

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Increased economic development requires company management to be able to work more effectively and efficiently in order to maintain the stability of the company, and maintain its survival in increasingly fierce business competition, especially for companies that go public in the capital market. Company management must try to maximize the welfare of shareholders through the authority given in making decisions that include investment decisions, funding decisions, and dividend policies. Investment decisions for shareholders are very important because investment is used as an indicator of the existence of a company which if the company does not have a new investment, then the company does not have a positive prospect (Anjani, 2012).

The purpose of investment decisions is to obtain a high level of profit with a certain level of risk. High profits accompanied by a level of risk that can be managed are expected to increase the value of the company, and the value of the company itself is determined by investment decisions. When investing in a company that is able to generate profits by using company resources efficiently, the company will gain the trust of prospective investors to buy their shares.

Investment decisions are very important because investment is used as an indicator of the company's existence if there is no new investment; the company has no positive prospects. Investment decisions are a policy or decision taken to invest in one or more assets to get profits in the future. To determine investment decisions, this research is measured using inflation, profitability and liquidity.

Inflation is the condition of continuous price level increases. Inflation can be formulated as a general price increase that results from the disruption of the balance between the flow of money and the flow of goods. A short definition of inflation is the tendency of prices to rise in general and continuously. The price increases of just one or two items cannot be called inflation. Inflation has a huge effect on the capital market. Therefore, the inflation rate will affect the interest rate which will affect the volume of credit given by the bank. Where the effect of inflation will be felt by all levels of society, the first effect is the effect on income. Someone who earns a fixed income will feel disadvantaged by inflation because someone will get a loss of decline in real income at the rate of inflation. In addition, other parties experience the adverse effects of inflation, namely those who provide loans (creditors) with interest rates that are lower than the inflation rate.

Profitability is the ability of a company to earn profits in relation to sales, total assets and own capital. Profitability ratio is very beneficial for the continuity of the company because it can help companies to find out the company's profit contribution in the short or long term. The profitability ratio consists of several ratios, one of which is return on assets. Return on assets is a ratio that is used to measure the level of net income obtained by the company for the total assets owned. The greater the return on asset ratio illustrates the better the condition of the company, so that it will increase investor confidence to invest their capital.

The Liquidity Ratio is the level of the company's ability to meet its short-term obligations with its current assets. The greater the liquidity ratio of a company, the greater the ability of the company to pay obligations and vice versa. Companies that have high liquidity will tend not to use debt financing. This is because companies with high levels of liquidity have large internal funds, so that the company will first use

internal funds to finance its investment before using external financing using debt. In this study liquidity is measured using the current ratio. Current ratio shows the company's liquidity measured by comparing current assets to current debt. The more liquid a company is, the lower the risk. From the investor's point of view, this ratio is important to observe because failure to pay obligations can lead to bankruptcy of companies, so companies that have high liquidity ratios will attract investors. The liquidity ratio aims to assess the company's financial ability to meet its short-term obligations and financial payment commitments. The higher the number of liquidity ratios, the better for investors. Companies that have high liquidity ratios will attract investors and will also impact stock prices which tend to rise due to high demand. This increase in stock prices indicates an increase in company performance and this will also have an impact on investors because they will get a high return on investment.

Many people, nowadays, are interested in investing rather than saving their money in the bank in expectation of a higher return. As an investor, the company's profile, both internal and external, should be considered; the most balanced and have a higher profitability ratio. In investing in the capital market, investors need to make various considerations and analysis of the company's shares to be bought. Fundamentally the price of a type of company stock is influenced by the performance and possible risks faced by the company. Not only external and internal factors, investors need to choose which companies to invest, because different sectors of the company, for example in the Indonesia Stock Exchange, have several industrial sectors, namely agriculture, mining, chemical industry, real estate and building construction, infrastructure, utilities and transportation, financing, investment, and manufacturing. In this research, the researcher will be focusing on the consumer goods companies listed on the Indonesia Stock Exchange about

the company performance in order to minimize the possibility to lose the money that is invested and get a higher return with the lowest risk.

The following is a table of phenomena regarding inflation, profitability and liquidity on investment decisions in manufacturing companies for the 2013-2017 periods.

