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"The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic"

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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 4th International Conference on Business and Banking Innovations (ICOBBI) with the topic "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 4th International Conference on Business and Banking Innovations was held on 29th January 2022 by virtual (online) zoom meeting and organized by the Master Management Study Program of Universitas Hayam Wuruk Perbanas in Collaboration with five Higher Education Institutions in Indonesia and three Universities from Asia countries. Keynote speakers in this conference were: Chonlatis Darawong, P.hD (Sripatum University, Thailand), Associate Prof. Dr. Ellisha Nasrudin (University of Science, Malaysia), Dr. Sanju Kumar Singh (Postdoctoral Fellowship in Universitas Airlangga, Tribhuvan University Nepal) and Prof. Dr. Abdul Mongid, MA., P.hD (Universitas Hayam Wuruk Perbanas, Indonesia).

I would like to give high appreciation to the Rector of Universitas Hayam Wuruk Perbanas for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the three universities, namely Universitas 17 Agustus Surabaya, STIE YKPN Yogyakarta, Universitas Negeri Gorontalo, Universitas Surabaya and Universitas Muhammadiyah Surakarta which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website http://eprints.perbanas.ac.id/

Chair of the Master Management Study Program
Universitas Hayam Wuruk Perbanas

Prof. Dr. Tatik Suryani, M.M.

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Analysis of The Indonesia Capital Market Reaction to The Announcement Implementation of Emergency Community Activity Restriction (PPKM)

(Event Study on Companies Listed in the LQ45 Index for January-July 2021 Period)

Said Setiandika Pambudi[1,*] Suyatmin Waskito Adi[2]

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ABSTRACT

The COVID-19 pandemic that have occurred around the world including Indonesia, have hampered economic activity. The spike in daily positive cases of COVID-19 in a number of areas, especially on the islands of Java and Bali, has made the government decide to made a policy of Emergency Community Activity Restrictions (PPKM). This study purpose to analyze the differences in Abnormal Return, Trading Volume Activity, and Security Return Variability before and after the announcement of the COVID-19 Emergency Community Activity Restriction (PPKM) policy. The event period in this study is 10 days before the event (t-10) and 10 days after the event (t+10). The sample of this study are companies listed on the LQ45 Index with the period from January – July 2021 by using purposive sampling method. Data used in this study include the stock price daily closing, and stock index. Expected return calculated using a Single Index Model. This study using paired sample t-test and wilcoxon signed rank test to test the market reaction before and after the event. The results shows there is a difference abnormal return, trading volume activity, and security return variability before and after the announcement.

Keywords: *Abnormal Return, Trading Volume Activity, Security Return Variability, COVID-19.*

1. INTRODUCTION

The capital market in a country is generally sensitive to various surrounding events (Yuwona, 2013). Disease outbreaks are one of the non-economic factors that can influence investors decisions to invest in the capital market. The COVID-19 outbreak throughout the world, including Indonesia. COVID-19 was first discovered in Wuhan, China in December 2019.

The COVID-19 spread very quickly throughout the world. The increase in the number of COVID-19 cases occurred in a short time and required immediate treatment. According to (Baker et al., 2020) this outbreak, unlike the Spanish flu epidemic, could affect the capital market in the United States. According to (Ataguba, 2020) basically, this COVID-19 raises awareness that this disease does not know any nation and country so that all countries are united. Governments in several countries have implemented policy *lockdown* or regional quarantine to prevent the spread of transmission

In Indonesia, the COVID-19 pandemic made panicked investors. The Composite Index (IHSG) decreased by 6 percent which occurred from March 5, 2020 to March 6, 2020 (Trisnowati & Muditomo, 2021). On July 1, 2021, President Joko Widodo announced that the government would implement of Emergency Community Activity Restrictions (PPKM). The emergency policy was taken based on points of consideration, namely the increasing death rate, the availability of fewer beds and the capacity of hospitals that have started to over capacity.

