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Working capital and liquidity to the profitability of manufacturing companies listed on the IDX in 2019-2022

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ABSTRACT

This study investigates the interaction between modes of employment, profitability, and market liquidity in the manufacturing sector. The goal is to gain insight into how these factors interact and affect the overall value of a company in a particular region and industry. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of 10 manufacturing companies. This study examines the relationship between working model, profitability, and market liquidity through statistical analysis and regression modeling techniques. The results showed that working capital has no effect on profitability, liquidity significantly impacts profitability in the manufacturing industry, and operating capital and liquidity simultaneously affect profitability. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to the manufacturing sector. The research has implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive corporate value in the industry, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provide benefits in the context of financial management.

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1. INTRODUCTION

Fierce competition makes many companies take steps to optimize their company value to survive in the business world. Company value is a measure of success in implementing financial functions and describes company owners' welfare (Yuvia & Wijaya, 2023). Company value can provide maximum shareholder prosperity if the stock price increases; the higher the share price of a company, the higher the level of shareholder prosperity (Anggraini & Yudiantoro, 2023; Nanang Qosim, 2021). The current phenomenon in the service and trade sectors has decreased for three consecutive weeks in 2017. This is because market participants will look for other industries in the oversold area. But the sector is still optimistic that it is predicted to have the potential to bounce back (rebound).

Moreover, several large-cap issuer stocks in the trade and services sector remain attractive to market participants (Karmilah et al., 2023; Setyawati, 2019). With increasing size, companies must pay close attention to managing funds to run their business activities. The funds invested to carry out daily operational activities are called working capital (Chen et al., 2023; Luo et al., 2023; Rehan et al., 2023). All companies engaged in industry, trade, and services are established with the same goal: to obtain optimal profits or value through the effective and efficient use of resources for the company's survival. To achieve these goals, companies must be able to compete in domestic and international markets. However, not all companies can remain competitive in the long run because they may face obstacles (Chen et al., 2023; Niu et al., 2023; Yao & Luo, 203).

Financial performance is a reflection of banking success in the form of results that have been achieved due to various activities that have been carried out. Financial performance is an analysis to calculate the extent to which a bank has carried out activities that comply with financial implementation rules (Lestari, Purnamasari, & Setiawan, 2020). Financial performance is an analysis carried out to see the extent to which banking companies have implemented financial implementation rules in a trustworthy and appropriate manner. Financial performance is a reflection of the economic situation of a bank, which is analyzed using financial analysis methods, which can automatically identify the good and bad financial conditions of a bank and describe the results of activities within a specific period (Melita & Wagiyo, 2020). Good economic performance can guarantee the operational continuity of company management in the future, and therefore, financial performance is a critical aspect of banking company management (K. C. Chen, Hsieh, & Hsiao, 2021). The bank's ability to create profits will depend on the power of the bank's management in managing existing assets and liabilities. Islamic banking requires good monitoring capabilities by banking regulators. One indicator for calculating a bank's financial performance is to look at its level of profitability (Saputra & Nazipawati, 2021).

Profitability is a calculation measuring management's success in creating profits or profits from business operational activities. The higher the level of profitability of a bank, the higher the financial performance of a bank, the higher the level of profit achieved by the bank, the better the position of the bank in terms of asset use (Suwarto & Ali, 2021). Then, the profitability assessment used to assess a bank's health can use the Return On Assets ratio (Suwarto & Ali, 2021). Profitability is the ability of a company to generate profits during a specific period at a certain level of marketing, assets, and capital stock. A company's profitability can be assessed in various ways depending on the profits and assets or capital to be compared with each other (Ridwan, Sugianto, & Setyawati, 2021). Return on Assets is used to measure management's success in generating profits. A smaller ratio percentage indicates a lack of bank management's ability to manage assets to increase income (Almira & Wiagustini, 2020; Monika, Azam, & Teguh, 2021; Rostami et al., 2016).

