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The Effect of Working Capital Turnover, Liquidity, Leverage and Company Size on Profitability

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ABSTRACT

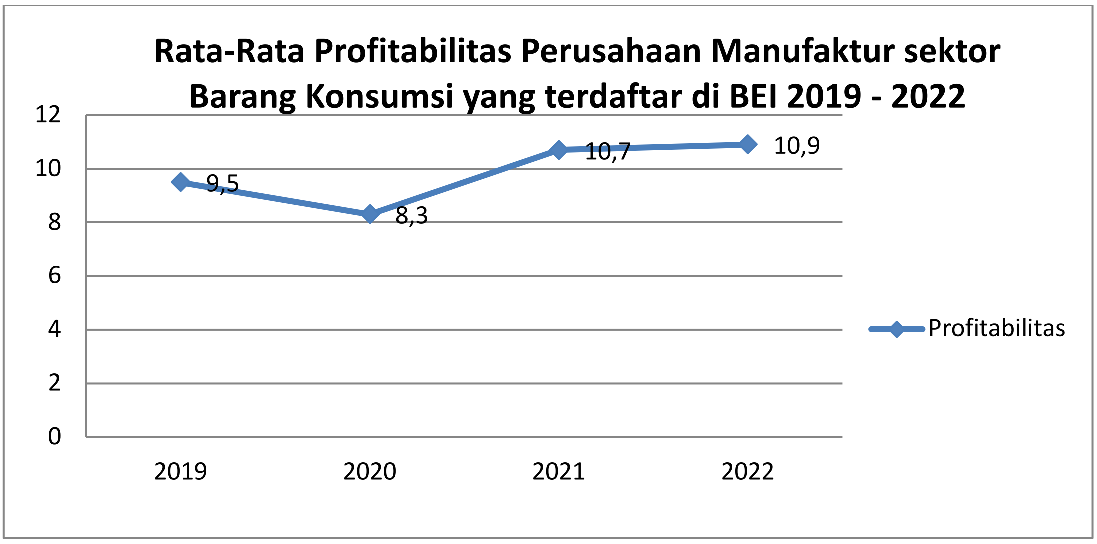
This study aims to empirically test Working Capital Turnover, Liquidity, Leverage and Company Size on Profitability. The data used in this study are secondary data and the companies used as sample criteria are selected based on the purposive sampling method. The sample in this study is manufacturing companies in the consumer goods sector listed on the IDX for the 2020-2022 period. From this population, the number of companies that met the criteria to be used as a sample was 36 companies which were then multiplied by the 3-year research period to 108 samples. The data analysis methods used are descriptive statistics, classical assumption tests, multiple linear regression analysis and hypopotential tests. The results using the F test show that Working Capital Turnover, Liquidity, Leverage, and Company Size have a significant influence on Profitability. The determination coefficient indicated by the adjusted Rsquare value is 0.208. This means that 20.8% of the dependent variables, namely Proftability, can be explained by four independent variables of Working Capital Turnover, Liquidity, Leverage and Company Size, while the remaining 70.2% is explained by other variables or causes outside the model. Partially, using the t-test, it was concluded that some of the variables of Working Capital Turnover and Leverage did not have a significant effect on Profitability, while the variables of Liquidity and Company Size had a significant effect on Profitability.

Keywords: profitability, working capital turnover, liquidity, leverage and company size.