One day after the government announced the implementation of Emergency Community Activity

Restriction, on July 2, 2021, IHSG slightly up to the level of 6023,008 or increased by 17.05 points. Then on July 5, 2021, IHSG decreased to the level of 6005.609 or decreased by 17,399 points. The graph of the IHSG that fluctuates around this event raise a question for investors who looking forward to whether this policy will have a good or bad impact on the Indonesian capital market.

The announcement of this policy not only affects the share price of an entity, but also affects in trading activities on the stock exchange. In the t+1 period (2 July 2021) there was an increase in trading transaction volume by 20,673,026,378 shares compared to the previous day which concided with the announcement of the implementation of this policy, which was 15,233,607,847 shares. However, on t+2 (5 July 2021) which is also the third day of the implementation of the policy and the first day of the start of the stock exchange during the Emergency Community Activity Restriction period, trading volume decreased by 15,241,623,473 shares

IHSG can be used to measure the market in general or measure whether stocks have increased or decreased (Sunardi et al., 2017). The Indonesia Stock Exchange publishes an index as a reference for changes in stock prices. Stock index is an indicator that is used as a reference for measuring the increase and decrease in stock prices. When the stock index rises, it shows that most of the stocks in the index move up, if the index shows a downward direction, it shows that most of the stocks in the index move down. One of the most popular stock indexes among investors is LQ45. The LQ45 stock index is an indicator that measures the performance of 45 companies that have large market capitalization and high liquidity and have good fundamentals.

This announcement is news for investors who will invest their funds in the capital market. Investors are worried this accouncement will be effect to public economy. In addition, this policy can threaten the strategy that has been prepared by investors so that investors must look for another strategy if this policy can hamper of the economy. According to (Pratama et al,2015) the incident was an external factor that could affect stock prices, namely regulations from the government which only had an impact on the price and volume of securities of certain companies affected by the regulation.

This study purpose to knows the diffrence Abnormal Return, Trading Volume Activity, and Security Return Variability before and after the announcement of the implementation of Emergency Communicity Activity Restriction (PPKM). If the announcement contains information, then the market will react either positively or negatively.

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

2.1. Signaling Theory

Information published as an announcement will provide a signal for investors in making investment decisions (Hartono, 2017). A response to a positive signal indicates that an announcement produces a positive shift in shareholder wealth with an increase in stock. This theory reveals that investors can find out between companies that have high values and companies that have low values. Signal theory provides an illustration that a signal is an action taken by a company that gives instructions to investors about how the company's prospects are (Brigham & Houston, 2015).

2.2. Event Study

Event study is a study that studies the market reaction to an event that the information is published as an announcement (Hartono, 2017). The information published will be useful for investors to choose which entity is convincing to invest in accordance with investors expectations. With announcements containing information, it is expected that the market will react to the information. According to (Tandelilin, 2017) there are various forms of incident information, both information from the company and from outside the company that can affect the company's prospects in the future.

2.3. Emergency Community Activity Restriction

On July 1, 2021, the government announced that it would implement Emergency Community Activity Restriction to prevent the transmission of COVID-19 which is expanding. Emergency Community Activity Restriction was taken as a decisive step related to the increase in positive cases of COVID-19 which is getting out of control. The emergency policy was taken based on consideration points, namely the increasing death rate, the availability of beds and the capacity of hospitals that have begun to over capacity.

2.4. Capital Market

The capital market is an activity related to public offerings and trading public companies related to the securities they issue, as well as institutions and professions related to securities. The capital market is a meeting place between investors and companies. Investors act as owners of funds and the company is a business entity that issues securities for trading. The capital market also has the function of a productive means of allocation of funds to transfer funds from lenders to borrowers (Hartono, 2017). As a result of this

transaction, both parties benefit from each other compared to the absence of a capital market. According to (Husnan, 2008) there are many factors that influence the success of the capital market, including: (1) the availability of securities (2) the demand for securities (3) legal and regulatory issues, (4) the existence of institutions that regulate and supervise capital market activities and various institutions that enable efficient transactions, (5) the political and economic conditions of a country.

