

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter discuss about background of the research, problem statement, research question, research objectives, significant of study, limitations of study, key terms, and summary. These will assist the reader in understanding the topic of the research.

1.2 Background of Study

1.2.1 Background of Investment Efficiency

A large amount of resources is needed for investment activities, both internally and outside. Higher quality financial statements allow enables companies with limited capital to do more easily raise capital as they have greater visibility into their investment activities and fewer negative choices when issuing securities increases. The ability of investors to keep tabs on management's investment activities can be improved by high-quality financial performance, which can lessen management's incentives to overinvest.

According to Zhu et al. (2014), there are at least two determinants of investment efficiency. First, companies must have the ability to raise capital and plan to increase capital for investment opportunities. Second, even if the company were able to raise enough capital to make a funding decision, there is no certainty that management made the right decision about the capital project. However, it can lead to overinvestment if the company invests beyond the optimal value. In other words, the company shows a positive digression. On the other hand, if the business hasn't finished all of the projects with a positive net present value (NPV), it may have underinvested, which would indicate that the business made a bad digression.

Investment efficiency is a measure of how well a company invests its assets. A high return on investment indicates that the assets are being used effectively by the company. It has a positive impact on company performance and can be used as a measure of company performance.

Covid-19 which was first detected in Wuhan has spread massively throughout the world and has become a global pandemic to date including in Indonesia a country infected with Covid-19. The Central Bureau of Statistics has issued a report that said the Covid-19 epidemic initially caused a slowdown in the country's economic growth, which also affected Indonesia's manufacturing sector.

Given that Indonesia's investment performance has fluctuated throughout the Covid-19 outbreak, investment efficiency is a pressing concern for the country as evidenced by several articles proving that world economic growth globally despite the global economic crisis.

1.2.2 Background of the Quality of Financial Statements

As stated by Indonesian GAAP (PSAK) No. 1, 2015 (Revised 2013) on the Presentation of Financial Statements, the financial statements provide a structured summary of the company's financial situation and operating. According to Weygandt et al. (2011), financial statements are the final result of accounting activities, consisting of records, groupings, reports and interpretations, in currency units intended for external parties of the company for decision making contains historical and current company. The accuracy of financial statements that provide true information about a company's operations is a measure of financial statement quality (Biddle et al., 2009).

Financial statements, the accounting system's ultimate output, are the primary tool for informing users while also giving managers extra data with which to make investment project decisions. A company's financial situation, financial performance, and cash flows are all covered by its financial statements. When making financial decisions, this information is useful. The effectiveness of an investment depends on the quality of the financial statements, which serve as the foundation for investor considerations. The higher about the company is shown in the financial statements the greater the quality of the financial statements. Asset transfer mistakes might result from investment decisions based on non-qualified financial statements since they transmit the wrong signals. According to Chen et al. (2011), The effectiveness of investments is influenced by the quality of financial

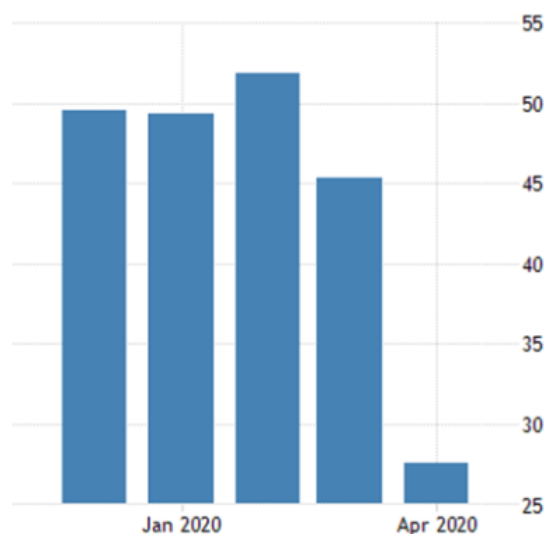
statements, which claim can also help with the over- and underinvestment issue. The quality financial statements offer the advantage that the company is professionally run, honest and transparent, and ultimately yields efficient investments that can add value to the company.

Financial statements like the company's equity and retained earnings are also examined, along with the balance sheet, income statement, and cash flow statement. Investors typically focus on the income statement and balance sheet, but it's crucial to include the frequently-ignored cash flow statement in the research.

