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Analysis of the Effect of Working Capital Efficiency, Liquidity, and Solvency on Profitability in Manufacturing Companies in the Consumer Goods Industry Sector on the Indonesia Stock Exchange

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Abstract

In this research, the following objectives are to be achieved: (1) to test and analyze the effect of working capital efficiency on the profitability of manufacturing companies in the consumer goods industry sector that are listed on the IDX; (2) to test and analyze the effect of liquidity on the profitability of manufacturing companies in the consumer goods industry sector that are listed on the IDX. The findings of this research reveal that the variable (1) Net Working Capital Turnover has a very significant influence, which is further supported by the fact that the level of significance attained is lower than the standard employed, namely 1.4 percent as opposed to 5 percent (see Table 1). The level of significance is less than the established standard of significance, which is 0.05 or 5 percent, and the comparison between tcount and ttable, where tcount is 2,283 times greater than ttable, which is 1,990, indicates that the level of significance is less than the established standard of significance.

Introduction

The present advanced economic growth has prompted the establishment of a large number of businesses involved in a wide range of services, commerce, and other activities. Every business has the same objective, which is to maximize profits. It will need competent management to attain this aim since it will allow the organization to handle its resources more effectively.

Companies in the asset management industry must pay more attention to the management of their working capital in order to be more efficient. This is due to the high amount of working capital in the assets, which accounts for a significant component of the assets. The purchase of raw materials, the financing of employee salaries, and other daily operations require working capital from every company. Working capital is money or funds that are issued to a company with the expectation that the money or funds will be repaid to the company within a short period of time through the sale of their products or services. When defining an effective working capital strategy, the firm is confronted with the dilemma of choosing between elements that affect liquidity and ones that affect profitability (Horne, 2015). A high quantity of working capital will likely be required if the firm wishes to retain its liquidity. However, the possibility to produce big profits will be reduced, which will have a negative influence on the company's overall profitability. On the other hand, if a company's primary goal is to increase profits, this may have an impact on the company's liquidity level. A corporation's standing in the eyes of creditors improves as its liquidity increases. This is because there is a greater likelihood that the company will be able to fulfill its commitments on time if its liquidity increases (Jannah et al., 2021). The opposite is true from the viewpoint of the shareholder: having a high level of

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liquidity is not necessarily lucrative since it has the potential to create idle cash that might be utilized to invest in initiatives that benefit the firm (Tunggal, 2015).

Companies in the consumer goods business that manufacture consumer products are one of the industrial sectors that have the potential to expand and increase in size (Rüßmann et al., 2015). When compared to other industries, it has a number of benefits, such as the absorption of a big workforce and the possession of a lucrative capital value. Following this development, there must be an increase in innovation and originality in order to attract even more customers. Because of rapidly advancing developments, manufacturing companies in the consumer goods industry are beginning to come into the limelight. As a result, manufacturing companies in the consumer goods industry sector strive to produce goods of high quality at low costs in order to increase their competitiveness in the international market, which is still inferior to that of other countries. As a consequence, the selling price and competitiveness of the finished product are both poor.

Numerous factors, including the profitability of the firm itself, impact the long-term viability of a business enterprise. Profitability is one of the elements that may be used to determine if a firm is doing well or poorly (Brown & Caylor, 2004). In order to determine whether or not the business capital used by a firm is productive, one of the measuring instruments utilized is the profitability of the company, which is stated as a percentage.

A previous study that looked at company profitability as the dependent variable, namely Ambarwati, et al. (2015), found that the variables of working capital, activity, and company size all had a statistically significant positive effect on profitability, whereas the variable of liquidity had no statistically significant impact on profitability

Methods

This study was conducted using data from manufacturing businesses in the consumer products industry sector obtained from the Indonesia Stock Exchange's official website, www.idx.co.id, for the 2015-2020 time frame. The manufacturing enterprises in the consumer products industry sector that are publicly traded on the Indonesian Stock Exchange for the 2015-2020 timeframe comprise the population of this research. Using a purposive sampling technique, the sample in this study was selected based on certain criteria, including: (1) the number of manufacturing companies operating in the consumer goods industry sector that are listed consecutively on the Indonesia Stock Exchange in 2015–2020; (2) the number of manufacturing companies operating in the consumer goods industry sector that publish financial reports consecutively from 2015–2020; and (3) manufacturing companies operating in the consumer goods industry sector that publish financial reports consecutively from 2015–2020

