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IS STOCK RETURN REFLECT MARKET AND NON-MARKET ENVIRONMENT?

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ABSTRACT

There are many studies regarding a stock return. However, the causality relationship between the market and the non-market perspective on the stock return showed inconsistency. The study investigates whether a stock return is a reflection of market or non-market environment. This research is a quantitative causality approach with variables, namely market perceptive, non-market perspective, firm performance, as latent variables, and stock return as a manifest variable. Good corporate governance proxies of market perspective, and corporate social responsibility proxies' non-market perspective. There are four banks whose majority the Government of Indonesia owns shares. This research analyzes four banks whose majority the Indonesian government owns shares. The data is a secondary panel seven years of data, and this study analyzed the data using the fixed, random, and common effect. The stock return is not a company performance, but it is consequent of company performance. This research confirms that the stock return is a description of the company's performance, and the performance is a reflection of the market and non-market environment. Concerning the inconsistency of research results, this study suggests comprehensive research with detail antecedent of the market and non-market environment simultaneously to measure stock return accuracy.

KEYWORDS: Stock return, market, non-market, performance, ROE, GCG

INTRODUCTION

For quite some time, market and non-market environment are an inseparable part of a company's existence, including banking. There are more than one hundred banks in Indonesia and more than one thousand rural banks. Four of the hundred banks are majority owned by the government, namely: Mandiri, BRI, BNI and BTN Bank. In May 2018, the banks were included in the 10 Indonesian banks with the most considerable assets. It is also that the banks are included in the 15 banks with the largest asset banks in Southeast Asia, except BTN bank (databoks.katadata.co.id). The banks are also as go public banks and register in the Indonesia Stock Exchange (ISE). Also, the four banks generated net profit significantly along the first quarter of 2017. The performance is predicted to be able to encourage the stock return of the Indonesian banking sector. The sector has a significant role in ISE due to the composite share price index (Atukalp, 2021)

Moreover, Worokinasih & Zaini (2020) mentioned that the four state-owned banks are the most advanced in implementing market components with one of the proxies is good corporate governance (GCG), and non-market component with on of proxies is corporate social responsibility (CSR). As a CSR and GCG implementation pioneer, do CSR and GCG disclosure contribute to return on equity (ROE) and stock return? That there is inconsistency in conclusions of the results.

First, in terms of CSR, some studies revealed that there is a positive correlation between CSR and company's performance (Adnyani et al., 2020). Second, in terms of GCG, there is the inconsistency of research results. Khuong & Anh, (2022) mentioned that GCG has a positive impact on firm value. However, Razumovskaya et al., (2018) illustrated that GCG negatively impacts company performance. Third, In terms of GCG and ROE, Khan et al., (2019) illustrated that ROE is a proxy of firm performance. Moreover, the board size, board independence, board gender diversity, and ownership structure are variables used for measuring GCG. The result indicated that there is a significant negative relationship between board size and firm financial performance. However, board independence, ownership structure, and board gender diversity do not significantly impact the firm's performance.

Ariesa et al., (2020) mentioned that board size has a positive relationship with ROE and net assets per share. However, board composition has negative relationship with ROE but it has positive association with net assets per share. The board skills and competence have a negative relationship with ROE and net assets per share. In contrast, board gender diversity results indicated a positive relationship with ROE and net assets per share. It can also be argued that the empirical results support the contention that corporate governance has a positive relationship with the profitability of firms. Specifically, Adawiyah & Setiyawati, (2019) mentioned that ROE has a significant impact on stock returns. Moreover, Raza et al., (2020) concluded no significant relationship between corporate governance and ROE. Whereas, Shahid et al., (2020) concluded a significant negative relationship between board size and board composition on ROE.

From the research results and some conditions of Indonesian State-Owned Banks, it has evoked interest in examining the impact of GCG and CSR on the banks' stock return with ROE as an intervening variable. In detail, the purpose of the study is to investigate whether a stock return is a reflection of non-market component with a proxy of CSR and market components with a proxy of

GCG and whether firm performance with a proxy of return on equity is a reflection of CSR and GCG.

