

## MANAGEMENT'S DISCUSSION AND ANALYSIS ON MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE 2011 - 2014

**Marina Fabiola Ongkoseputro<sup>1</sup>**

Widya Mandala Catholic University Surabaya

[marinafabiola@ukwms.ac.id](mailto:marinafabiola@ukwms.ac.id)

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### ABSTRACT

*The study aims to examine the information contained in the Management's Discussion and Analysis (MD&A) on manufacturing companies listed in Indonesia Stock Exchange period 2011 to 2014. The content of information that will influence the market reaction is proxied by stock returns and trading volume activity.*

*The object of research is manufacturing companies listed in Indonesia Stock Exchange period 2011 to 2014. The number of samples per year are 84 companies so that the observed total company became 336, selected using purposive sampling technique. The hypothesis was tested using non-parametric test partial correlation and multiple linear regression analysis using the control variable is return on equity.*

*The result showed that the disclosure in the annual MD&A report positive effect on stocks returns was rejected. This can be caused by an Indonesian company is not ready to face the disclosure in the annual report as well as the state of efficiency of the Indonesian market is still relatively strong spring. The second hypothesis stated unsupported because there is a positive correlation MD&A disclosure in the annual report of the trading volume activity. Thus, the relationship between the publication of information both annual reports, social conditions and socio-political circumstances that affect the company against fluctuations in trading volume activity.*

### INTRODUCTION

The capital market is one of the media in the financial system, which plays a vital role in the country's economic development. According to Tandelilin (2010: 26-27), there are two main functions of the capital market, first, namely, as a means of business funding for companies to get funds from the investor (investor) to develop a business, adding working capital, or the other; the second function is as a means for people to invest in financial instruments such as stocks, bonds, mutual funds, and others to obtain a return (return)

in the future. For the capital market to produce the results expected, the capital market must be efficient. An efficient capital market is indicated by allocating funds from less productive sectors to more productive areas. We can see this by creating a mechanism that can protect investors' interests, namely by providing complete and open information so that it can thoroughly understand the state of the stock exchange issuers from various aspects, especially financial aspects (Suwito and Arleen, 2005). If management can present a complete and open annual report, investors

will be interested in investing their share capital, so the demand for shares increases. As a result, the stock price rises. According to Gultom et al. (2015), capital market conditions are influenced by external (external) information and information within the company (internal) including information about management discussion analysis (management discussion and analysis, starting now referred to as "MD & A") presented in the annual report section of the company. These factors will be used as a reference for investors in investing (Nidianti, 2013). According to the SEC, MD & A is a narrative needed by investors. It can help readers understand the entity's financial position and operating results with an understanding of management and perspective. This can provide added value to the company's financial statements. MD&A provides an overview of the company that will influence prospects. MD & A explains the financial results of a company and allows management to discuss topics that might not be visible in the financial statements. The information content of MD & A in the annual report considers investors to evaluate the company's stock price that presents the information entirely and openly. This will result in a decrease in investor expectations bias. The information conveyed by management is more open, accurate, and complete, thereby reducing the risk of the stock in question. Therefore, investors will respond positively to MD&A information. Increased stock prices and trading volume as a cause of buying action by investors affect the average abnormal return and average trading volume activity (Gultom et al., 2015).

The annual report contains the results of the development and achievement of an organization's success in a year. The annual report serves as an instrument of management accountability to the company's internal and external parties.

According to Permana (2015), published yearly reports must also have two qualitative values in the accounting information presented, namely relevance and reliability. Value relevance has a vital role in measuring how much influence the financial statements have on the capital market. According to Gu (2002) in Pinasti (2004), value relevance is the ability to explain accounting information to stock prices or returns. The concept of the significance of the value of accounting information is how to tell the investor's reaction when announcing accounting information contained in financial statements (Scott in Adhani, 2013). Value relevance also includes understanding the content contained therein (information content), which has information loading capacity that can better explain a company's actual condition (Atmini in Gultom et al., 2015). Financial reporting, especially public companies, is critical in capital market activities connected with the application of the principle of openness, namely the rights of shareholders who must be adequately and timely informed about the company. Transparency in the capital market can also be a legal instrument for efforts to build a good company with proper management (Good Corporate Governance).

