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THE INFLUENCE OF WORKING CAPITAL, LIQUIDITY AND LEVERAGE ON PROFITABILITY IN THE FOOD AND BEVERAGE INDUSTRY ON THE IDX 2016-2021.

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Abstract

This study aims to determine the effect of Working Capital, Liquidity, and Leverage on Profitability in the Food and Beverage Industry on the Indonesia Stock Exchange. The data used in this study is secondary data from 18 manufacturing companies in the Food and Beverage sub-sector during the 2017 to 2021 research period, resulting in 108 observations. The method used to analyze the relationship between the independent variables and the dependent variable is the panel data regression method. The results show that partially, Working Capital has a positive and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. Liquidity has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. Leverage has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. Simultaneously, Working Capital, Liquidity, and Financial Performance have a positive and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange

Keywords: ***Working Capital, Liquidity, Leverage, Profitability***

1.Introduction

In carrying out its operations, every company aims to maintain business continuity and obtain high profits. However, in order to achieve these goals, companies must compete competitively.To be able to survive and compete with other similar companies in maintaining their survival, company management needs to first plan actions in implementing the company's operational activities. One action that can be taken is to utilize existing human resources within the company effectively and efficiently, so that it can reduce costs and achieve optimal profits (Safitri and Wijaya, 2013). To achieve optimal profits, companies must be able to compete, because without profits it will be difficult for companies to attract capital from outside. To achieve this goal, management with a high level of effectiveness is required (Dewi, 2015). is a description of the financial condition of a company which is analyzed using financial analysis tools, so that it can be known about the good and bad financial condition of a company which reflects work performance in a certain period. Whether a company's financial performance is good or bad can be seen from the company's level of profitability.

Profitability is the company's ability to earn profits.Profitability Ratiois the main ratio in all financial reports, because the company's main goal is operating results/profits, (Brigham, 2016). Profitability is a ratio that describes a company's ability to gain profit through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of branches and so on (Harahap, 2018). The profitability ratio is to show the company's success in generating profits. Potential investors will carefully analyze the smooth running of a company and its ability to earn profits. The better the profitability ratio, the better it describes the company's ability to earn high profits (Fahmi, 2019). Generally, profitability can be proxied through return on assets (ROA), Return on Equity (ROE), Return on Investment (ROI) (Ratnasari, 2016). However, in this research profitability is proxied by Return On Assets (ROA). Return On Assets (ROA) is a ratio measuring the rate of return on assets after interest and tax expenses (Brigham, 2015). This ratio measures the ratio between net profit to total assets. The higher the ratio of net profit to total assets, the better it is for the company. According to Prastowo (2019), ROA is used to measure a company's effectiveness in generating profits by utilizing the assets it owns. Many previous studies have been conducted on factors that influence profitability such as working capital efficiency, liquidity, solvency, leverage, sales growth, company size, working capital turnover and capital structure (Miswanto, Abdullah and

Suparti, 2017; Rofiah, Mardani and Wahono, 2018; Ambarwati, Yuniarhta and Sinarwati, 2015; Noor and Lestari, 2012 and others).

The results of this research were found to be very diverse, there were several studies that found different results where all of these factors/indicators had no significant effect on profitability (Setyawan and Susilowati, 2018). This shows that the results of the research are still inconsistent and contradictory, where the influence is both positive and negative. Based on the research gap above, the author is interested in researching again using the variables working capital efficiency, leverage and sales growth as variables that influence profitability. The profitability of a company is influenced by working capital efficiency, leverage and sales growth (Miswanto, 2017). Working capital efficiency is very important in a company, because it includes decision making regarding the amount and composition of current assets and how to finance these assets (Miswanto, 2017). To be able to determine the efficient amount of working capital, the elements of working capital must first be measured. Working capital management requires attention to the three main elements of working capital, namely cash, receivables and inventory. All elements of working capital are calculated on a monthly basis (Esra and Apriweni, 2012). The faster the turnover rate of each element of working capital, the working capital can be said to be efficient. However, if the turnover is slower, then the use of working capital in the company will be less efficient. Companies that cannot calculate a satisfactory level of working capital will likely experience insolvency (unable to meet maturing obligations) and it may even be forced to be liquidated. Current assets must be large enough to cover current liabilities in such a way as to represent a satisfactory level of safety (margin of safety).

Meanwhile, if the company determines excessive working capital, it will cause the company to be overliquid, resulting in idle funds which will result in company inefficiency and waste opportunities to make a profit (Miswanto, 2017). Previous research results concluded that Working Capital Efficiency as proxied by Working Capital Turnover (WCT) has a positive and significant effect on profitability, (Miswanto, Abdullah and Suparti, 2017; Rofiah, Mardani and Wahono, 2018; Ambarwati, Yuniarhta and Sinarwati, 2015; Noor and Lestari, 2012). Profitability is also influenced by liquidity, Kasmir (2016) believes that the liquidity ratio is a company's ability which is used to measure how liquid a company's financial condition is. The greater the value of the current ratio, it is indicated that profitability will increase. Large profitability indicates the greater the company's ability to fulfill its short-term obligations or the better its liquidity. A higher level of liquidity can increase the credibility of the company which causes a positive reaction from investors to provide capital that can used by companies to invest in an effort to increase their profitability. Next, the indicator that influences profitability is leverage. Leverage is a tool to measure how far a company depends on creditors in financing company assets (Syamsudin, 2017). The selection of funding sources is a careful consideration by comparing the advantages and disadvantages of each available funding alternative. Internal funding from within the company itself or externally in the form of debt (Sartono, 2019).

