The Influence of Corporate Governance Mechanism to Abnormal Return  
(Empirical study on companies listed on the Stock Exchange)  

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This study aims at examining the influence of a corporate governance mechanism which consists of transparency, fairness, accountability, and responsibility to the market reaction that is proxied by abnormal return. This study applies variable control on unexpected earnings and total cash flow. Population in this study is a non-financial sector companies listed on the Jakarta Stock Exchange in 2010. The selection of samples applies purposive sampling method and sample obtained, is 104 go public companies. This study uses secondary data that is the company's annual report. The results of this study show that the implementation of corporate governance has a significant influence to abnormal returns. This study also presents the fact that variable control total cash flow gives significant influence to abnormal returns. However, this study fails to show that the variable control on unexpected earnings has a significant influence to abnormal returns.

Keyword: Corporate Governance, Abnormal Return, Unexpected Earnings, Total cash Flows

Introduction

In the era of globalization, the countries of the world are required to be able to implement the system and the new paradigm in the management of the business. Such business activities that are implemented must be based on the principles of good corporate (Purwantini, 2011). Corporate governance needs to control the behavior of corporate managers to take action in order to not only benefit themselves, but also for the owner of the company. In principle, corporate governance concerns the interests of the shareholders, the role of all stakeholders in corporate governance, and the role of the Board of Commissioners and Audit Committee (Sutedi, 2011:4).

Principles of Corporate Governance include the four main components, which are needed to enhance the professionalism and shareholder wealth without
ignoring the interests of other parties, which are known as: fairness, transparency, accountability and responsibility, (The Business Roundtables, 2002 in Sulistyanto and Meniek, 2003). Good corporate governance (GCG) is required to stimulate the creation of markets that are efficient, transparent and consistent with the regulations (Novianti, 2009).

Companies having good governance, have the characteristic such as the company ability to deliver information more quickly, accurately and completely (Arifin, 2003). When the investor will invest capital market, either in the form of stocks, bonds, or other forms of investment, a rational investor will generally analyze the information about the investment that will be conducted. Information can reduce the uncertainties that occur, so that the decision taken is expected to be in accordance with the objectives (Fatmawati and Asri, 1999).

Research on the effect of corporate governance to the price and trading volume reaction after earnings announcement shows that earning announcements made by companies that have good corporate governance does not significantly increase the value relevance of the earnings announcement, significantly lower divergence investor expectations, as evidenced by significant trading volume is smaller than the company that has lack of good corporate governance (Arifin, 2003).

Another study is conducted to determine whether there is any difference in the market reaction at the announcement of Corporate Governance Perception Index (CGPI) between the top ten companies and non top ten of CGPI in 2001-2003 studied by Almilia and Sifa (2006). CGPI is the ranking of GCG implementation conducted by the Indonesian Institute for Corporate Governance (IICG) and SWA Magazine Sembada on companies listed on the Indonesia Stock Exchange (IDX). Market reaction was shown by the presence of abnormal returns and trading volume of significant shares around the announcement date. The results of this study found there is no difference in abnormal return and trading volume is significant at the time of the announcement CGPI between the top ten companies and non top ten of CGPI.

Tristiarini (2005) conducts research on the effect of GCG implementation of the abnormal return. This research applies the principles of NCG (2006) consisting of transparency, fairness, accountability, and responsibility as a proxy
of good corporate governance. Research results show that the application of the principles of good corporate governance affects the abnormal return as a positive reaction from investors.

Companies that carry out the principles of good corporate governance are expected to have a systematic direction to be able to work well, because it involves the transparency and accountability of companies to disclose financial information and other matters relating to its business activities. Therefore, the company that runs GCG is committed to be able to deliver financial information more quickly, more accurately and more completely. It is very useful, both for companies and for investors as one of the users of financial statements. GCG is expected to provide more value that the impact will increase the expectation of market participants that have positive impact on abnormal returns.

This research examined the influence each of these principles applied in companies that use corporate governance to the market reaction, can be seen from the abnormal return. Based on the above statement, this study attempted to test more updated and comprehensive outcome. The research was developed by employing financial information (as control variables) and non-financial in measuring the market reaction.

**Literature Review**

**Corporate Governance**

As an institution that has initiative to promote the concept of corporate governance, the Organization for Economic Cooperation and Development (OECD) (1999), in Wahyudi and Azheri (2008) states that "Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. The purpose of the Corporate Governance is to create value added for all interested parties (stakeholders)."