Working capital is defined as capital used to finance the company's day-to-day operations, especially short-term ones. Effective and efficient current assets must support working capital management, primarily on inventory issues (Rahman et al., 2024; Tarkom & Ujah, 2023). Working capital is very important to build a company. The company's ability to manage operating capital must be done as well as possible so that the invested capital does not result in losses in the future (Banerjee & Deb, 2023; Hong et al., 2023). Sound and proper working capital management can increase the company's profit because the greater the amount of working capital, the greater the profit obtained by the company. Operating capital can play an essential role in a company's operational activities. With sufficient capital, the company can launch operational activities and achieve its primary targets, which continue to increase. There are several sources of working capital obtained through own capital, profits obtained, short-term debt, and long-term debt (Anton; Nucu, 2022; Vukovic et al., 2023).

The capacity of an asset to be immediately converted into cash without losing considerable value is referred to as liquidity. Easily convertible assets can be sold quickly without lowering their value. In contrast, illiquid assets cannot be easily exchanged for cash or can only be sold soon if the company provides a high discount. Liquidity is a financial ratio instrument that can be used to measure the ability of a company to meet its obligations, namely short-term debt (Septiano & Mulyadi, 2023). Liquidity is a ratio to gauge the company's ability to meet its maturing obligations, both obligations to parties outside the company and within the company. Liquidity indicates a company's ability to pay short-term financial debts at maturity using its current assets. Liquidity is concerned with the overall state of the company's finances and its ability to convert specific existing holdings into cash. Liquidity ratios measure a company's ability to meet its short-term obligations. This ratio is important because failure to pay debts can lead to the company's bankruptcy. This ratio measures the company's short-term liquidity capability by looking at its current assets relative to its existing debt (Eldyn Gula & Yuneti, 2023). The liquidity that has been stated can illustrate how vital the liquidity ratio is for a company. A good company has sufficient liquidity (Iman & Saleh, 2023).

The manufacturing industry is one of the industrial fields that compete in the global economy. In Indonesia itself, various types of companies have been engaged in manufacturing. One of the manufacturing sectors that greatly supports economic development and growth in Indonesia is the plastic and packaging industry, both on a small, medium, and large scale. Plastic and packaging companies that have gone public are among the companies that have been able to operate for a relatively long period. Plastic and packaging companies going public listed on the Indonesia Stock Exchange (IDX) have generated considerable foreign exchange for the country. They can also absorb quite a lot of labor to increase national income.

The purpose of this study is to investigate empirically. By examining these factors simultaneously and partially, we aim to contribute to the existing literature and provide practical implications for decision-makers in the industry, theoretically contributing in the context of financial management.

2. RESEARCH METHOD

This study used a descriptive quantitative research method with a causal approach. The source of the retrieved data is secondary data. The researcher receives secondary data and directly measures the object under study. However, researchers use data from a company whose data has been published. The population in this study is 213 manufacturing companies in Indonesia listed on the Indonesia Stock Exchange. In sampling, the author uses purposive sampling techniques for as many as ten manufacturing company sector companies published according to the research variables that the author analyzed from 2019 to 2022. Data is collected by observation. Observations are made on all data sources under the unit of observation/analysis determined in the study. Data sources for the study were obtained from websites such as manufacturing sector companies in Indonesia, the Indonesia Stock Exchange website http://www.idx.co.id, and companies sampled in this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested by descriptive analysis followed by classical assumption tests, including data normality, heteroscedasticity, diversity, and autocorrelation. Then, the authors continued with multiple linear regression tests. The authors used the t-test and moderating regression analysis (MRA) test to test the hypothesis. The author formulates research hypotheses, namely H1: working capital significantly affects profitability, H2: Liquidity substantially impacts profitability, and H3: Working capital and liquidity affect profitability.

3. RESULTS AND DISCUSSIONS

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 2 below.

Table 1. One-sample kolmogorov-smirnov test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		40
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	391.70376920
Most Extreme Differences	Absolute	.157
	Positive	.157
	Negative	-.141
Test Statistic		.157
Asymp. Sig. (2-tailed)		.074[c]

a. Test distribution is Normal.
b. Calculated from data.

c. Lilliefors Significance Correction.

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.74), which is residual data having a significance value greater than 0.05. It can be concluded that the data is typically distributed. The following multicollinearity test results can be seen in Table 2 below.

