

Working Capital Management and Company's Performance Analysis at the Consumer Goods Industry in Indonesia

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Abstract: This study determine to aims the relationship between working capital management and the performance of consumer goods industry in Indonesia. The sample used in this study were food and beverage manufactured company that are publicly open for investing activity and also listed on the Indonesia Stock Exchange for the period 2015-2019. There are 17 food and beverages companies that can be analyzed using purposive sampling. Company's performance as dependent variable measured using Tobin's Q, working capital as the independent variable measured using cash conversion cycle (CCC), average collection period (ACP), average payment periode (APP) and inventory conversion period (ICP). Meanwhile, firm size, firm growth, and leverage are used as control variables to clarify the relationship between the two variables. This study used regression panel data method and individual tests. The results of this study show that CCC has a significant negative impact on the company's performance, ACP has a positive impact on the company's performance, ACP has a significant negative impact on the company's performance using Tobin's Q. These findings does not accordance from the expected theory, this is because some of the companies have negative CCC values at their financial reports. This research implies that the manager needs to manage receivables, debt, and inventory as well to increase its demands for investing activity, therefore, increasing the company's performance. For researchers, it is best to add another measurements of the company's performance such as profitability ratio and asset ratio.

Keywords: Company's performance, Consumer Goods Industry, Tobin's Q, Working Capital Management

1. Introduction

The manufacturing sector provides a sizeable contribution to Indonesia's economic growth. In 2018 the Central Statistics Agency recorded that the contribution of the manufacturing industry to Indonesia's GDP in 2018 reached 19.89% with details of the contribution divided into 5 sectors, namely the food and beverage industry which reached 6.34%, the chemical industry by 2.98%, and metal goods, computers, electronic goods, machinery, and equipment by 2.16% (Central Bureau of Statistics, 2018). The large contribution in the food and beverage industry sector is felt to be increased again to obtain maximum operating profit with effective and efficient financial management by company managers.

One of the many ways to achieve effective and efficient financial management that can be taken by managers is by managing working capital. Working capital management can be a reference in the company's financial management in fulfilling its short-term obligations and the extent to which the company's operations can be financed with existing funding sources so that the ability to pay is greater than its financial obligations that must be met. Efficient working capital management aims to avoid excessive asset investment and maintain the company's ability to strike a balance between liquidity and profitability. High working capital investment can help companies increase sales, obtain discounts for early payments to increase company value (Widhyadji, 2020).

The most widely known measurement of working capital management is the cash conversion cycle (CCC). The faster the turnover of working capital, the faster the working capital will return to cash. Higher levels of working capital allow companies to increase their sales and get bigger discounts on initial payments thereby increasing the value of the company. CCC is measured by calculating the inventory conversion period (ICP), receivable collection period (ACP), and payable payment period (APP). (Le, 2019) This study aims to determine the relationship of working capital management in the form of a cash conversion cycle, receivable collection period, debt payment period, and inventory conversion period on the performance of food and beverage sector companies as measured by Tobin's Q. In contrast to previous research by Pakdel & Ashrafi (2019) which uses the operations variable to measure the company's performance. Based on the above background and previous research, a study was conducted in Indonesia to analyze the effect of working capital on company performance using other measurement methods. Therefore, this research is entitled Working Capital Management and Company's Performance Analysis in the Consumer Goods Industry in Indonesia.

2. Literature Review

1. Theoretical Basis

Each company has different working capital requirements to carry out its operational activities. Managers have to control its current assets and current liabilities to find out the amount of working capital investment that is suitable for the company's needs. Working capital management aims to make investments more productive in generating income and reduce the amount of leverage to increase sales and production (Muharram, 2018).