In Indonesia, many institutions also contribute in socializing and educating corporate governance. Forum for Corporate Governance in Indonesia (FCGI, 2000) provides a definition similar to the Cadbury Committee, corporate
governance is the system by which companies are directed and controlled or a set of rules that defined the relationship between shareholders, manager, creditor, the government, employee, the other external and internal stakeholders in respect to their right and responsibility.

There are various other definitions that have been developed, but many definitions of Good Corporate Governance are not inhibited in studying GCG. This is because of all these definitions can be drawn some of the main principles contained in the GCG, namely transparency, responsibility, accountability and fairness. Other similar thing is the protection of the company's stakeholders. These stakeholders have an interest in the company, so it is proper stakeholder interests are also protected.

According to FCGI and NCCG basic principles of good corporate governance, it can be categorized into four principles of fairness, transparency, accountability, and responsibility.

1. Fairness
   The principle of fairness is the principle of fair treatment for all shareholders. Fairness here is defined as the fair treatment of shareholders, especially minority shareholders and foreign shareholders from fraud and fault behavior insider. In conducting its activities, the company should always consider the interests of shareholders and other stakeholders based on the principles of fairness and equality.

2. Transparency
   Transparency is the disclosure of any information that is open, timely, and clear and can be compared with the situation concerning the financial, corporate management and ownership of the company. To maintain objectivity in running the business, the company must provide the material and relevant information in a way that is easily accessible and understood by the user interests.

3. Accountability
   Accountability emphasizes the importance of creating an effective monitoring system based on the division of powers between commissioner, directors and shareholders which include monitoring, evaluation, and control of the
management to ensure that the management acts in the interests of shareholders and other interested parties.

4. Responsibility
Responsibility is the responsibility of the management board, management oversight, and accountability to the company and its shareholders. This principle is a form of awareness that responsibility is a logical consequence of the authorities, aware of the social responsibility, avoiding abuse of authority of power, be professional.

**Corporate Governance Mechanism**

Corporate governance mechanisms are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. Corporate governance mechanism is a device that is used way to interest between principal and agent. The mechanism can be done in two ways. Firstly, the internal control mechanism is corporate control is done by creating a set of rules that will govern a sharing system mechanism, either in the form of benefits, and risks or return that approved by the principal and the agent (Jensen and Meckling, 1976). Secondly, the external control mechanism becomes the control of the company by the market. According to the theory of the market for corporate control, when it is known that the management of behavior that benefit themselves, its performance will decline as reflected by the value of company stock. In these conditions, the other manager will replace managers who were in charge of the office. Thus, the operation of the market for corporate control can obstruct the beneficial action of the manager itself (Jensen and Meckling, 1976).

**Abnormal return**

Abnormal return is a factor considered by investors besides normal return. Abnormal return is the difference between the actual return with the expected return. This means that the abnormal return is the return that is not appropriate with expectations. The positive result of abnormal returns indicate that the rates of return obtained by investors is higher than the expected one, while the negative result of abnormal return indicates that the rates of return obtained by investors is lower than the expected one.
**Previous Research**

Tristiarini (2003), using the abnormal return as a proxy of the market reaction. This research examined the effect of the implementation of GCG to abnormal return. The data used in this study are data companies listed on the Jakarta Stock Exchange in 2003, and the sample used is 76 days. In contrast to the study by Arifin (2003), which examines corporate governance is measured by using the Corporate Governance Perception Index (CGPI), whereas by Tristiarini (2003) is to use the principles of NCG (2006) consisting of transparency, fairness, accountability, and responsibility as a proxy of good corporate governance. Research results show that the application of the principles of good corporate governance affects the abnormal return as a positive reaction from investors.

In contrast to studies conducted Tristiarini, Arifin (2003) conducted research studies on the effects of CG against TVA. This study aimed to know the value relevance (relevant information content) of the earnings announcement and TVA shares in the company of good CG and bad CG. This study uses empirical data from the JSE, SWA and IICG with a sample of 38 companies for the year 2001. The results of this study indicate that earnings announcements made by the company that has good corporate governance did not significantly increase the value relevance of the earnings announcement, but is significantly lower divergence investor expectations. This is evident by the TVA were significantly smaller than the company that bad Corporate Governance.