Results and Discussion

Descriptive Data

Each of the consumer products manufacturing businesses that have been listed on the Indonesian Stock Exchange is included in this study's sample (IDX). The 43 firms that were acquired are engaged in the manufacture of consumer products. The purposive sampling method was used to determine the sample for this study, and the criteria established in the previous chapter were used to determine the number of samples from the study during the 2015 to 2020 period. The number of samples from the study during the 2015 to 2020 period was 14 companies of various food and beverage types.

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Because of the manner of merging data, all samples utilized as research data are 14 x 6 = 84 observational data that have been reprocessed and analyzed. The following are the names of these businesses:

Table 1. Company Name and Code

No	Company name	Code
1	PT. Three Pillars of Prosperous Food, Tbk	AISA
2	PT. Tri Banyan Tirta, Tbk	ALTO
3	PT. Wilmar Cahaya Indonesia, Tbk	CEK
4	PT. Delta Djakarta, Tbk	DLTA
5	PT. Indofood CBP Sukses Makmur, Tbk	ICBP
6	PT. Indofood Sukses Makmur, Tbk	INDF
7	PT. Multi Bintang Indonesia, Tbk	MLBI
8	PT. Mayora Indah, Tbk	MYOR
9	PT. Prashida Aneka Niaga, Tbk	PSDN
10	PT. Nippon Indosari Corporindo, Tbk	ROTI
11	PT. Sekar Bumi, Tbk	SKBM
12	PT. Sekar Laut, Tbk	SKLT
13	PT. Siantar Top, Tbk	STTP
14	PT. Ultrajaya Milk Industry and Trading Company, Tbk	ULTJ

Source: Indonesian Capital Market Directory (data reprocessed), 2021

Return on Investment (ROI)

From 2015 to 2020, the following are the ratios of return on investment of businesses listed on the Indonesia Stock Exchange that are also included in the Indonesian Capital Market Directory (ICMD) for each of the previous six years in the 2015-2020 period:

Table 2. Return On Investment (ROI)

Company Code	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
AISA	0.035	0.055	0.062	0.044	0.036	0.063
ALTO	0.015	0.050	(0.007)	0.010	(0.020)	(0.022)
CEKA	0.117	0.057	0.061	0.030	0.069	0.174
DLTA	0.218	0.286	0.312	0.290	0.184	0.216
ICBP	0.136	0.129	0.108	0.101	0.114	0.126
INDF	0.094	0.082	0.063	0.056	0.053	0.061
MLBI	0.416	0.394	0.669	0.353	0.240	0.431
MYOR	0.073	0.089	0.104	0.040	0.112	0.104
PSDN	0.057	0.039	0.031	(0.045)	(0.066)	(0.066)
ROTI	0.153	0.124	0.087	0.088	0.097	0.090
SKBM	0.040	0.044	0.117	0.137	0.053	0.021
SKLT	0.028	0.032	0.038	0.050	0.048	0.298
STTP	0.046	0.060	0.078	0.073	0.096	0.073
ULTJ	0.059	0.146	0.116	0.097	0.148	0.165

Source: Indonesian Capital Market Directory (data reprocessed), 2021

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Working Capital Turnover (WCT)

From 2015 to 2020, the working capital turnover ratio of businesses listed on the Indonesia Stock Exchange and listed in the Indonesian Capital Market Directory (ICMD) over the previous six years has been calculated as follows:

Table 3. Working Capital Turnover (WCT)

