CHAPTER I

INTRODUCTION

1.1.   Background of the Study

After the recent economic and geopolitical disruptions, financial distress has become a growing concern for companies worldwide. From 2021 to 2023, Indonesia's manufacturing sector was notably affected by global events, including the COVID-19 pandemic and the Russia-Ukraine conflict. The conflict, which began in February 2022, disrupted global supply chains and led to sharp increases in the prices of oil, gas, and essential raw materials, including metals and agricultural products.
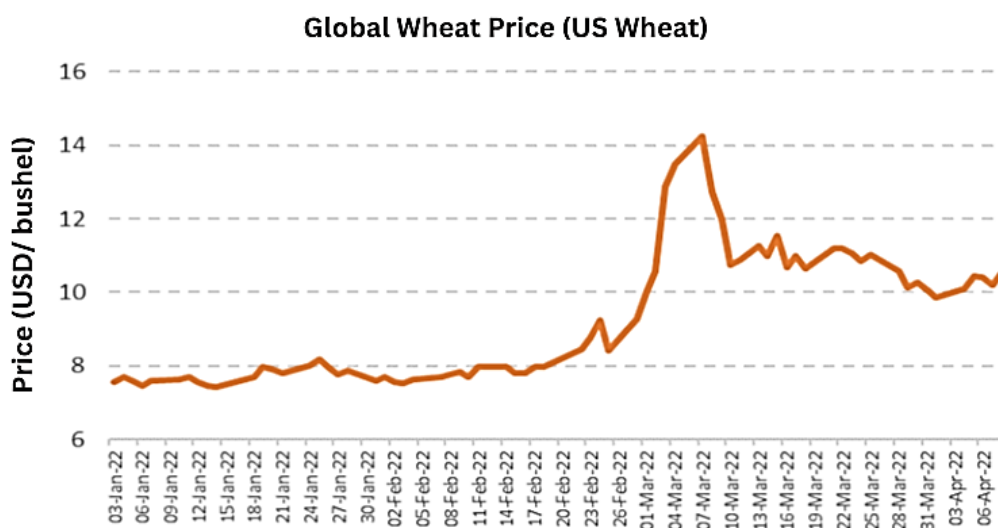

Figure 1.1 Global Wheat Price

Source : *Badan Pusat Statistik* (2022)

One of the most notable impacts was the rise in wheat prices, which began at around USD 8 per bushel in January 2022 and surged to approximately USD 13-14 per bushel by early March 2022 due to the war. This price hike created

significant challenges for Indonesian manufacturing companies reliant on wheat, such as Indofood Sukses Makmur (INDF), Indofood CBP Sukses Makmur (ICBP), Mayora Indah (MYOR), and Nippon Indosari Corpindo (ROTI).

Table 1.1 COGS of Manufacturing Companies Reliant on Wheat

Company	Year	COGS
PT. Indofood Sukses Makmur Tbk (INDF)	2021	66,758,824
	2022	76,994,705
	2023	75,640,269
PT. Mayora Indah Tbk (MYOR)	2021	20,988,221
	2022	23,837,985
	2023	23,084,737
PT. Nippon Indosari Corpindo Tbk (ROTI)	2021	1,553,176
	2022	1,909,517
	2023	1,817,900
PT. Indofood CBP Sukses Makmur Tbk (ICBP)	2021	36,516,449
	2022	43,005,230
	2023	42,783,641

Source: S&P Capital IQ (2024)
Prepared by Author (2024)

Based on Table 1.1, the data highlights a significant increase in the cost of goods sold (COGS), which is often a direct consequence of rising raw material prices, such as wheat. This upward trend in COGS suggests potential implications for profitability, as higher production costs typically compress profit margins and may pressure revenue growth if companies cannot fully pass on these costs to customers through price adjustments.

