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THE EFFECT OF WORKING CAPITAL MANAGEMENT ON COMPANY PROFITABILITY (CASE STUDY ON FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE)

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Abstract

This research examines the effect of working capital management on the profitability level of food and beverage companies in Indonesia. Working capital management consists of an accounts receivable period, inventory period, and accounts payable period. Samples were taken by purposive sampling with certain criteria which are: the companies must have been listed on BEI in the research period, as well as must have published their financial statements during year 2014-2018. The method used in this research is multiple linear regression analysis. The result of the multiple linear regression test explains that working capital management variables affect the probability of the company. This shows that the company that is accelerating the period of collection of customer debt as well as delaying payment due to suppliers does not necessarily get a bigger profit. But accelerating the inventory conversion period does not have a significant effect on company profits.

Keywords: *Working Capital Management; Accounts Receivable Period; Inventory Conversion Period; Accounts Payable Period; Profitability.*

Introduction

Civilization continues to develop and basic human needs are increasingly diverse, one of the basic human needs is consumer goods. Based on data from the National Development Planning Agency (Bappenas), Indonesia's population in 2018 was 265 million. According to data from the Central Statistics Agency (BPS) in 2018, the total household consumption expenditure (Rumah Tangga) was 8,269.8 trillion or 55.7% of the total Gross Domestic Product (GDP) as well as supporting the national economy.

According to BPS in katadata.com (2018), household consumption expenditure for food and beverage consumption led from the first quarter of 2015 to the first quarter of 2019. Based on these data, food and beverage companies have an important role and contribute greatly to the economy in Indonesia, so that they have bright business prospects with high sales volume. Every company has the main goal of optimizing shareholder profits, by generating the expected profit. Optimizing profits can be done by paying

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attention to company operations, namely the efficiency of working capital (Williams et al., 2006). Working capital is a measure of the company's short-term liquidity, efficiency, and financial health.

Research conducted by Deloof (2003) examined the effect of working capital management with four variables: the first is the Days Sales Outstanding (DSO) variable. Based on this research, the low level of accounts receivable period increases the company's profit. The second variable is the Days of Inventory (DOI) or inventory conversion period. The results of research by Deloof (2010) concluded that the smaller the inventory period variable in value, the higher company profits will be. It can be used for reinvestment to get bigger profits.

The third variable is the period of Days Account Payable (DAP) or accounts payable. Research by Hofmann and Kotzab (2010) explains that inventory management and payments to suppliers are the keys to reducing net working capital to increase company profitability. This study used the research model of Deloof (2003) and (Hofmann & Kotzab, 2010). This study examines the relationship between working capital management using the independent variables DOI, DSO, and DAP and profitability using ROA or Return on Assets as the dependent variable.

The problems that will be discussed in this research are: 1) Does the period of accounts receivable affect the profitability of food and beverage companies in Indonesia? 2) Does the period of conversion inventory affect the profitability of food and beverage companies in Indonesia? 3) Does the period of accounts payable affect the profitability of food and beverage companies in Indonesia?

As explained by Gitman and Zutter (2012), current assets are commonly referred to as working capital, namely funds that are invested and rotated for various forms of financing in daily business activities. Current assets are hereinafter referred to as working capital. Working capital management is a method companies use to manage liquidity, investment in current assets, and the use of short-term liabilities (Sartoris & Hill, 1983).

Accounts receivable are obtained every time the company applies the method of selling goods on credit. Accounts receivable are sales per day times the length of the cash collection period (Brigham et al., 2007). The credit policy of a company under the control of the CFO is the main determinant of accounts receivable.

Inventory is an inventory of goods, raw materials, work in process, and finished goods owned by the company that will be further processed or for resale. According to Brighman and Houston (2007), there are three inventory management objectives that financial managers pay attention to, namely first for analyzing capital budgets and determining the best system to use.Second, if the company decides to increase investment in shareholding, the financial manager must increase the capital needed to acquire additional inventory (Jensen, 1986). Third, the financial manager is responsible for identifying any areas of weakness that affect the overall profitability of the company, using ratios and other procedures to compare companies with companies in one industry (Richards & Laughlin, 1980).

Companies generally make purchases from other companies on credit and record their debts as accounts payable. Accounts payable or trade credit is the largest single category of short-term debt, representing about 40% of the average company's liabilities (Brigham et al., 2007). Small companies often have larger amounts of debt because they tend not to have the option of obtaining other sources of financing due to regulatory constraints.

ROA is a number that compares the net profit destined for investors (shareholders) with the overall assets of the company (Brigham et al., 2014). ROA calculates the overall effectiveness in making profits through existing assets or the ability to make a profit from the invested capital (Van Horne & Wachowicz, 2005). ROA shows how much net profit is obtained from the entire company's assets, which represents the level of company profit on the use of its assets. The greater the ROA value reflects the better company performance because it reflects a greater rate of return on capital.

Ding and Guariglia's (2013) research found that a relatively short (and declining) cash conversion cycle shows that high working capital is not an indicator of poor working capital management efficiency, high working capital is intended to reduce the constraining effect of financing on fixed capital investment. Research by Kieschnick and Moussawi (2013) concluded that providing additional investment in providing credit to customers has a large effect on the profitability of a company because it encourages customers to make purchases.

