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

(Undergraduate Thesis)

By

SEKAR ARUM PROBOWATI RAMBE

FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITY OF LAMPUNG
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ABSTRACT

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

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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 was used to find on which day the Abnormal Return occured. The Results of this research show that there is a negative market reaction shown by Abnormal Return Variable, and it occure at t+3. It indicates that the market reacts conservatively and feel overconfidence therefore the respond is late. Meanwhile for Trading Volume Activity Variable does not show any market reaction after the event.

Overall market will only reacts 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 about the action that they take whether it will harm the company or not

Key words: Abnormal Return, Trading Volume Activity, Event Study.
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Undergraduate Thesis

As One of Requirements to Achieve BACHELOR OF ECONOMICS

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Accounting Department
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FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITY OF LAMPUNG
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STATEMENT OF ORIGINALITY

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1. This undergraduate thesis, titled "Market Reactions to Social Ethics Violation News by Companies Listed in Indonesia Stock Exchange" is my own work, and neither did I imitate nor cite the works of others in a manner that is against the acceptable standards in the scientific community, which is defined as plagiarism.

2. I, as the author of this undergraduate thesis, assign all the intellectual property rights over this academic writing to the University of Lampung.

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Sekar Arum Probowati Rambe was born in Bandar Lampung on 13 September 1996, she is the first child of two siblings. Her father's name is Efendi Rambe and her mother's name is Sri Mardiningsih, her little brother's name is Muhammad Ashari Dwi Kurniawan Rambe.

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DEDICATIONS

All the praises and thanks be to Allah Almighty for all grace, great blessing to the author.

This work I dedicate to:

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who always love me, giving me advices and motivation, praying for me every single time, and always be patient hearing all my complaints.

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My whole family and friends
who always pray for me, give me advices for me.

My dear Almamater, University of Lampung.
Do not lose heart nor fall into despair! You shall triumph if you are believers. (The Holy Quran 47:35)

Don’t take a rest after your first victory because if you fail in second, more lips are waiting to day that your first victory was just a luck.

(Dr. A.J.P. Abdul Kalam)

Do things you are a little not-ready-to-do yet. That is how you grow and have breakthroughs.

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Bandar Lampung, April 2018
Author,

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CHAPTER I
INTRODUCTION

1.1. Background

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 looking at whether a company is in healthy state there are several indicators such as firm performance and its stock market. According to Al-Matari et al. (2014), the firm's success is basically explained by its performance over a certain period of time. AL-Matari et al. also stated three ways to measure the firm performance they are accounting based measurement such as ROA, ROE, EPS, PE, market based measurement such as market to book value, abnormal return, and other measurement such as output per staff, cost per service provided and cost per client served. Stock price is one of indicators to see company’s performance, because the performance of a company usually reflects its stock price (Shamsudin et al., 2013).

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. Solomone 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, environmental 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).

Investors not only react from what is reported by the company in its annual report but also react to the events reported in the mass media. Event that contain
information, whether it is positive or negative information, that may affect the value of the company such as employee strikes, the changing of CEO, fraud, ethical offenses, natural disasters and so on is something that could made market react. To find out whether these events affect the market reaction or not is to look at the state of the company's stock price (Fabozzi, 2003).

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 termination of employment, cartel, the employee’s rights. Cartel is the cooperation of a number of competing firms to coordinate its activities so as to control the amount of production and the price of a good or service to gain profit above a reasonable level of profit. 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). The link between the cartel phenomenon and investment is that cartels can indicate an arbitrary price-making event called a monopoly, which means the market becomes inefficient. While investor's decision to invest or not by assess whether or not the market from the level of efficiency. Pasaribu (KPPU.go.id) state that fair competition can have a positive impact, investment in a competitive perspective is an investment that provides prosperity and not a collection of fraudulent business actors.