1.3 Problem Statement

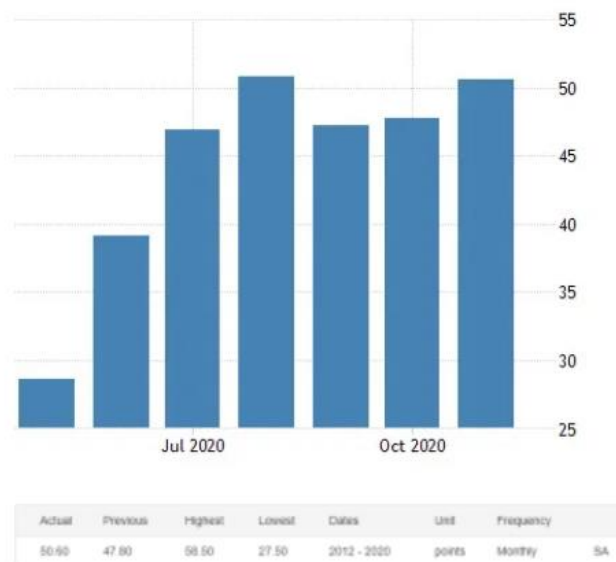
The Purchasing Managers' Index (PMI) in the manufacturing sector weakened from a level of 51.9% in February 2020 to 45.3% in March 2020 and fell to its lowest level of 27.5% in April 2020, which coincided with the start of a significant decline in the performance of the country's manufacturing industry. (A number below 50 indicates a decline in industrial activity). An industrial guarantee issued by the government in April 2020 served to further support this which stated that a reduction in production capacity of up to 50% was observed in a number of manufacturing sectors.

**Figure 1.1 Indonesia Manufacturing Purchasing Managers' Index
Jan-Apr 2020**



The Manufacturing PMI (Purchasing Managers' Index) determines how well the manufacturing sector is performing using five separate indices given the following weights: new orders (30%), output (25%) jobs (20%) suppliers' delivery times (15%), and inventory of acquired items (10%). Several factors contributed to and influenced the decline in production capacity, including a decline in demand that led to factory closings and a delay in suppliers' deliveries of goods that put pressure on the supply chain, and cash flow issues that necessitated the addition of working capital. In order to revive the manufacturing sector in particular and the industrial sector in general during and after COVID-19, the government adopted policies and implemented several countermeasures, which in general included fiscal and non-fiscal stimulus, in the expectation that this sector can recover swiftly, measures including offering credit restructuring facilities and promoting investment have been taken.

**Figure 1.2 Indonesia Manufacturing Purchasing Managers' Index
May-Oct 2020**



The manufacturing sector in Indonesia is still developing better towards the end of 2020 than it was at the start of the pandemic. This was the outcome of the manufacturing PMI measure for November 2020 increased from its performance in

October, which was 47.8% to 50.6%. While it is positive that the numbers are improving, this is still considered premature. Manufacturing is said to have a reasonable level of resilience if it can sustain above the 50% PMI level. As it is still difficult to predict when a "second wave" of Covid-19 will hit Indonesia, facing the current global challenges will require a commitment and commitment with all Indonesian manufacturing stakeholders.

The momentum was also because in the achievements of the Indonesian Manufacturing Purchasing Managers Index (PMI). Indonesia's Manufacturing Purchasing Managers Index is slowly rising and returning to expansion levels after volatility in 2020 due to disruptions in community activity, including in the manufacturing sector.

Indonesia's manufacturing PMI figures are generally at expanded levels for 2021, with the exception of July and August, due to an activity dispute during the Emergency PPKM and PPKM Level 4 periods. Separately, Indonesia's manufacturing PMI hit an all-time high. This vast position should be maintained until the end of this year.

This research is conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the reason that manufacturing companies can support the Indonesian economy, of course one of the boosters for company performance growth is to make large investments. Reporting the amount of investment made by the company can be seen in the financial statements. Therefore, to find out the investment made by management, the overall quality of financial statements needs to be improved so that stockholders will be motivated to purchase firm shares. Good quality financial statements can support the creation of investment efficiency so that underinvestment and overinvestment do not occur.

1.4 Research Question

The research conducted in this paper aims to solve the following research questions:

RQ1: What is the impact of changes in account receivables and total investment?

RQ2: What is the impact of changes in sales revenue and total investment?

1.5 Research Objective

The purpose of this study is to examine the relationship between the Quality of Financial Statements and Investment Efficiency in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021.