2.5. LQ45 Index

Capital market in Indonesia is still relatively thin capital market transactions (thinmarket) ,the capital markets were mostly less active securities. (Hartono, 2017). Jakarta Composite Index which includes all listed shares is considered inappropriate as an indicator of capital market activity. The LQ45 Index is a stock market index on the Indonesia Stock Exchange (IDX) consisting of 45 companies that meet certain criteria. Stock trading liquidity on the LQ45 Index is adjusted every six months by the Research Division of the Indonesia Stock Exchange. Weighting in the calculation of LQ45 index equal to the calculation of IHSG and any sectors (Febriansyah et al., 2021).

2.6. Abnormal Return

Abnormal Return is the difference between the actual return and the expected return. The difference between the two returns can be a positive difference and a negative difference. If the difference is positive, it means that the return actualis greater than return the expected, and vice versa if the return shows a negative difference (A'La & Asandimitra, 2017).

Previous studies mention that an event has an effect on Abnormal Returns. (Kusnandar et al, 2020) who research on the comparison of Abnormal Returns before and after changes in trading times during the COVID-19 pandemic. This study shows that there is differences in Abnormal Returns before and after the event. (Heyden K & Heyden T, 2020) investigated the announcement of the first case and first death due to COVID-19 in a country using Abnormal Return as a variable. The announcement of the first case and death made the market react negatively significantly. The Hypothesis is as follows:

H_1: There is a difference in Abnormal Return before and after announcemet of the Emergency Community Activity Restriction.

2.7. Trading Volume Activity

Trading activity in high volume indicates that there is a possibility that the market is in good condition. If statistically trading a few days after the event there is an increase, it means that there is stock trading liquidity after an event happen (Akbar et al., 2019). Announcements containing positive information investors interest in investing will increase. If the announcement contains negative information, investors' interest in investing will descrease.

Previous studies mention that an event has an effect on Trading Volume Activity. (Nugraheni, 2017) in his research shows that there is difference in Trading Volume Activity before and after stock split in companies that go public on the Indonesia Stock Exchange. (Diantriasih et al., 2018) which uses the Trading Volume Activity as variable show that there is an average difference before and after the regional elections in 2018.

H_2: There is a difference in Trading Volume Activity before and after announcement of the Emergency Community Activty Restriction.

2.8. Security Return Variability

Price reactions and profit levels can be tested using Security Return Variability (SRV). Security Return Variability is one method that is useful whether the announcement of events has informative content or not. SRV is used to see an event as informative for the market in the aggregate, meaning whether the information causes changes in the distribution of returns stock at the time the event happen.

Previous studies mention that an event has an effect on Security Return Variability. (Nugraheni, 2017) in her research shows that there is difference in Security Return Variability before and after stock plit in the company go public in Indonesia Stock Exchange. (Nandita, 2017) in her research results that there is significant differences in Security Return Variability before and after the election of Donald Trump as president of the United States.

H_3: There is a difference in Security Return Variability before and after announcement of the Emergency Community Activity Restriction.

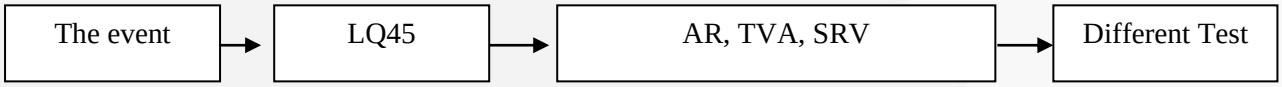

Figure 1. Theoritical framework

3. RESEARCH METHOD

The data resources have come from Yahoo Finance (finance.yahoo.com) and PT Bursa Efek Indonesia website (www.idx.co.id). This study uses LQ45 index as sample with purposive sampling method with criteria: first, companies listing on the LQ45 index in the period January 2021 – July 2021. Second, companies that have historical data complete. Third, companies that do not take corporate action during the research period. Based on criteria, the number of sample is 45 companies. The event period is 21 days (from t-10 to t+10). Return expectations calculated using a single index model. As for predicting the return during the period of observation, taken from the estimation period for 30 days, from 40 days trading stock before the events (t-40) to 11 trading stock before the events (t-11). The estimation period of 30 days is assumed to predict returns during the event window. The event period is 21 days (from t-10 to t+10) used to calculate abnormal return. While the estimation period is 30 days (from t-40 to t-11) used to calculate α and β with single index model method to calculated expected return.

