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RESEARCH ARTICLE

# The Effect of Macroeconomic Fundamentals, Capital Structure and Technology on Stock Return with Good Corporate Governance and Financial Performance as Intervening Variables: A Study of Manufacturing Companies on the Indonesia Stock Exchange

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**Abstract**

This study analyzes the effect of macroeconomic fundamentals, capital structure, and technology on stock return with good corporate governance and financial performance as intervening variables in manufacturing companies on the Indonesia Stock Exchange for the period 2021-2023. The research method uses Partial Least Squares-Structural Equation Modeling (PLS-SEM) with 24 observations from 8 manufacturing companies. Secondary data were obtained from financial statements, annual reports, and official publications. Results show that only 5 out of 18 hypotheses are significant. Good corporate governance has a highly significant effect on financial performance (β=0.799, p=0.000). Macroeconomic fundamentals have a positive effect on good corporate governance (β=0.449, p=0.009). Capital structure has a positive effect on good corporate governance (β=0.513, p=0.021) and financial performance (β=0.307, p=0.001). Good corporate governance mediates the effect of macroeconomic fundamentals on financial performance (β=0.359, p=0.027). Technology has no significant effect on endogenous variables, confirming the Solow Productivity Paradox. The relationship between governance and financial performance with stock return is not significant, indicating market inefficiency.

**Keywords**
Macroeconomic Fundamentals; Capital Structure; Technology; Good Corporate Governance; Financial Performance; Stock Return; Manufacturing.

# 1 | INTRODUCTION

The manufacturing sector is the backbone of the Indonesian economy, contributing approximately 20% to GDP and employing over 15 million workers. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) account for 40% of the total market capitalization, making it a highly important sector for investors. During the economic crisis, an anomaly occurred in the stock market pattern. Stock Returns the manufacturing sector, where certain subsectors such as pharmaceuticals and health products experienced an increase Stock Return This is significant, because during the economic crisis, many pharmaceutical sectors were used to treat sick patients. Meanwhile, the automotive and textile subsectors experienced a sharp decline due to many road closures. Work From Home resulting in consumers being less interested in buying automotive and textile products. After the economic crisis, the recovery Stock Return in manufacturing companies showed an uneven pattern, with companies that adapted through digital transformation showing a faster recovery.

Stock Return is a primary concern for investors when making investment decisions in the capital market. Consistent value facilitates attention and analysis. As an expected outcome of investment activities, Stock Return It is a barometer of investment strategy success and a benchmark for company performance. In the context of manufacturing companies listed on the Indonesia Stock Exchange (IDX), volatility Stock Return has shown an interesting pattern worthy of further study. In addition, Stock Return It is also influenced by several factors, namely macro fundamentals, capital structure, and technology. It can also be influenced through mediation by GCG and financial performance.

In the context of Macroeconomics, the volatility of the rupiah exchange rate and changes in Bank Indonesia's benchmark interest rate have created additional pressure on Stock Return manufacturing companies, especially those with a high dependence on imported raw materials or external financing. This is reflected in the strong negative correlation between the rupiah depreciation and Stock Return companies with a high import ratio. This shows the complexity of the factors that influence Stock Return manufacturing companies on the IDX, which cannot be explained solely by traditional fundamental analysis. Research that integrates aspects Fundamental Macro, financial reporting integrity, and technological transformation in one comprehensive model, taking into account the mediating role of corporate governance and financial performance, becomes highly relevant to understanding the dynamics Stock Returning the Indonesian manufacturing sector. In addition, the relationship between technology investment and Stock Return are often indirect and mediated by increased productivity, operational efficiency, and reduced risk.

The effectiveness of corporate governance's intervening role is stronger during periods of high volatility or economic uncertainty, demonstrating the safety net function of GCG when external conditions are unfavorable. Corporate governance has the strongest intervening effect, with some studies finding a dominant role for board structure and independence, while others find a stronger role for disclosure and transparency or shareholder rights. Also related to corporate governance's role as a full mediator, partial mediator, or moderator in the relationship between various factors and Stock Return, showing the complexity of the relationship mechanisms influenced by the industry context and research period.

