

# Chapter I:

## Introduction

### 1.1 Background

The tobacco industry is one of the largest industries in Indonesia with high domestic cigarette consumption, especially among Indonesian men. It is estimated that around 65 percent of Indonesian men are smokers, and 3 percent for Indonesian women because it is less socially acceptable for women to consume cigarettes in Indonesia (World Health Organization, 2015). Given that two companies from tobacco sector, which are HM Sampoerna and Gudang Garam become the top ten of largest Indonesian companies in terms of market capitalization listed on the Indonesia Stock Exchange, it becomes clear that the tobacco industry of Indonesia is becoming larger.

Tobacco is one of important commodity in the world, include Indonesia. The important thing is about the leaf for a tobacco. Tobacco leaf has a high value, so some of countries include Indonesia have a role in national economic, as source of foreign exchange, source of government income and tax, source of farmer income and job demand. (Muchjidin, 2009). From the data of Directorate General Of Estate (2011), it is prove that a big income came from tobacco especially in foreign exchange activity. Therefore, the tobacco company have an important role to national economic in Indonesia. Tobacco also become the biggest taxpayer for Indonesia that already stated in their financial report. As the financial statement reported for tobacco company is as result :

**Table 1.1****Amount of Company's Profit**

| Company                                     | Profit    |           |            |            |            |
|---|-----------|-----------|------------|------------|------------|
|   | 2011      | 2012      | 2013       | 2014       | 2015       |
| <b>Gudang Garam Tbk.</b>                    | 4.958.102 | 4.068.711 | 4.383.932  | 5,432,667  | 6,452,834  |
| <b>Handjaya Mandala Sampoerna Tbk.</b>      | 8.064.426 | 9.945.296 | 10.818.486 | 10,014,995 | 10,355,007 |
| <b>Bentoel International Investama Tbk.</b> | 305,997   | 323,351   | 1,042,068  | 2,278,718  | 1,638,538  |
| <b>Wisnilak Inti Makmur Tbk.</b>            | 129.537   | 77.301    | 132.322    | 112.304    | 131.081    |

Source : financial report each company

Based on table above, they get a big profit. The bigger they get, the bigger they will pay tax. It approved from the table below :

**Table 1.2****Amount of Company's Tax**

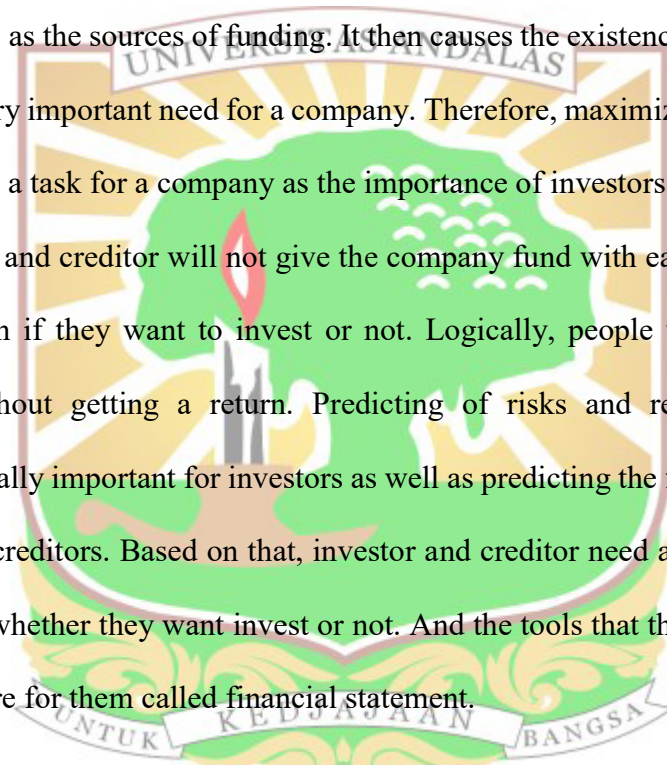
| Company                                     | Tax       |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
|   | 2011      | 2012      | 2013      | 2014      | 2015      |
| <b>Gudang Garam Tbk.</b>                    | 1,656,869 | 1,461,935 | 1,552,272 | 1,822,046 | 2,182,441 |
| <b>Handjaya Mandala Sampoerna Tbk.</b>      | 2.846.656 | 3.437.961 | 3.691.224 | 3,537,216 | 3,569,336 |
| <b>Bentoel International Investama Tbk.</b> | 485,237   | 156,138   | 255,159   | 532,955   | 300,014   |
| <b>Wisnilak Inti Makmur Tbk.</b>            | 19.149    | 28.275    | 42.797    | 37.360    | 46.882    |

