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DOES PROFITABILITY MEDIATE THE EFFECT OF GOOD CORPORATE GOVERNANCE ON STOCK RETURN? (A CASE STUDY IN MANUFACTURE COMPANIES ON THE INDONESIA STOCK EXCHANGE)

A.A Ngr Ag Ditya Yudi Primantara
Faculty of Economics and Business, Udayana University, Bali, Indonesia
dityayudi26@gmail.com

I Gst. Bgs. Wiksuana
Faculty of Economics and Business, Udayana University, Bali, Indonesia

Abstract

The purpose of this study was to analyze the effect of good corporate governance on stock returns and profitability as mediating variables in manufacturing companies listed on the Indonesia Stock Exchange. The object of this research is stock returns, with a sample of 70 manufacturing companies. The samples were determined using a non-probability sampling method, namely purposive sampling. Data analysis using Path Analysis. The results showed that good corporate governance (GCG) has a positive and significant effect on stock returns and profitability. Profitability has a positive and significant effect on stock returns. Profitability mediates the effect of good corporate governance (GCG) on stock returns. The practical implication that can be given from this finding is that this study can serve as an illustration or information to investors as an initial basis for making investment decisions. Based on the results of the variable analysis that has an important role in this study is good corporate governance (GCG) if a company has good corporate governance (GCG) then investors believe that the company will have a positive effect on the stocks invested by investors in the capital market.

Keywords: Good corporate governance (GCG), profitability, stock returns, manufacture, IDX

INTRODUCTION

Basically, firm value can be measured through several aspects, one of the measures or proxies used is stock returns. Determination of stock returns as a proxy for company value because it is a factor that affects the interest of investors to invest in a company with a high rate of return given by the company to investors, this shows that the company has good company performance, so investors believe that the company is will have a positive effect on shares invested by investors in the capital market (Suhadak et al., 2018).

To be able to increase the form value management will implement good corporate governance and publish information that can increase the firm value. This statement is in line with the signal theory (signaling theory) which states that a signal is an action taken by company management to provide direction to investors regarding management's views on the company's prospects (Brigham and Houston, 2011: 40). Firm value can be influenced by several factors, including good corporate governance and profitability. Good Corporate Governance can be defined as a process and structure used by company organs (shareholders, commissioners, and directors) to increase the success of the company's business and accountability in order to realize long-term shareholder value by taking into account the interests of other stakeholders (Sutedi, 2011: 10). The objectives of implementing good corporate governance in a company are as follows: 1) developing and increasing company value. 2) managing resources and risks more effectively and efficiently. 3) increasing discipline and responsibility of the company's organs in order to protect the interests of the company's shareholders and stakeholders (Fatimah et al., 2017).

Good Corporate Governance gave rise to agency theory, where agency theory is a relationship in which the company owner (principle) entrusts the management of the company by other people, namely the manager (agent) in accordance with the interests of the owner (principle) by delegating some decision-making authority to managers (agent). Managers in running the company have an obligation to manage the company as mandated by the owner (principle), which is to increase the prosperity of the principal through increasing company value, in return for the manager (agent) to get a salary, bonus or other compensation (Jensen and Meckling, 1976). If the relationship between the two parties is to maximize utility, either the manager will not always act favorably towards the owner, then the owner can limit the distribution of incentives for the manager (agent) and by incurring monitoring costs designed to limit the deviant activities of the manager (agent).

Basically, Good Corporate Governance can be measured through several aspects, one of the measures or proxies used is managerial ownership. Managerial ownership is the proportion of shareholders from management who actively participate in making company decisions (directors and commissioners) (Asnawi, 2019). Kim (2015) in his research found that good corporate governance has a positive effect on stock returns. This shows that the implementation of good GCG (Good Corporate Governance) in the company indicates that the company has been managed efficiently in accordance with the wishes of shareholders. Positive perceptions by investors make investors react positively to the company's shares so that the company's share price will increase and the welfare of shareholders is fulfilled. The same was done by Jannah and Khoiruddin (2017), Rizqia et al., (2017), Erman (2017), Eugster (2019), and Sulong et al., (2018), who found that good corporate governance has a positive effect on return. stock.

