

CHAPTER I

INTRODUCTION

A. Background

Business in Indonesia is currently experiencing a new era, where boundaries of the state is no longer be an inhibitor of trading activity, an era is known as era of globalization. This era makes business world competition becomes increasingly stringent, it happens because of government policies that provide the ease of investing. As well as companies that used to compete in local, regional, or national must now also compete with companies from around of the world. This condition become the background for each company in Indonesia must always be innovating to create new products and implement new strategies in business, so it can continue to survive and develop in the era of global competition.

Companies in an effort to develop its business requires a lot of funds. Many strategies that can be used to meet those needs. One strategy that can be done by the company in order to obtain new source of funds is doing go public process.

Going public according to Keay (2011:159) is “jobs within the job but in terms of know how and time required. Strategic thinking in necessary to get out as much as possible of what invest in effort, time and money”. In other words, going public is a process to attract funds from the public by selling stock or other securities, that means public have joined the company so that the public is also entitled.

Investors is investing their funds need a guarantee so that its own funds can be returned, moreover benefit from the investment of funds is the main purpose of investor. There are certain conditions that must be fulfilled by each company in order to attract investors willing to invest their funds. This condition is called as profitable condition. Through this condition the investor can get the guarantee of the company in repayment of funds that have already been invested. This condition is not only used to attract investors to invest their funds, but also in fact as a major goal of the company such as expressed by Keay (2011:111) “the aim of companies is to make profits, with some emphasizing the need to maximize profit. To say that is the aim of companies is fine as a very basic statement, as profits are essential for a business, but it tends to be glib, providing no definite and identifiable content.” moreover according to Ogilve (2005:424) “company objectives is to increase the wealth of our shareholder whilst respecting the interest of our customers and other stakeholder and operating to the highest ethical standards”.

There are many different factors that may affect the profitability of the company. There are some measurement of the profitability of companies in which each measurement is associated with the volume of sales, total assets and capital. The overall three measurements will allow analysts to evaluate the level of earnings in relation to the volume of sales, total assets and certain investments of the owners of the company.

This research uses the financial approach especially investment approach, through this approach so there are two tools that can be used to

measure, there are ROA (Return on Asset) and ROE (Return on Equity). Based on two measurements that can be used to measure the profitability associated with the investment, the author intends to limit for one measurement that is through the ratio of ROA (Return on Asset). ROA in financial management is seen as a useful measurement tool to measure the ability of the company as a whole in making profit with the number of assets available in company, moreover ROA also shows the efficiency level that can be achieved by company in utilization of owned assets, the higher ratio the better the condition of the company, According to Needles and Powers (2011:204) "Return on Asset (ROA) is one of the most widely used measures of profitability because it reflects both the profit margin and asset turnover. Moreover according to Kimmel, Weygandt and Kieso (2011:720) "Return on Asset (ROA) "a profitability measure that indicates the amount of net income generated by each dollar of assets, calculated as net income divided by average total asset". The higher ROA, the better condition of a company, so in order to maintain and increase ROA, then the company must identify precisely the factors that influence it.

Factors that affect profitability of the company actually there are many different kinds, it is related of how we will measure profitability. According to Syamsudin (2007:59) "there is some measure of the profitability of companies in which each measurement associated with the volume of sales, total assets and capital. Moreover factors that affect the company's ROA can be learned from the company's internal and external activities that can be seen

from the company's financial ratios, such as PER (Price Earnings Ratio), Debt Ratio (DR), while also influenced by growth of company's selling growth (SG).

Analysis of factors that influence the profitability of these companies is conducted by author in 20 companies engaged in food and beverage's industries that listed in Indonesia Stock Exchange of 2008-2010. These company have a good dividend for the last 3 years. As for reason why author take objects research of food and beverage's company, because these companies have a non-cyclical nature of industry, it means that this industry sector is more stable and it is not easily influenced by the season or changes in economic conditions such as inflation. Moreover economic crisis, smooth product food and beverage's will remain secure, because food and drink is basic human needs, so that in every condition, people will keep taking it anyway. Seeing these conditions make many companies want to get into this sector, so that more and more tightly competition among companies, so that company must strengthen the external as well internal factors in order continue to grow and survive in competition. One way to strengthen its internal factor is to manage properly factors that affect company's ability to get profit.

Based on the above background, the title undertaken in this research is **“ANALYSIS OF FACTOR THAT INFLUENCE PROFITABILITY”** (Case Study of Food and Beverage's Companies at Indonesia Stock Exchange, Period 2008-2010).

B. Formulation of problems

From description above, problems in this research are:

1. Do Sales Growth, Price Earnings Ratio and Debt Ratio affect the ROA of food and beverages companies that go public on the Indonesia Stock Exchange period 2008-2010?
2. Which factor has dominant affect on the profitability of food and beverages companies that go public on the Indonesia Stock Exchange in the period 2008-2010?

C. Research Objectives

The objectives of this research are:

1. Knowing the affect of Sales Growth (SG), Price Earnings Ratio (PER) and Debt Ratio (DR) on the ROA of food and beverages companies that go public on the Indonesia Stock Exchange period 2008-2010.
2. Knowing which factor that has dominant affect on the ROA of food and beverage's companies that go public on the Indonesia Stock Exchange period 2008-2010.

D. Research Contributions

The expected contributions of this research are:

1. Practical contributions

- a. The research can be used to expand profitability based on the affect of Sales Growth (SG), Price Earnings Ratio (PER) and Debt Ratio (DR).
- b. The research finding could be used by investor to take decision on choosing which have profitability related with Sales Growth (SG), Price Earnings Ratio (PER) and Debt Ratio (DR).

2. Academic contribution

- a. Hopefully the research can be used as information and references for next similar research related with companies profitability, and also can be used for comparing research for the similar topic.

E. Systematic Implementation

To find an outline of the contents of the research, it can be seen from the systematic discussion is a short summary of the entire contents of an undergraduate thesis. Systematic of implementation in this thesis the research is as follows:

CHAPTER I

INTRODUCTION

This chapter describes and explain the background of research, formulation of the problems, research objectives, research contribution, and systematic implementation.

CHAPTER II**REVIEW OF RELATED LITERATURE**

This chapter describe about literature review that is description of the theoretical literature. It is used to support the discussion of issues that include understanding of company objectives, analysis of financial statements, profitability, factors that affect the company's profitability, capital market, and Go Public, Concept and Hypothesis.

CHAPTER III**RESEARCH METHOD**

This chapter describes the types of research, research site, identification, of research variable, the definition of operational research variable, population and sample, the type and techniques of data collection, and methods of data analysis.

CHAPTER IV**RESULTS AND DISCUSSION**

This chapter will describe and discuss the results of research conducted which contains an overview of research locations and analysis of the problems.

CHAPTER V**CONCLUSION AND RECOMMENDATIONS**

This chapter is the last chapter that describes the overall conclusions of the problem analyzed and suggestions given by the author on the issues raised in the research.