Continuing research by Arifin (2003), Almilia and Sifa (2006) conducted a study to test the market reaction to the announcement of the Corporate Governance Perception Index (CGPI). This study uses empirical data from the JSE, IICG and SWA magazine with 103 companies sample for the period 2001 to 2003, then classified into top ten groups and non top ten groups. From the classification is obtained that from 2001-2003 indicates there are 24 companies for top ten groups and there are 79 companies for non top ten groups. The results of this study provide evidence that CGPI announcement on the top ten companies and non top ten in the reaction by the market as indicated by the presence of significant TVA around the announcement date.
Research Method

Type of Research

Type of research in this study is the event study. Event studies can be used to test the information content of an announcement. In this research, the event used is the publication date of the annual report made by the sample firms. This study uses the event window for 3 days before the announcement (t-3), the day of the announcement (to), and 3 days after the announcement (t+3). The selection of the length of the event window period have been assessed as sufficiently conservative to avoid bias any other event that has a greater impact than an event to be observed.

Population and Sample

The population in this research is a non-financial sector companies listed on the Stock Exchange for the year 2010 based on data from the Indonesian Capital Market Directory listed companies on the Stock Exchange during 2010. The sampling technique in this study is purposive sampling. Criteria for selection of the sample in this study are as follows:

a. The companies listed on the Stock Exchange except banks and financial institutions for the year 2010.
b. The publications of annual report for the year 2010.
c. The complete data related to the variables used in the study.

The results of sample selection based on the sampling criteria described in the following table.

Table 3.1
Criteria for sample selection

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Companies listed on the Stock Exchange until the end of December 2010.</td>
<td>459</td>
</tr>
<tr>
<td>2. Companies included in the financial and banking sector.</td>
<td>(72)</td>
</tr>
<tr>
<td>3. Company's annual report is incomplete.</td>
<td>(80)</td>
</tr>
<tr>
<td>4. The availability of external data incomplete, such as the publication date of the announcement, the stock price data.</td>
<td>(203)</td>
</tr>
<tr>
<td>Total of final samples</td>
<td>104</td>
</tr>
</tbody>
</table>
Types and Sources of Data

The source of data in this research is secondary data. Sources of data used in this research were obtained from the Indonesian Capital Market Directory (ICMD), annual reports of each company, company website, IDX data base (www.idx.co.id and www.jsx.co.id) This research uses cross-sectional data. Ghozali (2009:11) explains that the data are cross-sectional data collected at one specific time.

Research Variable and Measurement

Dependent variable

Dependent variables used in this research were abnormal return, which is the difference between the actual return with the expected return. The positive result of abnormal returns indicates that the rates of return obtained by investors is higher than the expected one, while the negative result of abnormal return indicates that the rates of return obtained by investors is lower than the expected one.

Brown and Warner (1985), states that the expected return is the return that must be estimated. Expected return can be calculated by using the three models (Brown and Warner, 1985), which are:

a. Mean – Adjusted Model

Mean - adjusted model assume that the expected return is constant, which equals to the average actual return during the estimates period. It can be formulated as follows:

\[ E(R_{it}) = \frac{\sum R_{it}}{t} \]

Description:

\( E(R_{it}) \) = Expected return securities to-i period t
\( R_{it} \) = Actual return securities to-i period t
\( t \) = Period of Estimation

Estimation period is the period prior to the event period. Event period is also called as the period of observation or event window.
b. Market Model

In this model, the expected return is calculated in two phases. The expectations model use data realization for the period of estimation and use models expectations to estimate the expected return in the window period. Model expectations can be formed by using OLS regression techniques (Ordinary Least Square) by the equation:

\[ E(R_{it}) = \alpha_i + \beta_i R_{mt} + \epsilon_{it} \]

Description:
- \( E(R_{it}) \) = Expectation return to-i period \( t \)
- \( \alpha_i \) = intercept, independent to \( R_{mt} \)
- \( \beta_i \) = slope, systematic risk, dependen to \( R_{mt} \)
- \( R_{mt} \) = market return, calculated by the formula:
  \[ R_{mt} = \frac{IHS_{Gt} - IHS_{Gt-1}}{IHS_{Gt-1}} \]
- \( \epsilon_{it} \) = residual error securities to-i period \( t \)

c. Market Adjusted Model

Market Adjusted Model assumes that the best estimator to estimate the return of a security is when the market index returns. Using this model, it is not necessary to use the estimated period to establish estimation model because the securities estimated return is the same as the market index return. The model is calculated by using the following formula:

\[ AR_{it} = R_{it} - R_{mt} \]

