

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Generally, company is one of the economic activities in the business world which keeps changing all the time with the purpose of making the business better. In order to do that, every company takes some new steps and better business strategies to achieve the goals.

The management is required to know the financial condition of the company. The company financial condition can be known from the financial statement of the company such as balance sheet which is also called as statement of financial position, income statement which is also called as statement of financial performance, statement of cash flow and etc. By analysing the financial statement, management can know the big picture of the company financial condition. In pursuance of the goals and objectives, the company should be able to organize and control the financial statement because it is the benchmark in measuring the company performance.

Company performance is the achievement and the company's ability to operate its business financially which is shown in the financial statements. In measuring financial performance of the company, relevant informations about the company activities with related parties in certain period is required. The financial performance of a company is very useful for stakeholders such as investors, creditors, analysts, financial consultants, brokers, government, and also for the internal management as well. A well

and accurately prepared financial statement can reflect the real condition of the company performance in certain period which can be utilized to measure the overall company financial performance.

As an economic entity, company usually has short-term and long-term goals. In short-term goals, company aims to maximize its profit through the resources it has. While in long-term goals, the main goal of the company is to maximize its firm value. The firm value will be reflected through the company's stock price. Euis and Taswan (2002) in Nofrita (2013) states that higher stock price will reflect higher firm value. High firm value will bring prosperity to the company, especially to the shareholders. Martono and Agus (2005) in Nofrita (2013) states that the establishment of a company should have clear goals, where the company's first goal is to get maximum profit. The second goal is to prosper the shareholders. And the third goal is to increase the firm value which can be reflected through stock price. Those three goals are actually not much different. The difference only at the goals that each company aims to achieve. Firm value is the price that prospective buyers or investors are willing to pay when the company is sold. With high firm value, it will bring good image to prospective investors. High firm value shows good company performance.

There are several factors that affect firm value, such as dividend policy. Dividend policy is an important problem, because not only the amount of money that is involved and it is the recurring nature of dividends payout. Dividend payment policy has a close relationship with most of the company's investment and other financial policies. Dividend payout policy is a complicated things for a company, because it involves two parties which have different interests namely between shareholders and the internal parties

which is the company management. According to Riyanto (1995) in Mahpudin (2016), dividend policy is a policy concerned with determination of revenue sharing between the used to pay dividends to shareholders or for use in companies. Besides dividend policy, asset structure also affects the firm value. According to Weston and Brigham (2005) in Wijoyo (2018), asset structure are balances or comparisons between fixed assets and total assets. Company with flexible asset structures tends to use greater leverage than companies whose asset structure is not flexible. Based on the ways and the duration of the turnover, company's wealth can be classified into current assets and non-current assets. The comparison between those two assets will determine the asset structure. The composition of current assets with non-current assets in the company will determine the choice of the right funding source. Companies that have the type of assets suitable for credit guarantees will tend to use debt because of the convenience they have. Therefore the company can obtain funding sources easier, so that it can increase the value of the company.

According to Nofrita (2013), there are several aspects that have impact on the firm value which are company size, company growth, assets value, dividend, tax savings, capital structure and capital market situation. Whereas according to Amirya and Atmini (2007) and Oktaviani (2008) in Nofrita (2013), the aspects that have impact on firm value are dividend policy, profitability, sales growth, and company size. However, in this study, we will only discuss three factors which are return on assets, return on equity and current ratio. Return on assets and return on equity are two most common used ratios which are classified in profitability ratio.

Profitability is one of the factors that affects the firm value. According to Mulianti (2010) in Wijaya and Sedana (2015), firm value is very important since it shows the company performance which affects the investor's perception of the company. Firm value is often related to stock price. High stock price will reflect high firm value and will bring wealth to the shareholders. Firm value can be increased through profitability, dividend policy, and investment opportunity. Profitability is important for company in order to maintain its performance for long term period. It is because profitability shows whether the company has a good future prospect or not. According to Kasmir (2010), profitability is a factor that can affect firm value. If a company is well-managed, the expenses will decrease so that it will generate more or higher profit. The profit that is earned will affect the firm value. Return on Assets (ROA) and Return on Equity (ROE) are profitability ratio that shows how effective a company manage their own capital and assets.

While current ratio is classified in the liquidity ratio, liquidity ratio is one of the ratios that measure the company financial performance. Liquidity shows the company's ability to fulfill the short-term financial obligations. High liquidity can affect the investor's decision to invest in the company in which it will increase the demand for company shares which will cause the stock price become higher.

