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Effect of working capital efficiency on profitability in companies in the cigarette industry sector on the Indonesian stock exchange in the 2003-2007 period

Rachmat Anggara Supriyadi
Fakultas Ekonomi, Sekolah Tinggi Ilmu Ekonomi Indonesia Banking School, Indonesia

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ABSTRACT

The purpose of this research is to know how efficiency of working capital (net working capital turnover) can give the influence the probability (return on assets) in cigarette company which listed in the INDONESIA Stock Exchange. This research is implemented to 4 cigarette company which listed in the INDONESIA Stock Exchange from 2003-2006. The companies are PT. H.M.Sampoerna, Tbk., PT Bentoel International Investama, Tbk., PT British American Tobacco Indonesia, Tbk.,PT. Gudang Garam, Tbk. Data financial is using as the object for this research is 4 years financial statements from 2003-2006. The data of this research which have been used are secondary data with population method, analysis method like simple regression analysis method. The result of this research is to confirm that efficiency of working capital (net working capital turnover) give the influence which is significant to effect profitability (return on assets).

Corresponding Author:

Rachmat Anggara Supriyadi,
Fakultas Ekonomi,
Sekolah Tinggi Ilmu Ekonomi Indonesia Banking School, Indonesia,
Jl. Kemang Raya No.35, RT.6/RW.1, Bangka, Kec. Mampang Prpt., Kota Jakarta Selatan, Indonesia
Email: Anggara@gmail.com

1. INTRODUCTION

Changes in the economy always occur, be it changes in demand for products or services, or changes in the costs incurred by companies to carry out production. Companies need to improve their quality in order to survive in a very competitive competition. To deal with the changes that occur, companies need to carry out management functions properly. The management functions include planning, organizing, actuating, and controlling(Robbins and Coulter, 2002).These management functions must be carried out properly and correctly, so that they can help achieve the desired goals and objectives. This affects the company's financial statements because to see the condition and development of the company's finances, generally company leaders prepare financial reports that provide an overview of events or transactions that occur in the company which are ultimately used to interpret or analyze the company's financial data.

Capital used for investment in current assets is called working capital. In the past, most financial managers viewed working capital as unimportant, such as long-term investment issues, long-term policies, dividend policies as well as mergers and reorganizations. However, now the attention of financial managers is starting to focus on working capital management, in line with increasing competition in the global market. Working capital becomes very strategic like other decisions in the financial sector.(Hadori Yunus, 2005).

The working capital used should be available in sufficient or efficient quantities, in order to provide maximum profit, so that the company can carry out its daily operations economically and efficiently. Companies that have sufficient capital will provide several advantages, including timely payment of all obligations, possession of sufficient inventory to serve consumers and also enable the company's business activities to be more efficient in obtaining the goods or services needed.

This report on sources and uses of working capital will assist financial managers in carrying out their company's activities and also assist financial managers in planning the best possible use of funds to avoid unwanted things. company, this is because if the company lacks funds, the company's growth in achieving its goals will be hampered.

Therefore the management of working capital is very necessary, this is so that the use of sources and the use of funds is appropriate or efficient. The company's policy in managing the amount of capital properly and correctly will provide benefits, and conversely the result of inadequate or inappropriate working capital management can cause losses.

The cigarette industry experienced difficult times in 2002 and 2003. During this period, the cigarette industry experienced a decline in volume, namely 10 percent in 2002 and 3 percent in 2003, although previously the cigarette industry was resilient due to the 1997-1998 economic crisis. But it turned out that in 2004 the cigarette industry was back on its feet with volume growth reaching 10 percent compared to the same period the previous year. (Johannes Salim to kompas, 9 August 2004). There are several studies showing that a company with high working capital efficiency has low profitability, and vice versa, a company with low working capital efficiency has high profitability.

The problems formulated in this study are What is the Effect of Working Capital Efficiency on Profitability in Cigarette Industry Sector Companies Listed on the Indonesia Stock Exchange from 2003 to 2007?