INTRODUCTION

A company is an organization established by a person or a group of people or other bodies whose activities are to produce and distribute to be able to meet human needs. In general, production and distribution activities are carried out to earn profits. The purpose of establishing a company is to get optimal profits in running its business. The profit earned can show the achievement of the company's performance(Kristianingrum et al., 2022). Seeing the company's performance that is always improving can also be used as additional information by internal parties to assess the effectiveness of the company's operations and especially external parties for decision-making in investing capital in a company. A company can measure its performance in its ability to earn profits based on profitability ratios. (Dewi et al, 2020)(Ulfa & Wahyu W, 2020)

Profitability is one of the indicators of industry performance and expertise in creating profits by using energy sources and wealth owned. A large level of profitability shows that the company is able to work and carry out its operational activities optimally. In industrial sector companies that have a high growth rate, they must provide sufficient capital for business opening and business development. Manufacturing Companies in the Consumer Goods Sector is one of the industrial sectors that continues to experience growth (Agustin et al., 2023; Sukesti et al., 2024). The increasing consumer demand for daily necessities also increases the company's need for the company's own capital. Consumer Goods Sector Manufacturing Companies are companies whose production is urgently needed by the community so that their prospects are profitable both now and in the future. This is also supported by the increasing number of Indonesia's population, so that the demand for needs is increasing. In recent years, manufacturing companies in the consumer goods sector have experienced fluctuations in profitability, this can cause the use of company profits not to be utilized optimally. It can be seen in Figure 1.1 below that there are fluctuations in the food and beverage sector industry from 2019 – 2022:



Source : Secondary data processed in 2023
Figure 1. Profitability of Manufacturing Companies

Based on the graph image above, the average Profitability of companies in the consumer goods sector for the 2019-2022 period. It can be seen that the Profitability that is plotted using Return On Asset (ROA) shows a fluctuating decrease and increase. The average Return On Asset (ROA) in 2019 was 9.5, in 2020 it decreased to 8.3, while in 2021 it increased to 10.7, and in 2022 it increased to 10.9 (Sukesti et al., 2021). Therefore, this fluctuation in Profitability means that the ability of the invested capital as a whole has not been able to generate maximum profits. Therefore, there are several factors that affect the profitability of the company, including working capital turnover, liquidity, leverage and company size.

The first factor is Working Capital Turnover which is one of the ratios used to measure or assess the effectiveness of a company's working capital over a certain period. That The faster the turnover of working capital, the more effective the use of working capital which has an impact on increasing the company's profitability. With a high turnover of working capital, the company will not experience difficulties and obstacles that may arise in the future which will have an impact on the company's profits. Based on the research conducted, and (Santini & Baskara, 2018) (Santini & Baskara, 2018)(Santini & Baskara, 2018)(Mahardika & Suci, 2021)showed that the turnover of working capital had a positive effect on profitability. Because This is due to changes in the company's working capital turnover during one period. The faster the turnover of working capital, the more sales will be obtained and the greater the profit the company will get. With the amount of profit obtained by the company, the company's profitability increases (Kristiana et al., 2021). Meanwhile, research and that states that working capital turnover has a negative effect on profitability. Because with the high level of the company's operational costs, the profit generated by the company will be less. This is contrary to research and which states that working capital turnover has no effect on profitability. With a high level of working capital turnover, it is not always profitable or detrimental for the company because the company prioritizes capital from outside (debt) in order to achieve the expected level of profit, so that the high working capital turnover is not due to the number of sales generated, but the low funds embedded in the working capital component.(Cahyani & Sitohang, 2020)(Juanda & Setyabudi, 2020)(Sofyan & Alamsyah, 2021)(Fadrul et al, 2022)

The second factor is Liquidity is a company's ability to measure how liquid a company's financial condition is. Liquidity is indicated by the size of current assets, namely assets that are easily converted into cash which includes cash, securities, receivables, and inventory. If a company wants to maximize profitability, it may affect the company's liquidity level. The higher the liquidity, the better the company's position in the eyes of creditors will also be because there is a greater possibility for the company to pay its obligations on time. This is in accordance with Research, and states that Liquidity has a positive effect on Profitability. Meanwhile, the research conducted and which states that Liquidity has a negative effect on Profitability. Because the company establishes large current assets so that the company has (Kasmir, 2019) (Nurainia & Suwaidi, 2022) (Cahyani & Sitohang, 2020)(Sofyan & Alamsyah, 2021)(Juanda & Setyabudi, 2020)(Santini & Baskara, 2018)(Fadrul et al, 2022)(Mahardika & Suci, 2021)Likuditas which can provide confidence for creditors when the company is going to be in debt. The higher these current assets, the greater the company's total assets will be, which can then lead to Profitability smaller and smaller. This is contrary to research, and which states that Liquidity has no effect on Profitability. (Rahmaita & Nini, 2021)(Adria & Susanto, 2020)(Safitri & Muniroh, 2023)This shows that High Liquidity is also not good for a company because if the company has a high level of liquidity, the more funds are idle, while the funds may be used to invest to obtain profits in order to increase profitability.

