

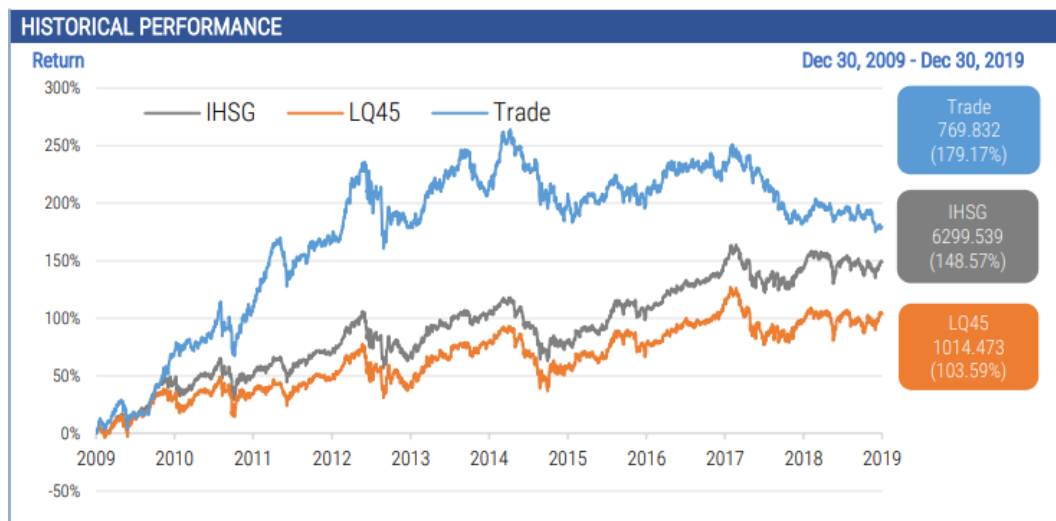
# CHAPTER I

## INTRODUCTION

### 1.1. Background

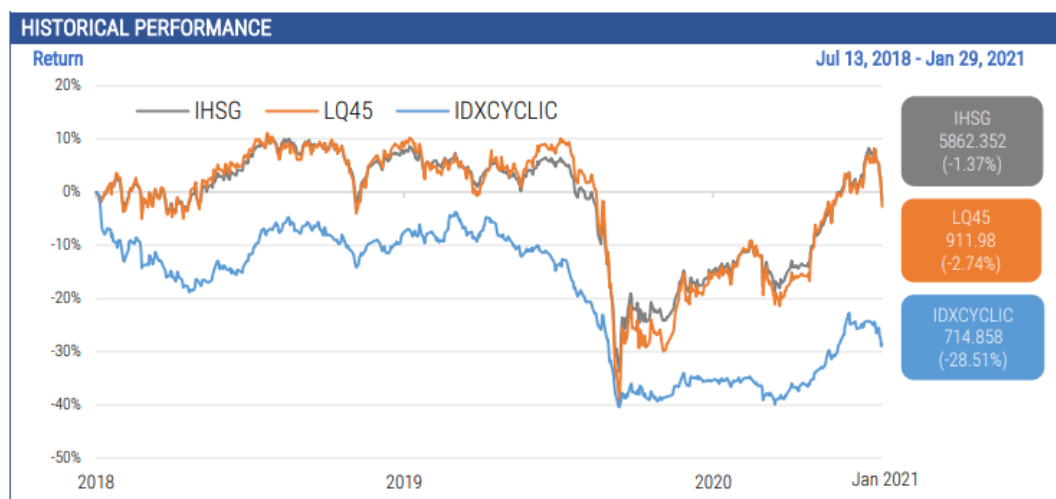
Economic growth in Indonesia shown consistent progress per year. Many companies are emerging, large, and growing along with the times. With the development of technology and knowledge that supports economic growth in a country. Modernization in the fields of technology and knowledge facilitates human work, as well as the economy which ensures the welfare of the people. The number of firms that are registered grows throughout time. However, because of their inability to keep up with economic expansion, more businesses are closing their doors. Economic conditions play a significant role in how well a business may operate and survive.

