

The Effect of Good Corporate Governance and Return on Equity on Stock Prices during the Covid-19 Pandemic

(Empirical Study of Companies Participating in the Corporate Governance Perception Index Listed on the Indonesia Stock Exchange Period for 2018 – 2021)

Rehan Husna Novizilia¹, Noer Sasongko²

¹*Faculty of Economics and Business, Muhammadiyah University of Surakarta, Indonesia*

²*Faculty of Economics and Business, Muhammadiyah University of Surakarta, Indonesia*

Abstract: This study aims to determine managerial ownership, audit committee, independent ownership, and institutional ownership, return on equity on stock prices. This research is quantitative research using multiple linear regression software SPSS. The population of this study are companies listed on the Indonesia Stock Exchange (IDX) that have obtained CGPI scores for the 2018 - 2021 period. The research sample was selected using purposive sampling and is known that 56 companies listed on the Indonesia Stock Exchange (IDX) that obtained CGPI scores during the 2018– 2021 period were used as samples and the results are follows : (1) managerial ownership variables have no effect on stock prices; (2) the audit committee variables has an effect on stock prices; (3) the independent commissioner variables has no effect on stock prices; (4) variables owned by institutions affect stock prices; (5) variables return on equity does not affect the stock prices.

Keywords: Good Corporate Governance, Return on Equity, Stock Prices

1. Introduction

The capital market currently has an important role in the economy of country and is inseparable form transactions carried out by investors in the capital market The existence of a capital market helps companies or stakeholders in making transactions that require information before deciding to buy or sell the shares they will invest. Companies that invest in shares have the goal of maximizing shareholder wealth to create good and healthy financial reporting conditions. Therefore, investors carry out an analysis of the company both from outside the company in the form of reputation and its products, as well as from within the company in the form of financial reports and company performance in managing its funds to gain profits (Hartono, 2010).

Companies both abroad and domestically always want performance and corporate governance to be healthy and good. However, there are still many companies that have poor financial performance and governance. So, the company or stakeholder will ask management to improve performance and financial governance so that the company's goals or stakeholders are fulfilled and the share price increases. However, management often has different goals and interests, so the goals of the company or stakeholders are eventually not fulfilled and increased.

Good Corporate Governance is one way that is applied in a company to protect the company and the investors. Good Corporate Governance is defined to be the mechanism established in the company's activities in which the company has the objective of paying attention to stakeholders and has efforts to increase shareholder value in the long term (Nurulrahmatiah and Pratiwi, 2020). Applicable mechanisms of good corporate governance institutional ownership, audit committee, independent commissioners, and managerial ownership. Sabrina (2010) states that the greater the ownership of the company, the more active the management is for the benefit of itself and investors. The existence of good corporate governance also increases stock prices in restoring investor confidence in the company and managers will work more to achieve company goals.

Based on the observation of the company's management performance in the implementation of good corporate governance, all information regarding the company's financial performance is important for companies and investors. Financial performance can be used to see whether investors will maintain their investment in the company or look for other alternatives.

Investors will provide their capital to the company if the investor views the company as well and is deemed to be able to provide benefits for him. The poor condition of the company's financial performance can result in a decrease in share prices (Hidayat, 2018). Likewise, good company financial performance will have a very positive effect on the condition of a company (Hidayat, 2018).

At this time the economic condition is experiencing a decline because of this COVID-19 which spread throughout the world, so it has a negative impact on world economic and social conditions, including in Indonesia. This negative influence itself is caused by the spread of a virus that is easily transmitted. This virus was first detected in the city of Wuhan, China in December 2018 and was given the scientific name SARS-CoV-

can also be called Corona virus. The Indonesian government is making various anticipations of the spread of this virus, one of which is by implementing Physical Distancing which can also be called Large-Scale Social Restrictions (PSBB) to minimize the spread of this virus. However, this policy caused economic conditions to decline such as HISG by (-2427,1894 points) said to be -38.31% since January 2020 (Damuri and Hirawan, 2020). This also causes companies and investors to take a stance to be able to predict how big the capital market will react to the pandemic COVID-19.