A company's financial performance is a fundamental determinant of investment decisions and stock valuation. In the context of manufacturing companies listed on the Indonesia Stock Exchange (IDX), financial performance not only reflects the company's operational results but also plays a strategic role in mediating the relationship between various external and internal factors. Stock Return This phenomenon makes financial performance a crucial intervening variable in capital market dynamics. So the aim of this study is to analyze the influence of disclosure Macro Fundamentals, Capital Structure and Technology on Stock Return with Good Corporate Governance and Financial Performance.

# 2 | BACKGROUND THEORY

**Financial management**

Financial management is a functional area within management concerned with investment, financing, and asset management decisions aimed at increasing company value. According to Van Horne and Wachowicz (2019), financial management encompasses all activities related to the acquisition, financing, and management of assets for a specific overall objective. Meanwhile, Brigham and Houston (2021:5) define financial management as the art and science of managing money, encompassing the processes, institutions, markets, and instruments involved in the transfer of money among individuals, businesses, and governments. The scope of financial management includes three main decisions, namely

1) Investment Decisions are related to the allocation and reallocation of capital and resources into projects, products, assets, and divisions of a company. Gitman and Zutter (2022:14) state that investment decisions determine the total amount of assets owned by a company, the composition of those assets, and the level of business risk of the company.
2) Financing Decisions are concerned with determining the best capital structure for a company and involve decisions

about the composition of the amount of debt and equity to be used to fund investments. Brealey, Myers, and Allen (2020:24) emphasize that financing decisions must consider the cost of capital, financial risk, and financial flexibility.

3) Dividend Policy Decisions are related to determining how much and in what form the company's profits will be distributed to shareholders. According to Baker and Weigand (2015:126), this decision affects the capital structure, cash flow, and investor perceptions of the company.

**Fundamental Macro**

Macro Fundamentals refer to macroeconomic indicators that influence the performance of financial markets in general and stock prices in particular. According to Tandelilin (2017:25), Macro Fundamentals are economic factors that influence business and investment activities broadly, which are beyond the company's control but have a significant impact on its activities. The main objective of Macro Fundamental analysis in the context of capital market investment is Understanding the Economic Environment. Fabozzi and Peterson (2018:83) state that Macro Fundamental analysis aims to understand the economic conditions that form the operational context of markets and companies, so that investors can anticipate changes that will affect asset valuations. Macro fundamentals can be measured using inflation rates, growth rates, and changes in exchange rates.

**Capital Structure**

Capital structure is the composition or ratio of debt to equity used by a company to finance its operations and investments. According to Weston and Copeland (1997), capital structure is permanent financing consisting of long-term debt, preferred stock, and shareholders' equity. The primary objective of capital structure management is to maximize firm value by minimizing the cost of capital (Weighted Average Cost of Capital/WACC). According to Gitman and Zutter (2015), the goal of optimal capital structure is to achieve a balance between risk and return that maximizes the company's stock price. Capital structure can be measured by the debt-to-equity ratio, the debt-to-assets ratio, and the long-term debt-to-equity ratio.

**Technology**

Technology in the context of business and management can be defined from various perspectives. Rogers (2016:12) defines technology as a design for instrumental action that reduces uncertainty in the cause-and-effect relationships involved in achieving desired outcomes. The primary goal of technology adoption is to improve operational efficiency through automation, process standardization, and resource optimization. Technology can be measured by Technology R&D Investment Intensity, Technology Efficiency Ratio, and Return on Innovation Investment.

**Good Corporate Governance**

Good Corporate Governance (GCG) is a system that directs and controls a company with the aim of achieving a balance between power and authority in providing accountability to stakeholders in general. According to the Organization for Economic Cooperation and Development (OECD) (2021:12), corporate governance is defined as a set of relationships between company management, the board, shareholders, and other stakeholders that provide a structure for setting company goals, how to achieve them, and monitoring its performance. The main objective of corporate governance is to overcome agency problems by aligning the interests of managers with shareholders. GCG can be measured using the Institutional Ownership ratio, the Managerial Ownership ratio, and return on assets.

**Financial performance**

Financial performance is a snapshot of a company's financial condition, analyzed using various financial analysis tools to determine the company's financial performance, reflecting its performance over a specific period. The primary objective of measuring financial performance is to assess management's efficiency and effectiveness in utilizing company resources to create shareholder value. Financial performance can be measured using return on equity, the current ratio, and the ratio of operating cash flow to net income.