Othman (2017) which states that Good Corporate Governance has a negative effect on stock returns. This shows that Good Corporate Governance in large managerial ownership is considered to increase the opportunistic behavior of managers so that the market will react negatively which results in a decrease in company value. This statement is in line with the information asymmetry theory which states that the principal does not have sufficient information about the agent's performance, so that the principal can never find the contribution of the agent's efforts to the actual firm results. More information that is owned by agents / managers can trigger actions in accordance with their wishes and interests to maximize utility for themselves (Supriyono, 2000: 186). The same thing was done by Sugiarto (2016), Olweny (2016), Rustendi and Farid (2017), and Benson and Davinson (2017) who found that good corporate governance has a negative effect on stock returns. Unlike the case with Gosal et al., (2018) who found that good corporate governance has no effect on stock returns.

This research was conducted for the development of Gosal et al., (2018) who examined "The Influence Of Good Corporate Governance On Firm Value: Empirical Study Of Companies Listed In Idx30 Index Within 2013-2017 Period". Managerial ownership is used as a proxy for Good Corporate Governance. It is found that managerial ownership has no effect on firm value as proxied by stock returns. However, in this study the authors want to add a mediating variable, namely profitability as a variable that explains the relationship between the two independent variables used.

Profitability is the company's ability to earn profits in relation to sales, total assets and own capital (Sartono, 2014: 122). Profitability as a reference in measuring the amount of profit is very important to find out whether the company is running its business efficiently. The efficiency of a new business can be known after comparing the profits obtained with the assets or capital that generate these profits (Wicaksono, 2016). The better the profitability, the more trusting investors will be to invest in the company. Profitability is proxied by ROE (Return On Equity).

Return on equity (ROE) is a measurement of the income available to company owners on the capital they invest in the company.

Maksum (2015) found that good corporate governance has a positive effect on profitability. This shows that good financial performance can be seen through the level of company profitability. The implementation of good corporate governance (GCG) in the company will increase the company's profitability and the company's image will be better. This is because the company will be more effective, efficient, and economical in managing its assets and resources in achieving the company's main goal, namely making a profit. Investors can see the ability of a company to generate profits by looking at the level of company profitability. Of course, seeing the increased profitability accompanied by good performance makes investors dare to invest.

Asoka (2016) found that with the implementation of GCG (Good Corporate Governance), the decision-making process will take place better so that it will produce optimal decisions, can increase efficiency and create a healthier work culture, so that management within the company will be better, then the company will be able to produce a better rate of return. The same thing was done by Cheung (2011) and Klein (2015) who found that Good Corporate Governance has a positive effect on profitability.

Nurdin and Abdani (2020) found that profitability has a positive effect on stock returns. A high ROE level shows the company's ability to generate profits for shareholders. If the company can generate high profits, then the demand for shares will increase and in turn will have an impact on increasing the company's share price. When the stock price increases, the stock return will also increase. A high ROE level will have an impact on the low level of use of external funds. This is because companies that have high profitability will have large internal funds. Mariani (2016) also found that profitability has a positive effect on stock returns.

Anam (2018) examines the effect of Good Corporate Governance on stock returns through profitability. This study shows that profitability as a mediating variable has a full mediating role, namely good corporate governance affects profitability, which in turn affects stock returns. The creation of a good corporate governance company will certainly result in increased financial performance so that the level of profitability will also increase. Increasing the company's profitability will provide a signal for investors to invest. The same thing was done by Sujoko and Soebiantoro (2017) which stated that high profitability represents a good company prospect, so that it is responded positively by investors so that the stock price that reflects the firm value will increase.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

GCG (Good Corporate Governance) in the company indicates that the company has been managed efficiently in accordance with the wishes of shareholders. Positive perceptions by investors make investors react positively to the company's shares so that the company's share price will increase and the welfare of shareholders is fulfilled.