Economic growth will begin to be hampered if trade activities are limited by the condition of the country, both the country itself and other countries that have cooperation. Numerous studies have demonstrated that epidemics can impair short-term economic outcomes in the event of infectious diseases like COVID-19 in 2019 by altering expectations and discouraging investment. The shock effect triggered by covid-19 which resulted in the emergence of an economic crisis, consisting of many unemployed arising due to social distancing to avoid the spread of the virus, causing many layoffs to reduce Firm costs. In addition, the emergence of the "New Normal" (which limits activities) living habits, such as working or studying at home, and travel restrictions resulted in the tourism business and other business categories not working well (Baldwin and Weder in Mauro, 2020). An analysis can be carried out to measure all the stock performance in Trade, Services and Investment Sector based on the Jakarta Stock Industry Classification (JASICA).

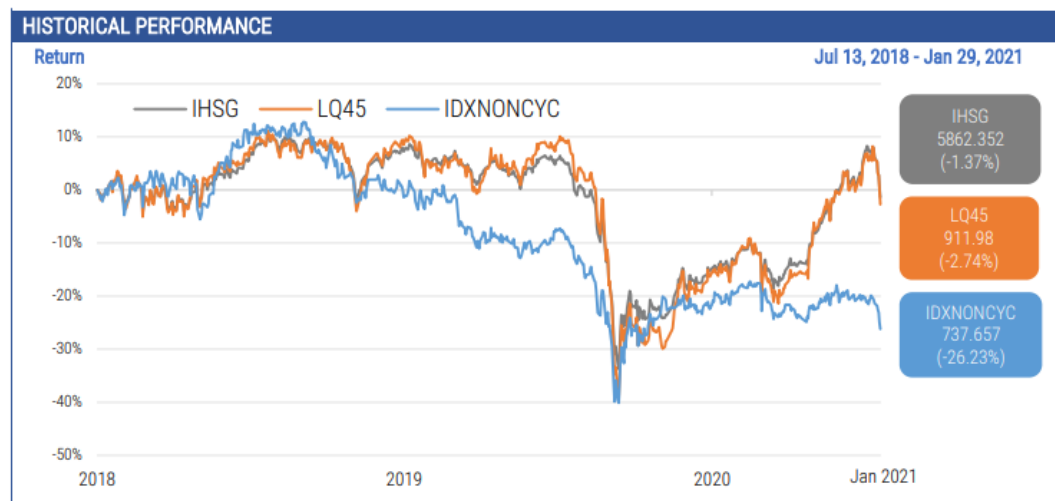


**Figure 1.1 IDX Trade, Service, and Investment Sector Index (2009-2019)**  
source: [www.idx.com](http://www.idx.com)

In Figure 1.1, there is a line graph showing the results of trade, IHSG, and LQ45 from the Trade, Services and Investment sector for the period 2009-2019. The graph shows that there has been a significant development in this sector although it has experienced a decline several times. The IDX Trade, Service, and Investment Sector Index experienced a split in 2020 which resulted in the Consumer Cyclicals sector and the Consumer Non-Cyclicals sector, so the researcher attaches two figures with these two sectors below:



**Figure 1.2 IDX Consumer Cyclicals Sector Index (2018-2021)**  
source: [www.idx.com](http://www.idx.com)



**Figure 1.3 IDX Consumer Non-Cyclicals Sector Index (2018-2021)**

source: [www.idx.com](http://www.idx.com)

Both figures show the state of historical performance from before COVID-19 struck until finally COVID-19 entered Indonesia and affected the country's economy. The SARS-CoV-2 virus was first detected in China at the end of 2019 and by June 2021 had spread throughout the world, which in the graph shows that there is a slump as the international economy is affected. COVID-19 hit Restrictions on business operations and people's lives are the root of this dilemma for the companies, which also results in a fall in people's purchasing power and subsequent job loss (Arianto, 2020). Not all businesses have the same length of life, and occasionally established businesses even file for bankruptcy during COVID-19. It's also likely that some businesses were started during the economic downturn brought on by COVID-19 and have endured to this day. A rising business will also make an effort to maintain a stable or better-than-before condition to prevent a drop in performance that would lead to insolvency.

