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The Influence of Macroeconomic Fundamentals, Decisions Investment, And Capital on Stock Returns with Risk Profile and Earning as Intervening Variables and Good Corporate Governance as a Variable Moderation (Study of Banking Companies in Indonesia)

Andjar Eka Wijaya[1], Tri Ratnawati[2] , Ulfi Pristiana[3]
[1,2,3] Universitas 17 Agustus 1945 Surabaya, Indonesia
Email: 1262300025@surel.untag-sby.ac.id, triratnawati@untag-sby.ac.id, ulfi@untag-sby.ac.id
Correspondence: medihendika29@gmail.com
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Abstract: *This study aims to analyze the influence of macroeconomic indicators, investment decisions, capital, risk profile, earnings, and corporate governance on stock returns in banking companies in Indonesia using the SEM-PLS method. The research results show that macroeconomic indicators (inflation, exchange rate, and interest rate) do not significantly affect stock returns either through risk profile or earnings. But if the macroeconomic variables are tested without mediation variables and directly on stock returns, they have a significant impact.In addition, investment decision indicators (current asset ratio and total asset growth), capital indicators (capital adequacy ratio and debt equity ratio), as well as risk profile indicators (non-performing loan and loan deposit ratio) also do not have a significant impact on stock returns. Similarly, the earning indicators (ROA, ROE, and NIM) and good corporate governance (board of directors and number of commissioners) do not show a significant influence on stock returns. These findings indicate that external factors and other variables are more dominant in influencing stock returns in banking companies in Indonesia.*

Keywords: *Macroeconomics, Investment Decisions, Capital, Risk Profile, Earnings, GCG, Stock Return*

INTRODUCTION

The economic growth of a country is often associated with the success of economic development. The increasing economic growth of a country will enhance the income and ability of its people to meet their living needs. There are three main components in the economic growth of a country, namely capital accumulation, population growth, and technological advancement. The component of capital accumulation consists of all forms or types of investments planted in land, physical equipment, human resources, and capital (Lookman, S 2022). Capital investment in investment activities is usually carried out in the long term through the procurement of complete assets, the purchase of stocks, and securities to obtain profits. Investment in the capital market takes the form of financial instruments such as mutual funds, bonds, and stocks. Banking plays an important role in a country's economy. The development of the financial system in Indonesia is moving towards a bank-based system, as banking dominates the financial sector. This financial system is perceived to be much closer to the industrial sector, making it easier to obtain information for identifying promising business sectors and companies, thereby optimizing investment activities.

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Table 1. Development of General Bank Assets 2018-2023

***(Growth of Commercial Banks Assets Based on Group of Banks)* (*Billion Rp*)**					
Group of Banks	**2018**	**2020**	**2021**	**2022**	**2023**
				Des	**Des**
State Owned Banks	3.342.996	3.818.584	4.251.749	4.728.442	5.014.378
Regional Development Banks	655.963	763.879	861.329	938.286	985.415
Domestic Private Banks	3.617.727	4.159.829	4.562.817	4.923.416	5.211.779
Branch Offices of Foreign Banks	451.661	435.602	436.409	523.177	554.266
Total	**8.068.346**	**9.177.894**	**10.112.304**	**11.113.321**	**11.765.838**

Source : www.ojk.co.id

The table above also shows that all groups of banks have shown asset growth from 2018 to 2023, with State-Owned Banks and National Private Banks experiencing the most significant increases. BPD and foreign bank branches also recorded growth, although at a slower pace. The total assets of the banking sector grew substantially, indicating the health and expansion of the banking sector in Indonesia. Banking activities are related to public or customer funds, therefore it is important to have public trust in banking. The health of banking, reflected in the implementation of Good Corporate Governance, Risk Profile, Capitalization, and profit, can enhance public trust. Assessment of banking performance becomes important, especially for an investor in making decisions.

