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Analysis of the Implementation of Working Capital Management on Company Profitability

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Abstract: Every company must develop its competitive advantage in order to survive and advance the company. One of the advantages that companies need to develop is the company's financial performance. One component that is very important for company performance is working capital management. This is because working capital management such as working capital turnover and cash turnover influences the company's profitability. The purpose of this research is to analyze implementation of working capital management on company profitability. The dependent variable is company profitability. The independent variables are working capital turnover and cash turnover. The object of this research is PT. W Standard Indonesia, from company financial data from 2019 to 2022. Data analysis in this research uses multiple regression analysis. The research results show that working capital turnover has a significant effect on company profitability. Cash turnover has a significant effect on company profitability.

Keywords: Working Capital Turnover, Cash Turnover, Working Capital Management, Company Profitability.

1. INTRODUCTION

Financial management is all company activities or activities in the context of using and allocating company funds efficiently. Achieving company goals is mostly placed on financial managers in order to find and manage existing funds, financial managers must also coordinate and collaborate with other departments to unite views and steps that must be taken to achieve company goals (Pandiangan et al., 2024).

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Nowadays, this is an era of intense competition between companies. Every company must develop its competitive advantage in order to survive and advance. One of the advantages that companies need to develop is the company's financial performance. One component that is very important for company performance is working capital management. This is because working capital management such as working capital turnover and cash turnover influences the company's profitability.

This working capital decision is very difficult and requires various considerations. One of them is that assets with a short investment life will continue to be converted into other types of assets. Companies must also pay attention to the issue of managing their obligations. A good company should be able to fulfill its short-term obligations in a timely manner according to the maturity of the company's obligations (Yoppy et al., 2023). When viewed as a whole, decisions regarding working capital from time to time will always be different and take quite a long time.

Basically, every company will carry out various activities to achieve its stated goals. Every activity carried out by a company always requires funds, both to finance daily operational activities and to finance long-term investments. Funds used to carry out daily operational activities are called working capital. Working capital is needed by every company to finance its daily operational activities, where the working capital that has been spent is expected to be returned to the company in a short time through the proceeds from sales of its production. Working capital originating from product sales will immediately be spent again to finance further operational activities.

Efficient working capital management is the answer to problems that occur in managing current assets and current liabilities in a company. Working capital management will involve planning and controlling current assets and current liabilities in managing these current assets and liabilities. Working capital management seeks to suppress and eliminate risks that arise in the form of the company's inability to fulfill its short-term obligations on the one hand and on the other hand to avoid the company making excessive investments.

Working capital management is a very sensitive part for companies. Working capital management involves the composition and amount of current assets that the company must have and also how the company attempts to obtain these current assets (Agnes, 2009). Management must be able to manage these current assets as well as possible so that these current assets can be used in the company's operational activities and generate profits. When needed, these assets can also be converted immediately into cash.

Working capital management is the responsibility of every manager or company leader. Managers must supervise working capital so that working capital sources can be used effectively in the future. Managers also need to know the level of working capital turnover so they can make better plans for the coming period.

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Working capital is always in operation or circulating within the company as long as the company concerned is in business. The working capital turnover period begins when cash is invested in working capital components until it returns to cash.

Cash is the most liquid asset or is one of the elements of working capital with the highest liquidity, which means that the greater the amount of cash a company has, the higher the level of liquidity (Ambarwati, 2010). This means that the company has a smaller risk of not being able to meet its financial obligations. But this does not mean that the company has to maintain a very large cash supply, because the greater the cash will result in a lot of idle money which will reduce profits.

The purpose of this research is to analyze implementation of working capital management on company profitability.

2. RELATED WORKS

Effect of Working Capital Turnover on Company Profitability

Working capital efficiency is the correct way of carrying out something that does not waste time, energy, costs, and uses related to the use of working capital, namely ensuring that the available working capital is neither excess nor shortage. Working capital should be available in sufficient quantities to enable the company to operate economically and not experience financial difficulties by covering losses and being able to overcome critical or emergency situations without endangering the company's financial situation (Kasmir, 2012). Working capital is always in operation or circulating within the company as long as the company concerned is in business. The working capital turnover period begins when cash is invested in working capital components until it returns to cash. The shorter the period the faster the turnover of working capital and the higher the efficiency of using the company's working capital. On the other hand, the longer the working capital turnover period the slower the working capital turnover and the lower the efficiency of the company's use of working capital. The length of the working capital turnover period depends on how long the turnover period of each component of working capital is.

Effect of Cash Turnover on Company Profitability

Cash is the most liquid asset or is one of the elements of working capital with the highest liquidity, which means that the greater the amount of cash a company has, the higher the level of liquidity. This means that the company has a smaller risk of not being able to meet its financial obligations. But this does not mean that the company has to maintain a very large cash supply, because the greater the cash will result in a lot of idle money which will reduce profits. But a company that only pursues profits without paying attention to its liquidity, the company will be in liquid condition if at any time there are bills. The amount of cash in the company should be no less than 5% to 10% of total current assets. The amount of cash can

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also be related to the amount of sales. The comparison between sales and the average amount of cash illustrates the level of cash turnover. Cash turnover is the ability of cash to generate income so that it can be seen how many times cash rotates in a certain period (Kown, 2004).

