

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Company is any form of business incorporated or unlawful, owned by an individual, legal entity or by a private or state-owned enterprise that employs workers by paying wages or any other form of payment (UUD No. 13 Pasal 1 Ayat 6). Martono and Agus Harjito, 2005 (in Susanti, 2010) stated that there are three main objectives of establishing a company: first, to achieve maximum profit. Second, to prosper the owner and the shareholders of the company. While the last one is to maximize the firm value which is reflected in the company's share price.

Sudiyatno and Elen, 2010 (in Fitriana, 2014), stated that stock price used as a representation of firm value can be determined by three main factors; internal factor, external factor, and technical factor. This study strongly emphasizes the use of internal factors that are believed as crucial to help determining the stock price of a company. According to Sujoko Soebiantoro (2007), internal factors consist of profitability, dividend payout, firm size, and relative market share. While the external factors include tribal level, capital market condition, and market growth.

It is very important for all prospective investors to forecast the future of investment that will be chosen based on company's performance, which can be seen from the company's secondary data which is company's financial statement (Lumingkewas, 2013). Profitability is one of many ways to judge precisely how far the return rate of the company will be derived from its activities. The higher the company's profitability growth means the company has better prospects, and automatically will increase the company's stock price, which also can also give good signal for investors to buy the shares. In addition, Septia (2015), mentioned that investors should also be careful in determining investment decisions. If it is not

appropriate, investors will not only lose the *return* but also the initial capital invested. According to Hidayat (2010), capital expenditure also affects the investment decision. The basic foundation for capital expenditure is for expansion, replacement, renewal on fixed assets. Safitri (2016) also stated that capital expenditure is a part of capital budgeting which can explain the need of paying attention to the time value of money when making investment decision, although it is recognized that determining the appropriate interest rate in the present value is not easy, but this concept can provide a basic for theory assessment. There are various methods for capital budgeting analysis, including *net present value*, *internal rate of return*, *pay back period*, etc. these tools can also help to decide whether the rate of return on investment in fixed assets is able to cover the expense funds. If the final calculation shows that the rate of return on the fixed asset is able to cover the expense funds, then management will realize the investment and funding recommendation.

Responsibility of financial management (Safitri, 2016) is to make funding recommendation. The relationship between investment and funding recommendation is also influenced by liquidity. Based on the previous research conducted by Anjani (2012) it shows that that liquidity, leverage and growth opportunity, and investment opportunities does not influence the investment decision, and the result shows that profitability influences investment decision. Based on the previous research by Saragih (2008), capital structure, Return On Investment, and the level of sales simultaneously give significant affect on the investment recommendation on companies listed on the IDX, while the Return On Investment itself gives positive but non-significant effect on the investment decision, the capital structure gives significant effect to the investment decision, and the level of sales significantly gives negative effect on the investment decision. Thus, the researcher wants to further investigate the factors that either give significant or insignificant effect on investment decision. The other reason why the writer choose the hotel, restaurant, and tourism sector is because

the writer has personal interest in this industry ever since and after the consideration that Indonesia as one of the largest archipelago country and have been focusing to develop the tourism since 2015. According to Guild (2018), Indonesia's Ministry of Tourism has set a goal since 2015 that the number of foreign visitors will reach 20 million, attracting \$17.2 billion in foreign exchange, and boosting the national GDP to 8 percent by 2019 with a coordinated and strategic. It is proved that in 2017, Indonesia welcomed over 14 million foreign visitors. It is believed that with Jokowi's election in 2014, the government set clear on what they want to achieve in the tourism sector. The government designed, implemented, and improved multi effort for this goals and also by the weakening of rupiah, Indonesia has become a more affordable tourist destination. The hotel, restaurant, and tourism industry is one of the industries found on the Indonesia Stock Exchange (IDX Fact Book 2015). According to information gathered from IDX Fact Book 2015, Jakarta Stock Industrial Classification (JASICA) classified the hotel, restaurant, and tourism industry into the tertiary sector (service).

