

# CHAPTER I

## INTRODUCTION

### 1.1 Background

In today's global market, there are multiple ways for an individual to generate wealth. These ways can be grouped into two categories: *Passive* and *Active* income. *Active income* refers to performing a job, and being paid for it. Meanwhile, *passive income* refers to income generated regardless of an individual's presence. In spite of the fact that there are many desirable options for passive and active income, with their own respective advantages and disadvantages, investing in the stock market could provide the highest return from your initial investment.

According to *Investopedia*, the *stock market* describes the place where a company's shares are traded. Traded refers to the buying, selling, and issuing of a publicly-held company's shares. A "share price" refers to the price of a single share of ownership in a company. Share price is a major concern for companies, and is an important measure of a company's overall success, among other measures. A share price is one of the many factors that an investor will consider when deciding whether or not to make a particular investment.

Generally speaking, If the share price of a company is high, it indicates that the company is headed in the right direction, and is managed well. This in turn, would make all stakeholders of the company pleased. However, if it is low, investors would

not be getting satisfactory returns on their investment, which would increase the chance of a takeover because the company's value drops, or would increase the chance of investors selling their shares, which would drive the price of shares even lower. Because of this, managers do their utmost to ensure that the share price of the company is either stable or increasing, in order to protect their own interests. Failure to meet these objectives, would lead to the manager being let go by the company.

The aforementioned basic objectives are not separated by the industry a company operates in. The property and real estate industry for example, has its own *key performance indicators* (or KPIs), in order to measure its performance. In addition to that, KPI's are also a tool used to guide a company, to place emphasis on what it regards as most important. Some examples of KPIs for a real estate company include: occupancy rates, repair and management costs, commission margin, and cost per square meter, etc. These performance indicators differ from company to company, as what an individual deems as important will surely vary. As a result, the strategies employed by the managers of a company to tackle its KPIs will vary, and inevitably, be reflected in the price of the shares.

There are many internal policies that can directly impact the price of a share. Dividend policy, one of the most important corporate financial management policies, plays a pivotal role in doing so. This is a decision taken by the company, about its dividend payment, which is distributed among the shareholders of the company. Investors would prefer to invest in companies with a stable dividend policy as this gives an indication to the investors about the strength and stability of the business.

As a place for potential investment, Indonesia is one of the most attractive countries to invest in, as a result of its massive economic potential. This is because of Indonesia's large and young population, pro-business government, and an increasing middle class, with growing purchasing power (Widjaja, Pierre, Susanto, Yap, & Angkawidjaja, 2018, p.30). In addition to that, Indonesia is ranked 24th out of 140 countries, when it comes to *shareholder governance* (Schwab, 2018, p.285). With that rank projected to increase each year, it provides an indication that companies in Indonesia are becoming more and more profit-oriented.

Stout (2012), defines the *shareholder model of corporate governance*, as regarding the shareholders, as the most important stakeholder. In this model, the manager of the company is given the objective of maximizing wealth for investors and owners. According to Stout (2012), companies should not have any moral commitments, or social accountability. The primary focus of a company should be, and can only be, to maximize its profits. From a financial point of view, this approach is desirable for shareholders, as it would lead to initiatives and strategies implemented by the company to generate wealth and revenue, which would in turn, increase the price of the company's shares.

Indonesia has recently pursued *economic deregulation*, in an attempt to raise its investment activity (Lembong 2018). Thomas Lembong, Indonesia's *Investment Coordinating Board* chairman, has also encouraged Indonesia to make use of its capital market, as a source of funding, in order for companies to achieve stability when

attempting to grow. Through support from the Indonesian government, it is expected that Indonesia's capital market will experience a positive growth in the coming years. Because of these external factors, companies in Indonesia should adjust their internal policies accordingly, in order to maximize the growth of their share price.

In spite of support from the Indonesian government however, Indonesia's market is still seen as volatile. According to a survey conducted by *Bank Indonesia* in 2019, there has been a decline in residential property sales in the second quarter of 2019, compared to the previous year. This has been credited to high lending rates, inflated house prices, in addition to bureaucracy problems. This leads to the issue of what companies can do in order to stabilize and increase their share price. Because of this, we want to find out the impact of variables such as ROE, ROA, and EPS on the share price.

