

Analysis of Cash Rolling In Food and Beverage Sectors Seen From Ability to Make Profit and Pay Obligations: A Geographical Comparison

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Abstract

This study examines how the company's ability to implement its working capital policy in different geographical locations to control its ability to pay its obligations and generate profits in companies that are members of the food and beverage sector. The movement between variables in all the 8 companies operating at different locations that occur is one of the phenomena that occur in the sector. The selected sample is as many as 8 companies using descriptive verification method. The results show that only the current ratio has an effect on working capital and that effect is slightly different in all the studied companies due to the geographical factor. These findings had a significant association with the firm performance. Therefore, these findings could add a body of literature in the extant literature that could become a new area of research in future. In addition, the findings of the study could also provide help to the policy makers and regulators to know about the importance of working capital to increase their firm performance.

Keywords

ROA, CR and Working Capital

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Introduction

A company's profitability is due to various financial choices made by a company (Aras & Yildirim, 2018). Financial decisions are of great importance for evaluating the financial needs of a company in the short and long term. This estimate should be based on sound financial planning so that the company does not excessively or insufficiently invest its resources. Working capital management (WCM) includes the main financial decisions of a financial manager so that it can meet its operating costs and maintain its financial short-term obligations, whenever they arise (Ukaegbu, 2014). When the working capital is not properly managed, an enterprise's operating capacity as an ongoing enterprise is compromised. The inadequate WCM were identified as an important cause of failure by (Lazaridis & Tryfonidis, 2006). Management efficiency can improve an important field efficient working capital management (Lloyd-Price et al., 2019).

Working capital which exceeds the amount of capital allocated to them in operations or non-cash. (Appuhami, 2008) recognised working capital by efficient inventory management and debt cash flow as a hidden trust. Ernst and Young reported in his 9th year of the 2016 Working Capital Management Report, that numerous businesses in a range of areas had huge opportunities for improvement of their working capital, on the basis of a study by the 2,000 top firms in the United States and Europe. They can save up to US\$1.2 tonnes by enhancing their working capital efficiency. The situation in Indonesia does not differ. In the 2018 report by Erne and Young on capital administration in Indonesia, Indonesian companies are working more on cash-to-cash in comparison to their international counterparts in many industries.

"The report also states that Indonesian companies can exchange cash flow freely by means of the effective WCM practice of INR1.8tn. A company needs more money to operate at the same level as its staff and thus can face negative financial difficulties because of poor management of operational capital (WC). For example, a company may convert its capital invested into compliance with WCs and adversely affect its financial results. In addition, a company may forget its future investment opportunities because of a cash crunch or its investors cannot sufficiently offset. It can therefore be argued that a company can deliver superior financial performance if it manages its toilet efficiently. However, the quest for greater efficiency implies greater liquidity risks, which could increase short-term funding expenditure or increased operating risk, including the equity, customer incentives or disruption of the business cycle. The presence of the opposing forces affecting the relationship increases the interest of a researcher in finance to see if the WC manages a company that performs better for its investors. Against this background, we conducted this study to examine the effect of an enterprise management of its WC on the effectiveness of investors' performance. Tobin Q was used as a market performance measure to see how the market values an enterprise's performance. We also considered the premise that companies operating effectively using the free funds are more efficient and thus achieving a higher equity return, to check the robustness of our argument about the link between tool efficiency and the performance of business (ROE). In addition to WCM's financial planning and efficiency decision-making, WCM also has an influence on the operational character of the business in which businesses operate. (Filbeck & Krueger, 2005) analyzed WCM across various industries and found it to be inconsistent in every sector. WCM relies on variables like technology, the business cycle and competition in a company."

WC investments are significantly influenced by industry or business (Hawawini, Viallet, & Vora, 1986). In addition to an understanding of the relationship between WCM and its operations, we have therefore examined the effect on the performance of work capital management companies. One of the sectors where the products are always necessary for the wider community is the food and beverage industries which mean that this sector becomes an excellent commodity sector on the stock market. The fact, however, that the pandemic of covid 19 which struck Indonesia in the early part of 2020 left no proof of all existing predictions, as shown in the following table:



Graph 1. Growth of household consumption for the period 2016-2020 Q1
Locale source

Based on the graph above, it can be seen that the growth in household consumption in the first quarter of 2020 has decreased quite drastically compared to the previous period. Where the decline was caused by several components that actually grew negatively, such as clothing, footwear and care and transportation and communication services (lokadata), this is directly proportional to the purchasing power of the community which also tends to decline. Even though it is not the main component that causes a decline, the food and beverage sector continues to be able to pulse steadily, so it is hoped that it will further trigger investors' desire to invest in this sector. The tendency of companies included in this sector is the ability to exercise maximum control over current assets and current liabilities that can increase profitability.

