

Market Reaction on the First Reshuffle of “*Kabinet Kerja*” at LQ 45

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Abstract—The purpose of this study was to know the difference of average abnormal return at LQ 45 between before and after announcement reshuffle of “*Kabinet Kerja*”. This study used explanatory survey method. The total population of 45 companies. Daily data for 6 days’ observation each 3 days before announcement and 3 days after announcement covering closing stock price. Hypothesis testing was used paired sample t test. The results showed that there is no significant difference between average abnormal return before and after the announcement reshuffle of “*Kabinet Kerja*”. This indicates that the reshuffle announcement on “*Kabinet Kerja*” did not generate a market reaction because the reshuffle issue has been widely discussed by experts in their field on various media so investors have been able to predict before the reshuffle was announced.

Keywords—*kabinet reshuffle announcement; market reaction; LQ 45 index*

I. INTRODUCTION

The reaction of investors in responding to a variety of information is strongly influenced by a variety of information coming in, be it economic, political, legal, social culture, security, and various other foreign information [1].

Various events that occur, both economic and non-economic environment, such as political events although they do not directly intervene in the stock market, but this event is one of the information absorbed by capital market players and used by investors to obtain the expected benefits in future. This information affects the decision making of investors and ultimately the market reacts to the information to achieve a new equilibrium, so it can be said that political events indirectly affect the activity on the stock exchange [2].

One of the political events that was to be tested for information on activities in the Indonesian capital market was reshuffle of “*Kabinet Kerja*” by President Jokowi on August 12, 2015. This event was discussed in addition to being national in scale and could have a comprehensive impact, also a momentum that cannot be separated from regional and global shadows. Amidst the onslaught of negative sentiment from abroad, the economic slowdown, and the disappointing performance of issuers, the *Kabinet* reshuffle is believed to be able to foster new confidence and optimism among market participants [3].

Capital markets can react positively or negatively to a political event. The market reaction is indicated by the price change of the concerned securities. This reaction can be measured using return as the value of price changes or by using abnormal returns. Abnormal return occurs because of new information or new events that change the value of the company and respond to investors in the form of an increase or decrease in market prices. Jogiyanto states that, if an announcement contains information, the market will receive abnormal returns, and otherwise if an event does not contain information, the market will not receive abnormal returns [4].

Some researchers have proven the capital market's positive reaction to the *Kabinet* reshuffle event, such as Rahayu [5], proving that the market reacted positively to the event, indicated by the appearance of a positive and significant average abnormal return around the date of the *Kabinet* reshuffle announcement. Sirait, et al., also proved that the capital market reacted with the event of the change of the Minister of Finance of the Republic of Indonesia in 2010 [6]. Musyarrafah concluded that overall, the *Kabinet* Reshuffle implemented by Jokowi-JK on 12 August 2015 was indeed well received by the community, especially market participants [7]. Also Tasari and Alfini showed that there were significant differences in the average abnormal return of shares obtained by investors between before and after the Jokowi Work *Kabinet* reshuffle announcement [8].

In addition to the above research, there are also studies that show different results such as Anelia, which shows no significant effect between abnormal returns before and after the *Kabinet* reshuffle implemented on 7 May 2007 [9]. Research by Hasnawati also concluded that the 2011 *Kabinet* reshuffle did not have an impact on abnormal returns on the IDX and on the abnormal return of industries listed on the IDX [10].

Because there is no consistency in the results of research on the influence of *Kabinet* reshuffle events on the average abnormal return, the purpose of this study is to find out how the market reacts in responding to the first reshuffle of “*Kabinet Kerja*”. The results of this research are expected to be used as a reference for investors in transaction activities on the Indonesian stock exchange.

II. LITERATURE REVIEW

A. Efficient Market

The concept of efficient market was first proposed and popularized in 1970 by Eugene Fama. In this context what is meant by the market is the capital market. A market is said to be efficient if no one, individual investor or institutional investor, will be able to obtain an abnormal return, after adjusting for risk, using existing trading strategies. That is, the prices formed on the market are a reflection of existing information or stock prices reflect all available information.

