CHAPTER I

INTRODUCTION

1.1 Background of Study

The global economy has undergone significant changes, leading to the emergence of a free market system that fosters increased competition among businesses. In this competitive environment, companies undergo a selection process, where the most successful ones are those with effective management that can plan, allocate resources, and maximize value to achieve set goals. In response to the demands of business expansion worldwide, companies must adopt more advanced management systems. This trend is driven by rising competition, compelling businesses to enhance their performance in order to remain viable. Firms are now expected to demonstrate consistent profit growth, which serves as a key indicator of their success. However, in reality, not all companies can succeed in generating profits according to their company targets, so it is possible that many companies will be forced to close down because they are unable to survive and compete with other companies. In a company, finances are a special concern with increasingly uncertain economic conditions causing many companies to go bankrupt.

Profits are essential for a company's survival, as they enable it to maintain operations and remain viable in the long term. They are not only necessary for maintaining the business but are also expected to grow steadily from year to year.

A steady rise in earnings enables a business to maintain its competitiveness, adjust to shifting market conditions, and make investments in its future growth. Therefore, for a company to continue thriving and securing its place in the economy, it must prioritize strategies that ensure ongoing and sustainable profit growth. However, it cannot always be guaranteed that an increase in profits will increase, it could be that this year profits will decrease, but for the next year profits could increase. Because profit growth is unpredictable, a financial report analysis is needed that can predict whether the profit growth of the company will decrease or increase. A situation where company profits have increased compared to the previous period is also known as Profit Growth. Positive profit development and earnings indicate good company performance conditions; the more profits a company achieves, the better its performance.

Profit is a critical element in financial reports and holds great importance for both internal and external stakeholders. It is a crucial indicator of a business's performance that helps stakeholders assess its operational effectiveness and financial stability (Setyaningdiyah & Adiwibowo, 2023). The growth of profits is essential for both internal parties (owners, employees, and management) and external parties (creditors, investors, government, suppliers, and society). For management, profit growth provides a tool to navigate future uncertainties. For investors, it influences decisions about capital investment (for new investors), or whether to retain or divest investments (for existing investors). Additionally, creditors use profit growth to assess the ability of the firm or company to repay loans. A ability of a company to achieve profit growth is largely determined by management's capacity to implement effective policies guiding its operations. Factors from external, such as overall economic growth and inflation, also play a role, as they can have a significant impact on the financially performance and strategic decisions of a company.

The information needed by a company to see profit growth is by analyzing its financial report. In simple terms, financial report analysis is a process that includes identification, assessment and comparison of previously prepared financial reports. In short, the financial reports that are prepared are then evaluated against reports in previous years to obtain a comparison of the financial condition of the company from year to year. The aim is of course to be able to find out all matters relating to the financial condition of the company. If the business or company develops well, it means the company's goals are getting closer. In general, it is known that finance is also an important components in describing a company's success. Success can be measured by how healthy the financial condition is, as well as the rate at which profits are achieved and stability therein. So, financial reports are really needed to manage the health of the company.

In financial analysis, financial ratios are a commonly used method to evaluate a company's performance and identify areas of improvement or deterioration. They offer insightful information about important facets of a business's financial well-being, including profitability, liquidity, operational efficiency, and solvency, allowing stakeholders to make informed decisions. Through financial ratio analysis, companies can gain a deeper understanding of their financial condition, identify areas for improvement, and evaluate their standing in a competitive market.

Management then receives the analysis results as information to use in decision-making or policy-making for the upcoming quarter. Financial analysis is also incorporated in the balanced scorecard, which is a tool for analyzing firm performance and the effectiveness of initiatives employed to gain a competitive advantage. This action is not only directed at management, but also at other stakeholders such as investors and creditors. For them, financial ratio analysis is a tool for determining how healthy a firm is and whether it requires an investment injection or a loan to maintain. A company's profit growth can also be explained by the results of its financial ratio study.