2. Review and Hypothesis

Agency Theory

Agency theory or agency theory is the main theory used in good corporate governance because this theory deals with inter-interest stakeholders in the form of an agreement. Agency theory is a problem between agents and principals with different interests. In this agency relationship, the principal and the agent enter into a contract or agreement to delegate decision-making authority to the agent on behalf of the principal specified in the contract. (Solomon et al., 2021). This agency theory also explains that to reduce various conflicts of interest, supervision can be carried out good corporate governance (Prastiwi and Maslichah, 2018).

Efficiency Market Theory

In the efficient market hypothesis, there are three forms, namely weak, semi-strong and strong. In general, the semi-strong form is used to explain the relationship between accounting information and capital markets as defined below (Scott, 1997:68 – 69). "An efficient capital market is a capital market where the price of securities traded at any time fairly reflects all information that is known to the public relating to these securities". Based on this definition, three things can be shown, namely:

- a. Market prices are efficient in relation to information that is known to the public, so it is possible that there is information in the company that is not known by the market.
- b. Market efficiency is a relative concept, that is, the market is relatively efficient with respect to a set of information available to the public.
- c. In an efficient market, information is a natural game, that is, in the long run, market prices will rise or fall randomly. In this regard, the marketer will adjust prices to events in the company in an unbiased manner. Changes in market prices will occur due to unexpected information.

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a mechanism that has the duty to be responsible for managing corporate governance that can provide long-term and sustainable economic value for shareholders and company owners, according to Haposan Banjarnahor (2018).

In the meaning of the Indonesian Stock Exchange, good corporate governance (GCG) is a mechanism or system designed to direct the management of a company in a professional manner based on the principles of transparency, accountability, responsibility, independence and fairness and equality. From this understanding, it is concluded that the purpose of implementing GCG is to maximize company value for investors and stakeholders in the long run.

Financial Performance

Rahmadewi (2018) explains that financial performance is interpreted as a determinant of measures that can test the level of success or achievement of a company in earning profits. Financial performance analysis is also carried out to see whether the company can generate profits or not. If a company can generate profits, it will encourage investors to have an interest in investing in the company. The more investors invest in the company, the higher the share price.

Stock Prices

Shares are proof of company ownership of a capital invested in the company or shares are also money sacrificed to get proof of ownership of a company (Octaviani and Komalasarai, 2017).

Share prices are referred to as money which is useful in obtaining proof of participation or ownership of the company (Anoraga 2001:100). Share prices are determined through systematics when the stock market occurs and are based on demand and supply of shares (Revita, 2018).

The Effect of Managerial Ownership on Stock Prices

Managerial ownership is a condition that shows that the manager owns shares in the company, or the manager is also a shareholder of the company (Rustiarini, 2011). According to Muryati and Suardhika (2015)

stated that managerial ownership affects stock prices. Based on the theoretical and empirical studies, the hypothesis can be formulated as follows:

H₁: Managerial ownership affects stock prices.

The Influence of the Audit Committee on Stock Prices

The audit committee is a committee formed by the board of commissioners to carry out the oversight function of company management. The number of audit committee members is required to have at least three members and the other members are people from external parties who are independent and can have a background or experience in finance and accounting (Saifi and Hidayat, 2017). The results of the study (Pratama & Ismawati, 2021) conclude that audit committees have an effect on stock prices. Based on the theoretical and empirical studies, the hypothesis can be formulated as follows:

H₂: The audit committee has an effect on stock prices.

The Influence of Independent Commissioners on Stock Prices

Independent commissioners as a part of the board of commissioners without legal defects and various forms of relationship to the majority shareholder but have integrity. (Hasnati, 2014: 148). With the existence of an independent board of commissioners within the company's leadership, the oversight function of management performance will be even better. The independent board of commissioners can work neutrally without intervention from management, so that the quality of the resulting financial report information will increase, and quality information will certainly give a good reaction to investors. Based on the theoretical and empirical studies, the hypothesis can be formulated as follows:

H₃: Independent commissioners have an effect on share prices.