The third factor is Leverage which Keep Ratio to measure how much a company is financed with debt (Nurcahyono et al., 2020, 2021). because this debt funding can have a positive impact on the company, because the higher the (Khasanah & Triyonowati, 2021) Leverage So the more money or capital owned by the company, it makes the company more optimal in carrying out its operational activities to increase sales so that the company's profits increase. This is after research and which states that

(Syafi"I & Haryono, 2021) (Adria & Susanto, 2020)Leverage have a positive effect on Profitability, while research, , , and which states that (Sugianto & Meirisa, 2023)(Nurainia & Suwaidi, 2022)(Fadrul et al, 2022)(Susilawati & Purnomo, 2023)(Nasir, 2020)Leverage negatively affect profitability. because the company has a sizable interest-bearing debt that causes Leverage company, so that the interest expense becomes a deduction for the company's net profit which then causes Profitability companies are getting lower and lower. This is the reverse of research (Rahmaita & Nini, 2021)states that Leverage has no effect on profitability. that the average increase in profitability is followed by an increase in the leverage rate, but because the change in the increase in the company's leverage rate is not too large, it does not have a direct impact on the company's profitability (Nurcahyono et al., 2024).

The fourth factor is the size of the company because the size of the company is a scale or value where the company can be classified in size based on total assets, Log size, stock value, and so on. One of the benchmarks that shows the size of a company is the total assets or assets of the company. A company that has large total assets indicates that the company has reached a mature stage where in this stage the company's cash flow is positive and is considered to have good prospects for a relatively long period of time. In addition, large company assets will make companies more stable than small companies, because they have better control over market conditions, are less susceptible to economic fluctuations, and are able to face economic competition. Based on research conducted , , and which states that Company Size has a positive effect on Profitability. while research shows that Company Size has a negative effect on Profitability. This is because the increase in the company's total assets is not balanced by the company's ability to manage its assets to increase the company's net profit, resulting in a decrease in profitability. However, it differs from research, , , and states that the size of the company has no effect on profitability. Because the larger the size of a company, the company will need greater costs to carry out its operational activities (Santini & Baskara, 2018) (Santini & Baskara, 2018) (Adria & Susanto, 2020)(Nasir, 2020)(Khasanah & Triyonowati, 2021)(Fadrul et al, 2022)(Santini & Baskara, 2018)(Syafi"I & Haryono, 2021)(Sugianto & Meirisa, 2023)(Nurainia & Suwaidi, 2022)(Safitri & Muniroh, 2023).

LITERATURE REVIEW

Signaling theory This explains how a company signals to users of financial statements such as investors, this signal is information about the management efforts in realizing the wishes of the owner of the company who states that the company is superior to other companies. Information about the policy policy is conveyed in the measurement of a company's capital with the acquisition of external funds, namely from debt.(Adria & Susanto, 2020) Meanwhile, according to Brigham & Houston (2013) Signaling theory It is a behavior of the company's management in informing a clue to investors regarding the management's view of the company's prospects for the future. This theory is based on the existence of information asymmetry between managers and investors or shareholders. There is certain information that only managers know, while shareholders do not know that information. Because with the asymmetry of information, signal theory bases an explanation of why companies have the incentive to provide information on their financial statements to external parties. (Samudra & Ardini, 2020)This signal can be in the form of information and promotion from management about what has been done to realize the wishes of shareholders, as well as show potential investors that their company is right as an alternative investment. The market reaction is shown by a change in the stock price at the time the information is announced and all market participants have received the information, market participants first interpret and analyze the information as a good signal (gospel) or bad signals (Bad news). Information published as an announcement will provide signals for investors in making investment decisions, if the announcement contains a positive value, it is expected that the market will begin to react when the announcement is received by the market. When the information is announced, and all market participants have received the information, market participants first interpret and analyze the information as a good signal, or a bad signal. Based on the conceptual framework that has been described, the researcher takes a hypothesis that will be tested for correctness as follows:

Effect of Working Capital Turnover on Profitability

Working capital turnover (net working capital turnover) is one of the ratios used to measure or assess the effectiveness of a company's working capital over a certain period. Good and sufficient working capital will support the high profitability of the company, the higher the turnover of working capital, the faster the cash invested in working capital will return to cash, so that profits from the flow of funds or cash obtained by the company can be received more quickly and profitability will increase. In accordance with the signal theory, it states that a high working capital indicates a good prospect for the company, so that investors will respond positively to the signal and other information that states that the company is better than other companies. This can be understood because companies that manage to book increased profits indicate that the company has good performance, so that it can create a positive view of investors. With a high turnover of working capital, the company will not experience difficulties and obstacles that may arise in the future which will have an impact on the company's profits.(Santini & Baskara, 2018)(Santini & Baskara, 2018).

H1: Working Capital Turnover has a positive effect on Profitability.

Effect of Liquidity on Profitability

Liquidity is a company's ability to measure how liquid a company's financial condition is. The liquidity level reflects the company's ability to pay all short-term obligations (current debt) at maturity using available current assets. In accordance with signal theory, a good company will choose to issue short-term liabilities, because by choosing short-term liabilities, the company puts the company at a higher level of risk where the company is required to be able to immediately pay off its obligations. A good company manager will not worry about paying off obligations that are due soon. The relationship between signal theory and liquidity is that if the company's liquidity is good, it indicates that the company is able to pay off its short-term obligations well. Therefore, the higher the liquidity, the better the company's position in the eyes of creditors will also be because there is a greater possibility for the company to pay its obligations on time. Oeh, because of the high liquidity, the more profitability increases due to the increase in liquidity in a company, it will help the company in paying its short-term liabilities by using current assets covered by assets that are expected to be converted into cash in the near future.(Kasmir, 2019). This is supported by research by Nuraini & Suwaidi (2022), Cahyani & Sitohang (2020), Sofyan & Alamsyah (2021), Juanda & Setyabudi (2020) and Santini & Baskara (2018) stating that liquidity has a positive effect on profitability.

H2: Liquidity has a positive effect on Profitability.

Effect of Leverage on Profitability

Leverage is a ratio that measures how much a company is financed with debt. Based on the signal theory that the higher the level of debt in the company, the greater the risk borne by the company. So that it can reduce the company's profitability and can be used as a signal for investors not to invest in the company. On the other hand, the low debt of the company, the higher the profit obtained because it is not too heavy in paying off obligations . This shows that the company's finances are good and will build investor confidence in the company. Therefore, the higher the (Khasanah & Triyonowati, 2021)Leverage, means the greater the use of a company's debt. High debt utilization will increase profitability. Because the use of debt in the form of investments used to fund the company's assets is expected to increase the company's profits rather than just using its own capital which is more limited. If the company's assets are managed well and maximally, the profit that will be obtained will also be maximized. This is because the company's assets are used by the company for the company's operational activities which are expected to increase profitability. This is supported by research by Syafi'i & Haryono (2021) and Adria & Susanto (2020) which states that Leverage has a positive effect on Profitability, s

H3: Levegare has a positive effect on Profitability.

