DO CASH FLOWS AND BANK SIZE INFLUENCE STOCK RETURNS?

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Abstract
This research aims to determine the effect of cash flow statement components and bank size on stock returns. This study uses a signaling and stakeholder theory approach in the banking sector companies listed on the Indonesian stock exchange for 2017-2021. The unit analysis unit is determined based on the purposive sampling method so that the research data derived from financial statements are one hundred eighty-five. The results showed that operating activity cash flow and financing activity cash flow positively and significantly affect stock returns. The investment activity cash flow and bank size do not affect stock returns. The investment activity cash flow and bank size are not always a concern of investors in making investment decisions and estimating returns in a company. The operating cash flow and financing cash flow are essential indicators for investors in making investment decisions in the capital market. The operating cash flow and financing cash flow act as positive signals on stock returns, especially for related stakeholders.

Keywords: Cash Flows, Bank Size, Stock Returns.

1. INTRODUCTION

Accessibility to sources of funds is essential for the company, considering it affects the chances of survival and development of the company. The capital market is one of the primary sources of external funds for companies that show a rapid increase in the economy in Indonesia. Based on information from the Indonesian Stock Exchange (IDX), the number of banking companies listed on the IDX has altered in recent years. The number of banking sector companies on the IDX amounted to thirty-nine in 2014, and four companies increased in 2016. It expanded again in mid-2021 was forty-three.

The capital market is one of the places for investors to contribute capital with the trust of getting a return in the form of benefits on their investment activity. Figure 1 presents the average value of stock returns in banking sector companies on the IDX decreased in 2018 and 2020. This decrease is certainly quite worrying, especially for investors who invest in the company. Investors must carry out a careful and intensive examination of the expected return when investing in stock investment decisions. Even though stock price movements fluctuated in the capital market, the research results during the COVID-19 pandemic showed no difference in stock returns for LQ-45 companies (Rufaidah & Arfan, 2022). Therefore, it is crucial to investigate the determinants of stock returns in the banking sector companies.

Publication of financial reporting is a signal that describes the company's economic condition. Investment decisions within the capital market require various data, including information related to the company's condition and performance, presented in the financial statements, which is essential in assessing the company's performance measures. Corporate reporting includes financial reports that can be used by stakeholders, including investors, to evaluate corporate performance before investing (Dosinta, 2023). The company's financial statements are one of the main factors for investors in making an investment decision. The information provided by the company in the form of financial statements can change the level of investor confidence.
Many factors influence stock returns, including cash flow components and bank size. Statements of cash flows are classified based on operating, investing, and financing activities during an accounting period (Ikatan Akuntan Indonesia, 2018). The research results show that operating cash flow affects stock returns in the Qatar capital market (Al Zobi & Al-Dhaimesh, 2021), in the IDX (Yocelyn & Christiawan, 2012). However, investing cash flow does not affect stock returns in the Qatar capital market (Al Zobi & Al-Dhaimesh, 2021), while financing cash flows do not affect stock returns in the IDX (Yocelyn & Christiawan, 2012).

The previous research uses a signaling theory approach in the banking sector companies listed on the IDX for 2017 (Sari, 2023) and in the financial companies listed on the IDX for 2015-2019 (Pratiwi et al., 2021). Therefore, this study uses a signaling and stakeholder theory approach in the thirty-seven banking sector companies listed on the IDX for 2017-2021 that previous studies have yet to use. This research aims to examine determinants of stock returns through cash flows and bank size. This research is expected to contribute to signaling and stakeholder theory, especially regarding stock returns and company financial statements, to explore research gap opportunities and other signals that can be useful in making investment decisions in future research. For investors on investment decisions, this research can be used for additional information regarding the effect of the components of the cash flow statement and bank size on the stock returns of banking companies listed on the IDX.

