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The Effect of GCG on Stock Returns through the Performance of Manufacturing Companies During the Covid 19 Pandemic

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Abstract : *The capital market is under pressure during Indonesia's struggle against the coronavirus pandemic (Covid-19). The composite stock price index, the main reference index on the Indonesia Stock Exchange, was under pressure, as was the performance of mutual funds. On June 1, Indonesia will undergo a New Normal situation or in short, live a life with strict health protocols during the Covid-19 pandemic that Indonesia has begun to do, thus, the wheels of business are slowly turning back so that they have the opportunity to escape the threat of a global recession. New Normal has improved the mood of capital market players since this week (2-5 June 2020). Return is one of the factors that can motivate investors to invest. Many studies have been conducted examining the relationship between GCG and stock returns through firm performance. However, some things have not shown success and there are research gaps. The results of this study have a major effect on the assessment of stock returns and try to measure stock returns from GCG and the performance of companies listed on the Jakarta Islamic Index. This decision making is based on existing theories. The role of GCG which is expected to be able to make Stock Returns will be better during the Covid 19 Pandemic.*

Keywords: *GCG, Company Performance, and Stock Return*

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I. Introduction

On June 1, Indonesia will undergo a New Normal situation or in short, live a life with strict health protocols during the Covid-19 pandemic that Indonesia has begun to do, thus, the wheels of business are slowly turning back so that they have the opportunity to escape the threat of a global recession. The JCI recorded a 1.98% gain to 4,847.51, which was the highest level since April 7. This strengthening of the country's pride exchange also recorded 5 consecutive days of strengthening, becoming the longest IHSG rally since October 2019 (Pransuamitra, 2020). Based on RTI data, the transaction value on the Indonesia Stock Exchange (BEI) yesterday was almost Rp. 12 trillion, with foreign investors taking a net buying of Rp. 753.81 billion in the regular market. If entered in the non-regular market, the total net buying action was recorded at Rp.872.35 billion. This buying action was good news for JCI within 2 months of being born ((Sidik, 2020).

The empirical phenomenon in this study is the existence of the Corona Virus (Covid-19) pandemic event which not only poses a threat to health but also economic growth in a country. The impact of the spread of the Corona Virus (Covid-19) cannot be calculated with certainty. However, the economic system has slowed down, especially in the industrial, tourism, trade, transportation, and investment sectors. It cannot be avoided as well as Indonesia, the increase in positive cases of Corona has brought effects to the stock market. Return is a reward for the courage of an investor to take the risk of his investment. Return is the profit obtained from the investor's share ownership on the investment made, which consists of dividends and capital gain/loss. In a Go Public company, there is a separation of functions between ownership (principal) and management or manager (agent). With this separation of functions, the owner of the company will give the manager authority to regulate and manage the company and make the right decisions for the company on behalf of the shareholders.

II. Literatur Review

The capital market is an indicator to assess whether a country's economy is good or not. This is because companies that enter the capital market are large and credible in the country concerned, so that if there is a decline in capital market performance, there will be a decline in the real sector and this condition will be a signal indicating a decline in the economy of a country (Husnan & Pudjiastuti, 2012).

A signal or signal is an action taken by a company to guide investors about how management views the prospects of a company. This signal is in the form of information about what management has done to realize the owner's wishes. Information issued by the company is important because it has an influence on investment decisions for parties outside the company. Information is an important element for investors and business people because it provides information, notes or descriptions of the past, present, and future conditions regarding the survival of a company and how the securities market is. Signal theory is a theory that says investors perceive dividend changes as a signal of management's earnings forecasts.

The financial report is a structure that presents the financial position and financial performance of an entity which aims to present information regarding the financial position, financial performance, and cash flow of the entity which is useful for making decisions for the users (Ikatan Akuntansi Indonesia, 2012). The financial report is a report that shows the company's financial condition at this time or in a certain period (Kasmir, 2013).

Investment is the purchase and or management of an asset that can provide results in the future. Investment in the financial sector is a sale and purchase transaction of financial assets for a profit. Investment in the capital market is a sale and purchase transaction of securities to gain profits in the form of capital gains (loss) and dividends. Investment in the real sector is investing or buying productive assets to produce a product through the production process. The purpose of investing is to get a fixed income in each period (interest, royalty, dividends, or rent), to form a special fund (a fund for expansion and social interests), to control or control another company (through ownership of a portion of the equity of a company), to ensure the availability of a raw material, to get a market, for the products produced, and to maintain relationships between companies (Tandelilin, 2010).