Another social issue of this research is about termination of employment, there are many cases about termination of employment that have been done by companies which have difficulties in maintaining the sustainability of their companies as
reported in the case of 2014. In 2014 the cigarette industries are shaken by new regulations in the country, such as excise, local taxes, and Government Regulation No. 109/2012 concerning Security of Materials Containing Addictive Substances. The incident resulted in a sales decrease by the cigarette industry such as HM Sampoerna and Bentoel where there were about 4900 employees who were laid off from their work.

If the termination of employees happen there will be a lot of unemployment in the country so it can affect the country's economic growth. According Sukirno (2008: 423), economic growth means fiscal development of goods and services in the country. Economic growth is one of the indicators to assess economic performance. As reported by geotimes.co.id the existence of termination of employment will decrease the level of public consumption. Because, if someone does not have income, they would not be able to buy goods for their consumption. Moreover, Indonesia's current economy is still dependent on the level of consumption up to 70 percent. Murni (2006: 202) states that with a bad growth of labor, causing a lethargy for investor to invest. In line with the statement above, Shahzad (2013) states that high economic growth rates are likely to lure investors in finding the potential market to have good return.

In the Indonesian Republic law number 13 of 2003, chapters 5 and 6 explaining that the workforce is entitled to equal treatment and opportunity. In the case of PT Sumber Alfaria Trijaya Tbk 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. Those kind of issue would affect company’s image, because the media is a means for delivering information to all interests in this research focus on investors.

Many studies of disclosures such as CSR and intellectual capital have an influence on firm value or company performance. Intellectual capital is divided into three. There are relation capital, structural capital and human capital. Human being is a central attention in twentieth century. It relates to the progress of the economic development sciences and sociology. The experts of those sciences agree on one thing that human capital takes a significant role or even more important than technological factor driving the economic growth (Ishwati and Anshori, 2007).

According to Ayza (2014) an investor may not have the ability to assess and analyze in depth the information that is provided. In this case, reputation comes into play. Accounting firms, auditors, and other professionals rely on their reputation, as these are the signals used as indicators for their evaluation. It means that an auditor would be trusted when they can do their job clearly, vice versa when the auditor is frozen for a matter, fraud, then their reputation will go down and make the client will hesitate to ask that auditor to audit their report. A reputation can be defined as the stakeholder's evaluation of an organization. Investor is interest to find out about any information related to a company or their image in media reflects general expectation and those image could help to trigger
a decision. The normative and empirical literature suggests that investor decisions maybe influenced by both their economic and social motives (Boyle et al., 1997).

An event study is a statistical method to assess the impact of an event on the value of a firm. For example, the announcement of a merger between two business entities can be analyzed to see whether investors believe the merger will create or destroy value. Capital market reaction to information content in an event can be measured by using return as a value of price change or by using abnormal return which is the difference between return actual returns expected by investors. Abnormal Return is an indicator used to measure the market reaction due to the occurrence of an event. If an event contains good information then the abnormal return shown will be positive and vice versa.

In this globalization era is very easy for investors to get information related companies that become places of investment. Fabozzi (2003) states that prices at all times are fully reflected on all the available information that is relevant to the valuation of securities. The investor will appreciate of any form of information they got because the expectation will be identical to the optimal forecast using all available information. In his book Fabozzi also said that a good announcement does not always result in an increasing stock price, but the stock price will respond to announcement only when the information is announced is new and unexpected.

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 the social ethic violation such as termination of employment, cartel, and employment’s rights committed by the company. Therefore the title of this research is "Market Reactions to Social Ethics Violation News by Companies listed in Indonesia Stock Exchange".

1.2. Problem Statement

Therefore based on the explanation above the formulation of this research problems are:

1. Is there a market reaction to the news of social ethics violation indicated by the change in abnormal return after the news of social ethics violation committed by companies in the Indonesian stock exchange?

2. Is there a market reaction to the news of social ethics violation indicated by the change in average trading volume activity after the news of social ethics violation committed by companies in the Indonesian stock exchange?

3. Is there any significant abnormal return surround the news of social ethics violation?
1.3. **Purpose of The Research**

The purpose of this research is to investigate whether there is a difference of market reaction to the news about social ethic violation shown by abnormal return and trading volume activity before and after the news release.