Effect of Institutional Ownership on Stock Prices

Institutional ownership is one of the factors that can affect company performance. Institutional existence is considered capable of being an effective monitoring mechanism in every decision taken by managers (Wening, 2007 in Sabrina, 2010). Based on the theoretical and empirical studies, the hypothesis can be formulated as follows:

H₄: Institutional ownership affects stock prices.

Influence Return On Equity Against the Stock Prices

Return On Equity is the ratio used to measure the ability of own capital to generate profits for all shareholders, both ordinary shares and preferred shares. The higher the ROE value, of course, will attract investors to invest in the company concerned because it indicates that the company has good performance and consequently the stock price will also be high. Based on the theoretical and empirical studies, the hypothesis can be formulated as follows:

H₅: Return On Equity effect on stock prices.

3. Methodology

This research uses descriptive research. Descriptive research is based on research methods used to find the widest possible knowledge of quantitative research objects using secondary data. The population in this study are companies that are included in the Corporate Governance Perception ranking and are listed on the Indonesia Stock Exchange with the following criteria:

1. Listed companies that get CGPI scores during 2018 - 2021.
2. Companies listed on IDX during 2018 - 2021.
3. Companies that have published financial reports in rupiah units at the time of publication during 2018 - 2021.
4. Companies that publish complete data in 2018 - 2021 relating to research variables,

The data source used in this study was obtained from the SWA electronic magazine which was accessed at www.swa.co.id and the IDX official website during 2018– 2021.

Data Analysis Techniques

The data analysis method used in this study is multiple linear regression. This regression analysis aims to obtain a relationship between the dependent variable and the independent variable separately, partially or simultaneously. Multiple linear analysis is used to test the effect of two or more independent variables on a dependent variable (Diah Yuliana, Marhamah, 2017). The research equation that will be used in data analysis is as follows.

$$HS = a + \beta_1 KM + \beta_2 KA + \beta_3 KI + \beta_4 INS + \beta_5 ROE + e$$

Information:

HS : Stock Prices
 KM : Managerial Ownership
 KA : Audit Committee
 KI : Independent Commissioners
 INS : Institutional Ownership
 ROE : Return On Equity
 a : Regression Constant
 β : Regression Coefficient
 e : Error Term

4. Results and Discussion

Descriptive Statistics Analysis

Table 1 Statistical Test Results Descriptive

	N	Minimum	Maximum	Mean	Std. Deviation
HS	52	46,00	9250,00	2145,9231	2518,32168
KM	52	,00	,01	,0008	,00142
KA	52	2,00	8,00	4,1731	1,29435
KI	52	,29	,67	,4944	,10808
INS	52	,08	,93	,5563	,23800
ROE	52	-,65	,36	,0870	,17111

Source: SPSS data processed, 2023.

Based on the descriptive statistics table above, it can be known that:

- The dependent variable of stock prices has a minimum value of 46.00 and a maximum value of 9250.00 as well as flat – flat(mean) of 2145.9231 with a standard deviation of 2518.32168. Where the average value is lower than the standard deviation value, this means that the distribution of company value data is heterogeneous because it has a higher standard deviation than the average value.
- Managerial ownership independent variable data obtained a minimum value of 0.00 and a maximum value of 0.1 with an average value of 0.0008 and a standard deviation of 0.00142. Judging from the average value, which is greater than the deviation value, this data indicates that the data distribution is quite good, and the data is normal.
- The audit committee independent variable data obtained a minimum value of 2.00 and a maximum value of 8.00. The average value of company size is 4.1731 and a standard deviation of 1.29435
- Independent commissioner independent variable data obtained a minimum value of 0.29 and a maximum value of 0.67. The average value of company size is 0.4944 and the standard deviation is 0.10808.
- Institutional ownership independent variable data obtained a minimum value of 0.08 and a maximum value of 0.93. The average value of company size is 0.5563 and the standard deviation is 0.23800.
- Independent variable data return on equity obtained a minimum value of -0.65 and a maximum value of 0.36.

Discussion

In research this use analysis multiple linear regression for test influence independent variable on variable dependent. Following is results analysis multiple linear regression:

Table2 Results from Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2987,839	1996,299		1,497	,141
	KM	-173594,214	209331,617	-,098	-,829	,411
	KA	728,782	226,226	,375	3,221	,002
	KI	-2911,330	2875,135	-,125	-1,013	,317
	INS	-4588,635	1243,081	-,434	-3,691	,001
	ROE	2794,348	1683,988	,190	1,659	,104

Source: SPSS data processed, 2023.