This study will not discuss all the factors that affect investment decision, only a few will be discussed, which are capital structure, cash flow, liquidity, investment opportunities, profitability, and firm size. The research object used in this study is the companies summed into the listed hotel, restaurant, and tourism industries listed in IDX period 2015-2017.

Based on the background above, the the researcher does this study on the problem by taking the title **“Analysis of Factors Affecting The Investment Decision on Hotel, Restaurant, and Tourism Companies Listed at Indonesia Stock Exchange”**

1.2 PROBLEM LIMITATION

Due to the complexity of the problem, prior studies suggested that the problem limitation is important to facilitate the author to be more focused on certain problem. This study's problem limitation will be limited as follows:

1. The research will investigate on six variables affecting the investment decision, namely capital structure, cash flow, liquidity, investment opportunities, profitability, and firm size.
2. The research is limited to Hotel, Restaurant, and Tourism companies listed in IDX.
3. The research period is limited to 2015-2017.

The limitation of the problem is due to consideration that the companies in this group have very competitive market, as well as high movement in the stock price which increases the interest of investors towards the shares of these companies, can be seen from the fluctuate stock prices in IDX. In addition, the company must be able to increase the firm value resulting in increasing the sale of its shares in the capital market.

1.3 PROBLEM FORMULATION

Based on the background of the study described above, this study is conducted to re-analyze the factors that affect company's investment recommendation of the hotel, restaurant, and tourism companies listed at Indonesia Stock Exchange period 2015-2017, the research questions can be asked as follow:

1. Does the capital structure partially affect the investment recommendation of the company?
2. Does the cash flow partially affect the investment recommendation of the company?
3. Does the liquidity partially affect the investment recommendation of the company?
4. Does the investment opportunities partially affect the investment recommendation of the company?
5. Does the profitability partially affect the investment recommendation of the company?
6. Does the firm size partially affect the investment recommendation of the company?

7. Does the capital structure, cash flow, liquidity, investment opportunities, profitability, and firm size simultaneously affect the investment recommendation of the company?

1.4 OBJECTIVES OF THE RESEARCH

The purpose of this research is:

1. To investigate how capital structure will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
2. To investigate how cash flow will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
3. To investigate how liquidity will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
4. To investigate how investment opportunities will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
5. To investigate how profitability will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
6. To investigate how firm size will partially affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.
7. To investigate how capital structure, cash flow, liquidity, investment opportunities, profitability, and firm size will simultaneously affect the investment recommendation in hotel, restaurant, tourism companies at Indonesia Stock Exchange.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

This study is expected to provide a discourse on factors effecting the investment decision and will be able to provide additional information that is useful for the development of accounting.

1.5.2 PRACTICAL BENEFIT

Practically, this study is expected to provide benefits as follows:

- a. For the company, this study is expected to be used as a guideline in decision making and to improve the supervision of the manager in using the debt and the performance of the manager in operating the company.
- b. For the manager, manager's decision which are related to the funding must be done carefully because it has certain impacts on the value of the company. The results of this study are also expected to be the guideline for the manager in the decision making to increase the company's value so that it can attract potential investors to invest in the company.
- c. For the designate investors, factors that influence the company's value need to be taken into the consideration before making an investment decision. The results of this study are expected to provide useful information for the designate investors before making investment decision in the company.

1.6 SYSTEMS OF WRITING

The systems of writing of this research is divided into five chapters, which are presented as follows:

Chapter I: Introduction

This chapter contains the description about the background of the study, problem limitation, problem formulation, objectives of the study, benefit of the study, and the systems of writing.

Chapter II: Literature Review and Hypothesis Development

This chapter contains the description about the theoretical background of the study, previous researches which are

related to this study, hypothesis development, research model, and framework of thinking.

Chapter III: Research Methodology

This chapter contains the description about the research design of the study, the population and sample used, data collection and analysis method. Besides, it also includes variable definition and measurement.

Chapter IV: Data Analysis and Discussion

This chapter contains the general view of “Research Object”, data analysis, descriptive statistic, the result of data quality and hypothesis testing, and also the discussion of the study result obtained.

Chapter V: Conclusion

This chapter contains the description about the conclusion from the results of the study conducted and the implication that are useful for the users or readers of this study.