Table 1
Development of Each Variable in the Food and Beverage Sector for the 2016-2019

Period	Working Capital	Profitability	Leverage
2016	773,176,259,194	15.11	269.58
2017	1,051,064,288,4	12.15	315.84
2018	1,282,419,620	13.13	318.22
2019	1,383,770,962	15.4	325.69

Source: processed data

In determining an efficient capital policy, you will be faced with a condition *tradeoff* between the company's profitability and leverage. But what will become a problem is if the company has higher liquidity, the better the position of the company is by creditors, because there is a greater likelihood that the company will be able to pay its obligations on time. On the other hand, from the point of view of shareholders, high liquidity is not always profitable because it has the opportunity to create idle funds that can actually be used to invest in projects that benefit the company. The results of previous research related to profitability and liquidity on company capital as conducted by (Riasita, 2014) stated that profitability has a negative but insignificant effect and liquidity has a negative and significant effect. Meanwhile, research conducted by (Priandini & Lubis, 2019) states that profitability has no effect on working capital and liquidity has an influence on working capital. Based on the above introduction, the problems examined in this study are formulated as follows:

1. Is there an effect of ROA on Working Capital?
2. Is there an effect of CR on Working Capital?

Referring to the above problems, this study aims as follows:

1. To determine the effect of ROA on Working Capital.
2. To determine the effect of CR on Working Capital.

Literature Review

Working Capital

Working capital was sometimes called gross operating capital (Brigham & Houston, 2021) referring simply to existing assets used for operations? Also called working capital is all short-term assets or current assets, such as cash, tradable securities, inventories and market receivables. Working capital is the difference between a company's short-term assets and its liabilities (Brealey Richard, Myers, & Markus, 2007) Cash, accounts payable, inventory and most of the accounts paid, notes payable and payable, but outstanding, represent most of the shortened period assets, short-term liabilities. Working capital is used for business operations (Sharryn, 2014).

"WC was analysed on two main fronts in WCM literature: one is a static view, and the other an operating cycle approach (Richards & Laughlin, 1980). Different dimensions can be classified in WC measuring positions, activity of measurement and the height. The (Beaumont Smith & Begemann, 1997). A static position or position measurement is the current assets/liability portion of the balance sheet that regards WC as either a net WC or the actual asset net of the current liabilities or an actual ratio. The concept or measures of the operating cycle examine the effectiveness of the WC's operation as cash translation or as a weighted cash translation cycle (Gentry, 1990) or net trade cycle (Shin & Soenen, 1998; Talonpoika, Kärri, Pirttilä, & Monto, 2016) and so forth. WC's leverage covers the financial aspect of WC in the form of short-term funding (Beaumont Smith & Begemann, 1997)".

The aim is to optimise your toilet investment's volume and duration, often to decrease your investment and to accelerate the recover two main fronts were analysed in WCM literature: one is static and another is an approach to the operating cycle (Richards & Laughlin, 1980). In WC measurement positions, measurement activity and height, different dimensions can be classified (Beaumont Smith & Begemann, 1997). The current assets / liability portion of the balance sheet, which considers WC as a net tool or actual net assets of current liabilities or as an actual ratio, is static position or position measurement. The operating cycle concept or measures examine the effectiveness of the WC operation in the case of cash or a weighted cash translation cycle (Gentry et al. 1990) or a net business cycle (Shin & Soenen, 1998). The leverage of WC covers WC's financial aspect as short-term funding (Beaumont Smith & Begemann, 1997). The objective is to optimise the volume and duration of your toilet investments often to reduce your investment and to speed up the recovery process (Nuhiu & Dërmaku, 2017). The Richards and Laughlin proposed the concept of the operational cycle to measure WCM efficiency (1980). You set the CCC, the Net Cash Day from the buy-in, the amount and the time from the inventory conversion to the receipt. CCC is frequently used as an efficiency measure for WCM (Enqvist, Graham, & Nikkinen, 2014) CCC is a WCM efficiency measurement proxy which is focused more on the operating cycle cash liability period and does not take into account money amounts at the different work cycle levels. During the WC process (Gentry, 1990) proposed focusing on the actual use of resources (WCCC) (Nuhiu & Dërmaku, 2017). The concept of the operational cycle for measuring WCM effectiveness was proposed by the (Richards & Laughlin, 1980). You set the CCC, the net time from the buy-in to the cash received, the sum of the inventory conversion period and the time from the conversion to the receipt. As an efficiency measure for WCM, CCC is commonly used (Enqvist et al., 2014) CCC is a WCM efficiency measurement proxy which focuses more on the cash liability period in the operational cycle and does not take into consideration the amount of money at the various levels of the working cycle. (Gentry, 1990) proposed to concentrate on the actual use of resources during the WC process (WCCC). The complexity of the recovery of different operating and financial data was nevertheless very difficult to use WCCC. (Shin & Soenen, 1998) proposed a concept based on an everyday sales concept for the net trading cycle (1998). Like the CCC, NTC also uses RECDs, payable dates (Payable dates) and stock dates (INVD). However, unlike CCC, NTC has a common denominator of sales.

