

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Nowadays, company's ability to generate profit is the most basic things an investor take as consideration for making investment decision. In general, profitability is the simplest ratio where investors can see the company ability to generate profit. By analyzing a company's profitability, investors can see the company current performance as well as its future prospect. As high profitability is preferred by investors, many investors would prefer company that manage to gain profit from utilizing limited resources.

A company that earns net profit usually means a healthy performance. At certain level, this information is quite useful for investors to take as consideration in investment. However, this information is not enough as many companies are able to have net profit. This is why investors needs more information from financial report about a how exactly the company's earned profits. One of the aspect that influence a company's general performance is how well the assets are being managed.

Basic industry and chemical sectors is one of the sectors that takes an important role in the whole industry. This sector produce materials or products that were needed for other manufacturer or industry to produce continued product. Basic industry and chemical consists of several subsectors in which are, cement subsector,

wood industries subsector, ceramics, glass, porcelain subsector, plastic and packaging subsector, pulp and paper subsector, chemical subsector, metal and allied products subsector, and animal feed subsector. As this industry produce the essential materials like cement for construction, wood for furniture, plastic for consumer goods packaging and et cetera, it's a sector that attract many investors.

In recent years, basic industry and chemicals in Indonesia has gained a lot of attention. Along in 2018, basic industry and chemical sector is the one that has the most significant growth. One of the sector that contribute in 2018 growth of basic industry and chemical sector is cement subsector, which is PT Semen Indonesia (SMGR) with a high volume sales. PT Indah Kiat Pulp (INKP) from paper and pulp subsector also takes a big part in this industry growth in 2018 (Rahmawati, 2018). Furthermore, the net profit of basic industry and chemical sector in 2018 also shows an increase of 8% compare to its previous year (Caesario, 2019). These makes basic industry and chemical sectors gained a lot of attention from investors.

This sector is considered as a capital intensive industry, producing large volume of products to be sold. With so many invested assets are used in their business productivity, company need to know how to manage its asset efficiently and effectively to generate high profit. The profitability ratio that can measure how well the company is using its asset in generating net income is Return on Asset (ROA). This makes ROA is a reliable ratio for investors to check on their profitability performance based on assets.

Return on Asset (ROA) is one of the profitability ratio that measures the level of company asset in generating net income. There's many aspects that might influence ROA. To know more about company abilities, investors need to analyze the factors that might influence ROA. In business that depends on selling activities, making high sales is very crucial. For business to operate smoothly, company needs to have a good strategy in managing its assets since it will impact the performance of company. There are three financial measurements that can be used to evaluate company's level in managing its assets are activity ratio such as Inventory Turnover (IT), Fixed Asset Turnover (FAT), and Working Capital Turnover (WCT).

Inventory Turnover (IT) is one of activity ratio that measures company's ability to sell its product. As a type of business with main activities are from selling its products, company's needs to measure the efficiency of inventory being sold during a given period. This makes a high IT ratio is preferable by investors since it means that the company has a solid sale.

Fixed Asset Turnover (FAT) is an activity ratio that measure how well its fixed asset like machine and equipment are used to generate revenue. As fixed asset usually cost a lot of investment, investor would like to know how well those assets are managed. A high FAT is preferable by investor as it means that the fixed asset are being used efficiently. Fixed asset is a very important component that have to be measure its productivity as it is a big part of company's asset.

Working Capital Turnover (WCT) is another activity ratio that measure how efficient a company in using working capital in generating revenue. Working

capital is an important section that has the role of funds available to run daily operations.

Basically, ROA gives figure how efficient the company is using its assets to earn net profit. As part of shareholders' equity were used in purchasing asset or investment, investors need to know how well the company are using its capital in utilizing asset. Investors will want to know how the company efficiency and productivity are able to provide investors with substantial returns.

Table 1.1 IT, WCT, FAT and ROA of Selected Companies from 2016-2018

Company's Name	Year	Inventory Turnover	Fixed Asset Turnover	Working Capital Turnover	Return on Assets
PT Semen Indonesia Tbk	2016	6.409	0.847	11.764	10.254%
	2017	6.246	0.855	5.565	6.282%
	2018	5.908	0.937	3.932	6.032%
PT Surya Toto Indonesia Tbk	2016	0.965	2.346	2.951	6.530%
	2017	1.019	2.693	2.923	9.869%
	2018	0.938	3.042	2.516	11.967%
PT Charoen Pokphand Indonesia Tbk	2016	5.993	3.405	6.099	9.192%
	2017	7.980	4.484	7.400	10.178%
	2018	7.564	4.618	5.762	16.464%

Source: Prepared by the writer (2020)

Based on Table 1.1 above, there are three companies from basic industry and chemicals sector with fluctuations along the years of 2016-2018. Among those companies above, PT Charoen Popkhand Indonesia Tbk and PT Surya Toto Indonesia Tbk experienced increase in its ROA during 2016-2018. On the other hand, PT Semen Indonesia Tbk experience decrease in its ROA each year during 2016-2018.