1.4. **Research Benefit**

1.4.1. **Theoretical Benefit**

This research is used as an application of theory that has been obtained by the author during the lecture and this research is also expected to increase knowledge and be used as a reference for further research.

1.4.2. **Practical Benefit**

The benefit of this research for the company is as a reference to management in terms of knowing whether a social ethic violation news in the media can generate market reaction or not.
CHAPTER II
LITERATURE REVIEW

2.1 Theoretical Base

2.1.1 Signaling Theory

Signalling theory is how accounting can be used to signal information about the firm accounting reports are often used to signal information about firm. The logical consequence of signaling theory is that there are incentives for all managers to signal expectations of future profits because, if investors believe the signals (Godfrey et al., 2010).

According to Spence (2002) signaling theory is fundamentally concerned with reducing information asymmetry between two parties, where there is a commonly understood desire to communicate accurate information to each other. 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 (Conelly et al., 2011).

2.1.2 Efficient Market Hypothesis Theory

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. Based on Fabozzi (2003) the efficient market
hypothesis predicts that stock will reflect all publicly information, Fabozzi also state that additional information might be used to help forecast stock returns because stock price may overreact to news announcement. Hartono (2013) stated that the market called efficient when information is widely available to market participants. Usually market participants generally get information through radio, newspapers, and other mass media so that the information can be received simultaneously. Investors will react quickly to achieve a new equilibrium price in terms of responding to information. The stock price will respond to announcement only when the information being announced is new and unexpected. Fama (1970) 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.

a. Weak Efficiency

Weak efficiency means that the price of the security reflects the past price and trading history of the security. This weak market efficiency occurs when in the buying and selling decisions of investors' stocks using past price and volume data.

b. Semi-strong Efficiency

Semi-strong efficiency means that the price of security fully reflect all public information, which includes but is not limited to historical price and trading patterns. 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. This means that investors use a combination
of technical and fundamental analysis in the process of calculating the value of shares, which will be a guide in purchasing the bid price and bid price.

c. Strong efficiency

Strong efficiency exist in a market where the price of a security reflect all information, whether or not it is publicly available. The market can be said to be strong when investors use more complete data such as past prices, last volumes, published information, and unpublished personal (private) information in general. Examples of personal information are the results of research published by the work unit at the company or purchased from other research institutions.

2.1.3. Event Study

An event study is a statistical method to assess the impact of an event on the value of a firm. For example the merger between two business entities can be analyzed to see whether investors believe the merger will create or destroy value. Events such as environmental or social ethics violations by companies may effect 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 some time 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. According to Spais and Filis (2008) the advantage and disadvantage about event study are:

Table 2.1. Advantage and Disadvantage Event Study

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<td>• The advantage of event studies in the context of company is the event study will create an abnormal performance of an event which will have an impact on the shareholder of the company.</td>
<td>• Considering that the event study method is increasingly used to examine the impact of managerial decision-making it is necessary to ensure whether it has been implemented correctly, results have been reported clearly, and whether the interpretation of the results has been appropriate.</td>
</tr>
<tr>
<td>• Event study is very useful for capital market research as a way to test market efficiency. Event study focuses on the time when the incident occurred and can be useful to understand the policy decisions that the company does. And also could minimize the errors.</td>
<td>• The result of event study depends on how the research is designed, in the research of event study there are some research that uses unsupported theories and inappropriate techniques, therefore the difficulty of the event study is must have the right techniques and theories so that the results reflect the real market reaction.</td>
</tr>
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</table>

2.1.4. Abnormal Return

The market reaction is indicated by the price change of the securities in question, if the announcement contains information then it is expected that the market will react when the announcement is received by the market (Pratama et al., 2015). Capital market reaction to information content in an event can be measured using a return as a value of price change or using an abnormal return.
An investment is the current commitment of money or other resources in the expectation of reaping future benefits. The impact of an event on each type of event are varies. Investors in assessing the company to be invested will measure with the return earned from current prices and previous prices. According Samsul (2006) in event study in order to analyze specific events it used abnormal return. Abnormal Return is the difference between actual return and expected return, which can occur before the official information is published or information leak has occurred.

