

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The era of globalization of innovations is expanding rapidly. Many emerging companies cause the competition in the business world to become tighter and more complex. Especially in Indonesia, the economic condition has not been stable enough. Thus, it makes many companies go through difficulties to sustain continuity. Based on this, the company must persistently develop multifarious business strategies. In general, the ultimate goal of a company is to earn the maximum profit. For some of the companies, it can be done by expanding the amount of production that can be sold.

Many companies are engaged in the property & real estate industry in Indonesia. The property & real estate's company that listed in Indonesia Stock Exchange has increased from 40 companies in 2010 to 45 companies in 2016 ([www.sahamok.com](http://www.sahamok.com)). According to Firmansyah et al (2018), property & real estate companies are one of the nation's most relevant industries as can be used as a national economic health indicator that can provide substantial jobs and a major chain impact on other industries. The property & real estate industries are very different from other industrial sectors from the point of view of the business characteristics since they require too high working capital.

Profitability is a significant measure of performance for most companies. Generally, profitability becomes a success indicator of a company in realizing

goals. Yuli Anwar (2018), stated that profitability is the company's ability to earn profit about sales, total assets, and own capital. Every company will seek higher profitability, and the level of profitability will describe the profit position. A company will not survive in a long term without profitability. It is important to do the measuring of the past, current, and also projecting future profitability. If the company manages to improve profitability, it can be said that the company can effectively and efficiently manage the resources to generate higher profit and vice versa.

Working capital management (WCM) has an important and vital role in the company's growth and profitability. Working capital management is concerned with a company's short-term investment and financing decisions (Collins and Edwin, 2015). Working capital is perceived as a part of a company's operating capital, refers to current assets such as cash at hand, cash on a bank account, raw materials, work in progress, finished goods, account receivable, etc. Furthermore, the networking capital can be measured by current assets minus current liabilities, as a key indicator of a company's financial health. The ultimate goal of working capital management is to ensure that a company can maintain sufficient cash flow to meet the company's short-term operating costs and short-term debt obligations (Collins and Edwin, 2015).

Firm sizes may have a positive impact on the profitability of the company. Firm size can be assumed as a significant issue in defining the nature of the relationship for the firm within its operating environment and outside. The size of a firm as the quantity and variety of production capacity and ability a firm owner

or the quantity and various services a firm can provide concurrently to the firm's customers. In determining profitability, firm size is included as a primary factor of a firm due to the concept known as economies of scale. Besides, firm size covers the number of assets owned by the firm, which can be seen from the total assets owned by the firm or the total assets listed on the firm's financial statements during the end of the auditing period (Hama and Santosa, 2018). The larger a firm, the most likely a firm to earn high profits since the firm has a broad market. Because of this fact, large firms will have more competitive power when compared to small firms. In addition, large firms are having the advantage to work in the fields which require a high level of capital rates since they have larger resources, and this circumstance offers the opportunity to work in more profitable fields with the least competition.

Sales also have a significant influence on a company, because the sales growth of a company will affect the number of funds required for the operations or investments activities. The company can optimize the resources by determining the sales from the previous year. By knowing how much the sales growth, the company can also predict how much profit will be earned. A company with a high level of sales growth would probably need more investment in the different asset components, either fixed assets or current assets. A sales growth ratio is a ratio that determines sales growth by calculating the difference in the value of sales over the period.

**Table 1.1 Phenomena Table**

No.	Company	Year	Working Capital Management	Firm Size	Sales Growth	Profitability
1.	Jaya Real Property Tbk (JRPT)	2015	-54.226.829	7.578.101.438	11%	11,5%
		2016	-78.337.792	8.484.436.652	10,7%	12%
		2017	355.086.141	9.472.682.688	1%	11,8%
		2018	443.608.986	10.541.248.267	-3,1%	10%
		2019	497.069.008	11.164.935.100	3,9%	9,3%
2.	Summaercon Agung Tbk (SMRA)	2015	2.879.995.476	18.758.262.022	-2,3%	5,7%
		2016	4.481.445.558	20.810.319.657	-4%	2,9%
		2017	2.882.440.898	21.662.711.991	4,4%	2,5%
		2018	3.277.195.696	23.299.242.068	0,3%	3%
		2019	2.133.412.568	24.441.657.276	4,9%	2,5%
3.	Pakuwon Jati Tbk (PWON)	2015	984.883.832	18.778.122.467	19,4%	7,5%
		2016	1.508.590.640	20.674.141.654	4,6%	8,6%
		2017	3.514.427.451	23.358.717.736	18,1%	8,7%
		2018	5.376.406.503	25.018.080.224	23,8%	11,3%
		2019	6.269.490.736	26.095.153.343	1,7%	12,4%

Source: Prepared by the writer (2020)

The writer chose Jaya Real Property Tbk (JRPT), Summarecon Agung Tbk (SMRA), Pakuwon Jati Tbk (PWON) over various Property and Real Estate Companies listed in Indonesia Stock Exchange to show the phenomena data based on the writer's calculation where all the data and numbers were collected from each of the company's financial statement from period 2015 until 2019.

