

Analysis of the Effect of Profitability on General Corporate Information and Forward-looking Information and its impact on the Company's Share Prices listed on the Indonesia Stock Exchange

Nur Ahmadi Bi Rahmani¹, Azhar Maksum², Khaira Amalia Fachrudin³, Amllys Syahputra Silalahi⁴

Universitas Sumatera Utara^{1,2,3,4}

Jalan Dr. T. Mansur No.9, Padang Bulan, Kec. Medan Baru, Kota Medan, Sumatera Utara 20222

Correspondence Email: nurahmadibr@gmail.com

ABSTRACT

Many cases of investors who experience losses in investing by buying company shares have led to thoughts about what information is actually needed by investors in reducing the possibility of mistakes. The purpose of this research is to find and create the latest model of information that should be conveyed to reduce the occurrence of multi-interpretation of information. The population used is 540 companies listed on the Stock Exchange with the criteria of having active financial and web reports at the time of the study, then the target population becomes 302 with the sampling method using saturated samples then the entire target population is sampled as many as 302 companies. The analysis used is path analysis using the smart PLS tool, The researcher managed to make a finding that at alpha five percent, profitability directly had a positive and significant effect on general corporate information, and stock prices, but not on forward-looking information. General corporate information directly affects the stock price while forward-looking information does not significantly influence the stock price. Indirectly, profitability has a positive and significant effect on stock prices through general corporate information, but not through forward-looking information.

Keywords: Indonesia Stock Exchange, Internet Corporate Information, Profitability, Share Prices

INTRODUCTION

Mistakes in making decisions will be a loss that must be borne by the investors themselves. This uncertainty can be seen from fluctuations in stock prices and stock returns. To reduce this uncertainty, information is absolutely needed by capital market players in making investment decisions. When the information received becomes unclear, the risk of loss in the shares purchased will be even higher, this is stated in the theory of market efficiency which shows that stock prices formed in the market are a reflection of existing information or stock price reflect all available information (Ashbaugh, 1999). Useful information can cause investors to take actions that cause redistribution of investment returns that can change market equilibrium. Investors have a tendency to react to news information in the capital market as a basis for making investment decisions and this will affect the price of shares outstanding (Larran, Manuel, Begona Giner, 2002). States that stock prices will move when useful information enters the market.

The information will then be filtered by investors to be used as a basis for investment decisions, by investing in a company's shares allows an investor to own the company and participate in the growth of the company of choice. Stock investors get a share of profits from the company in the form of dividends. Investors also benefit in the form of capital gains, namely the appreciation of market prices for purchase prices. In the last 10 years, Indonesia is the country with the highest stock index increase in the world over the past 10 years reaching 227.60%. In 2017, amid foreign investor sales of more than Rp 20 trillion, Indonesia's stock index continued to increase by 13.87%. The increase in the number of new investors contributed to a 54.2% increase in daily stock transactions throughout 2017. This shows that there are still many Indonesians who have an interest in stock investment activities and decided to conduct investment activities and become investors in companies listed on the Indonesia Stock Exchange (Larran, Manuel, Begona Giner, 2002).

The impetus of the company to provide information is to reduce the information asymmetry between the company and outsiders because the company knows more about the company and future prospects than outside parties (investors, creditors). Lack of outside information about companies causes them to protect themselves by giving low prices to the company. Companies can increase company value, by reducing information asymmetry. One way to reduce information asymmetry is to provide signals to outside parties, one of which is information relating to the company (Abdelsalam, Omneya, A.El-Masry, 2008).

Companies can use the internet as a medium to convey information about the company more effectively to the public. Media delivery of information about the company is then known as the Internet Corporate Report (ICR) or can also be called internet-based information disclosure, or simply ICR is defined as the inclusion of company information via the internet or website (Bravo, 2015). ICR generally consists of general corporate information which is all information that consists of the general state of the company such as company history, company vision and mission and information that reflects the company profile. Foward looking information is all information that reveals the things that will be done by the company in the coming year as well as information regarding projections on the results of the analysis of the company's condition in the future.