2. RESEARCH METHOD

The research object for this research is the cigarette industry sector companies that go public and are listed on the Indonesian Stock Exchange. There are 4 cigarette companies that have gone public and are listed on the Indonesia Stock Exchange, namely PT. HMSampoerna, Tbk, PT Bentoel International Investama, Tbk, PT British American Tobacco Indonesia, Tbk, PT. Gudang Garam, Tbk.

The type of data collection in this study is the population because the sample used is all companies in the cigarette industry listed on the Indonesia Stock Exchange. Data were collected using the annual financial reports of these tobacco industry companies for 5 years, from 2003 to 2007. The source of the data obtained in this study came from secondary data collection, namely the annual financial reports of PT. HMSampoerna Tbk, PT Bentoel International Investama Tbk, PT Gudang Garam Tbk, and PT British American Tobacco Indonesia Tbk, namely the balance sheet and profit and loss for the period 2003 to 2007. Data collection techniques from data obtained through secondary data.

Measurement of research variables:
Working capital efficiency ratio
Working Capital Turnover (WCT)

$$WCT = \frac{\text{Penjualan}}{(\text{Aktiva Lancar} - \text{Utang Lancar})}$$

Profitability Ratio

$$\text{ROA} = \frac{\text{Laba setelah pajak}}{\text{Total } Asset}$$

Hypothesis:
Ho: Efficiency of working capital does not have a significant effect on the level of profitability.
Ha: The efficiency of working capital has a significant influence.

3. RESULTS AND DISCUSSIONS

3.1 The efficiency of the company's working capital

Efficiency The working capital used in this research is the Net Working Capital Turnover of 4 cigarette industry companies listed on the IDX during the period 2003 to 2007.

Table 1 The company's working capital efficiency ratio

Company name	2003	2004	2005	2006	2007
PT. British American Tobacco Indonesia, Tbk	2,293	2,255	2,401	2,665	3.66
PT Gudang Garam Tbk	3,944	4,430	3,994	3,784	3,376
PT. Bentoel International Investama, Tbk	6,367	5,791	3,624	4,684	1997
PT HM Sampoerna, Tbk	4,795	4,275	6,826	7,735	6.149

3.2 Company Profitability

Profitability used in this study uses the Return On Assets of 4 cigarette industry companies listed on the IDX during the period 2003 to 2007.

Table 2. Company profitability ratios

Company name	2003	2004	2005	2006	2007
	0.077	-0.029	0.028	-0.101	-0.050
PT. British American Tobacco Indonesia, Tbk					
PT Gudang Garam Tbk	0.106	0.086	0.085	0.046	0.060
PT. Bentoel International Investama, Tbk	-0.011	0.041	0.058	0.061	0.062
PT HM Sampoerna, Tbk	0.140	0.176	0.204	0.281	0.232

3.3 Normality test

Table 3 Normality-one-sample Kolmogorov-Smirnov test

		work capital efficiency	roa
N		20	20
Normal Parameters	Means		077
		4.4022	375
	std. Deviation		094
		1.54711	2947
Most Extreme Differences	absolute	.104	.160
	Positive	.104	.160
	Negative	-.083	-.102
Kolmogorov-Smirnov Z		.465	.714
asymp. Sig. (2-tailed)		.982	.688

Based on table 3 above, the efficiency of working capital has a probability of 0.982 and the probability for profitability is 0.688, which means that the result above has a significance value of 0.05. Thus, based on the normality hypothesis, Ho cannot be rejected, which means that working capital efficiency and profitability are normally distributed.

3.4 Heteroscedasticity test

Table 4 Heteroscedasticity-coefficients-glacier test Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	.023	.029		.782	.445
	work capital efficiency	008	006	.273	1.205	.244

The heteroscedasticity test gave a significance result of 0.244 where from these results it can be said that the data in this study did not occur heteroscedasticity because the results above the significance of 0.05 (0.244 > 0.05) which means that Ho cannot be rejected.

