CHAPTER I

INTRODUCTION

1.1 Research Background

The establishment of a company must have a primary goal to increase the value of the company. In addition the company would want excitement. The company's sustainability is influenced by investors. The presence of investors can improve the financial performance of the company. In this annual report will look good or bad state of the company's financial condition, whether the company has an effective and efficient performance in managing funds originating from within and outside the company within a certain period.

The value of a company is a certain condition that has been achieved by a company as a picture of public confidence in the company after through a process of activity for several years, since the company was established until now. Increasing the value of a company is an achievement, in accordance with the wishes of its owners, because with the increased value of the company, then the welfare of the owners will also increase. High corporate value is the desire of the owners of the company, because with a high value shows the prosperity of shareholders is also high. The wealth of shareholders and the company is presented by the market price of the stock which is a reflection of investment decisions, financing, and asset management.

Company value can be analyzed by using PBV ratio (price to book value) or often also referred to as market to book value ratio and can use Tobins'Q, this ratio is a comparison between stock price and book value of its shares. The higher the ratio of Price Book Value shows the company more trusted which means the value of the company becomes higher.

Corporate value is very important because with high corporate value will be followed by high shareholder wealth (Brigham & Gapenski, 1996). The higher the stock price the higher the value of the company. The wealth of shareholders and the company is reflected by the market price of the stock which is a reflection of investment decisions, funding and asset management. Optimization of corporate value can be achieved through good corporate governance and optimal financial management functions, a financial decision will affect other financial decisions and impact on the value of the company. With the better the value of the company, then the company will be considered more valuable by potential investors. According to Brigham and Houston (2013), the primary goal of management is the maximization of shareholder wealth. The high value of the company is the desire of the owners of the company, because the higher the value of the company then the stock price is also higher so that it also increases shareholders' wealth. Corporate value is an important concept for investors because the value of a company is an indicator of how the market perceives the company as a whole.

Corporate value can be seen from the company's ability to pay dividends. There are times when the dividends are not shared by the company because the company feels the need to reinvest the profits it earns. The amount of such dividend can affect the stock price. If the dividends are paid high, then the stock price tends to be high so that the value of the company is also high and if the dividend is paid to the small shareholders then the stock price of the company that distributes it is also low. The ability of a company to pay dividends is closely related to the company's ability to make a profit. If the company gets a high profit, then the company's ability to pay dividends is also high. With a large dividend will increase the value of the company (Harjito and Martono, 2011).

Financial performance is one of the factors that become the reference of investors in buying shares. For the company, improving financial performance is a must so that the company's shares remain attractive to investors. Investor’s overview a company by looking at financial ratios as an investment eviction tool, because financial ratios reflect the high and low firm values. If investors want to see how big companies generate return on their investments, which will be seen first is the ratio of profitability (Retno Endah puspasari, 2009).

Based on the description above, the authors conducted a study to determine The Influence of Financial Performance on the Company Value in Manufacturing Companies Listed on the Indonesia Stock Exchange from 2014 to 2016.

1.2 Research Questions

Based on the background, the issue in this research can be defined as follows:

a. Does Return on Asset (ROA) influence company value?
b. Does Debt to Equity (DER) influence company value?
c. Does Dividend Ratio influence company value?

1.3 Research Objectives

In accordance with the background and the formulation of the problem, then the purpose of this study to analyze:

a. Does Return on Asset influence company value.
b. Does Debt to Equity influence company value.
c. Does Dividend Ratio influence company value.