Governments and independent institutions have held an award event for companies that openly present annual reports in the Annual Report Award. Some institutions that hold the Annual Report Award include the Financial Services Authority, the Indonesia Stock Exchange, Bank Indonesia, and the Indonesian Institute of Accountants (IAI). This is a form of reciprocity to companies that can present reports that provide an excellent and clear picture of operational activities, performance with the aim that the principle of openness runs continuously. Following one of the 2014 Annual Report Award assessment criteria is Good Corporate

Governance (GCG) of 35%, Management Analysis and Discussion with the second-highest weight (22%), and Financial Information with a weighting of 20%. Therefore, presenting management discussion (MD&A) information for stakeholders, especially investors, becomes an important point. Mayew et al. in Gultom et al. (2015) show that investors can predict three years before bankruptcy occurs with the disclosure of appropriate MD&A information compared to using financial ratios. Research by Schroeder and Gibson (2000), explains that the information content in MD&A will support fast and easy communication for annual report users.

This research is a development of Gultom et al. (2015), the variable size is stock return variable and trading volume activity (TVA), the use of the return on equity (ROE) control variable, and using the MD & A disclosure index organized by the 2014 Annual Report Award (ARA). The researcher wants to update the previous research using a sample of manufacturing companies listed on the Indonesia Stock Exchange from 2011 to 2014. Manufacturing companies are exciting companies for investors, and the development of manufacturing companies is very significant in recent years, which encourages increased investment in the manufacturing industry. So many investors are interested in investing in manufacturing companies. According to the Minister of Industry MS Hidayat (Industrial Magazine edition 1, 2013), explained that the manufacturing industry achieved a growth of 6.40%. This figure is higher than the economic growth (GDP) in 2012, which amounted to 6.23%. The industrial branches that experienced an increase were enjoyed from the fertilizer, chemical and rubber materials sector by 10.25%, the cement sector and non-metal mining products by 7.85%, the food, beverage, and tobacco sector by 7.74%, and the equipment sector

transports, machinery, and equipment by 6.4%. In the 2013 Ministry of Industry Work Meeting in Jakarta, he also mentioned that "Indonesia's economic growth was also supported by high investment in the manufacturing industry sector." Therefore, with the high level of investment, it must also be supported by a complete and open disclosure of MD&A.

The quality of information (annual report) takes precedence in making decisions to be made by investors. If the quality of annual reports in manufacturing companies is low, the information received by investors will be small so that information bias can occur. Therefore, the existence of this research is expected to be able to encourage companies to present MD & A comprehensively and openly to attract investors to invest in these companies, which can be seen from the increase in share prices and high trading volume. With the increasing market response, the company's value will increase. In the context of preparing for a more advanced and better Indonesia, countries in Southeast Asia have made agreements to facilitating trade between nations. This is, of course, increasingly visible harmony in Southeast Asian countries and strengthen the Asian economy in the international world. Therefore, Indonesia must also be more open with foreign investors who will invest in Indonesia. One way is to present the annual report openly and entirely in the Annual Report.

## LITERATURE REVIEW

### Signaling Theory

Signal theory describes the relationship of information between company management and parties interested in that information, especially to shareholders. Through this signal can be informed of what has been done by management to realize the wishes of the owner, which can be in the form of

promotions or other information stating that the company is better than other companies. With the signal given by the manager, it is expected to reduce uncertainty about the company's prospects in the future. Managers provide information through annual reports that apply the characteristics that are complete and open, so that the users of the annual report can thoroughly understand the state of the stock exchange issuers from various aspects, especially from a yearly perspective. If information asymmetry arises, it will be difficult for investors to assess the quality of the company objectively. When used in company disclosure practices, signaling theory is generally beneficial for companies to express good corporate governance practices, to create good quality companies in the market (Subramaniam et al. In Andarini, 2012).