Kim, (2022) revealed that a business's environment consists of market and non-market components, and integration of both market and non-market is necessary to formulate a company strategy. Furthermore, the market environment is interactions between a firm and other intermediated parties by markets or private agreements. Whereas, the non-market environment is a set of social, political, and legal arrangements. The set is a structure of the firm's interactions outside of the market environment. On the other hand, non-market environment is a un measurable variable, and market environment is a measurable component from company perspective. In this study, there are four variables, namely (1) non-market component with a proxy of CSR, (2) market component with a proxy of GCG, (3) company performance with a proxy of ROE and stock return. First, the concept of the CSR is initiated by the Global Reporting Index (GRI). It is a concept of sustainability report as a result of the concept of sustainability development. The sustainability concept uses a triple bottom line method from an environment of economic, social and environmental.

Second, in Indonesia, the concept of the GCG uses the General Guidelines of GCG by the National Committee on Governance Policy. The Committee mentioned that GCG has five principles: (1) transparency; (2) accountability; (3) responsibility; (4) independency; (5) fairness. There is an index to calculate the GCG, namely Corporate Governance Perception Index (CGPI). Third, stock market returns (SMR) are the investors' returns out of the stock market. This return could be in the form of profit through trading or in the form of dividends given by the company to its shareholders from time-to-time. Finally, ROE is the amount of net income returned as a percentage of shareholders equity. The ROE measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

The GCG and CSR, in Indonesia, are mandatory for the banking sector. However, there are differences in responding to the implementation of GCG and CSR. The differences occur because of differences in interests. Vitolla et al., (2020) mentioned that agency conflict occurs because of differences in owners and managers' interests. Owners want managers to work hard to maximize owners' interests while managers also tend to try to maximize their interests. On the other hand, the company's management strives to continue signaling to improve the company's prospects to attract investors.

Furthermore, in the signaling theory, Brigham & Houston, (2021) mentioned that the theory is an action taken by the company's management that guides investors about how management views the company's prospect in providing information to interested parties. Nevertheless, the information is often not up to investors. In addition, Barus et al., (2019) also points out that some conditions of the company can lead to information asymmetry conditions that are very large companies, geographically dispersed, have diverse products, and require technology.

The asymmetry of the information is also disbursed due to different stakeholder interests. Barus et al., (2019) mentioned that stakeholders are a group of identifiable individuals or individuals that can

influence the company's activities or be influenced by the company's activities, which have interests that are not always the same.

What is the effect of mandatory GCG and CSR on stock return? Iskandar et al., (2019) mentioned that there are three factors impacting stock returns which can be grouped into (1) fundamental factors namely business prospects, technology, and profitability; (2) technical factors namely foreign exchange rate, capital market conditions, and transaction volume; and (3) socio-political factors namely inflation, monetary policy, and political conditions. Furthermore, Garcia & Orsato, (2020) investigated the relationship between corporate social performance and financial performance as measured by stock returns for companies in the U.K. The results showed that environment and employment are negatively correlated with stock returns, whereas the community is positively correlated.

Furthermore, GCG has positive influences on stock returns (Suhadak et al., 2019). On the other hand, Nurwulandari et al., (2022) mentioned that GCG has no significant effect on stock return. It is because it has not been able to attract investors to invest their capital. In terms of CSR, some studies mentioned that there is a positive correlation between CSR and company's performance (Dhar et al., 2022). In terms of ROE, Jallow et al., (2022) stated that ROE positively influences stock returns. Furthermore, Cherian et al., (2019) concluded a positive relationship between CSR disclosure and the company's ROE. Nikmah & Fajarini, (2020) concluded that CSR has no significant effect on ROE. On the other hand, Pennacchi & Santos, (2021) mentioned that ROE does not affect bank stock returns. Buallay et al., (2017) concluded no significant relationship between corporate governance and ROE. Whereas, Shahid et al., (2020) concluded a significant negative relationship between board size and board composition on ROE. There is a significant positive relationship between the director equity interest and the disclosure index with ROE.