The level of debt in the form of loans used by the company.Debt is all the company's financial obligations to other parties that have not been fulfilled, where this debt is a source of company funds or capital that comes from creditors (Munawir, 2019). A high level of leverage gives a bad signal to stakeholders. The level of trust of stakeholders will decrease so that they prefer to invest their funds in companies that have healthy and good financial conditions. So company managers must reduce costs so that the company's financial performance is good. Companies that have a high level of leverage can result in financial distress in being able to settle their debt obligations. In other words, leverage has both good and bad impacts on the company, it can cause the company to develop better (good performance), but it can also result in setbacks for the company (bad performance) and can even result in insolvency or bankruptcy. Brigham and Houston (2019) state that leverage is an alternative that can be used to increase profits. The results of research conducted by Febria (2013) show that leverage has a positive and significant effect on profitability. Sunarto and Budi (2010) research results show that leverage has an effect on profitability. Meanwhile, the results of research conducted by Putri, Safitri and Wijaya (2013) show that leverage has no effect on profitability. Ratnasari and Budiyanto (2016) research results show that leverage has a significant and negative effect on profitability. And Isbanah (2015) research results show that leverage has a significant and negative effect on company performance

2. Research Method

This research uses quantitative methods. The population used in this research is all Food and Beverage companies listed on the Indonesia Stock Exchange in the 2017-2021 period, namely 26 companies. Based on the criteria, the sample used was 18 companies. The data used in this research is panel data. The data analysis method uses panel data analysis with the model selection technique used, namely the chow test and the hausmant test. Hypothesis testing in this research uses the partial test (t).

3. Results and Discussion

To determine the best model and which is appropriate to this research, the tests carried out were the Chow Test and the Hausman Test. The Chow Test results in this research are as follows:

Table 1 Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	25.515672	17.87	0.0000
Chi-square cross-section	193.254499	17	0.0000

Source :Eviews output, processed secondary data, 2022.

Based on the table above, it can be seen that the probability value for the Chow Test is 0.0000, where this value is below the error tolerance standard value, namely 0.05, so based on the Chow Test the best model is the Fixed Effect Model so the Hausman Test is needed to compare the Fixed Effect Model and Random Effect Models. The Hausman test is a test to select the best model between the fixed effect model and the random effect model. If the probability value in the Hausman Test is above the standard error tolerance value, namely 0.05, then the best model is the Random Effect Model, whereas if the probability value is below the standard error tolerance value, namely 0.05, then the best model is the Fixed Effect Model. The Hausman Test results in this research are as follows:

Table 2 Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	10.526077	3	0.0146

Source :Eviews output, processed secondary data, 2020.

Based on the table above, it can be seen that the probability value in the Hausman Test is 0.0146, which is below the standard error tolerance value, namely 0.05. Therefore, based on the Hausman Test, the best model in this research is the fixed effect model, so that for the classical assumption test and regression estimation we will use the fixed effect model. Based on the model selection carried out using the Chow test, it shows that the probability value is smaller than 0.05 so the model chosen is the Fixed Effect Model. Next, the model selection was continued with the Hausmant test and the results of the research showed that the probability was smaller than 0.05, so the model chosen was the Fixed Effect Model. Therefore, the model that will be analyzed in this research is the Fixed Effect Model. The Fixed Effect Model panel data regression results are as follows:

Table 3 Panel Data Estimates

Variables	Coefficient	tcount	ttable
C	0.5331	6.5010	1,662
X1	0.2704	4.8425***	
X2	-0.3211	-3.9151***	
X3	-0.3535	-2.5328**	
R-squared			0.868
Adjusted R-squared			0.837
F-statistic			28,644
Prob (F-statistic)			0,000
Durbin Watson stats			1,183

Source: Eviews 8 Output (Processed Data) 2022

Based on Table 3 above, the regression equation that can be prepared in this research is as follows:

ROA = 0, 533 + 0, 270MK - 0.321Lk - 0.353LV

Based on the equation above, the interpretation of panel data regression can be explained as follows:

1. A constant of 0.533 means that if working capital, liquidity and financial performance are considered constant (value 0), then the profitability value remains at 0.533.
2. A liquidity coefficient of 0.321 indicates a negative relationship (not in the same direction) which means that every 1% increase in liquidity causes profitability to decrease by 0.321%.
3. The leverage coefficient of 0.353 shows a negative relationship (not in the same direction) which means that every 1% increase in leverage causes profitability to decrease by 0.353%.

