Analyzing the Influence of Cash and Working Capital Turnover on the Profitability of Indonesia's Food and Beverage Sector

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Abstract

The purpose of this study is to determine the effect of cash turnover and working capital turnover on working capital turnover in Food and Beverages Companies on the Indonesia Stock Exchange. In this study, an associative research approach is used, which is a study to determine the effect between independent variables and their dependent variables. The sample of this study is a Food and Beverages company that meets the sample criteria of 11 companies for the period 2020 - 2024. To prove the hypothesis proposed in this study, a multiple linear regression statistical tool is used with hypothesis testing (t-test) and simultaneous testing (F-test). Based on the results of the hypothesis test, it can be proven that the cash turnover variable has a significant effect on profitability. This can be seen from the results of the hypothesis test whose significance value is less than 0.05, which means the hypothesis is accepted. The working capital turnover variable does not have a significant effect on profitability. This can be seen from the results of the hypothesis test whose significance value is greater than 0.05, which means the hypothesis is rejected. Cash turnover and working capital turnover together have a positive effect on profitability because they have a significance level of less than 0.05 (5%), which means the hypothesis is accepted.

Keywords: Cash Turnover, Working Capital Turnover, Profitability and Multiple Regression Analysis.

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Introduction

Every company that runs a business activity will record its financial transactions, which will be carried out during the accounting period. At the end of the period the company will report its financial position by presenting financial statements. The report consists of: income statement, equity change statement, balance sheet, cash flow statement and notes to the financial statements [1]. This financial report is a very important financial analysis tool for company leaders in implementing financial policies and to find out where the funds come from and what the funds are used for [2]. Indonesia Stock Exchange (IDX) is a place where securities trading transactions such as stocks and bonds occur, bringing together capital owners (lenders) and capital users (borrowers). In general, companies listed on the Indonesia Stock Exchange aim to achieve profit. Profitability is one measure of a company's ability to generate profits from its business operations [3]).

As for profitability in this case is measured from the operating profit margin. One of the elements of success of the company's operational activities is the existence of operating profit. "Profit margin is the amount of operating profit expressed in percentage and the amount of net sales. This Profit Margin measures the level of profit that can be achieved by the company in relation to its sales" [4]. The reason for achieving profit measured from operating profit margin is because this ratio describes what is usually called pure profit received for each value of the transaction carried out. In addition, operating profit is called pure because that amount is what is actually obtained from the company's operations. The higher the operating profit margin ratio, the better the company's operations, which means it shows the success of the company's management in reducing operating costs [5].

On the Indonesia Stock Exchange, there are various types of companies such as mining, manufacturing, automotive, retail and so on. The companies that are the objects of this research are food and beverage companies. Every day, food and beverage companies produce consumer goods which will later become products that are quickly sold on the market. In addition, this type of food and beverage company is a company that has operational activities (production) that require the availability of cash and working capital that has a relatively fast turnover [6]. The economic crisis that hit Indonesia in 1998 affected companies in Indonesia, including food and beverage industry companies. However, the number of food and beverage industries continues to grow until it can become one of the fastest growing sectors. This is certainly inseparable from effective cash and working capital management and the company's ability to compete [7].

The independent variables used are cash turnover and working capital turnover. This is because through cash turnover, the company can assess the level of success of the company in generating profitability such as through sales. Cash is needed both to finance the company's daily operations and to make new investments in fixed assets [8]. In addition, the use of working capital turnover as another independent variable is because good management of working capital is very important because it can be considered a basic financial function in every company. Companies that have sufficient working capital can fulfill all their operational activities and allow the company to operate economically and efficiently and the company does not experience financial difficulties so that it is able to generate a high level of profit [9].

Therefore, cash turnover and working capital turnover can affect the achievement of profitability of food and beverage companies such as achieving maximum sales, lower costs from sales, effective use of cash and use of sufficient working capital to carry out operational activities. The effectiveness of cash and working capital can be assessed through cash turnover and working capital turnover [10]. The phenomenon seen in several food and beverage companies is that the company's cash movement has increased, but this increase in cash is not followed by an increase in operating profit. This indicates that the company's cash turnover is less effective in achieving its profitability where there is idle cash. The company's working capital movement has decreased, resulting in reduced availability of working capital, thus inhibiting the growth of its profitability. This indicates that the use of the company's working capital is still low, causing the company's profitability to not be maximized. The movement of the company's operating profit has decreased, resulting in low profitability. This indicates that the company's operating profit has not been maximize [11].