Stocks are the capital market instrument that is most in demand by investors because they are considered capable of providing returns that match the sacrifices issued by investors (optimal). Shares are securities that show the ownership of the company which allows shareholders to claim rights over dividends or other distributions made by the company. Shares are a sign of participation or ownership of a person or entity in a company or limited liability company. Shares are in the form of a sheet of paper that states that the owner of the paper is the owner of the company that issued the securities (Darmadji & Fakhruddin, 2012)dadad.

Return is one factor that becomes the reason for the owner of capital to invest. Return is a reward for the courage of an investor to take the risk of his investment. The return expected by investors is compensation for the opportunity cost and the risk of decreasing purchasing power due to the influence of inflation. In the context of investment management, the rate of return on investment is called a return. Return in investment management can be distinguished between the expected return and the return that occurs (realized return).

According to the Forum for Good Corporate Governance in Indonesia (FCGI) (2011), good corporate governance is a set of regulations governing the relationship between shareholders, company managers, creditors, government, employees, and other internal and external stakeholders. with their rights and obligations, or in other words, a system that regulates and controls the company.

Several studies discussing the relationship between GCG and stock returns include: Ningsih & Atmaja (2017), Rahmawati & Handayani (2017) which state that GCG has a significant effect on stock returns. Meanwhile, Research by Wiryakusuma (2019) states that GCG has no significant effect on stock returns. Supporting research that discusses the relationship between GCG and company performance includes Sianipar & Wiksuana (2019), Andriana & Panggabean (2017), Haryati & Kristijadi (2015) which states that GCG has a significant effect on company performance. Meanwhile, other supporting research that discusses the relationship between company performance and stock returns includes Anwaar (2016), Kharisma, Hartoyo, & Maulana (2019) which states that company performance has a significant effect on stock returns, while research conducted by Juniarta & Purbawangsa (2020) stated that company performance has no significant effect on stock returns.

III. Conceptual Model

The research conceptual framework is a relationship or link between one concept and another on the problem to be investigated. This conceptual framework is derived from the concept of science / theory used as the basis for research obtained from literature reviews. The literature review contains all knowledge (theories, concepts, principles, laws, and propositions) which can later help researchers to develop a conceptual framework and research operations. The findings of existing research are very helpful for researchers in making a conceptual framework. The thinking framework is structured so that the research goes in the right direction following the scope of the problem being studied (Kasmadi & Sunariah, 2014). The research conceptual framework model below is made to facilitate conceptual understanding and formulation of hypotheses from this study, which are as follows:

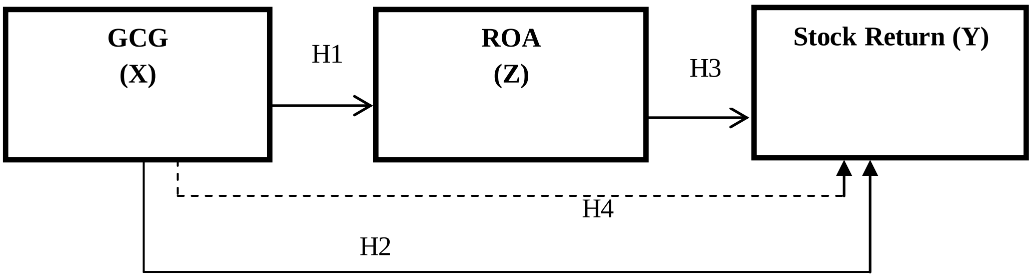

Figure 1. Research Conceptual Framework

HYPOTHESIS

The Effect of GCG on Company Performance

The implementation of GCG (Good Corporate Governance) shows how important it is in supporting the achievement of company goals and the basis for making company policies to provide benefits to various interested parties (stakeholders and shareholders). Komite Nasional Kebijakan Governance (KNKG) (2006) defines good corporate governance as a process and structure used by corporate organs to provide added value to the company on an ongoing basis in the long term for shareholders, while still paying attention to the interests of other stakeholders, based on statutory regulations. -Applicable laws and norms. Research conducted by Haryati & Kristijadi (2015) states that GCG affects Company Performance. Based on the explanation above, the fourth hypothesis in this study can be formulated as follows:

H1: GCG affects Company Performance

The Effect of GCG on Stock Returns

GCG is believed to be able to provide effective protection for shareholders and creditors in ensuring the correct return on their investment (FCGI, 2011). GCG, which is a concept based on agency theory, is expected to function as a tool to provide confidence to investors that they will receive a return on the funds they have invested. Research by Ningsih & Atmaja, (2017) states that GCG affects Stock Return. Based on the explanation above, the fourth hypothesis in this study can be formulated as follows:

H2: GCG affects the Stock Return

The Effect of Company Performance on Stock Returns

ROE is a ratio used to measure the ability of own capital to generate profits for all shareholders, both common stock and preferred stock, the bigger this variable the better. ROE describes the extent to which the company's ability to generate profits that can be obtained by shareholders. In predicting future ROE based on past ROE information it can indeed help investors, but besides that, information about investors' expectations of company earnings and dividends is also important to determine the intrinsic value of company shares so that investors can make the right investment decisions. In other words, past data may be used as an indicator of the company's future growth, but investors must always be careful about the possibilities that will happen in the future. Anwaar (2016) states that company performance on stock returns. Based on the explanation above, the third hypothesis in this study can be formulated as follows:

H3: Company performance affects the Stock Return

The Role of Company Performance in Mediating Good Corporate Governance on Stock Returns

The effect of GCG on stock returns has the potential not only to occur directly, but also indirectly through the mediation of company performance variables. This is based on the premise that company performance which is influenced by GCG may affect stock returns. According to agency theory, company performance is influenced by a conflict of interest between the agent and the principal that arises when each party tries to achieve or maintain the level of prosperity it wants. The conflict of interest between the agent and the principal is referred to as an agency problem. In connection with this agency problem, corporate governance, which is one of the solutions to agency problems, is expected to mitigate this conflict of interest in company organizations. Ningsih & Atmaja (2017) states that GCG affects company performance. Based on the explanation above, the fourth hypothesis in this study can be formulated as follows:

H4: Company performance mediates the influence of company performance on stock returns

IV. Result

Based on the data processing that has been done, the results can be used to answer the hypothesis in this study. Hypothesis testing in this study was carried out by looking at the T-Statistics value and the P-Values value. The research hypothesis can be stated as accepted if the P-Values value <0.05. The following are the results of hypothesis testing obtained in this study through the inner model:

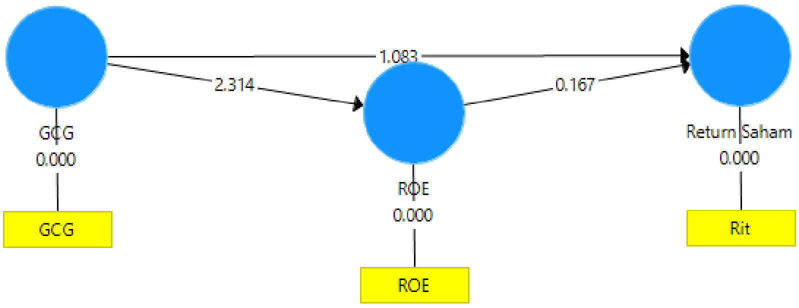

Figure 2. Test Model

Table 1. Direct Influence Between Variables

	Hypothesis	*Path Coefficients*	*P-value*	Result
H1	GCG → ROE	-0.171	0.021	Significant
H2	GCG → *Stock Return*	-0.090	0.279	Not Significant
H3	ROE → *Stock Return*	-0.019	0.868	Not Significant

Table 2. *Indirect Effect or Indirect Effect of Relationship Between Variables*

Criteria	Variable	X
Path Coefficients	Y	0,003
P-values	Y	0,889

V. Discussion

The Effect of GCG on Company Performance

The test results show that GCG has a significant effect on Company Performance. This means that the higher the GCG, the lower the Company's performance. This means that an increasing number of commissioners will worsen the company's profitability, for example, there is fraud committed by the board of directors, which will reduce the company's profitability.

The implementation of GCG (Good Corporate Governance) shows how important it is in supporting the achievement of company goals and the basis for making company policies so as to provide benefits to various interested parties (stakeholders and shareholders). Komite Nasional Kebijakan Governance (KNKG) (2006) defines good corporate governance as a process and structure used by corporate organs to provide added value to the company on an ongoing basis in the long term for shareholders, while still paying attention to the interests of other stakeholders, based on statutory regulations. -Applicable laws and norms.

