CHAPTER I

INTRODUCTION

1.1 Background of The Study

The rapid development of the business world today, is clearly shown from the development of the numerous competing companies with their respective advantages which unintentionally force each of the company to continue in making changes and updates. This makes competition in the business world to continue moving and experiencing the dynamics of changes very quickly. Therefore, each company will continue to compete in order to increase and maximizing profits and also the company respective advantages.

Maximizing the companies profit or advantages is every main goal of each existing company. Profit from the company perspective is one of the form of financial performance of the company, higher profit of a company means, the company has better performance. Furthermore, when the profit is maximized it will certainly greatly affect on the prosperity of the company's owner or capital, which can be resulting in increasing of the company value (Brigham and Houston, 2011). In the view of the definition above, it very well can be consummate that the objective of every company is to boost the value of their company.

To achieve this goal, the company management will carefully consider every taken decision so that it can lead to an increasing of the company value. Company value reflect the condition of the company's financial condition that is always affect by several factors such as the management decisions making. Due to its complex nature, in the improvement business it will concern the effectiveness of capital utilization and also the efficiency of the company's operational activities.

Increasing the value of a company can be obtain by maximizing each financial management function, this can happen because every policy made by financial management will have an influence to the other financial decision that will later cause an impact on the company value (Sukirno, 2013). A value of a company is usually seen from the price of its share, the higher the share price will lead to higher company's value.

The expanding or diminishing in the share price of a company can happen due to the causes that happen from both of the internal and the external factors. The external factors are the factors that come from outside of the company such as the market conditions, interest rates, the value of the currency and etc. Whereas the internal factors are the factors that come from within the company such as the ineffective company operations, the poor corporate governance, and etc. Internal factors can be overcome by the company because it is a factor that occurs from the company's negligence.

Table 1.1 Fluctuation in Company Value on 2011 - 2015

NO	ISSUER CODE	COMPANY VALUE					AVERAGE
		2011	2012	2013	2014	2015	
1	ALKA	1.02817	1.00689	1.00521	1.11493	0.59769	0.95
2	CTBN	1.53773	1.44139	1.42358	1.64791	1.75279	1.56
3	DPNS	1.14195	0.84721	0.73355	0.55670	0.58778	0.77
4	LION	0.92079	1.39017	1.41801	1.06627	1.14323	1.19
5	YPAS	2.36962	1.80979	1.43994	1.53750	2.37541	1.91

Source : Indonesia Stock Exchange (2019)

Table 1.1 above shows that the average value of companies in 2011 to 2015 are varies, and that the value of each company also changes and fluctuates from time to time. This can be see from table 1.1 where in the year of 2011 company with the issuer code YPAS has value of 2.36962 then in 2012 it decreased to 1.80979 then in 2013 it also decrease again to 1.43994 then in 2015 it increased to 2.357541. The same thing also happen to the others companies.

Fluctuations in the value of a company with a fairly up and down range can issues to the company. For instance, losing the enthusiasm of both investors and creditors to invest in the companies, or it can also weaken the trading of share of the companies in the capital market. This happen because the investors tend to have lacking in trust with the companies that experience high fluctuation in the company value. In general, investors choose only to invest in the company that is stable or that are able to keep boosting the value of their company.

In 2008-2009, several countries in the world experienced and economic crisis simultaneously therefore this such crisis was called the global economic crisis.

The global economic crisis began with the bankruptcy of the largest investment company in the United States, called the Leman Brothers or also known as the 4TH largest senior financial bank in the United Stated.

Before, there had also been a crisis in the year of 1999, in which Indonesian companies went bankrupt at the same time resulting in a weak country's economy during that time. However, other countries such as Malaysia and Singapore and other several countries can still grow and develop but not Indonesia (www.proxsisgroup.com). This crisis is also then affect other developing countries which depend on the foreign investors. It must be known that this is not a competition between countries, however this is a competition between companies so that either both progress or bankruptcy of a company will be determine by the company itself.

Such crisis might happen due to the instability of the company's financial performance standards. Company will then have to carefully consider every decision that is taken so that it will improve the company's financial performance. The company's financial performance is a financial condition of the company that affected by several factors such as the management decisions. Due to the nature of financial performance which is a complex matter so that in the improvement business it will involve the viability of capital use and the productivity of the company's operational activities. The improving of financial performance of the company data can be obtain by boosting each of the financial management function, because every policy that are made by the financial management will influence other financial decisions that will have an affect on financial performance (Sukirno, 2013).