Due to the pandemic, investors need to be extra vigilant when spotting companies that are suitable for investment. Investing is done by investors who want to profit from stock. According to Arramdhani & Cahyono (2020), Shares are securities issued by an organization in the form of a Limited Liability Firm (PT) that serve as proof of an individual's or institution's involvement in or ownership. Investors can only compare multiple investment alternatives with

varying returns from these investment alternatives using stock returns (Fama, 1974). Stock prices always fluctuate depending on supply and demand so that economic conditions also affect changes in stock prices. The price of the shares required to purchase a growing Firm can be used to estimate its size. A high total share value at the same time suggests that the Firm has many investors who trust their money with them. The fundamental method and the technical method are two approaches that can be employed independently or together when studying equities (Darmaji and Fakhruddin, 2012:149). The fundamental method is one way to evaluate stocks by examining or analyzing different indicators relating to the macroeconomic and business environment of a Firm to different financial and management variables. One technique for measuring the quantity is the technical approach. By using the method, analysts assess stocks using statistical information derived from stock trading activities, such as stock prices and transaction volume. Therefore, it is very important for investors to monitor stock prices, because the level of stock prices is a reflection of whether or not a Firm is eligible to receive capital from these investors.

Investors could assume the Firm's performance from the high overall stock value. Because it is impossible to forecast market conditions, investors who plan to make stock market investments must regularly check the market. According to Ang (1997), a bull market is when the overall level of prices rises. A bear market is also characterized by a broad decline in the price level. Financial statements are reports that show the Firm's financial condition currently or in a certain period (Kasmir, 2016). Financial statement analysis is the process of applying analytical techniques and tools to general-purpose financial statements and related data to obtain projections and results that are beneficial for Firm analysis (Wild, 2005). The financial statements published on the Indonesia Stock Exchange website (<https://www.idx.co.id/>) or Yahoo! Finance, which supplied portfolio and market price information, can be used to monitor share prices. To assess the relative strengths and weaknesses of the market, investors compare the average prices from various time periods.

The firm's data is important because it affects the investment decisions made by persons outside the Firm. This data is significant for the outside parties of the firm because it provides explanations, notes, or reflections on past, present, or future conditions for the existence of the firm and their effects on the firm. Investors should learn more about the underlying factors associated with the Firm's condition and finances when analyzing the report from the website. One strategy for analyzing stock prices is to conduct a fundamental analysis of the business and financial ratio analysis (Darmadji & M. Fakhruddin, 2006). Fahmi (2006) added that it will be easier and quicker to make investment decisions if you compare the financial ratios of one Firm with those of other, comparable businesses. Investor consideration may also be accomplished through the computation of financial ratios. According to Ansori and Denica (2010), both the public and private sectors should conduct an investment feasibility analysis before making any investments. According to Husnan (1998), stock analysis tries to determine a stock's intrinsic worth and then contrast it with the stock's present market price.

Fama (1970) was the first to suggest that there is an efficient market (Efficient Market Hypothesis) in the stock market. When risk has been taken into consideration and neither individual investors nor institutional investors may use a trading strategy to obtain abnormal returns, the market is said to be efficient. (Gumanti, 2011). Two elements from financial statements are calculated to create financial ratios. These financial ratios are computed using data from the firm's financial statements. Financial statements are available on the website of the business and Indonesia Stock Exchange website (<https://www.idx.co.id/>). Financial ratios display the data that investors need. The details can take the shape of the quantity of profit, the degree of reciprocity from the investment made, or the capacity of the business to handle its current debt. Financial ratios can be used by investors to assess a firm's financial condition.