The results of this study are in line with research conducted Haryati & Kristijadi (2015) which states that GCG affects Company Performance. Research by Ningsih & Atmaja (2017) also states that GCG affects Company Performance.

The Effect of GCG on Stock Returns

The test results show that GCG does not affect Stock Return. This means that the higher the CSR, the Stock Return will not change. This is because the role of the independent board of commissioners cannot improve the quality of shares through the monitoring function of financial reporting and there is also low awareness of the importance of the GCG system in improving the quality of company value. The concept that is based on the formation of independent commissioners is based on the principles of independence (independency) and accountability (accountability), where if there is a lack of supervision from independent commissioners, there may be some irregularities committed by shareholders.

GCG is believed to be able to provide effective protection for shareholders and creditors in ensuring the correct return on their investment (FCGI, 2011). GCG, which is a concept based on agency theory, is expected to function as a tool to provide confidence to investors that they will receive a return on the funds they have invested. Several concepts about good corporate governance, among others, were put forward by Agoes (2017) which states that good corporate governance is related to ways or mechanisms to convince capital owners to get returns that are following the investments that have been invested. Agoes (2017) states that good corporate governance refers to a framework of rules and regulations that allow stakeholders to make companies maximize value and to obtain returns. Also, good corporate governance is a tool to ensure that directors and managers act in the best interests of investors.

The results of this study are not in line with research conducted by Ningsih & Atmaja (2017) which states that GCG affects Stock Returns. Haryati & Kristijadi (2015) research also states that GCG affects Stock Return.

The Effect of Company Performance on Stock Returns

The test results show that ROE does not affect Stock Return. This means that the higher the ROE, the Stock Return will not change. This is because investors do not pay much attention to ROE in making decisions to buy or sell shares. So that ROE does not have much influence on stock returns. Also, the company's ability to earn profits and the ability to control all operational and non-operational costs is very low so that it has less effect on stock prices which of course also affects stock returns.

ROE is a ratio used to measure the ability of own capital to generate profits for all shareholders, both common stock and preferred stock, the bigger this variable the better. ROE describes the extent to which the company's ability to generate profits that can be obtained by shareholders. In predicting future ROE based on past ROE information it can indeed help investors, but besides that, information about investors' expectations of company earnings and dividends is also important to determine the intrinsic value of company shares so that investors can make the right investment decisions. In other words, past data may be used as an indicator of the company's future growth, but investors should always be careful about the possibilities that will happen in the future data.

The results of this study are not in line with research conducted by Anwaar (2016) which states that Company Performance on Stock Returns. Ningsih & Atmaja (2017) state that ROE affects Stock Return.

The Role of Company Performance in Mediating Good Corporate Governance on Stock Returns

The test results show that the Company's performance does not play a role in influencing GCG on Stock Return by looking at the significance level of 0.889. This means that company performance does not play a significant role in mediating Good Corporate Governance towards Stock Returns.

The effect of GCG on stock returns has the potential not only to occur directly, but also indirectly through the mediation of company performance variables. This is based on the premise that company performance which is influenced by GCG may affect stock returns. According to agency theory, company performance is influenced by a conflict of interest between the agent and the principal that arises when each party tries to achieve or maintain the level of prosperity it wants. The conflict of interest between the agent and the principal is referred to as an agency problem. In connection with this agency problem, corporate governance which is one of the solutions to agency problems is expected to be able to mitigate these conflicts of interest in corporate organizations.

The results of this study are not in line with research conducted by Ningsih & Atmaja (2017) which states that GCG affects Company Performance.

VI. Conclusion

The Covid 19 pandemic provides a threat or opportunity to reduce stock returns. One of the changes that occurred during the Covid 19 Pandemic was the decline in company share prices, for example, the real estate and property sectors. The Covid 19 pandemic has had a profound impact on change. The Covid 19 pandemic also has an impact on performance in business organizations, this shows that the Covid 19 pandemic has become a threat to business unit lines within these corporate entities or organizations. It takes strategic planning and the application of complex good cooperate governance (GCG) within the company as a solution to face uncertain change.

In the era of the Covid 19 pandemic, the end of which is unknown, companies listed on the Jakarta Islamic Index (JII) need a good business strategy in the operational field, especially in company performance. With the Covid 19 Pandemic which had a bad impact, good cooperate governance (GCG) has become the main subject in overcoming threats and opportunities. For this reason, further research is needed to determine the role of GCG and company performance in increasing stock returns of companies listed on the Jakarta Islamic Index (JII).

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