In Jogiyanto, the market is said to be efficient against an information system, if and only if the prices of securities act as if everyone is watching the information system [4]. This definition means that the market is said to be efficient against a set of specific information (the result of an information system) if the price that occurs after the information received by the market participants equals the price that will occur if everyone will get the set of information. This price in an efficient market is called "fully information price".

The form of market efficiency can be reviewed not only in terms of the availability of information, but also can be seen from the sophistication of market participants in decision making based on the analysis and information available [4]. Efficient markets, viewed from the aspect of information, are called informationally efficient markets. While the efficient market in terms of the sophistication of market participants in making decisions based on available information is called decisionally efficient market.

The key to measuring an efficient capital market is the relationship between the price of securities and information. Information that can be used to assess an efficient market is old information, information being published or all information including private information.

According to Fahmi efficient market conditions provide unbiased price conditions, and inefficient market conditions allow for biased prices [11]. Investors want information sharing to take place well and openly without being covered, with the condition that the investor's reaction is clear in making various decisions. But that can happen otherwise when information is not open.

B. Share

According to Darmadji and Fakhruddin, stock or share can be defined as a sign of ownership or ownership of a person or entity in a company or limited liability company [14].

According to Fahmi, shares are [11]:

- Proof of ownership of capital / fund ownership in a company
- Paper that is clearly listed in nominal value, the name of the company and followed by the rights and obligations described to each holder.
- Stock ready for sale.

Factors that may affect stock price movements by Weston and Copeland are the projected earnings per share, when profits

are earned, the risk level of the profit projection, the firm's debt to equity ratio, and the dividend-sharing policy [15]. Other factors that can affect stock price movements are external constraints such as economic activity in general, taxes and state of the stock market.

According to Alwi, there are several factors that influence the movement of stock price or stock price index, among others [16]:

1) External factors (Macro environment):

- Government announcements such as changes in savings and deposit rates, foreign exchange rates, inflation, and various economic regulations and deregulations issued by the government.
- Legal announcements, such as employee demands on the company or their managers and company demands on their managers.
- Securities announcements, such as annual meeting reports, insider trading, volume or stock trading price, trading restrictions/delays.
- Domestic political turmoil and exchange rate fluctuations are also significant factors in the occurrence of stock price movements in the stock exchange of a country.
- Various issues both from domestic and abroad.

2) Internal factors (Micro environment):

- Announcements about marketing, production, sales such as advertising, contract details, price changes, new product withdrawals, production reports, product safety reports, and sales reports.
- Financing announcements, such as announcements relating to equity and debt.
- Management-board of director announcements, such as change and change of director, management, and organizational structure.
- Announcement of diversification takeovers, such as merger reports, equity investments, takeover reports by acquisition, divestment reports and others.
- Investment announcements, such as factory expansion, research development and other business closures.
- Labor announcements, such as new negotiations, new contracts, strikes and more.
- Announcement of the company's financial statements, such as profit forecasting before and after the end of the fiscal year, dividends per share, price earning ratio, net profit margin, return on assets, and earnings per share.

C. Stock Returns

According Hadi return is the level of profit enjoyed by investors on an investment that he did [17].

Return is the profit earned by the company, individuals and institutions of the investment policy results that it does [1].

According Jogiyanto total return is the overall return of an investment in a certain period [4]. The total return is often referred to as return only.

The reflection of stock return is done by using the formula:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad (1)$$

Where R_{it} is stock return of the i company during the t -period, P_{it} is stock price i at time t , and P_{it-1} is stock price i at time $t-1$.

D. Expected Return

Expected return is the return used to take investment decisions. Expected return is important when compared to historical returns because the expected return is the expected return from the investment to be made [4]. In other words, expected return is the expected return of investors to be obtained in the future.