Company Code	2015	2016	2017	2018	2019	2020
AISA	2.151	8.378	3.870	2.069	3.509	1.900
ALTO	2.962	2.176	1.013	0.672	1.475	(3.628)
CEKA	4.911	75.949	7.717	11.062	7.985	6.863
DLTA	1.171	1.408	1.467	1.326	0.918	0.851
ICBP	3.464	3.420	3.788	4.072	3.988	3.787
INDF	3.884	0.381	4.182	3.472	3.617	6.835
MLBI	(484.807)	(4.689)	(218.661)	(3.870)	(5.336)	(7.678)
MYOR	4.195	3.101	3.202	4.174	3.444	3.779
PSDN	12.799	9.090	8.327	10.612	34.847	47.308
ROTI	19.335	48.878	34.464	16.683	5.214	4.010
SKBM	11.939	22.973	15.432	12.081	37.319	29.849
SKLT	7.697	10.904	19.825	26.214	24.329	15.620
STTP	(65.433)	(881.082)	19.876	8.322	24.185	7.215
ULTJ	7.210	4.655	3.714	3.373	2.850	2.054

Source: Indonesian Capital Market Directory (data reprocessed). 2021

***Current Ratio* (CR)**

According to the Indonesian Stock Exchange, current ratios of businesses listed on the Indonesia Stock Exchange that are also included in the Indonesian Capital Market Directory (ICMD) have been as follows over the previous six years in the 2015-2020 period:

Table 4. Current Ratio (CR)

Company Code	2015	2016	2017	2018	2019	2020
AISA	1.894	1.269	1.750	2.663	1.623	2.376
ALTO	1.868	2.143	1.836	3.076	1.583	0.754
CEKA	1.687	1.027	1.632	1.466	1.535	2.189
DLTA	6.009	5.265	4.762	4.473	6.424	7.604
ICBP	2.871	2.763	2.411	2.183	2.326	2.407
INDF	1.910	2.003	1.683	1.807	1.705	1.508
MLBI	0.994	0.580	0.977	0.514	0.584	0.680
MYOR	2.219	2.761	2.402	2.090	2.365	2.250
PSDN	1.539	1.607	1.676	1.464	1.097	1.060
ROTI	1.284	1.125	1.136	1.366	2.053	2.962
SKBM	1.836	1.245	1.330	1.477	1.122	1.107
SKLT	1.741	1.415	1.228	1.184	1.192	1.315
STTP	0.952	0.997	1.142	1.484	1.190	1.654
ULTJ	1.477	2.018	2.470	3.345	3.745	4.844

Source: Indonesian Capital Market Directory (data reprocessed), 2021

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Debt to Equity Ratio (DER)

Published on the Indonesian Stock Exchange and listed in the Indonesian Capital Market Directory (ICMD), the debt to equity ratios of firms listed on the Indonesian Stock Exchange over the previous six years in the 2015-2020 timeframe are as follows:

Table 5. Debt to Equity Ratio (DER)

Company Code	2015	2016	2017	2018	2019	2020
AISA	0.990	1.063	1.324	1.244	1.512	1.266
ALTO	0.898	0.738	1.778	1.332	1.334	1.430
CEKA	1.033	1.218	1.025	1.389	1.322	0.606
DLTA	0.215	0.246	0.282	0.298	0.222	0.183
ICBP	0.421	0.481	0.603	0.656	0.621	0.562
INDF	0.695	0.738	1.048	1.084	1.130	0.870
MLBI	1.302	2.493	0.805	3.029	1.741	1.772
MYOR	1.722	1.706	1.494	1.510	1.184	1.063
PSDN	1.043	0.667	0.633	0.640	0.913	1.333
ROTI	0.389	0.808	1.315	1.232	1.277	1.024
SKBM	0.806	1.263	1.474	1.043	1.222	1.719
SKLT	0.743	0.929	1.162	1.162	1.480	0.919
STTP	0.907	1.156	1.118	1.080	0.903	0.999
ULTJ	0.613	0.444	0.395	0.288	0.265	0.215

Source: Indonesian Capital Market Directory (data reprocessed), 2021

Multiple Linear Regression Analysis

Published on the Indonesian Stock Exchange and listed in the Indonesian Capital Market Directory (ICMD), the debt to equity ratios of firms listed on the Indonesian Stock Exchange over the previous six years in the 2015-2020 timeframe are as follows:

Tabel 6. Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.012	.051		.240	.811
WCT	.000	.000	-.266	-2.512	.014
CR	.027	.012	.301	2.283	.025
DER	.038	.030	.163	1.245	.217

Dependent Variable: Profitability (ROI)

Source: Output programe SPSS 22.0

The regression equation can be determined based on column B which is the regression coefficient for each variable. So the regression equation is as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$

$Y = 0.012 + 0.000X_1 + 0.027X_2 + 0.038X_3$

The following is an explanation of the regression equation shown above: (1) A constant of 0.012; this indicates that if the values of X1, X2, and X3 are all zero, then the ROI value is equal to 0.012. This suggests that if working capital turnover (X1) is raised by one percent, the

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return on investment (ROI) will rise by 0.000, on the assumption that the other independent variables remain constant.