An annual report that reflects excellent performance will be a signal that the company is operating well. Then the message will be responded to well by the investor. Investors will only invest their capital if they can provide added value to the money compared to investing elsewhere. Therefore, investor attention must be directed to the company's ability, which is reflected in the annual report. The market response is highly dependent on fundamental signals that contain positive values issued by the company. The announcement of accounting information gives a message that the company has good prospects in the future (good news) so that investors are interested in trading shares. Thus the market will react as reflected in changes in stock trading volume. Thus, the relationship between the publication of information, annual reports, seasonal conditions, or socio-political fluctuations in the amount of stock trading can be seen in market efficiency (Sharpe and Ivana in Putra, 2013).

#### Theory Shareholder

Shareholder theory explains that managers carry out the primary responsibility (accumulation of profits) and responsibility as a party that saves and increases the wealth entrusted by the shareholder (shareholders) to him without any manipulation. According to Philip (2003), a good manager must ask himself whether he has carried out the duties of trust given by shareholders (have we are our fiduciary duties to the shareholders?). This was also stated by Martin Friedman, that businesses have no moral obligations or social responsibility at all, other than to maximize their profits. As owners, the shareholders have hired individual managers to run the company with one goal that has been set for managers, namely achieving an advantage. If the company pays attention to the interests of suppliers, customers, employees, and the environment, then the value obtained by investors is getting smaller, so the directors must consider the benefits of investors and ensure the company's health in the long run. The increase in value can run with management's ability to utilize company resources optimally and efficiently to improve the company's annual performance.

#### Value Relevance

According to Gultom et al. (2015), investors are interested in finding out more complete and open information in estimating the company's prospects in the future and evaluating performance at certain times, namely having good relevant value. Research on value relevance is designed to establish the benefits of accounting values on the valuation of company equity. Value relevance is the ability to explain accounting information about stock prices or stock returns (Gu, 2002 in Margani Pinasti, 2004: 740). Beaver in

Puspitaningtyas (2011) defines the relevance of accounting information as an explanatory power of a company's value based on accounting information. Value relevance is directed to investigate the empirical relationship between stock market values with various accounting numbers intended to assess the benefits of accounting numbers in the company's fundamental valuation. Beaver examines the reaction of trading volume, which empirically explains how investors react (as shareholders) to earnings announcements. There was a dramatic increase in size during the week around the earnings announcement date. The reaction also occurs at stock prices. Therefore, it can be concluded that accounting information's content is a priority and consideration in the investment decision-making process.

Accounting information also reflects the quality of the company's management performance. If accounting information has benefits for the users of the annual report, then the data can be said to be relevant. The information in MD&A provides investors with considerations in evaluating the company's stock price that presents a more complete and open MD&A (Gultom et al., 2015). Given relevant information, the information has a positive relationship with stock prices as a reaction from investors.

#### Management Discussion and Analysis

Management Discussion and Analysis (M.D. & A) is a part of the company's annual report, where management discusses various aspects of the company, both past and present. The company gives an overview of the previous year's operations and how the company is now. Management will usually also describe performance projections and outline future goals and approaches for new projects. M.D. & A is an essential part of the annual report, especially for the users of the story in analyzing fundamentals. Although this section contains useful information,

investors should be aware that this section is not audited. Then the investor will not know how the company's management can overcome the company's external factors (challenges and opportunities). In general, MD&A reflects the corporate position of liquidity, capital resources, business results, causes of material changes in annual report items (such as impairment of assets and restructuring costs), unusual events or infrequent nature (such as mergers and acquisitions or share buybacks), positive and negative trends, the impact of inflation, domestic and international market risks, and significant uncertainties (Gultom et al., 2015).

