

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A company is a production activity unit that manages economic resources to provide goods and services for the community, which have the purpose of gaining profits. Profits are one of the main reasons companies are formed, because if profits are not one of the main reasons, then the organization is a non-profit organization. Company profits, is a reflection of the success of a company run, because the greater the profits obtained, of course the greater the company can grow and develop, and also provide benefits to the owners of the company.

The current economic situation in Indonesia has the effect of increasingly fierce competition in various industrial fields. For this reason, companies must be able to face intense competition in their industry. One way that can be taken is by increasing its internal capabilities, both in the form of technological improvements, product quality, quality of human resources, cost efficiency, and higher performance so that it requires good technology to support the success of a company (Rian, 2013 in Kurniawan, 2017).

Tehnological developments in the business world have caused many companies to think about always making improvements in all fields that are considered less beneficial for the company, including in the way of measuring the performance of company management. Existing competition can have a significant impact on the company itself and it has become common knowledge that the activities of each company are aimed at the prosperity of the company itself. Analysis of the development of financial performance can be obtained through analysis of corporate financial data arranged in financial statements.

Financial statements are produced through an accounting system that is held by a company. Financial statements consist of five types namely, general information, statement of financial position, statement of profit or loss, statement of changes in capital, and statement of cash flows (PSAK, 2015 in Astarly, 2015). Financial statements that are used to help users of financial statements in evaluating company performance, can make the right decisions.

The parties that need financial statements include leaders and company owners, creditors, investors, and the government. For company leaders financial statements for decision making. As for the owner of the company will be useful in helping oversee the development and growth of the company. For creditors, financial statements are used as a benchmark for whether the company deserves credit or not. For investors, financial statements are used as a comparison to invest in which companies have good and promising financial statements. For the government, especially in terms of taxes, it will be useful to determine how much tax the company must pay.

Besides that, the financial statements issued by the company are a basis of information for compiling and evaluating various policies that have been carried out in the past period as well as for planning and determining the direction of the company's activities in the future. From that information can also analyze financial statements can be done by comparing or connecting the number of certain posts with other posts in the balance sheet and income statement so that it can be obtained a description of the good or bad financial position of the company.

Financial statement analysis activities are one of the media to get more information, better, accurate, and used as material in the decision making process. Analysis of financial statements is a very important tool to obtain information relating to the company's financial position and the results that have been achieved in connection with the selection of company strategies to be determined. In addition, by analyzing the

company's financial statements, the head of the company can find out the company's financial situation and the results that have been achieved in the past and at the time that is running.

The company's financial performance is one of the evaluation tools for efficiency and effectiveness of the results achieved by the company in managing available resources. A good financial performance of a company can be seen from its ability to generate high profits. Companies that produce high profits are certainly an attraction for investors, because the profits obtained by investors are also higher.

Financial performance measurement can be done using a measuring instrument called ratio. Ratios used to assess a company's financial performance such as liquidity ratios, leverage ratios, activity ratios and profitability ratios.

One technique of data analysis for financial statements is financial ratio analysis that can provide information and an overview of the strengths and weaknesses of the company. Financial ratio analysis can be used by investors in anticipating and minimizing the risks that might be experienced by investing their funds in the company they choose.

Profitability ratio is a ratio that shows the ability of issuers to generate profits and measure the level of operational efficiency and efficiency in using their assets (Rusdin, 2008 in Sahari, 2015).

In this study, profitability ratios are measured using Net Profit Margin (NPM) and Return On Equity (ROE).

Table 1.1 Sample Data of Consumer Goods Industry Companies Listed in Indonesia Stock Exchange

Company	Year	Net Profit Margin (%)	Return On Equity (%)	Earning Per Share (Rp)
PT. Delta Djakarta Tbk	2015	0,2745	0,2260	238
	2016	0,3284	0,2514	317
	2017	0,3599	0,2444	349
PT. HM Sampoerna Tbk	2015	0,1164	0,3237	109
	2016	0,1337	0,3734	110
	2017	0,1279	0,3714	93
PT. Darya-Varia Laboratoria Tbk	2015	0,0826	0,1108	97
	2016	0,1048	0,1409	136
	2017	0,1030	0,1453	145

Source: Prepared by the writer (2019)

Based on Table 1.1 shows that Delta Djakarta Tbk has increase in net profit margin of 0.2745 to 0.3284 then 0.3599 from 2015-2017. Return on equity obtained is 0.2260 in 2015 increase to 0.2514 in 2016 but decrease to 0.2444 in 2017. That effected the earning per share that increase from 238 to 317 then 349 in 2015-2017.

HM Sampoerna Tbk has increase in net profit margin of 0.1164 in 2015 to 0.1337 in 2016 but decrease to 0.1279 in 2017. Return on equity obtained is 0.3237 in 2015 increase to 0.3734 in 2016 but decrease to 0.3714 in 2017. That effected the earning per share of 109 in 2015 increase to 110 in 2016 but decrease to 93 in 2017.