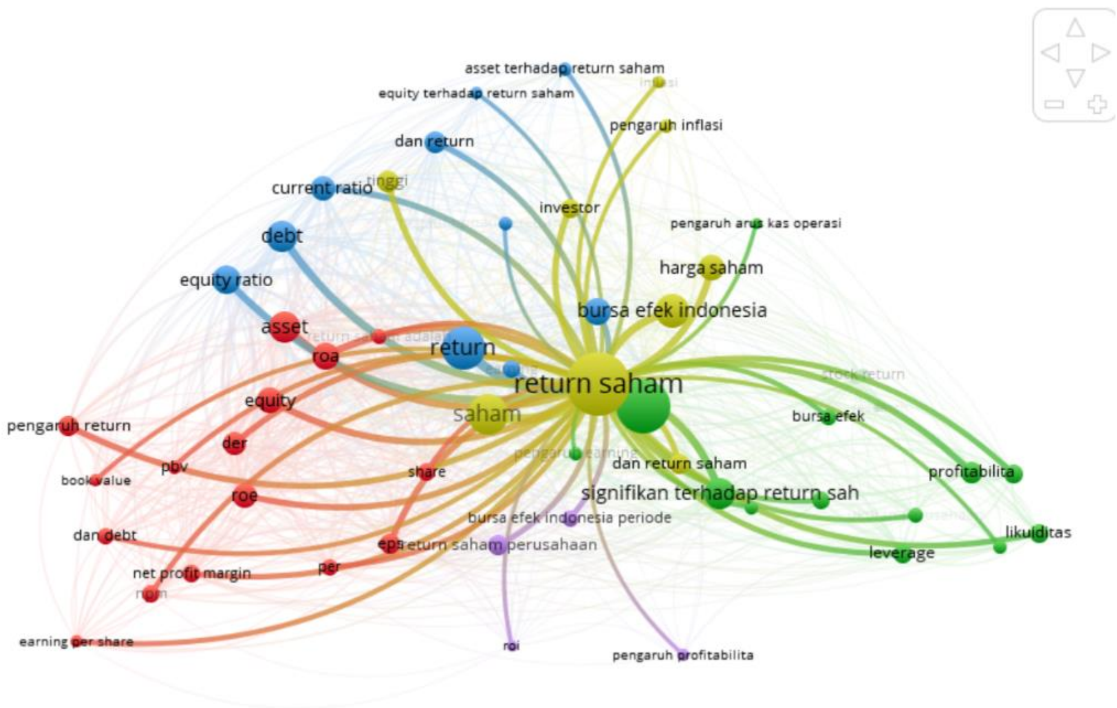

Figure 1. Visualization of Stock Returns with Related Variables

Then, from the visualization displayed in Figure 3 of the VosViewer application, taken from 500 studies from the Publish or Perish database from 2019 to 2024 with the keyword Stock Return, it appears that several studies have linked Stock Return with several variables used in this research,

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namely Macroeconomics (Inflation, Interest Rate, Exchange Rate), Investment Decisions, Capital, GCG, Risk Profile, and Earnings. From the displayed visualization, it shows that there has been no research linking Stock Returns with Interest Rates, Exchange Rates, GCG, Risk Profile, and Capital.