Furthermore, a sustained rise in COGS can impact operational efficiency and asset utilization, potentially leading to a decline in Total Asset Turnover (TATO). Over time, these factors could contribute to increased financial strain, especially for businesses with limited flexibility to absorb cost increases. To confirm these connections, we can examine the trends in Total Asset Turnover

(TATO) and Financial Distress from 2021 to 2023, as presented in the phenomena

table below:

Table 1.2 Research Phenomenon

Company	Year	Total Asset Turnover (TATO)	Financial Distress
PT. Indofood Sukses Makmur Tbk (INDF)	2021	1.624	0.580
	2022	1.830	0.616
	2023	1.913	0.609
PT. Mayora Indah Tbk (MYOR)	2021	6.720	1.406
	2022	5.779	1.454
	2023	7.331	1.365
PT. Nippon Indosari Corpindo Tbk (ROTI)	2021	5.543	0.761
	2022	5.360	0.946
	2023	4.978	0.946
PT. Indofood CBP Sukses Makmur Tbk (ICBP)	2021	2.249	0.513
	2022	2.564	0.555
	2023	2.957	0.579

Source: S&P Capital IQ (2024)
Prepared by Author (2024)

The data suggest that an increase in TATO does not uniformly correlate with

changes in financial distress. For example, INDF and ICBP exhibit a gradual TATO

increase from 2021 to 2023, indicating improved asset utilization, yet this trend

does not correspond with a notable change in their financial distress scores.

Conversely, MYOR and ROTI demonstrate fluctuating TATO ratios, which could

indicate challenges in asset efficiency. MYOR's TATO initially declined from

6.720 in 2021 to 5.779 in 2022 before rising to 7.331 in 2023, while ROTI's TATO

declined steadily over the same period. These fluctuations align with relatively

higher, less stable financial distress scores, especially for MYOR, whose distress

score rose from 1.406 in 2021 to 1.454 in 2022 before slightly declining to 1.365 in

2023.

This observed variability prompted this study to explore the relationship

between TATO and financial distress further. Previous studies by (Budhiarjo, 2024),

(Handayani & Iswara, 2023), (Amanah et al., 2023), (M. A. Utami, 2023), (Mutia Dwi Rahmadillah & Popi Fauziati, 2022) argue that TATO positively affects financial distress. However, the findings differ from those of (Vebrizha et al., 2024), (Bogianda, 2023), (Burnika et al., 2024), (Karimah & Sukarno, 2023), and (Aiyyuffi et al., 2022) who argue that TATO does not affect financial distress.

Due to the disparity in research results, known as a research gap, the author was motivated to conduct further research titled **"The Influence of Total Asset Turnover (TATO) to Predict Financial Distress"**.

1.2. Problem Formulation

Based on the description of the issues in the study's background, the problem formulation in this research is: Does Total Asset Turnover (TATO) have a significant influence to predict Financial Distress?

1.3. Objective of the Research

This research examines the influence of Total Asset Turnover (TATO) to predict Financial Distress based on problem formulation.

1.4. Benefit of the Research

This research is to help readers who are interested in the topic. The benefits of the research are as follows:

1. Theoretical Benefit

This research contributes theoretically by enhancing our understanding of the role of Total Asset Turnover (TATO) in predicting financial distress. The study advances existing theoretical frameworks in corporate finance and accounting by

investigating how TATO is a leading indicator of potential financial difficulties. It sheds light on the mechanisms through which operational inefficiencies, as reflected in TATO, can lead to financial distress events. Theoretical insights from this research can inform the development of more nuanced distress prediction models, enriching academic discourse on financial risk management and corporate sustainability.

2.   Practical Benefit

From a practical standpoint, this research provides actionable insights for corporate managers, investors, and policymakers grappling with the challenges of financial risk assessment and management. By identifying early warning signals embedded in TATO metrics, stakeholders can proactively monitor and mitigate risks associated with operational inefficiencies. Practical implications extend to strategic decision-making processes, where an enhanced understanding of TATO's influence on financial distress enables firms to optimize asset utilization, improve profitability, and bolster resilience against economic uncertainties. Moreover, regulators can leverage findings from this research to refine policies aimed at fostering financial stability and sustainable business practices within industries prone to financial distress.

1.5.   Problem Limitations

This research's problem formulation includes the following:

1.   The object of the research is manufacturing companies listed on the Indonesia Stock Exchange (IDX).

2.   The research period used is only from the year 2021-2023.

3.   The variables used are **Total Asset Turnovers (TATO)** as an independent variable, **Financial Distress** as a dependent variable, and **Firm Size, Profitability, Leverage, and Liquidity** as controlling variables.