CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial management involves strategically planning, organizing, directing, and regulating an organization's financial resources to efficiently fulfill its goals. It encompasses overseeing several financial elements such as budgeting, forecasting, investment decisions, and risk management. As defined by Baker & Powell (2005), financial management is the process of making decisions related to purchasing, financing, and managing assets to achieve a certain aim inside an organization. Jensen (2001, as cited in Baker & Martin, 2011) stated that financial economists typically believe that the main factor for assessing performance and choosing between different actions should be the maximizing of the firm's long-term market value. Therefore, financial management plays a crucial role in an organization and one of the important decisions in financial management is capital structure.

In light of the fact that the selection of a suitable capital structure for the firm is of utmost significance, it is imperative that the proportion of loan capital to equity capital be determined appropriately. Mainly due to the fact that the comparison will have an immediate impact on the financial situation of the organization. The company's capital structure is the manner in which it obtains finances over the course of decades. The aim of capital structure management is to combine the firm's permanent funds in a way that will maximize the increase in the organization's value. The proportion of a company's debt to its equity is referred to as its capital structure, and it is ultimately decided by the company's financial decision (Endiramurti et al., 2022).

According to Mantow et al. (2020), the company's financial health can be significantly impacted by its capital structure, making it a crucial subject for consideration. The company's primary goal is to enhance its value by expanding its capital structure or increasing the number of shareholders. The goal of capital structure management is to optimize the company's value by integrating long-term funding sources for operational purposes. Good capital structure management signifies effective financial management inside the organization. The company ensures its financial stability to prevent any losses and complications.

Fast moving consumer goods (FMCG) refer to products that are rapidly sold at a relatively affordable price, including food, beverages, personal care items, domestic cleaning products, and tobacco. FMCG brands encounter fierce competition in the market, along with shifting consumer preferences and behaviors.

Statista (2023) reported that the fast-moving consumer goods (FMCG) industry is a prominent sector in Indonesia, making a substantial contribution to the country's economic growth. In 2020, the FMCG market in Indonesia was valued at approximately 1.2 trillion U.S. dollars. It is projected to experience a compound annual growth rate (CAGR) of 7.6 percent from 2021 to 2025. Additionally, due to Indonesia's substantial population, there is a heightened demand for products from consumer goods companies. As a result, in order to satisfy the demand, companies will endeavor to increase production, which necessitates the acquisition of additional funding. As a consequence, once their internal funds are depleted, the management would seek external investment by adjusting its capital structure.

During the year 2020 to 2022, some of the followings are the sample data gathered from consumer goods companies listed on the Indonesia Stock Exchange which does not fit the theory including 4 companies as the analysis which are PT Bisi International Tbk (BISI), PT Charoen Pokphand Indonesia Tbk (CPIN), PT Nippon Indosari Corpindo Tbk (ROTI), and PT Wisimilak Inti Makmur Tbk (WIIM). The data are as follows:

Table 1.1 The Phenomenon of Sales Growth, Firm Size, Profitability, and Liquidity toward Capital Structure on Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2020-2022

Company Code	Year	SG	FS	ROA	CR	DER
BISI	**2020**	-0.20	28.70	0.09	5.83	0.19
	2021	0.11	28.77	0.12	7.13	0.15
	2022	0.20	28.86	0.15	8.80	0.12
CPIN	**2020**	0.00	31.07	0.12	2.53	0.33
	2021	0.22	31.20	0.10	2.01	0.41
	2022	0.10	31.32	0.07	1.78	0.51
ROTI	**2020**	-0.04	29.12	0.04	3.83	0.37
	2021	0.02	29.06	0.07	2.65	0.46
	2022	0.20	29.05	0.10	2.10	0.54
WIIM	**2020**	0.43	28.11	0.11	3.66	0.36
	2021	0.37	28.27	0.09	2.93	0.43
	2022	0.36	28.41	0.12	2.84	0.44

Source: Prepared by Writer (2024)

According to table 1.1, there are conflicting phenomena between sales growth (SG), firm size (FS), profitability (ROA), liquidity (CR), and capital structure (DER) in consumer goods companies listed on the Indonesia Stock Exchange during the period 2020 to 2022.

During 2020 to 2022, PT Bisi International Tbk (BISI) sales growth increased significantly by 155.2% in 2021 and 78% in 2022, while its capital structure decreased gradually by 20.23% in 2021 and 20.28% in 2022. On the other hand, PT Nippon Indosari Corpindo Tbk (ROTI) sales growth also increased significantly by 162.8% in 2021 and 736.9% in 2022. Its capital structure also increased during the period, it increased by 24.04% in 2021 and 17.35% in 2022. Further, PT Wisimilak Inti Makmur Tbk (WIIM) sales growth decreased during the period by 13.92% in 2021 and 4.27% in 2022, while the capital structure increased by 20.21% in 2021 and 2.42% in 2022.

PT Bisi International Tbk (BISI) firm size increased during the year 2020 to 2022 by 0.25% in 2021 and 0.30% in 2022, while its capital structure decreased by 20.23% in 2021 and 20.28% in 2022. PT Charoen Pokphand Indonesia Tbk (CPIN) firm size also increased during the period by 0.41% in 2021 and 0.38% in 2022, and its capital structure increased by 22.4% in 2021 and 25.44% in 2022. On the other hand, firm size of PT Nippon Indosari Corpindo Tbk (ROTI) decreased by 0.21% in 2021 and 0.05% in 2022, while the capital structure increased by 24.04% in 2021 and 17.35% in 2022.