This statement is in line with the signal theory (signaling theory) which states that a signal is an action taken by company management to provide direction to investors regarding management's views on the company's prospects (Brigham and Houston, 2011: 40). Research by Kim et al., (2015), Jannah and Khoiruddin (2017), Eugster (2019), Sulong et al., (2018), Rizqia et al., (2017), and Erman (2017) found that good corporate governance has a positive effect on stock returns.

H1: Good corporate governance has a positive effect on stock returns.

The implementation of Good Corporate Governance (GCG) in the company will increase the company's profitability and the company's image will be better. This is because the company will be more effective, efficient, and economical in managing its assets and resources in achieving the company's main goal, namely making a profit.

Investors can see the ability of a company to generate profits by looking at the level of company profitability. Of course, seeing the increased profitability accompanied by good performance makes investors dare to invest (Maksum, 2005). Research by Asoka (2016), Klein et al., (2015), and Cheung et al., (2011) which found that good corporate governance has a positive effect on profitability.

H2: Good corporate governance has a positive effect on profitability.

Good profitability will provide benefits for the company and shareholders. For companies, they will get funds from investors and increase the market value of the company, while for investors, they will get benefits in the form of dividends or capital gains from the investment (Suhadak, et al., 2018). A high ROE level shows the company's ability to generate profits for shareholders. If the company can generate high profits, then the demand for shares will increase and in turn will have an impact on increasing the company's share price. When the stock price increases, the stock return will also increase.

A high ROE level will have an impact on the low level of use of external funds. This is because companies that have high profitability will have large internal funds (Nurdin and Abdani, 2020). Research by Mariani et al., (2016), Ju and Yu (2016), Sujoko and Soebiantoro (2017), Weston and Copeland (2010), Kusuma et al. (2016), Triagustina et al. (2016), and Sari (2017) found that profitability has a positive effect on stock returns.

Based on the theory and review of the previous research results, the hypothesis in this study is as follows:

H3: Profitability has a positive effect on stock returns.

Good financial performance can be seen through the level of company profitability. The implementation of good corporate governance (GCG) in the company will increase the company's profitability and the company's image will be better. This is because the company will be more effective, efficient, and economical in managing its assets and resources in achieving the company's main goal, namely earning a profit (Heriyanto, 2016). A high ROE level shows the company's ability to generate profits for shareholders. If the company can generate high profits, then the demand for shares will increase and in turn will have an impact on increasing the company's share price. When the stock price increases, the stock return will also increase (Nurdin and Abdani, 2020).

The creation of a good corporate governance company will certainly result in increased financial performance so that the level of profitability will also increase. Increasing the company's profitability will provide a signal for investors to invest. High profitability describes a good company prospect, so that it is responded positively by investors so that the stock price that reflects the value of the company will increase (Sujoko and Soebiantoro, 2017). Research by Heriyanto (2016), Mariani et al., (2016), Ju and Yu (2016), Sujoko and Soebiantoro (2017), and Nurdin and Abdani (2020), found that profitability mediates the effect of managerial ownership on stock returns.

H4: Profitability mediates the effect of good corporate governance on stock returns.

METHODS

The research location in this study is the IDX by accessing data on the official IDX webside at www.idx.co.id, and the Indonesia Capital Market Directory (ICMD) because at www.idx.co.id and the Indonesia Capital Market Directory (ICMD) data is available. needed in this study. The research time is 2 years, namely 2018 - 2019.