Good profitability growth will drive the company's progress in providing better information. Company profitability is an indication of the company's success in managing the company and is one indication that shows the sustainability of the company that went well (Almia, Luciana Spica, 2008).

Companies that have high profitability have a tendency in terms of providing better and complete information than companies that have poor profitability, with good profitability growth, companies will have the opportunity to maximize the information to be provided and with the support of good web quality, information which will be given will be information that has better quality (Almilia, Luciana Spica dan Sasongko, 2008).

Problem Formulation

There are still companies whose share prices are in the category of top losers and fluctuating stock movements suggest that there is still potential for investors to suffer

losses, with potential losses mostly due to lack of information. Based on this, the list of questions in this study is :

1. Does profitability have a positive effect on general corporate information?
2. Does profitability have a positive effect on forward-looking information?
3. Does profitability have a positive effect on stock prices?
4. Does general corporate information have a positive effect on stock prices?
5. Does forward-looking information have a positive effect on stock prices?
6. Does profitability have a positive effect on stock prices through general corporate information?
7. Does profitability have a positive effect on stock prices through forward-looking information?

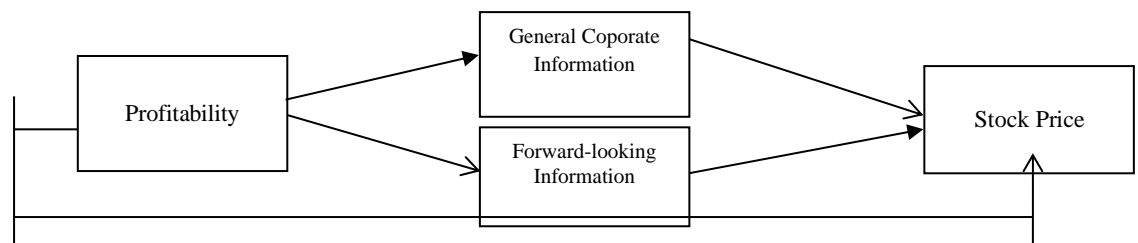
Research Objectives

The research objectives in this study are:

1. To produce an empirical model of the effect of profitability on general corporate information.
2. To produce an empirical model of the effect of profitability on forward-looking information.
3. To produce an empirical model of the effect of profitability on stock prices.
4. To produce an empirical model of the influence of general corporate information on stock prices.
5. To produce an empirical model of the effect of forward-looking information on stock prices.
6. To produce an empirical model of the effect of profitability on stock prices through general corporate information
7. To produce an empirical model of the effect of profitability on stock prices through forward-looking information

Conceptual framework

Based on the theory and findings of previous research, the conceptual framework that can be described is :



Research Hypothesis

Based on the theories put forward and the results of previous studies, the hypotheses in this study are:

1. Profitability has a positive and significant effect on general corporate information
2. Profitability has a positive and significant effect on forward-looking information
3. Profitability has a positive and significant effect on stock prices
4. General corporate information has a positive and significant effect on stock prices
5. Forward-looking information has a positive and significant effect on stock prices
6. Profitability has a positive and significant effect on stock prices through general corporate information.

7. Profitability has a positive and significant effect on stock prices through forward-looking information.

RESEARCH METHOD

Type of Research

This type of research is research with a causal associative form, namely research that is intended to reveal the causal relationship between related variables.

Population and Sample

The population in this study are companies listed on the Indonesia Stock Exchange, amounting to 540 companies with the criteria of having financial information reports on the company's web that are needed by researchers. Based on these criteria, the target population in this study is 302 and the determination of the sample using a saturated sample that is the entire target population into a research sample of 302 companies.

Data Analysis Methods

The data analysis method used is that the Partial Least Square (PLS) method was first developed by Wold (1982) as a general method for estimating path models that use latent constructs with multiple indicators.