**Stock Return**

Stock Return is the result obtained from stock investments, which includes profits or losses from changes in stock prices (capital gain/loss) and dividend income. Stock Return analysis has several main objectives, namely: Investment Performance Evaluation. According to Sharpe (2019:78), Stock Return analysis aims to evaluate the performance of stock investments by comparing them to benchmarks and seeing whether the investment generates positive alpha. Fabozzi (2018:142) emphasizes that measuring Return allows investors to assess the success of their investment strategy. Stock Return can be measured using total return, dividend yield, and P/E ratio.

**Hypothesis**

1) Influence Fundamental Macrohas a significant impact onStock Returnin manufacturing companies on the IDX.
2) Influence Fundamental Macrohas a significant influence on financial performance in manufacturing companies on the IDX.
3) Influence Fundamental Macrohas a significant impact onGood Corporeate Government in manufacturing companies on the IDX.
4) The influence of capital structure has a significant influence onStock Return manufacturing companies on the IDX.
5) The influence of capital structure has a significant effect on financial performance in manufacturing companies on the IDX.
6) The influence of capital structure has a significant influence onGood Corporate Government in manufacturing companies on the IDX.
7) The influence of technology has a significant impact onStock Return manufacturing companies on the IDX.
8) The influence of technology has a significant impact on financial performance in manufacturing companies on the IDX.
9) The influence of technology has a significant impact onGood Corporate Government in manufacturing companies on the IDX.
10) Influence Good Corporate Government has a significant influence on financial performance in manufacturing companies on the IDX.
11) The influence of financial performance has a significant influence onStock Return in manufacturing companies on the IDX.
12) Influence Good Corporate Government has a significant impact onStock Return in manufacturing companies on the IDX.
13) Financial Performance Mediates the InfluenceFundamental Macro to Stock Return in manufacturing companies on the IDX.
14) Financial Performance Mediates the Effect of Capital Structure on Stock Return in manufacturing companies on the IDX.
15) Financial Performance Mediates the Effect of Technology on Stock Return in manufacturing companies on the IDX.
16) Good Corporate Government Mediating influenceFundamental Macro to Stock Return in manufacturing companies on the IDX.
17) Good Corporate Government Mediating the influence of Capital Structure on Stock Return in manufacturing companies on the IDX
18) Good Corporate Government Mediating the influence of technology on Stock Return in manufacturing companies on the IDX

## 3 | METHOD

The research adopts a positivistic approach on quantitative analysis, based on a deductive process to investigate cause-and-effect relationship between a priori defined variables. The study aims to explore the influence of macroeconomic fundamentals, capital structure and technology on stock returns by including mediating variables of corporate governance and financial performance. The population of this research is manufacturing companies that are registered in Indonesia Stock Exchange during 2021-2023. A quota sample approach was used in which completeness of data wasumber of pI stal 88% for cha 7 ES percenta ents kbuster.d in this survey (n variable su( Table 5] in various among the oduction.ResultsO In analysO comparison ainstances, of statistics was consi or 3.A sion for se segment of RIs, 41% of dentify the Ri type.ting the to the outside to be efficient.ty. According to the criteria, the sample obtained were 8 companies, namely PT Semen Indonesia Tbk (SMGR), PT Pupuk Indonesia (PIHC), PT Barito Pacific Tbk (BRPT), PT Astra International Tbk (ASII), PT Indofood Sukses Makmur (PMA) Tbk (INDF), PT Kalbe Farma Tbk (KLBF), PT Unilever Indonesia Tbk (UNVR) and PT Tjiwi Kimia Tbk (TKIM). This selection generated a total of 24 observations over the period of study. A Partial Least Squares-Structural Equation Modelling (PLS-SEM) approach was applied to the data using SmartPLS 4.0. We elected to use this technique due to its power to estimate complex models with mediating variables, acceptance of non-normal data distributions, and appropriateness for our small sample size. PLS-SEM provides a convenient method for evaluating both the measurement and structural models, which enables strong empirical testing an approach of our proposed hypotheses.

