



The influence of cash conversion cycle, capital structure, and liquidity on profitability with firm size as moderation

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ABSTRACT

This research analyses variables that influence profitability and corporate size as moderation. Three factors must be analyzed: cash conversion cycle, capital structure, and liquidity. This research examines how profitability is influenced by the cash conversion cycle, capital structure, and liquidity to profitability on major trading subsector firms publicly traded on the Indonesian Stock Exchange. Using the help of spss, this quantitative survey tested 100 panel data observations on the Indonesian Stock Exchange (BEI). According to the analysis, profitability is negatively impacted by cash conversion cycles and capital structures but positively affected by liquidity. Additional research indicates that company size amplifies the impact of the cash conversion cycle and capital structure on profitability but doesn't moderate the effect of liquidity on profitability. This suggests the role of corporate size as moderation.

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1. INTRODUCTION

As time goes by, it can be seen that business competition is becoming more intense year after year, which makes companies have to think more carefully about finding ways to maintain corporate financial continuity and stability. However, to accomplish this, a financial manager must be able to regulate and oversee the company's finances to augment its value. Corporate value assumes a critical role; management must emphasise it more, reflecting the company's future success and survival (Hidayah & Rahmawati, 2019). As profit generation is a corporation's fundamental purpose, investors and creditors naturally prioritize profitability. Profitability refers to the amount of profit generated from sales in a certain period (Noordiatmoko et al., 2020). According to (Wahyuni et al., 2019) profitability measures the overall management efficiency of the big or small profits processed concerning sales and investments. So, the company's higher profitability indicates that it has managed its finances effectively and efficiently. It will increase the corporate value and entice shareholders to invest funds in the organization (Olivia Dwi Putri & Gst Bgs Wiksuana, 2021). Profitability can be measured by various ratios such as Return on Asset (ROA), Return on Equity (ROE), Gross Profit Margin (GPM), and Net Profit margin. This study uses the ROA ratio as an indicator of profitability

According to (Liadi & Suryanawa, 2018) the cash conversion cycle can show how long a company produces a product, from the beginning of paying the inventory cost to getting cash from selling the finished product to consumers. The cash conversion cycles are essential to the company because the calculation can involve the number of days and the average it will take a

company to convert its inventory into sales, debt billing, and the redemption of debt. Its main goal is to get the cash conversion cycle as low as possible to improve the efficiency level in managing the company's cash flow. Research on the cash conversion cycle and profitability outcomes by previous researcher show (Rizky & Mayasari, 2018) that the cash conversion cycle negatively affect corporate profitability. Furthermore, the research conducted by (Ramadhani & Mulyati, 2022) stated that the cash conversion cycle also negatively impacts profitability.

According to (Mahanani & Kartika, 2022) capital structure is funding done with long-term debt, preferential shares, or shareholder capital (investor). The capital structure of long-term funding is shown by the balance of capital to debt; the balance between these two will affect the risk level and the rate of return expected by the company (Iman & Saleh, 2023). The capital structure is essential to the company since it relates to its ability to meet its expenditures. According to the signalling theory, a signal is information a company provides as an action taken to influence and guide investors in making investment decisions. This theory explains that managers deliver signals to reduce information asymmetry; if the announcement contains a positive value, the market is expected to react when the notification is received. The research analyzed (Singh & Bagga, 2019) found that capital structure significantly impacts profitability. This aligns with research (Qayyum & Noreen, 2019) showing that capital structures significantly positively impact profitability.

A company's liquidity is its capacity to carry out its responsibilities (Dauda et al., 2021). Companies with high levels of liquidity are more likely not to use debt financing because the company has sufficient internal funds, so that it will use its internal funds first rather than debt. Then, the larger level of liquidity that it holds causes a decrease in the debt. The level of liquidity has always been an essential concern for financial report analysts as it concerns the confidence of creditors and investors in assessing financial distress. The current ratio describes a company's ability to pay short-term debt, which means that the company must be able to pay out debts, especially due ones. Research conducted by (Darmayanti et al., 2022) and (Sari & Sutra, 2018) stated that the effect of liquidity is positive and significant on profitability.

