

Moderating Effects of Market Based Value on the Relationship Between Financial Performance and Stock Returns: Evidence from the Indonesian Banking Industry

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Abstract

The information that investors receive plays a crucial role in shaping their expectations regarding a firm's future prospects. It serves as a signal of the firm's performance, further amplified by its total market capitalization. This study delves into the relationship between financial performance and stock returns, with market capitalization acting as a moderating variable. Drawing on panel data from banking companies listed on the Indonesia Stock Exchange (IDX) between 2013 and 2022, the research encompasses 363 firm-year observations. Using an Ordinary Least Squares (OLS) estimation model, the findings reveal that market capitalization exerts a positive and significant influence on the relationship between financial performance and stock returns. This suggests that firms with higher market capitalization tend to see a stronger alignment between their financial performance and investor returns, underscoring the value of size and market perception in driving stock price movements.

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Introduction

Stock returns are a crucial metric in the financial realm, serving as a yardstick to gauge the performance of stock investments within a specific timeframe. When investors delve into the realm of stock returns, they are essentially seeking insights into the profitability or potential losses tied to their investments in a firm's shares. This analysis holds immense significance in the financial domain, particularly guiding the decision-making processes of investors and investment managers alike. By scrutinizing stock returns, individuals can gain a deeper understanding of the outcomes and profits derived from engaging in a firm's shares, thus serving as a pivotal indicator for investors, financial analysts, and investment managers in navigating the dynamic landscape of financial markets (Bai, Duan, Fan, & Tang, 2023). To illustrate, consider a scenario where an investor witnesses a substantial increase in stock returns following a

strategic investment in a tech firm, highlighting the potential for lucrative gains in the market. Such instances underscore the pivotal role that stock returns play in shaping investment strategies and driving financial decisions (Bai et al., 2023).

Stock return refers to the financial outcome, whether positive or negative, that arises from investing in a firm's stock during a specified period. This return is calculated by comparing the selling price of the stock with the initial buying price, taking into account any dividends received along the way. Understanding stock return is crucial in the realm of stock market analysis as it acts as a fundamental measure for assessing the effectiveness of an investment strategy. Moreover, stock return serves as a valuable benchmark for evaluating the success of different investment opportunities. By comparing the returns generated from various stocks or investment portfolios, investors can make informed decisions on where

to allocate their funds for optimal results. In essence, stock return acts as a guiding metric that aids investors in navigating the complex landscape of financial markets, enabling them to gauge the performance of their accurate investments (Yin, Li, & Su, 2023).

This study can contribute significantly to both academic literature and practical applications in the following ways, first to offers evidence on how investor sentiment and market perception (captured through market-based value measures) influence stock price reactions to financial performance metrics like ROA and ROE. Second, Helps investors and portfolio managers refine stock selection strategies by considering how market-based valuation metrics moderate the financial performance-stock return relationship.

Firm performance can be significantly improved through the strategic implementation of business practices that prioritize environmental sustainability. This approach not only results in a positive impact on environmental performance but also plays a crucial role in enhancing financial outcomes. For instance, firms that invest in renewable energy sources like solar panels or wind turbines not only reduce their carbon footprint but also benefit from long-term cost savings on energy bills. By focusing on cost reduction strategies, especially in energy consumption, organizations can achieve greater operational efficiency and maintain better cost control over time. Moreover, the adoption of green business strategies goes beyond just reducing environmental impact; it also allows for the minimization of resource utilization. For instance, firms can implement recycling programs or switch to eco-friendly packaging materials to reduce waste and conserve resources. According to Duric & Topler (2021), such initiatives not only benefit the environment but also lead to cost savings and improved brand reputation. Building on this, Boakye et al. (2021) highlight the importance of aligning firm policies with societal expectations to establish community legitimacy. By doing so, firms not only gain community trust

and support but also enhance their competitiveness in the market. In conclusion, integrating environmental sustainability into business practices is not only beneficial for the planet but also for the overall success and profitability of firms. By prioritizing green initiatives, organizations can create a win-win situation where they contribute positively to the environment while also reaping financial rewards and gaining a competitive edge in the market.