Financial statement is the sources of information that is very important in measuring performance and economic condition of a company. Financial statement still needs to be analyzed, and there are some methods to analyze financial statement such as vertical analysis, also called as common-size analysis, horizontal analysis,

also called as index analysis, and ratio analysis which include efficiency, liquidity, profitability, and solvency.

The object of this research will be pharmaceutical companies registered in Indonesia Stock Exchange. Pharmaceutical companies play an important role in reforming the health sector. Mostly, health problems are often associated with the availability of medicines that people need. Many of the pharmaceutical companies which produce medicines which are established in Indonesia, both foreign and local companies, there are 11 pharmaceutical companies that are listed in Indonesia Stock Exchange. Indonesia can be the most promising pharmaceutical market compared to other countries in Southeast Asia. There are several factors that have become the drivers of the growth of pharmaceutical industry in Indonesia, such as the large population of Indonesia, the increasing public awareness of health, the increasing level of the people's economy, and increased access to health along with the implementation of *Badan Penyelenggara Jaminan Sosial (BPJS)*. Regulation has always been a definite factor that affect the industrial business landscape. The same thing happened when the Indonesian government imposed regulations relating to social security, namely *Badan Penyelenggara Jaminan Sosial (BPJS)*. Especially for *BPJS*, the influence of this regulation is felt by pharmaceutical businesses. With the enactment of the regulation, the production of medicines by the pharmaceutical industry will increase due to the increase in consumers who have the *Jaminan Kesehatan Nasional (JKN)* cards which are products of *BPJS*. Business competition is getting tighter in the pharmaceutical industry after the enactment of the *Jaminan Kesehatan Nasional (JKN)*. Where each company will compete to increase drug

production, especially generic drugs as demand increases with the JKN program. Pharmaceutical industry sector companies develop its businesses due to the increasingly fierce competition.

According to Dahwilani (2017), International Pharmaceutical Manufacturers Group (IPMG), an association of international pharmaceutical companies operating in Indonesia, explained the opportunities and challenges of the pharmaceutical industry in the country in 2017. IPMG showed an optimistic attitude towards the growth of the pharmaceutical industry in Indonesia. According to IMS Health data, the pharmaceutical industry market grew 7.49% until the fourth quarter of 2016, higher than the same period in the previous year of 4.92%. IPMG expects this growth to continue in 2017. One of the factors that is driving the growth of the pharmaceutical industry is the widespread participation of the National Health Insurance (JKN) or Health BPJS which reached 175 million members until March 2017, or 66% of the total population of Indonesia. With those factors that drive the growth of pharmaceutical companies, it can be emphasized that the investment in this sector can be one of a promising investments in the future.

Table 1.1 Table of Phenomenom

Name	Year	*ROA	**ROE	***CR	****FV
KLBF	2013	17.41	23.18	283.93	5.178
	2014	17.07	21.61	340.36	6.904
	2015	15.02	18.81	369.78	4.518
	2016	15.44	18.86	413.11	4.664
	2017	14.76	17.66	450.94	4.768
TSPC	2013	11.81	16.53	296.19	2.704
	2014	10.45	14.14	300.22	2.305
	2015	8.42	12.2	253.76	1.235
	2016	8.28	11.77	265.21	1.346
	2017	7.5	10.97	252.14	1.089

Source: www.idx.co.id (2013-2017)

* ROA = Return on Assets

** ROE = Return on Equity

*** CR = Current Ratio

**** FV = Firm Value

Based on table 1.1, it is shown that PT. Kalbe Farma Tbk. (KLBF) in 2013 has ROA of 17.41, ROE of 23.18, CR of 283.93, and FV of 5.178. In 2014, KLBF's ROA decreases to 17.07, ROE decreases to 21.61, CR increases to 340.36, and FV increases to 6.904. In 2015, KLBF's ROA decreases to 15.02, ROE decreases to 18.81, CR increases to 369.78, and the FV decreases to 4.518. In 2016, KLBF's ROA increases to 15.44, ROE increases to 18.86, CR increases to 413.11, and the FV increases to 4.664. In 2017, KLBF's ROA decreases to 14.76, ROE decreases 17.66, the CR increases 450.94, and the FV increases to 4.768. So, in conclusion, the ROA and ROE decrease from 2013 to 2015, then it increases in 2015 to 2017, then it has decreased in 2016 to 2017. The CR is increasing each year from 2013 to 2017. While the FV increases from 2013 to 2014, then decreases in the year 2014 to 2015, then it increases from the year 2015 to 2017.

