Proceeding

THE 4th INDONESIAN FINANCE ASSOCIATION INTERNATIONAL CONFERENCE 2018

Inspiring the Financial World from Indonesia

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PREFACE

We are very grateful to God for his grace that the 4th Indonesian Finance Association International Conference 2018 was held successfully on September 5-6, 2018 at Faculty of Economics and Business, Universitas Lampung. Tokens of appreciation should also be rendered to our co-hosts, sponsors, and you all that the event could be organized and carried out with utmost quality, comfort, and precision. These proceedings are compiled as a collection of all presenters' research papers, reflecting state-of- the-art ideas and findings on the field.

The theme of this conference is "Finance in the Age of Digital Technology: Pushing New Frontier," and this theme is manifested in the presented papers compiled in these proceedings, comprised of scholarly works from all over Indonesia as well as honorary speakers. Hence, we would like to express our gratitude and credits to:

Universitas Lampung, Universitas Gadjah Mada, Universitas Indonesia, Universitas Negeri Sebelas Maret, Universitas Bandar Lampung, IBI Darmajaya, Universitas Teknokrat Indonesia, Universitas Malahayati, STIE Umitra Lampung, STIE Gentiaras, STIE Prasetya Mandiri Lampung for hosting the conference and putting together materials for these proceedings.

Professor Alistair Milne (Looghborough University, UK), Professor Ghon Rhee (University of Hawai, USA and Pacific Basin Finance Journal), Professor Robin K. Chou (National Chengchi University Taiwan) for taking the time to contribute their expertise and experiences to the conference that have enriched our knowledge.

All scientists and researchers that have contributed their research ideas and results, and encouraged one another by sharing, learning, and discussion. There were 63 papers presented in the conference. Some of them have agreed to include their full papers in the proceedings.

The proceedings cover various topics, ranging from asset pricing to behavioral asset pricing, banking and financial intermediation, corporate governance, financial literacy, financial market behavior, market microstructure, and Islamic finance.

We sincerely hope that these proceedings, and the conference in particular, will benefit all the participants and readers, especially as a reference for further financial development in Indonesia and beyond.

We welcome any suggestions and constructive feedbacks to improve the organizing of the next IFA conferences and proceedings, and we look forward to seeing you again.

Bandar Lampung, September 2018

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MARKET REACTION TO SOCIAL ETHICS VIOLATION NEWS BY COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

Sekar Arum Probowati Rambe[67], **Susi Sarumpaet**[68], **Dewi Sukmasari**[69]

ABSTRACT

This Research aims to investigate the market reaction to unexpected news about the social ethics violation. The news source in this research is from Kompas.com. This Research used Abnormal Return and Trading Volume Activity as variables to investigate the market reaction. This research was used Wilxocon-Signed Rank Test method to analyze the Abnormal Return and Trading Volume Activity. One Sample T-Test is used to find on which day the Abnormal Return occurred. The Results of this research show that there is a negative market reaction shown by Abnormal Return Variable, and it occurs at t+3. It indicates that the market reacts overconfidence and misjudge the situation, therefore, the response is late. Meanwhile, for Trading Volume, Activity Variable does not show any market reaction after the event. Overall market will only react to stock prices meaning news about social ethics violation contain enough information to make the market react. The contribution of this research is as an information to make managerial decisions. Managers should be more aware of the action that they take whether it will harm the company or not

Keywords: Social Ethics Violation, Abnormal Return, Trading Volume Activity

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I. INTRODUCTION

The role of the business world has contributed greatly to advancements, economic, social and cultural, but also cause considerable social-cultural implications, neglected community rights, loss of life's resources, and human rights violations caused by the activities of the company. It has been the fact that the overwhelming desire of the companies to maximize the profits often overrides the impact on others. Not just about the environment but also about their lack of attention to the workforce and the rights of others. In Indonesia, the regulation about social responsibility is stated by the UUPT (Law on limited liability company) no. 40 year 2007 which according to Article 1 number 3 social and environmental responsibility is the commitment of the company to participate in sustainable economic development in order to improve the quality of life and environment that is beneficial both for the company itself, the local community, and society in general. The Stakeholders will judge the performance of the company not only with the published financial statements alone but coupled with the social responsibilities that they do.

