

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

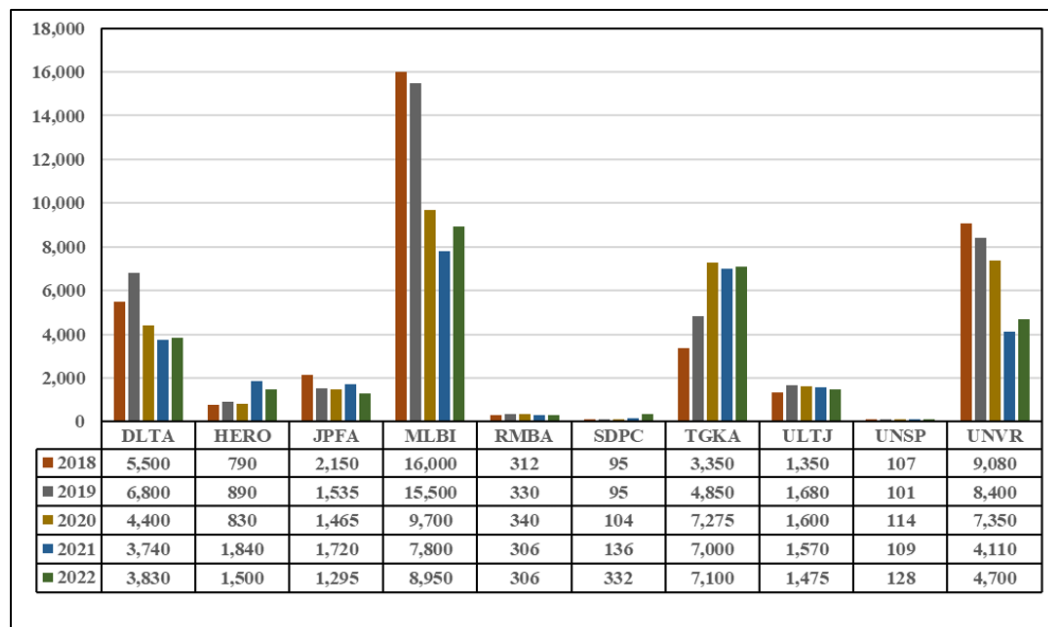
This chapter contains the information of the background of the research, the research problem, research objectives, research questions. Moreover, this chapter will describe the significances, scopes, and limitations of the research. In addition, this chapter including the definition of key terms and structure of the proposal. However, these chapter will help the reader understand what is to be researched about.

### **1.2 Background of the Study**

The management of the company is strongly motivated to improve its best performance in persuading investors to attract or invest their capital due to the increasingly competitiveness in the commercial and economic worlds. Companies need to be able to manage and utilize their finances as effectively as possible. Management should provide financial information to all stakeholders who are interested about the company's financial performance. Issuing securities on the capital market is a kind of investment option (Puspita, 2020).

The capital market is a place where provided a variety of tradable long-term financial instruments in the form of debt and equity that issued by the government and private firms. Capital markets channel the wealth of savers to those who can put it to long-term productive use. The capital market is a place where transactions take place between parties who are seeking funds (issuers) and parties with extra funds (surplus find). Issuers obtain their operating capital from the capital market. While surplus find parties, such as investors, are used as a variety of investment options to provide the possibility to produce greater profits. According to Nursita (2021), the capital market has two important roles for the country's economy. The first role, it acts as a source of finance for businesses or as a platform for corporations to raise money from investors. The second role of the capital market is to provide a mechanism for the general public to invest in financial instruments such as stocks, bonds, mutual funds, and other securities.

According to Puspita (2020), investors who purchase shares on the stock market with the intention of making an investment will assess the company's financial performance first, to ensure that their investment will be profitable (return). The return on the purchased stocks might prove to be a reliable indicator of capital market investment gains. Investors prefer stocks with high returns when making stock investment decisions. Investors might use financial statements to analyze a company's ability to provide a return. The company's overall performance includes its financial performance. The following is stock price index for non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.



