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Original Article

# FINANCIAL RATIO WHICH AFFECTS THE COMPANY'S FINANCIAL PERFORMANCE

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## ABSTRACT

**Background.** The company's financial health is very necessary to maintain its existence company. BUMN Ministerial Decree No: Kep-100/MBU/2002 to assess the level of health of BUMN is also needed to assess the performance of BUMN subsidiaries.
**Research Purpose.** This research aimed to determine the level of financial health of companies.
**Research Method.** Correlational research with descriptive methods. Research population some of companies based on BUMN in Jakarta. The variable was the financial aspect based on the Decree of the Minister of BUMN No: KEP 100/MBU/2002 for the last four years. Assessment of the health level of financial aspects using eight indicators, namely ROE, ROI, cash ratio, current ratio, collection periods, inventory turnover, TATO, and Total Capital owned to Total Assets.
**Findings.** The assessment of the company's financial health level. Obtaining a healthy title is expected to be able to always improve health his finances.
**Conclusion.** Financial ratios are a tool to assess the performance of company finances, and to assess the performance company is not enough to only use one or just a few ratios, but is a combination of various financial ratios.

**Keywords:** Company, Financial Ratio, Level of Financial Health.

## BACKGROUND

In financial management generally, a report requires more detailed financials along with the overview is telling activities of existing units company for internal purposes which is well organized monthly, quarterly, semi-annually, or annually[1]. With conducting financial report analysis company leaders will be able to know the state of development financial achievements have been good past time or estimated at future. In assessing the performance company, usually the appraiser takes an approach or method that will produce a certain value as a benchmark, so from the results it can be concluded the value of the company or performance position. Leaders of the company might want to use the tools you can ensure that the direction of the operating system is correct, namely by using improvement benchmarks to the value of the company. On the other hand, especially those related to public companies, namely investors will need tools to value shares correctly, so they can decide to invest quickly[2]. To assess performance can be briefly explained, improvements in sales will be meaningful if produce improvements in profit, while increasing profits must be developed with invested capital to gain profit furthermore.

Companies that have become public or corporate property in the country or companies that are going to go public must provide an overview of the position of finances in writing to the public[1, 3]. The report can be analyzed by various parties interested parties such as holders' shares, investors, guarantors, banking, consumers, suppliers, government, insurance, employees, or companies the other party intends to enter into a partner, acquisition, or other needs[4].

The Indonesian Government through the Minister State-Owned Enterprises (BUMN referred to as Badan Usaha Milik Negara) has issued a policy in the field of company performance assessment BUMN as stated in the letter Minister of State-Owned Enterprises Decree number: KEP-100/MBU/2002 dated 4 June 2002 on Level Assessment Health of State-Owned Enterprises (BUMN) non-financial services viewed from 3 (three) aspects, namely: Financial aspects, operational aspects and administrative aspects for BUMN infrastructure. BUMN activities provide goods and services services for the benefit of society area and for non-BUMN good infrastructure that moves in the service and manufacturing sectors, and the like[5].

By providing information proper finances are expected related parties can quickly assess the company concerned, is there any difference? company financial performance and what financial factors influence the performance/ the health of the company during the period of study[6]. With that information then companies or individuals who are related to the company will be able to provide input for action improvement efforts and perfection through the improvement of operational efficiency and effectiveness company. Therefore, This research aimed to determine the level of financial health of companies.

## RESEARCH METHOD

Research methods are used in correlational research because the research combines one variable with that variable another, whereas when viewed from an angle presentation and data analysis, then this research uses the method quantitative because of the data and analysis using numbers. The dependent variable in this case company financial performance stated as a variable that is not free and denoted by Y. Independent variables are various variables that can affect the performance of companies' finances which include: a. Return On Equity (ROE), b. Return On Investment (ROI), c. Collection Periods, d. Inventory Turnover, e. Total Asset Turnover, f. Own Capital Ratio to total assets.

Data analysis techniques After research data is collected, the next data processing is carried out as follows: a) Calculating ratios of company finances, b) Calculate the score from respective percentages of company financial ratios namely ROE, ROI, cash ratio, current ratio, collection periods, inventory turnover, total asset turnover and own capital turnover to total assets based on the Indonesia Decree Minister of BUMN number[7, 8]: KEP-100/MBU/2002 concerning Health Level Assessment State-owned enterprises (BUMN) on June 4, 2002, c) Add up the value/score of each financial ratio year and compare with maximum score with a percentage, d) Perform statistical analysis by using models Multiple linear regression to financial ratios expected calculation results affect performance company finances includes ROE, ROI, collection periods, inventory turnover, total asset turnover and ratio own capital to total assets as the independent variable with financial performance value company as a variable dependent. From the results of calculations using linear regression double will be obtained some parameters, good ones have a positive or negative sign negative sign. From the sign, the following is compared to theory, whether these conditions are appropriate or not. If the sign obtained is appropriate with the existing theory, then the next step is hypothesis testing with Test F (influence of independent variables simultaneously) and t-test (influence of independent variables partially) with use level trustworthiness or significance by 5%, e) From the results of calculations and the next test conclusions are drawn and formulated recommendations.

