CHAPTER I

INTRODUCTION

1.1 Background of the Study

One of the company's goals is to obtain the maximum profit. By generating significant profits, investors will be interested in investing a number of funds in the company. Companies that go public are one of the reasons why investors buy shares in the company. The value of a company that goes public in the capital market is reflected in its stock price, but the value of a firm that has not gone public is realized based on the company's prospects, business risks, the business environment, and other factors.

Increasing the company's high value is a long-term goal that should be realized, as evidenced by the market price of its shares. In order to boost the company's worth, it is usual for management, specifically company managers, to have other aims and interests that are in conflict with the firm's core goals and frequently ignore the interests of shareholders. As a result, if the company wants to improve its value, management and other parties must build strong cooperation with other parties in making financial decisions, such as those in the financial statements used as the basis for decision-making. Shareholders, investors, creditors, stakeholders, the government, and the community are among the other groups mentioned.

To describe the current situation in a place, a company can use company values to describe it. The value of a company is one of the important ideas for investors because it shows how to value the company's market as a whole. For creditors, the company's value is related to the company's liquidity, namely companies that are judged to be able or not to repay the loans granted by creditors. If the star value of the company is not good, investors will rate the company with a low value. Price to Book Value, which compares the price per share with the book value per share, will be used to determine the company's value in this study. The higher the PBV (overvalue) created, the more investors believe the company's future performance to be more promising. In contrast, a low Price to Book Value (undervalue) indicates that the market price per share is lower than the book value per share as determined by investors, lowering the company's value.

The researcher chooses the consumer goods sector as the subject of this study because it is one of the company sectors with high prospects and is also resistant to crises. The consumer goods company is one of the industries that has evolved. This is because the consumer goods industry is essential to meet basic needs and ensure the survival of all people in all parts of the world. As indicated by the growing number of consumer goods companies that are going public, the consumer goods business in Indonesia is also showing signs of development in the capital market, which will impact the company's positive value.

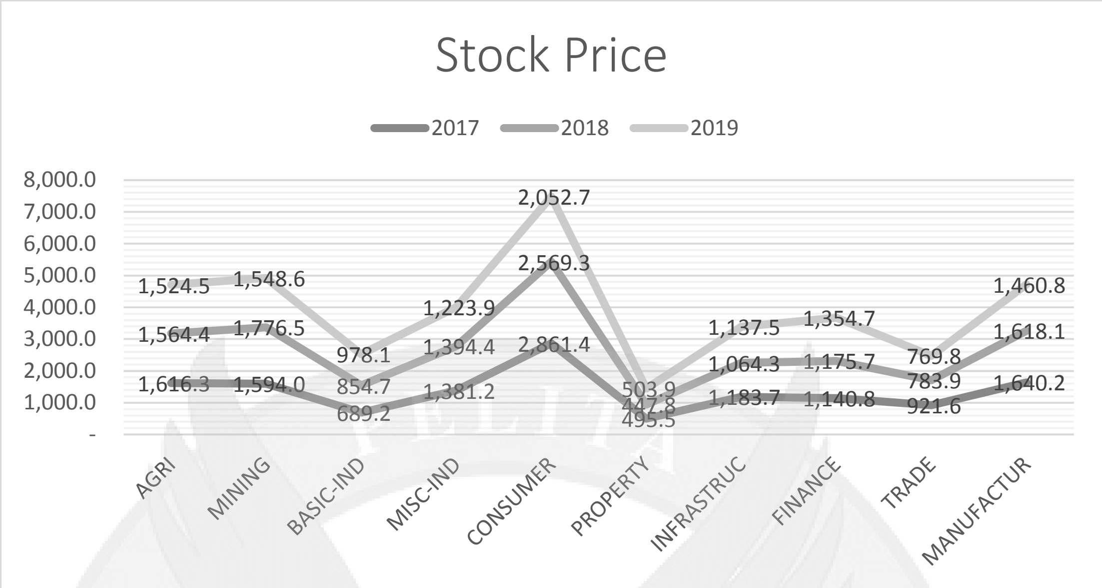

Figure 1. 1 Share Price Comparison of various sectors from 2017 to 2019

Source: Prepare by the author from www.idx.com

The comparison of nine sectoral stock values can be seen in Figure 1.1, with the consumer goods industry having the highest stock price. From 2017 through 2019, the highest share was 2,861.3 in 2017. However, it fell from 2,569.3 to 2,052.7 from 2018 to 2019. From the table above, we can conclude that there are top three companies with more excellent share prices from 2017 to 2019, consumer products firms had the highest proportion of the market with 2,861,4. The highest value was obtained in 2017 and followed by mining companies with a value of 1,776.5 in 2018, followed by manufacturing companies at 1,640.2 in 2017. Despite the fact that consumer goods faced a downturn in 2018 and 2019, this firm nonetheless became the company with the highest share price from 2017 to 2019. Unlike industrial consumer goods, the property sector was the lowest share price compared to nine other stocks from 2017 to 2019.