4. Hypothesis Testing

This research uses the t test as hypothesis testing. Based on the partial test results in table 3, it can be explained that:

1. Working capital has a positive and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. In accordance with the statistical test results that the value of tcount > ttable, namely 4,842 > 1,659, H1 is accepted. This can also be seen from the probability of 0.00 < 0.05
2. Liquidity has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. In accordance with the statistical test results that the value of tcount > ttable, namely 3,915 > 1,659, H2 is accepted. This can also be seen from the probability of 0.00 < 0.05.
3. Leverage has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021. In accordance with the statistical test results that the value of tcount > ttable, namely 2,532 > 1.659, H3 is accepted. This can also be seen from the probability of 0.01 < 0.05.
4. Simultaneously working capital, liquidity and financial performance have a positive and significant effect on profitability in Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange.
5. The results of the R2 coefficient of determination test with multiple linear regression, which can be seen from the Adjudted R Square, is 0.8378 or 83.78%. So the magnitude of the influence of working capital management, liquidity and financial performance variables on profitability is 83.78%. Meanwhile, the remainder is influenced by other variables outside the model, namely 16.22%. The Correlation Coefficient (R) can be obtained from R = 0.868. So the relationship between working capital management, liquidity and financial performance on company profitability has a strong positive influence, because the correlation value is 86.8 percent.

5. Discussion

5.1 The Effect of Working Capital on Profitability in Food and Beverage Sub-Sector Manufacturing Companies on the Indonesian Ef Exchange for the 2016-2021 Period

Working capital has a positive and significant effect on profitability in Food and Beverage Sub-sector Manufacturing Companies in Busa E Indonesia for the 2016-2021 period. This is proven by a significant value of 0.000 with the conclusion that the first hypothesis is accepted. Working capital management is very important in a company, because it includes decision making regarding the amount and composition of current assets and how to finance these assets. This shows that the faster the turnover rate of each element of working capital, the working capital can be said to be efficient. But if the turnover is slower, then the use of working capital in the company will be less efficient. The research results are in line with research conducted by (Ambarwati, Yuniarhta and Sinarwati, 2015; Miswanto, Abdullah and Suparti, 2017) which concluded that Working Capital has a positive and significant effect on profitability.

5.2 The Effect of Liquidity on Profitability in Food and Beverage Sub-Sector Manufacturing Companies on the Indonesian Stock Exchange for the 2016-2021 Period

Liquidity has a negative and significant effect on profitability in Food and Beverage Sub-sector Manufacturing Companies on the Indonesian Stock Exchange for the 2016-2021 period. This is proven by a significant value of 0.000 with the conclusion that the second hypothesis is accepted. Liquidity is a company's ability which is used to measure how liquid a company's financial condition is. The greater the liquidity value, the greater the profitability. High profitability shows that the greater the company's ability to meet its short-term obligations and the greater the liquidity, the higher the level of liquidity can increase the company's credibility, which can lead to a positive reaction from investors to provide capital which the company can use for investment in an effort to increase its profitability. The research results are in line with Wahyuliza and Devita's (2018) research, which concluded that liquidity has a negative and significant effect on profitability, meaning that the higher the company's liquidity level indicates that the more current assets the company has accumulated will result in a decrease in the company's profitability. Conversely, if the company's liquidity is lower, the level of profitability will increase. The research results are also in line with research conducted by Wahyuliza and Devita, Puti, Safitri and Wijaya (2015) which concluded that liquidity has a negative effect on company profitability.

5.3 The Influence of Financial Performance on Profitability in Food and Beverage Sub-Sector Manufacturing Companies on the Indonesian Stock Exchange for the 2016-2021 Period

Financial Performance has a negative and significant effect on Profitability in Food and Beverage Sub-Sector Manufacturing Companies on the Indonesian Stock Exchange for the 2016-2021 Period. This is proven by a significant value of 0.01 with the conclusion that the third hypothesis is accepted. Harahap (2011), found that the higher a company's debt, the lower the profit the company will receive. Another opinion was also mentioned by Prastowo (2014) that companies with high levels of debt will have more difficulty making a profit. On the other hand, Sartono (2012) also added that companies that have financial risks due to high corporate debt will affect the company's ROA level. Pecking order theory explains that companies that have higher profit levels actually have smaller debt levels. Debt levels in research This is measured through leverage. The research results are in line with previous research showing that debt levels have a negative effect on ROA in Consumer Goods Industrial Companies on the Indonesian Stock Exchange, (Ratnasari, 2016; Putri, Safitri and Wijaya, 2015

6. CONCLUSIONS AND RECOMMENDATIONS

1. Working capital has a positive and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021.
2. Liquidity has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021.
3. Leverage has a negative and significant effect on the Profitability of Manufacturing Companies in the Food and Beverage sub-sector on the Indonesia Stock Exchange for the period 2016 to 2021.

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