RESULTS AND DISCUSSION

Table 1. Results of Direct Effect Analysis

	Jalur		Path cofficient	p- value
Profitability	→	General Corporate Information	0,743	0,017
Profitability	→	Forward-looking information	0,276	0,438
General Corporate Information	→	Stock Price	0,454	0,010
Forward-looking information	→	Stock Price	0,032	0,642
Profitability	→	Stock Price	0,804	0,000

Based on the results of data analysis, it can be seen that the direct effect of the profitability variable influences the general corporate information variable by 0.743 or 74.3%. The direct effect of the profitability variable directly affected the variable forward-looking information by 0.276 or 27.6%. The direct effect of general corporate information on stock price variables is 0.454 or 45.4%. The direct effect of the forward-looking information variable on the stock price variable is 0.032 or 3.2%. The first direct effect is the profitability variable directly affecting the stock price variable of 0.804 or 80.4%.

Table 2. Results of Analysis of Indirect Effects

	Jalur		Path Coefficient	p-value
Profitability	→ General Corporate	→ Stock Price	0,263	0,000

Information				
Profitability	→	Forward-looking information	→	Stock Price
				0,011
				0,165

The indirect effect of profitability variables on stock price variables through the general corporate information variable was 0.263 or 26.3%. The indirect effect of profitability variables on stock price variables through the forward-looking information variable is 0.011 or 1.1%.

a. Effect of Profitability on General Corporate Information

The results of the data analysis show that the effect of profitability on general corporate information has a p-value of 0.017 <0.05 which indicates that profitability has a significant effect with a coefficient of 0.743 and a t-value of 2.405 > 1.650 which shows a positive influence on the general corporate information. This shows that if profitability gets higher, general corporate information will get better. Good profitability growth will drive the company's progress in providing better information, especially general company information. This shows that companies that have good quality profitability tend to have good general corporate information.

b. Effect of Profitability on Forward-looking information

The results of data analysis show that the effect of profitability on forward-looking information has a p-value of 0.438 > 0.05 which shows that profitability has no significant effect with a coefficient of 0.276 and a t value of 0.776 <1.650 which shows a positive influence on forward-looking information. These results also show that changes in profitability in a company will not significantly affect the quality of forward-looking information at the company. Companies that have high confidence in information about the company's future conditions, are usually caused by high profitability of the company. It's just that there are things that make the company's profitability does not really affect the quality of future information provided by the company because the company still considers it unnecessary because the management still thinks only by showing good financial development is sufficient so that it does not need to pay attention to the condition of the information with regard to company projections in the future.

c. Effect of Profitability on Stock Prices

The results of the data analysis show that the effect of profitability on stock prices has a p-value of 0.000 <0.05 which indicates that profitability has a significant effect with a coefficient of 0.804 and a t value 2.539 > 1.650 which shows a positive influence on stock prices. This shows that profitability has a positive and significant effect on stock prices. Profitability is the ratio used to measure a company's performance and give an indication of its ability to generate profits. The company's ability to make profits will be a very positive signal for investors to invest. The higher the level of profits generated, the more investors are interested in investing in the company and this will increase the price of the company's shares.

d. Effect of General Corporate Information on Share Prices

The results of data analysis show that the influence of general corporate information on stock prices has a p-value of 0.010 <0.05 which indicates that general corporate information has a significant effect with a coefficient of 0.454 and a t value 2.571 > 1.650 which shows a positive influence on stock price. This shows that general corporate information has a positive and significant effect on

stock prices, which means that if general corporate information is getting better, the stock price will be even higher. General corporate information is general information presented by the company on the website, inside the information there is information that shows the true identity of the company and how the company developed from its inception until now. Lack of information will make investors doubtful about investment decisions. Investors must ensure that the company they are investing in is a company that really has a clear vision.

