

CHAPTER I

INTRODUCTION

1.1. Background of the Study

The covid-19 pandemic had caused the economic conditions to deteriorated and caused the declining financial performance of businesses across industries (Devi et al., 2020). Almost all industries were impacted, and the worst was believed to be the tourism industry. The global pandemic had led to global economic recessions that had worsen the life of people across the world.

According to Loderer & Waelchli, (2015), corporate life cycle, including birth, maturity, decline and death would always occur in every business. Due to this importance of understanding them, the aging of the firms should also be emphasized to understand the sustainability level of every firm. Different age of company would lead to different financial performance as well as structure that would lead to different result. Therefore, pandemic that caused financial crisis had affected the business life cycle to achieve their declines, and the worst their deaths, especially in the early stages of the pandemic in the first quarter of 2020.

Moreover, the firm characteristics, in terms of their financial conditions, for instance firm size, book-to-market ratio, momentum, and many others characteristics matter in order to predict future financial performance that would provide better results.

Recently, the economic recovery has shown better conditions compared to the past. Previous research regarding the pandemic economic recovery was believed to take place when there was vaccine as stated by Kumar & Kumara (2020). In their research, market capitalization was one of the characteristics emphasized due to the importance of it for valuing the companies in accordance to the market price through the numbers of outstanding shares times market price per share.

Clubb & Naffi (2007) had explained the importance of book-to-market ratio in their research towards the UK stock returns. For the purpose of predicting future movement, this book-to-market ratio was the determinant for deciding whether a company was value or growth companies and would help investors in investment decision.

Fama and French three factor model was utilized in the research conducted by Blitz et al. (2011) to understand whether momentum could be the strategy for investors to earn high stock return as possible. The research was conducted and revealed that the return during crisis caused the momentum to be poorly performed, however, the volatility was utilized by some investors to earn profits from stock price movements. On the other hand, momentum strategy in Chan et al (1986) research had revealed that the market was underreact in short term, while overreact in long term that caused the momentum to be insignificant and difficult to predict the next movements of stock pricing.

Martínez et al., (2005) stated that during economic recession or so-called crisis, trading liquidity tend to be lower. However, still the liquidity was one of the factors that need to be analyzed and considered in order to managing the risk of investing in the stock market. In its research towards the US and Spanish stock market, also suggested to further use this ratio for future research due to the limitations of sample periods.

It was stated that there were factors affecting the stock market volatility. Prior research in India was believed to be one of the conditions, in which political factor as well as global economic conditions had triggered the volatility level to be higher compared to the past (Batra, 2004). Therefore, it was the opportunity for some investors to trade shortly in the state of high level of volatility.

Risk must always be considered and taken into account when conducting investment decisions. Market beta was another characteristic that allows the investors to understand the level of risk that they were taking. Chen et al., (2021) suggested the investors to always consider the importance of putting the right timing of analyzing the beta despite of its limitations of possible biases in terms of estimations due to uncertainty.

Another risk that needed to be considered when looking at the firm characteristics to invest in stock market would be the financial distress as the inability for the levered firms to pay amount of principal or obligations. Although the result had reveled insignificant impact of financial distress, still it was conducted by Idrees & Qayyum (2018).

Moreover, fundamental analysis was always be part of many investors analysis when seek to trade in the stock exchange. Profitability ratio was become part of Ayu et al., (2021) research. They suggest that profitability ratio, in terms of ROA, ROE and NPM would produce positive and significant impact towards the stock return.

Overall, due to the importance of those firm characteristics, corporate aging and life cycle taken from the previous researches regarding the firm characteristics, starting from the firm size, value/growth, momentum, trading liquidity, volatility, market beta, financial distress, profitability, as well as investments, therefore, this research was conducted towards the stocks in Indonesia by adjusted with the corporate aging similar to the research conducted by Loderer & Waelchli (2015) in US Stock market. However, not only analyzing in depth regarding the aging, but also would look into the impact of crisis whether it affects the corporate aging that has impact towards stock returns or not. Therefore, this research would be conducted with the title of **“THE IMPACT OF AGING OF FIRM CHARACTERISTICS DURING FINANCIAL CRISIS TOWARD STOCK RETURN”**

1.2. Problem Identification

Inspired by the prior researches regarding the firm characteristics towards the stock returns, this research was initiated by adjusting those variables with the corporate aging and emphasized the analysis on the period of

pre-crisis and during the crisis. Therefore, there would be some questions that are expected to be answered through this research as follows:

- 1) Does corporate aging have impact on the firm characteristics of Indonesia stocks during crisis?
- 2) Does the changing firm characteristics during crisis have impact towards the stock return in Indonesia?