Darya-Varia Laboratoria Tbk has increase in net profit margin of 0.0826 in 2015 to 0.1048 in 2016 but decrease to 0.1030 in 2017. Return on equity increase from 0.1108 to 0.1409 then 0.1453 from 2015-2017. That effected the earning per share that increase from 93 to 136 then 145 from 2015-2017.

Based on the phenomena of several companies of different types of businesses. The companies experienced a decrease in earning per share due to decreasing net income. Other than that, it is also caused by an increase in expenses and costs that effect the sales of each company. The decrease in sales effect net income and net profit margin. This will result in a decrease in earning per share.

Consumer Goods Industry companies are chosen because they play an important role in meeting consumer needs. Society needs for food and beverage, medicine, and cosmetic products will always be there because it is one of the basic needs. Based on this fact, consumer goods industry companies are considered to continue to survive. The consumer goods industry is an industry that has good development, positive growth, is very fast and always exists because it is one of the basic needs.

Based on the above explanation, the authors are interested to conduct research about: **“The Effect Of Net Profit Margin And Return On Equity Towards Financial Performance On Consumer Goods Industry Companies Listed In Indonesia Stock Exchange Year 2015-2017”**.

1.2 Problem Limitation

There are some limitations in this research, which are:

1. The companies that will be examined are Consumer Goods Industry companies listed in Indonesia Stock Exchange year 2015-2017.
2. The financial statements that will be examined are the components of net income.
3. The financial ratio compared includes Net Profit Margin, and Return on Equity.
4. The variable that used to measure Financial Performance is Earning Per Share.

1.3 Problem Formulation

The formulation of the problem in this research are:

1. Does Net Profit Margin partially has a significant effect towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017?

2. Does Return on Equity partially has a significant effect towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017?
3. Does Net Profit Margin and Return on Equity simultaneously have a significant effect towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017?

1.4 Objectives of the Research

The purpose of the research undertaken are:

1. To know the effect of Net Profit Margin partially towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017.
2. To know the effect of Return on Equity partially towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017.
3. To know the effect of both Net Profit Margin and Return on Equity towards Financial Performance on Consumer Goods Industry Companies listed in Indonesia Stock Exchange year 2015-2017.

1.5 Benefits of the Research

1.5.1 Theoretical Benefit

The results of the study can be used to add references in the field of scientific work that can develop science. This research may be a learning in applying the theory obtained so as to increase knowledge, experience, and scientific documentation.

1.5.2 Practical Benefit

For companies, as input material and provide information to company practitioners about net profit margin and return on equity which can be used as an alternative in improving the company's financial performance.

For the general public, add insight and references that can be used as information material to find out the financial performance of Consumer Goods Industry companies listed in Indonesia Stock Exchange 2015-2017.

For academics, add references to the further research related to the construction of financial statements in financial performance.

For author, this research is an implementation of economics, especially financial accounting that has been obtained from the learning process of the writer so that adds insight to the author on how to apply the theory to actual practice.

1.6 Systems of Writing

CHAPTER I

INTRODUCTION

The first chapter is about Background of The Study – companies must be able to face intense competition in their industry by improving their financial performance. Problem Limitation – limit the problem of the research. Problem Formulation – questions of partial and simultaneous significant effect. Objective of The Research – to provide empirical evidence for problem formulation. Benefits of The Research – consists of theoretical and practical benefits. Systems of Writing – the structure of this research.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The second chapter is about Theoretical Background – consists of grand theory, theory of independent and dependent variables. Previous Research – the researches that had been conducted before by another researchers. Hypothesis Development – the relationships between independent and dependent variables. Research Model – the frame of independent and dependent variables. Framework of Thinking – summary about this research in a diagram.

CHAPTER III RESEARCH METHODOLOGY

The third chapter explains Research Design – quantitative research uses secondary datas. Population and Sample – consumer goods industry companies listed in Indonesia Stock Exchange 2015-2017. Data Collection Method – accounting journals, research-related books, factbooks, and financial statements downloaded from Indonesia Stock Exchange website. Operational Variable Definition And Variable Measurement – the definition and formula of independent and dependent variables. Data Analysis Method – using multiple linear regression with the help of SPSS 21 software program.

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

The fourth chapter explains General View of “Research Objective” – consumer goods industry listed in Indonesia Stock Exchange 2015-2017. Data Analysis – consists of descriptive analysis, classical assumption test: normality test, heteroscedasticity test, multicollinearity test, and auto-correlation test, hypothesis testing: t test, f test, and coefficient of determination. Discussion – the results of hypothesis analysis.

CHAPTER V

CONCLUSION

The fifth chapter consists of Conclusion – the final results of data analysis. Implication – the effect of independent towards dependent variables. Recommendation – suggestions for the company, investors, and future researchers.