Assuming that all other independent variables remain constant, the regression coefficient of the X2 variable is 0.027, which suggests that if the X2 Current Ratio is raised by one percentage point, the ROI value will rise by 0.027 points.

When the variable X3's Debt to Equity Ratio is raised by one percent, the ROI value will not rise since the Debt to Equity Ratio variable is not significant, as shown in Table 6, because the variable X3's Debt to Equity Ratio is not important.

Hypothesis Test

Multiple linear regression was used to analyze the data in order to identify the influence of working capital efficiency, liquidity, and solvency on profitability, both concurrently and partly. Specifically, three techniques of hypothesis testing are used in this study: the coefficient of determination method, the F statistic test, and the statistical t test.

F Statistic Test

Table 7. ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.131	3	.044	3.490	.019[a]
	Residual	1.003	80	.013		
	Total	1.134	83			

Predictors: (Constant), Solvency, Working capital, Liquidity.

Dependent Variable: ROI

Hypothesis

H_0 = Working capital efficiency, Liquidity (current Ratio), and Solvency (Debt to Equity Ratio) simultaneously have no significant effect on Return on Investment (ROI)

H_a = Working capital efficiency, Liquidity (Current Ratio), and Solvency (Debt to Equity Ratio) simultaneously have a significant effect on Return on Investment (ROI)

Significance Level

The significance level used is 0.05 (α = 5%) and in table 7 the significance level obtained is 0.019 or 1.9%. This means that the independent variable affects the dependent variable with a significance level of 1.9%.

Determine F_{count}

Based on the output of the SPSS program in table 7 or using the formula above. Fcount based on the numbers in table 7 is 3,490.

Determine F_{table}

Using the 95% confidence level, = 5%, df 1 can be determined by the following equation: df 1 = number of variables – 1; it means df 1 = 3, (4-1), whereas, df 2 = n - k - 1; it means that df 2 = 80, (84 – 3 – 1) so it can be seen in the Ftable in column 3 of the 80th row, which is 2.72

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or it can be searched in Microsoft Excel program by means of an empty cell by typing: =finv (level of significance , df 1,df2) then press enter. The result is 2.718784982

Test Criteria

H_0 Accepted if $F_{count} \leq F_{table}$

H_0 Rejected $F_{count} > F_{Table}$

Compare F_{count} With F_{table}

Value $F_{count} > F_{table}$ (3,490 > 2,718784982)

Based on the statistical test in table 7 using the F test, the significance level is greater than the set standard, namely 0.05 or 5% and the comparison between Fcount and Ftable, where Fcount is 3,490 which is greater than Ftable, which is 2,720.

So it can be concluded that Ha is accepted, meaning that working capital efficiency, liquidity (Current Ratio) and Solvency (Debt to Equity Ratio) simultaneously have a significant effect on profitability..

Statistical t Test

The results of the t test can be seen in the output coefficients from the results of multiple linear regression analysis in table 8 below:

Table 8. Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.012	.051		.240	.811
WCT	.000	.000	-.266	-2.512	.014
CR	.027	.012	.301	2.283	.025
DER	.038	.030	.163	1.245	.217

Dependent Variable: ROI

Source: Output SPSS 22.0

Testing the regression coefficient of the working capital efficiency variable, the steps for conducting the t-test for the working capital efficiency variable are as follows:

Hypotesis

Because of this, we were able to acquire a significance value of 0.014% (1.4 percent) from the output data of our analysis. As a result, it is possible to infer that the working capital efficiency variable has a statistically significant impact; this conclusion is bolstered by the fact that the level of significance attained is higher than the criterion employed, namely 1.4 percent from 5 percent. Additionally, by comparing the tcount and ttable values, it is possible to determine the significance value. Based on the output findings, the variable tcount was assigned a value of -2.512, whereas the variable ttable was assigned a value of 1.990. On the basis of this comparison, it is possible to infer that the hypothesis stating that the working capital efficiency variable has an impact on return on investment is reasonable. The greater the working capital efficiency, the higher the profitability, and vice versa if the lower the working capital efficiency, the lower the profitability with a 5-percent error rate in this calculation,

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Testing the Regression Coefficient of the Liquidity Variable

Statistics using the t-test reveal that the significance threshold is lower than the conventional value, 0.05 or 5 percent, and that there is a bigger difference between the two variables. Tcount is more than Ttable, which is greater than 1.990, according to the results of the statistical testing. On the basis of this comparison, it is possible to infer that the hypothesis stating that the liquidity variable has an impact on the return on investment is reasonable and acceptable. Based on a 5-percent chance of being correct, it follows that greater liquidities lead to higher profits, and vice versa: higher liquidities lead to higher profits and vice versa: lower liquidities lead to lower profits.

Solvency variable regression coefficient test (Debt to Equity Ratio)

On the basis of the output observed from the significant value, it was determined that a value of 0.217 or 21.7 percent had been attained. The conclusion that the solvency variable (Depth to Equity Ratio) has no significant impact is bolstered by the fact that the level of significance attained is higher than the criterion employed, which is 21.7 percent from 5 percent, indicating that the variable has no significant influence. It may also be noticed by comparing the values of the t-count and the t-table statistics. Based on the result obtained by 1.245, the t table value was obtained in 1990, and the output produced by 1.245. The conclusion reached as a result of this comparison was that H0 was acceptable. It was decided as a result of this comparison that the hypothesis stating that the solvency variable has an impact on return on investment is too optimistic. The greater the solvency, the higher or lower the profitability, and vice versa; if the solvency is lower, the higher or lower the profitability, and the mistake rate is 5%, then the higher or lower the profitability.

Coefficient of Determination

Table 9. Model Summary[b]

Model	R	R Square	AdjustedR Square	Std. Error of the Estimate
1	.340[a]	.116	.083	.11196

Predictors: (constant), Solvency, Working capital, Liquidity

Dependent Variable: ROI Source: SPSS Program Output 22.0

The R square value is 0.116, or 11.6 percent, based on the result shown in the previous section. This indicates that all independent factors have an influence on the dependent variable equal to 11.6 percent of the total effect. The remaining 88.4 percent is impacted by a variety of additional factors and circumstances. Profitability and leverage are two variables that might have an impact on the dependent variable (Return on Investment) (Kasmir, 2015:151). This is due to the fact that the two factors have a positive relationship with profitability.

The findings of the hypothesis test were utilized to address the research question, which was to evaluate if there was a relationship between the independent variables (working capital efficiency, liquidity, and solvency) separately and the dependent variable (working capital efficiency) (profitability). Detailed explanations of each hypothesis testing procedure are provided below:

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The effect of working capital efficiency on profitability in manufacturing companies in the consumer goods industrial sector listed on the Indonesia Stock Exchange (IDX)

In accordance with the findings of the hypothesis testing that was conducted, it was discovered that working capital efficiency has a considerable impact on profitability in consumer products firms that are publicly traded on the Indonesia Stock Exchange (IDX). This is shown by the fact that tcount (3.490) is more than ttable (2.718). On the basis of this comparison, it is possible to infer that the hypothesis stating that the Net Working Capital variable has an impact on the return on investment ratio is acceptable. According to the idea, the quantity of working capital (working capital turnover) gained by a firm will have an impact on the amount of sales that will be achieved in a given time, which is detailed in detail below. If the availability of raw materials or the price of raw materials increases in a certain situation, the capital used by the firm will have an impact on operational activities, particularly output volume. When the volume of production is low, it will have a direct impact on the number of sales made.

In order to calculate the return on investment ratio, we must first utilize sales information to calculate the amount of profit produced by the firm over a certain time, and then compare that amount to the total assets of the organization. If it is tied to net working capital, it is directly related both in terms of sales information and from firm assets, particularly in the case of short-term investments. Taking a theoretical approach, it may be inferred that net working capital has an impact on the return on investment ratio. It is thus possible to assume, based on statistical findings and theoretical reasons, that the size of the return on investment ratio is influenced by net working capital.