Consumer Goods Industry is one of Indonesia's main industries and makes a significant contribution to national economic development. Consumer Goods Industry companies are a sector of companies engaged in manufacturing that process raw materials into finished materials, where consumer goods industrial products are later consumed or used by the wider community. Consumer goods industry companies are companies operating in various industries, including industry of food and beverage, industry of pharmaceutical, industry of cosmetics and household goods, industry of cigarette, and industry of household equipment. The consumer goods industry continues to evolve over time, as it plays a vital role in meeting basic needs and ensuring the well-being of the entire population. This sector is consistently in demand, as it is essential for daily life and the survival of communities.

Companies in this industry produce their products in large volumes due to their rapid consumption by the public. This high demand attracts significant attention from investors. Financial ratio analysis is crucial in this sector, as it helps assess the performance of companies that fulfill essential needs for daily human life. This analysis's goal is to give investors and other stakeholders a clear financial picture or information so they may make well-informed judgments regarding the company's prospects and financial health.

Because it shows how well a business manages its assets to turn a profit, firm size has a significant impact on profit growth. It highlights the company's operational capability and efficiency and acts as an indicator of its general state. Numerous indicators, including the number of people engaged in activities, total assets, sales volume during a given time period, and the number of outstanding shares, can be used to determine the size of a company. These factors help determine whether a company is classified as large or small and provide insight into how its size influences its performance (M. K. Sari, 2020).

This research utilizes specific financial ratios to analyze their influence on profit growth. The financial ratios employed include the Current Ratio, representing the liquidity ratio; the Debt to Equity Ratio, representing the solvency ratio; Inventory Turnover, representing the efficiency or activity ratio; and Return on Assets, representing the profitability ratio. Additionally, the impact of firm size on profit growth will also be examined. The research aims to analyze how these variables—Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size— influence Profit Growth.

A crucial indicator for determining a company's ability to fulfill its short-term commitments and guarantee seamless operations is the current ratio. A favorable Current Ratio implies the company is more likely to earn the trust of creditors, making it easier to secure financing and maintain operations. This emphasizes how the current ratio affects profit growth since credit availability and operational effectiveness have a beneficial impact on financial success (Putri & Sitohang, 2019). A higher Current Ratio signals that the company has a stronger ability to meet its short-term liabilities with its available assets, contributing to operational stability and creating opportunities for profit expansion (Yanti et al., 2022). Typically, a Current Ratio that aligns with or slightly exceeds the industry standard is viewed favorably, as it indicates sufficient liquidity to meet obligations. Conversely, a ratio lower than the industry average could suggest financial risks, as the company may face difficulty covering its liabilities. The term "current" refers to the fact that this ratio includes all current assets and liabilities, offering a comprehensive view of the company’s ability to manage its short-term financial responsibilities.

A company's ability to pay its debts with the capital or equity it needs to do so is evaluated by the Debt to Equity Ratio (DER). The computation of this ratio involves dividing the whole amount of debt owed by the company by its total equity (Maryati & Siswanti, 2022). With data on a company's degree of financial leverage and the proportion of debt to equity funding, the DER is, all things considered, a critical indicator of its financial health. While a lower ratio might indicate a more cautious approach to financial management, a higher DER might indicate rising financial danger.

The relationship between the average inventory and the cost of products sold is measured by the inventory turnover ratio (Busman Bactiar et al., 2022). This ratio illustrates how frequently a business sells and restocks its inventory over a certain time frame. A business with effective inventory management keeps a balanced rate of turnover. A higher inventory turnover is generally favorable, indicating that the company is operating effectively, efficiently, and productively in utilizing its inventory (N. Sari, 2022). A high turnover rate typically signals strong sales performance and efficient inventory management.