Calculating expected return using market model, calculation is done by two stages: (1) forming the expectation model using realization data during the estimation period and (2) using this expectation model to estimate the expected return in window period. Expectation model is formed using Ordinary Least Square (OLS) regression technique with the equation:

$$R_{i,j} = \alpha_i + \beta_i \cdot R_{Mj} + \varepsilon_{i,j} \quad (2)$$

Where $R_{i,j}$ is return realization of the i -th securities in the j -th estimation period, α_i is intercept for i -th security, β_i is slope coefficient which is a beta of i -securities, R_{Mj} is the return of the market index in the j -estimate period can be calculated by the formula $R_{Mj} = (ILQ45_j - ILQ45_{j-1}) / ILQ45_{j-1}$, where $ILQ45$ is the LQ45 index and $\varepsilon_{i,j}$ is residual error of the i -th securities in the j -th estimation period.

E. Abnormal Return

Abnormal return is the excess of the actual return occurs to the normal return is the expected return by investors [4]. The difference of return will be positive if the return earned is greater than expected return or calculated return. While the return will be negative if the return earned is smaller than the expected return or calculated return.

According Jogiyanto [4], the study of events analyzes the abnormal returns of securities that may occur around the announcement of an event. Abnormal return or excess return is the excess of the actual return occurs to the normal return. So it can be concluded, that the abnormal return occurs because triggered by the existence of certain events or specific events, such as national holidays, political atmosphere, extraordinary events, stock split, initial offer, suspend and others.

Abnormal return is the difference between the actual return that occurs with the expected return that can be formulated as follows [4]:

$$AR_{it} = R_{it} - E(R_{it}) \quad (3)$$

Where $AR_{i,t}$ is abnormal return of i -th securities at the period of the t -event, $R_{i,t}$ is the real return of the i -th security in the period of the t -event, and $E[R_{i,t}]$ is the expected return of the i -th securities in the period of the t -event.

Abnormal return on stock trading explains the integration of an event study that sees an abnormal return different from the usual and caused by an event. Abnormal return is the excess of the actual return occurs to the normal return, while the normal return itself is the expected return by investors. Abnormal return is the difference between the actual return that occurs with the expected return [4].

The market adjusted model assumes that the best estimator to estimate the return of a security is the market index return at that time. With this model, it is not necessary to use the estimation period to form an estimation model, because the estimated return of securities is the same as the return of the market index [4].

F. Average Abnormal Return

The average abnormal return is the average of the actual return difference with the expected return for the T -day can be calculated based on the arithmetic mean as follows (Hartono, 2017) [4]:

$$AAR_t = \frac{\sum_{i=1}^k AR_{it}}{k} \quad (4)$$

Where AAR_t is average abnormal return on day t , AR_{it} is abnormal return for i -th securities on day t , and k is amount of securities affected by the announcement of events.

G. Kabinet Reshuffle

In its journey the composition of the *Kabinet* that had been formed could have been reshuffled by the president in an effort to optimize the performance of the *Kabinet* and that was the prerogative of the President. *Kabinet* reshuffle are generally not difficult to predict because the initial signs of reshuffling can be seen through various issues due to the performance of some ministers who are less than the maximum or considered more competent in the field of other ministries, as well as the president's own explanation of the reshuffle plan.

Kabinet reshuffle is one of the political events chosen by the head of government like the president as a solution to improve the performance of the ministers in his *Kabinet*. Based on the meaning of the word, reshuffle can mean scrambling back or overhauling. The *Kabinet* means a government body or council consisting of ministers (www.kbbi.web.id). So the *Kabinet* reshuffle can be interpreted as a process of scrambling back or overhauling a government body or council consisting of ministers. *Kabinet* reshuffle can mean changing all or part of the existing ministerial structure. Usually a *Kabinet* reshuffle is

carried out by moving a minister from one position to another or adding a minister to a new position. *Kabinet* reshuffle is also needed to replace the minister who resigned either because of a scandal or retirement or as a tribute to someone with good performance, or better competency in other ministries.

III. METHOD

This study uses descriptive and verification methods with the type of event study approach. According to Hartono (2017: 643) [4], event studies are studies that study the market's reaction to an event published as an announcement. Event studies can be used to test the information content of an announcement.