Literature Review

2.1 Profiability

Every company always tries to increase its profitability. If the company succeeds in increasing its profitability, it can be said that the company is able to manage its resources effectively and efficiently so that it is able to generate high profits. Conversely, a company with low profitability indicates that the company is unable to manage its resources well, so that it is unable to generate high profits. According to Malleret "Profitability is the ability of a company to generate profits with all the capital working in it. In line with this understanding [12]. According to Mounia "Profitability Ratio is the ratio used to measure a company's ability to generate profits [13]. According to Hidayat "profitability is the company's ability to earn profit in relation to total sales of assets and equity. From this definition it is clear that the target to be sought is the company's profit [14]. The profitability indicator in this study uses operating profit margin. According to Challoumis "Operating Profit margin is the amount of operating profit expressed in percentage and the amount of net sales. This Profit Margin measures the level of profit that can be achieved by the company in relation to its sales [15].

$$\textbf{Operating Profit Margin} = \frac{\textbf{Operating Profit}}{\textbf{Sales}}$$

2.2 Cash Turnover

Cash is cash owned by the company and can be used immediately at any time. Cash is the most needed component of current assets to pay for various needs [16]. Cash turnover is a measure of the effectiveness of sales in generating cash. The higher the turnover, the faster the cash acquisition from sales activities [17]. Cash turnover is the period of cash turnover which begins when cash is invested in working capital components until it returns to cash as the working capital element with the highest liquidity (Sabu, 2025) which can be formulated as follows:

$$\text{Cash Turnover} = \frac{\text{Revenue}}{\text{Cash}}$$

This ratio shows how high the cash turnover rate is. The higher the ratio, the better because it is considered that sales activities can generate cash quickly. Lack of cash in terms of liquidity prevents the company from making a profit [18]. Low cash turnover also often results in low profits and reduced opportunities to make a profit. The higher the cash turnover, the less cash is needed in the company's operations, so that cash turnover must be maximized in order to provide benefits [19] for the company. If the cash turnover is faster, it will be able to generate maximum profit. This can be caused by cash that rotates quickly in one period and will result in a high level of sales, then the company will get maximum profit. The effect of cash turnover on profitability [20] can be hypothesized as follows:

H1: Cash turnover has a positive effect on the profitability of food and beverage companies on the IDX.

2.3 Working Capital Turnover

Working capital is the capital used to carry out the company's operational activities [21]. Working capital is defined as an investment invested in current assets or short-term assets. Working capital turnover is the comparison between sales and working capital [22]. This working capital turnover shows the company's ability to use working capital to generate net sales. Working capital turnover is a ratio used to measure or assess the effectiveness of a company's working capital during a certain period [23]. The following is the working capital turnover formula:

$$\text{Working Capital Turnover} = \frac{\text{Revenue}}{\text{Working Capital}}$$

This ratio shows how high the working capital turnover rate is. The higher this ratio, the better because it is considered that working capital can generate high sales [24]. Working capital turnover is needed to find out how long it takes to obtain cash so that it can be used again to finance the company's operational activities without disrupting its liquidity. Working capital is always in an operating or rotating state in the company in business activities [25]. The Working Capital Turnover Period begins when cash is invested in working capital components until it returns to cash. The shorter the turnover period means the faster the turnover or the higher the turnover deadline, the faster the profit is obtained. Working capital turnover will affect the level of profit [26]. A low level of profit when associated with working capital can indicate the possibility of low sales volume compared to the costs used. So to avoid this, proper working capital management is expected in the company. A company that is said to have high profits means that the efficiency of the use of working capital used by the company is also high. The influence of working capital on profitability can be hypothesized as follows:

H2: Working capital has a positive effect on the profitability of food and beverage companies on the IDX.

H3: Cash turnover and working capital simultaneously have a positive effect on the profitability of food and beverage companies on the IDX.