This research is organized as follows, section literature review and hypotheses summarize the theory, empirical studies, and hypotheses. Section methods describe the research design for corporate component cash flow, bank size, and stock return, section results and discussion reports the results and discussion of these tests. The section conclusion summarizes results, theoretical and practical implications, limitations, and recommendations.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling Theory

Stock returns as a signal to investors can be explained using signal theory (Nurcahyono et al., 2021). The signal theory was proposed by Spence, (1973), explaining that the owner of the information gives a signal that reflects the condition of a company that is beneficial to the recipient. This information can be an essential indicator for investors and businesses in making investment decisions. The signal theory aims to understand how specific signals can provide a higher quality advantage over others. The signal theory examines how signals relate to their reflected qualities and what signal elements or communities make signals attractive. The signaling theory emphasizes the essential of corporate information on investment decisions for stakeholders (Hartono, 2013).

Stakeholder Theory

In stakeholder theory, the company's concern for the company's environment will influence the views of stakeholders on the company (Robert, 1992). Some parties are interested in the company's attitude towards sustainability so that annual reports can be communicated to stakeholders and shareholders (Frias-Aceituno et al., 2012). In the context of stakeholder theory, the company acts as a vehicle for coordinating stakeholder interests (Deegan, 2015).

Hypothesis Development

Cash flows from operating activities are used by internal parties to find out where cash reserves are used and where cash reserves are obtained. Meanwhile, external parties or shareholders take advantage of cash flows from operating activities for decision-making. Therefore, an increase in cash flow from operating activities gives a positive signal to investors and creditors regarding the company's future performance, which affects stock returns. Research conducted by Purnawati et al. (2017) and Yuliarti &
Diyani (2018) shows that cash flow from operating activity does not significantly influence stock returns. However, different results were found by (Kasmiati & Santosa (2019); Rochim & Ghoniyah (2017); Sahfasat & Nurmala (2022), operating activity cash flow has a significant effect on stock returns. The first hypothesis, is as follows;

\[ H_1: \text{Operating activity cash flow has a positive effect on stock returns.} \]

Cash flow from investing activity is essential to growth and capital because it shows how companies allocate cash or money for the long term. Cash flow from investing activities is a report that shows cash inflows and outflows related to the company's investment activities in a certain period which can provide additional cash flows for the company to increase its income. This increase in investment cash flow is expected to attract investors and creditors to invest their shares in a company. It is associated with the signaling theory that good information on investment cash flows can increase investor confidence to invest in a company. Therefore, the investment cash flow statement is considered to influence stock returns. Research conducted by Kurtubi & Pramiudi (2018) and Sahfasat & Nurmala (2022) shows that the cash flow from investment activities has a significant positive effect on stock returns. Meanwhile, negative results did affect stock returns (Purnawati et al., 2017). The second hypothesis, is as follows;

\[ H_2: \text{Investing activity cash flow has a positive effect on stock returns.} \]

Cash flows from financing activities inform investors about a company's financial strength and capital structure. The signaling theory explains that the market reacted to announcements of cash funding (Miller & Rock, 1985). In addition, it distinguishes other signals that affect cash flow from financing, mainly changes in earnings which are closely related to the expected return on a stock. Based on the research conducted by Kasmiati & Santosa (2019); Kurtubi & Pramiudi (2018); Purnawati et al. (2017); Sari (2023), cash flow from financing activities has a significant positive effect on stock returns. Meanwhile, negative results were found in (Bala, 2017) research, which stated that cash flow from financing activities does not affect stock returns. Based on the description, the third hypothesis, is as follows;

\[ H_3: \text{Financing activity cash flow has a positive effect on stock returns.} \]

Larger companies are more capable of generating greater profits than small ones. According to Albuquerque et al. (2020) and Rahmawati & Hadiprajitno (2015), the relationship between firm size and stock returns is that large companies have large resources, so they are relatively resistant to economic turmoil and have more certainty. This certainty is one of the good signals given by the company, so that the firm size is considered to affect stock returns. Research conducted by Yuliarti & Diyani (2018) shows that firm size does not affect stock returns. However, different results were found by Rochim & Ghoniyah (2017) and Shofia (2020) that firm size has affected stock returns. Stakeholders will use their position to collect as much information as possible in the annual report to understand company risks (Dosinta & Astarani, 2021; Muslih & Mulyaningtyas, 2019) and make the right decisions (Dosinta et al., 2022a; Dosinta et al., 2022b; Sari & Sholikhah, 2019). Thus, the relationship between the influences of firm size on stock returns is hypothesized as follows;

\[ H_4: \text{Bank size has a positive effect on stock returns.} \]

3. RESEARCH METHOD

Table 1 shows the population and sample of this research.