Figure 2. Event Period

3.1. Abnormal Return measurement

Abnormal Return is the difference between actual return with expected return.

$$AR_{i,t} = R_{i,t} - E[R_{i,t}] \quad (1)$$

$AR_{i,t}$ = Abnormal Return

$R_{i,t}$ = Actual Return

$E(R_{i,t})$ = Expected Return

The expected return is calculated using a single index model because it is based on the observation that the price of a security fluctuates in same direction as the market price index (Hartono, 2017).

$$E(R_{i,t}) = \alpha + \beta * R_{m,t} \quad (2)$$

$E(R_{i,t})$ = Expected Return

$R_{m,t}$ = Market return

α and β obtained from the regression equation between stock returns and market returns.

3.2. Trading Volume Activity measurement

Trading Volume Activity is a variable used to see the market reaction to the information received through parameters. Announcements containing positive information investors interest in investing will increase. If the announcement contains negative information, investors interest in investing will decrease.

$$TVA = \frac{\sum Company\ shares\ trade\ at\ the\ time}{\sum Company\ shares\ outstanding} \quad (3)$$

3.3. Security Return Variability measurement

Security Return Variability is used to determine whether the announcement of the event has informative content or not.

$$SRV = \frac{(AR_{i,t})^2}{V(AR_{i,t})} \quad (4)$$

SRV = Security Return Variability

$AR_{i,t}$ = Abnormal Return

$V(AR_{i,t})$ = Variance of Abnormal Return

4. RESULT AND DISCUSSION

It presents the analysis of the related results, the period in this study was 10 days before the announcement until 10 days after the announcement. The normality test was conducted to determinate the data distribution was normal or not. Hypothesis Test will be using Paired Sample T Test for the data is normally distributed and using Wilcoxon Signed Rank Test for the data is not normally distributed.

4.1. Normality Test

This study use the Kolomogorov-Smirnov normality test (K-S). In this test, if the sig value is more than 0.05 this means the data is normally distribute.

Table 1

Test of Normality

	Kolmogorov-Smirnov		Shapiro-Wilk		Result
	df	Sig.	df	Sig.	
ARbefore	45	0,072	45	0,117	Normal
ARafter	45	0,200	45	0,476	Normal
TVAbefore	45	0,001	45	0,000	Not Normal
TVAafter	45	0,002	45	0,000	Not Normal
SRVbefore	45	0,000	45	0,000	Not Normal
SRVafter	45	0,000	45	0,000	Not Normal

Based on the table 1, the sig value of Abnormal Return before and after the announcement is 0.072 and 0.200 is more than 0.05. This means that the data is normally distributed. To test the hypothesis, will be using Paired Sample T Test. Based on the table 1, the sig value of the Trading Volume Activity and Security Return Variability before and after the announcement is less than 0,05. This means the data is not normally distributed. The hypothesis test will use Wilcoxon Signed Rank Test.

4.2. Hypothesis Test

Hypothesis Test will be using Paired Sample T Test for the data is normally distributed and using Wilcoxon Signed Rank Test for the data is not normally distributed.

Table 2.

Paired Sample T Test

	Mean	Std Deviasi	Std Error	t	Sig. (2-tailed)
ARbefore - ARafter	-0,11159174	0,07726894	0,01151857	-9,688	0,000

Based on the table 2 shows a sig (2-tailed) value is 0.000, less than 0.05 or 5%, meaning that there is a difference in Abnormal Return before and after the announcement of the implementation of Emergency Community Activity Restriction of COVID-19.