Current Assets (CR), Debt to Equity Ratio (DER), and Return on Assets (ROA) are the financial ratios to be examined in this study (DER). The profitability ratio, liquidity ratio, and solvency ratio are all included in this

independent variable. Research advancement by Lestari and Suryantini is the independent variable (2019). The research subject in this case makes a difference. This study's main object is a retail company that will traded from 2017 to 2021 on the Indonesia Stock Exchange. Lestari and Suryantini (2019) also research the independent variables Current Ratio (CR), Debt to Equity Ratio (DER), Price Earning Ratio (PER) and Return on Assets (ROA). The results show that there is Current Ratio (CR), Debt to Equity Ratio (DER), and Return on Assets (ROA) have a significant effect on stock prices. According to Cieřlik, Yi and Ting (2018) profitability is positively related with firm value. Marimuthu and Maama (2021) stated profitability decreased when the firm value increased. Naveed, Hamid, and Mustafa (2021) also give a statement about ROA have a negative effect for firm value, liquidity have a negative significant and effect to firm value.

A firm's success is also correlated with its performance. Without strong organizational performance, a firm cannot succeed. The performance of the business is made up of a number of factors, including workers (either directly directing the production process or indirectly managing the office), adequate raw materials, qualified supply, and equipment. The business can generate a significant profit and deliver excellent performance if these factors are controlled appropriately and prudently. The stock value of a corporation can be affected by strong business performance. Due to the fact that a high share value offers investors large returns, the increase in this stock's value has made it a factor that investors take into account when determining whether the firm is in a state where they should invest their money.

The researcher used Firm Growth (PER) as an intervening variable in this study as both a development from earlier studies and in response to a number of other studies that explored the relationship between the independent and dependent variables. This ensures people see the various responses and outcomes. Firm Growth (PER) was chosen by the researcher because Firm Growth can result in economies of scale, increased scope, a learning curve impact, and higher profitability. According to J. Block and R. Fathollahi (2022), the rate of enterprise

growth is crucial because of the "winner-takes-all" effect, which is prevalent in digital markets that are characterized by large network externalities.

According to Mbulawa and Ogbenna (2021), Liquidity has a significant effect toward firm growth. Marimuthu and Maama (2021) stated profitability give a significant effect toward firm growth after redenomination exercise. According to Labella-Fernández, Serrano-Arcos, and Payán-Sánchez (2021), firm growth exerts a positive effect on sustainable product innovation from manufacturing firms. The researchers who conducted this study decided to combine factors from this financial performance because they were concerned about the variance in research findings that had been observed by earlier researchers. It is all because an investor needs to understand financial numbers to evaluate a Firm. By using a different set of independent variables from the previous researchers, the researchers wanted to do further research with the object, the period of the financial statements taken, the independent variables, and the different and latest intervening variables.

By considering the previous research, the researcher decided that he would develop the variables from the previous research. In this study, the researchers will research the effect of financial performances, which are Profitability (ROA), Liquidity (CR), and Capital Structure (DER) on stock prices of retail companies listed on the Indonesia Stock Exchange with Firm Growth (PER) as intervening variable for the period 2017-2021.

## **1.2. Research Problem**

An investor's decision-making process can be benchmarked by understanding the impact of various types of current financial ratios on the stock price of a company. Using financial ratios, investors must also be able to understand how the firm's performance affects the stock price. The component of financial performance that will be examined in this study consist of Profitability (ROA), Liquidity (CR), and Capital Structure (DER). The financial performance to be studied is a combination of several types of financial performance. This

research was done to ascertain the impact of firm growth as an intervening variable on the relationship between financial performance and stock prices.