However, most studies are aimed at establishing a link between the performance or valuation of certain metrics of the enterprise, and the efficiency of WCM, a combination measure and an element of WC, such as account receivables, inventory levels and account payables (Ahmad, Bin Mohammad, & Nordin, 2019; AHMED, RIAZ, AQDAS, & UL HASSAN, 2021; Kayaalp, Meral, ŞİMŞEK, & ŞAHİN, 2020; MUNIZ-SOLARI, KLEIN, & SOLEM, 2012). Researchers have used different proxies to measure company profitability. The most common measure for profit in the WCM literature is asset returns (Lloyd-Price et al., 2019). Researchers have not taken care of other

variants, such as return on invested capital or ROE. Some researchers used corporate profit as normal as overall assets or net assets, i.e. total assets minus equity. (Deloof, 2003) used gross operating incomes as a profitability measure, defining them as sales and lower financially assets of goods divided into aggregates. There are several examples of profitable returns on sales. (Lloyd-Price et al., 2019) concluded that most research papers showed negligible and meaningful relations between WCM and its profitability in the analysis of highly cited WCM documents. (Shin & Soenen, 1998) found a significant negative relationship between profitability and NTC, based on the study by listed companies in the United States.

(Deloof, 2003) examined, and found it significantly negative, the link between 1992 and 1996 between gross operating revenues and the CCC between 1,009 Belgians. The relationship between the CCC and profitability were examined in a sample of 131 listed companies in Athens Stock Exchanges, (Lazaridis & Tryfonidis, 2006) and found that the relationship was very poor. Nearly 94 Pakistani companies in Turks, (Charitou, Elfani, & Lois, 2016) supported negative relations between companies through several other studies including the (Padachi, 2006) of Mauritian Small Manufacturers, (Rehman, Nasar, & Mugheri, 2010). In addition, a number of other studies support (SMEs). Although negative relationships between WCM and profitability are the main results of the literature, few results of research differ (Knick, 2010). The IJPPM looked at the profitability relationship between the WCM and the gross operating income in a sample of 88 US manufacturing companies listed on a New York Bond over the next three years. Moreover, the results of (Gathala et al., 2011) differ from previous studies that demonstrate that for a sample of 263 indigenous enterprises, WCM and profitability have a positive correlation. In some other studies such as (Abuzayed, 2012) positive relations between CCC and profits have been established. In addition, researchers examined the effects of each component of the WCM on the company's profits in addition to composite efficiency measures of WCM. The Operating WC consists of three elements: account receipt, current asset inventory and current bonds balance sheet (Richards & Laughlin, 1980). Liberal corporate lending policies generally lead to more acceptable days (RECD). (Deloof, 2003) explains the advantages of liberal incentive sales credit strategies, because customers have time to evaluate product quality easily and have access to cheap product purchasing finance. On the other hand, it shows the reverse side of this policy are toilet locks. There is mixed results from previous studies to look at RECD's profitability. In (Abuzayed, 2012; Aktin, 2020; Deloof, 2003; Dong & Su, 2010; Enqvist et al., 2014; Lyngstadaas & Berg, 2016; MacIntyre, Lanxi, & Khajavy, 2020), RECD found RECD profitability adversely affecting RECD profitability (2017). Ramachandran's relationship is good with (Gathala et al., 2011; Ramachandran & Janakiraman, 2009). Also misleading are the results of studies assessing the link between INVD and the profitability of companies (Deloof, 2003; Enqvist et al., 2014; Fitriani, Zubaidah, Susilo, & Al Muhdhar, 2020).

Comprehensive stockpiling can explain conflicting aspects. Firstly, large stocks reduce the probability of inventory and the fund must be locked under the WC (Deloof, 2003; Koumanakos, 2008) points out that there is a need for greater dimensions and the possibility of destruction of large inventory levels. He also notes that insufficient storage causes company disturbances and poor customer service. Additional payments are associated with benefits and disadvantages. Increased payments mean more time for companies to assess their quality and provide economic and flexible finance (Deloof, 2003). Relations between PAYD and the performance of its company have been shown to be positive by (Deloof, 2003; Padachi, 2006). The relationships between the companies have been shown in (Lazaridis & Tryfonidis, 2006). Researchers conducted industrial-specific WCM studies based on industrial samples. However, few studies in this area have been carried out (Lloyd-Price et al., 2019) found that 75 highly quoted materials cover only 8 highly cited papers on industrial toilet studies. For instance, (Peel & Wilson, 1996) have studied the management and performance of WCM in Indonesian cement companies and (Ghosh & Maji, 2004) in small scale financial management and management. A few examples include the research of Shah and Sana on the impact of the WCM on oil and gas (2006) and Ganesan on efficiency and efficiency of WCM telecommunications equipment (2007).