Description:
- \( AR_{it} \) = abnormal return stock to- i on day \( t \)
- \( R_{it} \) = actual return stock i on day \( t \)
- \( R_{mt} \) = market return, which is calculate by the formula:
  \[ R_{mt} = \frac{IHS_{Gt} - IHS_{Gt-1}}{IHS_{Gt-1}} \]
Independent Variable

The variables used in this study are the principles of Good Corporate Governance, such as:

1. Transparency

The meaning of transparency is the disclosure of information regarding 2010 Annual Report and annual General Meeting of Shareholders (RUPS) 2010. Annual Report under study consists of the completeness and timeliness of financial reporting financial statements at the end of 2009, which was served on time, in accordance with legislation and accurate, which has been audited, completeness of non-financial reporting presented in the annual report, and also the completeness of the disclosure of the results of the annual General Meeting of Shareholders (Tristiani, 2005).

   b. The Completeness of the financial statements consists of the Balance Sheet, Income Statement, Statement of Owner’s Equity, Cash Flow Statement and Notes to the Financial Statements. Each of those statements would be given 1 point and if the company would submit a report as addition, except for the completeness that related to the financial statements, additional statements will be given 1 point.
   c. Timeliness of Financial Statements.
      If companies submit the financial statements on time will be given 1 point and if it does not submit financial statements on time then it will be given 0 point.
   d. The Completeness of Non Financial Statements is presented in the annual report.
      Each of completeness the financial statements herein will be given 1 point, which consists of:
      1. Management Report
      2. Financial Review
      3. General Discussion and Analysis by the Management
e. The Completeness annual report of RUPS
   Each of completeness annual report of General Meeting of Shareholders (RUPS) will be given 1 point consists of announcements about dividend, stock ownership, stock management, and company policies.

2. Fairness
   Fairness in this research is the fairness of financial statements provided by an independent auditor on the company concerned. The independent auditor's opinion will each be given points as follows:
   a. Disclaimer opinion will be given 1 point
   b. Qualified opinion will be given 2 point
   c. Unqualified opinion with an explanatory will be given 3 point
   d. Unqualified opinion will be given 4 point

3. Accountability
   Accountability in this study can be seen from the board of commissioners who serve as internal mechanisms important in running GCG principles, in accordance with applicable law. If the company has the structure of the Board of Commissioners in accordance with the law will be given 1 point. Accountability in this study also assessed from the formation of an audit committee. If the company has an Audit Committee in accordance with the Law (consists of 3 people and is led by an independent commissioner), will be given 1 point. If the company announced the Audit Committee Report in the Annual Report, it will be given the 1 point. If the Audit Committee held a meeting in at least 3 months, it will be given 1 point. If not in accordance with the provisions that have been mentioned, it would be given 0 point (Tristiarini, 2005).

4. Responsibility
   Responsibility in this study consisted of quality control and standardization, the company's participation in the activity description services and community programs, as well as human resource development and the environment. Each part would be given 1 point (Tristiarini, 2005).
Control Variable

Control variables are defined as variables that complement or control the causal relationship between the dependent variable and the independent variables in order to obtain a better empirical model which is more complete and better (Hartono, 2007: 147). Researchers tend to use a control variable in order to complete the connection between the dependent variable and the independent variables.

1. Unexpected earnings

Unexpected earnings variable is used as a control variable because it refers to research conducted by Irawan (2011) on the effects of CSR on corporate performance. Unexpected earnings are calculated using the formula as in research Suaryana (2005) and Mulyani et al. (2007):

\[ E_{it} = \frac{(E_{it} - E_{it-1})}{E_{i,t}} \]

Description:

\( UE_{it} \) = Unexpected earnings of company \( i \) in period (year) \( t \)
\( E_{it} \) = earnings of company \( i \) in period (year) \( t \)
\( E_{it-1} \) = earnings of company \( i \) in period (years) before \( t \)

2. Total Cash Flows

Total cash flows variables selected as a control variable because it refers to the results of empirical research conducted by Livnat and Zarowin (1990) on the cash flow of information content to the reaction of investors. Their research provides results that are significantly reporting cash flow statement contains information for investors. The formulas used to calculate the total cash flow (Soesetio, 2005) are:

\[ TAK = AKO + AKI + AKP \]

Description:

\( AKO \) = Cash flow from operating activities
\( AKI \) = Cash flow from investing activities
\( AKP \) = Cash flow from financing activities
Result and Analysis

Descriptive Statistics

This study aims to examine the influence of the principles of good corporate governance (GCG) to the company's stock performance. The following table presents the descriptive statistics of the principles of good corporate governance (GCG) from the company sample.