A company which has good performance is good, but it is not enough. A company which has better superior performance, but it is still not enough. It seems that the concept of increasing corporate wealth has now merged and blended into the concept of how to make a successful company sustainable. Now the most important thing for the company is sustainable growth and knowledge management, (Subanidja & Hadiwidjojo, 2017). The company's orientation towards sustainability leads to the emergence of corporate responsibility to different stakeholders and adapts activities and methods that enable improved social and environmental performance. Corporate sustainability demonstrates social and environmental issues in business operations and interaction with stakeholders (Nikmah & Fajarini, 2020)

Among Asian countries, CSR implementation and reporting in Indonesia is still relatively low (Machmuddah et al., 2020). A survey conducted by Fangidae et al., (2015), there are only 12 banks from 136 banks in Indonesia apply the principles of sustainability, and there are only two banks that apply the principles of sustainability as a whole and details such as climate change, human rights, biodiversity and labour rights.

In general, national banks still have not published much policy regarding sustainability principles in social and environmental aspects. By implementing more responsible policies, banks can contribute

more to sustainable development and poverty reduction. Now the world has changed the paradigm into a sustainable economic and performance system.

The measurement of the company's ongoing performance is generally measured by assessing three aspects of sustainability: economic, social, and environmental (Derevianko, 2019). Another approach for measuring organizational sustainability is to include social and environmental issues in the Balanced Scorecard, resulting in a Sustainable Balanced Scorecard (SBSC) that integrates the triple bottom line concept with the balanced scorecard framework (Ozturkoglu et al., 2019).

The sustainable means a company should pay attention to the environment and social elements. It is more than the economic aspects in every business consideration undertaken (Mio et al., 2022). Conceptually, it appears that SBSC defines an environmental and social perspective into a non-market perspective. The study confirms the research framework as follows based on the causality effect of market and non-market environment on performance and stock return.

$$SR = \beta 0 + \beta 1\ NMP + \beta 2\ MP + \beta 3\ ROE + \varepsilon 1$$
$$ROE = \gamma 0 + \gamma 1\ NMP + \gamma 2\ MP + \varepsilon 2$$

ROE = *return on equity*
SR = *stock return*
NMP = *non-market perspective*
M.P. = *market perspective*

2. METHODS

This research is a quantitative causality approach with variables, namely market perceptive, non-market perspective, firm performance, as latent variables, and stock return as a manifest variable. Good corporate governance proxies of market perspective, and corporate social responsibility proxies non-market perspective. Also return on equity represents firm performance. There are four banks whose majority the Government of Indonesia owns shares. The consideration that these banks are that the banks are pioneers in implementing GCG and CSR. Besides return on equity during five years analysis is the most complete. The other performance data in that year is not available ultimately. All data is using data average in each year, and the stock return is using adjusting the closing price.

The study uses seven years of secondary cross-section data from 2015 to 2021. The study uses multiple regression analysis with a classical assumption test. The tests are the normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test. The normality test aims to determine whether the dependent variables have or do not have a normal distribution. The test uses Jarque-Bera criteria. The multicollinearity test aims to know whether there is perfect relationship among independent variables. Durbin-Watson test represents whether there is any problem with autocorrelation. Breusch Pagan test confirms to detect whether there is heteroskedasticity problem. Linearity test aims to determine the linear relationship between independent and dependent variables by using the test Ramsey test.

Model selection uses three tests: a common effect, fixed effect, and random effect tests. The influence of each independent variable on the dependent variable uses partial t-test. The coefficient of determination test aims to measure how far the model's ability in explaining the variation of independent variables.

Data analysis uses five stages, namely normality, multicollinearity, autocorrelation, heteroskedasticity, and linearity. The normality test of data uses mean value, maximum value and minimum value. Table 1 shows the result of normality test is that research variables have normal distribution data. It is because the mean and median values of each variable are between the maximum and minimum value.