Source: [www.idx.co.id](http://www.idx.co.id)

**Figure 1.1 Stock Price Index of Consumer Non-Cyclicals Company Listed in Indonesia Stock Exchange (IDX) from 2018 - 2022**

Based on the figure 1.1, the consumer non-cyclical company stock price index fluctuates from year to year. The stock of Multi Bintang Indonesia (MLBI) is the focus of attention in the graph above due to its high stock index. Additionally, when compared to other companies, Millennium Pharmacon International (SDPC) has a very low stock index. High stock prices are a result of the strong demand implied by high purchasing power, which also contributes to high stock prices. If the company's financial performance has been deemed

positive, it is likely that both the profit it makes and the dividends it pays out to shareholders will increase. In contrast, investors tend to avoid buying the stocks and ultimately decide to sell stocks if the company's financial situation is poor. Selling stocks will increase the supply, which will have an impact on decreasing the stock price.

According to Kasmiasi and Santosa (2019), investors must have reliable information when making investment decisions since they anticipate receiving returns in the form of capital gains and dividends. The most important data for investors to consider before making informed decisions is the performance of the company as evidenced in its financial statements. Financial statements are a source of company financial information that include information about the financial position, financial performance, and cash flows of entities. These details are important to the majority of report users because it assist them in making investment decisions. Additionally, the financial statements clearly demonstrate how effectively management used the resources entrusted to it. Assets, liabilities, equity, income, and expenses, including profit or loss, are all included in the financial statements.

One of the components of financial statements that contains important information is profit. Profit is often used as the main source to measure company performance. Profit is defined as revenue minus the cost of acquiring the necessary inputs for production (Nayakawa, et al., 2022). Accounting profit is defined as a business's net profit which is derived by deducting all the expenses and explicit costs from the revenue. Because of financial statement manipulation by the company, investors may do not receive reliable financial statement information to use as a reference for decision-making. Financial statements are intended to provide a precise standard for assessing the financial performance of the company. Profits or income are one of the factors that can be considered as a parameter. The bigger the net profit obtained, the better the company's performance.

Cash flow statement is a summary of the company's cash receipts and disbursement in a certain period. One of the uses of cash flow information is to

understand the result of the company's operational activities. If the company's cash flow runs smoothly, it indicates that the company's operational activities run well (Finishyta, 2019). According to Yocelyn and Christiawan (2012), the three kinds of transactions are included in cash flow statements such as cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities.

Operational cash flow is the cash flow that enters or leaves the determination of net income and is derived from the company's primary revenue-producing operations or transactions. Because the company can create a significant amount of earnings from operating activities alone, the increased cash flow from operating activities indicates that the company may operate profitably (Kasmiati and Santosa, 2019).

Cash flows from investing operations can be considered by investors when assessing the company's performance in future. Companies with declining cash flow from investing activities, which indicates that there is investment activity, shows the potential for subsequent income growth from new investments. Investors can use this information to help them determine whether to buy or sell their shares by using it as a reference. The stock prices and stock returns may then change as a result of an investor decision (Kasmiati and Santosa, 2019).

Investors use the company's cash flow from financing activities as a parameter when assessing it, which affects their investment decisions. Also, the demand for and supply of company shares will be impacted by investors' investment choices, which will change stock market prices and stock return (Kasmiati and Santosa, 2019).

A financing decision, including the decision to issue bonds, affects the liabilities and stockholder equity side of the company's balance sheet (Graham, Harvey & Puri, 2012). Thus, financing decisions are decisions regarding the method that are used to raise funds for the purpose of making acquisitions and investments. A company's decision of financing can have an impact on its stock return. According to Kasmiati and Santosa (2019), the funds needed for capital expenditure are financed with long-term financing sources such as the issuance of

shares, bonds, and retained earnings. The corporation receives funding from both internal and external businesses. According to Van Horne and Wachowicz (2009), internal finance refers to funding that originates from within the business in the form of retained earnings, whereas external financing refers to funding provided through debt, equity, and hybrid securities.

### **1.3 Problem Statement**

The uncertain situation throughout 2022 has raised concerns about world economic conditions. A global recession is expected to be caused by a number of issues, including those involving food, energy, and finance. The three "triple horrors" that the world is currently experiencing, starting from the risk of inflation to the risk of high interest rates to the risk of an economic downturn, were previously discussed by Sri Mulyani Indrawati, Minister of Finance. Sri Mulyani was terrified about three things, but the threat of rising inflation turned out to be the most real. In addition, uncertainty is anticipated to persist in the economy in 2023 (Nur, 2023).