The purpose of the MD&A is to provide the information needed to understand the company's seasonal conditions, changes in seasonal conditions, and operating results. In the draft Commission Guidance Regarding Management's Discussion and Analysis of Financial Conditions and Results of Operations - U.S. The Securities and Exchange Commission (2003). MD&A has three main objectives: to provide a narrative explanation of the company's annual report that allows investors to see the company through the views of the management, increase openness in disclosing yearly information, and provide the context in which the annual data must be analyzed. And to provide information about the quality, variability of potential, company profits, and cash flow, investors can ascertain the possibility that past performance is a projection of future performance.

#### Investor Reaction

According to the Big Indonesian Dictionary, the reaction is a response or change. While investors are people who invest their money in businesses intending to get profits, then it can be concluded that the investor reaction is the response of

people who have spent their capital in a company to the information presented. Information relevant to investors if that information provides an answer to conduct transactions in the capital market. An announcement will be responded to by investors differently. If the investor's response is homogeneous, there will be no reaction so that no transaction occurs. Investor responses or results can be seen from changes in stock prices and stock trading volume activities (Nurdin and Fani in Falichin, 2011). An efficient market is reflected in the high response of investors to the entry of new information if market participants (investors) consider the report useful (good news). There will be an investor reaction reflected through an increase in stock prices, and volume of stock trading, an increase in prices stocks can be seen from abnormal returns (Bandi and Hartono, 2000).

#### Return On Equity (ROE)

In this study, profitability will be proxied in the ratio of return on equity (ROE) by comparing net income after tax to capital owned by the company. ROE can indicate the level of return on investment of investors (Brigham and Houston, 2006). High ROE will show the company's performance is getting better and have an impact on increasing the company's stock price, and therefore stock returns will also increase.

#### Hypothesis Development

##### The Effect of Management Discussion and Analysis on Stock Returns

In general, the view of the signal theory is that management has complete information about company values that are not yet known by outside parties (investors). So the company's management must present in full of the information that can have an impact on the value of the company to the capital market, so that

information asymmetry does not occur. Submitting information to the market can provoke an investor's reaction as a clue to a particular event that can give effect to the value of the company reflected through stock returns, assuming if the capital market is efficient.

Ulupui (2007) researched the effect of disclosing financial statement information on stock returns in food and beverage companies with the category of consumer goods industry on the Jakarta Stock Exchange. Financial statements can be used to find various ratios. In this study, the financial ratios' selection is proxied by one financial ratio, i.e., liquidity ratios proxied by current ratios, i.e., ratios between existing assets and present debt. The leverage ratio is proxied by debt to equity ratio, which is a ratio that measures the ratio between total debt and total equity; the rate of activity proxied to total asset turn over and profitability ratios are proxied by return on investment and return on assets. The result is that the variable return on assets and the current rate significantly influences the following year stock returns with a significance level of 5 percent. Research Lai et al. (2007) also proved that stock prices would be significantly higher and fluctuate rapidly from companies with financial reporting on the internet than companies without financial reporting practices. This implies that the market reaction will move if the company can present information that can help investors make investment decisions—the higher the disclosure on the information provided by the company, the better the company's stock performance.

Eikner et al. (2000), the Securities and Exchange Commission (SEC) in the MD&A draft, that the information is relevant for users of the annual report. The result is information in MD & A has information content; there is a significant relationship between return and disclosure

index. This can be seen from the significant change in cash flow in one model.

The more complete and open disclosure of information in MD & A in the annual report, the more market response will affect the increase in stock returns. Therefore, stock returns increase, so investors will be interested in investing their share capital to increase stock demand. Based on the explanation above, the hypothesis will be tested:

H1a: Disclosure of Management Discussion and Analysis in the annual report has a positive effect on stock returns.