3.5 Autocorrelation test

Table 5 Autocorrelation- Durbin Watson

etc	4-dl	Du	4-du	Durbin Watson
1,201	2,799	1,411	2,589	1,449

From the results of the autocorrelation test in the table above, Durbin Watson was obtained at 1.449, and to draw a conclusion that the data in this study has autocorrelation or not is to look at the images and Durbin Watson autocorrelation test table, the test decision rules are as follows:

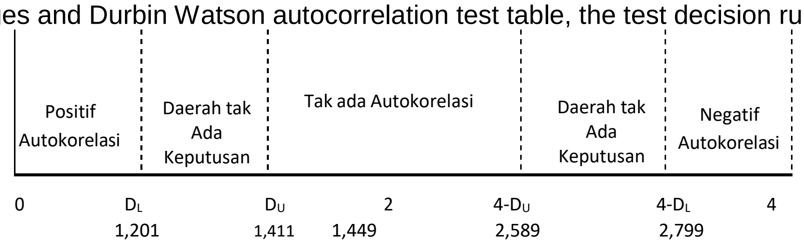

Table 6 Conclusion of the durbin-watson test decision rules

Durbin-Watson	Conclusion
0 < d < 1.201	There is a positive autocorrelation
1.201 ≤ d ≤ 1.411	Can't be concluded
2,799 < d < 4	There is a negative autocorrelation
2.589 ≤ d ≤ 2.799	Can't be concluded
1.411 < d < 2.589	There is no positive or negative correlation

The figure and table above shows that Durbin Watson was 1.449 in this study at the value of du (1.411) and 4-du (2.589). So it can be concluded that there is no positive or negative autocorrelation in the data in this study, because du < 1.449 < 4-du, and based on the autocorrelation hypothesis, Ho cannot be rejected because there is no autocorrelation in the regression model.

3.6 T test

Table 7 T test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-.098	051		-1,924	.070
	work capital efficiency	040	011	.652	3,647	002

The regression equation of this study can be seen from the Unstandardized Coefficients value in column B, and the probability is 0.002. This is where Ho is rejected, which means the efficiency of working capital has a significant influence on the level of profitability. The regression equation and its probability value from working capital efficiency are as follows:

$$Y = -0.098 + 0.040\ X$$

Profitability = -0.098 + 0.040 Working capital efficiency

A constant of -0.098 means that if the efficiency value of working capital is constant, the change in profitability will be -0.098 units. Correlation of working capital efficiency with profitability obtained a positive coefficient with a coefficient of 0.040. So it can be seen that the relationship between working capital efficiency and profitability is significant and means that every time there is an increase in one unit of working capital efficiency, it will be followed by an increase in profitability of 0.040 units.

3.7 R Square

Table 9. The r square hypothesis

Model	R	R Square	Adjusted R Square
1	.652a	.425	.393

Obtained R square of 0.425, the efficiency of working capital explains the variation in profitability of 42.5%. Meanwhile, 57.5% is influenced by other factors as said by ima (2002), namely total sales and total costs. Thus, the research results are in accordance with the author's hypothesis in this study, namely the efficiency of working capital has a significant influence on the level of profitability, so that Ho rejected.

4. CONCLUSION

The relationship between working capital efficiency, namely Net Working Capital Turnover and the profitability variable, namely Return On Assets, is significant, so there is a relationship between working capital efficiency and profitability. This is due to an increase in working capital turnover of 4 companies in the cigarette industry listed on the Indonesia Stock Exchange almost every year for 5 years followed by an increase in profit after tax, thus making the profitability of each company follow fluctuations in working capital turnover which makes the relationship between working capital turnover and company profitability is directly proportional. An increase in working capital turnover in cigarette companies listed on the Indonesia Stock Exchange can increase the company's profitability, conversely if there is a decrease in the company's working capital turnover.

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