Working capital management is usually referred as cash conversion cycle (CCC) which is managed over the period of time by the company and converts cash outflows used for purchasing raw materials into cash inflows generated from the sale of goods. The cash conversion cycle (CCC) is the time elapsed between the company's funding to supply raw materials to the sales of finished goods, which is considered by researchers as a measure of working capital management. The goal of efficient working capital management is to shorten the cash conversion cycle (CCC) to optimize finances that suit the company's needs. If the CCC taking a long period of time, it shows that the management of working capital in the company is less effective. CCC that is too long to complete can also reduce the company's performance and profitability because it shows that the company's operations are slow and ineffective (Kademi, 2017). CCC is the accumulation of the accounts receivable period and the inventory conversion which is then reduced by the accounts payable payment period, which is formulated as follows:

Cash Conversion Cycle:

(Receivable Period + Inventory Period) – Payable Period

Company's objectives is to making sales and usually not only in form of cash, but also make sales on credit. This profit from credit sales is known as receivables. According to Fajarriannor (2018), trade receivables are company bills to other parties due to credit sales. The reason why companies need to make sales on credit is because credit sales are an effort to increase sales. So with increased sales, it is hoped that the profit received by the company will also increase. If these receivables are not managed properly, of course it will also cause losses, so that in the management of receivables managers need to pay attention to the turnover of these receivables.

The average receipt period for accounts receivable shows the average length of time a company collects/collects its accounts receivable. The shorter the average receipt period for trade receivables, the better because it will accelerate cash receipts from sales, but on the other hand, a loose credit policy will stimulate sales which will increase profitability. According to Tanjung (2016), the period of receipt of trade receivables is formulated as follows:

Average Collection Period:

(Accounts Receivable)/(Average sales per day)

Managers needs to have ability to manage and process the company's inventory in order to maintain the supply line of the company. According to Fajarriannor (2018), inventory is a number of goods or materials owned by a company whose purpose is to be sold and or reprocessed. Inventories can vary depending on the type of company. Merchandising companies have inventory of merchandise that enables the company to meet customer demands. Meanwhile, industrial companies have inventories of raw materials and work in progress that are used to facilitate operations.

In case of inventory management, managers need to pay attention to inventory turnover. This means the company must be able to know or measure how many times the existing inventory will be converted into sales. The higher the inventory turnover rate, the faster the inventory can be converted into sales. The inventory conversion period shows the average time it takes to convert raw materials into finished products until it sold. The lower the inventory conversion period means the faster it sells so that it can increase company sales. Optimal inventory levels will depend on sales, so sales must be forecasted before target inventory can be established. In addition, errors in determining inventory levels will lead to lost sales or excessive storage costs, therefore inventory management has a fairly important meaning (Wicaksono, 2013). Tanjung (2016) suggests that the inventory conversion period (ICP) is formulated as follows:

Inventory Conversion Period (ICP):

(Inventory x 365)/(Cost Sold)

The element of working capital from the liability side is trade payables. Oktaviani (2016) argues that trade payables (account payable) are the length of time delaying the payment of current debt. If the company experiences delays in paying bills, it will reduce the level of company profitability. The longer the period required by the company to pay off debt, it will reduce the trust of creditors which will result in lower

profitability.

According to Tanjung (2016), the period of deferral of trade payables is the average period from the purchase of raw materials and the use of workers to the implementation of payments for these materials and workers. It should be noted that cost of goods sold is used as the denominator in the formula. The longer the debt suspension period, the company can get cash from its sales first before paying its debts and if it is formulated as follows:

Average Payment Period (APP):
(Accounts Payable)/(Cost of goods sold per day)

The company's performance can be interpreted as an investor's view and assessment of the company's success in utilizing all the resources owned by the company. Tobin's Q is considered to be able to provide the most accurate information to assess the company because Tobin's Q includes all aspects, not only stocks. The higher Tobin's Q value, the better because it shows that the company will have good growth possibilities in the future (Putri et al., 2016). The company's performance can also be affected by the optimal level of the company's inventory. Inventories will increase along with increasing market demand when the economy is strong (Abuzayed, 2012). The longer the period of raw materials into sales, the lower the company's profitability. Inventories that are stored for too long will reduce the value of goods so that they cannot be used for production activities.

2. Conceptual Framework

Managers have a role to manage fixed assets and current assets owned by the company to achieve efficiency and effectiveness in selling products to obtain the maximum possible profit with low costs. Muharram (2018) states that the longer consumers pay their bills, the higher the number of receivables owned by the company. Companies that collect receivables from consumers in a short time can speed up the cash conversion cycle efficiently. When the company increases the amount of working capital, the company also requires an increase in the amount of debt. The greater the company's needs in operational activities, the greater the funds needed. This need for funds encourages companies to make credit or debt to suppliers. The longer the company pays its debts, the more the company's profitability will increase (Muharram, 2018).