In assessing the stock price, there are many factors that can affect stock prices such as the country's fundamental economic conditions, corporate performance, rumors, and sensitivity. Investors need information that comes from the internal and external conditions of the issuer. Solomon *et al*. (2001) stated that any information related to a company, as a matter of fact, should be given to the stakeholders whether it is about environmental policies, environmental management systems, environmental targets, environmentally friendly products, and processes and other environmental-related information. The Issue or news of a company cause reactions to the investor's psychology. Overreaction is one of the symptoms or abnormalities in the capital market. This phenomenon occurs when the stock price, according to new data changes more than it should (Naderi, 2012).

In this research, the author would like to investigate the market reaction to social ethics violation news. The violation issues of this research would be about the termination of employment, cartel, the employee’s rights. In case of PT Indosat Tbk in 2016 regarding the alleged cartel by PT Indosat Tbk and PT XL Axiata, in the presence of the joint venture, the two companies could exchange confidential information leading to pricing, market allocation, and output restrictions (Kompas. com). In the case of PT Sumber Alfaria TrijayaTbk in 2012 where employees are questioning their right to claim health insurance, the company does not take further steps regarding health insurance filed by employees (Kompas.com). Another case in PT Toba Pulp Lestari Tbk in 2013 is reported to violate human rights, PT Toba Pulp Lestari Tbk acts arbitrarily against the local citizens. Based on UUPT Law No. 40 of 2007 companies should embrace human rights and principles of good environmental and sustainability management in where they carry out their operational activities.

Events that contain information will cause a market reaction, but events that contain positive info such as earnings announcements and dividend divisions which will certainly happen won't cause a response to stock price because investors already know that the information will be announced. Mass media is a source of information widely used by market participants to identify an event or news. The rumored news is an unpredictable thing therefore in accordance with Fabozzi's book that the investor will react to the unexpected announcement than when the news is rumored to affect the stock price. This research aims to investigate the market reaction to unexpected news about social ethics violation such as termination of employment, cartel, and employee’s rights committed by the company.

II. LITERATURE REVIEW

Fama (1970) argues that in an efficient market the price will fully reflect the information available and as a result, the price will react instantaneously without any bias against new information. Fama classified the pricing efficiency of a market into three forms, the difference between those three forms is on the relevancy of information related to stock price. Weak efficiency means that the price of the security reflects the past price and trading history of the security. Semi-strong efficiency means that the price of security fully reflect all public information, the market can be said to be half strong if the investor's decision to buy and sell shares using latest price data, recent volumes, and all published information such as financial statements, annual reports, stock announcements, international financial information, government regulations, social events and so on may affect the economy national. Strong efficiency exists in a market where the price of a security reflects all information, whether or not it is publicly available. Signaling theory is how accounting can be used to signal information about the firm accounting reports are often used to signal information about the firm. The information contained in an announcement will provide a signal for investors in making investment decisions. The intuitive nature of signaling theory in part helps explain its pervasiveness (Connelly *et al*., 2011).

2.1 Event Study

Hauswald(2003) state that an event study measures the stock market's reaction to a major announcement by a publicly traded firm. An event study is a statistical method to asses the impact of an event on the value of a firm. Events such as environmental or social ethics violations by companies may affect stock price because after a law regulating of social responsibility such as No. 40 of 2007 and article 17 No. 25 of 2007 on limited liability companies required to preserve the environment and about planting investor's capital is more through in choosing the issuer. According to Samsul (2006) event studies are defined as studying the effect of an event on the stock price in the market, both at the time of the event and sometime after the event occurred. According to Bodie *et. al* (2014), an event study describes a technique of empirical financial research that enables an observer to assess the impact of a particular event on a firm's stock price.

