

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The increasing business competition in the current era of globalization is not regardless of the influence of the development of the economic environment, socio-politics, as well technology advances. Each company is expected to conform as well able to read situations that occur in order to manage functions management well, starting from the field of production, marketing, fields human resources, and the financial sector so that the company can afford more ahead of its competitors.

The main goal of a profit-oriented company, one of which is to increase the value of the company and the welfare of company owners or shareholders. The value of the company will increase if the share price increases which is indicated by a high rate of return on investment to shareholders. In an effort to realize the company's goals, the company must meet its funding needs in order to maximize its performance. Good performance can increase the value of the company and the company's share price, which will reflect the prosperity of the company's shareholders. A company often experiences a lack of capital which results in the company's performance of the goods or services that it produces is not optimal and the company is unable to compete in the market and experiences slow development.

There are many factors that can determine firm value, including company size, leverage and profitability. Company size is considered capable of influencing firm value. Because the larger the size or scale of the company, the easier it will be

for the company to obtain funding sources, both internal and external. Company size is a reflection of the assets owned by a company. Companies that have a larger size have an influence on increasing profitability and company value (Setiadewi & Purbawangsa, 2015). In addition, large companies have more sources to increase firm value because they have better access to external sources of funding than small companies (Hery, 2017).

Company size is measured by the company's total assets obtained by the company's financial reports. The size of the company can be seen by investors through an indicator that describes the level of the ratio to make an investment or the amount of investment. Company size is considered capable of influencing company value. Company size can be seen from the total assets owned by a company. A large company size reflects that the company is experiencing good development and growth, thus increasing the value of the company. The increased company value can be indicated by the company's total assets that have increased and is greater than the company's total debt.

There are several measuring instruments of firm value, but one of the most frequently used is Price to Book Value (PBV). PBV is the ratio of share price to book value per share. A high PBV will reflect a high level of prosperity for shareholders, where the prosperity of shareholders is the main goal of a company.

Another factor that can affect firm value is leverage. Sources of funding within the company can be obtained from internal company in the form of retained earnings and depreciation and from external companies in the form of debt or issuance of new shares. Leverage shows the ability of a company to meet all

financial obligations of the company if the company is liquidated. The greater the leverage, the bigger the investment risk. Companies with low leverage ratios have less leverage risk. The high leverage ratio shows that the company is not solvable, meaning that its total debt is greater than its total assets. (Octaviany et al, 2019)

Koseoglu (2019) stated that company value will increase when corporate taxes apply, but no bankruptcy costs. With the increasing leverage ratio. In this framework, there is a linear positive link between the firm value and the leverage ratio. If there is corporate tax but not the cost of bankruptcy, the value of your company is maximized by 100 percent debt use. In real life, companies prefer to maintain a lower leverage rate. That is to say, companies have lower and higher leverage ratio limits. If a company makes a profit for a period, its leverage ratio decreases. If the debt drops to the lower limit, it again borrows. If the company cannot profit sufficiently, it borrows more. The leverage ratio is again reduced by equity issue if this continues until the upper limit is reached. The leverage ratio between the bottom and the top limits is thus kept.

Table 1.1 The Comparison of Leverage, Company Size and Company Value of F&B Companies in Indonesia Stock Exchange During 2015-2019

No.	Company	Year	Leverage (DER)	Company Size (Ln Total Asset)	Company Value (PBV)
1.	PT Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ)	2015	0.27	15.08	4.07
		2016	0.21	15.26	3.78
		2017	0.23	29.28	3.55
		2018	0.16	29.35	3.27
		2019	0.17	29.52	3.43
2.	PT Mayora Indah, Tbk (MYOR)	2015	1.18	30.06	5.25
		2016	1.06	30.19	5.87
		2017	1.03	28.03	6.14

		2018	1.06	28.20	6.86
		2019	0.92	28.27	4.63
3.	PT Indofood Sukses Makmur, Tbk (INDF)	2015	1.13	18.34	1.05
		2016	0.87	18.22	1.58
		2017	0.88	32.11	1.43
		2018	0.93	32.20	1.31
		2019	0.77	32.20	1.28

Source: Prepared by the Writer (2021)

According to Purwohandoko (2017), because large companies possess large market capitalization, the size of a company increases; book value is big and profitable too. Investors are generally more interested in large-scale companies. This is because big business tends to be more stable. This stability attracts investors into the company's own shares, leading to an increase in equity prices in the capital market. Size has an impact on company values. It can be said. In contrast, the proportion of companies that has increased, but the value of the company has dropped.

For example, UL TJ company in 2017 had PBV value of 3.55 and company size value of 29.28. In 2018, the PBV value of UL TJ companies decreased to 3.27, but the company size has increased to 29.35. This phenomenon also occurred in MYOR companies in 2018-2019 and INDF companies in 2017-2019, where the company size has increased, but the company value has actually decreased. This is inversely proportional to or contrary to the theory of Purwohandoko (2017) as stated above.

Another phenomenon also occurs in company's leverage. For example, INDF company in 2017 had a leverage value of 0.88 and a PBV value of 1.43. In 2018, the leverage value of INDF increased to 0.93, but the PBV decreased to 1.31.

This is inversely proportional to the trade-off theory as stated by Koseoglu (2019) above.

Based on the phenomena described above, the researcher wants to analyse the influence of company size and leverage toward company value and write it in this research entitled **“The Influence of Company Size and Leverage Toward Company Value at Food and Beverage (F&B) Companies Listed in Indonesia Stock Exchange”**.

1.2 Problem Limitation

In this research, problem limitation will be discussed so that the discussion is more focused and is in accordance with the objectives to be achieved with regard to the influence of leverage and company size toward company value in food and beverage companies. The object of this research is the 40 financial statements of food and beverage companies listed in Indonesia Stock Exchange (IDX) during period of 2015 to 2019.

1. This research focuses on independent variable (X) and dependent variable (Y). The independent variables include company size (X_1) and leverage (X_2), while the dependent variable (Y) is company value.
2. The research data on both the independent variable (X) and dependent variable (Y) is obtained from the financial statements in the food and beverage companies during the period of 2015 to 2019.

1.3 Problem Formulation

Based on the description on the background of study above, the problem formulations in this study are as follows:

1. Does company size have a significant influence toward company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019?
2. Does leverage have a significant influence toward company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019?
3. Does company size and leverage simultaneously have a significant influence toward company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019?

1.4 Objective of the Research

The research objective are as follow:

1. To discover the influence of company size towards company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019.
2. To discover the influence of leverage towards company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019.

3. To discover the influence of company size and leverage toward company value at Foods & Beverages (F&B) companies listed in Indonesia Stock Exchange during 2015-2019.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the results of this study are expected to be useful to strengthen the theory about accounting, especially about the influence of leverage and company size toward company value. Besides that, it is also expected to develop knowledge which is theoretically perceived in the university.

1.5.2 Practical Benefit

The practical benefits expected from this research are as follows:

1. For the reader

This research can provide an overview and knowledge about business and accounting, especially about the influence of leverage and company size toward company value.

2. For the investor

It is expected to give benefit and provide useful information for the investors in making an investment decision.

3. For the future researchers

It is expected that the results of this research will serve as a reference source for future researchers.

4. For Food and Beverage Companies

It is hope that the results of this research can be used as reference to know which factor that can influence company value, especially from the point of view of company size and leverage.