Based on the table above results, the regression equation is obtained as follows:

$$HS=2987,839 - 173594,214KM+728,782KA - 2911,330KI- 4588,635INS +2794,348ROE+e$$

From the regression equation above, the conclusions that can be drawn are as follow:

- Constant of 2987.839, meaning that the share price will be worth 2987.839 if each variable in the study, namely managerial ownership, audit committee, independent commissioners, institutional ownership and ROE is considered constant, then the average share price increases by 2987.839.
- The managerial ownership variable has a coefficient value of -173594.214. That is, if every one percent increase in the managerial ownership variable with other independent variables remains the same, then the stock price will increase by -173594.214.
- The audit committee variable has a coefficient value of 728.782. If a one percent increase in the audit committee variable with other independent variables remains constant, then the stock price will increase by 728.782.
- The independent commissioner variable has a coefficient value of -2911.330. That is, if every one percent increase in the independent commissioner variable with other independent variables remains the same, then the stock price will increase by -2911.330.
- The institutional ownership variable has a coefficient value of -4588.635. That is, if every one percent increase in the institutional ownership variable with other independent variables remains constant, the stock price will increase by -4588.635.
- The ROE variable has a coefficient value of 2794.348. If a one percent increase in the ROE variable with other independent variables remains constant, then the stock price will increase by 2794.348.

5. Conclusion

This study aims to empirically examine the effect of managerial ownership, audit committee, independent commissioners, institutional ownership and ROE on stock prices during the COVID-19 pandemic for participating companies. *Corporate Governance Perception Index* which is listed on the Indonesia Stock Exchange in 2018 – 2021. Based on the results of the tests and discussions that have been carried out in this study, the following conclusions can be drawn:

- Managerial ownership has no effect on stock prices with a significant value of 0.411 greater than a significance level of 0.05. It can be interpreted that managerial ownership has no effect on stock prices or the H_1 is rejected.
- The audit committee influences stock prices with a significant value of 0.002 which is less than the significant level of 0.05. This can be interpreted as the audit committee influences stock prices, or the H_2 is accepted.
- Independent commissioners have no effect on stock prices with a significant value of 0.317 greater than a significance level of 0.05. It can be interpreted that the independent commissioner has no effect on stock prices, or the H_3 is rejected.
- Institutional ownership influences stock prices with a significant value of 0.001 which is less than the significance level of 0.05. It can be interpreted that institutional ownership affects stock prices or the H_4 is accepted.
- ROE has no effect on stock prices with a significant value of 0.104 greater than a significant level of 0.05. It can be interpreted that ROE has no effect on stock prices or the H_5 is rejected.

Refences

- [1] Bukhori, I., & Raharja, R. (2012). *Pengaruh good corporate governance dan ukuran perusahaan terhadap kinerja perusahaan (studi empiris pada perusahaan yang terdaftar di BEI 2010)* (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).
- [2] Budiharjo, R. (2016). *Pengaruh Good Corporate Governance Terhadap Return Saham Dengan Profitabilitas Sebagai Variabel Intervening dan Moderating (Studi Empiris Pada Perusahaan Peraih CGPI Yang Terdaftar di Bursa Efek Indonesia Tahun 2010-2012)*. *Jurnal Tekun*, 7(01), 80-98.
- [3] Dharmawan, C. I., Ulum, I., & Wahyuni, E. D. (2017). *Pengaruh Corporate Governance Index terhadap Ketepatan Waktu Corporate Internet Reporting (Studi Empiris pada Perusahaan Peserta Corporate Governance Perception Index)*. *Kompartemen: Jurnal Ilmiah Akuntansi*, 15(2).
- [4] Fadilah, N. A. (2019). *Pengaruh Good Corporate Governance terhadap Harga Saham Pada Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia Tahun 2015-2017* (Doctoral dissertation, Universitas Muhammadiyah Gresik).

