

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The impact of the global financial crisis has been unsettling the whole of the world economy. The global crisis that happened in the world in 2008 would influence the industrialized and developing countries are not exception of Indonesia. In 2008 global crisis that affected companies go public that is company in charge to be able to increase the company performance in order to continue to hold competition in the era of the world economy more difficult. Competition in the economy sector continues to rise because they always arising new competitor that sometimes has resources than stronger. To anticipate the competition can be done by such as restructuring efforts the increase of capital, acquisition, and increase effectiveness and efficiency of companies.

In Indonesia, an alternative to obtain financing can be getting through the money market (Sartono, 2001:2). The capital market is the location of long-term, financial transactions namely the securities merchantable in the capital market and having reached maturity of more than one. Capital market allows the fulfillment the need for a long-term financing for long-term investments in a building from other equipment and the means of production. Common form of the securities merchantable in the capital market is bonds, preferred stock or common stocks.

Financial information is useful for economic decision making. The information generated at the end of the accounting period the company, namely in the form of financial statements, comprising the balance sheet reports, statements, and reports of capital changes in financial position (Krisiani, 2004:3). Investors to invest will be faced with the risk and return related with the level of profits that are required. Which will be faced by two possibilities



financier or investor is the rate of profit the largest at high risk or obtain certain rate of profit with the risks being small.

For investors information about Liquidity, Profitability, and Solvency to be need decision making. The information will reduce uncertainty and risk that might happen, so that the decision taken is expected to be in accordance with the purpose to be desired. Tjiptono and Hendy (2000:98) declaring the higher the value of the report also showed will encouraging shareholders as the bigger profit reserved for shareholders. With rising profits and stock prices tend to rise, while the profit decline when then the stock price.

Aims of this research is to analyze the influence of financial ratios as measured by Liquidity, Profitability, and Solvency of stock price changes in the company in Indonesia stock exchange. Any investor wants the companies that bought its stake has a high level of liquidity, so the company has sufficient funds to meet.

According to Hanafi (1996), the Earning per Share is one of the financial ratios are often used by investor to analyze the company's liability to generate profits on shares owned. So the Earning per Share is an important component that must be considered in the analysis of companies, since the information of an enterprise indicates the magnitude of the EPS-net profit of the company is ready to distribute to all shareholders. The magnitude of the EPS can be known from the company's financial report information (Tandelin, 2001:242).

Financial ratios can be used by investors as a tool to analyze the company's ability in obtains profit on shares owned. This indicates that financial ratios are useful in assessing the financial condition of the company. The value of shares of the company are reflected in the financial performance of the company, if the company's financial performance indicates that there is a good prospect and its shares will be demanded by investors and the price increases or get a result relations between the financial performance of the company by its stock price. The financial performance of companies either will be appreciated by the market in the form

of rising stock prices. Instead, the bad news about the company's financial performance will be followed by a decline in its stock price in the capital markets.

Based on journal that publish in 2012 from Listiyowati examined the result of Return On Asset (ROA), Return On Equity (ROE), Net Profit Margin (NPM), Earning Per Share (EPS), Price Earning Ratio (PER) had jointly significant effect on stock prices in banking companies listed on the stock exchange, only partial variable Net Profit Margin (NPM) and Earning Per Share (EPS) had a significant effect on stock prices. And other journal from Ahmed Imran Hunjra and Muhammad Shahzad Ijaz (2014) in "Impact of Dividend Policy, Earning per Share, Return on Equity, Profit after Tax on Stock Prices" concluded that Dividend yield is negatively related with stock price and dividend payout ratio is positively related with stock price which means that these results are against dividend irrelevance theory. For other independent variables profit after tax and earnings per share have significant positive impact on stock price and return on equity which shows positive insignificant impact on stock price. Among that journal Earning per Share (EPS) has the same result to the stock price in financial ratio, so this is one of many reasons that investor want to invest their money in that company.

Therefore, the author interested in doing research to prove whether the Liquidity, Profitability, and Solvency positive effect on Stock Price. And in this study, the author is interested in doing research on a company engaged in manufacturing. Since the manufacturing sector has an important role in the economy in Indonesia because most Indonesia's economy is supported by the manufacture sector. The third sector is the basic industry and chemical sectors, various sectors of the industry, and consumer goods industries.