One of the study stated that the measurement of the company's financial performance should be possible done by analyzing the company's financial statements which of course will not only be useful for the company but also external parties connected to the company. In the financial statement, it will show various core information that are able to characterized the situation of the company's singularity and the accurate information that can be used as an explanation of the company's performance (Fahmi, 2015).

According to Keown Et Al (2011) one of the ratios that is normally use to measure the financial performance of the company is the profitability ratio. A good company must have a positive company profitability ratio, because with the company profit it can continue the company's operations and can boost the value of its business so that it will be accessible for the company to withdraw funds from the outside parties in the form of loan or other funding sources.

Profitability ratios are useful for measuring a company's ability to generate profits as indicated by the size of the profit gained in relation to sales and investment. Profitability can be calculated by gross profit margin, operating profit margin, net profit margin, return on assets (ROA) and return on equity (ROE) (Fahmi, 2015).

However, this study focus more on the calculation of ROA, because ROA is a profitability ratio that is related to the rate of return on assets. ROA is an measurement that is use to measure a company's financial performance and is a profitability ratio that is used to measure the effectiveness of a company in generating profits by utilizing the overall assets it has. Greater ROA shows that the better the company's performance because the return is getting bigger.

In addition to the current financial performance, investors are beginning to recognize the influence of environmental and natural conservation, because the company's operational activities often result in changes in the surrounding environment. The importance of guarding and maintaining the environment is one of the aspects that investors pay attention to nowadays. Therefore the company's environmental performance is one indicator that must be considered by every company.

The company's environmental performance according to Suranto et al. (2006) is the company's performance in generate a flourishing and excellent environment. Thus, environmental performance may be a company performance that target on the company's activities in the conserving the environment and cutting down the environmental affect that happen from the company's actions. The ministry of environment conducts a rating on the company's environmental performance with PROPER. Compliance performance rating in environmental management began to develop in 1995 and is expanded in 2002. The structuring performance assessed in PROPER includes : arrangement of water pollution, air control, B3 waste management, and the application of AMDAL (environmental impact analysis). The environmental performance rating in PROPER is divided into five, namely GOLD (the best), GREEN, BLUE, RED and to the worst black.

Hidayah and Wulandari (2013) explained that "the greater the company's share in environmental activities the higher the image of the company is within the eyes of the stakeholders and other users of the financial statements." With the existence of this positive image it'll be able to appeal the consideration of the stakeholders and also the public using financial statements. With the increasing of the environmental performance of the company, the economic performance will definitely be better. Moreover, the market will respond positively through stock price fluctuations followed by the rise within the company's stock returns.

The manufacturing industries in Indonesia is currently experiencing an development in the stock returns. According to the Ministry of Industry of the Republic of Indonesia, in 2016 Indonesia's manufacturing industry ranked fourth in the world from 15 countries whose manufacturing industries contributed to Gross Domestic Product (GDP) above 10%, at which time Indonesia could contribute to GDP by 22% after South Korea (29%), Chinese (27%) and Germany (23%). Furthermore, in 2017 the manufacturing industry noted that the value of exports throughout 2017 reached $125 billion (USD), or 76% of the total value of Indonesia's export. This shows that there was an increase of 13.14% from 2016 which only reached $110.50 billion (USD) (kemenperin.go.id). More clearly can be seen in table 1.1 below :