## FINDINGS

Correlation illustrates the closeness of the relationship between variable X with Y or in this case closeness of variable relationship ROE, ROI, Collection periods, Turnover inventory, total asset turnover, and The ratio of own capital to total assets with financial performance value of the company. The magnitude of the multiple correlation is obtained by looking directly at multiple R lines that exist on regression output. The quantity R is 0.999729 then the correlation between variables X1, X2, X3, X4, X5, and X6 with variable Y is equal to 99.97%. The correlation of 99.97% above proves that the influence between the variables ROE, ROI, Collection periods, Inventory turnover, Total asset turnover, and capital ratio itself to total assets is very close.

The Standard Error of Estimate (SE) from the standard error line on regression statistical output is generated the figure is 0.75819. This matter shows a variation of 0.75819 around the regression line, especially with the dependent variable Y as a financial performance company. Adjusted R Square (Coefficient determination) for multiple regression that has more than 2 independent variables (two) the use of R is recommended Square (R2). On statistical output. The regression produced a value of 0.9994581. This means 99.94% variation in financial performance can be explained by variables X1, X2, X3, X4, X5, and X6 or ROE, ROI, Collection variables periods, and Inventory turnover. Total asset turnover and capital ratio alone with total assets. Whereas the remainder (100% - 99.94%) is 0.06% explained by other variables namely the Cash Ratio and Current Ratio. Testing Regression Coefficients Multiple Regression coefficient testing aims to test the level of significance of relationships between variables X with variable Y, both individually or together. a. Testing the independent variable (X) systematically Individual tests were carried out using the t-test with the procedure:

1. t table. The significance level is 5% (α 0.05) for two sides being 0.05/2 or 0.025.

   Degree of Freedom (df) = (n-P-1), where:

   N = number of data

   P = number of variables X (in this study there are 6)

   Df = 8-6-1 = 1

   For t (0,0,025.1) in the t table, the number is 12.7062

2. t count. From the computer output in the t stat description line, we get the calculated T result (t stat) as follows:

   a. Variable X1 (ROE) = 21,540

   b. Variable X2 (ROI) = 10.351

   c. Variable X3 (Collection periods) = 3.740

   d. Variable X4 (Inventory turnover) = -7.783

   e. Variable X5 (Total asset turnover) = -1.642

   f. variable X6 (Capital Ratio to total assets) = -5.335

3. Decision making. The basis for decision-making is by comparing the t table with the calculated t as follows :

   a. If t count > t table, then Ho is rejected

b. If t count < t table, then Ho is accepted

By looking at the probability value (P-Value):

a. If P Value <0.05 then Ho is rejected

b. If P Value > 0.05 then Ho is accepted

Based on the computer output regression results, it appears that Variable X1 (ROE) has a t count of 21.540 which is greater than the t table of 12.7062 because variable X1 (ROE) influences variable Y (company financial performance value) significantly. Meanwhile, variables X2 (ROI), X3 (Collection periods), X4 (Inventory Turnover), X5 (Total asset turnover) and X6 (Capital to Total assets) which has t count (10.3517), (3.740), (-7.783), (-1.642) and (-5.335) which is smaller than the t table, therefore these variables are lacking has a real effect on the rise and fall of the company's financial performance.

By analyzing the probability value (P - Value) produced by Regression The computer output shows a P value that is smaller than 0.05 in the variable X1 (ROE) is 0.0295. Meanwhile, other variables have higher P values greater than 0.05. Therefore, Variable X1 (ROE) significantly influences the value of the Company's financial performance. So both hypothesis tests. This results in the same decision. Testing independent variables together/simultaneously

Testing the independent variables (X1, X2, X3, X4, X5) together concerning variable Y (financial performance company) is carried out with the F test, with the following procedure: 1) Determine F table and F count F table with a significance level of 0.05 or 5%, of computer output on ANOVA section and df column produced: Numerator = 6 and denumerator = 1.

