CHAPTER I

INTRODUCTION

1.1. Background Of The Study

The main purpose of establishing a company is to generate profit. The ability of an organization to earn profits in regard to sales, total assets and capital itself is referred to as profitability (Sartono (2010: 122)). Another opinion suggests that the goal of the corporation is to prosper the owner of the corporation or the shareholders. Go public is one way that is felt more efficient in obtaining the source of funds, but not easy to attract funds through investment, given the differences in characteristics of investors in assessing an investment. It takes financial statements for investment higher cognitive process as a result of the figures on the monetary statements square measure able to mirror the performance of a corporation.The financial condition and healthy development of the company will reflect the efficiency in the performance of the company to be the main demand to be able to compete with other companies. The function of financial management is as a corporate financing decision maker. The financial manager will look for an alternative source of funds that will be used to fund the assets to be invested. Source of funds can come from foreign capital (debt) and own capital (shares). Things to consider in choosing the source of funds is related to the level of profitability to be achieved company. Companies can maximize profits if the financial manager knows the factors that have a big influence on the profitability of the company. By knowing the influence of each of the factors on profitability, the company can determine the steps to overcome the problems and minimize the negative impact that arises. All factors in a company have an influence on the company's ability to earn a profit.

According to Van & Wachowicz (2000), the working capital component will be based on company goals and maximize profits. Working capital can be calculated using a cash conversion cycle (CCC). This is also known as the Net trade cycle (NTC) or Days of working capital (DWC). The CCC only calculates the time difference between cash collection and cash payments. Shorter CCCs mean less time capital tied to business operations and are always good for the day-to-day operations of the company (Hutchison et al., 2007). On the other hand the operation cycle (OC) captures the time from purchasing inventory to collecting cash from customers (Lawrence and Chad 2012).

The role of working capital is very important for every company, although the role is always different in each company. But basically working capital and capital have a very close relationship. Capital, additionally to continuity, conjointly maintains the company's liquidity. Capital management is very important as a result of its effects on the firm's gain and risk, and consequently its price (Smith, 1980). Companies that do not have sufficient working capital will find it difficult to carry out their activities, or will stagnate operations. Without sufficient working capital, a company will lose the opportunity to increase the quantity and quality of the resulting product. If it happens, it will be abandoned by its customers, and suffer losses. Gitman (1974) argued that the cash conversion cycle was a key consider capital management.

Actually, choices regarding what quantity to take a position within the client and inventory accounts, and the way a lot of credit to simply accept from suppliers, are mirrored within the firm's cash conversion cycle, which represents the typical range of days between the date once the firm should begin paying its suppliers and therefore the date once it begins to gather payments from its customers. A large quantity of scientific work has been dispensed in finance, strategic management, economics, and selling to check the sources of profitableness for firms.

Company size plays a very important role in leading the link enjoyed by the organization with the external setting and among the organization. Larger firms will exert larger influence on alternative stakeholders. With the appearance of economic process, within the modern international economy, giant size firms have additional influence within the company setting (Peng, 2016). in keeping with Bhayani (2010), growth in structure size is a facet of economic process that creates it fascinating to be told that however growth and profitableness is associated with company size. The dimensions of the corporate includes the flexibility and capability of the corporate within the context of selection and therefore the quantity of production capability that the corporate offers to its shoppers at the same time. Maybe the biggest advantage for firms that have large sizes is that the chance to fulfill economies of scale. Within the fashionable international era, giant firms will benefit of this development and gain a long-run competitive advantage over little firms by maintaining high market share and manufacturing at lower prices.

When analyzing a company's capital structure, leverage analysis plays a vital role. Leverage will be classified into 2 specific classes as monetary leverage and operational leverage. monetary leverage arises due to the employment of funds with fixed charge commitments. Each company that uses monetary leverage is meant to induce additional fastened prices than it prices. Such a surplus or deficit can increase or decrease the come on owner's equity. Therefore, the speed of come on owner's equity is raised higher than or below the speed of come on total assets.
Increased growth needs formal behavior of workers and employers within the geographical point, and this behavior takes a protracted time to realize. This needs the elimination of informal relationships that conjointly reduces the profit of the corporate. From another perspective, workers ar impelled to realize growth for his or her future advantages associated with profit and company growth. worker dedication improves their performance thus on turn out higher growth and profit (Serrasqueiro, 2009).