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Banking sector companies in Indonesia Stock Exchange until December 2021</td>
<td>43</td>
</tr>
<tr>
<td>2.</td>
<td>Companies with an IPO date before 2017</td>
<td>(5)</td>
</tr>
<tr>
<td>3.</td>
<td>Companies with incomplete variable data</td>
<td>(1)</td>
</tr>
<tr>
<td>4. a)</td>
<td>The number of companies regarding the criteria of the research sample</td>
<td>37</td>
</tr>
<tr>
<td>4. b)</td>
<td>Research period</td>
<td>5</td>
</tr>
<tr>
<td>5.</td>
<td>Number of observations (a x b)</td>
<td>185</td>
</tr>
</tbody>
</table>

The populations in this research are all banking sector companies on the IDX until the end of...
December 2021, totaling forty-three companies. The purposive sampling with the criteria (Chandarin, 2017) are as follows; companies in the banking sector listed on the IDX from the period 2017-2021 and have an IPO before 2017 that publish annual financial statements that have been audited for the end of December 31, then companies with complete data under the needs of the variables used in this research. Based on the predetermined criteria in Table 1, thirty-seven companies are included in the sample criteria from a population of forty-three banking companies listed on the IDX. The number of observations in this study is one hundred eighty-five.

The dependent variable in this research is the stock return, the rate of return obtained by investors on their investments. The return used in this research is the realized or actual return. Realized return is the difference between the current stock price and the stock price in the previous period divided by the stock price of the previous period. Shares of a company can be valued from the returns the shareholders concerned receive. The independent variables in this research are operating activity cash flows, investing activities cash flows, financing activities cash flows, and bank size. The measurement of operating cash flow is as follows:

\[ \text{CFO} = \frac{(\text{CFO}_t - \text{CFO}_{t-1})}{\text{CFO}_{t-1}} \]

\( \text{CFO} \) = Change in operating cash flow
\( \text{CFO}_t \) = Operating cash flow in the current period
\( \text{CFO}_{t-1} \) = Operating cash flow in the previous year

The measurement of investing cash flow is as follows:

\[ \text{CFI} = \frac{(\text{CFI}_t - \text{CFI}_{t-1})}{\text{CFI}_{t-1}} \]

\( \text{CFI} \) = Change in investing cash flow
\( \text{CFI}_t \) = Investing cash flow in the current period
\( \text{CFI}_{t-1} \) = Investing cash flow in the previous year

The measurement of funding cash flow is as follows:

\[ \text{CFF} = \frac{(\text{CFF}_t - \text{CFF}_{t-1})}{\text{CFF}_{t-1}} \]

\( \text{CFF} \) = Change in financing cash flow
\( \text{CFF}_t \) = Financing cash flow in the current period
\( \text{CFF}_{t-1} \) = Financing cash flow in the previous year

The bank size reflects the company's size, and the total assets can be measured by calculating the logarithm of total assets (Yuliarti & Diyani, 2018).