F table for F (0.05.6.1) is obtained 233, 9875, and F calculates output computer in column F amounting to 307.3658. By comparing the F table and F calculate as follows:

If F count > F table, then Ho rejected

If F count < F table, then Ho accepted

If the P-value <0.05 then Ho is rejected

If P-value > 0.05 then Ho is accepted

In conclusion, compare the F table and calculated F. It appears that calculated F = 307.3658 is much larger than F Table 233.9875, so Ho is rejected or H1 accepted. Means variables X1, X2, X3, X4, X5, and X6 ROE, ROI, Collection periods, inventory turnover, total asset turnover, and capital ratio to assets together affect variable Y (performance corporate finance).

By looking at the probability value (P-value), judging from the computer output regression P value (read on the computer as significant F) is 0.043633821 or smaller than 0.05. This matter proves that Ho is rejected or H1 is accepted or variables X1, X2, X4, X5 and X6 together affect variable Y (performance corporate finance).

## DISCUSSIONS

To understand management finance and its implementation in a company is important to find out what it is that is the company's goal[9]. Many people think that the company's goal is to maximize profits. However, thereby maximizing profits is considered inappropriate as a guide in decision-making in finance. This is because a) Maximizing profits is not Paying attention to dimensions of time, b) Profit terminology has a double meaning, because there are many meanings of profit (gross profit, operating profit, net profit, and so on), c) Maximizing profits is not pay attention to risk factors, d) Maximizing profits is not notice social responsibility. A normative goal company is maximizing company value or wealth for shareholders, that is in the short term for the company that has gone public is reflected in the market price of a company's shares concerned in the capital market. Maximizing company value is considered appropriate as a company Because a) maximize value company means to maximize value now of all the benefits will be accepted by shareholders in the future, b) Consider factors risk, c) Maximize value the company places more emphasis on cash flow (cash flow) rather than just profit according to understanding accounting. Maximizing value (value) company with no ignoring responsibility social[2, 10].

Company financial reports are the historical performance of a company and provide the basis along with business analysis and economics to make projections and forecasts for the future. Report annual financials are documents that provide information to shareholders and are audited by accounting principles generally accepted. According to Standard Guidelines Indonesian Financial Accounting[11], financial reports are leadership accountability company to external parties arranged in such a way that it meets the requirements for a) Providing financial information quantitatively regarding the company to fulfill the needs of internal users and make economic decisions, b) Presenting information trustworthy regarding the financial position and changes change in the net worth company, c) Presenting information finances are possible to help internal users assess abilities gain profit from the company, d) Presents other information necessary regarding internal changes assets & liabilities, as well reveal other information that suits your needs users (stakeholders). Apart from these provisions, financial statements must comply with qualitative/quality standards as following: a) Relevant, namely selecting more likely information to help internal users' decision-making economy, b) Clear and understandable, which states that not only selected information you just have to understand, but so do the users must be able to understand it clearly, c) Can be tested or proven, namely accounting results can be proven true by the independent measuring instrument by using the method the same measurement, d) Neutral, which means that accounting information earmarked for needs general users, specific user needs special (partial), e) Just in time, that is delivery of information as soon as possible to avoid delayed collection economic decisions, f) Can be compared, that means that the difference is not there may be differences financial accounting treatment, g) Completeness, which means all appropriate information meet the goal requirements other qualitative must reported[12].

The contribution of this research is that in assessing performance company finances should not seen from one or several ratios only but also must consider the ratios others that include all ratios liquidity, activity ratio, ratio profitability, solvency ratio, and other ratios, so it can be indicates balance between these ratios and more the perfection of the benchmark criteria used to assess performance company finances. By looking at the ratios finance as a measure of value the company's financial performance, then the results of calculating the ratios finances that don't match targets/standards set the company should be managers pay more attention to increase its efforts and efforts to achieve good financial performance. Pay attention ratio - which ratio is the point weak in contributing to overall performance value, by increasing efficiency, productivity, and effectiveness as well as economical company operations. Government institutions/ private sector that has a function in the field of supervision of good companies engaged in manufacturing and services and other fields, should create standard guidelines/ financial performance measures for existing industries' responsibility and do it. Listed groupings and announce to the public publicly transparent, so that companies have results poor financial performance will try to make improvements or improve performance results his finances.

## CONCLUSION

Financial ratios are a tool used to evaluate the performance of corporate finance. A company's performance is evaluated using a combination of financial ratios rather than relying solely on one or a small number of measures. If the financial ratios for the company show a value higher than the average ratio constraint for similar companies/industries, then it can be considered to have good financial performance. The following financial ratios are used to evaluate a company's financial performance: own capital ratio to total assets, turnover inventory, total turnover assets, ROE, ROI, cash ratio, current ratio, collection periods, and turnover inventory.

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