Signs of a positive or negative abnormal return indicate the direction of market reaction due to good or bad news. Events of good news are expected to be reacted positively by the market, and vice versa bad news are directing the market reaction negatively. According to Samsul (2006: 276), abnormal return is classified into 4 groups, namely:

- Abnormal Return (AR), abnormal return is the difference from actual return with expected return calculated on a daily basis. Thus it can be known highest and lowest abnormal returns and strongest reactions in the days of the window period.

- Average abnormal return, average abnormal return is the average of all types of stocks on a daily basis. By calculating the average abnormal return then it can viewed the most powerful reaction of all types of stocks in the days on window period.

- Cumulative Abnormal Return (CAR), cumulative abnormal return is the accumulation of daily abnormal return for all types of stocks. Cumulative
abnormal return is used for compare each type of stock that has an effect on before and after the event.

- Cumulative Average Abnormal Return (CAAR), cumulative average abnormal return is the accumulation of the average abnormal return. Cumulative average abnormal return is used for knowing the tendency of a positive or negative impact of a event. To know the trend of the impact of a event then the cumulative average abnormal return before the event compared with an abnormal cumulative average return after the event.

2.1.5. Trading Volume Activity

Huddart et al. (2005) state that to examine the investors’s behavior, we can use trading volumes and stock price fluctuations. Performing an event study, they were able to conclude that investors’s behaviour is influencing the trading volumes of the stock market and the stock prices themselves. The value of the trading volume is the most important indicator of the stock market, which quantifies the supply and demand intersection for the price equilibrium. The dynamics of the trading volume are widely used in the technical analysis (Remorov, 2014).

2.1.6. Termination of Employment

The causes of termination of an employment agreement are regulated in Indonesian Law number 13 of 2003 regarding Manpower (Labor Law). The employment law regulates a variety of causes of termination of an employment agreement, conducted by either the employee or employer or based on mutual agreement. There are many reasons why the termination of employment happen,
such as a deceased employee, an employee who commits an offense, an employee who has moved to another company, an employee who decides to resign by their own will, the company of the employer goes bankrupt (Indonesia-investment, 2014). Kucharcikova (2011) state that human capital as a business resource or asset which forms part of the market value of the company.

2.1.7. Cartel

The definition of a cartel is the cooperation of a number of competing firms to coordinate its activities so as to control the amount of production and the price of a good or service to gain profit above a reasonable level of profit. The cartel regulations are spreading in various articles of Law Number 5 of 1999 about Prohibition of Monopolistic Practices and Unfair Business Competition (Law No. 5 of 1999), as described on article 5 about price fixing, article 9 on territorial cartels and Article 11 concerning the production and marketing cartels. According to Article 35 letter a Law no. 5 of 1999, if the business actor violates article 4 up to Article 16, KPPU will conduct an assessment of the agreement which may result in monopolistic practices and or unfair business competition. Based on the article, if the business actor is indicated to conduct a cartel then KPPU should be assessed by its agent. It is this agreement that will be evidence of a cartel. As Allan Green Span, former FED Governor said that the market economy grew through three things. One of those is the level of domestic competition, especially for developing countries, the level of state openness to trade and its integration with other parts of the world. A competition policy is created to create a
competitive environment so that economic growth is not only efficient but also encourage welfare (Martadisastra, KPPU’s Member, 2011).

2.1.8. Accuracy of News In Online Journalism

The term "The world in hand" is a term suitable to describe the sophistication of technology in this present era. All information can be easily found only by using a smartphone. People no need to be hard to find the latest information on the newspaper because there are many online news sources that provide the information needed. But not a little the impact resulting from sophistication of technology such as fraudulent sites and news sites that spread unreliable news. As explained earlier, Fabozzi (2003) any additional information that has value can influence market reaction especially if the information is unpredictable. Information about the company other than obtained from the company’s annual report can also be found in news sources.