Financial managers should optimize each of these three components to minimize cash conversion cycles, for example making debt loans because it is considered a flexible and affordable source of corporate funding, delaying payments, increases accounts payable which in turn significantly reduces cash conversion cycles and reduces cash conversion cycles can provide more efficient working capital. Surplus inventory and a longer cash conversion cycle than accounts receivable lead to an increase in the cash conversion cycle (Ponsian, 2014), as a result, companies with low inventories that collect their receivables quickly, have shorter and more efficient cash conversion cycles, which in turn has a positive impact on performance.

Research conducted by Pakdel and Ashrafi (2019) examines financial companies listed on the Tehran Stock Exchange with working capital management, operations, and various levels of GDP fluctuations in the country's economy. The results show that the shorter cash conversion cycle will be accompanied by an increase in the company's performance. However, Pakdel and Ashrafi (2019) found no correlation between recession and economic improvement with working capital management and firm performance. The opposite result in research conducted by Nilawati (2011) shows that the working capital management variable measured by using the cash conversion cycle has a significant negative effect on company performance using Tobin's Q. Tobin's Q has been used specifically by manufacturing companies to test company performance and explain a number of different corporate phenomena. Tobin's Q can be used as a statistical picture that serves as a proxy for the value of the company from the perspective of investors (Septiyani, 2017).

According to research conducted by Yazdanfar&hman (2014) there is an inconsistent relationship related to the effect of working capital management on company performance, therefore, the results can be linear/squared and positive/negative, depending on the relevant variables and situations. Moreover, the previous majority studies focused on the linear relationship of firm performance. Meanwhile, Baños-Caballero et al. (2014) stated that there was a failure to examine the nonlinear relationship between these variables. However, research conducted by Widhyadji& Leon (2020) states that working capital management, as measured by the Net Trade Cycle, has a nonlinear relationship with company performance as measured by ROA and Tobin's Q.

Various models of financial analysis show the complexity or diversity of the company's financial condition. Therefore, we need a measuring tool to evaluate these conditions by assessing the performance produced in a certain period. This measuring instrument is used to assess and predict the conditions and trends of the company's performance based on historical data reported in the company's accounting reports. One of the financial analysis models used to assess company performance is the Tobin's Q ratio (Kristanto, 2019). This

ratio is used to determine the company's performance through the potential development of stock prices, the potential ability of managers to manage company assets and investment growth potential. Based on this explanation, a conceptual framework can be formed as follows:

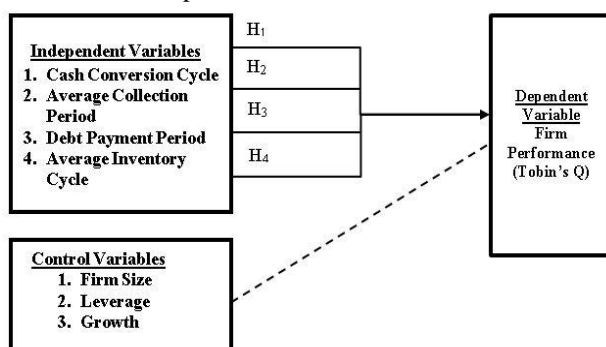


Figure 1. Conceptual Framework

3. Hypothesis Development

Efficient working capital management can be demonstrated by a short cash conversion cycle, where Suryaputra&Christiawan (2014) revealed that with a short inventory period by selling products faster, a short receivable collection period by accelerating receivable receipts and extending the period debt by delaying the payment can increase the company's performance and value. This means that the negative effect on the company's performance is because the longer the company's cash conversion cycle, the company's performance can decrease. This statement is supported by research conducted by Singh (2017), Arachchi (2018), and Vijayakumaran (2017) which states that the cash conversion cycle (CCC) has a negative effect on company performance as measured by Tobin's Q. With this statement, a hypothesis can be formulated as follows:
H₁: The cash conversion cycle affects the company's performance.