2.2Abnormal Return

Abnormal Return is the difference between actual return and expected return, which can occur before or after the official information has published. (Samsul,2006). According to Tay *et al*. (2016), abnormal returns can be determined by finding the difference between the actual returns and the expected return of the stock. First, we calculate the actual return as follows:

$$AR_{it} = R_{it} - E(R_{it})$$

AR_{it} = Abnormal Return of I stock on t period

R_{it} = Actual return of I stock y on t period

$E(R_{it})$ = Expected return of I stock on t period

2.3. Trading Volume Activity

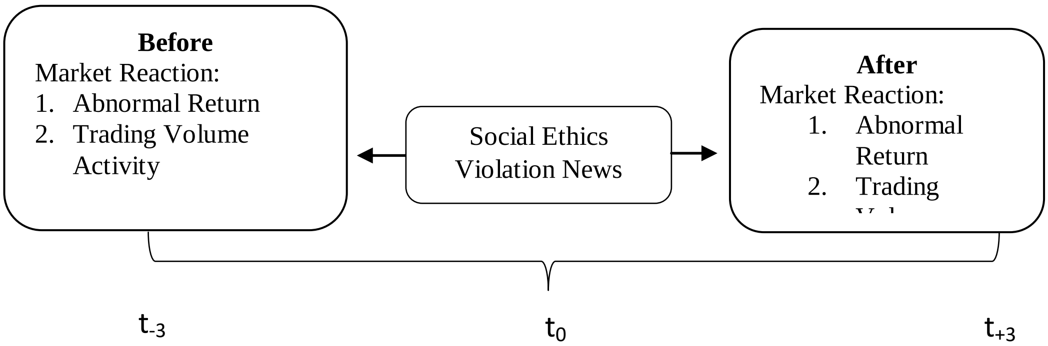
TVA can be defined as the comparison between the volume of shares traded with the number of outstanding shares at a certain period.

$$\boldsymbol{TVA = \frac{Trading\ Volume\ on\ t\ period}{Outstanding\ Stock\ on\ t\ period}}$$

Observation of market reaction to an event other than using abnormal return can be seen by trading volume. The development of stock trading volume reflects the strength between supply and demand which is a manifestation of investor behavior. Rising trading volume is an increase in trading activity of investors in the stock. The increasing volume of supply and demand for a stock, the greater the effect on stock price fluctuations in stocks, and the increasing volume of stock trading shows the increasing interest of stocks by the public that will have an effect on price or inventory increases(Firmansyah*et al*., 2016).

2.4. Research Framework

Figure 1
RESEARCH FRAMEWORK



2. 5 Hypothesis Development

On efficient market hypothesis theory state that a stock price shows the public information and that information would forecast a return affected by the information announcement. The market reaction can be measured by using the return as a value of price change or by using an abnormal return. Abnormal return is an indicator used to see the market reaction about an event. Events that contain positive information will have a positive impact on the abnormal return and otherwise (Pratama *et al*., 2015). Investor sensitivity to an event can have different effects such as panic or even undisturbed with the news. The Issue or news of a company results in a reaction to the psychological of investors, overreaction is one of the symptoms or abnormalities in the capital market. This phenomenon occurs when the stock price, according to new data changes more than it should (Naderi, 2012). Signaling theory state that information that received by the investor would affect the investor's interest to buy or sell the stock, the change of trading volume. The increasing volume of supply and demand for a stock, the greater the effect on stock price fluctuations in stocks, and the increasing volume of stock trading show the increasing of stocks' interest by the public that will have an effect on price or inventory increases (Firmansyah*et al*., 2016). Investor interest to find out about any information related to a company or their image in media reflects general expectation and those images could help to trigger a decision.

Based on Weir (2014) the unexpected green rankings had a significant effect on abnormal returns, suggesting that the stock market did react to the unanticipated component of the Newsweek Ranking. This paper also states that the company who got the unexpected worse rank would have a negative stock abnormal return. Tay *et al*. (2016) also find that white collar crime announcement demonstrates evidence of negative price reaction throughout the days subsequent to the day of the announcement. Beaver (1968) change in price reflects the average change in trader's beliefs, while volume reflects the sum of differences in trader's reaction to the announcement. The volume identifies systematic differences in investors' knowledge or other characteristics which result in different reactions to public announcements across firms or across types of the announcement (Kim and Verrechia, 1991). Therefore the hypothesis in this research are:

H_1 : There is a negative market reaction to social ethics violation news as indicated by a decrease in average abnormal returns before and after the event.