Table 1. The normality test

	Non-market	Market	Return on equity	Stock return
Mean	0.41	87.79	0.26	0.14
Median	0.35	86.75	0.24	0.14
Maximum	0.89	93.30	0.45	0.51
Minimum	0.16	84.16	0.11	-0.43
Std. Dev.	0.21	2.92	0.09	0.24
Skewness	1.12	0.86	0.40	-0.42
Kurtosis	3.40	2.23	2.34	2.66
Jarque-Bera	4.32	2.98	0.90	0.68
Probability	0.11	0.22	0.63	0.70
Sum	8.26	1755.95	5.22	2.88
Sum Sq. Dev.	0.86	162.105	0.16	1.15
Observations	20	20	20	20

To test the equations model, the p value of the Jarque-Bera is 0.860970. This test is to knows distribution of the residual. Result of the Jarque-Bera shows greater than 0.05. It means that the distribution of the residual value is expected. The study shows that there is no sample with an absolute value of standardized residual more than 3. It means that the linear regression model of the first framework equation do not have no outlier.

The multicollinearity test shows that variance inflation factors (VIF) value for each variable is less than 10. Hence, in the regression equation, there is no multicollinearity problem (Table 2). The heteroskedasticity test informs that value of probability- Chi Square is 0.3784. This number is higher than 0.05, so the regression equation does not occur heteroskedasticity (Table 3)

Table 2. Variance Inflation Factor (Multicollinerity)

Variable	Coefficient Variance	Centred VIF
C	4.356193	NA
Return on equity	0.784593	1.977859
Non-market perspective	0.161501	2.128469
Market perspective	0.000573	1.420965

Table 3. Variance Inflation Factor (Multicollinerity)

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.973503	Prob. F (3,16)	0.4296
Obs*R-squared	3.087135	Prob. Chi-Square (3)	0.3784
Scaled explained SS	1.440314	Prob. Chi-Square (3)	0.6961

The result of autocorrelation test states that Durbin Watson (D.W.) value on the regression model is 2.092894. The test reports a test statistic, with a value from 0 to 4. The value of more than two means there is a negative autocorrelation. As a rule of thumb, test statistic values in the range of 1.5 to 2.5 are relatively normal. Values outside of this range could be cause for concern. The dl value is 0.998, and du value is 1,676. The calculation shows that 4-du is 2,324, and the 4-dl value is 3.002. The value indicates that the regression does not occur autocorrelation problems (Table 4). The linearity test confirms that the value of F-arithmetic is 0.223573 with p-value is 0.6431. This p-value is greater than 0.05. It means that the independent variables are linear with the dependent variable. The Chow test informs that the probability value is 0.814135. The number is higher than 0.05. The value indicates that a better model is a common effect. Table 5 shows the result of linear regression with the common effect.

Table 4. Autocorrelation

R-squared	0.093569	Mean dependent var	0.144044
Adjusted R-squared	-0.076387	S.D. dependent var	0.246369
S.E. of regression	0.255606	Akaike info criterion	0.286495
Sum squared residual	1.045348	Schwarz criterion	0.485641
Log-likelihood	1.135054	Hannan-Quinn criteria.	0.325370
F-statistic	0.550548	Durbin-Watson stat	2.092894
Prob(F-statistic)	0.655016		

Table 5. Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.272744	2.087150	0.130678	0.8977
NMP	0.105008	0.401871	0.261299	0.7972
MP	-0.003862	0.023931	-0.161376	0.8738
ROE	0.639557	0.885772	0.722033	0.4807
R-squared	0.093569	Mean dependent var		0.144044
Adjusted R-squared	-0.076387	S.D. dependent var		0.246369
S.E. of regression	0.255606	Akaike info criterion		0.286495

Sum squared resid	1.045348	Schwarz criterion	0.485641
Log-likelihood	1.135054	Hannan-Quinn criter.	0.325370
F-statistic	0.550548	Durbin-Watson stat	2.092894
Prob(F-statistic)	0.655016		

Source: by the authors

Table 5 indicates that the equation of model 1, can be formulated as follows.