1.6 Significance of Study

This research aims to determine the effect of Financial Statements quality on Investment Efficiency in Manufacturing Companies Listed on The Indonesia Stock Exchange. The following benefits are anticipated from this study:

1.6.1 Theoretical Significance

It is anticipated that the findings of this study will advance understanding in accounting and disciplines, particularly those related to the quality of financial statements on investment efficiency.

1.6.2 Practically Significance

1) For Companies

It is hoped that it can help provide input and can be used as a useful benchmark regarding financial management related to investment efficiency, and can provide information about the importance of quality financial statements.

2) For Investors

It is hoped that it can be used as a significant factor when choosing an investing strategy in order to maximize returns.

3) For Public

Provide useful input or information regarding financial management, especially those related to the quality of financial statements and investment efficiency.

4) For Other Researchers

With this research can provide a reference for researchers to add or gain knowledge and insight in the appropriate field as reference material for further research.

1.7 Scope of Study

The purpose of this study is to investigate the relationship between the quality of financial statements and investment efficiency. The number of samples in this research is 123 manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The theory used in this research is agency theory. The method used is quantitative data with multiple regression linear analysis techniques, where panel analysis is used as a data collection tool.

1.8 Limitations of Study

In this research there is limitation in conducting this research it is the incomplete financial statements for 3 years. In accordance with the research background and situation that has been mentioned, many things need to be resolved related to the problems that arise when determining investment efficiency. Researchers in this case focus on the state of the financial statements of companies listed on the Indonesia Stock Exchange for the period 2019–2021 and analyze the factors that influence investors to provide capital to these companies, such as profit information and funding cash flows. Therefore, it is necessary to limit the problem so that the discussion does not deviate from the subject matter of the research title.

1.9 Key Terms

1.9.1 The Quality of Financial Statements

The quality of financial statements is expressed as the accuracy of the financial statements in conveying factual information about the company's operations (Pranata & Fitriyah, 2020).

According to Kieso et al. (2014), the financial statements are mentioned as follows: This statement reveals the financial history of the business. The four financial most frequently given statements are the following:

- 1) Financial Statement Management Report;
- 2) Income Statement or Comprehensive Income Statement;
- 3) Cash Flow Statement; and
- 4) Statement of Changes in Equity. Disclosure documents are an integral part of financial statements.

For this research, the dimensions for the quality financial statements are referred to the changes in accounts receivable for the company i in year t divided by total assets of the previous year and the changes in sales revenue for the company i in year t divided by total assets of the previous year as previous study by McNichols and Stubben (2008), Stubben (2010), and Pranata & Fitriyah (2020).

This research referred to the financial statements of the selected companies from 2019 to 2021

1.9.2 Investment Efficiency

According to Putra et al. (2019), investment is the activity in which an investment agent can be called an investor to invest in the purchase of shares issued by a company with the aim of generating future profits, taking into account the risks involved. The most crucial phase of maximizing corporate value is investment efficiency. A crucial step towards developing excellent corporate governance is disclosure and impacts organizational efficiency and performance (Erawati et al., 2020).

For this research, the dimensions for investment efficiency are referred to the total investment of company i in year t . Measured by the increase in fixed assets and research and development minus sales of fixed assets divided by total assets of the previous year as previous study by Chen et al. (2011) as the improvement of the design model by Biddle et al. (2009).

This research referred to the investment efficiency of the selected companies from 2019 to 2021.

1.9.3 Companies

In this study, the selected companies are manufacturing companies listed in Indonesia stock exchange

1.10 Summary

The summary of this chapter contains information about the background of the research, problem statement, research question, research objectives, significant

of study, limitations of study, key terms. As a result, it will be easier for the reader to comprehend the rationale behind this study.

The composition of this research proposal will be structured into three chapters, with each chapter being detailed as follows:

Chapter 1 Introduction

This chapter contains information on the background of the research, the research problem, research objectives, research questions, significance, and limitations of the research, the definition of key terms, and the structure of the proposal.

Chapter 2 Literature Review

This chapter includes a review of experts' theoretical underpinnings that are relevant to the topic's research, empirical literature review, research framework, and the research hypotheses.

Chapter 3 Research Methodology

This chapter explains the research methodology, including the research paradigm, research method, research design, research process, sampling procedure, research instrument development, data collection method, data analysis techniques, and summary.

Chapter 4 Data Analysis

In Chapter 4 the description includes: data analysis and finding that discusses about the finding by researchers.

Chapter 5 Conclusion

In Chapter 5 the description includes: the conclusions, limitations, and recommendations made related to data analysis and discussion of existing problem.