In 2013, PT. Tempo Scan Pacific (TSPC) has ROA of 11.81, ROE of 16.53, CR of 296.19, and the FV of 2.704. In 2014, TSPC's ROA decreases to 10.45, ROE decreases to 14.14, CR increases to 300.22, and the FV decreases to 2.305. In 2015, TSPC's ROA decreases to 8.42, ROE decreases to 12.2, CR decreases to 253.76, and the FV decreases to 1.235. In 2016, TSPC's ROA decreases to 8.28, ROE decreases to 11.77, CR increases to 265.21, and the FV increases to 1.346. In 2017, TSPC's ROA decreases to 7.5, ROE decreases to 10.97, CR decreases to 252.14, and the FV decreases to 1.089. So, in conclusion, the ROA and ROE are decreasing each year from 2013 to 2017. The CR increases in 2013 to 2014, then it decreases in 2014 to 2015, then increases in 2015 to 2016, then

decreases again in 2016 to 2017. While the FV decreases from 2013 to 2015, then it increases in 2015 to 2016, and decreases in 2016 to 2017.

Based on the background of the study, the researcher is interested in the title: “Impact of Return on Assets, Return on Equity and Current Ratio towards Firm Value on Pharmaceutical Companies Listed in Indonesia Stock Exchange”.

1.2 PROBLEM LIMITATION

Due to time limitation, insight and knowledge, it is necessary to limit this research to the problems associated with:

1. The utility of return on assets and return on equity in measurement of firm value.
2. The utility of current ratio in measurement of firm value.
3. The data that will be used is the financial statement of pharmaceutical companies listed in Indonesia Stock Exchange from the year 2013 to 2017.

1.3 PROBLEM FORMULATION

The problems formulation in this research are:

1. Does return on assets affect the firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.
2. Does return on equity affect the firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.
3. Does current ratio affect the firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.

4. Does return on assets, return on equity, and current ratio simultaneously affect the firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.

1.4 OBJECTIVE OF THE RESEARCH

Based on the background of the study and the problem formulation, the objective of the research is:

1. To know the effect of return on assets towards firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.
2. To know the effect of return on equity towards firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.
3. To know the effect of current ratio towards firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.
4. To know the simultaneous effect of return on assets, return on equity, and current ratio towards firm value in pharmaceutical companies registered in Indonesia Stock Exchange from the year 2013 to 2017.

1.5 BENEFIT OF THE RESEARCH

Based on the research objectives that are required to be achieved, this research is expected to have benefits in education either directly or indirectly. The benefits of this study are as follows:

1.5.1 THEORETICAL BENEFIT

Theoretically, this research is expected to be useful for education sector, especially for business school financial accounting study program in the area of analysing financial ratio towards a company performance.

1.5.2 PRACTICAL BENEFIT

This research is expected to provide benefits for all parties involved in this study, including:

1. As a basis for the company in assessing the firm value.
2. As a reference for prospective researcher and other students in developing knowledge in financial accounting especially in financial ratio analysis.
3. Prospective researcher can easily develop this research material to a more useful and broader direction.
4. Author can understand the utility of financial ratio in measuring company performance.
5. As a way for author to practice the knowledge at the time of college by conducting research in order to complete the bachelor degree education.

1.6 SYSTEMS OF WRITING

The systems of writing contain details about the sequence of writing from each chapter and sub chapter, starting from chapter I to chapter V

Chapter I Introduction

Description about the introduction and is the initial part of the research, which consists of background of the study, problem limitation, problem formulation,

objective of the research, benefit of the research and systems of writing.

Chapter II Literature Review and Hypothesis Development

Description about literature review and hypothesis development. Literature review has an important role, literature review serves as theoretical background in organizing research questions, objectives and hypothesis. It consists of theoretical background, previous research, hypothesis development, research model, and framework of thinking.

Chapter III Research Methodology

It includes description of research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

Chapter IV Data Analysis and Discussion

It includes general view of “Research Object”, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing, and discussion.

Chapter V Conclusion

Consists of conclusion, implication, and recommendation.