

Analysis of Sound Corporate Governance Effect on Company's Financial Fundamentals toward Stock Returns

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ABSTRACT

This research is proxied by Current Ratio to determine the company's ability to meet its short-term obligations through Return Shares, and Corporate Governance is expected to function as a tool to provide confidence to investors. There fore this study aims to examine and analyze the effect of Liquidity, Profitability, Solvency, Accounting Profit, and Operating Cash Flow on Return Share with Corporate Governance. To answer the above objectives, quantitative analysis is needed, with data collection methods collected through literature studies originating from books, journals, theses, the internet and documentation. Testing the hypothesis used in this study is multiple regression analysis and moderation regression analysis. The population of this study are mining sector companies listed on the Indonesia Stock Exchange. The number of companies that are the sample is 32 companies. This research uses the method purposive sampling, so that the total sample is 160 samples. The results of the study show that Profitability, Accounting Profit, and Operating Cash Flow have an effect on Return Share. While Liquidity and Solvability have no effect on Return Shares.

Keywords: Liquidity, Operating Cash Flow, Return, Corporate Governance, Independent Commissioner

INTRODUCTION

Nowadays, more and more people are getting interested in investing and one of the instruments that is widely chosen is stocks. Stock investment offers a lot of profit potential so that it is in great demand by the public. Profits from investing in stocks come from rising stock prices and dividends. The increase in stock prices moves based on the law of supply and demand, while dividends come from the profits generated by the company. In investing, the greater the potential profit that can be achieved, the greater the risk of loss that awaits so that potential investors must be able to make careful considerations when they want to start investing so as to minimize the risk of existing losses (Fuada, 2022).

Basically the capital market does not only provide stocks, there are also other long-term financial instruments such as debt securities (bonds), mutual funds, derivative

instruments and other instruments that can be traded. The capital market is a bridge to distribute welfare between the community and companies where investors in corporate securities such as shares will receive dividends and capital gains or returns while companies will receive investment funds that can be used for operational activities, business expansion, and others. (Oroh et al., 2019)

Loss in investing can occur if investors do not have adequate skills and knowledge in investing in stocks. Often investors in the capital market are only stuck with technical data of a stock without studying it further which then makes them just buying and selling investors (Kanti, 2021). Whereas investment decisions must be made with sufficient knowledge, for example, basic knowledge of the stock market, knowledge of company profiles and performance, introduction to the prospects of the industrial ecosystem, and other information.

The stock investment climate in the capital market is difficult to predict so that it can pose a risk for investors when investing, so investors need to understand how the condition of the company they want to invest in is seen through financial performance (Safitri, & Kusumawati, 2021). The financial performance of a company will be listed in the company's financial statements or annual reports. Based on this information, investors can make an assessment of the feasibility of the investment to be made.

A good company's financial performance will be able to make the company able to pay dividends to investors so that in this case there is an increase in the returns (capital gains and dividends). The company's financial performance can be assessed by analyzing financial ratios which are used as benchmarks so that it can compare the company's performance this year with the previous year or with competing companies (Budiantoro, et, al., 2022).

Financial ratios can be used to explain the company's financial strengths and weaknesses and have a role in predicting stock prices or returns in the capital market. Financial ratios reflect how the performance of a company. The better the company's financial performance, the company's stock price will also be higher. With a high stock price, it is expected that investors will get return on their investment in the form of investment in a company (Syamsuddin, et, al., 2021).

Liquidity is the company's ability to meet short-term financial obligations with available current funds. Liquidity in this study is proxied by the Current Ratio term

obligations short through Returns Stock (Dwiyani, 2021). If the company in its operations obtains optimal profits, the financing and financing of the company will be smoother and vice versa. The company's liquidity level must be maintained at certain limits, namely neither too high nor too low.

For creditors, the higher the current ratio, the better, but for certain companies it can mean something else. For shareholders, Current Ratio can indicate a significant amount of cash that is left unproductive. Or maybe you can get a large supply of unsold and even imminent expiration and various other bad possibilities.

Profitability is a ratio used to measure the company's ability to earn a profit or a measure of the effectiveness of the company's management. This ratio also reflects the level of effectiveness of the company's management which can be seen from the profit generated through sales and investment income. Profitability in this study is proxied by Return On Assets (ROA), the higher the ROA indicates the more effective the company is in utilizing its assets to generate net profit after tax, with the increasing ROA, the better the profitability of the company so that the company gets return (Tsaniatuzaima, & Maryanti, 2022). It's important to note that while profitability ratios are essential in evaluating a company's financial performance, they should be used in conjunction with other financial metrics and qualitative factors to gain a comprehensive understanding of the company's overall health and prospects. Additionally, the interpretation of profitability ratios can vary depending on the industry in which the company operates and its specific business model.