The population in this study amounted to 179 manufacturing companies on the Indonesia Stock Exchange for the period 2018-2019. Sampling in this study using purposive sampling method, where all elements of the population do not necessarily have the same opportunity to be selected as sample members. The selection using purposive sampling method was based on the consideration of getting a representative sample according to predetermined criteria. The sample calculation in this study used the Slovin formula:

$n = N / (1 + (N \times e^2))$

$n = 179 / (1 + (179 \times 0.052)) = 123$ samples

So, the samples obtained in this study were 123 companies. The criteria considered in sampling in this study are manufacturing companies that have managerial ownership data on the Indonesia Stock Exchange for the 2018-2019 period. Based on these criteria, the research samples obtained were 70 (seventy) manufacturing companies and 53 (fifty three) other manufacturing companies not included in the criteria because in the company data there were many boards of commissioners and directors as well as institutional ownership.

This study uses non-participant observation data collection methods, viz. observing, taking notes (Sugiyono, 2017: 204). Researchers collect data by observing, studying and recording documents including books that support research and collecting data that is downloaded from the Indonesia Stock Exchange (IDX) website.

The analysis technique used in this study is a path analysis technique at SPSS 21.0 for windows. The structural model in this study is divided into 2 substructures, namely:

Substructure 1

$M = \alpha + \gamma_2 aX + e_1$ .... (1)

Information :

M = Profitability

α = Constant value

γ_{2a} = Good Corporate Governance variable regression coefficient at profitability

X = Good Corporate Governance

e_1 = The number of variants not examined in the research model

Substructure 2

$Y = \alpha + \gamma_1 X + \gamma_{2b} M + e_2$ .... (2)

Information :

Y = Stock Return

α = Constant value

γ_1 = Good Corporate Governance variable regression coefficient on stock return

X = Good Corporate Governance

γ2b = Profitability variable regression coefficient on stock returns

e2 = The number of variants not examined in the research model

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics provide an overview and data description of all the variables in the study which include the mean (mean), maximum value, minimum value, and standard deviation. The results of descriptive statistical testing are in Table 1.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Stock Return	140	-45,405	50,265	2,90697	10,130222
Profitability	140	0,183	105,240	10,40813	13,561607
Good Corporate Governance	140	10,000	88,301	40,83109	20,140675
Valid N (listwise)	140				

Based on Table 1, it can be explained as follows, the average (mean) value of the stock return variable is 2.90697 and the standard deviation value is 10.130222. The minimum value of the stock return variable -45,405 shows that the Kedaung Indah Can Tbk company in 2018 has the lowest stock return, while the maximum value of 50,265 shows that the Asia Pacific Fibers Tbk company in 2019 has the highest stock return.

The average (mean) value of the profitability variable is 10.40813 and the standard deviation value is 13.561607. The minimum value of the profitability variable of 0.183 shows that the Asahimas Flat Glass Tbk company in 2018 has the lowest profitability, while the maximum value of 105,240 shows that the Multi Bintang Indonesia Tbk company in 2019 has the highest profitability.

The average (mean) value of the Good Corporate Governance variable is 40.83109 and the standard deviation value is 20.140675. The minimum value of the Good Corporate Governance variable of 10,000 shows that the Kabelindo Murni Tbk company in 2018 has the lowest Good Corporate Governance, while the maximum value of 88.301 shows that the Asia Pacific Fibers Tbk company in 2018 has the highest Good Corporate Governance.

Path Analysis Results

In this study, the effect of Good Corporate Governance on profitability was calculated through the SPSS 21.0 for windows program. The following shows the results of the calculation of the first substructure in Table 2

Table 2. Path Analysis on Substructure 1

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-9,915	1,756		-5,645	0,000
Good Corporate Governance	0,498	0,039	0,739	12,894	0,000
R^2 : 0,546					

Based on the results of the path analysis in Table 2, the structural equation that is formed can be formulated as follows.

M = γ1X + e1

M = 0.739 X + e1

The structural equation can be interpreted as: The variable of Good Corporate Governance has a coefficient of 0.739, which means that Good Corporate Governance has a positive influence on profitability, this means that if Good Corporate Governance increases, Profitability will increase by 0.739.