There have been numerous prior studies that have delved into the correlation between a firm's financial performance and its stock returns. For example, research conducted by Amir & Serafeim (2018), Fatemi et al. (2018), Aouadi & Marsat (2018), Constantinides et al. (2023), Adrangi & D'Amico (2023), and Chung & Pruitt (2015) all point towards a positive relationship existing between firm performance and stock returns. To elaborate further, these studies have shown that when a firm performs well financially, investors tend to see higher returns on their investments in the firm's stock. This relationship is crucial for investors and analysts alike, as understanding how a firm's financial health impacts its stock performance can guide investment decisions and overall market strategies. In conclusion, the research conducted by various scholars underscores the significance of the link between firm performance and stock returns, providing valuable insights for investors looking to maximize their returns in the dynamic world of finance.

Although there have been numerous prior studies delving into the correlation between financial performance and stock returns, a gap remains in the literature when it comes to considering the moderating influence of market capitalization. The larger firm might see a more muted effect on its stock returns due to its already substantial market presence, while the smaller firm could potentially witness a more significant impact on its stock returns as investors perceive greater growth potential. In essence, the incorporation of market capitalization as a

moderating factor adds a layer of complexity to the relationship between financial performance and stock returns. By acknowledging this moderating effect, researchers and investors can gain a more nuanced understanding of how different firms, based on their market size, may respond differently to changes in financial performance.

Moreover, this consideration highlights the importance of taking a holistic view when analyzing the dynamics of the stock market. This study will specifically explore the banking industry in Indonesia and then divide it into two classifications of firms based on state-owned enterprises (SOE) and non-SOE. Moreover, investors can make informed decisions based on a nuanced understanding of the market dynamics shaped by SOE and non-SOE banks. In conclusion, the ownership structure of banks in Indonesia is a crucial factor that influences the sector's operations, strategies, and impact on the overall economy. In accordance with Chiu & Lee (2020) research that each country has its own risks, both financial risks and economic policies implemented in the country, it is crucial to understand the unique dynamics at play in different regions, especially in emerging countries.

Literature Review

Georgopoulos & Tannenbaum (1957) stated that firm performance is regarded as equivalent to organizational efficiency, representing the extent to which an organization, as a social system with limited resources and means, achieves its goals without excessive effort from its members. Duric & Topler (2021) define firm performance as the ability of an organization to efficiently utilize its resources and produce outputs consistent with its objectives and relevant to its stakeholders. They emphasize that firm performance reflects specific outcomes achieved in management, economics, and marketing, given the characteristics of competitiveness, efficiency, and effectiveness within the organization, as well as its structural

and procedural components. Firm performance also indicates the extent to which a company focuses on achieving superior performance compared to its competitors. This advantage can stem from operational excellence, revenue growth, and customer relationships. According to Gao et al. (2023), firm performance can be measured using various proxies, such as Return on Assets (ROA).

Stock return refers to the profit or loss derived from a company's stock investment over a specific period. Stock return is calculated based on the difference between the selling price and the purchase price of the stock, plus any dividends received from the investment. It is one of the key metrics in stock investment analysis and can be used to evaluate investment performance (Yin et al., 2023). Stock return is a critical benchmark in finance that provides insight into the performance of stock investments over a specific period. It indicates the extent of profit or loss an investor gains from their investment in a company's stock. Analysing stock returns is highly valuable in the financial world, particularly for investment decision-making by investors and portfolio managers. Stock return reflects the outcomes or gains derived from investing in a company's stock and serves as a vital indicator for investors, financial analysts, and investment managers (Bai et al., 2023).

The market value of a company is shaped by external elements, including the investment climate, market expectations, and shifts in technology or regulatory frameworks. When the economic value of a firm's productive assets such as factories, machinery, and technology exceed the cost of replacing those assets, the market value will surpass the book value. Conversely, if the economic value of these assets falls below the replacement cost, the market value will be lower than the book value. (Tobin, 1969).