The value of a corporation is heavily influenced by stock prices. This ratio typically rises above one for companies that have business fluency, indicating that the market value of the stock exceeds the book value. The higher the PBV ratio, the higher the company is viewed by the investor.

Generally, investors choose companies with solid fundamentals. The use of consumer goods grew at a constant rate of around 5% in 2017 and will continue to be the mainstay of the Indonesian economy. This is why consumption plays such a significant role in the Indonesian economy. Meanwhile, consumer goods sales in Indonesia decreased by 20% in 2019. The issue of economic downturn, both worldwide and domestically, has influenced the speed of the consumer goods sector throughout the current year.

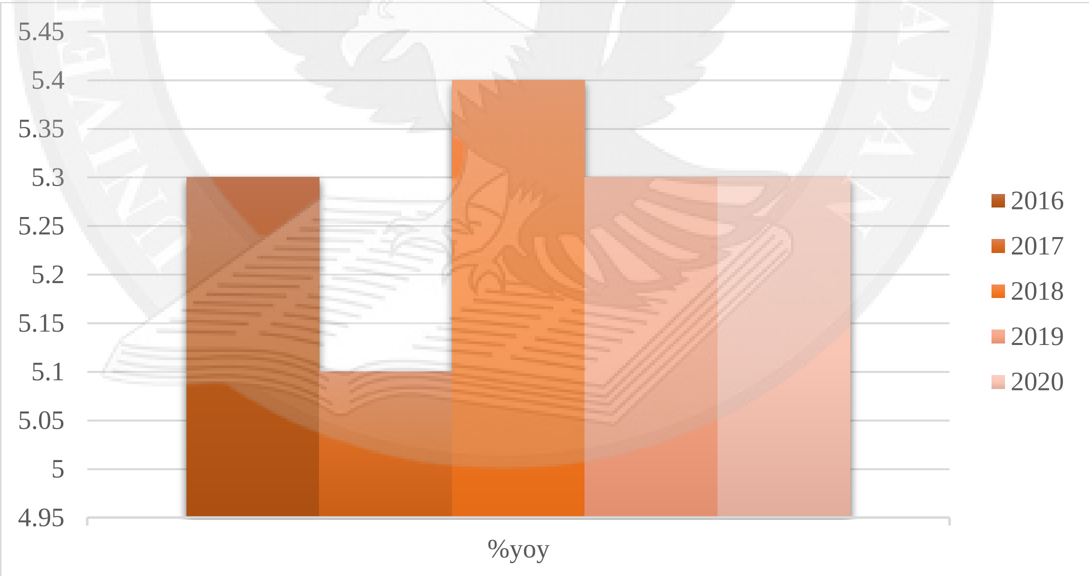

Figure 1. 2 Indonesia Economic Growth

Source: Prepare by author from www.kemenkeu.go.id

Indonesia's economic growth experienced an increase in 2018. However unfortunately, it fell again in 2019. Despite the weakening of people's purchasing power, the performance of a number of issuers of consumer goods actually improved due to rising profits. This is proven by the net income of PT Kalbe Farma Tbk (KLBF) recorded an increase from Rp. 2.43 trillion to Rp. 2.49 trillion from 2017 to 2018. Issuers such as PT HM Sampoerna Tbk (HMSP) increased by 7.01% in 2018. This will attract investors to invest and help smooth market trends in the consumer goods sector because national economic growth reflects the people's consumption ability. Many variables are used related to the company's value, such as Return on Asset, Capital Structure and Firm Value.

Profitability is a company's ability to make profits over a set period of time; companies that can generate substantial profits have good company performance since profitability is frequently used as a measure to evaluate company performance. The profitability ratio is a metric for evaluating management effectiveness based on investment sales returns and how a company can generate profit, which will be used to determine the distribution of corporate dividends. The Return on Assets ratio is used to represent profitability in this study. The return on assets is a metric that assesses a company's capacity to profit from its investment activity. The higher the ROA, the higher the profit level realized by the company and the better the company's asset utilization position. Financial performance as a proxy for Return on Assets has been used as a proxy for business value in research, but the results have been mixed.