#### *The Effect of Management Discussion and Analysis on Trading Volume Activity*

Signal Theory explains that management should take action to guide investors regarding the company's prospects. Assumptions from this theory, between managers and shareholders, have access to different company information. There is certain information that is only known by the manager, so there is asymmetric information. Information that is owned by shareholders is incomplete, can cause shareholders to give a low price to the company. Companies can increase the value of the company by reducing information asymmetry. Besides, Husnan (2000) in Setiaji (2011) said that the value of the company is the price that prospective buyers are willing to pay if the company is sold. Therefore, the value of the company is preferred to attract investors to invest. Manullang's research (2008) concerning the behavior of stock prices and stock trading activities around the day of the rights issue and this study's results indicate a significant influence between abnormal returns and the total trading volume of shares around the announcement day (even window). The movement of stock prices and trading volumes in the capital market is one indicator to study the market reaction. Investors generally make decisions based

on the information they have, both publicly available data and personal information. This will affect the presence or absence of transaction processes in the capital market. Zuhroh and Sukmawati's research (2003) proves that social disclosures in annual reports of companies going public effect the volume of stock trading for companies that fall into the high profile category. Research by Schroeder and Gibson (1990), the Securities and Exchange Commission (SEC) requires companies to prepare MD&A disclosures as part of an annual report.

Each will invest, investors will evaluate the company's prospects and prospects of shares based on the management's disclosure of information in MD&A. Therefore, an increase in market response will impact increasing trading volume activity, of course, with more complete and open data. The hypothesis will be tested based on the above explanation:

H1b: Disclosure Management Discussion and Analysis on the annual report has a positive effect on trading volume activity.

## **METHODOLOGY**

### *Research design*

This research used quantitative analysis because it focuses on testing hypotheses; the data used are quantitative (measurable data) and produce conclusions. This study aims to prove empirically the reaction of investors to the disclosure of Management Discussion and Analysis in manufacturing companies going public on the Indonesia Stock Exchange (BEI) 2011-2014 period. This research is causality, which is research used to determine the cause and effect relationship between the variables studied because the investigation is testing hypotheses (Jogiyanto, 2007b: 54). If the significant level  $<0.1$ , then the assumption is accepted, and if the significant level is below  $> 0.1$ , then the hypothesis is rejected.

Variable Identification, Operational Definition,  
and Variable Measurement

Based on the problems and hypotheses, the analyzed variables are Management Discussion and Analysis (MD & A) and market reaction. Classifying the variables as follows:

a. The independent variable is Management Discussion and Analysis (MDA).

Management Discussion and Analysis is an annual report section describing aspects of financial statements and other statistical data, both past and present. The purpose of the MD&A disclosure is to enhance the reader's understanding of fundamental (economic) analysis. These aspects include the position of corporate liquidity, capital resources, business results, causes of material changes in annual report items (such as impairment of assets and restructuring costs), unusual events or infrequent nature (such as mergers and acquisitions or share buybacks), positive and negative trends, the impact of inflation, domestic and international market risks, and significant uncertainties. This study uses the Management Discussion and Analysis (MD&A) disclosure index according to the criteria of the organizer of the Annual Report Award, namely the Financial Services Authority, there are 17 items with a total of 50 sub-chapter disclosure points, as follows:

1. Operating objectives per business segment.
2. A description of the company's financial performance.
3. Discussion and analysis of the ability to pay debts and collectibility of the company's receivables.
4. Review of capital structure and management policies on capital structure.
5. Review of material commitments for capital investment.