4. RESULTS AND DISCUSSION

Table 2 below shows the result of descriptive statistics analysis.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std.Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO</td>
<td>185</td>
<td>-114.69</td>
<td>550.79</td>
<td>2.82</td>
<td>47.42</td>
</tr>
<tr>
<td>CFI</td>
<td>185</td>
<td>-59.70</td>
<td>542.50</td>
<td>5.44</td>
<td>51.36</td>
</tr>
<tr>
<td>CFF</td>
<td>185</td>
<td>-6.13</td>
<td>2311.88</td>
<td>21.97</td>
<td>31.60</td>
</tr>
<tr>
<td>SIZE</td>
<td>185</td>
<td>22.88</td>
<td>35.08</td>
<td>30.94</td>
<td>2.48</td>
</tr>
<tr>
<td>RETURN</td>
<td>185</td>
<td>-0.91</td>
<td>15.85</td>
<td>0.52</td>
<td>2.05</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>185</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 2, the operating activity cash flow with the maximum value of 550.79 occurs at PT Bank Pan Indonesia Tbk (PNBN) in 2017. The investment activity cash flow variable with a minimum value of -59.70 is PT Bank Oke Indonesia Tbk (DNAR) in 2019, and a maximum value of 542.50 is PT Bank Central Asia Tbk (BBCA) in 2020. The financing activity cash flow variable shown in the maximum value is 233.88 which is PT Bank Capital Indonesia Tbk (BACA) in 2021. The variable bank size shows a minimum value of 22.88, which is PT. Bank Panin Syariah Tbk (PNBS) with total assets of Rp 8,629,275,047,000 in 2017 and a maximum value of 35.08, which is PT. Bank Mandiri Tbk (BMRI) with total assets of Rp 1,725,611,128,000 in 2021. The dependent variable in this research, stock returns (RETURN) show an average value of 0.5206. The maximum value of stock returns of 15.85 owned by PT Bank Jago Tbk (ARTO) in 2019. This was due to the rise in PT Bank Jago Tbk’s stock price for Rp 184 per 2018 to Rp 3,100 at the end of 2019. The minimum stock return value is -0.91 which is PT Bank Mayapada International Tbk (MAYA) in 2021. This is due to the drastic closing price which in 2020 was Rp 7,650 to Rp 660 at the end of 2021.

The results of One Sample Kolmogorov-Smirnov test show that the Asymp value. Sig. (2-tailed) is 0.078, which means it is greater than 0.05, so the data is normally distributed. The results of the Durbin-Watson test (d) have a value of 1.964 which has a value greater than the value of du of 1.803 and a value of d which is smaller than the value of 4-du of 2.197. This indicates that the value of d is in an autocorrelation-free condition (1.803 < 1.964 < 2.197).
The tolerance value of each independent variable is greater than 0.1, which is 0.120; 0.168; 0.655, and bank size of 0.135. The Variance Inflation Factor (VIF) value of each independent variable shows a value of 8.333; 5.949; 1.527, and 7.407. This result shows values that are less than 10.

The significance value of the operating activity cash flow variable is 0.254. The significance value of the investment activity cash flow variable is 0.355, the significance value of the financing activity cash flow variable is 0.576 and the significance value of the bank size variable is 0.325. Test results on each independent variable indicate that all variables are free from heteroskedasticity problems because the significance value is greater than 0.05. This shows that information on the cash flow statement component and bank size is responded positively by investors in making investment decisions in order to obtain the expected return.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-0.159</td>
<td>0.712</td>
<td>-2.24</td>
</tr>
<tr>
<td>CFO</td>
<td>0.200</td>
<td>0.095</td>
<td>2.115</td>
</tr>
<tr>
<td>CFI</td>
<td>0.099</td>
<td>0.080</td>
<td>1.239</td>
</tr>
<tr>
<td>CFF</td>
<td>0.063</td>
<td>0.027</td>
<td>2.200</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.258</td>
<td>0.091</td>
<td>-2.837</td>
</tr>
</tbody>
</table>

Adjusted R Square = 0.096  
F value = 5.900

Based on table 3, the operating activity cash flow variable has a t-count value of 2.115. This t-count value is greater than the t-table value of 1.973 (2.115 > 1.973). The significance value of operating activity cash flow is 0.036 which has a smaller value than α (0.036 < 0.05). It can be seen that the results of testing the operating activity cash flow (CFO) variable on the stock return variable show a significance value of 0.036. This significant value is smaller than the predetermined significance level (0.036 < 0.05), with the regression coefficient value of 0.200. Based on the criteria, the operating activity cash flow has a positive effect on stock returns. The results of this research are in line with the following (Michelle & Sha, 2020; Sahfasat & Nurmala, 2022; Sulaiman & Suriawinata, 2020). The information contained in operating cash flows is an essential indicator for investors in making investment decisions in the capital market. The positive value of the regression coefficient from the results of this research indicates conformity with the explanation conveyed by (Kasmiati & Santosa, 2019). Companies with higher operating cash flow figures attract more investors to put their money into the company.