Online news sources can be said to be credible if they have Believeness, Fairness/Objective, Accuracy, Completeness (Cassidy, 2007). Johnson and Kaye (2008) state that the internet is a one-stop shopping source for political information: news stories and analysis, video clips, candidate speeches and issue positions, up-to-date results, and ballot information. Believability, related to factual news writing, is there mixing of facts and opinions of journalists. To be believed believable, transparency of news sources is a major requirement that must be met (Hungbo, 2007). Accuracy explains whether there is a suitability of news content that is able to support the title and news lead and about the accuracy of news writing, whether there is something less or not (Flanagin, 2000). For completeness, a news is fulfill
of news elements. The basic online story form has been described as "print plus". It's a text story that includes additional elements like photographs, audio, and video, or hyperlinks to more information. Objective is method for verifying information, journalists can report stories that do not reflect their own personal views. The story itself, in other words, should be impartial and fair. The challenge for journalists is to report all significant viewpoints in a way that is fair to those involved and that also presents a complete and honest picture to the audience. Fairness means, among other things, listening to different viewpoints, and incorporating them into the journalism (Potter, 2006).

2.2. Previous Research

Table 2.2. Previous Research

<table>
<thead>
<tr>
<th>No.</th>
<th>Author</th>
<th>Title</th>
<th>Variables</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Zsuzsanna Deak &amp; Berna Karali (2014)</td>
<td>Stock Market Reaction To Environmental News in The Food Industry.</td>
<td>Independent: Environmental Ranking Scheme, Article, Rated Food Companies. Dependent: Cumulative Abnormal Return before and after event.</td>
<td>Results show that positive (negative) events that are the result of direct internal company actions lead to higher (lower) predicted returns, whereas events related to third-party opinions lead to smaller changes in predicted returns in short event windows.</td>
</tr>
<tr>
<td>3.</td>
<td>Nazir et al. (2014)</td>
<td>Impact of Political Events on Stock Market Returns: Empirical</td>
<td>Independent: Political Events showed by stock price</td>
<td>The empirical result shows that political events have an impact on the Karachi Stock</td>
</tr>
<tr>
<td></td>
<td>Evidence From Pakistan</td>
<td>Dependent: Average Abnormal Returns before and After event.</td>
<td>Exchange returns.</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------------</td>
<td>----------------------------------------------------------</td>
<td>------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ReaksiPasar Modal Indonesia terhadap Peristiwa Politik (Event Study padaperistiwa Pelantikan Joko Widodo Sebagai Presiden RI ke-7)</td>
<td>Independent: Event Study about the changing of Indonesian’s President. Dependent: Abnormal Return</td>
<td>Abnormal return on the event period was varied but not statically significant. Market reaction before and after the event is not significant.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Tay et al. (2016)</td>
<td>Analisis Perbandingan Trading Volume Activity dan Abnormal Return Sebelum dan Sesudah Stock Splits</td>
<td>The result of this research shows that there are no significant different in trading volume activity dan abnormal return before and after the event.</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Firmansyah et al. (2016)</td>
<td>Trading Volume and Price Reaction to Public Announcement</td>
<td>The results are first, the price change at the time of announcement is proportional to both the unexpected portion Of the announcement and its relative importance across the posterior belief sof traders. This relative importance is increasing in the precision of the announcement and decreasing in the precision of the pre announcement information.</td>
<td></td>
</tr>
</tbody>
</table>
2.3. Research Framework

Based on the background and problems that have been described above, this research is an event study about social ethics violation news by companies which listed in IDX. This event study will see the effect on market reaction shown by stock price. In this research the market reaction will be seen using abnormal return and trading volume activity.

![Figure 2.1. Research Framework](image)

2.4. Hypothesis

On efficient market hypothesis theory state that a stock price is show the publicity 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. 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 result 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).
Events that contain positive information will have a positive impact on the abnormal return and otherwise (Pratama et al., 2015). Events on ethical violations by the company and audible by the public will degrade the company's image. The Indonesian government has regulated the obligations of the company in terms of responsibility the social responsibility of the Law no. 40 in 2007. So based on this regulation the company does not view social disclosure as a charity but also as a means of competing to get interest from investors. The release of information on corporate social responsibility will support the sustainability of the company.