The increase of ROA in 2018 that PT Charoen Pokphand Indonesia Tbk experienced was due to its increase in net income. In 2018, the company experienced increase in sales of many kinds of animal feed with main sales revenue that increase 9.3% into Rp53.96 billion. Combined with the decreased of cost of goods sold which shows the company ability in managing its IT, the company has increased its net income by 82% (Ayuningtyas, 2019). This give impact in its ROA where it increased into 16%. This shows that IT might have significant influence towards ROA which is supported by research conducted by Umayta et al. (2019) On the other hand, PT Surya Toto Indonesia also shows an increase in its ROA. However, on 2018 the company experienced decrease in its sales due to low export demands where its IT decrease (Aziliya, 2018). PT Semen Indonesia also claimed an increase in sales by 5.8% and net income to Rp3.08 billion but the IT shows a decrease compare to last year. These shows that inventory turnover might have a different significant influence which is supported by Bangun et al. (2018). There are also another contradictory results where IT has an insignificant influence towards ROA by Wardani et al. (2016).

The Fixed Asset Turnover (FAT) of PT Surya Toto Indonesia are shown to have the most increase. This is due to the new operation of new factory in Gresik, East Java. With an increase of capacity by 350,000 unit, it reflects in the increase of its ROA (Aziliya, 2018). This shows that FAT might have a significant influence towards ROA which is supported in research by Agleintan et al. (2019). On the other hand, as other companies above shown fluctuations that does not reflected in

ROA, there's a possibility of insignificant influence which is supported by Vincent (2018) and Febrianty (2017)'s research.

The Working Capital turnover (WCT) of PT Semen Indonesia Tbk and PT Charoen Pokphand Indonesia are shown to keep decreasing although their sales increase by 2018. The reason of decrease in their WCT is due to increase in its net working capital. This shows that WCT might influence ROA and it was supported by research done by Saputra (2017) and Febrianty (2017) where there is a significant influence of WCT towards ROA. On the other hand, there is also conflicting research based on Ginting (2018) research where there is an insignificant influence of working capital turnover to ROA.

Based on the description above, the writer believe that this research can be an additional information for investors to analyze the profitability of basic industry and chemicals industry that has garner a lot of attention as a sector with positive development along the year. On the other hand, as there are inconsistencies from previous research, writer decided to analyze more about how inventory turnover, working capital turnover and fixed asset turnover influence ROA. Therefore, the writer decides to do research with the title **“The Influence of Inventory Turnover, Fixed Asset Turnover, and Working Capital Turnover towards Return on Asset (ROA) on Basic Industry and Chemical Sector listed in IDX 2014-2018”**.

1.2 Problem Limitation

In order to prevent research object from becoming too broad, researcher will limit the research as follow:

- a. The independent variables used in this research are Inventory Turnover, Fixed Asset Turnover, and Working Capital Turnover. The dependent variable is Return on Asset (ROA).
- b. The object of this research is Basic Industry and Chemical sector companies that are listed in Indonesia Stock Exchange (IDX).
- c. The observation period of this research was limited to period within 2014-2018.

1.3 Problem Formulation

Based on the background research above, the problem formulation are as follows:

1. Is there a significant influence of Inventory Turnover partially to Return on Asset of Basic Industry and Chemical companies listed in IDX?
2. Is there a significant influence of Fixed Asset Turnover partially to Return on Asset of Basic Industry and Chemical companies listed in IDX?
3. Is there a significant influence of Working Capital Turnover partially to Return on Asset of Basic Industry and Chemical companies listed in IDX?
4. Is there a significant influence between Inventory Turnover, Fixed Asset Turnover, and Working Capital Turnover simultaneously towards Return on Asset of Basic Industry and Chemical companies listed in IDX?

1.4 Objective of the Research

Based on the background research above, the objective of the research are as follows:

1. To test and provide empirical evidence about the influence of Inventory Turnover towards Return on Asset of Basic Industry and Chemical companies listed in IDX.
2. To test and provide empirical evidence about the influence of Fixed Asset Turnover towards Return on Asset of Basic Industry and Chemical companies listed in IDX.
3. To test and provide empirical evidence about the influence of Working Capital Turnover towards Return on Asset of Basic Industry and Chemical companies listed in IDX.
4. To test and provide empirical evidence about the influence of Inventory Turnover, Fixed Asset Turnover, and Working Capital Turnover towards Return on Asset of Basic Industry and Chemical companies listed in IDX.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research could provide better understanding and knowledge on how Inventory Turnover, Fixed Asset Turnover, and Working Capital Turnover

influence Return on Asset (ROA). It is also expected that this research can contribute to the development in the accounting field.

1.5.2 Practical Benefit

a. For investors

This research can improve investor knowledge and gain more information about Inventory Turnover, Fixed Asset Turnover, Working Capital Turnover, and Return on Asset (ROA). In addition, investors can have more understanding about how those variables influence the Return on Asset and help investors in making a decision about investing.

b. For the companies researched

Through this research, the companies that are being researched can gain more understanding how the variables influence the Return on Asset as well as how they can improve their companies for better benefit for the company and attracting investors.

c. For researcher

The researcher will have the ability to understand how related accounting theories learned and acquired in the university can be linked to real life situation in the accounting field.

d. For academics

Through this research, it is expected that it can be used as reference for those who will be doing research with the same topic or related topic.