According to the explanation of the problem's background given above, the formulation of retail businesses listed on the IDX for the years 2017 through 2021, the problems in study includes:

1. Does Profitability (ROA) has an effect toward Firm Value (PBV)?
2. Does Liquidity (CR) has an effect toward Firm Value (PBV)?
3. Does Capital Structure (DER) has an effect toward Firm Value (PBV)?
4. Does Profitability (ROA) has an effect toward Firm Growth (PER)?
5. Does Liquidity (CR) has an effect toward Firm Growth (PER)?
6. Does Capital Structure (DER) has an effect toward Firm Growth (PER)?
7. Does Profitability (ROA) has an effect toward Firm Value (PBV) with Firm Growth (PER) as intervening variable?
8. Does Liquidity (CR) has an effect toward Firm Value (PBV) with Firm Growth (PER) as intervening variable?
9. Does Capital Structure (DER) has an effect toward Firm Value (PBV) with Firm Growth (PER) as intervening variable?
10. Does Firm Growth (PER) has an effect toward Firm Value (PBV)?

### **1.3. Research Objectives**

According to the the formulation of retail businesses listed on the IDX for the years 2017 through 2021, the objectives in study includes:

1. To investigate and analyze the effect of Profitability (ROA) toward Firm Value (PBV).
2. To investigate and to analyze the effect of Liquidity (CR) toward Firm Value (PBV).
3. To investigate and to analyze the effect of Capital Structure (DER) toward Firm Value (PBV).
4. To investigate and to analyze the effect of Profitability (ROA) toward Firm Growth (PER).



5. To investigate and to analyze the effect of Liquidity (CR) toward Firm Growth (PER).
6. To investigate and to analyze the effect of Capital Structure (DER) toward Firm Growth (PER).
7. To investigate and to analyze the Profitability (ROA) toward Firm Value (PBV) with Firm Growth (PER) as intervening variable.
8. To investigate and to analyze the Liquidity (CR) toward Firm Value (PBV) with Firm Growth (PER) as intervening variable?
9. To investigate and to analyze the Capital Structure (DER) toward Firm Value (PBV) with Firm Growth (PER) as intervening variable?
10. To investigate and to analyze the Firm Growth (PER) toward Firm Value (PBV)?

#### **1.4. Research Contribution**

From the objectives that have been described, the following are the benefits obtained from the research conducted:

##### **1.4.1. Theoretical Contribution**

This research is expected to assist academics and researchers about their comprehension of the analysis of the relationship between financial performance and firm value for retail companies listed on the Indonesia Stock Exchange for the years 2017 through 2021, with firm growth representing as an intervening variable. Also this research expected to give more understanding for academics as learning material.

##### **1.4.2. Practical Contribution**

This research is to help provide information and become one of the considerations for making decisions on the part of investors and potential investors in deciding their investment activities.

### **1.5. Conceptual Overview of Research Object**

The aim of this study is to examine how financial performance can impact the firm value of retail companies, with firm growth operating as an intervening variable. Another more open economy with other economies would increase the market for the goods and services it produces. Globalization has both positive and negative effects on the business world's activities. This change is crucial to the growth of various business sectors in different nations. Accelerating economic growth can be challenging, though, because of the economic openness brought on by globalization. In the era of globalization, firms attempt to provide high-quality goods at affordable prices to increase their market share in both the domestic and foreign markets.

One of the business sectors that are now expanding quickly is retail business. Selling products and services directly to customers for their own non-commercial use is an example of retailing (Kotler and Keller, 2016:535). The construction of several stores and branches in various locations around Indonesia serves as evidence of the business's expansion. Because most of the people's income comes from the sale of goods to consumers, and Indonesia's population is constantly growing, the retail business sector is one of the business sectors with excellent opportunities for our nation. As a result, there are many long-term job opportunities in this sector. Here the problem to be analyzed in this research is the difference in progress and stock returns of a collection of retail companies listed on the IDX. At period 2009-2019, retail companies can be categorized as Trade, Services and Investment sector. But start from 2019-2021, retail companies split into two categories, which are the Consumer Cyclical sector and the Consumer Non-Cyclical sector. The period taken in the analysis consists of the time when the Firm was still operating normally and was finally affected by COVID-19 in 2019 which resulted in the way the Firm handled and tried to make a profit. This retail sub-sector is experiencing business struggles due to changes in lifestyle for the community and workers. It makes the distribution of products also changes.

Changes to the way the product is distributed have affected the Firm's performance.