<table>
<thead>
<tr>
<th>Principles Disclosure</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency</td>
<td>0.67</td>
<td>1</td>
<td>0.95</td>
<td>0.07</td>
</tr>
<tr>
<td>Fairness</td>
<td>3</td>
<td>4</td>
<td>3.94</td>
<td>0.23</td>
</tr>
<tr>
<td>Accountability</td>
<td>0.5</td>
<td>1</td>
<td>0.93</td>
<td>0.17</td>
</tr>
<tr>
<td>Responsibility</td>
<td>0</td>
<td>1</td>
<td>0.76</td>
<td>0.42</td>
</tr>
</tbody>
</table>

Based on Table 4.1 above, the descriptive statistics of each variable can be seen significantly. The principle of transparency in this study is measured by using four indicators of financial statement presentation, the completeness of financial statements, timeliness of financial statements, the completeness of non-financial statements, and completeness annual report of GMS. If companies fully disclose the overall indicator (a total of 9 sub-indicators), will be given score 1. The test is conducted by applying descriptive statistics result a minimum value is 0.67, a maximum is 1, with a mean is 0.95 and standard deviation is 0.07. Based on the average of the output, it can be concluded that the sample firms generally have implemented the principles of transparency in the financial statements of the company.

The principle of fairness in this study is the fairness of financial statements based on the opinions provided by the independent auditor to the company sample. Tests are conducted by using descriptive statistics resulting a minimum value, which is 3. It indicates that the company sample is not given any opinion.

Source of data: the attachment
by the independent auditors, and the maximum value is 4, with a mean value is 3.94 and standard deviation is 0.23. The average value of an approximate value which is 4, shows that in general, the company sample obtains an unqualified opinion from independent auditors.

The principle of accountability in this study concerns about the clarity of function, execution and accountability for the company's organs so that the management of company can be done effectively. Accountability in this study is seen from the board of commissioners and is assessed from the formation of audit committees. If the company includes the completeness of the above annual report, it will be given a score of 1. Tests are done by using descriptive statistics that results a minimum value is 0.5, the maximum value is 1, with a mean value is 0.93 and standard deviation is 0.17. Mean value is close to 1; it indicates that the majority of the company samples have complete accountability principle in its annual report.

The principle of responsibility or corporate responsibility in this study consists of quality control and standardization, the company's participation in community’s programs, and the development of human resources and the environment. The availability of each indicators will be given 1 point. The test results a minimum value is 0, the maximum value is 1, with a mean is 0.76, and standard deviation is 0.42. Based on the mean of the output, it can be concluded that in general, the company sample are in compliance with the application of this principle in its operations.

**Regression Test Result**

Regression test analysis is conducted to see the influence of the independent variable, which is the principles of Corporate Governance consisting of transparency, fairness, accountability, and responsibility. The control variable is the unexpected earnings and the total cash flows to the dependent variable is the abnormal return.
The results of the regression test at level $\alpha$ of 5% is presented in the following table.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Count</th>
<th>Prob. (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constants</td>
<td>-0.352</td>
<td>-2.762</td>
<td>0.007</td>
</tr>
<tr>
<td>Trans (X1)</td>
<td>0.207</td>
<td>2.254</td>
<td>0.027**</td>
</tr>
<tr>
<td>Fair (X2)</td>
<td>0.166</td>
<td>1.731</td>
<td>0.087*</td>
</tr>
<tr>
<td>Account (X3)</td>
<td>0.171</td>
<td>1.877</td>
<td>0.064*</td>
</tr>
<tr>
<td>Respon (X4)</td>
<td>0.401</td>
<td>3.559</td>
<td>0.001**</td>
</tr>
<tr>
<td>UE (X5)</td>
<td>-0.034</td>
<td>-0.377</td>
<td>0.707</td>
</tr>
<tr>
<td>TCF (X6)</td>
<td>0.291</td>
<td>2.670</td>
<td>0.009**</td>
</tr>
</tbody>
</table>