6. Discussion of investment in capital goods, which was realized in the last fiscal year.
7. Comparative information between targets and results achieved (realization) in the financial year, and goals or projections to be made for the coming year
8. Material information and facts that occur after the date of the accountant's report.
9. A description of the company's business prospects.
10. A description of the marketing aspects.
11. A description of the dividend policy and the number of cash dividends per share and the number of profits per year announced or paid during the last 2 (two) financial years.
12. Employee and share ownership program by the company (ESOP / MSOP).
13. Realization of the use of funds resulting from the public offering (in the case that the company is still required to submit a report on funds).
14. Material information regarding investment, expansion, divestment, business merger/consolidation, debt/capital acquisition, or restructuring.
15. Material transaction information that contains a conflict of interest and transaction with an affiliated party.
16. Description of changes in laws and regulations that have a significant effect on the company.
17. Description of changes in accounting policies adopted by the company in the last financial year.

If every MD&A disclosure that is appropriate and or above the disclosure index is assumed to have positive or good information content notated (1) and if there is no information according to these criteria, then thought negative information (bad news) is notated (0). Each company is totaled, then divided by 17 items, and the full results are divided according to the number of sample companies that will be examined.



b. Bound Variable is a market reaction that uses stock return (RS) and trading volume activity (TVA) proxies.

1. Stock Return is the result of profits enjoyed by investors for an investment that has been made. Return can be divided into two, namely realized return and expected return. Realized returns are returns that occur or are true. The expected return is the return expected by investors. Two components of return are capital gain/loss and yields. Investor profits can be in the form of dividends and capital gains. Company value is also one of the factors that determine changes in stock prices. Capital gain (loss) is the difference in profit (loss) from the current investment price relative to the price of the previous period (Jogiyanto, 2007a: 110-111). Yield is a component of return that reflects cash flow investors receive the investment price of a certain period of an investment periodically, for example, in dividends or interest. Stock returns can be formulated as follows:

Total Return = Capital gain (loss) + yield

$$= \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}$$

Remarks:

P<sub>t</sub> = Share price in period t

P<sub>t-1</sub> = Stock price in period t-1

D<sub>t</sub> = Cash dividends paid

2. Trading Volume Activity is an instrument that can measure the number of shares traded in one trading day. Zulhawati (2000) in Shobriati et al. (2013) states that stock trading volume activity can be calculated using the formula:

$$TVA = \frac{\text{Jumlah lembar saham diperdagangkan pada periode tertentu}}{\text{Jumlah lembar saham beredar pada periode tertentu}}$$

c. The Control Variable is Return on Equity (ROE). Return on Equity can indicate the return rate on investment of investors (Brigham and Houston, 2006). In this study,

profitability will be proxied in the ratio of return on equity (ROE) by comparing net income after tax to investment owned by the company. High ROE will show the company's performance increasingly right and impact increasing company stock prices, and therefore stock returns will also increase. Indicator of this variable is measured by:

$$\text{Return On Equity} = \frac{\text{Laba Bersih Setelah Pajak}}{\text{Total Ekuitas}}$$

Some of the results of research that show ROE has a significant positive effect on stock returns. Juwita (2013) examines the impact of ROA, ROE, DER, EPS, and PER variables on LQ45 non-bank company stock returns.

#### Data Types and Data Sources

The type of data used in this study is secondary data. Secondary data is in the form of data obtained or collected by researchers from various sources that already exist (researchers as second hand). Secondary information is generally in the way of company records or documentation in the form of absences, salaries, financial statements of company publications, government reports, data obtained from magazines, etc. This study's secondary data are quantitative data collected from the Annual Report of companies listed on the Indonesia Stock Exchange (BEI), list of Yahoo Finance Historical Prices as of March 31, 2012-2015, and Investment Gallery of WM.

#### Method of collecting data

In this study, data collection was carried out using documentation/archive techniques, namely, data collected from existing records or databases (Jogiyanto, 2007b: 81). The data used are secondary in annual reports of manufacturing companies listed on the Indonesia Stock Exchange from

2011-2014, containing Yahoo Historical Historical Prices as of March 31, 2012-2015, and Investment Gallery WM.