Effect of Company Size on Profitability

Company size is a scale or value where a company can be classified in size based on total assets, Log size, stock value, and so on. Basically, the size of a company is only divided into three categories, namely large companies (Large Companies), medium-sized companies (Medium size) and small companies (Small Companies). A company with large total assets will cause the management to be more flexible in using the assets in the company, and if the company has a large total sales, it means that the company can manage its inventory well which can generate profits. In accordance with the theory of visible signals from getting bigger and bigger (Santini & Baskara, 2018)size Therefore, the company's investment management is getting better. Because investment decisions can give a good sign for investors so that the company can manage well to generate profits. In general, the size of the company affects the valuation of investors. Investors will seek out as much information as possible to consider before making an investment decision. Therefore, the size of the company will affect the management decision in deciding what funding will be used by the company so that the funding decision can optimize the company's value. Large companies also have great access to sources of funds, both to the capital market and banks, to finance their investments in order to increase their profits. Therefore, the larger the size of the company, the higher its profitability. This is supported by research by Adria & Susanto (2020), Nasir (2020), and Khasanah & Triyonowati (2021) which states that Company Size has a positive effect on Profitability.

H4 : Company Size has a positive effect on Profitability

RESEARCH METHODS

The type of research used is quantitative with a descriptive method. Quantitative research is used to research on a specific population or sample, collection using research instruments, quantitative or statistical data analysis, with the aim of testing predetermined hypotheses. Associative research with the form of causal relationships. Causal relationships are causal relationships. Descriptive research is a method that functions to describe or describe the object being studied through the sample data collected as it is. The population of this study is companies in the Consumer Goods Industry sector listed on the Indonesia Stock Exchange 2020-2022. The variable measurements of this study are: (Sugiyono, 2019).

Variable	**Measurement**
Dependent variables	ROA = Net profit after tax / total assets

Independent Variables	Working capital turnover = sales / current assets – current debt CR = Current assets / Current liabilities DER = Total Debt / Total Equity Company Size = Ln (total assets)

This analysis uses multiple regression analysis: Working Capital Turnover (X_1), Liquidity (X_2), Leverage (X3), Company Size (X5) against the bound variable (Y) namely Profitability. The multiple linear regression equations are:

$$Y = a + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + e$$

Description: Y: Profitability; A Constant ; $\beta1$ = Regression Coefficient for X1, B_2 = Regression Coefficient for X2, $\beta3$ = Regression Coefficient for X3, $\beta4$ = Regression Coefficient for X4, X1 = Working Capital Turnover, X_2 = Liquidity, X_3 = Leverage, X4 = Company Size, e = Error

RESULT

Table 1. Descriptive Statent Test

	N	Minimum	Maximum	Mean	Std. Deviation
PROFITABILITAS	108	.003	.343	.09435	.056249
PERPUTARANMODALKERJA	108	-9.765	13.996	4.13851	2.921471
LIKUIDITAS	108	.764	11.830	3.03896	1.873825
LEVERAGE	108	.007	3.825	.66597	.547694
UKURANPERUSAHAN	108	14.885	30.936	23.73883	5.570404
Valid N (listwise)	108				

Based on the results of the descriptive statistical test in the table above, it is interpreted as follows: The Profitability variable states a high data distribution which is shown at the standard deviation value of 0.09435 > 0.056249 average value. Therefore, the companies in this sample have low Profitability as evidenced by an average value that is closer to the minimum. The Working Capital Turnover variable states a low data distribution shown in the standard deviation value of 2.921471 < 4.13851 average value. Therefore, the companies in this sample have a high Working Capital Turnover as evidenced by an average value that is closer to the maximum. The Liquidity variable states a low data spread shown in the standard deviation of 1.873825 < 3.03896 mean values. Therefore, the companies in this sample have high liquidity as evidenced by an average value that is closer to the maximum. The Leverage variable states a low data spread shown at a standard deviation of 0.547694 < 0.66597 mean values. Therefore, the companies in this sample have high leverage as evidenced by the average value closer to the maximum. The Company Size variable states a low data distribution as shown in the standard deviation value of 5.570404 < 23.73883 average value. Therefore, the companies in this sample have a high Company Size as evidenced by an average value that is closer to the maximum.