Muharram (2018) suggests that working capital that is tied up for too long in receivables can cause a shortage of working capital for company operations. This is evidenced by his research which shows that the period of collection of receivables has a negative influence on the company's performance because the longer the period of receivables, it can lower the company's performance measured by Tobin's Q. This statement is supported by the results of previous research conducted by Kademi et al (2017) and Arachchi et al. (2018). This result was because the company experienced an increase in sales and was followed by cash received by the company so that the company invested its funds in accounts receivable. With this statement, the following hypotheses can be formulated:

H₂: The period of collection of receivables affects the company's performance

The longer the company pays its debts, the more it improves the company's performance. Ukaegbu (2014) states that treasury cash is paid to pay off debt can be used for other company operational activities so that it can produce more company performance. Based on this explanation, it can be concluded that the longer the company pays its debts, the more it improves the company's performance. This statement is supported by research conducted by Vijayakumaran (2019) finds that the debt repayment period (APP) influences company performance. Another study conducted by Nadeem &Waris, (2020) found a positive and significant influence on Tobin's Q. With this statement, the following hypothesis can be formulated:

H₃: The period of debt payment affects the company's performance

Muharram and Dewi (2018) stated that the shorter the inventory management period, the smaller the working capital needed by the company. Based on the explanation above, it can be concluded that the inventory period has a negative effect on company performance because the longer the inventory conversion period, the lower the company's performance. The same result was found by Arachchi et al. (2018) that there is a significant negative effect of days of inventory on company performance as measured by Tobin's Q. Other research conducted by Vijayakumaran (2019) also shows the effect of the inventory conversion period on company performance. With this statement, the following hypotheses can be formulated:

H₄: Inventory conversion period affects the company's performance

3. Research Methods

3.1 Sampling Method

The source of data for this research was obtained from the Indonesia Stock Exchange website (www.IDX.co.id) and the Central Statistics Agency website (www.BPS.go.id). This research data consists of all manufacturing companies in the food and beverage sector which are listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period. The sampling method used in this study was purposive sampling, the number of samples obtained was 18 companies. The observation period was 5 years so the total sample of this study was 85 samples with the following criteria:

- a. Companies in the consumer food industry sector listed on the Indonesia Stock Exchange in the 2015-2019 period
- b. Companies that do not publish their financial statements in 2015-2019
- c. The company's financial statements that do not present complete data are in accord with the research variables.

3.2 Data Analysis Method

3.2.1. F-Test (Simultaneous)

This test aims to see influence of the independent and the control variable being tested together significantly affect the dependent variable. Based on the results, it can be seen that the probability value of the F-statistic is $0.007 < 0.050$. This shows that together the independent variables (CCC, ACP, APP, and ICP) and control variables (size, leverage, and growth) influence the dependent variable (Tobin's Q).

3.2.2. Goodness of Fit Test (R^2)

This test aims to predict how much the contribution of the influence of the independent variable to the dependent variable. Based on the results of the goodness of fit test, the adjusted r-square value is 0.145. This result means that the independent variables, namely CCC, ACP, APP, and ICP can explain the variation of Tobin's Q by 14.50% and the remaining 85.49% explains that Tobin's Q is influenced by other factors excluded in this model.

4. Results

4.1. Descriptive statistics

Descriptive statistics aims to show a description of each variable from the minimum value, maximum value, mean value and standard deviation. Minimum value is the lowest value for each variable while maximum value is the highest value for each variable. Mean value is the average value of each variable in the study while standard deviation is the distribution of research data used to reflect the fluctuating data of heterogeneous or homogeneous.

Based on the results of data processing in the table above, Tobin's Q has an average value of 3.74 with a standard deviation of 6.56 while minimum value of 0.64 which is owned by PT Wilmar Cahaya Indonesia Tbk in 2019 and maximum value of 35.40 owned by PT

	Mean	Median	Max	Min	Std. Deviation
TOB	3.74	1.58	35.40	0.64	6.56
CCC	90.33	63.32	656.62	-93.21	125.38
ACP	67.42	48.20	630.05	4.32	90.67
APP	70.57	49.00	983.42	0.67	108.83
ICP	93.48	65.11	1396.98	15.17	152.02
SIZE	6.48	6.36	7.98	5.47	0.64
LEV	0.54	0.50	2.90	0.03	0.42
GRO	0.09	0.08	0.62	-0.78	0.17