The intrinsic value, often referred to as a company's "true value," may not align with its market value. This intrinsic value represents the genuine worth of a company's assets and

performance, unaffected by external market influences. Differences between intrinsic value and market value can stem from market expectations and the behavior of investors in evaluating potential investment opportunities. (Fama & French, 1992). According to Aswani, Raghunandan, & Rajgopal (2024) research, one of the proxies used to measure market-based value is the company's total market capitalization for the current year (the number of shares multiplied by the market price).

The impact of Financial Performances on stock return

Fama & French (2015) discuss stock returns through the dividend discount model, which asserts that a stock's market value is the present value of its anticipated dividends per share. Consequently, stock prices mirror the information regarding dividend prospects. Dividends, distributed to shareholders after approval by the General Meeting of Shareholders (GMS), are derived from the firm's financial performance. Stock returns refer to the profit or loss generated from investing in a firm's shares over a specific period. They are calculated as the difference between the selling price and the purchase price of the shares, potentially including dividends received from the investment. Stock returns are a key metric in stock investment analysis, used to assess investment performance and compare it with other investment alternatives (Yin et al., 2023).

Stock returns, which result from the difference between share prices and dividends, are heavily influenced by information. The information received by investors serves as a signal of the firm's future prospects. Signaling theory, which is built on uncertainty as its primary assumption, relates to the use of market signals to address information asymmetry, thereby increasing the likelihood of making informed decisions in transactions between two parties. The core idea is to use signals to convey information about the quality of the signaler. These signals are

utilized to analyze a firm's current decisions and predict future outcomes, which are typically of interest to external stakeholders, such as market participants (Fu, Ren, Tian, Narayan, & Weber, 2023). Firm performance has a positive relationship with stock returns. Firm performance plays a crucial role in influencing stock returns. When a firm demonstrates strong financial performance, it often translates into positive signals for its stock price. For instance, if a firm consistently exceeds market expectations by reporting robust earnings and revenue growth, investors tend to view this as a positive indicator for future stock price appreciation.

Moreover, the market tends to react positively to firms that exhibit resilience during challenging economic times. For example, firms that effectively manage costs, maintain strong cash flows, and adapt to changing market conditions are likely to be rewarded by investors with higher stock returns (Amir & Serafeim, 2018; Fatemi et al., 2018; Aouadi & Marsat, 2018; Constantinides et al., 2023; Adrangi & D'Amico, 2023; and Chung & Pruitt, 2015).

Hypothesis 1 : Financial Performances have positive and significant on stock return (SOE and non-SOE).

The Moderating effect of Market-Based Value on Relationship Between Financial Performances and Stock Return

There is no consensus on the relationship between market capitalization and return. Based on the results of research from Aswani et al. (2024), total market capitalization as a proxy for firm size has a significant effect on stock returns. This means that the overall value of a firm, as reflected by its market capitalization, plays a crucial role in determining how its stock performs in the market. For example, larger firms with higher market capitalization tend to have more stable stock returns compared to smaller firms. This relationship is important for investors to consider when making investment decisions. In addition, it is essential to note that market

capitalization is not the only factor influencing stock returns. Other variables such as industry trends, economic conditions, and firm performance also play a significant role in shaping stock market outcomes.

On the other hand, the results of research from Marito & Sjarif (2020) on the manufacturing industry in Indonesia reveal a nuanced perspective. According to the findings, there is no significant relationship between market capitalization and stock returns. This implies that the traditional assumption linking market capitalization to stock returns may not hold true in the Indonesian manufacturing sector. Factors such as firm-specific strategies, industry dynamics, and macroeconomic conditions could play a significant role in shaping stock returns.