1.3. Objectives of the Research

The objective of this research is to answer the research questions as the corporate aging have impact on the firm characteristics of Indonesia stocks during crisis or not. Moreover, the other is to answer the changing firm characteristics would have the impact towards the stock return in Indonesia or not. Because of the importance of understanding corporate life-cycle and how do the companies perform during the pandemic and facing declining and death states due to financial crisis and how to understand when they would recover and have reversing or rebound in performance, therefore, this research was conducted by looking at characteristics of the firms based on the previous research conducted.

1.4. Benefits of the Research

This research is expected to provide benefits for several parties, especially educational institutions, as well as the practitioners to conduct their tasks, as follows:

1.4.1. Educational Benefits

This research is expected to strengthen the basis for the next researches that conduct similar research. Moreover, it would also help the students to understand more regarding the stock market.

1.4.2. Practical Benefits

To help the investors understand more regarding which firm characteristics to consider and whether young firms or matured firms must be invested in to earn the highest return as possible.

1.5. The Scope and Limitations of Research

Due to the limitations of time period for conducting the research and the inability to reach perfections, the research was limited only on several sections that would be discussed as follows.

1.5.1. Variables Used in the Research

The variables would be limited on the firm characteristics as the independent variables, such as firm size, value/growth through book-to-market ratio, as well as market beta, with the moderating variables of momentum, trading liquidity, volatility, financial distress, profitability and investments and how do they affect the dependent variable, such as, stock returns that were the main focus of analysis.

1.5.2. The Object and Subject of the Research

The object of the research was the movement of the stock pricing in Indonesia. On the other hand, the subject of the research was the Indonesia Stock Exchange that the data was collected through the S&P Capital IQ that provided the data for the research.

1.5.3. Limitations on the Research Period

The period of the research would be from the year of 2015 to 2022 due to the research regarding prior crisis and crisis that has happened since 2020.

1.5.4. Limitations on the Data Used

The data used was the secondary data of Indonesian Stock across all industries, except financial sectors due to the difference in the financial structure. The data was said as the secondary data due to the resource taken from the other party, in this case, from the S&P Capital IQ as the platform for providing data. The data utilized was the stock prices from period to period as well as the financial data that was used in every of the variable of the research.

1.5.5. Limitations on the Number of Samples Used

The number of samples used were around 30.000 each variable that was collected for the period of seven years. Those number of samples were taken as the object of the research that was believed to provide the answers for the research questions.

1.6. Research Structure

The structure of this research has the objective of providing clear picture regarding the research from the beginning to the end. Through this structure, the chapter 1 to chapter 5 would be listed below to give more understanding regarding which chapter describe about what topics. Therefore, the research structure would be as follows:

CHAPTER I: INTRODUCTION

In this chapter, the researcher provide clear understanding regarding the background of the research, the reason why the researcher conducted this research and the previous study or researches that were conducted in the past as the purpose for strengthening the research.

CHAPTER II: LITERATURE REVIEW

In this chapter, the review regarding the theories and studies that were used as the basis of this research were discussed in details. Through understanding the literatures, it was expected that the reader would have deeper insight regarding what would be discussed in this research. The relevancy of the theory towards the research matters in this chapter.

CHAPTER III: RESEARCH METHODOLOGY

In this chapter, the details regarding the data, the operationalization of the variables as well as the empirical model would be provided. The explanations regarding the methodology to collect the data from the very first step of the research was discussed and what are the variables that were analyzed in this research and the formation of the empirical model for the research were emphasized.

CHAPTER IV: RESULT OF THE RESEARCH

The main objective of the research would be answered in this chapter as the result of the research would be provided. In this chapter, the details regarding the descriptive statistics from describing the data, classical assumption test, as well as the multiple panel regression results would be shown and discussed in details.

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

In this chapter, after having the result in the previous chapter, the researcher would conclude about the findings of the research and provide recommendations for the further research as well as the practice in the reality to give better results in the future.