- e. The effect of forward-looking information on stock prices
The results of data analysis show that the effect of forward-looking information on stock prices has a p-value of $0.642 > 0.05$ which indicates that forward-looking information has no significant effect with a coefficient value of 0.032 and t value of $0.465 < 1.650$ which shows the effect positively to stock prices. This shows that forward-looking information has a positive and significant effect on stock prices. Forward-looking information is all information related to projections that will be faced and carried out by the company. This information will provide an important role for investors to see the possibilities that will be faced by the company in the future so that this information has an influence on the company's stock price, but due to the condition of the existence of low forward-looking information in Indonesia makes investors not pay too much attention to the information. This makes forward-looking information on the company will not have too much influence on stock prices.
- f. Effect of Profitability on Share Prices through General Corporate Information
The results of data analysis show that the effect of profitability on stock prices through general corporate information with a p-value of $0,000 < 0.05$ which shows that profitability has a significant effect with a coefficient of 0.263 and t value of $5.819 > 1,650$ which shows a positive influence on share price through general corporate information. This shows that profitability has a positive and significant effect on stock prices through general corporate information. Companies with good profitability will be better able to provide better information than companies with poor profitability growth, especially regarding general company information. The higher the level of profitability that a general corporate information company has, the better. The impact of the better general corporate information will reduce the occurrence of errors in understanding the character of the company and company developments related to what the company wants to achieve related to the company's vision and mission and what the company is like. For some investors, understanding the company that will be invested may not be important, but understanding the company will make investors more confident when buying shares of the company that the company will be able to compete and produce the profits that are expected by investors. As a result of managing general corporate information will increase the desire to do investment activities and will have an impact on increasing the company's stock price.
- g. Effect of Profitability on Share Prices through Forward-Looking Information
The results of data analysis show that profitability on stock prices through forward-looking information with a p-value of $0.165 > 0.05$ which shows that profitability has no significant effect with a coefficient of 0.011 and a t-value of $1.390 < 1.650$ which shows a positive influence on stock prices through forward-looking information. This shows that profitability has no significant effect on stock prices through forward-looking information. Companies usually tend to be optimistic in providing information to investors when the company shows its success in increasing profits. This condition will make the company bolder in providing forward-looking information. But in reality it is different, the tendency of companies that provide

forward-looking information which is still very rarely makes the existence of forward-looking information into one of the information that is not too glimpsed by investors so that its existence is sometimes ignored.

CONCLUSIONS

Based on data analysis and the results of the discussion of data analysis that has been done by researchers, the conclusions in this study are:

- a. Profitability has a positive and significant influence on general corporate information.
- b. Profitability has a positive and not significant effect on forward-looking information.
- c. Profitability has a positive and significant effect on stock prices.
- d. General corporate information has a positive and significant influence on stock prices.
- e. Forward-looking information has a positive and not significant effect on stock prices.
- f. Profitability has a positive and significant influence on stock prices through general corporate.
- g. Profitability has a positive and not significant effect on stock prices through forward-looking information.

REFERENCES

- Abdelsalam, Omneya and A.El-Masry. 2008. The Impact of Board Independence and Ownership Structure on the Timeliness of Corporate Internet Reporting of Irish-listed Company. *Managerial Finance*, Emerald Group Publishing Limited, 34:907-919.
- Almia, Luciana Spica. 2008. Faktor-Faktor yang Mempengaruhi Pengungkapan Sukarela Internet Financial and Sustainability Reporting. *Jurnal Akuntansi dan Auditing Indonesia*, 12:117-131.
- Almilia, Luciana Spica dan Sasongko, B. 2008. Corporate Internet Reporting of Banking Industry and LQ45 Firms: An Indonesia Example. *Proceeding The 1st Parahyangan International Accounting & Business Conference*.
- Ashbaugh, H., K. Johnstone, and T. Warfield. 1999. "Corporate Reporting on the Internet". *Accounting Horizons* 13(3): 241-257.
- Bravo, Fransisco. 2015. Foward-looking Disclosure and Corporate Reputation as Mechanisms to Reduce Stock Return Volatility. *ELSEVIER Spanish Accounting Review*. RCSAR-62, pp 2.
- Larran, Manuel and Begona Giner. 2002. The Use the Internet for Corporate Reporting by Spanish Company. *The International journal of digital accounting research*. Volume 2, No. 1, 2012. ISSN: 1577-8517.