Researchers such as Tahir et al. (2019) have extensively studied firm characteristics, uncovering a significant relationship between a firm's size, as measured by total market capitalization, and its stock returns. They found that smaller firms tend to exhibit greater sensitivity to economic shocks compared to larger firms. This heightened sensitivity can lead to more volatile returns for smaller firms, making them riskier investments but also potentially offering higher rewards. Market capitalization, a key metric in assessing a firm's value, represents the total market value of a firm's equity. It is calculated by multiplying the current share price by the total number of shares outstanding. This figure provides investors with a quick estimate of a firm's size and overall market value. For firms with only one type of stock, the calculation is straightforward: the market capitalization is simply the current stock price multiplied by the number of issued shares.

However, the calculation becomes more complex when a firm has multiple classes of shares, such as common and preferred shares. In such cases, the total market capitalization is the sum of the market capitalizations of each type of share, taking into account the different market prices and the number of shares issued for each

class. This measure of market capitalization is crucial for investors as it helps them to compare firms of different sizes and assess the relative risks and potential returns of their investments. The study states that there is a positive and significant relationship to return.

McMillan & Evans (2015) highlights the significant role of state ownership in market dynamics, showing that large state-owned enterprises (SOEs) tend to deliver higher returns. This finding is surprising because traditional financial theories suggest that larger firms should be more efficiently priced, leading to less correlation between size and returns. However, their study suggests otherwise, revealing that the size of a firm, especially when combined with substantial state ownership, significantly impacts stock performance. The research also emphasizes that the presence of a dominant state shareholder can influence market behavior. Investors may perceive these firms as lower-risk due to potential government support, leading to higher stock prices and returns. This challenges the conventional view of market efficiency in large firms and underscores the importance of understanding the effects of state ownership in markets where government involvement is prevalent.

Hypothesis 2 : The moderating effect of market-based value (MBV) has a positive effect on the relationship between financial performances and stock return.

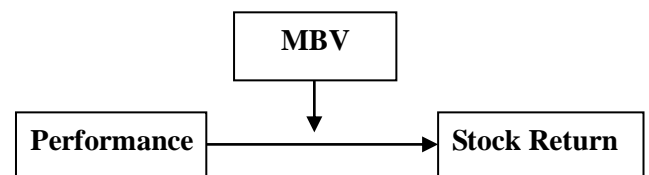


Figure 1. Research Framework

Methods

This study utilizes the Refinitiv Eikon panel database, covering 47 banks listed on the Indonesia Stock Exchange (IDX) from 2013 to 2023. The firms in the sample are required to have published annual reports and financial statements

during this period. The research includes a total of 363 firm-year observations. This study uses stock returns as the dependent variable, with Return on Assets (ROA) and Return on Equity (ROE) serving as proxies for financial performance as the independent variable, and market-based value

(MBV) as a moderating factor. The control variables include firm size (measured by total assets), firm age, Property, Plant, and Equipment (PPE), and leverage, all of which may influence corporate performance and market capitalization.

$$\text{Return}_{i,t} = \alpha_0 + \alpha_1 \text{ROA/ROE}_{i,t} + \sum \text{Controls}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\text{Return}_{i,t} = \alpha_0 + \alpha_1 \text{ROA/ROE}_{i,t} + \alpha_2 \text{MBV}_{i,t} * \text{ROA/ROE}_{i,t} + \alpha_3 \text{MBV}_{i,t} \sum \text{Controls}_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where, $\text{Return}_{i,t}$ is stock return from firm-i in year-t and $\text{ROA/ROE}_{i,t}$ is financial performance from firm-i in year-t. $\text{MBV}_{i,t}$ is the market-based value of firm-i in year-t. $\text{ROA/ROE} * \text{MBV}$ is the

moderating effect of market-based value. Controls are the research control variables and ε is the standard error of the regression.

Results and Discussion

Descriptive Statistics

According to Table 1, the descriptive statistics of the research, based on pooled data, reveal that measures have been taken to address the potential impact of extreme values across all

variables. This includes the transformation of key variables such as MBV, TA, AGE, and PPE into their natural logarithmic forms (Ln).