In general, an increase in debt experienced by a company will reduce the value of the company as well if the position of the capital structure is above the targeted or optimal capital structure target. The capital structure must optimize the risk-reward balance to maximize the share price. One of the critical responsibilities of corporate management is to choose the best-desired capital structure. According to one hypothesis for capital structure utilization, a company's profit level can be higher, the debt level will be lower, and the company will be more selective in its use of funds. As a result, researchers will use the Debt to Equity Ratio to assess the company's capital structure in this study. Only with this ratio will investors be able to understand the risks they would encounter. The higher this ratio is, the greater the financial danger that the company faces. This might have an impact on a company's stock price and volume.

The next thing to consider is the company's size, which has an impact on its value. Because a firm's size affects its ability to receive finance, the larger the company is, the easier it is to obtain funding. The number of sales, total assets, average sales levels, and average total assets of a company are used to determine the firm size. Creditors will be more willing to lend to a firm with a high total asset value because they feel the company will repay the loan plus interest. The natural logarithm of the company's total assets can be used to determine the size of the company in the research. Companies with a lot of assets have the financial strength to survive if they run into problems and the opportunity to make much money. Companies with a large firm will always strive to maintain financial stability and be more cautious in their financial reporting. This is because the company's assets reflect the company's rights and liabilities and its money, which will attract the public's attention.

In most circumstances, investors will utilize the company's value as a special consideration when deciding whether or not to invest in it. The increase in the firm's value indicates that the company's performance is improving, and it is a green light for investors to put their money into the company. Even if a company's profitability is modest, some investors pay attention to it. Investors may use a low company value to demonstrate that the firm they wish to invest in is indeed inexpensive and deserves to be called cheap or even unworthy of investment.

Based on the description above, of the many factors Influencing firm value in this study, firm Value is measured by price book value, while influencing factors are measured using variables such as Return on Asset ratios, the Capital structure represented by Debt to Equity Ratio and Firm Size. From these thoughts, the researchers are interested in conducting research with the title "**THE INFLUENCE OF RETURN ON ASSET, CAPITAL STRUCTURE AND FIRM SIZE TOWARD FIRM VALUE**" (a case study of a company engaged in the consumer goods industry for the period 2017-2019 listed on the Indonesia Stock Exchange).

1.2 Problem Limitation

The problem limitation set by the writer can be seen as follows:

1. In order to be more focused on this research and the limited sources, the writerdetermined limitations on this study to Return on Asset, Capital Structure and Firm Size as Independent variable and Firm Value as the dependent variable.

2. The author chose Consumer Goods companies as samples, and the study period was limited to 2017-2019.

1.3 Problem Formulation

Based on the above background, the research problem is formulated as follows:

1. Does the Return on Asset ratio significantly influence on the Firm Value engaged in the Consumer Goods companies?
2. Does the Capital Structure ratio significantly influence on the Firm Value engaged in the Consumer Goods companies?
3. Does the Firm Size significantly influence the Firm Value engaged in the Consumer Goods companies?
4. Do the Return on Asset, Capital Structure, and Firm Size simultaneously influence the Firm Value engaged in the Consumer Goods companies?

1.4 Objective Research

The researcher must have an objective in order to do this research effectively. The following are the objectives for this study:

1. To find out and study the significant influence of Return on Asset Ratio on the Firm Value in the Consumer Goods companies.
2. To find out and study the significant influence of Capital Structure on Firm Value in Consumer Goods companies.

3. To find out and study the significant influence of Firm Size on Firm Value in the Consumer Goods Industry companies.
4. To find out and study the simultaneous influence of Return on Asset, Capital Structure and Firm size on the Firm Value in the Consumer Goods companies.

1.5 Benefit of the Research

This study is expected to benefit various groups, such as the management of the companies that are the focus of the study, investors, the writer, and future academicians in various ways. The following are some of the benefits that can be gained through this research.

1.5.1 Theoretical Benefit

1. For researchers, as a means to add insight and knowledge about the relationship between several financial ratios used to see the value of the company and to develop the author's ability to apply the theories that have been obtained during education and gain a deeper knowledge of the role of the influence of return on assets, capital structure, and firm size to firm value.
2. For Further Researchers, The results of this study are expected to be a reference in developing research with similar variables in the future to expand academic knowledge and add information about increasing firm value.

1.5.2 Practical Benefit

1. For Company Management

   The findings of this study are intended to be used as a guide for researchers working in the field of corporate finance, especially in areas related to firm value.

2. For Investor

   It is hoped that this research can be used as material for thinking and comparison in making future investment decisions related to firm value in accordance with what investors and potential investors expect.