In the period 2020 to 2022, the profitability of PT Bisi International Tbk (BISI) and PT Nippon Indosari Corpindo Tbk (ROTI) are experiencing an increase. However, their capital structure condition did not show the same condition. PT Bisi International Tbk (BISI) profitability increased by 28.62% in 2021 and 26.13% in 2022, while its capital structure decreased by 20.23% in 2021 and 20.28% in 2022. PT Nippon Indosari Corpindo Tbk (ROTI) increased significantly by 78.67% in

2021 and 54.66% in 2022, its capital structure also increased by 24.04% in 2021 and 17.35% in 2022. On the contrary, the profitability of PT Charoen Pokphand Indonesia Tbk (CPIN) decreased during the period by 17.28% in 2021 and 27.97% in 2022 while its capital structure increased by 22.4% in 2021 and 25.44% in 2022.

Another contradiciting pattern is shown between liquidity and capital structure of PT Bisi International Tbk (BISI) and PT Wisimilak Inti Makmur Tbk (WIIM). PT Bisi International Tbk (BISI) liquidity increased by 22.41% in 2021 and 23.37% in 2022, while its capital structure decreased by 20.23% in 2021 and 20.28% in 2022. PT Wisimilak Inti Makmur Tbk (WIIM) liquidity decreased by 19.96% in 2021 and 3.29% in 2022, while the capital structure increased by 20.21% in 2021 and 2.42% in 2022.

The income statement provides a summary of the operational performance of the company over a certain time period. The company is aware that making a profit is not the only objective it has, but it is also aware that other objectives will only be accomplished if the company is able to continue existing, grow, and generate a profit. The data on sales can also have an effect on the capital structure of a company. This is because the data on sales can make it easier for a company to compare the level of its most recent sales with the level of its past sales, which allows the company to evaluate the degree to which the growth rate experienced by the company is high. It is possible that this will raise the interest of investors in making investments in the company (Pratiwi, 2022).

A company size can be measured using a ratio that indicates whether the company is big or small. The reason that businesses are deemed to be huge is that they have a substantial amount of total assets and typically have a reputation in the eyes of the community. As a result, they do not require additional charges to provide or acquire cash. In general, it is not difficult for large enterprises to obtain loans, which appears to be inversely proportional to the situation for small companies. A company that is greater in size will have an easier time obtaining external funding for a large debt capacity because of the larger size of the business (Hutabarat, 2022).

In general, businesses that generate a lot of profits have a greater amount of capital available within the company. Because the company has sufficient finances available within the company, the debt level of the company is lower. This may have an impact on the capital structure. Profitability is one of the factors that influence the capital structure. This can be seen in the way that the company is able to generate profits from the activities that it engages in, as well as the decisions and policies that the company implements during specific time periods. This is done in accordance with the company's primary objective, which is to generate profits in order to continue engaging in its activities and to ensure the continuity of the company in the future. It is also known as financial performance related to the capital structure of the organization; the larger the debt, the lower the profitability. Profitability is also known as financial performance. Companies that have high levels of profitability and enough internal funding sources are required to have low levels of debt. This is because companies with high levels of profitability have a lower level of debt (Amir, 2023).

If a company is able to satisfy its short-term debt commitments, commonly referred to as those that need to be paid promptly, then the company is considered to have sufficient liquidity. The greater the value of the current ratio, the more solid the company's financial health is, which in turn makes it more appealing to potential investors to put their money into the company. Because they have a big quantity of internal cash, businesses that have high liquidity ratios have a tendency to limit or even eliminate their use of debt completely. This is because they want to make the most of the funds that they have available within the company. Companies with strong liquidity are more likely to rely on their own internal funds for investment financing; consequently, if the business's internal funds are insufficient, the company will only look for funding from other sources (Panjaitan et al., 2022).

Based on the background, example and the table phenomenon that has been provided and explained before, it encourages writer to do research entitled, **"The Impact of Sales Growth, Firm Size, Profitability, and Liquidity toward Capital Structure in Consumer Goods Companies Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

Problem limitations have been established by the writer in order to prevent any deviations from the research topic such as follows:

1. The research object is limited to the consumer goods companies that listed on the Indonesia Stock Exchange.
2. The dependent variable in this research is capital structure, measured by Debt-to-Equity ratio (DER).
3. The independent variables in this research contains of sales growth which is measured by the percentage of sales growth of the company, firm size which is measured by logarithm natural of total assets (Ln TA), profitability is measured by return on assets (ROA), and liquidity which is measured by current ratio (CR).
4. The research period is from 2020 to 2022.

1.3 Problem Formulation

Based on the previously stated background, the problem formulation in this research are as follows:

1. Does sales growth have significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange?
2. Does firm size have significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange?
3. Does profitability have significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange?
4. Does liquidity have significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

In accordance to the problem formulations that have been described above, the objective of research which supposed to solve the problems that already been found are as follows:

1. To find out whether sales growth has significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange.
2. To find out whether firm size has significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange.
3. To find out whether profitability has significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange.
4. To find out whether liquidity has significant impact toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is supposed to be beneficial to all parties involved and the benefits can be divided into two categories, such as:

1.5.1 Theoretical Benefit

This research will serve as a guide in the development of economics, particularly in the field of financial accounting. Furthermore, it is anticipated that this research will be published as a body of literature and will generate new ideas and concepts for the purpose of future research in the fields of capital structure, sales growth, firm size, profitability, and liquidity.

1.5.2 Practical Benefit

The primary goal of this research is to provide a comprehensive and accurate source of information that can be utilized as a valuable reference for stakeholders involved in decision-making or policy implementation. The research findings are supposed to provide the company with knowledge on factors influencing capital structure, allowing the company to make strategic decisions about sales growth, firm size, profitability, and liquidity. It is expected that the findings of the research, in addition to offering illustrations, will provide information about the state of the companies, particularly those that were the subject of this inquiry. Furthermore, the study findings can be used as inputs in decision making related to investments they are taken into consideration.