A metric called return on assets (ROA), which is often based on sales volume, evaluates how well a business uses its assets to produce profits. This profitability ratio evaluates how well a business can make money off of its assets. Since it demonstrates how well the business uses its assets to generate income, a higher ROA denotes better performance. This ratio is significant because it helps foretell the company's potential to transform assets into profit, making it a vital measure of overall operational efficiency and financial well-being. (Istiqomah, 2023).

Table 1.1 The Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Asset, Firm Size and Profit Growth of Consumer Goods Companies Listed on Indonesia Stock Exchange (IDX) for period 2019-2023

Company Code	Company Name	Period	Current Ratio	Debt to Equity	Inventory Turnover	Return on Assets	Firm Size	Profit Growth
GGRM	PT. Gudang Garam Tbk	2019	2.06	0.54	2.24	0.01	18.18	0.40
		2020	2.91	0.34	2.35	0.02	18.17	(0.30)
		2021	2.09	0.52	2.53	0.02	18.31	(0.27)
		2022	1.90	0.53	2.39	0.03	18.30	(0.20)
		2023	1.83	0.52	2.22	0.03	18.34	0.92
HMSP	PT. Hanjaya Mandala Sampoerna Tbk	2019	3.28	0.43	5.07	0.22	17.75	0.01
		2020	2.45	0.64	4.27	0.22	17.72	(0.37)
		2021	1.88	0.82	4.57	0.10	17.79	(0.17)
		2022	1.72	0.94	5.20	0.14	17.82	(0.11)
		2023	1.72	0.85	5.17	0.18	17.83	0.28
STTP	PT. Siantar Top Tbk	2019	2.85	0.34	8.12	0.31	28.69	0.89
		2020	2.41	0.29	9.13	0.27	28.87	0.30
		2021	4.16	0.19	10.17	0.17	29.00	(0.02)
		2022	4.85	0.17	10.61	0.13	29.16	0.01
		2023	6.95	0.13	8.38	0.12	29.33	0.47

Source : Prepared by the Writer (2024)

The table reveals that PT. Gudang Garam Tbk (GGRM), PT. Hanjaya Mandala Sampoerna Tbk (HMSP), and PT. Siantar Top Tbk (STTP) demonstrated consistent profit growth, with a temporary decline in 2020 and 2021 attributed to the COVID-19 pandemic's economic impact.

The table also indicates that PT. Siantar Top Tbk (STTP) consistently demonstrated an upward trend in its Current Ratio throughout the analyzed period. The Current Ratio of PT. Siantar Top Tbk (STTP) increases about 4.10 from 2.85 in year 2019 to 6.95 in year 2023. Theoretically, the increase of Current Ratio will also increase Profit Growth and vice versa. This phenomenom was supported by the research by Hajering & Muslim Muslim (2022) which shows that Current

Ratio has positive and significant influence towards Profit Growth. A higher current ratio can boost profit growth by enhancing financial stability and flexibility, allowing firms to cover liabilities, invest in operations, and seize growth opportunities. Strong liquidity also reduces financial risk and borrowing costs, enabling companies to self-fund initiatives and maintain profitability even in downturns. This combination of factors supports sustained profit growth. However, the Current Ratio of PT HMSP decreases about 1.56 from 3.28 in year 2019 to 1.72 in year 2023. This phenomenon was supported by the research by Tyka Melinda Putri & Sonang Sitohang (2019) which shows that Current Ratio has negative and significant influence towards Profit Growth. An excessively high current ratio can hinder profit growth by signaling inefficient asset use, such as excess cash or inventory, rather than investing in profitable opportunities. This inefficiency ties up resources that could otherwise drive growth, ultimately limiting the company's potential earnings.

