely on shareholders. However, if CSR initiatives fail to deliver measurable benefits to shareholders, their perceived value may decline, leading investors to prioritize short-term gains over long-term sustainability. The study's findings, which show a lack of positive market response to CSR disclosures, suggest that investors remain unconvinced by current CSR communications, underscoring the need for companies to improve the quality and relevance of their CSR reporting to better align with shareholder expectations.

Research conducted by Ariesta Zakaria (2022) the study suggests that the lack of impact of CSR on ERC stems from the limited effectiveness of CSR disclosures in annual reports. It posits that such disclosures fail to enhance the informativeness of stock prices, primarily because they do not offer valuable insights into the company's prospects. Overall, the findings indicate that the information provided about CSR does not sufficiently persuade investors to drive up the stock's value. As a result, this information does not get a positive response from investors and is underutilized in making investment decisions. Investors tend to doubt still the reliability of the CSR information provided and focus more on short-term performance.

Meanwhile, CSR focuses more on long-term performance. Therefore, CSR disclosure is less noticed and is not used as a guideline for investors when making investment decisions. This research is supported by research Gunawan and Wati (2021); Ariesta and Zakaria (2022); Aulia et al. (2025), which indicates that CSR has a direct negative impact on ERC. This finding aligns well with research conducted (Angela Iskak, 2020 and Ginting et al., 2024). This indicates that ROA has a direct adverse effect on ERC.

CSR as a Moderator of Firm Size and ERC

The results of the hypothesis test indicated that the significance value for the interaction between company size and CSR was 0.000 (<0.05). In conclusion, CSR has the potential to moderate the relationship between a firm's size and its ERC. The results of the hypothesis test showed a positive t-count value, which means that the role of the moderating variable has a one-way relationship. This means that CSR significantly strengthens the influence of firm size on ERC.

This is in line with stakeholder theory, which states that larger companies usually show a stronger response to earnings announcements because the market pays attention to the information released. With good CSR, companies can strengthen relationships with stakeholders. Companies that carry out CSR well are considered more responsible and accountable, thus stimulating a more positive reaction from stakeholders, including investors. This study is further backed by research conducted by Zulaecha et al. (2021); Rengganis (2024); Syahara and Ismail (2025), which states that firm size has a direct positive effect on ERC.

CSR as a Moderator of Capital Structure and ERC

According to the hypothesis test findings, the significance value of the variable plays a vital role in the interaction between capital structure and CSR, with a significance value of 0.023 (<0.05). Thus, it can be concluded that CSR can moderate the relationship between capital structure and ERC. The results of the hypothesis test showed a negative t-count value, which means that the role of the moderating variable has an opposite relationship. This means that CSR significantly weakens the influence of capital structure on ERC.

Signaling theory posits that companies utilize their capital structure to convey information about their performance and prospects to the market. An optimal capital structure is expected to enhance investor confidence, leading to a positive influence on ERC. However, the findings of the hypothesis test indicate a negative t-count value, suggesting that CSR may weaken the relationship between capital structure and ERC. This contradicts the expectations set by signaling theory, which argues that effective CSR initiatives should enhance the signals sent by a well-structured capital framework.

Agency theory also plays a role in this discussion. It highlights the conflicts of interest between management and shareholders. If management prioritizes CSR initiatives that do not align with immediate financial returns, shareholders may perceive this as a misallocation of resources. This could lead to skepticism regarding the value of CSR disclosures, as investors may question whether these initiatives genuinely contribute to long-term value creation or are merely a means of enhancing management's image.

Ariesta and Zakaria's (2022) research states that the reason CSR does not affect ERC is that CSR disclosure in the annual report does not enhance the informativeness of stock prices. This is because the information presented in the report is not sufficient to provide an overview of the company's prospects. In general, the results of this study show that the information conveyed through CSR disclosure is unable to convince investors to increase the company's stock value.

As a result, this CSR-related information does not get a positive response from investors and is often ignored. Investors tend to be skeptical of the CSR information disclosed, focusing more on short-term performance. Meanwhile, CSR is usually more oriented towards long-term performance. Therefore, CSR disclosure does not receive adequate attention and is not used by Investors to play a crucial role in the decision-making process surrounding investments. This study is supported by research Gunawan and Wati (2021); Ariesta and Zakaria (2022); Aulia et al. (2025), which states that CSR has a direct adverse effect on ERC.

Conclusions and Recommendations

This study reveals that financial performance and firm size negatively influence the Earnings Response Coefficient (ERC), while capital structure has a positive impact on ERC. Furthermore, Corporate Social Responsibility (CSR) does not influence the relationship between financial performance and ERC. However, it does enhance the relationship between firm size and ERC. Conversely, CSR diminishes the impact of capital structure on ERC. These findings indicate that while financial performance and firm size are anticipated to boost market response, other factors, such as earnings quality and market expectations, can also contribute significantly to shaping the outcomes.

In theory, the findings of this study contribute to the understanding of how various factors affect ERC and challenge some existing theories, such as legitimacy theory and signaling theory. The practical implications are that companies should prioritize the quality of their earnings and market expectations in their financial reports and consider how CSR can be used as a tool to build better relationships with stakeholders. Larger companies should be more transparent in their reports to reduce ambiguity, which can reduce market response to earnings announcements.

The limitations of this study include only focusing on the banking sector and a limited period (2021-2023), which may not reflect broader market conditions. Recommendations for future research include broadening the focus of this study to include more sectors and periods and exploring other factors that may affect ERC, such as company growth and timelines. In addition, further research can consider analyzing the long-term impact of CSR on financial performance and market response.

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