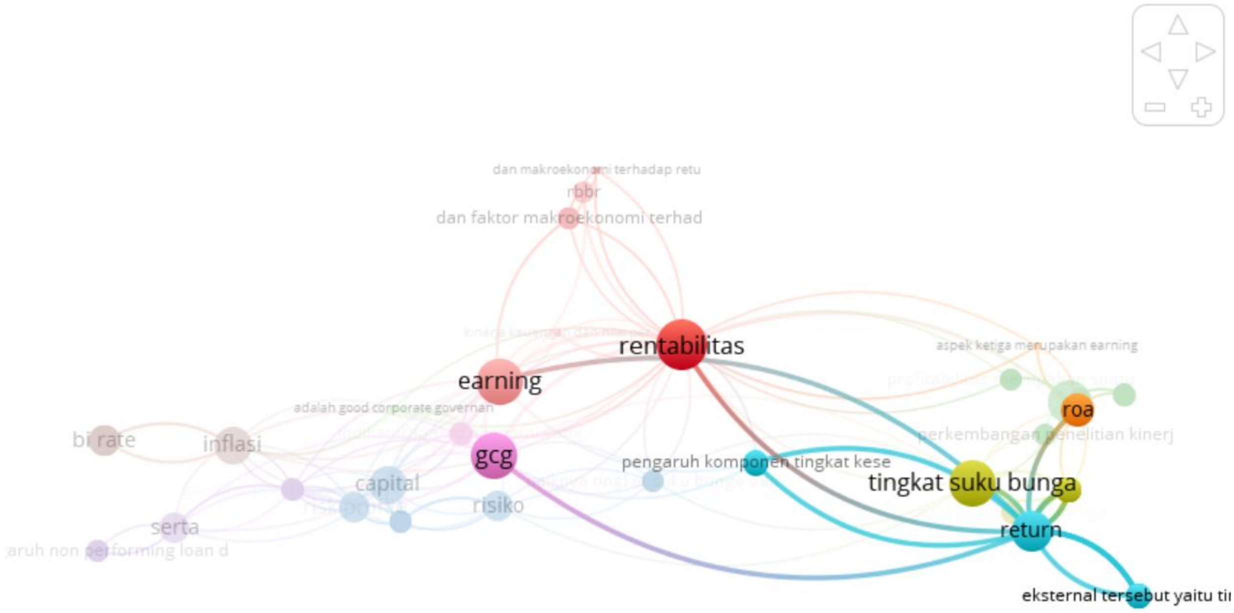

Figure 2. Visualization of Stock Returns with Related Variables

Meanwhile, in a simpler Visualization Projection with only 200 studies between 2019-2024 using the keyword Stock Return, it can be seen that Stock Return is related to the Interest Rate Variable, Earnings or Profitability, and GCG. From the visualization, it can be seen that Stock Return has not yet been related to the variables of Inflation, Exchange Rate, Capital, Risk Profile, and Investment Decisions. Therefore, the research was conducted to determine the effect of macroeconomic variables, investment decisions, and capital on stock returns with intervening variables, namely risk profile and earnings, moderated by good corporate governance.

LITERATURE REVIEW

Financial management is a process that involves managing funds within an organization to achieve the company's objectives effectively and efficiently. It encompasses all activities related to acquiring, allocating, and using funds, as well as managing assets and financing. Financial management is not only limited to recording financial statements but also involves making investment decisions and managing assets to create and maintain the company's value. According to experts, financial management refers to the management of financial activities within an organization to achieve overall goals, as stated by Home and Husnan, who mention that it includes investment decisions, financing, and asset management.

Stock return is an indicator that measures a company's financial performance, which consists of yield (dividends) and capital gain (the difference in stock price between purchase and sale). Dividends are profits distributed by the company to shareholders periodically, while capital gain reflects changes in stock prices. The better the company's performance, the higher the profits generated, which drives up

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the stock price and increases the stock return for shareholders. In investment, stock return becomes the primary consideration for investors in making investment decisions.

Macroeconomic fundamental factors are external variables related to policies outside the company that influence the company's performance, which in turn can affect stock prices. Macroeconomic variables such as economic growth, inflation, unemployment rates, balance of payments, interest rates, and exchange rates reflect the economic conditions of a country and are important in economic policy analysis. Although these factors cannot be controlled by the company, they have a significant impact on investment decisions, as changes in these variables can affect product demand, operational costs, financing, as well as profitability and company value. Therefore, macroeconomic factor analysis needs to be considered in investment decision-making.

Investment decisions are an important aspect of a company's financial function, governed by the basic principle of high risk - high return, low risk - low return. Proper investment decisions will result in high returns and impact the increase in company value. Investment decisions can also serve as a mechanism of transmission between stock ownership and company value (Jensen and Meckling, 1976).

According to the stakeholder theory, which describes the relationship between banking and its stakeholders through greater profit growth, it is one of the reasons stakeholders expect improved banking performance. Based on Bank Indonesia Regulation Number 13/1/PBI/2011, article on the Assessment of the Health Level of Commercial Banks, article 7 paragraph (1), it is explained that the assessment of the capital factor includes the evaluation of capital adequacy levels and capital management.

According to Bank Indonesia Regulation Number 13/1/PBI/2011, Article 7, the Risk Profile is an assessment of the inherent risks and the quality of risk management practices in a bank's operations, evaluating eight types of risks.

According to Bank Indonesia Regulation Number 13/1/PBI/2011, article on the Assessment of the Health Level of Commercial Banks, article 7 paragraph (1), it is explained that the assessment of profitability factors includes evaluating earnings performance, sources of earnings, and earnings sustainability. Return on Assets (ROA) is a ratio that reflects the comparison between net profit after tax and the total assets used to generate that net profit, multiplied by 100 (Cannon et al., 2008: 401).

