

## CHAPTER I

### INTRODUCTION

#### A. Background

Globalizations in the world cause the business world in each country become more competitive. There are several new company are built up and also many variations of product are exist in market. It also effect to the increasing of company's activity in order to maintain viability. Company also wants to gain the profit and maximize the property. This condition also requires the company has adjustment policy to maintain its performance in order to make the company's activities can proceed well. Company also must have effort to fulfill their needs. In carrying out day-to-day operations, each company needs working capital because without it, all business activities and production processes could not be run well. The use of working capital by a company in daily operations is to finance its production operations in an effort to obtain profit.

Working capital has an important role in a company. It can be used to fulfill the internal operations in company. "Working capital is viewed as a measure of an organization's capacity to address unforeseen contingencies, and is therefore expressed as a percentage of current expenditures" (Frank, 2006: 362). Furthermore "Working capital represents a net investment in short-term assets. These assets are continually flowing into and out of the business, and are essential for day-to-day operations" (Atrill and McLaney, 2006: 368).

Basically, determination of working capital has an important role for the company. "The more working capital an organization uses, the easier it to run its operations. On the other hand, having less working capital, puts additional constraints on the organization in running its routine operations, but it also more costly, since it will tie up more money in the current accounts" (Frank, 2006: 338).

Working capital as current assets and it consist of cash, account receivable, marketable securities, and inventories. "Cash includes the items that are acceptable to a bank for deposit and free from restrictions. Cash typically include coins, currency funds on deposit with a bank, checks, and money orders" (Walther and Skousen, 2009:40) . Second element of working capital is account receivables. "Account receivable represent income or revenue from user fees, charges, fines, forfeitures, as well as from other agencies and company that a company has not yet received, but expects to receive within a prescribed time during an accounting period" (Frank, 2006:339-340). The other part of working capital is inventory. Inventory is composed of raw materials to be used in production, work in process, and finished goods. The marketable securities can be readily converted into cash at any time without disrupting the normal routine of business operations. (Lee and Lee, 2006:87 and 177).

The purpose of cash management for the company is to decrease the amount of cash as minimum as possible to run the business. The working capital management need cash in company purchasing, maintain its credit rating, take advantage of favorable business opportunities, and overcome such emergencies. Receivables management is also important, because it can help the raising of sales which it will

give the surplus for the company. The inventory also has influence for the company's operation activity and sales. As the other component, marketable securities also has important role for the company. Marketable securities has function as substitute of cash and it can be used as temporary investment (Weston and Brigham, 2009: 451-501). Seeing the importance of cash, receivables, inventory and marketable securities, therefore, it should be maintained well by a company.

Profitability handle important role in the company. "Profitability shows the ability of a firm to use its sales, assets, and equity to generate returns. The profit margin, or return on sales, represents the proportion of each sales dollar that becomes profit or net income to the firm" (Lee and Lee, 2006: 217). Usually company has primary purpose of creating wealth for their owners. Profitability ratios provide an insight to the degree of success in achieving this purpose.

In order to make good operations for the company, the management has to determine the amount of working capital itself that will help the survival of the company. Adequacy of working capital affects the smoothness and efficiency in operating cost for the company. Analyzing the determination of working capital, it can be seen how the policy will take up a company in an attempt to improve the effective and efficient operation for the company.

PT Indocement Tunggal Prakarsa Tbk. is one of the largest cement companies in Indonesia. Indocement maintains 3 world-class cement factories that produce quality cement products in Indonesia. Indocement's products are sold under the "Tiga Roda" brand. PT Indocement Tunggal Prakarsa Tbk. has been a leading producer of quality



cement products for the Indonesian market since 1975. The operations are spread over 3 factories in Bogor, Cirebon and Kotabaru, comprising a total of 12 plants.

PT Indocement Tungal Prakarsa Tbk remains the only producer of white cement. Indocement receives "2011 Indonesia Green Award" for the Company's efforts that strongly inspired the public in environmental issues especially in using alternative fuels in cement production process.

Seeing the contribution that given by the company to industrial and manufacturing sector in Indonesia, the researcher interested to conduct the research in this company, how the implementation of working capital management can makes the daily operation of the company become more effective and in the end it can increase the profitability of the company through it sales.

Based on the background above, the researcher interested to do research with entitles "**DETERMINATION OF WORKING CAPITAL AS AN EFFORT TO INCREASE COMPANY PROFITABILITY THROUGH IT'S SALES (STUDY AT PT INDOCEMENT TUNGGAL PRAKARSA TBK)**".

## **B. Problem Formulation**

Based on the background above, the researchers decided the issues in this study are as follows:

1. How does the working capital management implementation in PT Indocement Tungal Prakarsa Tbk.?

2. How does the determination of working capital that increase the level of corporate profitability?

### **C. Research Objectives**

Based on existing problems, the objectives to be achieved in this research are as follows:

1. In order to know the working capital management implementation in PT Indocement Tungal Prakarsa Tbk.
2. Finding out the determination of working capital that increase the level of corporate profitability.

### **D. Research Contributions**

1. Benefits of academic

This research is expected to expand horizons for the researcher about sources and uses of working capital. Moreover, it can be a source of information, references and a review of research and writing in the same field.

2. Practical benefits

For companies, the result of this research is expected to provide information that can be used as a consideration in making decisions about the management of working capital.

## **E. Systematic Implementation**

In order to give an idea about this study, the systematic discussion is structured as follows:

### **CHAPTER I : INTRODUCTION**

This chapter outlines the contents of the overall research includes background research, formulation of the problem, research objectives, the contribution of research and systematic discussion.

### **CHAPTER II: REVIEW OF RELATED LITERATURE**

This chapter presents the various theories and opinions that are relevant to research titles. In this study the theory are taken include working capital, profitability, and financial ratios.

### **CHAPTER III: RESEARCH METHODS**

This chapter describes the methods used in the study. The method used in this study include the type of research, the focus of research, research sites, data sources, data collection techniques, research instruments, and data analysis are expected to help the research process.

### **CHAPTER IV: RESULTS AND DISCUSSION**

This chapter presents the processing and analysis of data has been obtained during the study and explanation of the results of the analysis. This chapter includes an overview of the company, presentation of data, analysis and interpretation of data relating to the issue in this study.



## CHAPTER V : CONCLUSION AND SUGGESTION

This chapter contains the conclusions drawn based on the description and analysis in the previous chapter and contains suggestions that are expected to contribute to the company in order to operate better.

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