CHAPTER 1

INTRODUCTION

A. Background of The Study

Companies as economic actors must cling to economic principles in achieving the benefits of sustaining the company. According to Arma (2013), stated a company is established with various objectives, including obtaining profits, maximizing profits, increasing sales, and improving services and so forth. So the company is said to be good if there is an increase in sales continuously because it can reach the expected target. Conversely, if the company has a significant decrease in sales, it is bad because the company cannot achieve its objectives. However, the success of the company in seeking profits and maintaining its company depends on financial management. Every company must have good financial performance, effective and efficient to obtain profits. Therefore, financial performance is the most important thing for companies in increasingly fierce business competition to maintain their companies.

The increasing rapidly development of the business world requires that every company has a good and efficient financial performance to attract external parties to want or invest capital or retain investors in existing investments and obtain maximum results for the future. Financial performance is conducted to see the extent to which a company has implemented economic principles by using financial rules properly and correctly. According to Gaman (2015), financial management has an important role in the company's financial management so that financial management is required to carry out its functions effectively and efficiently.

According to Amilin (2019), one of the factors that can show how the company's financial performance is good or not can be seen through the analysis of financial statements. Companies need to analyze financial statements to assess the company's financial performance. In conducting financial statement analysis, each company has a variety of sizes so that between companies with one another will be different. Measuring financial performance in a company is by using financial ratio analysis. Financial ratios are used to assess company performance and to compare the company's financial condition from the previous year to the current year. Does the company increase or not, so the company considers the decision what will be taken for the coming year. In analyzing financial statements, financial analysis tools are needed, one of them is by using financial ratios which include liquidity ratios, solvability ratios, and profitability ratios which will be used as a basis for measuring the company's financial performance and can provide an assessment of the management of company assets by management in the company to evaluating and corrective actions for unhealthy financial performance.

According to Kemenperin Indonesia (20180, the consumption industry sector is a major supplier and contributor to the economic sector in Indonesia. The consumer goods industry sector in the Indonesia stock exchange has 5 sub-sectors. The researcher will use in this study is the main company and development on the Indonesian stock exchange. Along with the increasing needs of the people in the food and beverage sector, the food and beverage industry is an industry that is very important to meet the growing needs of consumers. Financial ratio analysis and company size also provide various benefits for the management of companies, investors, and creditors as internal and external parties in a company. According to Fahmi (2014:47), the benefits of financial ratio analysis are helping companies analyze financial performance, helping internal parties to compare financial results in a company with its competitors, helping internal and external parties to make decisions, and evaluating company financial performance so that they can find strengths or weaknesses.

According to Munawir (2010:239), in general, financial ratio analysis can be categorized into several types of analysis, namely analysis of liquidity ratios, solvency ratios, and profitability ratios. Factors that affect financial performance in a company are the size of the company, with the size of a company indicating how the opportunity of the company has to obtain funds. According to Pratiwi (2020), the bigger size indicates that more flexible of the company to get more opportunities to obtain funds. It does not rule out the possibility that small size can also get a source of funds that is easy to see the nature of small companies is more flexible and does not incur a lot of costs such as labor costs and equipment. But with a small measure of whether performance can reach the point of effectiveness and efficiency. Through testing these four factors it can be seen whether the company's finances have good performance. Theoretically, there is no clear composition or level that says that at a certain level or value company size, liquidity ratio, leverage ratio, and profitability ratios currently used by companies contribute to the company's financial performance.

B. Problem Statements

Research Questions:

1. Does there an impact of liquidity (Current Ratio and Quick Ratio) on the financialperformance in their company?
2. Does the Capital Structure affect the financial performance of the company?
3. Does Profit Margin can affect the financial performance in their company
4. Does there an impact of company size on the financial performance of the company?

Research Objectives:

1. To examine the impact of liquidity ratio (CR and QR) on financial performance of thecompany
2. To test the effect of capital structure on financial performance of the company
3. To analyze the effect of profit margin impacts on financial performance of the company
4. To analyze whether the size of the company impacts on financial performance.

C. Benefits of the Research

This proposal is intended for investors, creditors, and internal parties to pay attention to financial performance and the impact of financial ratios on the performance of companies listed on the Indonesian stock exchange, especially in the consumer goods industry sector.

D. Scope and Limitation of the Research

research proposal is only limited to the consumption industry goods sector that is listed on the Indonesia stock exchange in 2015 until 2019 and is limited to companies with primary listing.