3. METHODOLOGY

This research uses two variables, namely (Alimuddin et al., 2023):

1. Dependent Variable

The dependent variable is a variable that is influenced by the independent variable cannot stand alone and is the researcher's main concern. In this research, the dependent variable is company profitability.

2. Independent Variable

Independent variables are variables that influence the dependent variable, either positively or negatively, and can stand alone. In this research, the independent variables are working capital turnover and cash turnover.

A research object is a condition that describes or explains a situation of the object to be studied to get a clear picture of a research (Pandiangan et al., 2023). The object of this research is PT. W Standard Indonesia, from company financial data from 2019 to 2022.

To process the data needed in research, the following data collection methods were used (Tambunan et al., 2024):

1. Observation, namely making direct observations of daily activities, the environment, and work facilities related to this writing.
2. Documentation, namely collecting data or documents that are related to the problem being studied.

Data analysis in this research uses multiple regression analysis. Multiple regression analysis is basically carried out with the aim of estimating and predicting the population average or average value of the dependent variable based on the known values of the independent variables (Kurdhi et al., 2023).

4. RESULTS AND DISCUSSION

General Description

PT. W Standard Indonesia is a distributor company for various types of motorbike spare

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parts. This company was founded in 2002. As time goes by, the company's development becomes increasingly rapid and the public's demand for motorbike spare parts increases, so PT. W Standard Indonesia tries to compete with other companies to provide better service than before. Thus, PT. W Standard Indonesia will maintain its position as a provider of motorbike spare parts that follow the latest updates and installation services by trusted mechanics. The company's vision is to become a leading company in the field of selling motorbike spare parts with new developments every year. Company mission:

1. Providing good attention to the community through job creation and social development support.
2. Prioritize consumer satisfaction by providing high quality products at affordable prices.
3. Carry out company activities with honesty.

The aim of forming an organizational structure is to obtain an overview and knowledge of the existing parts of the company as well as the authority to carry out their respective duties.
The job description at PT. W Standard Indonesia as follows:

1. Director
a. Decide and determine the company's highest regulations and policies.
b. Responsible for leading and running the company.
c. Act as a company representative in its relations with the world outside the company.
d. Appoint and dismiss company employees.

2. Financial Manager
a. Assist the director in analyzing company finances.
b. Manage the company's incoming and outgoing budget.
c. Determine detailed implementation procedures regarding finances.
d. Supervise operations regarding company finances.

3. Human Resources Manager
a. Developing a personnel planning system and controlling employee policies.
b. Carry out administrative and staffing needs.
c. Supervise employee performance in the company.

4. Human Resources Development
a. Responsible for managing and developing human resources.
b. Carry out selection, promotion, transfer and demotion of employees as deemed necessary.
c. Fully responsible for the employee recruitment process starting from searching for prospective employees, interviews and selection.

5. Operational
a. Can properly identify all the best needs in research.

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b. Produce the application of the system to research.

6. Administration

a. Monitor employee work productivity.
b. Provide daily documents.

7. Marketing

a. Collecting various kinds of marketing information that managers can use to make decisions.
b. Providing promotional information to offer products or services with the aim of attracting potential consumers to buy or consume them.

8. Security

a. Responsibility and authority for the use of information security systems by parties outside the organization must be clearly stated.

Partial (t) Test

Table 1. Partial (t) Test

Variable	Sig.
Working Capital Turnover	0.000
Cash Turnover	0.001

The research results show that working capital turnover has a significant effect on company profitability. Working capital efficiency can be assessed using the ratio between total sales and the average amount of working capital, which is often called working capital turnover. This ratio shows the relationship between working capital and sales that the company can obtain for each rupiah of working capital. Working capital turnover will affect the level of profitability. A low level of profitability when related to working capital can indicate the possibility of low sales volume compared to the costs used. So to avoid this, it is hoped that there will be proper working capital management within the company. A company that is said to have a high level of profitability means that the efficiency of working capital used by the company is also high.

Cash turnover has a significant effect on company profitability. Cash turnover is a comparison between sales and the average amount of cash. Cash turnover shows the ability of cash to generate income so that it can be seen how many times cash turns over in a certain period. The higher the cash turnover, the better. Because this means the higher the efficiency of cash use and the greater the profits obtained.

5. CONCLUSION AND SUGGESTION

The research results show that working capital turnover has a significant effect on company profitability. Cash turnover has a significant effect on company profitability.

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Based on the research results, the author can put forward the following suggestions:
1. The company, on the other hand, further improves its working capital management. And the most important thing is that companies must increase supervision of existing funds so that they are right on target.
2. Companies should standardize the management of costs carefully and efficiently so that the company's ability to increase profitability in the future will be better.

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