Table 1. Research Variables

| Variable | Category | Code | Indicator |
|---|---|---|---|
| Independent Variables | Fundamental Macroeconomics | FM1 | Gross Domestic Product |
| | | FM2 | Inflation Rate |
| | | FM3 | Consumer Price Index |
| | Capital Structure | SM1 | Debt to Asset Ratio |
| | | SM2 | Debt to Equity Ratio |
| | | SM3 | Long-term Debt to Asset Ratio |
| | Technology | TG1 | R&D Investment Ratio |
| | | TG2 | Return on Investment |
| | | TG3 | Technology Productivity |
| Dependent Variables | Good Corporate Governance | GCG1 | Institutional Ownership Ratio |
| | | GCG2 | Managerial Ownership Ratio |
| | | GCG3 | Return on Assets |
| | Financial Performance | KK1 | Liquidity Ratio |
| | | KK2 | Return on Equity |
| | | KK3 | Operating Cash Flow to Net Income Ratio |
| Mediation Variables | Stock Return | SR1 | Stock Return |
| | | SR2 | Dividend Yield |
| | | SR3 | Price to Earnings Rati |

## 4 | RESULTS AND DISCUSSION

## 4.1 Results

4.1.1 Data Characteristics

Based on the collected macroeconomic fundamental data, eight companies exhibited consistent patterns during the 2021-2023 period. Gross Domestic Product increased from 0.099 (2021) to 0.154 (2022), then decreased to 0.074 (2023). The inflation rate rose sharply from 1.87% (2021) to 5.28% (2022), then decreased to 2.61% (2023). The exchange rate index changed from positive in 2021-2022 to negative -0.035 in 2023. Evaluation of the measurement model (outer model) was conducted to test the construct's validity and reliability before conducting hypothesis testing. Convergent validity testing used the outer loading criterion of ≥ 0.7, with initial results indicating that several indicators had factor loadings below the established threshold. Capital structure data shows significant variation in funding strategies. PT Unilever Indonesia has the highest DER (3.413-3.928), while PT Kalbe Farma demonstrates a conservative approach with the lowest DER (0.170-0.233). Technology data shows PT Unilever leading in R&D investment allocation (0.086-0.103), while PT Astra International stands out with the highest ROII (0.539-0.577).