Source : financial report each company

From the table above, it is proved that the bigger the company get profit, they will pay the bigger amount of tax. For the case, the way out of the company pay the big amount of tax, they will increase their selling to get fund through production activity. Beside from their selling production, the company get the fund from external, especially from investor & creditor. Because sometimes, owner's fund is limited and it cannot finance the high cost of company's operation. So, the company will need loans and investments as the sources of funding. It then causes the existence of investors and creditors is a very important need for a company. Therefore, maximizing shareholder's wealth becomes a task for a company as the importance of investors and creditors.

Investor and creditor will not give the company fund with easily. They should make a decision if they want to invest or not. Logically, people will not invest in something, without getting a return. Predicting of risks and returns from their investment is really important for investors as well as predicting the financial health of a company for creditors. Based on that, investor and creditor need a tools for them to make decision whether they want invest or not. And the tools that they need and what company prepare for them called financial statement.

However, when we see from liquidity side, the tobacco companies listed on Indonesia Stock Exchange (IDX) had inadequate liquidity position. Table 1.3 below shows the data of liquidity positions of tobacco companies listed in Indonesia Stock Exchange (IDX) from year 2011 until 2015 by using current ratio measurement.



**Table 1.3**

**Current ratios of tobacco companies listed on IDX**

| NAME OF COMPANY                            | CURRENT RATIO (%) |      |      |      |      |
|--|-------------------|------|------|------|------|
|  | 2011              | 2012 | 2013 | 2014 | 2015 |
| <b>Gudang Garam Tbk</b>                    | 224               | 217  | 172  | 162  | 177  |
| <b>Handjaya Mandala Sampoerna Tbk</b>      | 177               | 178  | 175  | 153  | 657  |
| <b>Bentoel International Investama Tbk</b> | 112               | 164  | 118  | 102  | 220  |
| <b>Wisnilak Inti Makmur Tbk</b>            | 140               | 210  | 243  | 230  | 290  |

*Source : financial report each company*

Current ratio is calculated by dividing company's current assets with company's current liabilities. The standard ratio usually used for current ratio is 200% (2 : 1), that regarded as a measurement of adequate or satisfactory to the company. The 200% means that every IDR 1 of current liabilities will be guaranteed by IDR 2 of current assets. If company achieving that standard ratio, the company has been at a safe point in the short term period. So when the current liabilities matures, the company can pay them by using its current assets. However, the most important measurement in liquidity is by comparing the ratio with the industry ratio. The higher ratio means the good position of the company.

The table above shows clearly that liquidity of tobacco companies listed on IDX were in inadequate position. Gudang Garam Tbk had a low current ratio in year 2013 until 2015, which is lower than 200%, means that the company are in inadequate position. For year 2011 until 2014, Handjaya Mandala Sampoerna Tbk only had current ratio under 200, which is low than 200%, that also means that the company are in

inadequate position for that year. Bentoel International Investama Tbk also had a low current ratio for year 2011 until 2014. And the last, Wismilak Inti Makmur Tbk, only had current ratio for 140% in 2011. For the case, although the company had a big profit, most of them are in inadequate position. In conclusion, most of tobacco companies had not achieved adequate position yet.

Financial report is report that show financial condition company in a certain time or in certain period (Kasmir, 2008). It show how the health of finance of the company. Kajanathan and Velnampy (2014) stated that the financial ratios analysis has traditionally been obtained from the statement of income and statement of financial position. However, Kirkham (2012) argued that traditional ratios were assessed to be not always reliable, especially for liquidity analysis. For instance, statement of income which shows the information about profit of the company. Profit does not measure the availability of cash used to pay the obligation of the company. Profit is only used to measure the dividend portion for investor, but cannot measure how much cash available to pay the dividend as well as to pay interest for creditor. Therefore, to overcome the problems and to provide a more focus on the cash position of a business, then the cash flow ratios derived from the statement of cash flows for financial analysis were developed. Cash flow information inform the users of financial statement about the use and source of the entire financial resources in the period (Mills and Yamamura, 1998)

Based on that background, using only traditional ratio is not enough. Investor need other ratio to measure the liquidity, that's why the cash flow ratios is needed to compare with the traditional ratios. And also because most of tobacco companies listed

on IDX were in inadequate position for liquidity as the data shown in the table 1.3, thus, this research considers the using of cash flow ratios as a tool for analyzing the liquidity of tobacco companies listed on IDX as compared to the traditional liquidity ratios. Therefore, writer have interest to do research about “ The Comparison between Liquidity Measurement Using Traditional Ratios and Cash Flow Ratios”