- [5] Gilang, M., & Darsono, D. (2018). analisis pengaruh corporate governance perception index, ukuran perusahaan dan leverage terhadap financial distress: studi empiris pada perusahaan peserta cgpi yang terdaftar di bursa efek indonesia tahun 2012-2016. *Diponegoro Journal of Accounting*, 8(3).
- [6] Kefi, Batista Sufa, and Agus Hariyanto. "ANALISIS POLA RETURN SAHAM PADA MASA PANDEMI COVID-19 DI BURSA EFEK INDONESIA." *JURNAL EKONOMI MANAJEMEN AKUNTANSI* 28, no. 50 (2021).
- [7] Khatib, Saleh FA, and Abdul-Naser Ibrahim Nour. "The impact of corporate governance on firm performance during the COVID-19 pandemic: evidence from Malaysia." *Journal of Asian Finance, Economics and Business, Forthcoming* (2021).
- [8] Lembayung, Haritra Dyah, Kartika Hendra Titisari, and Endang Masitoh. "PENGARUH GOOD CORPORATE GOVERNANCE & KINERJA KEUANGAN TERHADAP NILAI PERUSAHAAN DI MASA PANDEMI COVID-19." *ECOBISMA (JURNAL EKONOMI, BISNIS DAN MANAJEMEN)* 9, no. 2 (2022): 15-21.
- [9] Munira, M., Merawati, E. E., & Astuti, S. B. (2018). Pengaruh ROE dan DER Terhadap Harga Saham Perusahaan Kertas di Bursa Efek Indonesia. *JABE (Journal of Applied Business and Economic)*, 4(3), 191-205.
- [10] Novitasari, Ni Luh Gde. "Pengaruh Corporate Governance Dan Faktor Fundamental Terhadap Return Saham Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia." *KRISNA: Kumpulan Riset Akuntansi* 9, no. 1 (2017): 36-49.
- [11] Oktafian, M. T. Y., & Putra, Y. S. (2015). Pengaruh Corporate Governance Terhadap Return On Equity Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia (Studi Kasus pada 14 Perusahaan Go Public yang Menduduki Peringkat CGPI Tahun 2010–2012). *Among Makarti*, 7(2).
- [12] Permatasari, R. D., & Sasongko, N. The Effect of Profitability, Firm Size, CSR Disclosure, Leverage, On Firm Value.
- [13] Pratama, R. F., & Ismawati, K. (2021). Pengaruh Dewan Direksi, Dewan Komisaris Dan Komite Audit Terhadap Harga Saham Perusahaan Manufaktur Yang Terdaftar Di BEI Periode 2016-2018. *Surakarta Accounting Review*, 3(1), 11-17.
- [14] Safira, I. F., & Dillak, V. J. (2021). Pengaruh Eva, Retention Ratio, Dan Proporsi Dewan Komisaris Independen Terhadap Harga Saham. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, & Akuntansi)*, 5(1), 1000-1018.
- [15] Safira, Annisa. "The Effect of Corporate Social Responsibility and Corporate Governance on Corporate Resilience due to COVID-19 Pandemic in Indonesia." PhD diss., Universitas Andalas, 2021.
- [16] Soendari, T. (2012). Metode penelitian deskriptif. *Bandung, UPI. Stuss, Magdalena & Herdan, Agnieszka*, 17.
- [17] Sidarta, Alphasyah Lazuardy, Ade Irma Suryani Lating, and Syarifudin Syarifudin. "PENGARUH KINERJA KEUANGAN PERUSAHAAN TERBUKA TERHADAP RETURN SAHAM PADA MASA PANDEMI COVID-19 (Pada Perusahaan yang Tercatat di BEI Tahun 2020)." *Media Mahardhika* 20, no. 1 (2021): 25-36.
- [18] Syafaatul L, K. (2014). *Pengaruh Good Corporate Governance Terhadap Harga Saham (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia)* (Doctoral dissertation, Universitas Brawijaya).
- [19] Zattoni, Alessandro, and Amedeo Pugliese. "Corporate Governance Research in the Wake of a Systemic Crisis: Lessons and Opportunities from the COVID-19 Pandemic." *Journal of Management Studies* (2021).