

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The fast development in business, tight competition for food and beverages company require the company to increase their value. In order to increase the company value, the management and shareholders need to understand about capital structure.

The source of capital for the company funding is from stock, retained earnings and reserve. If the capital experience deficit in the funding process, the company should consider about external funding which is debt financing. Food and beverages company is very attractive consumption industry because it is daily needs for everyone, which make this industry will last forever.

In this research food and beverages company is being used because it is a daily needs for everyone, which can make this company can survive in any bad condition. According to www.beritasatu.com (2018) food and beverages industry in Indonesia will have good prospect in the next five years with minimum national economic growth 5.07%. The phenomenon table is as follow:

Table 1.1 Table of Phenomenon

Food and Beverage	2016	2017
Sales export	10,43 million	11,5 million
Industry growth	8,46%	9.23%

Source: Prepared by the writer (2019)

Another factors that help food and beverages industry to grow is the issuance of Minister of Agriculture Regulation Number 38 of 2017 concerning Recommendations on Import of Horticulture Products and Minister of Trade Regulation Number 91/2017 concerning Provisions on the Import of Forestry Products. Both minister regulations make it easy for industry players to obtain imports of raw materials and packaging.

For investor, food and beverages will definitely have a good prospect as the population increases but investor also need to analyze the company capital structure. In order to know how risky, the company. If the company heavily financed by debt the investor should consider more because the company will have greater risk.

Several related studies have been conducted provided the evidence by Sugiyanti at 2017, showed a significant positive relationship between business risk and capital structure, an insignificant positive relationship between asset structure and capital structure, a significant positive relationship between profitability and capital structure and a significant relationship between firm size and capital structure for manufacture company that listed in Indonesia Stock exchange for 2013 to 2015.

The second previous study is conducted by Ariyadi at 2015, showed a significant negative relationship between firm size and capital structure, a significant negative relationship between profitability and capital structure, a significant positive relationship between growth opportunity and capital structure and a significant positive relationship between asset tangibility and capital structure for basic industry and chemicals company that listed in Indonesia Stock Exchange for 2011 to 2013.

Because the inconsistent result of the previous research, I want to do research for food and beverages company with the same indicators firm size, growth opportunity, profitability, business risk, asset tangibility. Based on Ariyadi coefficient of determination result 0.371 and Sugiyanti coefficient of determination result 0.295 there are still 62,9% and 70,5% indicators that can affect capital structure so I add some different indicators such as firm age and liquidity that may affect the capital structure with title **"The Effect of Factors that Affect Capital Structure Decision in Food And Beverages Company Listed At Indonesia Stock Exchange."**

1.2 PROBLEM LIMITATION

The limitation of this studiesis:

1. The independent variables in this study are firm size, growth opportunity, profitability, business risk, asset tangibility, firm age, and liquidity
2. Food and beverage company that listed in Indonesia Stock Exchange for 2013 to 2017 with specific criteria.

1.3 PROBLEM FORMULATION

The problem formulation that have been made are as follow:

1. Does firm size partially affect capital structure?
2. Does growth opportunity partially affect capital structure?
3. Does profitability partially affect capital structure?
4. Does business risk partially affect capital structure?
5. Does asset tangibility partially affect capital structure?
6. Does firm age partially affect capital structure?
7. Does liquidity partially affect capital structure?
8. Do firm size, growth opportunity, profitability, business risk, asset tangibility, firm age, and liquidity simultaneously affectcapital structure?

1.4 OBJECTIVE OF THE RESEARCH

The research objective are as follow:

1. To analyze firm size partially affect capital structure.
2. To analyze growth opportunity partially affect capital structure.
3. To analyze profitability partially affect capital structure.
4. To analyze business risk partially affect capital structure.
5. To analyze asset tangibility partially affect capital structure.
6. To analyze firm age partially affect capital structure.
7. To analyze liquidity partially affect capital structure.

8. To analyze firm size, growth opportunity, profitability, business risk, asset tangibility, firm age, and liquidity simultaneously affect capital structure.

1.5 BENEFIT OF THE RESEARCH

Benefits that can be obtained from this research are:

1.5.1 THEORETICAL BENEFIT

This research is expected to be useful for other people especially the one that want to have more information for capital structure in food and beverages company.

1.5.2 PRACTICAL BENEFIT

Practically, this research study will benefit:

1. Investors

This research is expected to contribute information for investor to choose the right company to invest.

2. Companies

This research is expected to contribute information for company to make the right decision about using internal and external funding.

3. Researcher

To gain more knowledge from this undergo research especially about capital structure for food and beverages company.

1.6 SYSTEMS OF WRITING

This research study comprises of five chapters with each chapter relating to the other. The systematic outline of writing in this research study is as follows:

Chapter I: Introduction

This chapter consists of background, problem limitation, problem formulation, objective of the research, benefit of the research, and systems of writing.

Chapter II: Literature Review and Hypothesis Development

This chapter briefly describes the theoretical background include the discussion of understanding the theory, capital structure and the variables. This chapter also includehypothesis development, research modal and framework of thinking of the previous research.

Chapter III: Research Methodology

In this chapter, there are research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

Chapter IV: Data Analysis and Discussion

In this chapter, the result of the research is presented in the form of food and beverages financial performance.

Chapter V: Conclusion

This chapter will conclude the problem formulation based on the analysis that have been done, implication, and recommendation.