Effect of Liquidity, Profitability, and Solvency on Stock Price is very important for investors to gain certainty about the performance of the company as consideration for providing investment in the company. Investors will be able to easily take the right



investment decisions. Seeing this, the author conducted a study to take the title: **“The Influence of Liquidity, Profitability, and Solvency toward Stock Price in Manufacturing Company listed in Indonesia Stock Exchange for Period 2011-2014”**.

## 1.2 Problem Statement

Referring to the background that has been presented above, the formulation of the problems which will be presented in this study is:

1. Is there any influence of financial ratio as measured by Liquidity, Profitability, and Solvency toward to stock price simultaneously changes in manufacturing company in Indonesia stock exchange?
2. Is there any influence of financial ratio as measured by Liquidity towards stock price partially in manufacturing company in Indonesia stock exchange?
3. Is there any influence of financial ratio as measured by Profitability towards stock price partially in manufacturing company in Indonesia stock exchange?
4. Is there any influence of financial ratio as measured by Solvency towards stock price partially in manufacturing company in Indonesia stock exchange?



## 1.3 Research objectives

According to the problem statement that will be discussed in this research, the objective of this research is:

1. To analyze the influence of financial ratios as measured by Liquidity, Profitability, and Solvency toward to stock price manufacturing company in Indonesia stock exchange.
2. To analyze the influence of financial ratios as measured by Liquidity towards to stock price manufacturing company in Indonesia stock exchange.

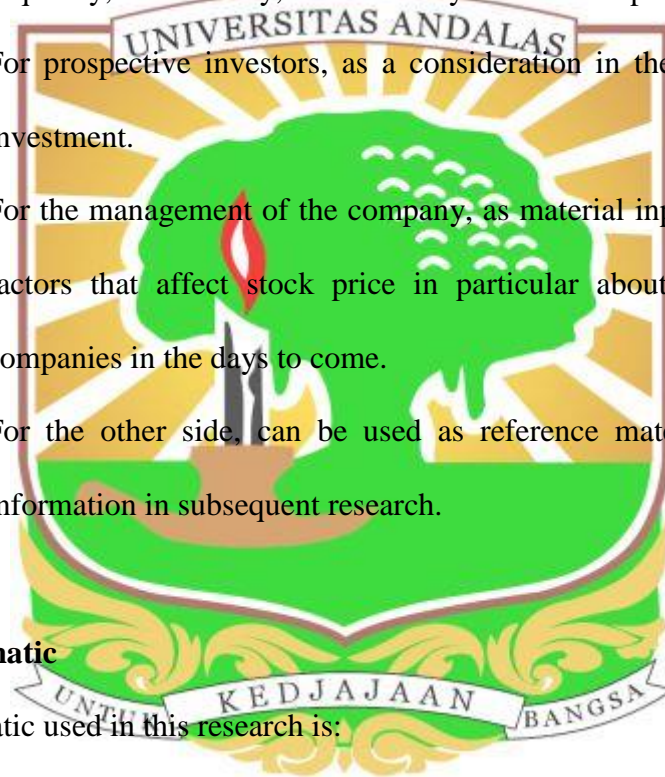


3. To analyze the influence of financial ratios as measured by Profitability towards to stock price manufacturing company in Indonesia stock exchange.
4. To analyze of financial ratios as measured by Solvency towards to stock price manufacturing company in Indonesia stock exchange.

#### 1.4 Research Benefits

This research purposed to fulfill some advantages as follows:

1. For author, to add insight researchers with respect to the influence of the Liquidity, Profitability, and Solvency of the stock price.
2. For prospective investors, as a consideration in the decision making on investment.
3. For the management of the company, as material input in determining the factors that affect stock price in particular about the performance of companies in the days to come.
4. For the other side, can be used as reference materials and sources of information in subsequent research.



#### 1.5 Writing Systematic

Writing systematic used in this research is:

1. Chapter I is an introduction part which discuss the background, problem statement, aim of research, advantage of research and wiring systematic.
2. Chapter II consists of theoretical framework. This chapter discussed the capital structure theory, liquidity, growth, return on asset, and company size.
3. Chapter III consists of research methodology. This chapter explained the research kind, population and sampling procedure, research variable and measurement, test model, data analysis technique.

4. Chapter IV consists of data analysis. This part will discuss the general description of sample, statistic descriptive, result of hypothesis test and discussion of data analysis which getting from research.
5. Chapter V is closing. This chapter provides conclusion and limitation of research also suggestion for the next research.