Growth may be a gradual method and within the context of an organization, it will be outlined as a rise in company sales, business enlargement through acquisitions or mergers, profit growth, development, and diversification and conjointly a rise within the variety of company workers. This year's sales minus previous year's sales and overall divided by the previous year's sales ar employed by several studies to live growth rates. This is often conjointly known as sales growth. several studies select sales growth as a result of sales growth simple to calculate.

The economic development of a rustic are often mirrored in indicators of the country's capital markets and conjointly state. In measure growth and economic activity, one live that's typically used is that the Gross Domestic Product (GDP). The utilization of Gross Domestic Product in growth measure is taken into account quite adequate as a result of it is many benefits compared to different various indicators. This analysis is to produce empirical proof whether or not economic process influences company profitableness.

This study uses ROA as a tool to live the profitableness of the corporate. This magnitude relation is that the most vital magnitude relation among the present profitableness ratios. According Mardiyanto (2009: 196) ROA is that the magnitude relation wont to live the flexibility of corporations in generating profits derived from investment activities. ROA ratios are often used by top management to evaluate business units within multidivisional firms. The division manager has a big influence on the assets used in the division, but has little influence on how the asset is financed because the division does not design to seek its own loan, bond or share expenses.

1.2. Formulation Of The Research Problem:

There are many factors that affect the profitability of a company. These factors are one of them is the management of working capital. Financial ratios such as current ratio, working capital turnover, sales growth, firm size and debt ratio, can be used to determine the effect of each variable on the profitability of the company.

The existence of research gap that has been described previously is the reason researchers to conduct research on the effect of working capital management on profitability at companies in the manufacture. So from the formulation of the problem can be formulated research questions as follows:

a. Does the Cash Conversion Cycle (CCC) have effect on Return On Assets (ROA)?
b. Does the company size have effect on Return On Assets (ROA)?
c. Does the sales growth have effect on Return On Assets (ROA)?
d. Does the leverage have effect on Return On Assets (ROA)?
e. Does the annual Gross Domestic Product (GDP) growth have effect on Return On Assets (ROA)?

1.3. Research Purpose :

The aim of the analysis conferred during this paper are :

a. To analyze the effect of Cash Conversion Cycle (CCC) on Return On Assets (ROA)
b. To analyze the effect of company size on Return On Assets (ROA)
c. To analyze the effect of sales growth on Return On Assets (ROA)
d. To analyze the effect of leverage on Return On Assets (ROA)

e. To analyze the effect of annual Gross Domestic Product (GDP) growth on Return On Assets (ROA)

1.4. Potential research contributions

This research is expected to provide the following benefits:

1. For the Issuers, particularly corporations that represent the manufacture class, may be used as thought within the framework of political beliefs associated with the money performance of the corporate. The results of this study area unit expected to be helpful as a thought for create Associate in Nursing investment call.
2. For investors, it may be used as a choice maker to speculate their funds in securities that generate best profit. By analyzing the factors touching assets investors area unit expected to be able to predict the profit, and assess the performance of a company's stock. This analysis is expected to supply helpful inputs for the corporate as an analysis material to the corporate's money performance in addition as thought to the company concerning early warning signs just in case of bankruptcy within the future, therefore on quickly take acceptable action to beat it.
3. For readers and alternative researchers, it may be used as a reference particularly curious about analysis on profit, particularly shares of manufacture corporations. can also increase data and skills in analyzing the capital market, particularly concerning assets

1.5. The systematic structure of Writing

This research's systematic structure of writing is arranged as follows:

CHAPTER I: INTRODUCTION

This chapter includes an introduction which consists of a background of the study, research problems, purposes of the study, benefits of the research, and the explanation of writing systematics.

CHAPTER II: LITERATURE REVIEW

This chapter contains a theoretical background of the variables used in this study. It consists of a summary of previous studies, the hypothesis of the study and the theoretical framework.

CHAPTER III: RESEARCH METHODOLOGY

This chapter explains the methodologies of the research. It provides information about research design, population and sample, sampling method, operational definition, and source of data, data collecting technique, instrument analysis, data analysis, and hypothesis testing.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter consists of the results of data analysis and the discussion as the implication for this study.

CHAPTER V: CONCLUSION

This last chapter covers summaries and results of the research. It presents a conclusion, research limitation, and the implication of study and research suggestion.