The Debt-to-Equity Ratio (DER) of PT. Siantar Top Tbk (STTP) has steadily declined, dropping from 0.34 in 2019 to 0.13 in 2023, a reduction of approximately 0.21. Theoretically, a decreasing DER is associated with potential increases in Profit Growth. This phenomenom was supported by the research by Tien Kartika Kumala Dewi, Kartika Hendra Titisari and Purnama Siddi (2023) which shows that Debt to Equity Ratio has negative and significant influence towards Profit Growth. A high Debt to Equity Ratio can limit profit growth by increasing interest payments, reducing available profits, and raising financial risk. Excessive debt can strain cash flow, limit growth investments, and increase the risk of insolvency, all of which hinder profitability. However, the Debt to Equity of PT. Hanjaya Mandala Sampoerna Tbk (HMSP) increases about 0.42 from 0.43 in year 2019 to 0.85 in year 2023. This phenomenom was supported by the research by Busman Bactiar, Indayani B, Arlistria Muthmainnah dan Sumarsih (2022) which shows that Debt to Equity Ratio has positive and significant influence towards Profit Growth. A moderate Debt to Equity Ratio can boost profit growth by providing capital for expansion without diluting ownership. If the return on investment exceeds the cost of debt, it can amplify profits, while interest payments offer tax advantages, further supporting profitability.

The Inventory Turnover of PT GGRM, PT HMSP and PT STTP experienced fluctuation during year 2019 – 2023. Fluctuating inventory turnover can be caused by several factors, including changes in demand, supply chain disruptions, or poor inventory management. Variations in consumer preferences or seasonal trends can lead to inconsistent sales, impacting turnover rates. Additionally, delays in procurement or production can cause inventory buildup, reducing turnover. Conversely, inadequate stock levels or inefficient purchasing strategies can lead to stockouts, hindering sales and turnover. Poor forecasting, pricing changes, or even changes in market conditions can also contribute to fluctuations in inventory turnover. The research conducted by Busman Bactiar, Indayani B, Arlistria Muthmainnah, Sumarsih (2022) shows that Inventory Turnover has a negative influence towards Profit Growth. Low inventory turnover can negatively impact profit growth by tying up capital in slow-moving inventory, increasing holding costs, and elevating the risk of obsolescence or necessary markdowns. Additionally, it can indicate inefficiencies in demand forecasting or inventory control, which could limit cash flow and the amount of money available for investments in expansion prospects. However, the research conducted by Silvana (2022) and Naila Sari (2022) shows that Inventory Turnover have a positive influence toward Profit Growth. High inventory turnover positively impacts profit growth by improving efficiency, reducing holding costs, and freeing up capital for reinvestment. Faster inventory turnover signals strong demand, optimizes stock levels, and minimizes waste or obsolescence, leading to higher sales and profitability.

The ROA of PT GGRM keeps increasing year by year. The Return on Assets increases about 0.02 from 0.01 in year 2019 to 0.03 in year 2023. Theoretically, the increase of Return on Assets will also increase Profit Growth and vice versa. This phenomenom was supported by the research by Dwi Joko Siswanto, Faschruella Maudhiky, Ickhsanto Wahyudi, Tantri Yanuar Rahmat Syah (2022) which shows that ROA has positive and significant influence towards Profit Growth. A high return on assets (ROA) boosts profit growth by indicating efficient use of resources to generate earnings. It leads to higher revenue, attracts investment, and reduces operational inefficiencies, all contributing to improved profitability. However, the Return on Assets of PT. Siantar Top Tbk (STTP) decreases about 0.19 from 0.31 in year 2018 to 0.12 in year 2023. This phenomenon was supported by the research by Tyka Melinda Putri & Sonang Sitohang (2019) which shows ROA has negative and significant influence towards Profit Growth. Decline in Return on Assets can adversely affect profit growth by signaling decreasing efficiency in utilizing assets to generate revenue. This trend may reflect poor asset management, rising operational costs, or diminished demand, all of which can constrain profitability and hinder growth potential.

