CHAPTER I

INTRODUCTION

1.1 Background of the Study

In running a company or business, the main and most important thing that must be owned by the company in carrying out its business activities is funds. Without funds, a company certainly will experience difficulties in carrying out its operational activities. The funds needed by the company are often referred to as working capital.

Working capital has the main function of financing the company's operational activities. The usage of working capital other than the costs of the company's business activities is the expenditure of employee salaries, the purchase of the company's fixed assets for example vehicles and buildings, the purchase of raw materials or company merchandise and to cover losses caused by the sale of company securities. There are three working capital concepts, namely quantitative concepts, qualitative concepts, and functional concepts. The quantitative concept talks about gross working capital, namely funds to finance the company's operational needs in the short term. The qualitative concept talks about working capital which is the difference between the total current assets and current liabilities. The functional concept talks about the function of working capital to earn a profit from the company's operational activities. The company's operational activities are strongly influenced by the adequacy of working capital and the way it is managed. Companies that do not have good working capital management and do not consider working capital needs appropriately will lead to shortages experience that can result in losses, insolvency, and even bankruptcy for the company. Insolvency is a condition where the company experiences lack of funds conditions where it causes the company cannot pay its maturing obligations. However, excessive working capital placement can also cause idle capital without a productive allocation, resulting in inefficient conditions where there is waste in the company's operational activities and non-optimal profit gains. Therefore, companies need good working capital management so that the company's operational activities can run smoothly. Good working capital management will provide capital adequacy so that companies can provide softer credit terms to customers, companies can also pay their obligations promptly, and can own supplies and business materials in sufficient quantities so that services to consumers are not disrupted. This will affect the increase in company profits.

In simple terms, working capital management can be defined as the management of current assets and current liabilities of a company. Good working capital management can be seen from the indicators of working capital elements which are related to the elements of current assets and current liabilities. The indicators of working capital management are Working Capital Turnover, Receivables Turnover, Inventory Turnover, and Payables Turnover. Effective and efficient working capital management will assist the company in obtaining good profitability. In this research, the writer decided to use Working Capital Turnover, Receivables Turnover, Inventory Turnover, and Payables Turnover as the measurement of working capital management.

Profitability is generally defined as the company's ability to generate profits. The company's profitability can provide an overview of the company's effectiveness in managing its resources to generate profits. In measuring the level of a company's profitability, financial ratios are the alternative that is often used to make these measurements. Financial ratios consist of four parts, namely profitability ratios, liquidity ratios, solvency ratios, and activity ratios. In assessing or measuring profitability, the profitability ratio is the right indicator. Some of the profitability ratios include Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets Ratio, Return on Equity Ratio, Return on Sales Ratio, Return on Investment, and Earning Per Share. In this research, the writer decided to use Return on Assets as the measurement of profitability.

The writer also surveyed how much market capitalization per sector listed on the Indonesia Stock Exchange with the purpose to choose which sector is suitable for the research.

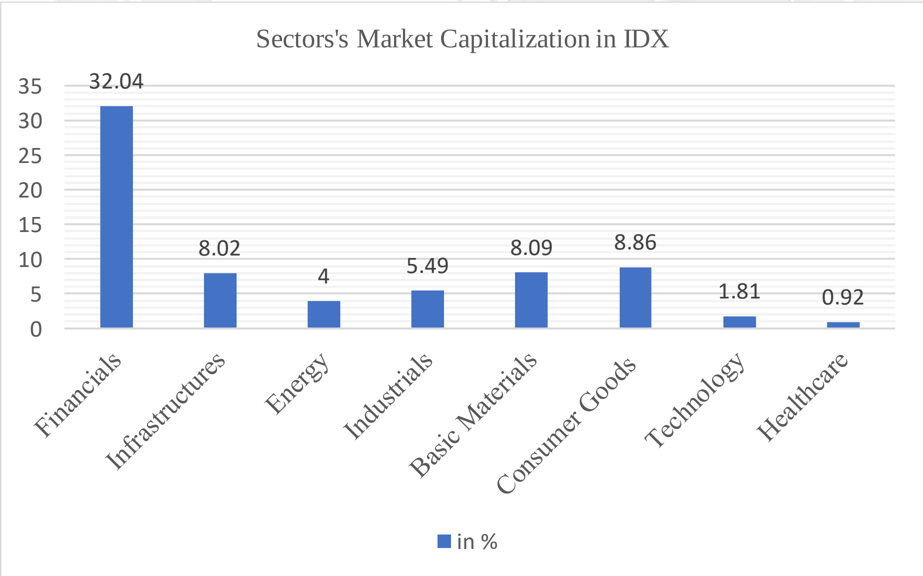

Figure 1.1 Sectors' Market Capitalization in Indonesia Stock Exchange Graph
Source: Prepared by the writer (2022)

There are 12 sectors listed on Indonesia Stock Exchange (IDX) according to the latest stock classification, IDX-IC (IDX Industrial Classification). The twelve sectors are the energy sector, the basic materials sector, the industrials sector, the consumer non-cyclicals sector, the consumer cyclicals sector, the healthcare sector, the financials sector, the property & real estate sector, the technology sector, the infrastructures sector, the transportation & logistics sector, and the listed investment products sector. The survey conducted in the table above is based on the data presented by Indonesia Stock Exchange. The data is about the 50 biggest market capitalizations in Indonesia Stock Exchange as of December 2021. Based on the table presented, of the 12 sectors in IDX, only 8 sectors are included in the 50 biggest market capitalizations in Indonesia Stock Exchange as of December 2021. Consumer Goods Industry ranks second in market capitalization at IDX. Therefore, the writer is interested in conducting research on Fast-Moving Consumer Goods companies which is part of the Consumer Goods Industry.