SR = 0.272744 + 0.105008 NMP - 0.003862 MP + 0.639557 ROE

From the parameter of significance test (t-test), the study informs as follows. First, the value of t-statistic of non-market perspective is 0.261299 with a probability value is 0.7972. The number of the probability value is higher than 0.05. It means that the stock return is not a reflection of the non-perspective market. Second, the value of t-statistic of market perspective is -0.16376 with a probability value is 0.8738. The probability value is higher than 0.05. It means that stock return is not a reflection of market perspective. Third, the value of t-statistic of return on equity is 0.722033; with a probability value is 0.4807. The probability value is higher than 0.05. It means that stock return is not a reflection of the return on equity.

Also, based on the result of conformity model test (F-test), it can be seen that the probability value is 0.655016. This number of probability value is higher than 0.05. It means that stock return is not a reflection of non-market, market, and return on equity. Furthermore, based on the resulting test of the coefficient of determination (R2), it shows that the value of R2 is 0.093569. It indicates that stock represents only 9.3569% of market changes, non-market, and return on equity, while 90.6431% other variables represent stock return The normality test for equation 2 shows that the p-value of Jarque-Bera is 0.551716. The number of the probability value is higher than 0.05. It means that the residual distribution of equation model 1 is a normal distribution (Figure 2). The multicollinearity test illustrates no sample with the absolute value of standardized residual is greater than 3. So, in this linear regression model, there is no outlier data. The variance inflation factor informs that centered value of variance inflation factor for market and non-market are higher than 0.05.

It means that the equation model 2 does not have a multicollinearity problem. The heteroskedasticity test informs that value of the probability of Chi Square is 0.2213. This value is higher than 0.05. It indicates that the regression equation two does not have a problem of heteroskedasticity. The Chow test informs that the probability value is 0.161591. The number is higher than 0.05. The value indicates that a better model is a common effect. Table 6 shows the result of linear regression with the common effect.

Table 6. Linear regression with the common effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.980112	0.519703	-1.885909	0.0765
NMP	0.313993	0.079427	3.953212	0.0010
MP	0.012659	0.005789	2.186859	0.0430
R-squared	0.494403	Mean dependent var		0.261084
Adjusted R-squared	0.434921	S.D. dependent var		0.093104
S.E. of regression	0.069988	Akaike info criterion		-2.343504
Sum squared resid	0.083272	Schwarz criterion		-2.194144
Log-likelihood	26.43504	Hannan-Quinn criter.		-2.314347
F-statistic	8.311798	Durbin-Watson stat		2.045541
Prob(F-statistic)	0.003036			

The equation number 4 elaborates that non-market perspective disclosure has a higher effect on return on equity than market disclosure. T-test value of non-market is 3.953212. It is greater than the t-table value of 2.101 with a significant level of 0.0010. It indicates that the return on equity is a reflection of non-market. T-test value of market perspective is 2.186859. The number is greater than the value of t-table of 2.101, with a significant level of 0.0430. It means that the return on equity is a reflection of market perspective. Moreover, the f-test result of equation 2, indicates that the return on equity reflects the market and non-market perspective. Also, the value of the determination coefficient (R2) shows that the value of R2 is 0.494403. It means that 49.4403% of non-market and market perspectives explain the return on equity, while other factors explain the remaining 50.5597%. Value of standard error of the estimate is 0.069988. The number is less than 0.093104 (standard deviation or variance). Also, the value of t-test of corporate social responsibility by 0.261299 is less than the value of t-table of 2.110. It indicates that the regression model is valid to be used as a prediction model. In other words, the stock return is a reflection of non-market disclosure. The value of t-test of corporate social responsibility by 0.261299 is less than the value of t-table of 2.110.