$H_{2\,:}$ There is a negative market reaction to social ethics violation news as indicated by the decrease in average trading volume activity before and after the event.

III. METHODS

This research, in looking for news related to the social ethic violation news on companies listed on the Stock Exchange, the author search it from Kompas.com. While financial data such as stock price and trading volume, the author will look through the Indonesia Stock Exchange website, yahoofinance.com, and investing.com. To select the events that contain ethical violation I was searched it one by one of the news using the keyword termination of employment, cartel, dumping and etc. In this research, the sampling method would be used purposive sampling method and the criteria are a company listed on Indonesia Stock Exchange from 2010-2016 and having a news published on Kompas.com which related to social ethics violation news during the period 2010-2016. The number of news related to the violation of social issues is 72, and based on purposive sample criterion, the total sample of this research is 64. This research was used Wilcoxon signed-rank to test whether there is a significant difference before and after the event. And after that to investigate on which day the abnormal return would occur, this research was used one sample test.

Table 1
Sample Observation

No	Explanation	Total Observation
1.	The number of news related to social ethics violation 2010-2016	72
2.	Companies that conduct corporate action during the window period	(3)
3.	Do not have complete financial report data and stock trading data that can be accessed through the official website of IDX or other capital market sites such as yahoo finance, investing.com	(5)
	The Total of Sample	**64**

IV. RESULT AND DİSCUSSİON

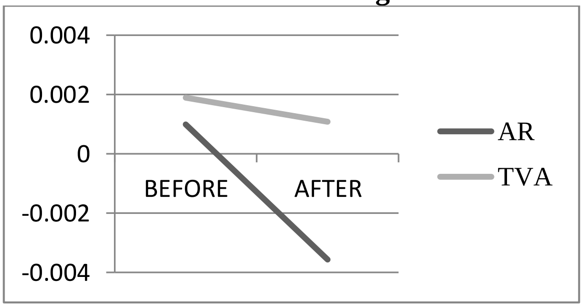
In this research, the period of the day to be observed is three days before and three days after the event, because based on Nazir (2014) people only react in a short time, after that they will absorb the noisy information. The descriptive statistical analysis provides a description of a data viewed from the information generated from the measuring tool. The information can be the mean (average), the minimum value, the maximum value and the standard deviation of each research variable. The data used in this research is stock information in the form of ratios derived from the stock price data and daily stock trading volume which is calculated by Abnormal Return and Trading Volume Activity.

Table 2
Descriptive Statistical Test Results on Abnormal Return and TVA

Descriptive Statistics				
	Minimum	Maximum	Mean	Std. Deviation
Abnormal Return-Before	-0,02862	0,02434	0,00100	0,01006
Abnormal Return- After	-0,04565	0,01685	-0,00357	0,01042
Trading Volume Activity-Before	0,00000	0,02938	0,00189	0,00446
Trading Volume Activity-After	0,00000	0,00889	0,00109	0,00176
N	64			

Table 2 shows the average abnormal return before and after the event and it can be concluded that there is a decrease in average abnormal return three days before and three days after the news about social ethics violation which the amount of decreasing number is 0,00257 or 0,26%. The occurrence of differences in the average value of abnormal returns in the period of observation before and after the news about social ethics violation shows that the situation and condition before and after the event contain enough information to make the market react. It also can be seen through figure 1.

Figure 2
Graph of Average Abnormal Return and Trading Volume Activity Before and After



Average trading volume activity in table 2 also shows that there is a decrease after the event, and the amount of decreasing number is 0,00080 or 0,08%. The occurrence of differences in the average value of trading volume activity in the period of observation before and after the news about social ethics violation shows that the situation and condition before and after the event contain enough information to make the market react. Through figure 1 it can be seen that the decreasing line of TVA variable is not as sharp as abnormal return variable.