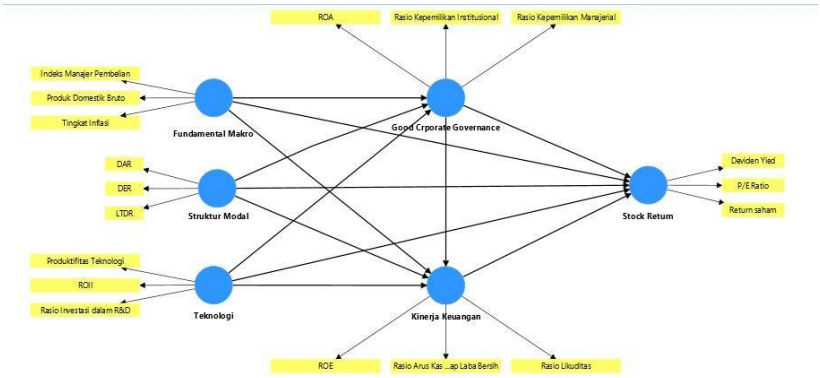


Figure 1 Model calculated results before dropping

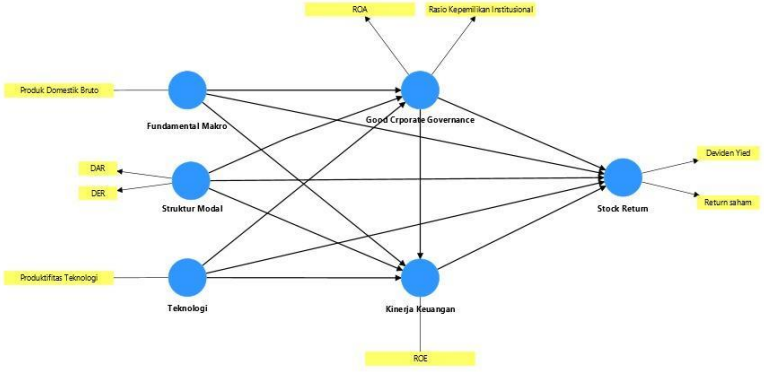


Figure 2 Model Calculated result after dropping

4.1.2 Hypothesis Testing Results

Direct hypotheses were examined through PLS-SEM to investigate the direct effects among the variables. Significance of the each path was calculated step by step as testing coefficient, t-value, and p-value. The results indicate that the macroeconomic variables have both significant effects on CG while they don't have any direct impact on FP and SR. The relationship between capital structure and corporate governance and financial performance is statistically significant however its link with stock return is not supported. Corporate governance has the inelastic positive impact on financial performance and government governance does not exert the significant direct influence on stock return. Both ROA and ROSG do have a positive, but statistically weak, relationship with stock return. Technological considerations do not demonstrate any noteworthy influence on any of the analysed variables. These findings also provide guidance as to which relationships are actually accommodated by the data and that some of the important parameters may operate more effectively on stock return through indirect routes, as we will consider below in the mediation analysis.

Table 2. Hypothesis Test Results Table

| Variable Relationship | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statics (0/STERR) | P Values | Information |
|---|---|---|---|---|---|---|
| *Fundamental Macro*-> GCG | 0.449 | 0.442 | 0.172 | 2.607 | 0.009 | Significant |
| *Fundamental Macro*-> Financial Performance | -0.057 | -0.074 | 0.087 | 0.658 | 0.511 | Not Significant |
| *Fundamental Macro -> Stock Return* | -0.200 | -0.291 | 0.337 | 0.594 | 0.553 | Not Significant |
| GCG -> Financial Performance | 0.799 | 0.821 | 0.119 | 6.724 | 0.000 | Significant |
| GCG -> Stock Return | -1.755 | -1.753 | 1.087 | 1.615 | 0.106 | Not Significant |
| Financial Performance ->*Stock Return* | 2.431 | 2.560 | 1.382 | 1.760 | 0.079 | Not Significant |
| Capital Structure -> GCG | 0.513 | 0.470 | 0.222 | 2.313 | 0.021 | Significant |
| Capital Structure -> Financial Performance | 0.307 | 0.305 | 0.092 | 3.336 | 0.001 | Significant |
| Structure Modal -> Stock Return | -0.988 | -1.114 | 0.561 | 1.762 | 0.078 | Not Significant |
| Technology -> GCG | -0.227 | -0.197 | 0.146 | 1.552 | 0.121 | Not Significant |
| Technology -> Financial Performance | 0.096 | 0.070 | 0.073 | 0.952 | 0.341 | Not Significant |
| Technology ->*Stock Return* | -0.328 | -0.356 | 0.233 | 1.411 | 0.580 | Not Significant |

Of the 12 direct effect hypotheses tested, only 4 hypotheses proved significant.

1) Fundamental Makro → Good Corporate Governance (H1): Significant with a coefficient of 0.449 (p=0.009). Stable macroeconomic conditions encourage companies to strengthen their governance structure as a risk mitigation strategy.
2) Good Corporate Governance → Financial Performance (H4): Highly significant with a coefficient of 0.799 (p=0.000). Investment in governance systems provides very high returns through increased operational efficiency.
3) Capital Structure → Good Corporate Governance (H7): Significant with a coefficient of 0.513 (p=0.021). Optimal capital structure decisions encourage better governance implementation.
4) Capital Structure → Financial Performanc(H8): Significant with a coefficient of 0.307 (p=0.001). Optimizing capital structure increases resource utilization efficiency and profitability.

The other hypotheses did not prove significant, including all hypotheses involving technology, confirming the Solow Productivity Paradox that technological benefits require complementary organizational changes and longer lag times.