The Firm Size of PT GGRM and PT STTP keep increasing year by year. The Firm Size of GGRM increases about 0.16 from 18.18 in year 2019 to 18.34 in year 2023. The Firm Size of STTP increases about 0.64 from 28.69 in year 2019 to 29.33 in year 2023. This phenomenon was supported by the research by Naila Sari (2022) which stated that Firm Size has positive and significant influence towards Profit Growth. Increasing firm size positively impacts profit growth by enabling economies of scale, reducing costs, and improving efficiency. Larger firms gain market power, better financing terms, and can invest more in innovation and expansion, driving revenue and profitability. However, the Firm Size of PT. Hanjaya Mandala Sampoerna Tbk (HMSP) experienced fluctuation. Fluctuations in firm size can arise from changes in market conditions, economic factors, business strategies, mergers, acquisitions, or shifts in product demand. Additionally, variations in available capital, investor confidence, and strategic management decisions may also contribute to these fluctuations. However, the research which is conducted by Eri Maryati & Tutik Siswanti (2022) shows that Firm Size has negative and significant influence towards Profit Growth. Excessive firm size can negatively affect profit growth by causing operational inefficiencies, higher administrative costs, and slower decision-making. It may also reduce agility, hinder innovation, and create coordination challenges, limiting profitability.

This research will be done in order to provide readers and other researchers with further information, based on the research's background analysis presented above. Given the inconsistent and varying previous research's results, an analysis to examine the influence of the Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, Firm Size, and Profit Growth will be conducted by the writer. This study aims to provide a clearer understanding of how these factors interact and affect profit growth, addressing gaps in the existing literature. To sum up, the writer decided to take this research entitled : **"THE INFLUENCE OF CURRENT RATIO, DEBT TO EQUITY RATIO, INVENTORY TURNOVER, RETURN ON ASSETS AND FIRM SIZE TOWARD PROFIT GROWTH OF CONSUMER GOODS COMPANY LISTED ON INDONESIA STOCK EXCHANGE FOR PERIOD 2019-2023".**

1.2 Problem Limitation

In accordance with the background of the study outlined above, the identification of the problems in this research are :

1. The variables used in this research include the Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size as independent variables, with Profit Growth as the dependent variable.
2. The object of this research is Consumer Goods Companies listed on the Indonesia Stock Exchange, using observation data from a period of five consecutive years, specifically from 2019 to 2023.

1.3 Problem Formulation

Based on the identification of the problem, the writer formulates the following research questions :

1. Does the Current Ratio have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?
2. Does the Debt to Equity Ratio have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?
3. Does Inventory Turnover have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?
4. Does Return on Assets have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?
5. Does Firm Size have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?
6. Do the Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size simultaneously have a significant influence on the Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023?

1.4 Objective of the Research

In alignment with the problems posed in this study, the research objectives are as follows:

1. To investigate and analyze the influence of the Current Ratio on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.
2. To investigate and analyze the influence of the Debt to Equity Ratio on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.
3. To investigate and analyze the influence of Inventory Turnover on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.
4. To investigate and analyze the influence of Return on Assets on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.
5. To investigate and analyze the influence of Firm Size on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.
6. To investigate and analyze the simultaneous influence of the Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size on Profit Growth of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2019 to 2023.

1.5 Benefit of the Research

There are two kinds of benefits that can be generated from this research :

1.5.1 Theoretical Research

This research is expected to serve as a reference work and be helpful for readers and future studies. It is intended to serve as educational material to broaden scientific understanding, particularly in the area of financial management and the influence of Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets and Firm Size toward Profit Growth.

1.5.2 Practical Benefit

1. For Company

   By gaining further knowledge and understanding from this research, the company will be able to evaluate it for corporate development and create strategies that will optimize its profit. In addtion, this research can help companies in making decision regarding Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets and Firm Size toward Profit Growth.

2. For Investors

   Investors can learn more about the company's financial situation from this research. Furthermore, investors may use this information as guidance when deciding which company to invest in.

3. For Academic

Future researchers may find use for and utilize this study as a reference regarding the topic of Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets and Firm Size toward Profit Growth.