Table 3. Wilcoxon Signed Rank Test

	Sig (2 tailed)	Z value	Result

TVA before-TVA after	0,000	-3,550	Difference
SRV before-SRV after	0,000	-5,830	Difference

Based on the table 3 shows a sig (2-tailed) value is 0.000 which is smaller than 0.05 or 5%, meaning that there is a difference in Trading Volume Activity and Security Return Variability before and after announcement of the implementation of Emergency Community Activity Restriction of COVID-19.

4.3. Discussion

The announcement of the Emergency Community Activity Restriction is a step taken by the government to prevent the spread of COVID-19 from increasing. The information generated from this announcement can be good news or bad news for interested parties in the capital market, especially investors. If the information contained is considered to have an influence on the shares owned by investors, there will be changes in stock prices, trading volumes and the level of share profits. This is also influenced by the news carried out by the media whether it is in accordance with what is happening in the field or not. With the help of the SPSS computer program, it can be seen the effect of events on these variables**.** Based on the result of the analysis above, overall this study resulted in three conclusions.

4.3.1. Impact of Emergency Community Activity Restriction policy on Abnormal Return

Hypothesis one (H1) state that there is difference in Abnormal Return before and after the announcement of Emergency Community Activity Restriction policy. The results show there is a difference on Abnormal Return before and after the announcement. It can be concluded H_1 accepted. This means that the announcement contains information for stakeholders especially investors. Some investors are ready to take profit Moreover, investors have experienced similar events namely Large-Scale Social Restrictions (PSBB) so that investors have prepared their strategies. This study in line with the research conducted by Kusnandar et al, (2020) and Heyden K & Heyden T (2020) which states there is difference on Abnormal Return before and after the event.

4.3.2. Impact of Emergency Community Activity Restriction policy on Trading Volume Activity

Hypothesis two (H2) state that there is difference in Trading Volume Activity before and after the announcement of Emergency Community Activity Restriction policy. The results show there is a difference on Trading Volume Activity before and after the announcement. It can be concluded H_2 accepted. This means that the announcement contains information for stakeholders especially investors. Investors view this situation as bad news for the market so investors has to be carefully in transaction in the capital market. This study in line with the research conducted by Nugraheni (2017) and Diantriasih et al (2018) which states there is difference on Trading Volume Activity before and after the event.

4.3.3. Impact of Emergency Community Activity Restriction policy on Security Return Variability

Hypothesis three (H3) state that there is difference in Security Return Variability before and after the announcement of Emergency Community Activity Restriction policy. The results show there is a difference on Security Return Variability before and after the announcement. It can be concluded H_3 accepted. This means that the announcement contains information for stakeholders especially investors. It show the variability of returns obtained by investors due to stock volatility. This study in line with the research conducted by Nugraheni (2017) and Nandita (2017) which states there is difference on Security Return Variability before and after the event

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the results of the analysis and discussion that have been discribed on the top, it can be concluded that the announcement of Emergency Community Activity Restriction (PPKM) make a difference in Abnormal Return, Trading Volume Activity, and Security Return Variability. This is also related to the theory used in this study which says that an announcement will give a signal to investors decisions. Investors do not want to take a risk if they are actively trading in the capital market because they are afraid that situation will not getting better. This study implies that

the stock market is responding to the announcement of Emergency Community Activity Restriction.

The limitations of this study is the variables of this study only Abnormal Return, Trading Volume Activity, and Security Return Variability. On the other, the estimated period to determine expected return just 30 days so it's possible that the calculation of expected return is less accurate. Further this study suggest that adding more variables such bid ask spread which is the difference betweed the bid and price. And then adding the estimated period in the calculation of expected return on single index model method.

AUTHORS' CONTRIBUTIONS

This research is expected to help investor to analyze the information received so that investment decisions will get maximum result. And give knowledge about what things can effect the Indonesian capital market and stock prices then can provide information and references for further research.

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