According to Nur (2023), investors are still advised to be careful in choosing stocks whose price appreciation is still relatively cheap and has the potential to continue to grow in the future. It is hoped that the number of Indonesian retail investors will continue to increase so that they can make a greater contribution to the capital market in the future. Currently, the number of retail investors in Indonesia is still around 2% of the total, which is less than other countries which reach 10%. Given that the younger generation is continuing to expand more quickly and becoming more digitally literate, it is crucial that securities companies continue to strengthen their online trading system. Securities companies must consider investors when expanding their operations, including by providing assistance through market-related content and events as well as suggested actions. Although the IDX Composite is still holding out, the growth may be driven by retail investors.

According to Awal (2022), consumer non-cyclical companies is known as the company that produce goods or services that are always in demand and needed by consumers. For cautious or novice investors, this form of stock is excellent for

long-term investments since income and profits tend to be more steady. Due to this sector have steady growth, consumer non-cyclical sector being a stock that is targeted during a recession since it grows even when the economy is weak. Companies produce goods or services that are always in demand and needed by consumers. The following is stock return data for consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2011 – 2022:

**Table 1.1. Stock Return of Consumer Non-Cyclical Company Listed on Indonesia Stock Exchange from 2018 - 2022**

| No. | Code | Stock Return |       |       |       |       |
|-----|------|--------------|-------|-------|-------|-------|
|     |      | 2018         | 2019  | 2020  | 2021  | 2022  |
| 1   | DLTA | 0.20         | 0.24  | -0.35 | -0.15 | 0.02  |
| 2   | HERO | -0.15        | 0.13  | -0.07 | 1.22  | -0.18 |
| 3   | JPFA | 0.65         | -0.29 | -0.05 | 0.17  | -0.25 |
| 4   | MLBI | 0.17         | -0.03 | -0.37 | -0.20 | 0.15  |
| 5   | RMBA | -0.18        | 0.06  | 0.03  | -0.10 | 0.00  |
| 6   | SDPC | -0.14        | 0.00  | 0.09  | 0.31  | 1.44  |
| 7   | TGKA | 0.29         | 0.45  | 0.50  | -0.04 | 0.01  |
| 8   | ULTJ | 0.04         | 0.24  | -0.05 | -0.02 | -0.06 |
| 9   | UNSP | -0.34        | -0.06 | 0.13  | -0.04 | 0.17  |
| 10  | UNVR | -0.19        | -0.07 | -0.13 | -0.44 | 0.14  |

Source: [www.idx.co.id](http://www.idx.co.id)

According to Table 1.1 above, each company's stock return movement from 2018 to 2022 has generally fluctuated. The stock return for the company peaked in 2022 at Millennium Pharmacon International (SDPC), reaching 1.44. For Unilever Indonesia Tbk (UNVR), the company's stock return fell to its lowest in 2021 and was -0.44. Some of the factors that led to the fall in the JCI included the weakening of the rupiah currency rate against the US dollar, falling global commodity prices, and the slowdown in both the domestic and global economy.

Consequently, the fluctuating stock return has the effect of influencing investors' trust in the stock market. Investors may become more cautious and less willing to make investments when the stock market is volatile. This may result in lower stock prices and reduced investment returns. However, some investors

might view volatility as a chance to purchase equities for a discount and possibly achieve higher profits in the future. However, there are many factors that influence stock returns. Given that there is uncertainty around the return that investors would receive when investing in stocks, it makes sense that an investor would not want to choose poorly. Moreover, in order to maximize profits, it is important to understand the factors that affect stock returns (Kasmiati and Santosa, 2019).

This study focuses on consumer non-cyclical companies that have an impact on stock return through their cash flow, financing decisions, and earnings information. Therefore, the researcher is interested in examining how earning information, operating cash flow, financing cash flow, investing cash flow, and financing decisions affect the stock return of consumer non-cyclicals listed on the Indonesia Stock Exchange (IDX).

#### **1.4 Research Objectives**

##### **1.4.1 General Objective**

The general objective of this research is to examine the factors that influencing of stock return in consumer non-cyclical company listed in Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

##### **1.4.2 Specific Objectives**

The specific objectives of this research seek to prove the effect of these following factors that influence on stock return:

- RO1 : To examine the influence of earning information on stock return of the consumer non-cyclical company.
- RO2 : To examine the influence of operating cash flow on stock return of the consumer non-cyclical company.
- RO3 : To examine the influence of investing cash flow on stock return of the consumer non-cyclicals company.
- RO4 : To examine the influence of financing cash flow on stock return of the consumer non-cyclicals company.
- RO5 : To examine the influence of financing decisions on stock return of the consumer non-cyclicals company.