The first hypothesis (H_1) of this research state that there is a negative market reaction to social ethics violation news as indicated by a decrease in average abnormal returns before and after the event. The first hypothesis can be supported if there is a significant difference of abnormal return variable before and after the event and followed by a decrease in average abnormal return after the event. To find out whether there is a significant difference before and after the event, Wilcoxon- Signed Rank Test is used because based on the normality test the data is not normally distributed. Based on table 3, the results show that there is a significant difference in the abnormal return variable, Asymp.Sig. (2-tailed) of this variable is 0.010 < 0,05 or 5%. Based on the descriptive test on table 2 and figure 1, there is a decrease in average abnormal return after the event that is equal to 0,00257 or decreased by 0,26%. One Sample T-Test is used to conduct which day during the observation period has a significant abnormal return. The test is done by calculating the average abnormal return. If the probability value < 0.05, then it can be concluded, statistically, significant reactions occurred.

Table 3
Summary One-Sample T-Test of Abnormal Return

ONE SAMPLE T-TEST			
DAY	**t**	**Sig (2-tailed)**	**Results**
t-3	1,278	0,206	Insignificant
t-2	-0,735	0,465	Insignificant
t-1	-0,015	0,988	Insignificant
t-0	-1,693	0,095	Insignificant
t+1	-1,969	0,053	Insignificant
t+2	0,652	0,517	Insignificant
t+3	-3,482	0,001	Significant

Table 3 shows that there is an abnormal return surround the observation period. There is a significant value which is 0.001 at t+3. It means the market experienced a negative abnormal return at t+3. So it can be concluded that **The First Hypothesis (H_1) is Supported.**

Table 4
Wilcoxon-Signed Rank Test on Abnormal Return

Test Statistics	
	AAR-Before and AAR-After
Z	$-2{,}575^{b}$
Asymp. Sig. (2-tailed)	0,010

The second hypothesis (H_2) can be supported if there is a significant difference in trading volume activity variable before and after the event and followed by a decrease in average trading volume activity after the event. To find out whether there is a significant difference before and after the event, Wilcoxon- Signed Rank Test is used because based on the normality test the data is not normally distributed. Table 4 shows the Wilcoxon-signed rank test, the results indicate that there is no significant difference in the trading volume activity variable, Asymp.Sig. (2-tailed) of this variable is 0.064 > 0,05 or 5%. Descriptive test on tables 2 and figure 1 state there is a decrease in average trading volume activity after the event that is equal to 0,00080 or decreased by 0,08%. Although descriptive test stated there is a decrease in average TVA but it still cannot be sure to indicate that issues of social ethics are the one which makes a decrease on TVA of a company because the difference obtained in this research is not significant. So it can be concluded that **The Second Hypothesis (H_2) is Not Supported.**

Table 4
Wilcoxon-Signed Rank Test on Trading Volume Activity

Test Statistics	
	TVA-Before and TVA After
Z	-1,850[b]
Asymp. Sig. (2-tailed)	0,064

4.2. Interpretation

Boyle et al (1997) state that investors’ decision can be influenced by social motives. Based on hypothesis test results there is a significant difference before and after the event on abnormal return variable. It means that information on social ethics violation has enough information to make the market react. Information related to the company will be appreciated by investors because according to Ayza (2014) an investor may not have the ability to asses and analyze in depth the information that is provided. Therefore, with the news about social ethics violation become an additional information to determine the decision of investors in investing. Fabozi (2003) stated that additional information can help to forecast stock returns because the stock price may react to news announcement. This view is also supported by Naderi (2012) that an issue or news about a company can make overreaction to the market because the market will respond to the announcement of new and unexpected information. This research also finds that the abnormal return is occurred at t+3. According to Atmaja (2011), the market has an overconfidence characteristic where they feel like could overcome the market, meanwhile, this information is powerful enough. Therefore the market is late to respond and the abnormal return could be seen at t + 3.

The results of this research also support the research results of Tay *et al.* (2016) which state that the announcement of white-collar crime has a negative abnormal return on the stock price. Tay *et al.* also state that the decline in stock prices reflects investors' concerns that they are afraid the firm might be suspended. The results of this research also support the research results of Deak and Karali (2014) that stock return increases to environmental improvements and decrease in responding to environmental violations.