In this study, the influence of Good Corporate Governance and Profitability on Stock Returns was calculated through the SPSS 21.0 for windows program. The following shows the results of the calculation of the second substructure in Table 3.

Table 3. Path Analysis on Substructure 2

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-11,436	1,202		-9,511	0,000
Good Corporate Governance	0,294	0,035	0,584	8,309	0,000
Profitability	0,225	0,053	0,302	4,288	0,000
R^2	: 0,693				

Based on the results of the path analysis in Table 3, the structural equation formed is as follows.

Y = γ2X + γ3M + e2

Y = 0.584X + 0.302M + e2

The structural equation can be interpreted as: The variable of Good Corporate Governance has a coefficient of 0.584 which means that Good Corporate Governance has a positive influence on Stock Return, this means that if Good Corporate Governance increases, the Stock Return will increase by 0.584.

The profitability variable has a coefficient of 0.302, which means that profitability has a positive effect on stock returns, this means that if profitability increases, the stock return will increase by 0.302.

Testing the Value of the Determination Coefficient (R2) and the Variable Error (e)

In this test, we will see the value of each coefficient of determination for substructure 1 and substructure 2 and the value of each error variable in each substructure with the aim of compiling the final path diagram model. Following are the results of the calculation of the error variable values for each substructure.

$e_i = \sqrt{1 - R_i^2}$

$e_1 = \sqrt{1 - R_1^2} = \sqrt{1 - 0{,}546} = 0{,}674$

$e_2 = \sqrt{1 - R_2^2} = \sqrt{1 - 0{,}693} = 0{,}554$

In calculating the effect of error (e), the results for the effect of substructure error 1 (e1) are 0.674 and the effect of substructure error 2 (e2) is 0.554. Furthermore, the total coefficient of determination will be calculated as follows:

$R^2_m \quad = 1 - (e_1)^2 (e_2)^2$

$= 1 - (0{,}674)^2 (0{,}554)^2$

$= 1 - (0{,}454)\ (0{,}307)$

$= 1 - 0{,}139 = 0{,}861$

In the calculation of the total determination coefficient value is 0.861, the conclusion is that 86.1% of the variable Good Corporate Governance in manufacturing companies is influenced by Stock Returns and Profitability, while the remaining 13.9% is influenced by other factors that are not included in the research model or outside.

Hypotheses test

Effect of Good Corporate Governance on Stock Returns

Based on the results in Table 3, Good Corporate Governance has a Beta value of 0.584 and a Sig. amounting to 0,000, it can be said that H1 is accepted because of the Sig. 0.000 <0.05. The conclusion is that Good Corporate Governance has a positive and significant effect on Stock Return. In other words, the increasing of Good Corporate Governance, the Stock Return in manufacturing companies will increase, so that the first hypothesis is accepted.

The empirical results of the research support the hypothesis based on the assumption of signaling theory which describes positive perceptions by investors making investors react positively to the company's shares so that the company's stock price will increase and the welfare of shareholders is met. Good Corporate Governance is an important thing in realizing an increase in company performance through monitoring management performance and ensuring management accountability to shareholders (Fatimah et al., 2017). Good GCG (Good Corporate

Governance) implementation within the company indicates that the company has been managed efficiently in accordance with the wishes of shareholders, with the implementation of GCG (Good Corporate Governance) the decision-making process will run better so that it will produce optimal decisions, can improve efficiency and create a healthier work culture, so that management within the company will be better. The results of this study are in line with the results of research by Kim et al., (2015), Jannah and Khoiruddin (2017), Rizqia et al., (2017), Erman (2017), Sulong et al., (2018) and Eugster (2019) who found that good corporate governance has a significant positive effect on stock returns.

Effect of Good Corporate Governance on Profitability

Based on the results in Table 2, Good Corporate Governance has a Beta value of 0.739 and a Sig. amounting to 0,000, it can be said that H1 is accepted because of the Sig. 0.000 <0.05. The conclusion is that Good Corporate Governance has a positive and significant effect on profitability, in other words, the increasing of Good Corporate Governance, the profitability in manufacturing companies will increase, so that the second hypothesis is accepted.