Solvency is a ratio that measures the company's ability to meet its financial obligations both in the short and long term, or measures the extent to which the company is financed with debt. Solvency or Leverage in this study is proxied by debt to equity ratio (DER) is a ratio used to assess debt to all equity and is able to provide general instructions about the feasibility and financial risk of the company (Qurrotulaini, & Anwar, 2021). Investors tend to avoid stocks that have a high DER because a high DER value reflects the company's relatively high risk.

Researchers also use Corporate Governance (CG) as a moderating variable, to see whether CG able to moderate the relationship between the independent and dependent variables. Corporate governance is a concept based on agency theory, which is expected

to function as a tool to provide confidence to investors that they will receive return on the funds they have invested (Nila, 2021).

THEORETICAL BASIS

Signal

Theory explains that when a company provides information that is published as an announcement, it will provide a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react when the announcement is received by the market. The announcement is in the form of accounting information that will give a signal that the company has good prospects in the future so that investors are interested in trading shares, then the market will react which is reflected through changes in the volume of stock trading (Handayani, 2022).

Stakeholder

Theory stakeholder begins with a change in the company's approach to conducting business activities. There are two forms in the stakeholder, namely old-corporate relations and new-corporate relations. The fundamental difference between the two approaches can be seen from the emphasis on the form of implementation of the company's activities. Old-corporate relations emphasizes the form of carrying out company activities separately, where each function in a company does its work without any unity between these functions. Relationships with parties outside the company are only short term and are limited to transactional relationships without any cooperation to create mutual benefit. The approach that raises many conflicts for the company is because the company indirectly separates itself from stakeholders both from within the company and outside the company (Dwiyanti, 2021).

Return Stock

Return is the return that investors get from doing an investment activity in the form of buying shares. Return is the profit enjoyed by investors on their investment, with these advantages an investor will be interested in making investments both short and long term (Ulinnuha, et, al., 2022). It can be concluded that returns are the results or returns on securities or capital investments which are usually expressed in a certain percentage level. It's important to note that all investments carry inherent risks, and past performance does not guarantee future results. Investors need to carefully consider their risk tolerance,

investment goals, and time horizon before making any investment decisions. Additionally, seeking advice from financial professionals can help individuals make well-informed investment choices that align with their financial objectives.

Liquidity

Liquidity is the company's ability to meet short-term financial obligations using available current funds. Liquidity is one of the financial ratios that is often used as a major concern by external parties such as creditors and investors in making decisions such as lending and investing. This is because if the company in its operational activities obtains optimal profits, the company's financing and funding will be smoother, and vice versa (Saputra, et, al., 2022).

Profitability

Profitability is a financial ratio that describes the company's ability to generate profits by using the company's resources such as total assets, capital or sales. The better the profitability ratio of a company, the better the profits obtained by the company, which means this ratio is used to measure the effectiveness of the company's overall operations (Oroh et, al., 2019).

Solvency

Solvency or leverage is a financial ratio used to measure the extent to which a company's equity is financed with debt. This means how much debt is borne by the company compared to its equity. In a broad sense it is said that the solvency ratio is used to measure the company's ability to pay all its obligations, both short term and long term if the company is dissolved/liquidated (Syamsuddin, et, al., 2021).

Profit Accounting

Profit can be used as a measurement of management efficiency as well as a measure of success and as a guide for management decision making in the future as well as a measure of return on investment. The greater the profit earned, the better an investment business. Operational accounting profit is defined as the difference between the realized revenue arising from transactions for the period and historical costs. (Tumbel et, al., 2017: 175)

Operating Cash Flow

The cash flow statement is part of a company's financial statements produced in an accounting period that shows the company's cash inflows and outflows and is used by

management to evaluate operational activities that have taken place and plan investment and financing activities in the future. Cash flow statements are also used by creditors and investors in assessing the level of liquidity and the company's potential to generate profits (Darmayanti, 2018).

Corporate Governance

The Cadbury Committee in England first coined the word "corporate governance" in its 1922 report, which later became known as the Cadbury Report. Corporate Governance is a set of rules that regulate rights and obligations between stakeholders in a company and requires a company to carry out transparency over all processes within a company (Putra and Nuzula, 2017).