Table 2. Multicollinieritas test

Model		Collinearity Statistics Tolerance	VIF
	Tableicients[a]		
1	Working Capital	.764	1.309
	Liquidity	.764	1.309

a. Dependent Variable: Profitability

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of > 10 and a Tolerance value of > 10. The result of the decision for the multicollinearity test is that if the tolerance value < 0.10 and VIF < 10, it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain signs of multicollinearity. The results of linear regression analysis can be seen in Table 3 below.

Table 3. Regressioner test

Coefficients a

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	374.105	82.191		4.552	.000
	Working Capital	1.785E-10	.000	.113	.694	.492
	Liquidity	.695	.260	.435	2.672	.011

a. Dependent Variable: Profitability

The positive constant 374,105 means that if the value of working capital and liquidity equals zero, then the level or magnitude of profitability is fixed at 374,105. The regression coefficient of the working capital variable has a positive value of 1.785E-10, which means that if the value of working capital increases one hundred percent, then profitability increases 1.785E-10 times. The value of the regression coefficient of the liquidity variable is positive at 0.695. This explains that if the value of working capital increases by one hundred percent, the profitability variable increases by 0.695 times. The following analysis results in hypothesis testing are presented in Table 4.

Table 4. Hipotesis test

Variable	T-value	P-values	Result
WC ⟶ P	.694	.492	Accepted
L ⟶ P	2.672	.011	Accepted
WC & L ⟶ P	6.169	.005	Accepted

Source: Results of research data processing

Table 4 shows the first hypothesis, showing that working capital has no significant effect on profitability. Working capital is defined as capital used to finance the company's day-to-day operations, especially short-term ones. Effective and efficient current assets must support working capital management, especially on inventory issues (Rahman et al., 2024; Tarkom & Ujah, 2023). Working capital is very important to build a company. The company's ability to manage working capital must be done as well as possible so that the invested capital does not result in losses in the future (Banerjee & Deb, 2023; Hong et al., 2023).

The second finding that becomes the second hypothesis, namely liquidity, significantly influences profitability. The capacity of an asset to be immediately converted into cash without losing considerable value is referred to as liquidity. Easily convertible assets can be sold quickly without lowering their value. In contrast, illiquid assets cannot be easily exchanged for cash or can only be sold soon if the company provides a high discount. Liquidity is a financial ratio instrument that can be used to measure the ability of a company to meet its obligations, namely short-term debt (Septiano & Mulyadi, 2023).

The third finding shows the effect of working capital and liquidity on profitability. Working capital is very important to build a company. The company's ability to manage operating money must be done as well as possible so that the invested capital does not result in losses in the future (Banerjee & Deb, 2023; Hong et al., 2023). Sound and proper working capital management can increase the company's profit because the greater the amount of working capital, the greater the profit obtained by the company. Operating capital can play an essential role in a company's operational activities. WWithf icient capital, the company can launch operational activities and achieve its primary targets, which continue to increase. There are several sources of working capital, such as own money profits obtained, short-term debt, and long-term debt (Anton & Nucu, 2022; Vukovic et al., 2023). At the same time, Liquidity indicates a company's ability to pay short-term financial obligations at maturity using its current assets. Liquidity is concerned with the overall state of the company's finances and its ability to convert specific existing holdings into cash. Liquidity ratios measure a company's ability to meet its short-term obligations. This ratio is important because failure to pay duties can lead to the company's bankruptcy. This ratio measures the company's short-term liquidity capability by looking at its current assets relative to its existing debt (Eldyn Gula & Yuneti, 2023). The liquidity that has been stated can illustrate how vital the liquidity ratio is for a company. A good company has sufficient liquidity (Iman & Saleh, 2023).

4. CONCLUSION

From the results of our research and discussion, the author concludes, among others. The first hypothesis is that working capital has no significant effect on profitability. The second hypothesis suggests a considerable impact of liquidity on the value of profitability. The third hypothesis is that operating capital and liquidity variables affect profitability. Companies must pay attention to the optimal composition of working capital, profitability, and financial liquidity to increase profitability by managing operating capital and liquidity. Some things that can be done are expanding the company's profitability by increasing revenue, maintaining financial ratios so that the company's value becomes high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers, emphasizing the importance of making informed working capital decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors driving a company's value in the manufacturing industry and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature.

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