## **1.2 Research Problem**

It is widely believed that the price of stocks fluctuate as a result of external factors that include, but are not limited to the political situations of the country. However, this research paper will focus on the internal factors that impact stock prices under the control of management. By controlling these internal factors, managers can influence the share price to a certain extent. The problems presented and that will be discussed in this study are:

1. Does ROE significantly impact the stock price of Property and Real estate companies listed on the IDX?
2. Does ROA significantly impact the stock price of Property and Real Estate Companies listed on the IDX?
3. Does EPS significantly impact the stock price of Property and Real Estate Companies listed on the IDX?

### **1.3 Research Purpose**

This research can make it easier for management to regulate other internal factors that can alter the stock price. This paper will provide investors with the data they need to make their investment decisions more intelligently. The purpose of this study is to determine the impact of ROE, ROA and Inflation on the stock price of 48 Property and Real estate companies listed on the IDX by obtaining empirical evidence about:

1. Is ROE a significant factor in terms of affecting the stock price of Property and Real Estate companies listed on the IDX?
2. Is ROA a significant factor in terms of affecting the stock price of Property and Real Estate companies listed on the IDX?
3. Is EPS a significant factor in terms of affecting the stock price of Property and Real Estate companies listed on the IDX?

## 1.4 Research Benefits

The results of this study are expected to provide benefits to several of the following parties, which include:

1. Writer

Hopefully, this study can provide: a deeper knowledge regarding the issues discussed, experience, and the application of knowledge gained during the learning process in university.

2. Universitas Pelita Harapan

The author hopes that this study will be beneficial to the institute and that it can be a topic of discussion in the classroom for future batches. We hope to provide an in-depth insight about the topic so there is a clear understanding on how internal factors play a role in altering the stock price

3. Other Readers

The author hopes that as a whole, this study will prove to be insightful for not just the institute but for everyone who reads this.

4. Literature reference

The authors hope that the result of this study is able to contribute to literature or research regarding the factors affecting the stock price of companies in the IDX (not only Property and real estate, which is what we are focussing on in our study).

## **1.5 Scope of the Problem**

This research paper has several limitations, which are discussed as follows:

### **1. Limitation of Research Variables.**

The variables in this paper include the price of the shares of Property and real estate companies listed on the IDX as the independent variable, ROA, ROE, and EPS as the dependent variables, and company size and inflation as the control variables.

### **2. Limitation of Sample Size and Research Period.**

The research period used in this paper spans 3 years, from 2016 to 2018.

### **3. Limitation of The Companies.**

The type of companies examined in this paper Property and Real Estate companies listed on the IDX.

## **1.6 Framework of Writing**

The research paper systematically divided into three chapters as follows:

### **CHAPTER I INTRODUCTION**

The first chapter is the Introduction of the study, comprising of Background, the Research Problem, Research Purpose, Research benefits and the Framework of writing.

### **CHAPTER II THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT**

In the second chapter, we will discuss substantive findings, as well as methodological and theoretical contributions by other scholars. The Author will go into detail about

Return On Equity, Return on Investment, Return on Assets, Dividend Policy, Earnings Per share. The Author will elaborate these definitions to portray a clearer understanding about the topic.

### CHAPTER III RESEARCH METHODOLOGY

This chapter will discuss in general about the type of research, the type of data, data analysis technique and the type of research approach. Classical Assumption Tests (Normality, Autocorrelation, Multicollinearity, Heteroscedasticity Tests) and Hypothesis Tests (Coefficient of Determination, F-Test, T-Test) will be conducted to gather the data.

### CHAPTER IV RESULT AND DISCUSSION

This chapter will discuss the results and empirical findings in the research by conducting the Classical Assumption and Hypothesis tests to find out whether ROA, ROE and EPS has a significant relationship with the Share Price of the Property and Real Estate Companies.

### CHAPTER V CONCLUSION, IMPLICATION, AND RECOMMENDATION

This chapter consists of conclusion, along with the contributions of the results from this study, the research limitations and provides a suggestion for future researchers.