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 shows the increasing of stocks's 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 image could help to trigger a decision.

Based on Weir (2014) the unexpected green rankings had significant effect on abnormal returns, suggesting that the stock market did react to the unanticipated component of the Newsweek Ranking. This paper also state that the company who got the unexpected worse rank would have a negative stock abnotmal return. Tay et al. (2016) also finds that white collar crime announcement demonstrates evidence of negative price reaction throughout the days subsequent to the day of announcement. Nazir et al. (2014) finds there are political events that show a
significant differences in abnormal returns, this research also state that the people react for short period of time and after that they absorb the noisy information.

Beaver (1968) change in price reflects average change in trader’s beliefs, while volume reflects the sum of differences in trader’s reaction to announcement. Volume identifies systematic differences in investors’ knowledge or other characteristics which result in different reactions to public announcements across firms or across types of announcement (Kim and Verrechia, 1991).

This research would investigate whether events about social ethic violation by companies will affect market reaction that could be seen by abnormal return and trading volume. So 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.

\[ H_3 \]: There is an abnormal return surround the observation period of the event study which is \( t-3 \) to \( t + 3 \).
CHAPTEr III
RESEARCH METHODOLOGY

3.1. Data Resource

Kompas.com is one of the pioneer media online in Indonesia when first present on the internet on September 14, 1995 with the name of Kompas Online. Kompas.com won some journalistic award, the last in 2016 was awarded the best website award. Kompas.com is a reliable and accurate online media resource. Based on research by Damayanti (2016) who examines 4 online news sources there are Detik.com, Kompas.com, Tribunnews.com, Liputan6.com then Damayanti concluded that the four news are credible online news. 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.

3.2. Population and Sample

According to Salkind (2003) a population is a group of potential participants to whom you want to generalize the results of study. The population in this research are all companies listed in Indonesia Stock Exchange period 2010-2016.
Salkind (2003) state that sample should be selected from populations in such a way that you maximize the likelihood that the sample represents the population as closely as possible. Sample should be selected from populations in such a way that you maximize the likelihood that the sample represents the population as closely as possible. In this research the sampling method would be use 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.

Table 3.1. Research Sample

<table>
<thead>
<tr>
<th>No</th>
<th>Explanation</th>
<th>The Total Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The number of news related to social ethics violation 2010-2016</td>
<td>72</td>
</tr>
<tr>
<td>2.</td>
<td>Companies that conduct corporate action during window period</td>
<td>(3)</td>
</tr>
<tr>
<td>3.</td>
<td>Do not have complete financial report data and stock trading data that can be accessed through official website of IDX or other capital market sites such as yahoo finance, investing.com</td>
<td>(6)</td>
</tr>
<tr>
<td></td>
<td><strong>The Total of Sample</strong></td>
<td><strong>64</strong></td>
</tr>
</tbody>
</table>

3.3. Variables

Salkind (2003) state that variable is a noun, not adjective, and represent a class of outcomes that can take on more than one value. There are two main variables of a research, dependent variable which represent the measure that reflect the outcomes of a research study and independent variable which represent the treatments or conditions that the researcher controls to test their effects on a particular outcome. To test this research hypothesis about event study to market
reaction hence variable used in this research is abnormal return and trading volume.

3.3.1. Abnormal 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:

\[ AR_{it} = \text{Abnormal Return of I stock on t period} \]

\[ R_{it} = \text{Actual return of I stock y on t period} \]

\[ E(R_{it}) = \text{Expected return of I stock on t period} \]

\[ AR_{it} = R_{it} - E(R_{it}) \]