METHOD

The type of research used in this study is causal associative research. Causal associative research is research that aims to determine the effect or relationship between two or more variables (Ramadhani, et, al., 2022). This research is also a quantitative research. Quantitative method is a scientific approach that looks at a reality.

The population in this study are mining companies listed on the Indonesia Stock Exchange (IDX). The sample selection method used is purposive sampling. Purposive Sampling means that the determination of the sample by considering certain criteria for the object in accordance with the aim of obtaining a representative sample.

The data used in this study is secondary data. In obtaining the data in this study, the researchers used two methods, namely library research and documentation. Variables the dependent variable in this study is. Stock returns then the independent variables in this study are Liquidity, Profitability and Accounting profit. While the moderating variable is corporate governance.

RESULT

Test Normality Test

The regression model is said to be normally distributed when it has a significance value greater than 0.05. Based on the results of the normality test, namely the Kolmogorov Smirnov statistical test, according to Table 4.1, a significant value of 0.200 is obtained

where the significance value is greater than the p value (0.05), so it can be concluded that the regression model is normally distributed.

Determinant Coefficient Test

Based on Table Determinant Coefficient Test, it can be seen that the adjusted R Square 0.131 or 13.1%. This indicates that the dependent variable (RS) can be explained by the independent variables (CR, ROA, DER, LAK, and AKO) of 13.1%, while the remaining 86.9% is explained by other variables outside this study. By providing empirical evidence on the relationships between financial variables and stock returns, this research aims to contribute to the field of accounting science. Empirical evidence based on real-world data helps validate theoretical models and provides a practical understanding of the factors influencing stock returns in the mining sector.

Simultaneous Significance Test

Based on regression test, it can be seen that thecalculated 5.777 with a significance value of 0.000. If thecalculated is greater than the ftable , it means that the independent variable simultaneously affects the dependent variable. Then the ftable value distributiontable with a significance of 5% based on k (5); and (nk) which is $(160-5) = 155$ so that the ftable 2.27. It is known that thecalculated is greater than the ftable ($5.777 > 2.27$) and the significance value is $0.000 < 0.05$, which means that the independent variables simultaneously affect the dependent variable.

In summary, this research study has significant implications for the field of accounting science, as it contributes to knowledge and understanding regarding the influence of various financial factors on stock returns in the mining sector. By considering corporate governance as a moderating variable, the research offers insights into the importance of governance practices in shaping these relationships. The findings are expected to be valuable for future research endeavors and can be used as a reference point for further exploration in the domain of financial performance and stock returns in the mining industry.

Partial Significance Test

Based on regression test, it can be seen that the Liquidity variable (CR) has a tcount of 0.443 with a significance value of 0.659. If the value of tcount is greater than the value of ttable , it means that the independent variable partially affects the dependent variable and vice versa. Then the value of ttable is searched for the distribution of ttable with a

significance of 5% based on $/2$ or $(0.05/2) = 0.025$; and $(nk-1)$ or $(160-5-1) = 154$ so that the ttable is 1.97549. It is known that the Liquidity variable has a tcount smaller than the ttable ($0.443 < 1.97549$) and a significance value of $0.659 > 0.05$, which means that the Liquidity variable partially has no effect on the dependent variable. So it can be concluded that H_0 accepted and H_a is rejected, which means that the liquidity variable individually has no effect on the Return Stock.

By considering corporate governance as a moderating variable, the study highlights the importance of effective governance practices in influencing the relationship between financial factors and stock returns. Corporate governance plays a crucial role in shaping a company's decision-making processes and overall performance, and its impact on stock returns is an essential aspect for investors and policymakers.

CONCLUSION

This study aims to examine the effect of Liquidity, Profitability, Solvency, Accounting Profit, Operating Cash Flow on Return Stock Corporate Governance as a moderating variable. This research was conducted on mining sector companies listed on the Indonesia Stock Exchange in 2015-2019.

Based on the results of this study, it is expected to increase knowledge related to accounting science by providing empirical evidence regarding the effect of Liquidity, Profitability, Solvency, Accounting Profit, Operating Cash Flow on Returns Stock Corporate Governance as a moderating variable in mining sector companies listed on the Indonesia Stock Exchange in 2015-2019. This research is also expected to strengthen the findings of previous research and can be used as a reference for future research.

Researchers hope that with this research, potential investors or the public can increase awareness in investing and increase knowledge in investing by first examining the company or object to be invested. The researcher also hopes that the public can use the results of this research as one of the considerations in making investment decisions.

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