Figure 1.1 Sectoral GDP Growth in the First Quarter of 2017

Sectors	2011	2012	2013	2014	2015	2016	2017*	Share 2016
Manufacturing industry	6.26	5.62	4.37	4.64	4.33	4.29	4.21	20.51
Agriculture, forestry, & fishery	3.96	4.59	4.20	4.24	3.77	3.25	7.12	13.45
Wholesale & retail trade, cars & motorcycles reparations	9.66	5.40	4.81	5.18	2.59	3.93	4.77	13.19
Construction	9.02	6.56	6.11	6.97	6.36	5.22	6.26	10.38
Mining and Quarrying	4.29	3.02	2.53	0.43	-3.42	1.06	-0.49	7.20
Transportation and warehousing	8.31	7.11	6.97	7.36	6.68	7.74	7.65	5.22
Finance and insurance	6.97	9.54	8.76	4.68	8.59	8.90	5.73	4.20
Public adm, defense, and compulsory social security	6.43	2.13	2.56	2.38	4.63	3.19	0.58	3.86
Information and communication	10.02	12.28	10.39	10.12	9.69	8.87	9.10	3.62
Education	6.68	8.22	7.44	5.47	7.33	3.84	4.11	3.37
Accommodation, food and beverages	6.86	6.64	6.80	5.77	4.31	4.94	4.68	2.92
Real estate	7.68	7.41	6.54	5.00	4.11	4.30	3.67	2.81
Other services	8.22	5.76	6.40	8.93	8.08	7.80	8.01	1.71
Business services	9.24	7.44	7.91	9.81	7.69	7.36	6.80	1.70
Electricity and gas	5.69	10.06	5.23	5.90	0.90	5.39	1.60	1.15
Health and social activities	9.00	7.97	7.96	7.96	6.68	5.00	7.13	1.07
Water, Waste management, cesspit, and recycling	4.73	3.34	3.32	5.90	0.90	5.39	1.60	0.07
Gross Domestic Product	**6.17**	**6.03**	**5.56**	**5.01**	**4.88**	**5.02**	**5.01**	**100.00**

Source : Central Body of Statistics (2017)

The large contribution of the manufacturing industry makes this industry one of the driving forces of the economy in Indonesia. As seen in figure 1.1 above it can be seen that the manufacturing industry actually continues to experience a declining from 2011 to 2017. Therefore, an increase in the manufacturing industry is one the instant ways the government can do to improve the national economy. Because, an increasing in manufacturing industry GDP of just 1 will increase 0.2% of Indonesia's economic growth. In order to assist the government in increasing economic growth, research on the influence of the financial performance of the manufacturing industry listed on the Indonesia Stock Exchange becomes an obligation for researches.

According to the background research above, the researcher is interested in conducting research with the title "**The influence of financial performance and environmental performance of company's value (study on manufacturing company listed in the Indonesia Stock Exchange in 2015 – 2018)**"

1.2 Problem Limitation

This study has limitations because the scope of the research chosen in this study are :

1. The objects tested in this study are limited to manufacturing companies listed on the Indonesia Stock Exchange
2. The time period of the study is limited from 2015 to 2018
3. There are three independent variables tested to prove the relationship to company value, namely : ROA, ROE, and environmental performance

1.3 Problem Formulation

Based on this explanation, it can be drawn several research questions that are related to the background of the previous problem, such as :

1. Does Return On Assets (ROA) affect the value of the company in manufacturing companies listed on the Indonesian Stock Exchange in 2015 – 2018?
2. Does Return on Equity (ROE) affect the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2015 – 2018?
3. Does the environmental performance affect the value of the company in manufacturing companies listed on the Indonesian stock exchange in 2015 – 2018?
4. Does ROA, ROE and environmental performance simultaneously affect the value of the company in manufacturing companies listed on the Indonesian stock exchange in the year of 2015 – 2018?

1.4 Objective of the Research

Through the formulation of the problem above, it can be seen that the purpose of this study is to :

1. Determining the effect of Return on Assets (ROA) on the value of the company in manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2018
2. Able to know the effect of the Return on Equity (ROE) on firm value in manufacturing companies listed on the Indonesia stock exchange in 2015 - 2018
3. Able to determine the effect of the environmental performance on firm value in manufacturing companies listed on the Indonesia stock exchange in 2015 -2018
4. Determining the effect of the financial performance and environmental performance on firm value in manufacturing companies listed on the Indonesia stock exchange in 2015 - 2018

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

1. Able to come through ideas in the development of science, especially in the economic field that focus on the financial performance and environmental performance.
2. Able to handover information for academics and subsequent researches because this research can be a reinforcement of existing research.

1.5.2 Practical Benefit

1. For the community, this research is expected to be a reading and literacy material that can add scientific insights to the value of the company and the latest developments or conditions of the company.
2. As a reference for related parties such as investors and creditors to determine the financial performance and environmental performance of manufacturing companies listed on the Indonesian stock exchange in 2015 – 2018.