Based on Bank Indonesia Regulation Number 13/1/PBI/2011, article on the Assessment of the Health Level of Commercial Banks, article 7 paragraph (2), it is explained that the assessment of the Good Corporate Governance (GCG) factor is an evaluation of the bank's management on the implementation of GCG principles. According to the Forum for Corporate Governance in Indonesia (FCGPI, 2001), corporate governance is a set of rules governing the relationships between shareholders, managers, creditors, the government, employees, and stakeholders, both internal and external, in relation to their rights or obligations. In other words, corporate governance is a system that regulates and controls the company.

RESEARCH METHOD

This strategy is appropriate since the study will employ numerical data gathering and analysis to quantify the impact of a number of variables on stock returns, including earnings, capital and risk profiles, investment choices, macroeconomic fundamentals, and GCG. To test the hypothesis, data will be analyzed statistically. The study's population comprises banking companies that were listed on the Indonesia Stock Exchange between 2021 and 2023. During that time, 47 banks were listed on the IDX. Of the 47 banking business populations listed on the Indonesia Stock Exchange (BEI) that routinely publish Corporate Sustainability Reports in 2021–2023, 34 samples are included. The Smart PLS technique will be used for this study's hypothesis testing.

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RESULT AND DISCUSSIONS

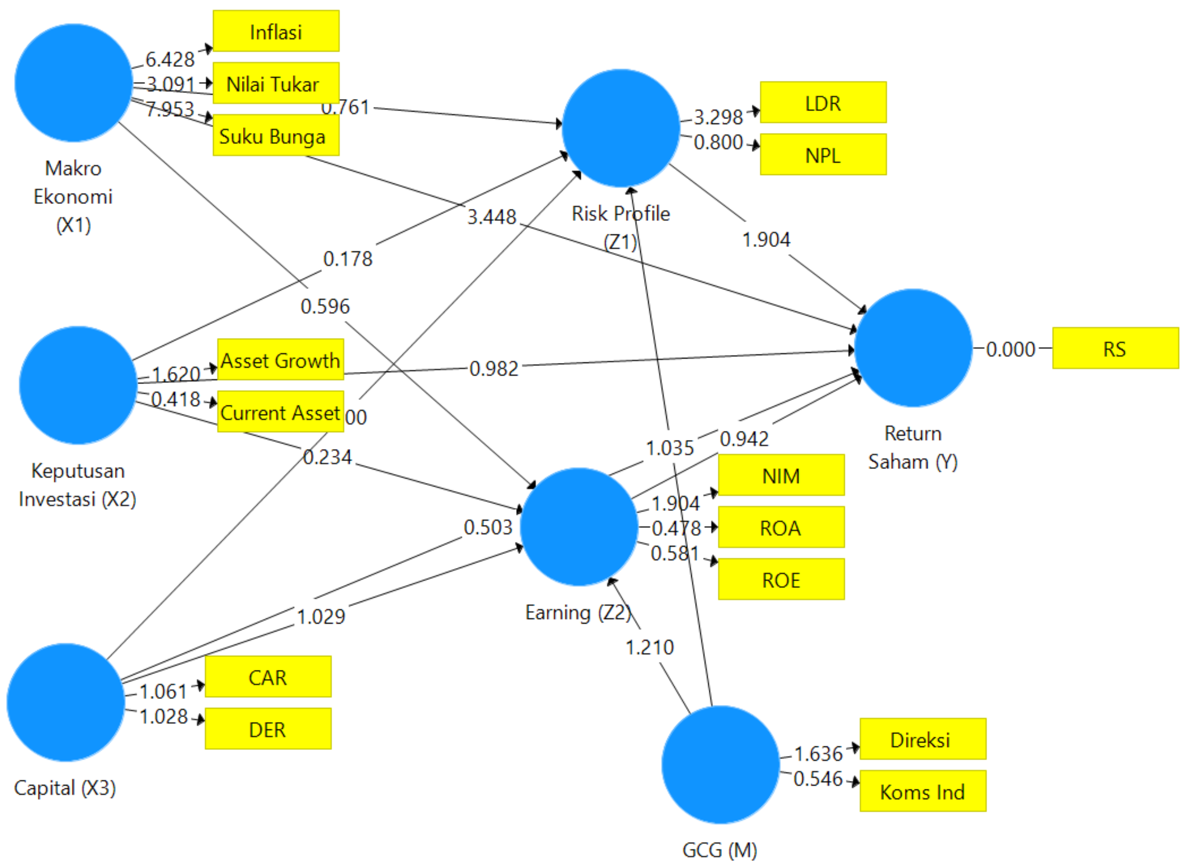

Figure 3. Path coefficients of the research model
Source : (SEM PLS)

Hypothesis testing is conducted based on the estimated significance values of the research model parameters as shown in the table below.

Table 2. Hypothesis Testing Results

Hip.	Effects	Coeff.	P-Value	Explanation
1	Macro Economics (X1) -> Risk Profile (Z1)	0.761	0.447	Not. Sig
2	Macro Ekonomics (X1) -> Earning (Z2)	0.596	0.551	Not. Sig
3	Macro Ekonomics (X1) -> Stock Return (Y)	3.448	0.001	Siginificant
4	Investment Decision (X2) -> Risk Profile (Z1)	0.178	0.859	Not. Sig
5	Investment Decision (X2) -> Earning (Z2)	0.234	0.815	Not. Sig
6	Investment Decision (X2) -> Stock Return (Y)	0.982	0.327	Not. Sig
7	Capital (X3) -> Risk Profile (Z1)	1.000	0.318	Not. Sig
8.	Capital (X3) -> Earning (Z2)	1.029	0.304	Not. Sig
9.	Capital (X3) -> Stock Return (Y)	0.503	0.615	Not. Sig
10.	Risk Profile (Z1) -> Stock Return (Y)	1.904	0.057	Not. Sig
11.	Earning (Z2) -> Stock Return (Y)	0.942	0.347	Not. Sig

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12.	GCG (M) -> Risk Profile (Z1)	1.035	0.301	Not. Sig
13.	GCG (M) -> Earning (Z2)	1.210	0.227	Not. Sig

Source : (SEM PLS)