Table 1: Statistic Descriptive

Inti Agri Resources Tbk in 2017. CCC obtained an average of 90.33 and a standard deviation of 125.38. Minimum value for CCC is -93.21 which owned by PT Multi Bintang Indonesia in 2019 and maximum value is 656.62 which is owned by PT AkashaWira International Tbk in 2017. ACP has an average value of 67.42

and a standard deviation of 90.67. Minimum value of ACP is 4,320 which is owned by PT Inti Agri Resources Tbk in 2015 and maximum value is 630.05 which is owned by PT Akasha Wira International Tbk in 2017. In APP, the average value is 70.57 and the standard deviation is 108.83. While minimum value of APP is 0.670 which is owned by PT Inti Agri Resources Tbk in 2015 and maximum value is 983.42 which is owned by PT Tri Banyan Tirta Tbk in 2019. In ICP, the average value is 93.48 and standard deviation is 152.02. Minimum value of ICP is 15.17 which is owned by PT Nippon Indosari Corpindo Tbk in 2016 and maximum value is 1396.98 which is owned by PT Tri Banyan Tirta Tbk in 2019.

4.2. Data Analysis Test

The data analysis test was carried out by the t-test which aims to determine the effect of the independent variables individually on the dependent variable by assuming other variables are constant (Suryaputra, 2014).

4.3 Multiple Regression Analysis

This study uses multiple regression analysis with the aim to acknowledge the effect of CCC, ACP, APP, ICP, Leverage, Size and Growth on Tobins'Q. The results of the multiple regression equation in this study are as follows:

Variable Independent	Variable Dependent Tobins'Q		
	Coe	Prob	Result
Constanta	25.2458	-	-
CCC	-70.0259	0.0495	Negative Effect
ACP	70.0200	0.0495	Positive Effect
APP	-69.9866	0.0496	Negative Effect
ICP	69.9957	0.0496	Positive Effect
SIZE	-2.8512	0.4083	Insignificant
LEV	-3.8657	0.2271	Insignificant
GRO	-5.1647	0.1986	Insignificant

Table 2: t-Test Regression

$$\text{Tobins'Q} = 25.24585 - 70.02590\text{CCC} + 70.02008\text{ACP} - 69.98662\text{APP} + 69.99570\text{ICP} - 2.851284\text{SIZE} - 3.865783\text{LEV} - 5.164782\text{GRO}$$

4.4 Discussion

Table 2 on the Cash Conversion Cycle (CCC) has a probability value of $0.049 < 0.05$ (alpha 5%) which shows a significant effect. The magnitude of the coefficient is -70.025. The results of this study conclude that there is a significant and significant effect between CCC on Tobins'Q. This finding supported by research conducted by Singh et al. (2017), Rahimi et al. (2015), and Vijayakumaran (2019) shows that the cash conversion cycle (CCC) has a significant negative effect on company performance as measured by Tobin's Q. Efficient working capital management can be demonstrated by a short cash conversion cycle, where Suryaputra (2014) reveals that with a short inventory period by accelerating selling products, a short receivable collection period by accelerating receivable receipts, and extending the payable period by ways of delaying payments can increase profitability. The negative impact on the company's performance is because the longer the company's cash conversion cycle, the company's performance can decrease. In addition, Ponsian (2014) found that there was a positive effect of the cash conversion cycle (CCC) on profitability. Yazdanfar and Ohman (2014) suggest that there is an inconsistent relationship related to the effect of working capital management on firm performance, therefore, the results can be linear-squared and positive-negative, depending on the relevant variables.

Table 2 shows that the Average Collection Period (ACP) has a probability value of $0.049 < 0.050$ (alpha 5%) which shows a significant effect. The coefficient is 70.020. The results of this study conclude that there is a positive and significant effect between ACP on Tobins'q. These results different from the expected theory from the research of Baños-Caballero et al. (2014) and Arachchi et al. (2017) which partially showed that the receivables turnover variable has a significant negative effect on company performance. A rapid receivables turnover indicates that the working capital can be used efficiently and the better the company's performance. If the receivables cycle moving faster, meaning the company will gain more benefit from the sales of its credit, so that the profitability of the company will also increase. Impact of the number of days on receivables is suspected coming from late payments of receivables by customers so that the greater the number of days on receivables

can reduce the company's profitability. The results of this study are appropriate with the findings of Diana and Santoso (2016) states that accounts receivable turnover has a significant positive effect. A low receivables turnover rate indicates that trade receivables will take a long time to be billed in cash or show that large working capital has been invested. Companies can overcome these delays by providing discounts on faster payments so that customers tend not to be late in paying the company's receivables. (Fajriannor, 2018).