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
RETURN	363	0.116	0.672	-0.860	7.570
ROA	363	0.007	0.020	-0.181	0.039
ROE	363	0.051	0.140	-1.239	0.270
LnMBV	363	23.168	2.199	19.639	31.467
SOE	363	0.234	0.424	0.000	1.000
LnTA	363	24.750	1.648	21.643	28.408
LnAGE	363	3.800	0.506	1.792	4.852
LnPPE	363	20.774	1.863	16.478	24.812
LEVERAGE	363	0.842	0.065	0.449	0.948

Source: STATA data processing results

Table 2 presents the results of the Chow test and Lagrangian Multiplier (LM) test for model selection. For the dependent variables ROA and ROE, the Chow test yielded a probability value greater than 0.05, indicating the need to perform an LM test to choose between the Common Effect Model (CEM) and Random Effect Model (REM). The LM test results also

showed a probability value greater than 0.05, leading to the selection of the Random Effect Model (REM) for both variables. The REM regression model shows no heteroscedasticity issues, eliminating the need for further heteroscedasticity testing in this panel data regression model (Gujarati, 2012).

Table 2. Regression Model Test Results

Variable	Chow Test	Hausman Test	LM Test	Model
	Prob>f	Prob>chi2	Prob>chi2	Conclusion
ROA	0.991	-	1.000	REM
ROE	0.991	-	1.000	REM

Source: STATA data processing results

In table 3, shows the results of testing the level of correlation between independent variables (multicollinearity) using the Variance Inflation Factor (VIF) test, from table 3 shows that there is

no multicollinearity problem with a tolerance value > 0.10 and a VIF value < 10 (Long & Freese, 2006).

Table 3. Multicollinearity Test Results

Variable	VIF	1/VIF	Variable	VIF	1/VIF
ROA			ROE		
LnTA	8.04	0.124	LnTA	7.92	0.126
LnPPE	6.6	0.152	LnPPE	6.58	0.152
LnAGE	1.31	0.761	LnAGE	1.31	0.761
SOE	1.25	0.802	SOE	1.24	0.805
LEVERAGE	1.22	0.819	LEVERAGE	1.21	0.823
ROA	1.11	0.903	ROE	1.09	0.915
Mean VIF	3.25		Mean VIF	3.23	

Source: STATA data processing results

Baseline Regression

According to regression test results presented in Table 4, both Return on Assets (ROA) and Return on Equity (ROE) show no significant impact on stock returns. These findings contradict the first hypothesis of the study. State-owned enterprises (SOEs) exhibit a limited

influence on stock returns, with a significance level below 10%. In contrast, total assets have a notable effect on stock returns, with a significance level below 5%. Property, Plant, and Equipment (PPE), however, display a weaker relationship, with a significance level below 10%.

Table 4. Regression

	RETURN			
	BASELINE		MODERATING EFFECT	
	(1)REM	(2)REM	(3)GLS	(4)GLS
ROA	(1.928) -0.499		(27.792)** -54.11	
ROE		(0.276) -0.052		(3.360) -4.331
ROA*LnMBV			(1.209)** 2.493	
ROE*LnMBV				(0.148) 0.213
LnMBV			(0.072)*** 0.876	(0.073)*** 0.883
SOE	(0.091)* 0.151	(0.090)* 0.153	(0.401) -0.076	(0.424) -0.057
LnTA	(0.061)**	(0.061)**	(0.159)***	(0.160)***

	-0.125	-0.126	-0.587	-0.602
LnAGE	(0.082)	(0.081)	(0.492)	(0.495)
	0.011	0.011	-0.662	-0.658
LnPPE	(0.048)*	(0.048)*	(0.077)	(0.077)
	0.090	0.090	0.041	0.057
LEVERAGE	(0.615)	(0.612)	(0.786)***	(0.785)***
	0.289	0.299	3.846	3.789
Contant	(0.717)	(0.722)	(2.223)***	(2.229)***
	1.019	1.028	-6.820	-6.969
Chow Test	0.991	0.991	0.000	0.000
LM Test	1.000	1.000		
Hausman Test			0.000	0.000
Wald Test			0.000	0.000
Mean VIF	3.25	3.23	3.25	3.23
Number of				
Obs.	363	363	363	363
R2	0.018	0.018	0.016	0.016
Adj.R2	0.001	0.001	0.062	0.041
F-Stat.	0.371	0.375	0.000	0.000

