

CHAPTER I: INTRODUCTION

1.1. Background

The increasing population growth in Indonesia from year to year has led to an increase in people's need for food and beverages. In recent years, because of this, the market of Food and Beverage Industry has kept on growing and this sector has become a profitable business in Indonesia. The companies which belong to Food and Beverage Sector encountered a golden opportunity not only to develop, but also faced intense competition in Indonesia.

Fierce competition in the food and beverage industry sector encourages companies in the consumer goods industry sector to maximize their resources, so the company can operate optimally to produce optimal profits. Companies must be able to determine the right funding policy to meet the company's investment needs. The funding policy used by companies to finance investments is also related to the company's capital structure.

The general purpose of each company is to get maximum profits. In the theory of financial statement, profitability ratio analysis is very important for all users, especially equity investors and creditor investors. For equity investors, profit is the only determining factor of changes in the value of securities. And for creditor investors, profits and operating cash flows are generally is a source of interest and principal payments (John, 2015).

Management of assets in a company requires very serious attention by the company, which is related to decision making. It is very important because the assets are managed well and the small amount of the debt from total assets will help increase profits. And manager's obligations are drive profitability of profit margin, managing costs or a combination. According to James C. Van Horne and John M. Machowicz in his book *"The Principles of Financial Management"* said that the ability to obtain profits is inversely proportional to liquidity (2015).

The companies must also be able to deal with the problem of funding sources. The source of funding can be obtained from internal of the companies by withdrawing capital through the sale of shares, or from retained earnings of companies that are not shared and then reused as capital. And from the external of the company by making loans in the form of debt or issuing bonds or shares in the capital market. Companies that use debt to fund the company and are unable to pay off the debt, the liquidity will be threatened. The bigger the proportion of debt in the capital structure of a company, the higher the fixed burden and commitment of repayment incurred (James, 2015).

The Food and Beverage Industry is one of the important sectors in the Indonesia's economy. The Ministry of Industry of Indonesia noted that the contribution of the food and beverage industry to the GDP of the non-oil and gas industry reached 34.95 percent in the third quarter of 2017. The results of this

performance made the sector the biggest contributor to the industry's GDP compared to other sectors compared to the same period in 2016. Meanwhile, its contribution to the national GDP was 6.21 percent in the third quarter of 2017, up 3.85 percent compared to the same period the previous year.

Furthermore, seen from the development of investment realization, the third quarter of 2017, food and beverage industry sector for domestic investment reached USD 193,21 million or increased by 16.3 percent compared to the same period in 2016. Meanwhile, for foreign investment reached USD1.46 billion. The growth in food and beverage sector keep increasing, and in the third quarter of 2017, the growth reach 9.46% with National GDP growth of 5.06%. It shows that the food and beverage industry sector have a significant role in economic growth in Indonesia, especially the contribution to the Gross Domestic Product (GDP).

At present, more and more companies are increasingly paying attention to its social responsibility, because the survival of the company is largely determined by the company's relationship with the community and the surrounding environment. With the implementation of the Corporate Social Responsibility (CSR), program companies will create added value for stakeholders, so this can affect the survival of the company (Mc. Williams and Siegel, 2013). The importance of CSR is also realized by the government, as evidenced by the regulation of obligations regarding the implementation of CSR activities in Law No. 40 of 2007 Article 74 concerning the Social and Environmental Responsibilities of Limited Liability Companies, disclosed that "the company that carries out its business activities in the field and / or relating to natural resources is obliged to implement Social and Environmental Responsibility". Companies that do not carry out their social and environmental responsibilities will be subject to sanctions in accordance with the provisions of the legislation.