According to the (Hidayat, 2019) Company size is measured by the size of a small company using the sales, total assets, and capital. A large company usually has an enormous total asset, indicating that it has reached a positive cash flow level, so it shows good prospects in a relatively more stable period. This is because big companies find it easier to enter the capital markets, while small companies will use the retained earnings for the operational interests of their companies. The company's size potentially triggers agency conflicts because managers are perceived to act opportunistically against significant corporate assets. To cope with this, the company must accommodate management with managerial ownership to minimize conflicts of interest and agency costs (Wendy, 2020). According to (Rahayuningsih & Pujiono, 2018) a research article revealed that large-scale companies do more comprehensive information due to higher police risk

The theoretical implications of this research are to show investors to be careful in choosing a company and to reflect well on the business cycle of the targeted company. The company has complex operational activities and requires considerable capital. Therefore, in order to attract the attention of potential investors and creditors, the company needs to present quality and accountable financial reports. The study aims to test the influence of the variables cash conversion cycle, capital structure, and liquidity on profitability with the size of the company as moderation. The results of this research are expected to provide input and direction as well as development of management science for companies in decision-making so that it can increase profitability optimally and increase the value of the company so as to attract investors in investing its shares.

Based on the above description, the research hypothesis developed in this study can be presented as follows: H₁ Cash conversion cycle has a negative effect on profitability. H₂ Capital structure has a positive effect on profitability. H₃ Liquidity has a positive effect on profitability. H₄ Firm size moderate cash conversion cycle influence on profitability. H₅ Firm size moderate capital structure influence on profitability. H₆ Firm size moderate liquidity influence on profitability.

Table 3. Research Model Testing Result

No	Variable	Model 1	Model 2
1.	Constant	0.034	-0.336
	P-value	(0.012)	(0.000)
2	CCC	-10.457	-5.581
	P-value	(0.000)	(0.001)
3	DER	-0.005	0.197
	P-value	(0.044)	(0.000)
4	Current Ratio	0.001	0.016
	P-value	(0.523)	(0.286)
5	Firm SIZE	-	0.028
	P-value	-	(0.000)
5	CCC*SIZE	-	4.565
	Sig	-	(0.020)
6	DER*SIZE	-	-0.014
	Sig	-	(0.000)
7	Current Ratio*SIZE	-	-0.001
	Sig	-	(0.354)
	F	11.973	23.580
	P-value	(0.000)	(0.000)
	Adjusted R ²	0.250	0.722

In Table 3 above, there are two test models. Model 1 tests the influences of the cash conversion cycle, capital structure, and liquidity on profitability without moderation variables. Model 2 tests the impact of cash conversion cycles, capital structures, and liquidity on profitability using the moderation variable. It is known that from the model 1 table, the cash conversion cycle shows a value of 0,000, which is less than 0.05 ($0.000 < 0.05$). That means profitability significantly influences the cash conversion cycle. Capital structure shows a value of 0.044 less than 0.05 ($0.044 < 0.05$), meaning the capital structure substantially impacts profitability. Liquidity shows that 0.523 is higher than 0.05 ($0.523 > 0.05$), so the variable does not significantly impact profitability.

In the Model 2 table, the cash conversion cycle moderated by the company size shows a significant value of 0.020 less than 0.05 ($0.020 < 0.05$), so the company size boosts the impact of the cash conversion cycle on profitability. The interaction effect of size on capital structure shows a significance value of 0,000 less than 0.05 ($0,000 < 0.05$), so the corporate size boosts the influence of capital structure on profitability. Liquidity shows an enormous value of 0.354, higher than 0.05 ($0.354 > 0.05$), which shows that the company's size affects the liquidity relationship to profitability.