## 1.2 Problem Formulation

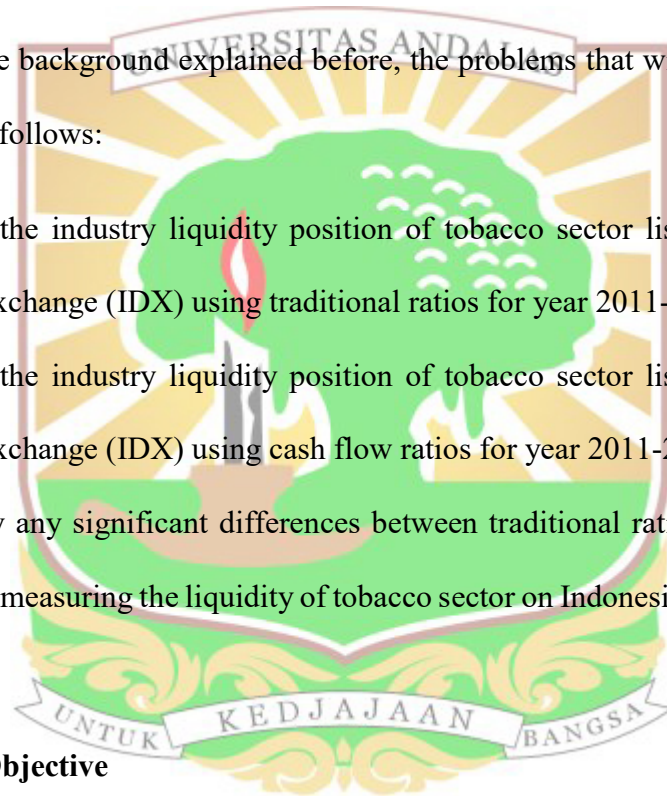
Based on the background explained before, the problems that will be discussed in this research as follows:

1. How is the industry liquidity position of tobacco sector listed on Indonesia Stock Exchange (IDX) using traditional ratios for year 2011-2015?
2. How is the industry liquidity position of tobacco sector listed on Indonesia Stock Exchange (IDX) using cash flow ratios for year 2011-2015?
3. Are they any significant differences between traditional ratios and cash flow ratios in measuring the liquidity of tobacco sector on Indonesia Stock Exchange (IDX)?

## 1.3 Research Objective

Based on the problems formulated above, the objective of this research are:

1. To examine the liquidity positions of tobacco industry listed on IDX using traditional ratios and cash flow ratios for year 2011-2015.



2. To determine whether there are significant differences between traditional ratios and cash flow ratios in measuring the liquidity of tobacco industry listed on IDX

#### 1.4 Research Benefits

The benefits of this research are as follows:

1. For Researcher

The results of this research are useful to improve knowledge about liquidity analysis using traditional ratios as compared to cash flow ratios.

2. For Creditor and Investor

The results of this research can be used as a consideration in analyzing the capability of companies researched in run the company before taking investment and credit decision.

3. For Companies

The results of this research can be used as an input and evaluation for the owners and the managements of the companies researched in order to improve companies performance in the future.

4. For Academicians

The results of this research is expected to give benefits for both academic and practitioner, especially in financial management subject.

5. For Further Research

The results of this research can be used as a reference, comparison, judgment, and or development for further research in doing the similar research.



## 1.5 The Writing Systematics

This research consist of five part or chapters as follows:

### **Chapter I : Introduction**

This chapter outlines the research conducted, which consists of the background; problem formulation; research purposes and benefits; writing systematical

### **Chapter II : Literature Review**

This chapter explains about basic theories underlying this research which are gathered from different sources (such as: opinions from the experts, books, journals, and internet-based information) and review of previous researches to develop hypothesis.

### **Chapter III : Research Methodology**

This chapter explain about the research design; population, sampling technique and samples; types and sources of data; data collection method; research variables; and analysis techniques used to analyze the data in the research and test the hypotheses.

### **Chapter IV : Result and Discussion**

This chapter explains the analysis of the results from the research based on the data and the information gathered, answers of hypotheses developed, and discussion

### **Chapter V : Conclusion**

This chapter describes the conclusions from the analysis of data, the implication of research, the limitations in this research, and research suggestions as a feedback.