4.2.2 Testing the Mediation Hypothesis

Table 2 Results of Mediation Hypothesis Test

| Variable Relationship | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statics (0/STERR) | P Values | Information |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Fundamental Makro -> GCG -> Stock Return | -0.787 | -0.789 | 0.537 | 1.467 | 0.143 | Not Significant |
| GCG -> Financial Performance -> Stock Return | 1.943 | 2.092 | 1.141 | 1.703 | 0.089 | Not Significant |
| Capital Structure -> Financial Performance -> Stock Return | 0.746 | 0.780 | 0.47 | 1.587 | 0.113 | Not Significant |
| Capital Structure -> GCG -> Stock Return | -0.900 | -0.863 | 0.592 | 1.519 | 0.129 | Not Significant |
| Technology -> Financial Performance -> Stock Return | 0.168 | 0.165 | 0.175 | 0.963 | 0.335 | Not Significant |
| Technology -> GCG -> Stock Return | 0.398 | 0.402 | 0.337 | 1.181 | 0.238 | Not Significant |

This table displays the results of a statistical analysis of the six variables studied in terms of the influence of macroeconomic fundamentals, capital structure, and technology on a company's financial performance and stock returns. Each variable relationship was tested using statistical analysis using the parameters Original Sample (O), Sample Mean (M), Standard Deviation (STDEV), T Statistics, and P Values to determine the significance of the relationship.

Of the six relationships analyzed, all showed statistically insignificant results. The relationship between Macro Fundamentals and Stock Returns had a negative coefficient of -0.787 with a P-value of 0.143, indicating that macroeconomic conditions did not significantly influence stock returns. The relationship between Good Corporate Governance and Financial Performance and subsequently to Stock Returns showed a positive coefficient of 1.943 with a P-value of 0.089, but still above the significance limit of 0.05. Capital Structure on Financial Performance and Stock Returns was also insignificant with a coefficient of 0.746 and a P-value of 0.113.

The technology variable in this study also showed insignificant results in influencing the relationship between variables. Capital Structure through Good Corporate Governance on Stock Return has a negative coefficient of -0.900 with a P Value of 0.129, while Technology on Financial Performance and Stock Return shows a positive coefficient of 0.168 with a P Value of 0.335, and Technology on Good Corporate Governance and Stock Return has a coefficient of 0.398 with a P Value of 0.238. Overall, the results of this study indicate that all variables studied do not have a statistically significant effect, which may indicate the need for a larger sample or a different research model to find a stronger relationship between variables.

## 4.2 Discussion

### 4.2.1 The Central Role of Good Corporate Governance

The most prominent finding of this study is the central role of good corporate governance as a primary determinant of the financial performance of manufacturing companies. With a coefficient of 0.799, each unit increase in good corporate governance has the potential to improve financial performance by 79.9%. This result is highly consistent with the agency theory of Jensen and Meckling (1976) and supports the empirical findings of BJRA (2022) and Fitriyani (2020).

### 4.2.2 Complexity of Relationship with Stock Return

Although good corporate governance and financial performance have been shown to have a very strong relationship, neither shows a significant effect on stock returns. This indicates market inefficiency or a disconnect between fundamental performance and market valuation. This finding aligns with Core et al. (2006), which showed that the relationship between corporate governance and stock returns is not always significant in the short term.

### 4.2.3 Solow Productivity Paradox in the Indonesian Context

The research findings confirm the Solow Productivity Paradox in the Indonesian context, where technology investment showed no significant impact on financial performance, good corporate governance, or stock returns during the observation period. This indicates that the benefits of technology require complementary investments and organizational changes to be realized, as suggested by Brynjolfsson and Hitt (2018).

4.2.4 Fundamental Macro Transmission Mechanisms

This study reveals an interesting transmission mechanism where macroeconomic fundamentals influence financial performance through the mediation of good corporate governance. Macroeconomic conditions encourage companies to strengthen governance as a risk mitigation strategy, which subsequently improves financial performance. These findings provide empirical evidence for contingency theory in corporate governance.

## 5 | CONCLUSIONS AND FUTURE WORK

The results of this study reveal that the implementation of manufacturing in Indonesia has not fully produced the expected impact on stock returns. Good corporate governance is a major determinant of the financial performance of manufacturing companies in Indonesia, with a very significant impact. Meanwhile, macroeconomic fundamentals and capital structure have a positive effect on good corporate governance, indicating that external conditions encourage improvements in internal governance. Furthermore, technology has not had a significant impact in the short term, confirming the existence of a lag effect and the need for complementary changes. Furthermore, there is market inefficiency in valuing good corporate governance and superior financial performance in stock valuations, so good corporate governance functions as a transmission mechanism from macroeconomic conditions to a company's financial performance.

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