This study evaluates various factors that influence stock returns in banking companies in Indonesia, focusing on the impact of macroeconomics, investment decisions, capital, risk profile, earnings, and Good Corporate Governance (GCG). The analysis results indicate that macroeconomics significantly affects stock returns but does not have a significant impact on risk profile and earnings. The P-value greater than 0.05 for the relationship between macroeconomics and risk profile (0.447) and earnings (0.551) shows that macroeconomics does not influence these two factors. On the other hand, macroeconomics has a significant effect on stock returns, with a P-value of 0.001, which is less than 0.05.

Furthermore, investment decisions, capital, risk profile, and earnings do not have a significant impact on stock returns. All the relationships tested between investment decisions and factors such as risk profile and earnings showed a P-value greater than 0.05, meaning that investment decisions do not significantly affect stock returns in banking companies in Indonesia. Similarly, the influence of capital on risk profile, earnings, and stock returns showed insignificant results. The P-value greater than 0.05 for all these relationships indicates that company capitalization does not affect these factors.

Lastly, the implementation of Good Corporate Governance (GCG) was also found to have no significant effect on risk profile or earnings, with a P-value of 0.301, which is greater than 0.05. This indicates that although GCG can play an important role in company management, in the context of this study, GCG does not have a direct impact on the risk profile or earnings, which in turn does not affect stock returns. Overall, this study suggests that macroeconomics significantly influences stock returns, while the other factors do not show significant effects.

CONCLUSION

This study found that various indicators, where only macroeconomic conditions (inflation, exchange rate, and interest rate) significantly affect stock returns. But for other variables and indicators such as investment decisions (current asset ratio and total asset growth), capital (capital adequacy ratio and debt equity ratio), risk profile (non-performing loan and loan deposit ratio), earnings (ROA, ROE, and NIM), as well as corporate governance (board of directors and number of commissioners), they do not have a significant impact on stock returns in banking companies in Indonesia. Although theory and empirical research indicate the potential influence of these factors, in practice their impact is not significant, due to external factors and other variables that are more dominant in affecting stock returns.

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