

CHAPTER 1

INTRODUCTION

1.1 Background

In past 10 years, the biggest economic crisis in the world happened. The global financial crisis happened in United States of America because of low quality housing credit crisis or people known as *subprime mortgage* loan which actually began to be seen at the end of 2006. Basically, creditor will conduct feasibility analysis such as credit score to determine whether the debtor is eligible for a debt loan or not. But in the *subprime mortgage* case the creditors compete to give housing loans to the debtor who have credit score lower than the standard score. Beside the credit score, *subprime mortgage* loan can be seen from several other things such as high *Loan to Value* ratio, incomplete documents, high *Debt to Income* and *Payment to Income* ratio (Subprime Mortgage AS, 2007).

It turned out that the *subprime mortgage* case was not finished there but instead affected financial sector to cause a crisis where various kind of international financial institutions were undoubtedly reputable such as Lehman Brothers and AIG bankrupt in 2008. Because the situation at that time was getting worst then the impact was not only felt by the economic sector in the United States of America, but also in almost all countries around the world marked with the stock price was collapse and also many financial institutions in many countries around the world was closed because of bankruptcy. This happened because the economy in almost around world is connected to United States of America.

In figure 1.1 below, according to Financial Crisis Inquiry Commission (2011), majority of subprime loans came from securitized. The subprime shares reached its peak in 2006 where the shares amounting to 23.5 percent of the total mortgage market and decreased dramatically in 2007 amounting to 9.2 percent and the lowest occurred in 2008 amounting to 1.7 percent.

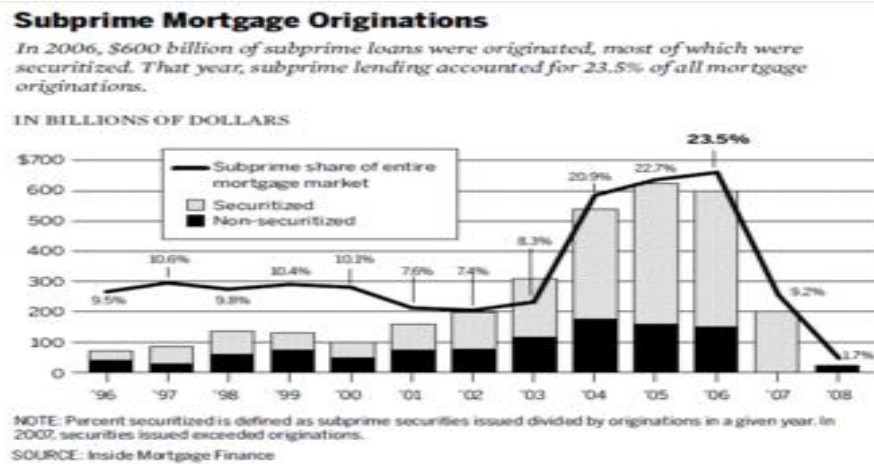


Figure 1.1 Subprime Mortgage Originations
 Source: Financial Crisis Inquiry Commission Report

Figure 1.1 is data taken based on United States. According to figure 1.1 above and supported by Duchin, Ozbas, and Sensoy (2009), the sign of the crisis already there since end of 2006 and from there it getting worst and significantly decreased until the lowest happened in 2008. Before crisis period that used in this research started from year 2004 until 2007 and after crisis period that used in this research started from year 2008 until 2011.

But the other issues that happens during global financial crisis is many company afraid to do the investment. Most of the company have perception when crisis happens then every investment decision taken will be ended as loss. Also the financing decision used to fund company activities quite hard to decide whether using company internal funds, using external funds such as debt, or using mix internal and external funds to finance company activities.

Figure 1.2 shows economic growth percentage in Indonesia before global financial crisis happened and 2 years after the crisis. Based on the figure 1.2 below, the economic growth percentage starts from year 2004 which is before global financial crisis happened until year 2009 which is 2 years after the crisis economic growth in Indonesia was quite stable.

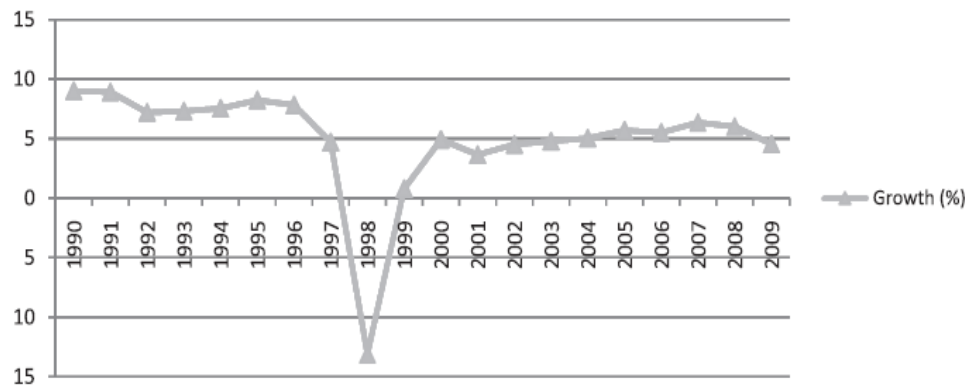


Figure 1.2 Economic Growth Percentage in Indonesia
Source: CEIC and WDI (in Hill and Basri, 2011)

Because at that time, impact of the global financial crisis was not too much felt by the Indonesian society. In this study, researcher is going to show the Indonesian manufacturing company financial statements before and after the global financial crisis and the impact on financing decision and investment decision taken by manufacturing company operating in Indonesia before 2004 which researcher decided as the year before crisis in this research.

1.2 Research Questions

Based on the background above, the research questions is as follows:

1. Does global financial crisis influence financing decision in Indonesian manufacturing company?
2. Does global financial crisis influence investment decision in Indonesian manufacturing company?
3. Does financing decision influence investment decision in Indonesian manufacturing company?

1.3 Objective

Based on the background and research questions, the objective to analyze is the influence of:

1. Global financial crisis influence financing decision in Indonesian manufacturing company.
2. Global financial crisis influence investment decision in Indonesian manufacturing company.
3. Financing decision influence investment decision in Indonesian manufacturing company.

1.4 Significance of Study

Based on the background above, the significance of study is as follows:

1. Academic Significance
The result of this study can be useful for other research in the future that similar or continued from this study.
2. Practical Significance
The result of this study can be useful as the materials and information for the company as a guideline to make decision and prevent bankruptcy when similar crises happens in the future.

1.5 Scope of Study

The scope of study contains the systematic writing of this study divided into five chapters as follows:

CHAPTER 1: INTRODUCTION

This chapter consist of background of the study, research questions, research objectives, significance of study, and scope of study.

CHAPTER 2: LITERATURE REVIEW

This chapter shows previous study, theoretical basis, relationships between variables, research framework, and hypothesis.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter explain about the research process, shows the research design, variables identification and operational definition, type of source data, data collection method, population, sample, and sampling technique, data analysis technique.

CHAPTER 4: ANALYSIS AND DISCUSSION

This chapter contains research data description, descriptive statistics, statistical testing result, and result discussion.

CHAPTER 5: CONCLUSION, LIMITATION, AND SUGGESTION

This chapter is the ending of the study consist of conclusion about this research, limitation, and suggestion for the research object including what should the future researcher do.