Baños and García's (2014) study shows that managers must pay attention to optimal working capital at the level of investment in working capital that is proportional to benefits and costs. Managers must also avoid the negative effects of company performance by going through lost sales and lost discounts on initial payments or additional financing costs. Managers should be able to determine a strategy for managing working capital by considering upfront inventory payments for discounts or additional financing to maintain inventory.

Deloof's (2003) research examines the effect of working capital management with four variables, namely DSO, DOI, DAP, and CCC (cash conversion cycle). Based on research by Deloof (2003), the low period of accounts receivable increases company profits. In this study, Deloof found a negative and significant relationship between inventories, the number of days of accounts receivable and accounts payable, and the company's gross operating income in Belgium. Based on the research above, the following hypothesis can be formulated:
H1: The period of accounts receivable harms company profitability.
H2: The period of inventory harms company profitability.
H3: The period of accounts payable has a positive effect on company profitability.

Research Methods

This quantitative descriptive study aims to examine the effect of working capital management as measured by the accounts receivable period, inventory conversion period, and accounts payable period on profitability as measured using return on assets. This study uses a sampling method with non-probability sampling, namely purposive sampling.

The company standards included in this research sample are: a) Listed on the IDX during the observation period (2014-2018). b) Food and beverage companies that regularly issue financial reports and have the required data for the 2014-2018 period. c) There are all the data needed to calculate the variables during the 2014-2018 period. d) Food and beverage companies that had positive net income during the 2014-2018 period.

Results and Discustion

Table 1 Partial Test Results (t-test)

Variable	t	α	Sig	Result	Information
DSO	-3,559	0,05	0,001	t < α	Take effect
DOI	-1,952	0,05	0,056	t > α	Take effect but not significant
DAP	3,826	0,05	0,000	t < α	Take effect

Source: SPSS processed data

Hypothesis 1: The Effect of Accounts Receivable Period on Return on Assets (ROA)

According to the findings of the partial test (t-test), the effect of the period of accounts receivable on return on assets, the t-count value is 3.559 and a significance value is 0.001. This reflects that the t-count <0.05. The finding of this test means that hypothesis 1 is proven, so it means that the period of accounts receivable has a significant effect on return on assets. The longer the credit sales conversion to cash payments will hurt the returns on assets created by the company.

The findings of this test are in line with research conducted by Advani (2012) which states that investment receivables are very risky to company liquidity and do not contribute to the company's cash flow. The results show that this study is supported by research conducted by Deloof (2003), Ding and Guariglia (2013), Kieschnick and Moussawi (2013), and Baños and García (2014).

The researchers say that (1) the relatively short (and declining) cash conversion cycle indicates that high working capital is not an indicator of poor working capital management efficiency. (2) additional investment in extending credit to customers has a major effect on the company's profitability. (3) Managers must pay attention to optimal working capital, managers must avoid negative effects on company performance by controlling lost sales.

Hypothesis 2: Effect of Inventory Conversion Period on Return on Assets (ROA)

A partial test (t-test) testing the effect of the inventory period on return on assets according to the table obtained a t-count value of 1.952 and a significance value of 0.056. This reflects that the value of t-count> 0.05. This test finding means that hypothesis 2 is not proven, so it means that the inventory period has no significant effect on the return on assets.

The food and beverage industry is closely related to restaurants because food and beverage industry products such as soy sauce, sauce, seasonings, and others are components of restaurant products, so the main suppliers for restaurants are food and beverage companies. According to a survey conducted by CFO in 2007 in Mahajan (2020), restaurants have an inventory conversion period of 5 days. Based on these data, the length of the inventory conversion period does not have a significant effect on returns on assets because in one period of production to sales it does not require a relatively long time, on average 5 days or less than a week.

Hypothesis 3: Effect of Accounts Payable Period on Return on Assets (ROA)

The results of the partial test (t-test) of the effect of the period of accounts payable on return on assets show a t-count of 3.826 and a significance value of 0.000. This reflects that the t-count <0.05. The findings of this test mean that hypothesis 3 is proven, so it means that the period of accounts payable has a significant effect on return on assets. The longer the period given by the supplier to the company to pay for the inventory goods can have a positive effect on the return on assets generated by the company.

Extending the period of accounts payable is a distinct advantage for the company so that the company can implement strategies to utilize available funds to invest in other projects to increase profitability. The results of this study show that the average period of accounts payable is 47 days, where this is a reasonable period given by suppliers to the company and it can be concluded that the company has good management of accounts payable and reputation.

A well-established relationship between suppliers will form a strong foundation and a high level of trust between the company and supplier, this finding is supported by research conducted by Hofmann and Kotzab (2010) which concluded that supply chain relationships are based on strength and trust. But the findings of this study contradict the findings of research by Baños and García (2014) which explains that managers must be able to determine strategies for managing working capital by considering early inventory payments to get discounts or additional financing for maintaining inventory.

Conclusion

a. The period of accounts payable has a significant effect on the profitability of the company so it can be concluded that the company can increase profits by accelerating the collection of trade receivables.

b. Supply conversion period has no significant effect on company profitability, so it can be concluded that food and beverage companies can maximize the inventory conversion period according to company needs.

c. The period of trade payables has a significant effect on the company's profitability, so it can be concluded that the delay in paying debt can increase profits.

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