To calculate actual return:

\[ R_{it} = \text{Actual return of I stock on t period} \]

\[ P_{it} = \text{price stock of I stock on t period} \]

\[ P_{it-1} = \text{price stock of I stock on t-1 period} \]

\[ R_{it} = \frac{P_{it} - P(it - 1)}{P(it - 1)} \]
Expected market return or normal return

\[ R_{mt} = \text{Market Return on t period} \]

\[ \text{IHSG} = \text{IHSG on t period} \]

\[ \text{IHSG}_{it-1} = \text{IHSG on t-1 period}_{it} \]

\[ R_{mt} = \frac{\text{IHSG} - \text{IHSG}_{(it-1)}}{\text{IHSG}_{(it-1)}} \]

3.3.2. Trading Volume Activity

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

\[ TVA = \frac{Trading \ Volume \ on \ t \ period}{Outstanding \ Stock \ on \ t \ period} \]
3.4. Data Analysis Method

3.4.1. Descriptive Statistic

To illustrate the data used in this research, financial analysis ratio is used in descriptive statistics to provide an overview and summarize data to be observed. The statistic description used is based on the mean, standard deviation, as well as the maximum and minimum values of abnormal return and trading volume before and after the reporting of layoffs by manufacturing companies listed on the IDX.

3.4.2. Normality Test

This test of observed data to be applied with the samples used in this research is normally distributed or not. In this research based on previous research for the example of data normality can be done by one-sample test method of Kolomogrov-smirnov test with the help of SPSS. Samples will form normally distributed if Asymptotic sig > the level of confidence used in the test. Reaction is not normal when asymptotic sig < confidence, in this case is 95% or α = 5%.

3.4.3. Hypothesis Test

3.4.3.1. Paired Sample T-Test

If the data is normally distributed the hypothesis test would be done by parametric test which is Paired Sample T Test, paired sample t-test is a method that can be used to test the difference between two paired samples. Decision-making accepts or rejects the hypothesis reflected by test results performed with a significance level of 5% or 0.05. If the probability shown (Sig) is less than 0.05 then H₀ is rejected and Hₐ is accepted. If the probability shown (Sig) is more than 0.05 then H₀ is accepted and Hₐ is rejected.
3.4.3.2. Wilcoxon Signed-Rank Test

If the data is not normally distributed the hypothesis would be done by non-parametric test which is wilcoxon Signed-Rank Test. Decision-making accepts or rejects the hypothesis reflected by test results performed with a significance level of 5% or 0.05. If the probability shown (Sig) is less than 0.05 then H₀ is rejected and Hₐ is accepted. If probability shown (Sig) is more than 0.05 then H₀ is accepted and Hₐ is rejected.

3.4.3.3. One Sample T-Test

One Sample T-Test is performed to determined whether the market occurred during window period. This test is conduct to find on which day abnormal return will occurred.

- If the probability value < 0.05, then it can be concluded, statistically, significant reactions occurred.
- If the probability value >0.05, then it can be concluded, statistically, there is no significant reactions occurred.
CHAPTER V
CONCLUSION AND SUGGESTION

5.1. Conclusion

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 shown by a decrease in average abnormal return as much as 0,26%. Therefore the first hypothesis is supported (H1).

The TVA variable does not show any significant difference before and after the event. Even if based on 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 is the one which make a decrease on TVA of a company because the difference obtained in this research is not significant. Therefore the second hypothesis (H2) is not supported.

Based on one sample t-test, abnormal return occurs at t + 3 after the event with the significant number is 0,001. It indicates that the market reacts conservatively and
feel overconfidence therefore the respond is little late. Therefore the third hypothesis is supported ($H_3$). Overall the market only reacts to stock prices meaning news about violations of social ethics contains enough information to make the market react, but not to trading volume activity, due to the various market responses to TVA makes the market does not show significant results.

5.2. Limitations

This research has the following limitations:

1. In this research, the data source is only use kompas.com so it is possible that the news about social issues reported through other online media.

2. This research focuses on violations committed by a company or negative news on social issues only. So it is possible that the information contained is not enough to make the market react.

5.3. Suggestions

Based on the conclusions and limitations of this research the author provide suggestions that can be considered for further research, for further research is expected to add the topic or issue to be discussed not only negative news about social ethics but by added negative issues about politic or environment, and also adding data sources through other media online. 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.
REFERENCES