Third, table 2 shows that value of Durbin-Watson is 2.045541. The value of dl is 1,100, and the value of du is 1,537. So, it shows that the 4-du value is 2,463, and the 4-dl value is 2,900. Since the D.W. values are in the region between du and 4-du, there is no autocorrelation problem. Furthermore, the model selection test of equation 2, in table 11 indicates that the value of probability is 0.161591. This value is higher than 0.05. It means that a better model is a common effect. The equation of regression model 2 is:

ROE = -0.980112 + 0.313993 NMP + 0.012659 MP

3. RESULTS AND DISCUSSIONS

From the first equation that non-market component with a proxy of corporate social responsibility, market component, a proxy of good corporate governance and company performance with a proxy of return on equity, the result indicates that stock return is not a reflection of non-market environment. The study adds to the inconsistency of previous research findings. Chen et al., (2017) mentioned that corporate social responsibility did not impact on stock return. On the other hand,

Dhar et al., (2022) elaborated that corporate social responsibility negatively correlates with stock return. Whereas, Tasnia et al., (2020) stated a significant and positive relationship between corporate social responsibility and stock return volatility. Gyawali, (2022) revealed an effect between (ROA, Debt Ratio, the Age of the Company, and the Size of the Company) and market stock return. However, there is no effect between the return on equity on market stock return. Huu Nguyen et al., (2020) revealed that there is a positive impact of board size and foreign ownership but the negative impact of managerial ownership on stock return synchronicity. This study confirms that stocks in the market move more together when the firms' corporate governance gets better. Ni et al., (2022) mentioned that return on equity did not affect stock return, whilePurbawangsa & Rahyuda, (2022) stated that company performance affects stock return.

From the second equation, the result informs that return on equity reflects the market and non-market perspective. Tao et al., (2022) revealed that non-market components, measured in three ways: profits, market share, and capacity utilization have a positive and significant impact on performance. Liu et al., (2022) stated two conclusions. First, there is a high and positive correlation between non-market and market strategies. Second, the non-market strategy has a positive indirect effect on market performance via non-market performance. Gosal et al., (2018) revealed that (1) Good corporate governance's mechanism, including the commissioner's board's size, affects firm value. Meanwhile, (1) audit committee and the proportion of independent commissioner's board doesn't affect on the firm value; (2) Leverage doesn’t affect on the firm value; (3) The firm size affects on the firm value; and (4) good corporate governance mechanisms (audit Committee, size of the commissioner's board, and proportion of independent commissioner's board), leverage, and firm size affect on the firm value. Liu et al., (2022) indicated a positive correlation between corporate social responsibility and company’s performance. Moreover, the research result shows that corporate social responsibility disclosure has a significant effect on equity return. Lahouel et al., (2022) stated that companies use corporate social responsibility. As a strategic plan to create a competitive advantage, corporate social responsibility will improve financial performance, both short- and long-term.

Furthermore, adequate corporate governance disclosure has a significant effect on return on equity (Suhadak et al., 2019). Consistency in implementation and GCG disclosure make investors believe that corporate managers will give benefit to investors. However, the result is not in line with research results conducted byKurinci et al., (2022) that good corporate governance does not effect directly on return on equity

4. CONCLUSIONS

The study concludes that stock return is not a reflection of the market and non-market perspective. Besides, financial performance is a reflection of the market and non-market perspective. These findings confirm that there is still an inconsistency of research results regarding the stock return. Some research mentioned that there is an effect of market and non-market on stock return, others there is no effect on stock return. Likewise, several results stated that there is an effect of market and non-market on financial performance. Other research mentioned that there is an effect on financial performance. However, there is a consequent without an antecedent. Hence, to determine the stock return, a comprehensive approach is a critical choice. It is not just using manageable

elements by a company but also using un-manageable factors that always come from external conditions. The study predicts a valuable result when the stock return uses the external factors comprehensively and specifically as an antecedent.

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