$R^2 = 0.523$

F-Count = 11.429

Prob. (p) = 0.000

* Significant at level $\alpha = 10%$

** Significant at level $\alpha = 5%$

Source of data: the attachment

Discussion of Test Result

According to Table 4.2 above, the results of hypothesis testing for each variable can be explained as follows:

1. The Influence of implementation of Good Corporate Governance Principles to Abnormal Return

a) Tests on variable principles of transparency (Trans) results t-count of 2.254 with an error rate prediction (p) of 2.7%. It states that there is a significant influence on the implementation of the principle of transparency to abnormal return. From the t-test results above, it shows that $H_0$ is rejected and $H_{1a}$ accepted significant level of 5%.

b) Tests on variable principles of fairness (Fair) produce t-count of 1.731 with an error rate prediction (p) of 8.7%. It states that there is a significant influence on the implementation of the principle of fairness to abnormal return. From the t-test results above, it shows that $H_0$ is rejected and $H_{1b}$ received significant level of 10%.

c) Tests on variable principle of accountability (Account) results t-count of 1.877 with an error rate prediction (p) of 6.4%. It states that there is a significant influence on the implementation of the principle of accountability to abnormal return. From the t-test results above, it shows that $H_0$ is rejected and $H_{1c}$ received significant level of 10%. 

d) Tests on the principle variable of responsibility (Respon) result t-count of 3.559 with an error rate prediction (p) of 0.1%. It states that there is a significant influence on the implementation of the principle of responsibility to abnormal return. From the t-test results above, it shows that $H_0$ is rejected and $H_{1d}$ received significant level of 1%.

2. Variable Control Test Result
   a) Unexpected Earnings (UE)
   Tests on variables Unexpected Earnings (UE) result t-count of -0.377 with an error rate prediction (p) of 70.7%. Based on these results it can be concluded that Unexpected Earnings do not influence the performance of the company's stock.

   b) Total Cash Flow (TCF)
   Tests on variables Total Cash Flows (TCF) result t-count of 2.670, with an error rate prediction (p) of 0.9%. Based on these results it can be concluded that total cash flow influence the performance of the company's stock.

   Based on the results of hypothesis testing, this study has been able to prove the positive influence the implementation of good corporate governance principles to the abnormal return stock. Tests are conducted by using a fourth proxy of the principles of good corporate governance, which consists of transparency, fairness, accountability, and responsibility, all consistently produce a positive influence on abnormal stock return. These research results support previous research conducted by Berghe and Ridder finding that companies having poor performance due to poor governance. It is also consistent with the results of Gompers et al. (2003) which were also able to prove the existence of a positive relationship between the index of corporate governance and company performance.

   The test results of the unexpected earnings fail to show any significant effect on abnormal returns. This is because earnings expectations are listed in the prospectus assessed have been able to reflect on the manager in managing the firm (Morck et al, 1989, and Blackwell et al, 1994). The test results of the variable Total Cash Flow show a positive influence on abnormal return stock. This shows
that the market responds positively to total cash flow of information during the company's annual report publication.

**Conclusion and Suggestion**

Based on the results of the hypothesis testing, this study was able to prove the positive influence corporate governance mechanism to abnormal return. Tests are conducted by using four proxies of corporate governance principles, which consist of transparency, fairness, accountability, and responsibility, all consistently produce a positive influence on abnormal stock return. Test results consistently show the positive influence of the four proxies corporate governance mechanism, which notably indicates the fact: in order to produce a good performance of the company, the management company must implement the corporate governance mechanisms reflected by the pillars of good corporate governance.

Tests on unexpected earnings fail to show any significant influence on abnormal returns. The test results prove that there is no significant influence of unexpected earnings. This fact suggests that market participants sluggish in managing information circulation

Tests on the variable Total Cash Flow, shows a positive effect on abnormal returns. The test results are able to find the positive influence of the total cash flow of information indicating that the change in total cash flow is still considered to be directly related to the reduction and performance improvement company is still considered relevant to support decision-making of investors.

This study employs a relatively short study period for only one year. It is an anxiety that this study could lead to less inference which can be generalized because of the fluctuations in the company's performance at the time of the study sample. For the next researcher, the study can be developed by using a longer period. It needs to be conducted with consideration to minimize the effect of fluctuations in performance due to changes in economic conditions.
References