To calculate this working capital is as follows (Sutrisno, 2012):

$$\text{Working Capital} = \text{Current Assets} - \text{Current Debt} \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

Profitability

Maximizing profit is the goal of every company. The level of profitability has an important role in attracting investors. According to (Sharryn, 2014) profitability is a ratio to assess a company's ability to seek profits in a certain period. This ratio also shows the level of effectiveness of the company's management which can be seen from the profit earned from sales or from investment income. Meanwhile, according to (Sartono & Munir, 1997) in (Hibatullah, 2017) profitability is the ability of a company to earn profits related to sales, total assets and own capital. In this study, the authors used the ROA ratio to measure the company's profitability. ROA itself is a ratio used to measure the amount of assets used by the company to generate profits. To calculate this ratio is as follows:

$$\text{Return on Asset} = \frac{\text{Earning After Tax}}{\text{Total Asset}} \times 100\%$$

Liquidity

According to (Subramanyam, 2014) in his book Financial Statement Analysis states that liquidity is the company's ability to generate cash in the short term to meet its obligations and depends on the company's cash flow and its current asset and liability components. In this study, the authors used the current ratio. To measure this ratio is as follows:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Total Current Debt}} \times 100\%$$

Hypothesis The

Hypothesis formulated is:

H₁ = ROA affects Working Capital

H₂ = CR affects Working Capital

Research Methods

This study uses descriptive and verification research methods, the definition of descriptive methods according to (Sugiyono, 2013) is research conducted to describe independent variables, either only on one or more variables (independent variables) without making comparisons and looking for those variables with other variables, The verification method according to (Sugiyono, 2013) is research conducted on a particular population or sample with the aim of testing the predetermined hypothesis.

Results and Discussion

The first step taken by the author was processing descriptive statistical data, to get an initial picture of the data, where the following results were obtained:

Based on the table above, it can be seen that the average value for working capital variables measured by the natural logarithm of current assets calculation results minus current debt is 23, 46x. For profitability as measured by return on assets, the result is 13.95, and for leverage as measured by the current ratio, the number is 307.34. After going through the testing of models to determine the best model, followed by the classic assumption test to ensure the data is fit for use, the best model is obtained as follows:

Working capital can be explained by the ROA and CR variables only at 15.11% while the rest is explained by other variables not included in the variables studied at 84.89%. To answer the hypothesis previously stated, it is known that there is only one variable that affects working capital with a probability criterion smaller than alpha (with a probability of 0.0121 < 0.05), namely for variable current assets, while for variable ROA because it has a probability above alpha (with probability 0.9776 > 0.05) then the hypothesis for this variable is rejected. The results of this study are in line with those conducted by (Priandini & Lubis, 2019) where the results of their research show that profitability has an effect and is not significant on working capital, but liquidity has an

influence on working capital. This result is also reinforced by research conducted by (Riasita, 2014) which shows that profitability does not affect working capital, but liquidity does affect working capital.

Table 2
Descriptive Statistical Results

	MK	ROA	CR
Mean	23.45531	13.94719	307.3384
Median	25.03517	13.87500	239.6400
Maximum	29.83376	28.96000	863.7800
Minimum	14.54234	4.080000	106.6300
Std. Dev.	5.104384	7.326093	211.8993
Skewness	-0.538317	0.572485	1.439766
Kurtosis	1.768315	2.543725	3.984533
Jarque-Bera	3,568250	2,025522	12.34801
Probability	0.167944	0.363215	0.002083
Sum	750.5699	446.3100	9834,830
Sum Sq. Dev.	807.6968	1663.821	1391941.
Observations	32	32	32

Source: processed data, output eviws 9

Table 3
Test CommonEffect Model

Variable	Probability	Decision
ROA	0.9776	Rejected
CR	0.0121	Accepted
Adjusted R-squared	0.151086	

Source: output eviws 9

Conclusion

The results of this study indicate that what happens in the food and beverage sector is a natural thing to happen, where at this time good performance will be a special attraction for investors to invest, the performance which is illustrated by the working capital owned by the company for investment finance its operations to make a profit. In addition, it is also seen that the company's ability to generate profits as measured by ROA is not an indicator that is able to form a good company value, but what about the company's ability to pay its obligations will also illustrate how the value of the company is (Wijaya, 2021).

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