Population, Samples, and Sampling Techniques

The community used in this study is a publicly listed manufacturing company listed on the Indonesia Stock Exchange (IDX). The sampling technique was done by purposive sampling with the following criteria:

1. Companies listed successively on the IDX during 2011-2014.
2. Companies that have complete data.

Data analysis technique

Before doing regression, a descriptive statistical test and a classic assumption test are performed using multiple linear regression analysis.

**RESULT**

Characteristics of Research Objects

The population of this research is manufacturing companies listed on the Indonesia Stock Exchange in the period 2011-2014. The following determines the research sample:

Table 1: Requirement Sample

No	Information	Total
1	Companies listed on the Indonesia Stock Exchange	140
2	The company was not listed consecutively on the IDX during 2011-2014	(12)
3	Company have incomplete data	(44)
	Company included as research samples	84
	Year of observation	4 years
	Number of observations	336

Data Description

Sampling is done by a purposive sampling method to get a representative sample with criteria.

Table 2: Multiple Linear Regression

Variabel Bebas	Prediksi Tanda	B	t <sub>hitung</sub>	Sig.
Constant		-0,016	-1,115	0,125
MDA	Positif	0,041	1,510	0,066
ROE	Positif	0,028	1,071	0,143
Variabel Terikat	<i>Trading Volume Activity (TVA)</i>			
Adj. R Square	0,005			
Standar Error of The Estimates	0,1133			

Multiple Linear Regression Analysis

The results of hypothesis testing (H1b) with the application of the SPSS 16 program are as follows:

Based on table 4.12 obtained by the multiple linear regression equation as follows:

TVA = -0.016 + 0.041 MDA + 0.028 ROE  
From the above equation can be explained

as follows: The multiple linear regression equation shows the value of (o (constant) of -0.016 and has a negative value. This value if the independent variable Management Discussion and Analysis (MDA) and Return on Equity (ROE) is equal to zero or constant, then the Trading Volume Activity (TVA) is -0.016. A value of  $\alpha$  of 0.041

means that if there is an increase in Management Discussion and Analysis (MDA), there will be an increase in Trading Volume Activity (TVA) of 0.041. A value of  $\beta_2$  of 0.028 means that if there is an increase in Return on Equity (ROE), there will be an increase in Trading Volume Activity (TVA) of 0.028.

55

### The goodness of Fit Test

#### 1. Coefficient of Determination

The ratio of determination ( $R^2$ ) essentially measures how far the model can explain variations in the dependent variable. This research uses multiple linear regression analysis so that it uses adjusted numbers.  $R$  square. Based on table 4.12, it is known that the coefficient of determination is 0.005, which means that 0.5% of the variation of TVA can be explained by the MD&A variable. The remaining 99.5% is explained by other variables outside this research model. The Error of the Estimates (SEE) Standard Value is 0.1133.

#### 2. Test t

The t-test was used to test the significance of the relationship between the independent variables and the dependent variable. In this study, the independent variable is Management Discussion and Analysis (MDA) and using a control variable that is Return on Equity (ROE). Table 4.12 found that Management Discussion and Analysis (MDA) has a significant effect on Trading Volume Activity (TVA) and has a t value of 1,510 with a significance of 0.066. The hypothesis stating Management Discussion and Analysis (MDA) has a positive effect on Trading Volume Activity (TVA) is accepted.

### Analysis of Information Content in MD&A

Researchers conducted a content analysis to analyze the information content of MD&A. The test results showed that the

amount of positive information (good news), presented in the 2011-2014 period reports from 84 manufacturing companies. That showed an average of 0.40-0.50, meaning there are 40% -50% items the amount of information disclosed in MD&A. Each company contains the right news information, and the rest includes negative information (bad news).

### Discussion

The hypothesis states the disclosure of management discussion and analysis in the annual report has a positive effect on stock returns. Based on research by Eikner et al. (2000), MD&A is relevant information for users of annual reports. The results of his study indicate that the information in MD & A has information content; there is a significant relationship between return and disclosure index. The more complete and open disclosure of information in MD & A in the annual report, there will be an increase in market response that will affect the increase in stock returns, so that stock demand will increase.