The empirical results of the research support the hypothesis based on the assumption of signaling theory which describes that investors can see the ability of a company to generate profits by looking at the level of company profitability. The implementation of good corporate governance (GCG) in the company will increase the company's profitability and the company's image will be better. This is because the company will be more effective, efficient, and economical in managing its assets and resources in achieving the company's main goal, namely making a profit. Increased profitability accompanied by good performance has made investors dare to invest (Maksum, .2015). The results of this study are in line with the results of the study. Asoka (2016), Klein et al., (2015), and Cheung et al., (2011) who found that good corporate governance has a significant positive effect on profitability.

Effect of Profitability on Stock Returns

Based on the results in Table 3, Profitability has a Beta value of 0.302 and a Sig. amounting to 0,000, it can be said that H1 is accepted because of the Sig. 0.000 <0.05. The conclusion is that Profitability has a positive and significant effect on Stock Return, in other words, the increasing of Profitability, the Return of Shares in manufacturing companies will increase, so that the second hypothesis is accepted.

The empirical results of the research support the hypothesis based on the assumption of signaling theory which describes a high level of ROE which shows the company's ability to generate profits for shareholders. If the company can generate high profits, then the demand for shares will increase and in turn will have an impact on increasing the company's share price. In line with the research of Nurdin and Abdani (2020), it is found that a high level of ROE will have an impact on the low level of use of external funds. This is because companies that have high profitability will have large internal funds.

Suhadak et al. (2018) found that good profitability will provide benefits for the company and shareholders. For companies, they will get funds from investors and increase the company's market value, while for investors, they will get benefits in the form of dividends or capital gains from the investment. The results of this study are in line with the results of research by Weston and Copeland (2010), Mariani et al., (2016), Ju and Yu (2016), Kusuma et al. (2016), Triagustina et al. (2016), Sujoko and Soebiantoro (2017), and Sari (2017) found that profitability has a significant positive effect on stock returns.

Table 4. Direct Effect Indirect Effect of Good Corporate Governance (X), on Profitability (M) and Stock Return (Y)

Variable	**Direct**	**Indirect**	**Total**
X→M	0,739		0,739
X→Y	0,584	0,223	0,807
M→Y	0,302		0,302

In Table 4, it can be explained that the direct effect of Good Corporate Governance on Stock Return is greater than the indirect effect of Good Corporate Governance on Stock Returns with profitability mediation. This means that Good Corporate Governance can be seen as a good risk management effort so that it can have an impact on the persistence of company profits, for example when the company does not comply with paying taxes according to the law (not implementing good GCG) it can increase current profits but has the potential to get into problems in the future. which results in the emergence of expenses that reduce profits, another example, for example, suppose the company does not comply with the legal rules related to the business it is running, by ignoring the rights of stakeholders, it may increase current profits but may increase legal risk to the company which results in expenses which reduces the profit.

In conclusion, investors in this study have thought more critically by looking at the business process carried out with good GCG which is more important than the profitability generated by the company, so that the direct effect of GCG on stock returns is greater than the indirect effect of GCG on stock returns. by mediating profitability.

Sobel test

The method of testing the mediating variables used is as follows (Hair et al., 2010):

1) The direct effect of exogenous variables on endogenous variables in the model by involving the mediating variable

So it can be seen that the results of the effect of exogenous variables on endogenous variables involving the mediating variable are significant, this is because the Sig value is obtained. t good corporate governance on profitability of 0.000 with a beta coefficient of 0.739 and a value of Sig. t profitability on stock returns of 0.000 with a beta coefficient of 0.302.

2) The effect of exogenous variables on endogenous variables in the model without involving the mediating variable

So it can be seen that the results of the influence of exogenous variables on endogenous variables without involving the mediating variable are significant, this is because the Sig value is obtained. t is 0.000 with a beta coefficient value of 0.807.