Notes: *, **, ***Significant 10, 5 and 1 per cent levels, respectively. Standard error in the parenthesis

Source : STATA data processing results

Moderating Effect

Based on the regression model selection for moderation effects, Chow tests for both ROA and ROE yielded values of less than 0.05. Similarly, the Hausman tests for both variables also produced results below 0.05. For these two regression models, the Wald test results indicate the presence of heteroscedasticity. To address the issue of heteroscedasticity in the panel data regression model, a robust method combined with the generalized least squares approach was applied (Gujarati, 2012). In table 4, shows the results of testing the level of correlation between independent variables (multicollinearity) using the Variance Inflation Factor (VIF) test, from table 4 shows that there is no multicollinearity problem with a tolerance value > 0.10 and a VIF value < 10 (Long & Freese, 2006).

The results of the moderation effect of MBV can be seen in Table 4. Based on the GLS (Generalized Least Squares) regression test, the moderation effect on financial performance proxies shows varying outcomes. ROA has a significant influence on stock returns, with a significance level of less than 5%. However, ROE

does not have a significant impact on stock returns. Both financial performance proxies have an F-statistic value of 0.000. Additionally, the R-squared and adjusted R-squared values for (1) ROA are 1.6% and 6.2%, respectively, and for (2) ROE are 1.6% and 4.1%.

These results align with Hypothesis 2 of the study, which states that the moderation effect of MBV has a positive and significant influence on the relationship between ROA and stock returns. However, the moderation effect of MBV does not affect the relationship between ROE and stock returns.

Discussion

Based on the empirical findings of this study, the performance of firms in Indonesia's banking industry does not appear to have a significant influence on stock returns. These findings reinforce and expand upon the results of previous research by Marito & Sjarif (2020), who conducted similar investigations within Indonesia's manufacturing sector. The traditional assumption that links market capitalization to stock returns may not hold true for Indonesia's

manufacturing and banking sectors. Furthermore, factors such as state-owned enterprises (SOEs) also seem unable to sway market assumptions regarding stock returns. This can be attributed to various other factors that may influence these conditions, such as industry trends and the broader economic environment of the country Aswani et al. (2024). This suggests that the conventional wisdom around market performance may not be entirely applicable to certain industries within Indonesia, highlighting the need for a more tailored approach when assessing stock performance and market assumptions in emerging economies like Indonesia's.

However, this research takes a slightly different approach by investigating financial performance as the basis for market assumptions, alongside the moderating effect of market capitalization, and its relationship with stock returns. This aligns with the findings of Yin et al. (2023), who assert that stock returns are a key metric in stock investment analysis, used to evaluate investment performance and compare it with other investment alternatives. Stock prices reflect information regarding future dividend prospects. Dividends, distributed to shareholders following approval by the General Meeting of Shareholders (GMS), are derived from the firm's financial performance (Fama & French, 2015). This perspective underscores the critical link between a firm's financial health, market perceptions, and the return on investment. It also highlights how financial performance directly influences dividend potential, shaping investor expectations and market behavior.

The empirical findings demonstrate that the moderating effect of MBV significantly strengthens the relationship between ROA and stock returns. This is closely tied to stock returns, which are influenced by the difference between stock prices and dividends and are highly sensitive to information. Information received by investors serves as a signal of the firm's future prospects, helping them analyze current corporate decisions

and forecast future outcomes. These signals are particularly valuable to external stakeholders, such as market participants (Fu et al., 2023). When a firm consistently exhibits strong financial performance, it often sends a positive signal to the market about its stock price. For instance, if a firm regularly exceeds market expectations by reporting robust profit and revenue growth, investors tend to interpret this as a positive indicator for future stock price appreciation. Additionally, the market tends to react favorably to firms demonstrating resilience during challenging economic periods.

