CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

High fixed costs, a company under financial distress condition usually has an employment who have a bad tempered and higher level of stress because the increasing chance of bankruptcy would force them out of their jobs.

Financial distress starts with the inability of companies to fulfill their obligations, especially short term obligations. Therefore, companies that are able to pay off their short term obligations properly, the potential for experiencing financial distress will be smaller. Financial distress conditions are important to know since beginning, then the company can take action to improve the situation, so the company will not get into the bankruptcy. From the description above we know that profit has an important role for company as a indicator for investors to know the continuity of the company, profit obtained by company operation can be used to pay the operational costs that company owned and used to pay off existing debt, a company could turn into financial distress condition if the profit that company earned are unable to fulfill obligations. For company to cover their obligations do not only depend on profit, but also depend on debts from third parties. Debts to third parties by companies to settle their obligations are often called as leverage.

Leverage is how much assets of company have derived from debt or capital, this ratio can determine the company's position, fixed obligations to other parties and balance the value of fixed assets with existing capital. Leverage arises from the use of company funds from third parties in the form of debt. The use of these funds will result in the obligation for company to repay the loan along with the interest. If this situation is not balanced with good corporate income, then the company

will turn into financial distress condition. First independent variable that used towards financial distress is Profitability. Profitability ratio measurement in this study is proxy by Return on assets using profit as one way to assess the effectiveness of using company assets. The higher Return on asset shows that the company is more effective using the assets to generate profit and the smaller Return on asset indicates that the company is not able to use the company assets to generate profit. This situation will result financial distress in a company. Based on information we know profitability and leverage have a role in financial distress. Second independent variable that used is leverage. Leverage ratio used to measure how much the company's assets are financed by debt that describes how much the debt that company owned compared to its assets Leverage measurement in this study proxy in Debt ratio.

This research is research replication by Susilawati (2017) who examines. "Pengaruh profitabilitas dan leverage dan ukuran perusahaan terhadap financial distress pada perusahaan minyak gas dan bumi pada tahun 2010-2015." The different in this research are in the independent variable which is used three independent variables namely, Profitability , company size and leverage and also different in research objects, which is in the study the researcher used consumer good companies from year 2015-2017 and only use one theory as the grand theory in this research which is agency theory.

From the background above researcher decided to raise the topic about the impact of Profitability and leverage analysis in this study because researcher hope can prove the ability of profitability and leverage information towards financial distress in a company. Research about predictions of corporate bankruptcy has been mostly done in Indonesia. But research about the impact of Profitability and leverage towards financial distress in company still very limited, then the researcher get interested to raise this issue in a study aims to find out the evidence of

Whether Profitability and leverage can be used towards Financial distress in company.

This study expected to be used as consideration for investors and creditors as internal parties in detecting the company's financial condition , not only for creditors and investors but for company too, they can take anticipatory action if the company experiences a financial distress condition. For the company sector the researcher uses consumer goods company as a case study because consumer goods industry companies are one of the companies that is not significantly affected by the impact of the global crisis. The level of public consumption of goods produced in the industry has become a primary need for the community and relatively unchanged.

The level of consumer goods industry is getting higher, because consumer goods are one of the most important of human needed besides clothing and Consumer Goods Company is a business opportunity that has good prospects.

Table 1.1 Data of variables Profitability (ROA) , Leverage (DR) and Financial distress in Consumer goods Company 2015 – 2017.

Company	Year	ROA (%)	DR	Financial distress
Wilmar cahaya kalbar (CEKA)	2015	7. 2	0,569	1,651
	2016	17.5	0,377	2,579
	2017	7.7	0,349	2,154
Delta Djakarta (DLTA)	2015	18.5	0,182	2,942
	2016	21.2	0,155	3,448
	2017	20.9	0,146	3,642
Sekar Bumi Tbk (SKBM)	2015	5.3	0,550	1,096
	2016	2.3	0,632	0,789
	2017	1.6	0,370	0,761

Source: Prepared by the Writer (2019)

Based on the table 1.1 above PT Wilmar company in 2015 The Return on assets is 7.2% , The Debt ratio is 0,569 and which is in financial distress the value is 1,651 . In 2016 Return on assets increased by 17.5% while Debt ratio decreased by 0,377 and in financial distress the value is 2,579. In 2017 Return on assets decreased by 7.7%, while Debt ratio decreased in 0,349 and for financial distress the value is 2,154. Based on table the results for wilmar company is free from financial distress condition it can be seen from 2015 – 2017 the financial distress value show number > 0,862.