3) The effect of exogenous variables on the mediating variable

The mediation variable is significant, this is because the Sig value is obtained. t is 0.000 with a beta coefficient value of 0.739.

4) The effect of mediating variables on endogenous variables

So it can be seen that the effect of the mediating variable on endogenous variables is significant, this is because the Sig value is obtained. t is 0.000 with a beta coefficient value of 0.302.

The Sobel test can be formulated with the following equation and can be calculated using the Microsoft Excel 2010 application. If the Z calculation value is greater than 1.96 (with a confidence level of 95 percent), then the mediator variable is considered to significantly mediate the relationship between the dependent variable and the independent variable.

$$\mathrm{Z} = \frac{\mathrm{ab}}{\sqrt{\mathrm{b^2S_a^2+a^2S_b^2+S_a^2S_b^2}}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Information:

a = 0.739

Sa = 0.037

b = 0.302

Sb = 0.053

Source: Baron and Kenny (1986)

$$Z = \frac{0,739\ .0,302}{\sqrt{(0,302^2 0,037^2) + (0,739^2 0,053^2) + (0,037^2 0,053^2)}}$$

$Z = \frac{0,223}{0,042}$

Z = 5,310

Based on the results of the Sobel test, it shows that the tabulation results of Z = 5,310> 1.96, which means that the variable Good Corporate Governance has a positive and significant effect on Stock Returns in manufacturing companies with the mediation of Profitability, so that Profitability is the mediating variable of the influence of Good Corporate Governance on Stock Returns in the company manufacture.

The empirical results of the research support the hypothesis based on the assumption of signaling theory which describes the creation of a good corporate governance company which will certainly result in increased financial performance so that the level of profitability also increases. Increasing the company's profitability will provide a signal for investors to invest. High profitability describes a good company prospect, so that it is responded positively by investors so that the stock price that reflects the value of the company will increase (Sujoko and Soebiantoro, 2017). The results of this study are in line with the research results of Heriyanto (2016), Mariani et al., (2016), Ju and Yu (2016), Sujoko and Soebiantoro (2017), and Nurdin and Abdani (2020) finding that profitability mediates the influence between managerial ownership to stock returns.

CONCLUSION

The results of the study found that good corporate governance is a determining variable for stock returns of manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2019. The assumption of signaling theory that describes positive perceptions by investors makes investors react positively to the company's shares so that the company's share price will increase and the welfare of shareholders is met. Good Corporate Governance is an important matter in realizing an increase in company performance through monitoring management performance and ensuring management accountability to shareholders. When used in corporate disclosure practices, signaling theory is also beneficial for companies in disclosing good corporate governance practices so as to create good company quality in the stock market and also the level of disclosure in annual reports will have an impact on stock price movements which in turn have an impact on stock returns.

The results of the study found that profitability is a determining variable for stock returns of manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 - 2019. The assumption of signaling theory that describes a high level of ROE shows the company's ability to generate profits for shareholders. If the company can generate high profits, then the demand for shares will increase and in turn will have an impact on increasing the company's share price. In line with the research of Nurdin and Abdani (2020), it is found that a high level of ROE will have an impact on the low level of use of external funds. This is because companies that have high profitability will have large internal funds.

Based on this empirical evidence, the variables of good corporate governance and profitability are the determinants of stock returns. The existence of a signaling theory provides an initial picture to investors where investors when they want to invest need a signal / information by the company. These signals / information can be in the form of financial performance and financial reports from the company so that information can be obtained more clearly, especially if the company has implemented GCG with five main principles, namely Transparency, Independence, Accountability, Responsibility and Justice.

In further research, it is suggested not only to be limited to manufacturing companies, but also to use other companies listed on the Indonesia Stock Exchange. Researchers can also consider other variables that can mediate stock returns and effect stock returns such as liquidity, leverage and firm size.

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