Table 1.1 Phenomena Table

| Company | Year | Inflation | Profitability | Liquidity | Investment decisions |
|--|------|-----------|---------------|-----------|----------------------|
| PT Delta Djakarta, Tbk | 2013 | 8,38 | 0,312 | 4,705 | 752.428,0863 |
| | 2014 | 8,36 | 0,290 | 4,473 | 381.134,5711 |
| | 2015 | 3,35 | 0,185 | 6,424 | 402.251,0467 |
| | 2016 | 3,02 | 0,212 | 7,604 | 18.468.164,19 |
| | 2017 | 3,61 | 0,209 | 8,638 | 28.773.701,52 |
| PT Tempo Scan Pasific Tbk | 2013 | 8,38 | 0,118 | 2,962 | 90.640.341,6 |
| | 2014 | 8,36 | 0,104 | 3,002 | 103.891.854,8 |
| | 2015 | 3,35 | 0,084 | 2,537 | 102.044.515,4 |
| | 2016 | 3,02 | 0,083 | 2,652 | 131.021.948,2 |
| | 2017 | 3,61 | 0,075 | 2,521 | 114.306.834 |
| PT Indofood CBP Sukses Makmur Tbk | 2013 | 8,38 | 0,105 | 2,411 | 143.138.461,8 |
| | 2014 | 8,36 | 0,102 | 2,183 | 110.628.431,7 |
| | 2015 | 3,35 | 0,110 | 2,326 | 100.798.320,6 |
| | 2016 | 3,02 | 0,126 | 2,407 | 114.611.650,8 |
| | 2017 | 3,61 | 0,112 | 2,428 | 226.568.163,3 |
| PT Multi Bintang Indonesia, Tbk | 2013 | 8,38 | 0,657 | 0,977 | 683.146,5676 |
| | 2014 | 8,36 | 0,356 | 0,514 | 1.016.578,177 |
| | 2015 | 3,35 | 0,237 | 0,584 | 23.964.545,17 |
| | 2016 | 3,02 | 0,432 | 0,680 | 106.683.584,2 |
| | 2017 | 3,61 | 0,527 | 0,826 | 91.369.276,76 |

Source: www.idx.co.id

Based on the table above, it can be seen that PT Delta Djakarta, Tbk the increase in profitability and liquidity in 2015-2016 is not always followed by a decrease in investment decisions.

The decrease of profitability at PT Tempo Scan Pasific, Tbk on 2013-2014 is not followed by the increase of investment decisions.

The increase of liquidity at PT Indofood CBP Sukses Makmur, Tbk 2014-2015 is not followed by the decrease of investment decisions.

The increase of profitability at PT Multi Bintang Indonesia 2015-2016, Tbk is not followed by the increase of investment decisions.

Based on the background above, the researcher is interested in choosing the title **“The Analysis of Factors related to the Decision**

Made to Invest in Consumer Goods Companies (Study on Indonesian Publicly Listed Companies 2013-2017)”

1.2 PROBLEM LIMITATION

Based on the background of study above, the limitation of the problem is:

1. The study is limited to consumer goods companies listed in Indonesian Stock Exchange.
2. The study period is limited to 2013, 2014, 2015, 2016, and 2017.
3. The study emphasizes on three independent variables which are inflation, profitability, and liquidity, and one dependent variable which is stock investment risk

The limitation of the problem is due to consideration that manufacturing industry listed on the Indonesia Stock Exchange consisted of many sub-sectors which mean it can reflect the reaction of the capital market, and to give best information to investors about the companies.

1.3 PROBLEM FORMULATION

Based on the description above, below are some of problems that occur in the company which writer needs to analyze:

1. Does inflation rate affect the decision making in investing in the consumer goods companies from 2013-2017?
2. Does profitability affect the decision making in investing in the consumer goods companies from 2013-2017?
3. Does liquidity affect the decision making in investing in the consumer goods companies from 2013-2017?

1.4 OBJECTIVE OF THE RESEARCH

The study will achieve the following objectives:

1. To determine whether inflation rate affect the decision making in investing in the consumer goods companies from 2013-2017;

2. To determine whether profitability affect the decision making in investing in the consumer goods companies from 2013-2017;
3. To determine whether liquidity affect the decision making in investing in the consumer goods companies from 2013-2017.

1.5 BENEFIT OF THE RESEARCH

The benefits of this study are divided into two, namely theoretical and benefits practically.

1.5.1 THEORETICAL BENEFIT

Theoretically, to writer and reader, the result of this research is expected to be a reference or input for increasing the study of accounting, especially to determine the effect of inflation, profitability and liquidity towards the Stock Investment Risk.

1.5.2 PRACTICAL BENEFIT

Practically to the company, the results of this study are expected to be input for manufacturing companies on the Indonesia Stock Exchange especially in decision making to determine company policy helping manufacturing companies on the Indonesia Stock Exchange solve its problems increase sales and profit and for others this research is also expected to assist other parties in presenting information to conduct similar research.

1.6 SYSTEMS OF WRITING

In the systematics of writing, the author will briefly describe the chapter by chapter in sequence. The order of writing the chapter to be presented is as follows:

Chapter I : INTRODUCTION

This chapter includes 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 covers theoretical background, previous research, hypothesis development, research model, and framework of thinking.

Chapter III : RESEARCH METHODOLOGY

This chapter covers about research design used in this study, population and sample analyzed, data collection method, data analysis method, and operational variable definition and measurement.

Chapter IV : DATA ANALYSIS AND DISCUSSION

This chapter covers the general view of “Research Object”, data analysis (Descriptive statistic, result of data quality testing and result of the hypothesis testing), and the discussion.

Chapter V : CONCLUSION

This chapter includes the conclusion based on the study result, recommendation and implication for the users or readers of this study