The F-test value before moderation shows a value of 11.973, and after moderation, it has a value of 23.580; both have 0,000, so it simultaneously affects profitability because it shows a value less than 0.05. The Adjusted R² value before the moderators has a value of 0.250. Then, after being tested with the moderation variable, the adjusted value of R² increased to 0.722 so that it could be concluded that the company's size could strengthen the impact on the independent and dependent variables.

3.2 Discussions

a. The Effect of the Cash Conversion Cycle on Profitability

Based on the regression tests presented in Model 1 aftermaths, the cash conversion cycle significantly negatively affects profitability, supporting the hypothesis (H₁ accept). These results are supported by research (Rizky & Mayasari, 2018) found that the lesser the cash conversion cycle, the more profitable it is because the cash will be recovered faster so that it can be used to finance its operations. The results are also in line with the research conducted by (Ramadhani & Mulyati, 2022) which analyzed how the cash conversion cycle negatively impacts profitability.

b. The Effect of the Capital Structure on Profitability

Model 1 aftermath shows that the capital structure significantly negatively impacted profitability, and the result did not support the proposed hypothesis. (H₂ reject). The results are inconsistent with research (Qayyum & Noreen, 2019) and (Singh & Bagga, 2019), which stated that capital structures positively impact profitability. However, these results are supported by research

(Fathoni & syarifudin, 2021) found that capital structure negatively impacts rentability. It is also supported by the trade-off theory that the company will use debt to raise the value of its company but only to a specific limit; if it exceeds the specified limit, then too much debt will make the company unable to balance itself in paying the debt which will then lower the company value and will lead to bankrupt or declining profits.

c. The Effect of the Liquidity on Profitability

The regression test results presented in Model 1 show that liquidity positively affects profitability, supporting the hypothesis (H_3 accept). The test aftermath aligns with the research performed by (Darmayanti et al., 2022) and (Sari & Sutra, 2018) who found that the greater the liquidity, the more profitability, so the amount of credit given increases so that the income of interest and profit received also increases and positively affects profitability.

d. Firm Size Interaction Effect

Based on the regression tests presented in Model 2 showed that the size of the company moderates the cash conversion cycle to profitability (H_4 accept). These results are supported by a study (Sekar Ayuningtyas & Prasetiono, 2021) that states that large companies have considerable assets and sales because of faster cash collection from debt so that the cash conversion cycle is shorter and improves profitability while small companies have lower bidding power so that more use credit policies to invest in stocks, therefore the investment made will result in higher assets than fixed assets so that cash conversion cycles become longer. Corporate size moderates capital structure towards profitability (H_5 accept). The aftermath aligns with research analyzed by (Iriani Putri et al., 2023) that discusses the capital structure to profitability and states that companies should monitor the debt usage in managing their assets. The larger company size indicates that its assets are enormous. Still, if the assets it owns are financed using debt, the company will pay a high debt burden, so adding assets is inefficient to increase profitability. The regression results presented in model 2 showed that the size of the company moderating liquidity to profitability showed different results that are not significant, so the hypothesis put forward was not supported (H_6 reject); these results were supported by research conducted by (Riani et al., 2019).

4. CONCLUSION

This article analyzes the effect of the cash conversion cycle, capital structure, and liquidity on profitability with the company's size as moderation. The survey found that the cash conversion cycle variables and capital structure significantly negatively impacted profitability. In contrast, the liquidity variable had positive effects that were not significant to profitability. Further, after variables, cash conversion cycle, capital structure, and liquidity moderated by the size of the company appear to moderate the influence of the cash conversion cycle and capital structure on profitability. While for the liquidity variable to profitability, the size of the company cannot show the role of moderation. This study analyzes 100 observations in 2018-2022 on manufacturing companies of the significant trade subsector on the Indonesian Stock Exchange (BEI). The limitation of the research is analyzed only 100 observations in five years in a major trade subsector manufacturing company. Based on the conclusions drawn above, the author suggests that future research add other variables not included in this study and multiply the number of samples used, not only on significant trading subsectors listed in the Indonesian Stock Exchange. In addition, it is also necessary to increase the duration of the analysis period so that the study results are comparable to future better and generalization.

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