

CHAPTER I INTRODUCTION

1.1. Research Background

Stock exchange market is one of many wheels that drives a country's economy. Its growth may affect the overall changes in the economy. The stock market relies on the activity of investors that are in it. As a company registers itself in the stock exchange market, it opens up an opportunity for investors to acquire a part of the ownership of a company in a form of equity. The investors may then trade their ownership to each other to gain returns or to keep it and receive dividend.

Investors play a significant role in the market as they keep the flow of money in the stock market. Having a high monetary flow in the stock market means that the market is moving and growing, which is a good thing. This requires many investors to participate in the stock market. Indonesia is considered to have a very low amount of investors that are in its stock exchange market. By the end of 2016, a total number of 530.000 investors are recorded by Indonesia Stock Exchange (IDX). This number is insufficient, considering Indonesia's total population has reached 261.115.456 people by the end of 2016, based on the data recorded by World Bank. With this huge population, the total of investors consists of even less than 1% of the total population. Compared to other countries this number is very low, as in general the total amount of investors may consist of more than a quarter of a country's total population.

People in Indonesia tend to avoid the term 'investing'. This is caused by the lack of education on investment and public point of view. In general, these people refer investment to gambling, as in trying their luck by paying a certain amount of

money in hope of gaining a considerable amount of profit in return. This viewpoint is incorrect and it is even more severe by the lack of proper education. Moreover, there are many fraud cases of stolen investment in which people are deceived by a huge earning that comes with investment. This worsens people's attitude toward having any business relating to investing. Even to those with proper education and actual understanding of investment management, they realize that investing is difficult and may cause losses if done incorrectly. Therefore, there should be a general guideline for people to follow, on selecting a profitable investment so that they are more inclined to enter the stock exchange market.

One way investors may use in their investment decision making is to analyze the financial reports that are published by listed companies in the stock exchange market. In the reports, the status and financial activities of each company can be viewed, whether they are running smoothly or are facing problems. Investors may take into consideration the financial performance of the company when assessing its profitability. A good financial performance will keep a company profitable and it can be viewed from how the company manages their cash flow. This cash flow may determine the efficiency of the company in handling its debt and the amount of cash in use. With a profitable company, investors will also gain benefit as it may increase the dividend payouts or increase the returns from trading activities.

Based on the background above, it is vital for investors to be able to assess a company's profitability. Investment decisions rely heavily on the profitability assessment. Thus, this serves as a reason for the author to select the research title of **“Panel-Data Analysis on Working Capital Level and Profitability of Companies from Indonesia and China”**.

1.2. Research Problems

Research problematic is as described below:

- a. What is the relationship of number of days inventory and profitability?
- b. What is the relationship between average collection period and profitability?
- c. What is the relationship between average payment period and profitability?
- d. What is the relationship between cash conversion cycle and profitability?
- e. What is the relationship between working capital and profitability?

1.3. Objectives and Benefits

1.3.1. Objectives

The objectives of this research are as below:

- a. To find out the relationship between number of days inventory and profitability.
- b. To find out the relationship between average collection period and profitability.
- c. To find out the relationship between average payment period and profitability.
- d. To find out the relationship between cash conversion cycle and profitability.
- e. To find out the relationship between working capital and profitability.

1.3.2. Benefits

The benefits of this research are as below:

1. Benefits for firm

The result from this research is aimed to contribute to firm's own profitability analysis in order to assess whether the firm is doing well or not. Therefore, the firm may be able to relate and tend to the problem so that they may improve their attractiveness toward investors.

2. Benefits for investor

The result from this research is aimed to be used as a reference on analyzing companies' financial condition so that investors may be able to make a good investment decision based on the result acquired.

3. Benefits for researcher

- a. Help in studying process including in applying theories, especially those related to Financial Management, regarding financial statement analysis and profitability analysis.
- b. This research can be used as a source of information to gain knowledge on firm's profitability assessment, regarding its cash conversion cycle, number of days inventory, average collection period, average payment period, assets tangibility and short-term financing.
- c. This research can be used as reference material for other similar research.

1.4. Discussion Systematics

The systematics used in this research is to provide a guideline on the content and discussion on each chapter. The research discussions consist of five, which are:

CHAPTER I : INTRODUCTION

This chapter describes the research background, research problems, research objectives and benefits, and discussion systematics.

CHAPTER II : THEORETICAL FRAMEWORK AND HYPOTHESIS

This chapter explains definitions, theories, and results from previous researchers including basic models used for research and hypothesis.

CHAPTER III : RESEARCH METHODOLOGY

This chapter describes research planning, research object, operational variable definition, data sampling technique, and data analysis method.

CHAPTER IV : ANALYSIS AND DISCUSSION

This chapter describes descriptive statistics, analysis results, and discussion regarding studied problems.

CHAPTER V : CONCLUSION, LIMITATION, AND RECOMMENDATION

This chapter contains conclusion created based on discussion results, limitation challenges, and recommendations on research results.