The phenomena data shown above is the comparison between the working capital management, firm size, sales growth, and profitability of three (3) Property and Real Estate Companies listed in Indonesia Stock Exchange from the period of 2015 until 2019. Based on the data above, the working capital of Jaya Real Property Tbk (JRPT) has been increasing, as well as the firm size. Different from that, the sales growth has a drastic decline in the year 2018 for -3,1%. The profitability also has decreased. The higher profitability occurred in the year 2016 with 12% along with the sales growth of 20,7%.

On the other hand, Summarecon Agung Tbk's working capital management from the year 2017 until 2019 was not stable. The firm size has increased. A rapid increase in sales growth occurred in 2017 and 2019. However, the profitability has decreased from year to year.

Lastly, the working capital management of Pakuwon Jati Tbk has increased a lot from the year 2015 until 2019, firm size and profitability also increased. Meanwhile, the sales growth was not stable yet. In 2019, there was a drastic decline in sales growth.

In the previous research, Hama and Santosa (2018), stated that the usage of working capital and firm size had a significant influence on profitability. Besides, Mappanyuki et al (2017), also stated that sales growth had a positive effect on profitability.

Based on the background explained above related to factors that will affect the profitability of a company, research with the title of **“The Effect of Working Capital Management, Firm Size and Sales Growth on Profitability of Property and Real Estate Companies Listed in Indonesia Stock Exchange”** will be conducted.

## **1.2 Problem Limitation**

From the background of the study that has been described in the previous section, there are some limitations to the study that is conducted such as:

1. The research focuses only on the effect of working capital management, firm size, sales growth on profitability of ROA.

2. The research focuses only on the Property and Real Estate Company Listed in Indonesia Stock Exchange.
3. The study is limited from 2015 – 2019.

### **1.3 Problem Formulation**

In this research, based on the definition above there are several issues that need to be formulated such as:

1. Does working capital management have significant effect on the profitability ROA of Property & Real Estate Companies listed on Indonesia Stock Exchange in the period 2015 until 2019?
2. Does firm size have significant effect on the profitability ROA of Property & Real Estate Companies listed on Indonesia Stock Exchange in the period 2015 until 2019?
3. Does sales growth have significant effect on the profitability ROA of Property & Real Estate Companies listed on Indonesia Stock Exchange in the period 2015 until 2019?
4. Do working capital management, firm size, sales growth simultaneously have effect on the profitability ROA of Property & Real Estate Companies listed on Indonesia Stock Exchange in the period 2015 until 2019?

### **1.4 Objective of The Research**

Based on the Problem formulation, the objectives of this research are:



1. To analyze the effect of working capital management on profitability of ROA on Property & Real Estate Companies listed in Indonesia Stock Exchange from 2015 until 2019.
2. To analyze the effect of firm size on profitability of ROA on Property & Real Estate Companies listed in Indonesia Stock Exchange from 2015 until 2019.
3. To analyze the effect of sales growth on profitability of ROA on Property & Real Estate Companies listed in Indonesia Stock Exchange from 2015 until 2019.
4. To analyze the effect of working capital management, firm size, sales growth on profitability of ROA on Property & Real Estate Companies listed in Indonesia Stock Exchange in 2015 – 2019.

## **1.5 Benefit of The Research**

This research is expected to provide benefits for various parties related to the research topic, including:

### **1.5.1 Theoretical Benefit**

This research is expected to be useful as a source of information and references to enable further research on topics that are related to being conducted.

- 1 For the writer, this research is expected to increase the knowledge and better understanding regarding the effect of working capital management, firm size, and sales growth on profitability.

- 2 For readers, this research is expected to provide knowledge for the readers. Besides, this research can be used as references as previous research related to the factors.

### **1.5.2 Practical Benefit**

1. For the company, this research is expected to provide benefits to the company as a suggestion or inputs to increase considering working capital management, firm size, and sales growth towards profitability.
2. For financial statement users, this research is expected to provide information regarding the effect of working capital management, firm size, sales growth on profitability for investors in determining the better investing decision.