Generally, Fast-Moving Consumer Goods or FMCG companies' products are very in demand and sold quickly. Therefore, the trade cycle is essential for FMCG companies because the company has a primary focus on their sales volume rather than the sales price. Trade cycle plays an important role in helping companies maintain sufficient cash flow. Trade cycle can be calculated by adding up Receivables Turnover and Inventory Turnover and then subtract it from the Payables Turnover. Faster turnover of both receivables and inventory will be better for the company because it will bring greater earnings for the company. While longer turnover of both receivables and inventory will affect the payables turnover.

Linking it to the recent issue which is the COVID-19 pandemic, various business industries have been hit hard. However, for FMCG companies, most companies experienced growth because the products being marketed were in the category of daily needs products. But this does not rule out the possibility that there are FMCG companies that also suffer losses. So, it can be said that every FMCG company has a different impact during the COVID-19 pandemic and this depends on the product marketed by that company. Example of this difference can be seen from FMCG companies that sell cosmetic products such as face powder and lipstick. The company will experience a negative impact from the COVID-19 pandemic because generally everyone is advised to work from home and if you work from office, everyone is also required to wear a mask, so sales of cosmetic products will decrease. However, if the FMCG sells vitamins, soap, hand sanitizers, and various other hygiene products, then that company will experience a positive impact from the COVID-19 pandemic because there is a lot of demand for hygiene products.

Therefore. based on the explanation the writer decided to use Working Capital Turnover, Receivables Turnover, Inventory Turnover, and Payables Turnover as the independent variables of this research because all four of the independent variables are indicators of working capital management and it is also connected with the importance of trade cycle in FMCG companies. While the dependent variable of this research is Return on Assets because the writer focuses on researching how the company in their operations optimizes the source of assets that they must generate the company’s profit.

Thus, the writer is interested in doing research with the title of "The Effect of Working Capital Turnover, Receivables Turnover, Inventory Turnover and Payables Turnover toward Profitability of Fast-Moving Consumer Goods Companies Listed on the Indonesia Stock Exchange."

1.2 Problem Limitation

The problem limitation that the writer decide is as follows:

1. The independent variables used in this research are Working Capital Turnover, Receivables Turnover, Inventory Turnover, and Payables Turnover.
2. The profitability measurement and the dependent variable used in this research is Return on Assets.
3. The object of this research is the Fast-Moving Consumer Goods Companies that are listed on the Indonesia Stock Exchange.
4. The period of data used in this research will be limited from year 2017 to 2021.

1.3 Problem Formulation

The problem formulation based on the background of the study will be as follows:

1. Does Working Capital Turnover have significant impact toward Return on Assets in Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially?

2. Does Receivables Turnover have significant impact toward Return on Assets in Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially?
3. Does Inventory Turnover have significant impact toward Return on Assets in Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially?
4. Does Payables Turnover have significant impact toward Return on Assets in Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially?
5. Do Working Capital Turnover, Receivables Turnover, Inventory Turnover and Payables Turnover have significant impact toward Return on Assets in Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 simultaneously?

1.4 Objective of the Research

The objective of the research are as follows:

1. To find out the impact of Working Capital Turnover toward Return on Assets in Fast Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially.
2. To find out the impact of Receivables Turnover toward Return on Assets in Fast Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially.

3. To find out the impact of Inventory Turnover toward Return on Assets in Fast Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially.
4. To find out the impact of Payables Turnover toward Return on Assets in Fast Moving Consumer Goods Companies listed on the Indonesia Stock Exchange in year 2017-2021 partially.
5. To find out whether Working Capital Turnover, Receivables Turnover, Inventory Turnover and Payables Turnover have significant impact toward Return on Assets in Fast Moving Consumer Good Companies listed on the Indonesia Stock Exchange in year 2017-2021 simultaneously.

1.5 Benefit of the Research

There are two kinds of benefit from this research which are:

1.5.1 Theoretical Benefit

This research is expected to give insight to readers so that it can be used to give more knowledge about finance accounting field of study and as the reference to help understanding the research of the effect of working capital turnover, receivables turnover, inventory turnover and payables turnover toward the profitability of a company with return on assets as the measurement of the company's profitability.

1.5.2 Practical Benefit

1. For company management team

This research is expected to provide benefit to company management team to help giving insight and additional information in making decisions regarding the company profit which will then be allocated in the operational activity of the company.

2. For investors and potential investors

   This research is expected to provide benefit to investor to help giving additional information about the financial condition of the company so the investor can make better investment decision.

3. For future writer and researcher

   This research is expected to provide source of information and reference to the future writer to write research regarding the keywords of working capital turnover, receivables turnover, inventory turnover and payables turnover toward the profitability of the company with return on assets as the profitability measurement.