Another company's goal is to maximize the prosperity of shareholders or company owners (wealth of the shareholders). This normative goal can be realized by maximizing market value. For companies that are already public, maximizing the company's market value is the same as maximizing stock market prices (Sudana, 2011). Company value is defined as market value because the value of a company can provides maximum shareholder prosperity if the company's stock price increases. The higher the stock price, the higher the prosperity of shareholders (Hasnawati, 2015). Optimizing the value of the company which is the goal of the company can also be achieved through the implementation of financial management functions. In this case, one financial decision will influence other financial decisions and have an impact on the value of the company. Financial management involves resolving important decisions taken by the company, including investment decisions, funding decisions, and dividend policies. One of the main aspects of investment decisions is capital investment. The decision to allocate capital into investment proposals must be evaluated and linked to the risks and expected outcomes (Hasnawati, 2015).

Decisions in investment will determine the form and source of funds for financing. According to Hasnawati (2015), the problem that must be answered in funding decisions that are related to the source of funds is whether the internal or external funding sources, the amount of debt and equity, and how the types of debt and capital will be used, and the financing structure will determine the cost of capital which will be the basis for determining the desired required return. For creditors, the value of the company is related to the company's liquidity, in other words the company is considered capable or not to return the loan provided by the creditor. If the value of the company is implied is not good, the investors will rate the company with the low value too.

Based on the background above, the author interested in picking up the title in this study is “The Influence of Corporate Social Responsibility (CSR), Investment Decisions, and Capital Structure on the Value of Manufacturing Enterprise (Based on Food and Beverage Sector Listed in Indonesia Stock Exchange for Period 2014-2017).”

1.2. Problems Formulating

Based on the background above, the formulating of the problems in this study are:

- a. Is there a significant influence between Corporate Social Responsibility (CSR) and the Value of Food and Beverage Manufacturing Enterprise Listed in Indonesia Stock Exchange for the 2014-2017 period?
- b. Is there a significant influence between Investment Decisions and the Value of Food and Beverage Manufacturing Enterprise Listed in Indonesia Stock Exchange for the 2014-2017 period?
- c. Is there a significant influence between the Capital Structure and the Value of Food and Beverage Manufacturing Enterprise Listed in Indonesia Stock Exchange for the 2014-2017 period?
- d. Do Corporate Social Responsibility (CSR), Investment Decision, and Capital Structure jointly have an influence on the Value of Food and Beverage Manufacturing Enterprise Listed in Indonesia Stock Exchange for the 2014-2017 period?

1.3. Problems Limitation

To get the results that focused on the problems of this research and avoid different interpretations, the author does the limitation of the problems. The implementation of CSR is believed to be able to improve the company's performance, where investors tend to invest stocks in companies that do the CSR activities. Therefore, the author uses CSR as an independent variable. The

indicators used in assessing CSR have been developed by many previous studies. In this study, the author used CSR index from Global Reporting Initiative (GRI) with 79 indicators.

The company's growth can be reflected in the investment made, Investment Decision in this study are proxied use an Investment Opportunity Set (IOS). Expenditures made by the company will provide a positive signal that can increase the value of the company. Therefore, the author uses Investment Decision as independent variable.

The company needs capital to carry out its business activities, both from internal or external parties. Generally, companies will prioritize the internal funding in financing their business activities. Capital Structure is a consideration between the use of own capital and foreign capital, where the capital is in the form of retained earnings and share ownership, while foreign capital in the form of debt. Food and Beverage companies are one of many sectors that investors are interest to invest. This is also the reason why this is one of many sectors that can survive in the hardest economic condition. Therefore, the author uses Capital Structure as an independent variable. This research was conducted at Food and Beverage sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2014-2017.

1.4. Benefits of Research

The benefits of the research obtained from this study are:

a) For investors

The results of this study should be a reference for investors that they should evaluate a company's financial statement's condition and performance before investing stocks in a company.

b) For companies

The benefits of the results of this study are expected to provide benefits for the company as a material consideration and information in making decisions regarding the use of working capital, so that it can be more optimal and more efficient as possible to increase profitability.

c) For the next researcher

The results of this study should be a reference for the other researcher in the next research. Other than that, it is expected to contribute to the development of theories regarding to the influence of CSR, Investment Decision, and Capital Structure to Firm Value.