The effect of liquidity on profitability in manufacturing companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX)

After doing hypothesis testing, it has been discovered that the liquidity of consumer goods businesses listed on the Indonesian Stock Exchange has a statistically significant impact on their profitability (IDX). This is shown by the fact that the value of tcount (-2.512) ttable (1.990). It is possible to infer that Ha is accepted, which means that the liquidity variable (current ratio) has a major impact on the profitability variable to a certain extent, but not entirely (return on investment ratio).

The findings reveal that the current ratio has an impact on the return on investment ratio, based on statistical analysis of the data. These findings are supported by a theoretical explanation, according to which the present ratio demonstrates how the corporation meets commitments that are approaching due date. This ratio is calculated by comparing the current assets and current liabilities of two different companies. It is stated in investing that the money obtained by the firm is classified as debt or liability, and that the capital received by the company must be repaid to creditors within a certain time period. Using debt to fund the firm's assets (read: assets), both current and fixed assets, the company is able to meet its obligations. It is thus described in theory that the utilization of corporate assets in supporting operational operations is reflected by the ratio of the rate of return on investment, which is calculated using a cost-benefit analysis.

The conclusion drawn from the theoretical explanation is that the current ratio has a link with the rate of return on investment. It is thus determined that the current ratio has an impact on the return on investment ratio, based on statistical evidence and theoretical interpretations of the relationship. Consequently, the hypothesis tested in this research, which claims that the current ratio has an impact on the return on investment ratio, is deemed to be reasonable.

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The effect of solvency on profitability in manufacturing companies in the consumer goods industrial sector listed on the Indonesia Stock Exchange (IDX)

According to the findings of the hypothesis testing that was conducted, it was discovered that the solvency of consumer goods businesses listed on the Indonesian Stock Exchange had no substantial impact on their profitability (IDX). This is shown by the fact that the value of tcount (1.245) ttable (1.990). According to the theoretical explanation, the debt-to-equity ratio is beneficial for determining the quantity of cash given by creditors and the company's shareholders. As a result, this ratio is intended to assess the efficiency with which a corporation makes use of the money that it has borrowed from creditors in the form of debt. The money that is utilised might originate from either the company's own funds or from outside sources (debt). The involvement of other parties in the company's operational activity is the result of investment.

The effect of working capital, liquidity and solvency on profitability in manufacturing companies in the consumer goods industry sector on the IDX

According to the findings of the hypothesis testing that was conducted, it was discovered that only solvency had a statistically significant impact on the profitability of manufacturing businesses in the consumer products industry sector that were publicly traded on the Indonesia Stock Exchange (IDX) (IDX). When it comes to manufacturing enterprises in the consumer products industrial sector on the IDX, the factors of working capital and liquidity play a crucial role in determining profitability. Using the return on investment ratio, the firm will be able to determine how much money is being spent by third parties to manage the debt that is included inside the company's capital. It is thus possible to assert that the debt to equity ratio does not have a positive relationship with profitability on a theoretical level. Thus, the debt-to-equity ratio has no major impact on the rate of return on investment, as previously stated.

Conclusion

Based on the analysis and debate that have been presented in the preceding chapter, it is possible to reach the following conclusions: Using the t-test statistic, the working capital efficiency hypothesis was tested. The result was 0.014 percent, or 1.4 percent. We may thus infer that the Net Working Capital Turnover variable has a very significant impact, which is reinforced by the fact that the significance level attained is lower than that required by the standard, namely 1.4 percentage points rather than 5 percentage points. The significance value, in addition to the comparison of the tcount value and the ttable value, may be used to determine this. The results of testing the liquidity hypothesis (Current Ratio) using the t-statistical test yielded a significance level lower than the established standard of significance, 0.05 or 5 percent, and the comparison between tcount and ttable yielded an increase of 2,283 points over the established standard of significance, which is 1,990 points. It is possible to infer that Ha is acceptable, which means that the liquidity variable (Current Ratio) has a major impact on the profitability variable to a certain extent (Return on Investment).

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