At Delta Djakarta Company in 2015 The Return on assets is 18.5% , The Debt ratio is 0,182 and which is in financial distress the value is 2,942 .In 2016 Return on assets increased by 21.2 % while Debt ratio decreased by 0,155 and in financial distress the value is 3,448 . In 2017 Return on assets decreased by 20.9 % , while Debt ratio decreased in 0,146 and for financial distress the value is 3,462 . Based on table the results for Delta djakarta company is free from financial distress condition it can be seen from 2015 – 2017 the financial distress value show number > 0,862.

At Sekar Bumi Tbk in 2015 The Return on assets is 5.3% , The Debt ratio is 0,550 and which is in financial distress the value is 1,096 . In 2016 Return on assets decreased by 2.3 % while Debt ratio increased by 0,632 and in financial distress the value is 0,789. In 2017 Return on assets decreased by 1.6 %, while Debt ratio decreased in 0,370 and for financial distress the value is 0,761. based on table the results for Sekar bumi company in 2015 is free from financial distress condition , while in 2016 – 2017 the Delta company in financial distress condition it can be seen from 2016 – 2017 the financial distress value show number < 0,862.

Based on the background above, the writer is interested in doing this research with the title "**The impact of Profitability and Leverage analysis toward financial distress in Consumer goods company listed in Indonesia stock exchange (IDX)" from year 2015 - 2017**."

1.2 PROBLEM LIMITATION

Based on the background above, The writer still aware of the limitation in this research. For the limitations of the problem in this study are:

1. Profitability and leverage used in this research only from consumer goods company listed in Indonesia stock exchange (IDX).
2. Company data that the researcher used only 3 years from 2015 – 2017.
3. In this study it is assumed there are only 2 variables in this study which is profitability proxy in Return on assets (ROA) and leverage proxy in Debt ratio (DR).

1.3 PROBLEM FORMULATION

Based on the background study above, the research question in this study as follows:

1) Does profitability partially affect financial distress in Consumer goods company listed in Indonesia stock exchange (IDX) from year 2015-2017?
2) Does leverage partially affect financial distress in Consumer goods company listed in Indonesia stock exchange (IDX) from year 2015–2017?
3) Do profitability and leverage simultaneously affect financial distress in Consumer goods company listed in Indonesia stock exchange (IDX) from year 2015–2017?

1.4   THE OBJECTIVE OF THE RESEARCH

The objective of study is:

1.   To identify the impact of profitability analysis towards financial distress in Consumer Goods Company listed in Indonesia stock exchange (IDX) from year 2015-2017.

2.   To identify the impact of leverage analysis towards financial distress in Consumer Goods Company listed in Indonesia stock exchange (IDX) from year 2015-2017.

3.   To identify the impact of Profitability and leverage analysis towards financial distress in Consumer Goods Company listed in Indonesia stock exchange (IDX) from year 2015-2017.

1.5   BENEFIT OF THE RESEARCH

1.5.1   THEORETICAL BENEFIT

The theoretical used in this research is being able to develop the knowledge of theories about financial ratio analysis that have been applied in written form. This study can provide empirical evidence relating to the impact of profitability and leverage analysis toward financial distress.

1.5.2   PRATICAL BENEFIT

1.   For investor

The results information expected to be used as a consideration for investor to know the company financial condition and help investor to make the right decision.

2.   For company

It's expected can provide input or suggestions in financial management better and help companies in making decisions to solve the company problems.

3.   Future researcher

It's expected to be used as references and complementary to other empirical findings related to financial distress.

1.6   SYSTEMS OF WRITING

To understand this report clearly, it's done by grouping the material   into several subchapters with the systems of writing as follows:

CHAPTER I   INTRODUCTION

This chapter explains more about research background, problem formulation, problem limitation, research objectives, benefits of study and systems of writing.

CHAPTER II   LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

This chapter contains agency theory that used in this research that explains what related to the topic research, and also contains theoretical framework that describes the relationships between variables in this research. This chapter also contains the previous research related to this research and the development of the hypothesis which contains a definition, research model, hypothesis and framework of thinking that researcher used.

CHAPTER III   RESEARCH METHODOLOGY

This chapter explains the research design, the population and sample, Data collection method, the operational variable definition and variable measurement and data analysis method that used. In short this research is quantitative research that

used population and sample from Consumer goods company that listed in Indonesia stock exchanged from year 2015-2017. The data analysis method that used in this study is the multiple linear regression model. As additional information this research used classical assumption test to test the data that used in this research (Normality test, multicollinearity test, autocorrelation test and heteroscedasticity test).

CHAPTER IV   DATA ANALYSIS AND DISCUSSION

This chapter contains the general view of research object , data analysis , and the results of research which includes results of data testing , statistical calculations regarding the analysis of the results in these studies.

CHAPTER V   CONCLUSION AND SUGGESTIONS

This chapter is closing chapter which containing about the conclusion, implication and some recommendations for improvements in the future.