The empirical findings of this research further reveal that ROA is the financial performance proxy with a greater influence. This is because firms that effectively manage costs, maintain strong cash flow, and adapt to shifting market conditions are more likely to be rewarded by investors with higher stock returns. The ability to sustain such performance in varying economic climates signals operational efficiency and strategic competence, enhancing investor confidence and driving up stock prices. (Amir & Serafeim, 2018), (Fatemi et al., 2018), (Aouadi & Marsat, 2018), (Constantinides et al., 2023), (Adrangi & D'Amico, 2023), and (Chung & Pruitt, 2015).

Aswani et al. (2024) suggest that previous studies on the relationship between market capitalization and stock returns remain a subject of debate. In addition to the characteristics of developing countries, the specific attributes of firms also play a significant role, including firm size, which is measured by total market capitalization. Higher sensitivity can lead to more volatile returns for smaller firms, making them riskier investments, though they also offer the potential for higher rewards. Market capitalization size is crucial for investors as it helps them compare firms of different sizes and assess the relative risk and potential returns of their investments. This study indicates a positive and significant relationship with stock returns, further

highlighting the importance of market capitalization as a key factor in investment decisions (Tahir et al., 2019). According to McMillan & Evans (2015), the significant role of state ownership in market dynamics suggests that large state-owned enterprises (SOEs) tend to generate higher returns. However, the empirical findings of this study reveal that the presence of dominant state shareholders does not necessarily influence market behavior.

Conclusions

The information that investors receive plays a crucial role in shaping their expectations about a firm's future prospects. It acts as a signal that reflects the firm's performance, which in turn is reinforced by the firm's total market capitalization. One of the key performance metrics that draws significant market attention is Return on Assets (ROA). This metric is particularly important because it indicates how effectively a firm manages its costs, maintains robust cash flows, and adapts to fluctuations in market conditions. Firms that demonstrate high levels of efficiency in these areas are often regarded as being well-positioned for future growth. When a firm consistently surpasses market expectations, especially by reporting strong profit and revenue growth, investors tend to interpret this as a positive sign. Such consistent financial outperformance is often viewed as a precursor to potential appreciation in stock prices, leading investors to take a more optimistic outlook on the firm's future. This perception is especially true when the firm's operational success is supported by a solid financial structure and effective management practices, as indicated by strong ROA performance. Investors are likely to consider this as a favorable signal for long-term stock appreciation.

This study can contribute significantly to both academic literature and practical applications in the following ways, first to offers evidence on how investor sentiment and market perception

(captured through market-based value measures) influence stock price reactions to financial performance metrics like ROA and ROE. Second, Helps investors and portfolio managers refine stock selection strategies by considering how market-based valuation metrics moderate the financial performance-stock return relationship.

However, understanding these dynamics requires a more nuanced approach. For future research, it is essential to delve deeper into the analysis by considering the unique characteristics of firms and the industries they operate in. Specifically, analyzing firms based on their size whether small, medium, or large (SME) can provide insights into how different types of firms withstand economic shocks and market volatility. Smaller firms, for example, may have more agility in adapting to sudden market changes, while larger firms may benefit from economies of scale but face different challenges in maintaining growth. Additionally, it is crucial to examine various industry sectors such as mining, basic materials, and property development. Each industry has its own cyclical patterns, growth drivers, and risks, which can significantly influence a firm's performance and resilience. By analyzing these industry trends, researchers can gain a broader and more comprehensive understanding of how different sectors contribute to or detract from overall market performance. This type of industry-specific analysis will also help in identifying which sectors are more sensitive to market shifts, regulatory changes, or global economic conditions, thus providing a fuller picture of the firm's future prospects and the broader economic environment. In conclusion, while performance indicators like ROA are critical, future research should adopt a more holistic approach, factoring in firm size, industry classification, and sector-specific trends to offer more comprehensive findings that reflect the complex interplay between market performance, firm characteristics, and investor behavior. This broader approach can provide valuable insights

for both investors and policymakers, ensuring that research findings are applicable across various economic landscapes and market conditions.

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