Average Payment Period (APP) in table 2 has a probability value of $0.049 < 0.05$ (alpha 5%) which shows a significant effect with value of the coefficient is -69,986. This results conclude that there is a negative and significant influence between APP on Tobin's Q. This results is not appropriate with the expected theory as Ponsian (2014) states that there is a positive relationship between accounts payable and company profitability that implement the consistent policy with an aggressive strategy. Ukaegbu (2014) state a company that extend to pay its debts, the more it improves the company's performance because the cash paid to pay off debts can be used for other company operational activities so the company can produce more products therefore company performance increased. Based on this explanation, it can be concluded that the longer the company pays its debts, the more it improves the company's performance. This study is in line with research carried by Vijayakumaran (2019) which found a negative significant between the period of debt repayment and company performance. This finding shows that companies manage their working capital efficiently by reducing the cost of debt interest payments to get higher profits. The negative relationship between APP and company performance indicates that shareholder market value will increase if the company pays creditors on time.

Inventory Collection Period (ICP) in Table 2 has a probability value of $0.049 < 0.05$ (alpha 5%) which shows a significant effect with coefficient 69.957. The results of this study conclude that there is a positive and significant effect between ICP on Tobin's Q. This results do not meet the conditions in article according to Makori & Jagongo (2013) show that partially inventory turnover cycle had a significant negative effect on company performance. Makori and Jagongo (2013) also indicating that sample of the company has not been able to control the existing capital in inventory properly, less value on inventory turnover cycle will result in greater the profits obtained and indicates good company performance. In contrast to this result, Fajriannor (2018) in his research found that inventory conversion period had a positive and significant effect on profitability. This result indicating a low inventory turnover cycle, the company does not work efficiently which will resulting in over-stock inventory so that it will cause high costs to maintain inventory quality which will have an impact on reducing company profits.

5. Conclusion

Based on research that has been carried out using regression data panel methods and individual tests (t-test), we concluded that independent variables in this study are cash conversion cycle (CCC), receivable collection period (ACP), debt payment period (APP), and inventory conversion period. (ICP) has an influence on company performance (Tobin's Q) conducted on 18 food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange in 2015-2019.

5.1. Implications

Financial managers need to pay attention to the cash conversion cycle, receivable collection period, debt payment period and receivable collection period because they affect the company's performance. Managers need to shorten its cash conversion cycle because it will improve the company's performance by speeding up the period of collection of receivables and extending the period of payment of its debts. Another thing that needs to be considered is to speed up the inventory management period so that the company's performance increases.

To shorten the period of collection of receivables, financial managers can overcome the late payment of the creditor by providing discounts on earlier payments so that creditors are less likely to be late in paying the company's receivables. To extend the period of debt payment, the company can reschedule payments, and to shorten the inventory conversion period, the company can manage inventory needs using the Economic Order Quantity (EOQ) method to be more efficient.

For investors, before investing their capital in a company, it is necessary to pay attention to several factors, one of which is the company's performance. Company performance can be influenced by how the working capital management in a company. This can be seen from the company's cash conversion cycle, how the company manages the collection of its receivables, pays the company's debts and manages their inventory.

5.2. Limitations and Suggestions

In this study, there are several limitations, including the companies studied were only manufacturing companies in the food and beverage sub-sector that had complete financial reports in 2015-2019. In addition, the independent variables used in this study are only cash conversion cycle (CCC), debt collection period (ACP), debt payment period (APP), and inventory conversion period (ICP). Based on these limitations,

suggestions that can be given are:

1. In further research, a larger sample can be taken, for example all manufacturing companies listed on the Indonesia Stock Exchange
2. There are several samples of companies that have negative working capital, which means that the company's current debt is greater than its current assets. Therefore, these companies cannot pay its short-term debt, so the manager needs to sell fixed assets or other sources of capital to have working capital (positive working capital). This theory is supported by research conducted by Santoso (2013) which states that excessive working capital can reduce the company's financial performance which causes over investment which will actually hinder the company's maximum profit, whereas if there is a shortage of working capital, the company's operational activities cannot fully funded. Therefore, further research can also add other research variables to measure company performance such as asset ratios and profitability ratios.

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