The type of data used in this study is secondary data, the data obtained through the Indonesia Stock Exchange website (www.idx.co.id) includes the LQ45 index and closing price in the first reshuffle of "*Kabinet Kerja*". From the website, the following data is obtained:

TABLE I. AVERAGE ABNORMAL RETURN

Time	t-3	t-2	t-1	t	t+1	t+2	t+3
Average	-	0,0	-	0,0	-	-	-
Abnormal	0,00	059	0,00	218	0,00	0,00	0,00
Return	10		31		70	37	21

data has been processed

Before testing the hypothesis, the Normality Test is performed first and to detect normality is done by the Shapiro-Wilk Test.

Hypothesis testing is intended to find out the difference between the average abnormal return 3 days before and 3 days after the announcement of the *Kabinet* reshuffle.

To prove the hypothesis in this study using Paired Samples T-Test, which aims to test whether there are differences in the average of two related samples. The hypothesis is formulated as follows :

- Ho : there is no difference in the average abnormal return in LQ 45 companies between before and after the announcement of the first reshuffle of the "*Kabinet Kerja*"
- Ha : there is a difference in the average abnormal return in LQ 45 companies between before and after the announcement of the first reshuffle "*Kabinet Kerja*".

Accepted or rejected the proposed hypothesis is used a significance level of $\alpha = 5\%$. The conclusions are as follows :

- If the level is significant $> 0,05$, means that Ho is accepted and Ha is rejected.
- If the level is significant $< 0,05$, means that Ho is rejected and Ha is accepted.

IV. RESULTS AND DISCUSSION

The normality test shows that the data processed is normally distributed. These results can be seen in the table below :

TABLE II. TESTS OF NORMALITY

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
difference	,292	3	.	,923	3	,463

^a Lilliefors Significance Correction

On the output table of the Test of Normality above we can see the Shapiro-Wilk value where the value of $p=0.463 > 0.05$ means that the data difference in average abnormal return is normally distributed then we can continue the parametric test with Paired Samples T-Test.

Furthermore, the results of Paired Samples T-Test can be seen in the table below :

TABLE III. PAIRED SAMPLES TEST

	Paired Differences	t	df	Sig. (2-tailed)					
					Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference	
								Lower	Upper
Pair 1	AAR Before AAR After	-.0047	.0083	.0048	-.0254	.0160	-.971	2	.434

In the Paired Sample Test table we can see that the value of $p = 0.434 > 0.05$, which means that Ho is accepted. These results indicate that there is no difference in the average abnormal return in LQ 45 companies between before and after the announcement of the first reshuffle of the "*Kabinet Kerja*".

The replacement of three ministers in the economy announced by President Jokowi was unable to save the sharp correction of the stock market. IDX JCI dropped to 4,400 at the inauguration day. IDX JCI closed lower by 143.10 points or 3.10% to 4,479.49 or the lowest level during the year and worse than the previous day. LQ45 shares also moved down 28.79 points, or 3.69%, to 752.31, while the exchange rate weakened to around Rp. 13,800. Growth in the second quarter of 2015 was only 4.67%, lower than the previous quarter.

The market seems to no longer easily believe in Jokowi's policies, the optimism that Jokowi transmitted to market participants was unable to lift the IDX JCI to the green zone. The announcement of the *Kabinet* reshuffle which was intended to provide a positive sentiment towards the market, was again responded negatively by the market.

The absence of a significant difference from the average abnormal return 3 days before and after the announcement of the *Kabinet* reshuffle, occurred because it also relates to information on reshuffle announcements that have been widely discussed by experts in their fields on various media so that investors can predict before the reshuffle is announced. This indicates that investors in the Indonesia Stock Exchange

always try to get information that they will use to make decisions in investing in the capital market.

V. CONCLUSION

The *Kabinet* reshuffle on 12 August 2015 did not have a direct impact on the capital market, as evidenced after the reshuffle announcement, there was no rebound from the IDX JCI. It looks like the reshuffle by President Jokowi did not answer public expectations and the negative sentiment continues to the IDX JCI. Market participants do not simply believe in the new ministers from the reshuffle and prefer the wait and see policies of the ministers.

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