In this study, disclosure of management discussion and analysis of the annual report has a positive effect on stock returns. Management has a responsibility to shareholders run the company properly and obtain benefits as expected by the shareholders. Giving an information signal about what administration has done is realized through annual reports by applying open and complete principles to comprehensively understand the state of the company from various aspects following signaling theory. If information asymmetry arises, will make it difficult for investors to assess the company's quality objectively. The hypothesis of management discussion and analysis disclosure in the annual report having a positive effect on stock returns is rejected; this could be due to Indonesian companies not ready to face openness in the annual report. From the

results, it was seen that in 2014 these companies only showed transparency in the annual report. In the previous few years, only a few companies had almost fulfilled these 17 criteria.

The shareholders, of course, expect the sustainability of a business, where they invest their capital. If disclosures given to management cannot yet be open and complete, the market reaction, which is proxied by stock returns, will also be low, so stock demand is too low.

Another thing that affects is the state of the Indonesian market efficiency, which is still relatively healthy (Mar'ati, 2012). There are still many Indonesian investors who do not consider disclosing information in the annual report to conduct investment transactions. In Indonesia, the capital market is fluctuating and is vulnerable to a political event that occurred. Based on the statistical calculations in table 4.12, it was found that there is an effect of disclosure on management discussion and analysis on the annual report on trading volume activity following the hypothesis tested. The theory of management discussion and analysis disclosure in the annual report on trading volume activity is accepted according to the research of Gultom et al. (2015). Disclosure of complete and open accounting information will signal that the company has good prospects in the future. This will have an impact on investor interest in trading shares. Thus the market will also react as reflected by changes in trading volume activity. Therefore, there is a relationship between the publication of information, annual reports, social conditions, and socio-political conditions that affect the company to fluctuations in trading volume activity.

## CONCLUSION

From the results of research and discussion can be taken conclusion as follows:

a. Disclosure Management Discussion and Analysis (MD & A) has a positive effect on

stock returns. The positive effect of the Management Discussion and Analysis (MD&A) disclosure on stock returns was rejected. In general, signaling theory is that management has more complete information that is not yet known by parties outside the company. So the company's management must present in full the information that has an impact on the value of the company to the capital market, so that information asymmetry does not occur. Submission of this information can provoke reaction investors as a guide that can provide influence on company value, which is reflected through stock returns, assuming if the capital market in Indonesia is efficient.

b. Disclosure Management Discussion and Analysis (MD & A) has a positive effect on trading volume activity (TVA). Disclosure Management Discussion and Analysis (MD & A) has a positive relationship with trading volume activity (TVA) that is information disclosed is open in MD & A in the annual report. TVA will also be higher, and investors will also react positively to disclosure MD & A.

## Limitation

The results of this study have several limitations, that is:

1. A large amount of information disclosed in MD & A in the annual report, so researchers must be able to sort out the information presented correctly following the criteria in the ARA (Annual Report Award).
2. This research has not expanded the proxy of market reaction. It only uses stock returns and trading volumes activity. The stock return variable has no relationship positive with management discussion and analysis.
3. In this research, many manufacturing companies have not disclosed management discussion and analysis wholly and openly so that the results are not as expected. In

2014 it was only seen that the company began to entirely and publicly reveal.

#### Suggestion

Based on the results of the study, there are several suggestions:

1. In future research, researchers can explain the basis of the arguments of each criterion in the ARA (Annual Report Award) so that the selection of the requirements accordingly does not occur asymmetry of information.
2. In subsequent studies, it can use other variables which are proxies from the influence of market reactions management discussion and analysis besides stock returns and trading volume activity.
3. The sample used can be used other than manufacturing companies listed on the Stock Exchange. The research period used can be made longer so that the impact arising from the disclosure of MD & A will be more precise.

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