According to Remorov (2014) trading volume activity is an analytical technical tool used in addition to evidence of market reaction. Because TVA reflects supply and demand in the market. In accordance with Signaling Theory companies signal with available information as regards the market can react by making a decision to buy or not the stock of the company. Based on the results of this research proves that TVA variables do not experience differences significantly before and after the event. This means that the market does not react to bad news in the TVA variable. The results of this research support research Firmansyah*et al.* (2016) where he did not agree on the theory of trading ranges, stocks after the stock split is liquid and investors are not proven to increase trading volume. The result of this research also supports research result of Suparsa and Ratnadi (2014) they were investigating whether the announcement of a rise in fuel prices could make the market react, meanwhile the results show the market doesn’t show any reaction because the market already accustomed to predicting when the fuel price hike will be applied. Based on the results of this research, no significant difference due to investors' reaction before and after is because the reaction of investors are varied. Not all investors react to the news of social ethics violation. There are some factors that might cause market does not react prolonged, according to Nazir (2014) state that (1) the market does not react if the information is deemed as lesser important or irrelevant, (2) because the event contains less information, therefore, it can be easily influenced by other noisy information. Suryanto (2015) also stated that the tendency of investors who use a lot of waits and see strategy is also one of the causes of no significant difference in the window period.

V. CONCLUSIONS

This research aims to investigate whether there is a negative difference of market reaction to the news about social ethics violation shown by abnormal return and trading volume of activity before and after the event. Based on the results in this research it can be concluded that Indonesian Capital Market reacted significantly negative to the news of social ethics violations and it is shown by a decrease in average abnormal return as much as 0,26%, an abnormal return occurs at t + 3 after the event with the significant number is 0,001. It indicates that the market reacts overconfidence and misjudge the situation, therefore, the response is a little late. Meanwhile TVA variable does not have a significant different before and after the event. Even if based on the descriptive test, there is a decrease before and after the event by 0,08%, but it still cannot be sure to indicate that issues of social ethics are the one which makes a decrease on TVA of a company because the difference obtained in this research is not significant. The contribution of this research is as an information to make managerial decisions. Managers should be more aware about the action that they take whether it will harm the company or not.

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Descriptive Test of Abnormal Return

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
AAR_before	64	-,0286210	,0243440	,000995906	,0100574524
AAR_after	64	-,0456480	,0168540	-,003568594	,0104221751
Valid N (listwise)	64				

1. APPENDIX VII

Descriptive Test of Trading Volume Activity

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TVA_before	64	,0000000	,0293760	,001889502	,0044633027
TVA_after	64	,0000000	,0088950	,001086953	,0017643493
Valid N (listwise)	64				

One-Sample Kolmogorov-Smirnov Test					
		AAR_before	AAR_after	TVA_before	TVA_after
N		64	64	64	64
Normal Parameters[a,b]	Mean	,000995906	-,003568594	,001889502	,001086953
	Std. Deviation	,0100574524	,0104221751	,0044633027	,0017643493
Most Extreme Differences	Absolute	,117	,152	,340	,281
	Positive	,117	,082	,340	,281
	Negative	-,094	-,152	-,336	-,269
Test Statistic		,117	,152	,340	,281
Asymp. Sig. (2-tailed)		,031[c]	,001[c]	,000[c]	,000[c]
a. Test distribution is Normal.					
b. Calculated from data.					
c. Lilliefors Significance Correction.					

One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
t-3	1,278	63	,206	,00475297	-,0026783	,0121842
t-2	-,735	63	,465	-,00172309	-,0064109	,0029647
t-1	-,015	63	,988	-,00004206	-,0056011	,0055170
t-0	-1,693	63	,095	-,00461088	-,0100525	,0008307
t+1	-1,969	63	,053	-,00430102	-,0086651	,0000631
t+2	,652	63	,517	,00188616	-,0038962	,0076685
t+3	-3,482	63	,001	-,00829072	-,0130487	-,0035327