

CHAPTER 1

INTRODUCTION

1.1 Research Background

Capital market is a financial market to sell and buy long-term debt or equity-backed securities. In Indonesia, definition as such has been mentioned and regulated by OJK (Otoritas Jasa Keuangan) Law number 8 of 1995. According to this law, capital market is defined as an activity of trading in securities and public offerings, as well as institutions, companies, and professions related to the securities they issued. Capital market has an important role for the Indonesia's economy because it carries out two functions, one which act as a means of business funding or a means for companies to obtain funds from investors and as a means for the public to invest in financial instruments. Other means of capital market is to aid investors as parties who have excess funds to invest their funds in various securities published by companies with the expectation to obtain optimal returns. Meanwhile, companies as parties that need funds can use these funds to finance their project. These kinds of reciprocal activities will stimulate country's the productivity and economic welfare will be increase as result.

Stock is one of the important instruments in the capital market. In making decisions to buy or sell stock, investors always consider two things which is the expected return and investment risk. The return that an investor might get in his investment appeared in the form of an expected return, or a possible outcome or a probability. This happens because investors often face an uncertainty or there are risks that must be faced in their investment.

Investors always want to minimize the risk and get certain amount of return that they hope they will get, because of that investors need information. One of the information available in the market is the financial statement which is useful for evaluating

management decisions that affect the value of shares and dividend payments to shareholders. Therefore, earnings announcements are one of the factors that causes changes in stock prices.

Jogiyanto (2003) states that testing the information content is intended to see the reaction of an announcement. If the announcement contains information (information content), the market is expected to react when the announcement is received by the market. The information can encourage a reaction from the market, this can be seen from the abnormal return. Abnormal return here is an indicator that can be used to see market conditions (Jogiyanto 2009).

There are some researches about earning announcement that focus on earning per share in Indonesia. One of them is Sarjana (1990) who examined the effect of Earning Per Share (EPS) and Dividend Per Share (DPS) on common stock prices, using data on Earning Per Share and Dividend Per Share and the average stock price of 20 companies who went public were observed for 5 years (1984-1988). By using the t test and the F test, the study concludes that Earning Per Share and Dividend Per Share have a significant effect on share prices.

Another similar research was done by Suci (2017) who examined the effect of Earning Per Share (EPS) on share price in Bank Panin Syariah Indonesia. The purpose of this study is to examine the effect of EPS in a partial on stock prices in manufacturing companies on the Indonesia Stock Exchange. The sample of this research is Bank Panin Syariah Indonesia observed at period 2013-2017 period and the hypothesis is tested using the Simple Regression. The results obtained from this study indicate that there is an insignificant influence between Earning Per Share on the Share Price at Bank Panin Syariah Indonesia. The conclusion of this study is that Earning Per Share (EPS) has no effect on the Share Price of Bank Syariah Indonesia Bank. The increase of share price can

make the return also increase which result in more return even can exceed the expected return.

Related to those researches, this study will focus in finding the result from different perspective. Not the effect of EPS to share price but how EPS affect the return as market reaction. More detail, it will try to prove whether the EPS is information content that affect market reaction or not. This study will try to test whether the EPS have significant impact to return that make the return exceed the expectation, with the return exceed the expectation we will get the abnormal return. Thus, this study will be titled “**The effect Earnings per Share on Abnormal Return**”. If EPS is information content, it will have a significant effect on abnormal returns, if this is correct than EPS can be one of the most important part to be one of the considerations when investors are going to invest.

1.2 Research Problem

Investment is an activity to get a return, but investment is not just about return but also of risk. One example of risk is choosing wrong company to invest in. This risk causes the need for information which is expected to have information content that will reduce the risk. This information content will be served as a reference for investor's decision making in choosing a right company. One important source of information content that can be used by investor is the financial report.

In investment, it is very important to see the market reaction. This reaction can be measured using an abnormal return. Under normal circumstances, abnormal returns only occur around publication of financial report as a form of investor reaction to financial report. In other words, no investor can use financial report to obtain abnormal returns over a long period of time.

If investors are wrong in determining which information have information content, there is a big possibility that investors invest in wrong companies. For this reason, it is very important to know what information includes information content that can influence market reactions. This study will focus on earnings per share as one of information in financial report.

1.3 Research Objective

This research tries to investigate:

1. To find whether earning per share have an impact on abnormal return.
2. To investigate whether increasing and decreasing earnings per share have positive or negative relationship to abnormal return.

1.4 Research Contribution

The research hopefully could give accurate information about impact of earnings per share to abnormal return, also for the need of:

1. Theoretical Contribution

The result from this research aims not just to provide knowledge, but also give opportunities for other to create and develop more topics of research that can benefit the economics of country.

2. Practical Contribution

a. Academic

This research hopefully could help student to understand the impact earnings per share to abnormal return more detailed and can be reference for another researches.

b. Investor

This research could be use as guidelines for the investment decision, whether they should invest or not in certain company.

1.5 Writing structure

This research was prepared systematically as the following:

CHAPTER I INTRODUCTION

Chapter I is an introduction in the preparation of the research which consist of background, research problem, research objectives, research contribution and writing structure.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Chapter II contains theoretical framework and previous literature review used to support the critical thinking and used as references to construct the framework and hypothesis development.

CHAPTER III RESEARCH METHOD

Chapter III contains of data related to the research, it includes population and sample, sample criteria, data collection method, measurement variable, data analysis techniques, and hypothesis testing method.

CHAPTER IV DATA ANALYSIS AND DISCUSSION

Chapter IV contains the result and discussion of the research by observing the data processing result and analysis. This chapter provides information whether the hypothesis meet the criteria, accepted or rejected.

CHAPTER V

CONCLUSION

Chapter V contains conclusion of the research, limitation and suggestion for future research.