Table 2. Regression result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.044	.063		-.686	.494
	PERPUTARANMODALKERJA	-.002	.002	-.103	-.954	.342
	LIKUIDITAS	.010	.003	.320	2.900	.005
	LEVERAGE	-.013	.011	-.122	-1.133	.260
	ln_UkuranPerusahan	.040	.020	.179	2.059	.042

DISCUSSION

The results of the first hypothesis test show that the variable Working Capital Turnover has a coefficient value of -0.002 and a significant value of 0.342, the value is greater than 0.05. So that the first hypotension (**H1**) is rejected. It can be concluded that Working Capital Turnover has no effect on Profitability. that with a high level of working capital turnover is not always profitable or detrimental for the company because the company prioritizes capital from outside (debt) in order to achieve the expected level of profit, so that the high working capital turnover is not due to the number of sales generated, but the low funds embedded in the Working Capital Component. This research is supported by Sofyan & Alamsyah (2021) and Fadrul et al, (2022) who state that working capital turnover has no significant effect on profitability.

The results of the second hypothesis test show that the Liquidity variable has a coefficient value of 0.010 and a significant value of 0.005, the value is less than 0.05. So that the second hypothesis (**H2**) is accepted, this means that Liquidity has a positive effect on Profitability. that the higher the liquidity, the better the company's position in the eyes of creditors will also be because there is a greater possibility for the company to pay its obligations on time. Oeh, because of the high liquidity, the more profitability increases due to the increase in liquidity in a company, it will help the company in paying its short-term liabilities by using current assets covered by assets that are expected to be converted into cash in the near future. This research is supported by Nuraini & Suwaidi (2022), Cahyani & Sitohang (2020), Sofyan & Alamsyah (2021), Juanda & Setyabudi (2020) and Santini & Baskara (2018) who stated that Liquidity has a positive effect on Profitability.

The results of the third hypothesis test show that the Leverage variable has a coefficient value of -0.013 and a significant value of 0.260, the value is greater than 0.05. So that the third hypothesis (**H3**) is rejected, it can be concluded that Leverage has no effect on Profitability. This means that the high or low Leverage will not increase the company's profitability because the average increase in profitability is followed by an increase in the leverage level, but because the change in the increase in the company's leverage level is not too large, it does not have a direct impact on the company's profitability. This research is supported by Rahmaita & Nini (2021) who stated that Leverage does not have a significant effect on Profitability.

The results of the fourth hypothesis test show that the variable Company size has a coefficient value of 0.040 and a significant value of 0.042, the value is smaller than 0.05. Thus the third hypotension (**H4**) is accepted, it can be concluded that the size of the company has a positive effect on profitability. that the larger the size of the company, the larger the assets owned by the company and the more funds the company needs to maintain its operational activities. The larger the size of the company, the more management decisions will affect the management decision in deciding what funding will be used by the company so that funding decisions can optimize the company's value. Large companies also have great access to sources of funds, both to the capital market and banks, to finance their investments in order to increase their profits. Therefore, the larger the size of the company, the higher its profitability. This is supported by research by Adria & Susanto (2020), Nasir (2020), and Khasanah & Triyonowati (2021) which states that Company Size has a significant effect on Profitability.

CONCLUSION

Based on the results of the research and discussion in this study, the author can conclude as follows:

1. Working Capital Turnover has no effect on Profitability in Consumer Goods Sector Companies listed on the IDX 2020-2022.
2. Liquidity has a positive effect on Profitability in Consumer Goods Sector Companies listed on the IDX 2020-2022.
3. Leverage has no effect on Profitability in Consumer Goods Sector Companies listed on the IDX 2020-2022.
4. Company Size has a positive effect on Profitability in Consumer Goods Sector Companies listed on the IDX 2020-2022.

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