The variable cash flow of investing activities has a t-count of 1.233. This result shows the t-count value which is smaller than the t-table value of 1.973 (1.233 < 1.973). The significance value of investing activity cash flow is 0.219 which has a greater value than α (0.219 > 0.05). Therefore, it means that the investing activity cash flow does not have a significant effect on stock returns. The results in this research are not in line with Kurtubi & Pramiudi (2018) which states that cash flow investment activities have an effect on stock returns. The results in this research are not following the signal theory where the higher the company’s investment cash flow, the higher the investor confidence in the company to invest its shares. However, the test results in this research are in accordance with the research conducted by Bala (2017) at the Bank in Khartoum, Valentino et al. (2023) at the basic material company, and Yuliarti & Diyani (2018) at the pharmaceutical company, which stated that there was no significant effect between cash flows of investment activities and stock returns.

The cash flow variable for financing activities has a t-count of 2.339. These results show that the t-count value is greater than the t-table value of 1.973 (2.339 > 1.973). The significance value of cash flow from financing activities is 0.020 which is less than α (0.020 < 0.05). Therefore, based on the criteria described, the cash flow of funding activities significantly affects stock returns. This result means that the higher a company's financing cash flows, the higher the investor's trust, the greater the stock return. The results of this research align with research conducted by Purnawati et al. (2017) and Rizal & Ana (2016), which also shows that cash flow from financing activities has a positive influence on stock returns. However, the results of this study do not agree with the research by Bala (2017).

The bank size variable has a t-value of -2.837. This result shows that the t-count value is smaller than the t-table value of 1.973 (-2.837 < 1.973). The significance
value of company size is 0.005, which is smaller than a (0.005 < 0.05). This result shows that the relationship between bank size and stock returns is inversely proportional, which means that if the bank size as measured by the bank's total assets increases, the stock returns given to investors will decrease. The results of this research are different from the results of research from Rochim & Ghoniyah (2017) and Shofia (2020). Based on the results of this research, small companies need to consider the possibility of providing small stock returns to their shareholders. This cause’s bank size is not always a concern of investors in making investment decisions and estimating returns in a company. In addition, the company's size has not been able to signal investors to invest in the company. These results explain that the level of stock returns that investors will obtain is not determined by the size of a company. However, the results of this research agree with the research conducted by Yuliarti & Diyani (2018) which stated that firm size had no significant effect on stock returns.

Based on Table 3, shows the Adjusted R Square value is 0.096 or 9.6 percent. This shows that the ability of the corporate cash flow components and bank size can explain changes in the value of the stock return of 9.6 percent, while other factors explain 90.4 percent. The F count value of the F test is 5.900. The results of the F test show the F count value of 5.900 which is greater than the f table value of 2.42 (5.900 > 2.42) and is strengthened by the significance result in the ANOVA table of 0.000 which is smaller than the 0.05 value (0.000 < 0.05). Based on these results, it can be concluded that the corporate cash flows components and bank size affect the stock return in banking sector companies listed on the IDX. The result of the F test in this research is under research (Kasmia & Santosa, 2019; Rizal & Ana, 2016; Syahreni & Jalil, 2020).

5. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS
The results showed that operating activity cash flow and financing activity cash flow positively and significantly affect stock returns. Investment activity cash flow and bank size does not affect stock returns. The investment activity cash flow and bank size are not always a concern of investors in making investment decisions and estimating returns in a company. The operating cash flow and financing cash flows are essential indicators for investors in making investment decisions in the capital market. Operating cash flow and financing cash flow are positive signals on stock returns, especially for related stakeholders.

This research only focuses on one financial statement; the corporate cash flow statement components and bank size on stock returns. Further research is recommended to use variables beyond the cash flow statement and bank size variables such as, leverage and profitability.

References