## **1.5 Research Questions**

The research conducted within this paper aims to solve these following research questions:

- RQ1 : What is the influence of earning information on stock return of the consumer non-cyclical company?
- RQ2 : What is the influence of operating cash flow on stock return of the consumer non-cyclical company?
- RQ3 : What is the influence of investment cash flow on stock return of the consumer non-cyclical company?
- RQ4 : What is the influence of financing cash flow on stock return of the consumer non-cyclical company?
- RQ5 : What is the influence of financing decision on stock return of the consumer non-cyclical company?

## **1.6 Significance of the Study**

The study of the effect of earning information, cash flow components, and financing decisions on stock return in Indonesia is significant to various stakeholder such as investors, researcher and public.

Investors need to be aware of company financing plans since managers have a tendency to be overly optimistic about the advantages of completed projects compared to the cost incurred through the usage of debt.

In addition, this research provide the basis and a guide for further study in this area. It can also be a significant resource for researchers who study similar fields. Despite this, the public can utilize this study to better understand about the factors that affect stock return of companies in Indonesia. As a result, they may decide more wisely before investing in the business to prevent losses when they make future investments.

## **1.7 Scope of the Study**

This research is to examine the influence of earning information, operating cash flow, investing cash flow, financing cash flow, and financing decisions on stock return. The theory that used in this research is signal theory which means companies utilize their financial statements to communicate with investors about



their financial condition in order to make decisions regarding future investments, whether it will be a positive or negative signal.

This research's population consists of all consumer non-cyclicals companies listed on the Indonesia Stock Exchange within the period from 2018 until 2022, a total of 118 companies. The data of this study is annual report that obtained from Indonesia Stock Exchange and company's official website. This research is used purposive sampling method to determine samples in this study. Thus, in order to determine the sample in this study, the researcher devised criteria for selecting sample with data that meet the needs of the study. Based on the criteria, 55 companies were chosen as a research sample. To analyze the obtained sample, this study used multiple regression analysis with panel data.

## **1.8 Limitations of the Study**

The limitation of this study would be the sample size. Since this study only focused on consumer non-cyclical company listed on Indonesia Stock Exchange in 2018 – 2022, the sample size might be too small and thus the findings cannot be generalized. Furthermore, not all companies listed from 2018 in Indonesia Stock Exchange (IDX). Therefore, it limits the data collection for this research. Due to that, only companies that listed from 2018 and publish the annual reports from 2018 until 2022 are chosen.

## **1.9 Definition of Key Terms**

### **1.9.1 Stock Return**

The amount of profit received by investors as a result of their investments is known as return. Investment return is a factor that encourages investors to invest. Seeking returns on the shares they have planted is, in fact, one of the objectives of stock market players. Return refers to the outcome of an investment (Kasmiasi and Santosa, 2019).

### **1.9.2 Earning Information**

Statement of Financial Accounting Concept (SFAC) No. 1 states that earning information is the main concern in assessing management performance or accountability. Earning information also known as an accounting profit.

### **1.9.3 Operating Cash Flow**

According to Hayes (2023), operating cash flow is calculated by taking cash from sales and deducting cash-paid operating expenses for the period. Operational cash flow is the cash flow that enters or leaves the determination of net income and is derived from the company's primary revenue-producing operations or transactions.

### **1.9.4 Investing Cash Flow**

According to Hayes (2023), investing cash flow discloses how much funds have been generated or spent on various investment-related activities over a specified time period.

### **1.9.5 Financing Cash Flow**

According to Hayes (2023), financing cash flow shows the net cash flows used to finance the company and its capital. According to Weygandt et al. (2015), financing cash flow is derived from cash receipts and payments made by the company's financing activities.

### **1.9.6 Financing Decision**

A financing decision, often known as a debt policy, determines how much debt financing a company needs (Herawati, 2013). The financial performance and capital structure of the company are directly impacted by financing decisions (Kumar et al., 2012). The debts to equity ratio (DER) is used in this research to measure the financing decision's leverage.

## **1.10 Chapter Summary**

In brief, this chapter contains information about the background of the study, the research problem, research objectives, research questions, significances, scopes, and limitations of the study, and the definition of key terms. As a result, it will be easier for the reader to comprehend the motivation behind this study.