The influence between cash turnover and working capital turnover on profitability can be described with the following conceptual framework:

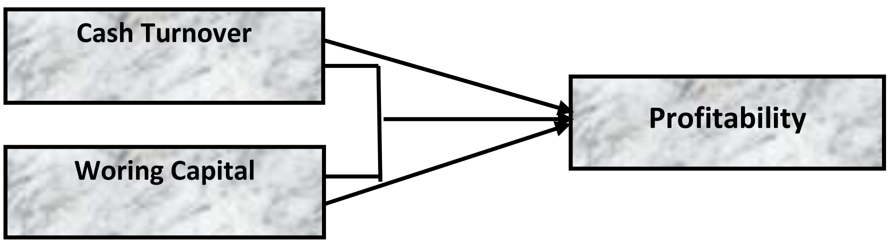

Figure 1. Conceptual Framework

Research Methodology

In this study, an associative research approach is used [27], which is a study to determine the influence or relationship between independent variables and their dependent variables. The independent variables in this study are Cash turnover and working capital, while the dependent variable in this study is profitability which is measured using Operating Profit Margin. The sampling technique for this study uses purposive sampling [28], which is the determination of samples based on certain criteria that aim to provide maximum information. Purposive sampling here uses judgment sampling, which is a sampling technique with several specific criteria. The following are the sampling criteria:

Table 1. Purposive Sampling Procedure

No	Criteria	Rjected	Sample
1	Companies that are not delisted from the IDX for the period 2020 – 2024	2	15
2	Companies that published financial reports for the period 2020 – 2024	0	13
3	Companies that earned operating profits during the period 2020 – 2024	2	11
	Number of companies included in the research sample		11
	Observation (year)		5
	Total samples during the study period		55

The research observations were 11 companies with a research period of 5 years, resulting in 55 research observations. The research data analysis technique uses multiple linear regression equations.

$$\mathbf{Y = a + \beta 1X1 + \beta 2X2 + e}$$

Explanation :

Y	= Profitability
X_1	= Cash turnover
X_2	= Working capital turnover
$\beta 1, \beta 2$	= coefefecient
a	= constant
e	= error

To facilitate calculations, data processing is assisted by SPSS software version 31 by conducting a series of normality, multicollinearity, heteroscedasticity, autocorrelation, t-test, f-test and determination tests.

Results and Discussion

Based on the results of data analysis, the multiple regression equation in the study is :

$$\mathbf{Y = 18.975 - 2.476X_1 - 1.832X_2 + e}$$

The value of a is 18.975, meaning that if the cash turnover and working capital turnover variables are constant (fixed), then profitability is 18.975. The conclusion is that cash turnover and working capital turnover have an important role in decreasing profitability. This can be seen from the positive constant value, meaning that if cash turnover and working capital turnover are constant (constant), then profitability will increase. The value of β1 is -2.476, meaning that the effect of the cash turnover variable on profitability is negative, where if the cash turnover variable (X1) increases by one, then profitability will decrease by 2.476. The conclusion is that companies that have high cash turnover will be able to reduce profitability. The value of β2 is -1.832, meaning that the effect of the working capital turnover variable on profitability is negative, where if the working capital turnover variable increases by one, then profitability will decrease by 1.832. The conclusion is that companies that have high working capital turnover will be able to reduce profitability.

Based on the results of hypothesis testing, it can be proven that cash turnover has a significant effect on the profitability of operating profit margin. This can be seen from the significance value of the t variable cash turnover is smaller than alpha. This study is in line with the results of [29] research on the effect of cash turnover, inventory turnover and receivables turnover on company profitability. The results of his study prove that there is a significant effect of cash turnover on profitability [30]. Thus, partially cash turnover has an effect on operating profit margin in Food and beverage companies on the IDX where an increase in cash turnover will drive a decrease in operating profit margin. This indicates that not all food and beverage companies on the IDX can achieve the expected profit through their cash turnover due to ineffective cash management which causes cash turnover to be slow or even excess cash (idle cash).

Based on the results of the hypothesis test, it can be proven that working capital turnover does not have a significant effect on operating profit margin. This can be seen from the sig.t value of the working capital turnover variable which is greater than alpha (0.05). Thus, partially working capital turnover does not affect operating profit margin in Food and beverage companies on the IDX. The results of this study do not support [31] which states that "Working capital turnover will affect the level of profit. A low level of profit when associated with working capital can indicate the possibility of low sales volume compared to the costs used. So to avoid this, proper working capital management is expected in the company. A company that is said to have high profits means that the efficiency of the use of working capital used by the company is also high". However, this study is in line with the results of [32] which proves that working capital turnover does not have a significant effect on operating profit margin.

Conclusion

Based on the results of the study on the effect of cash turnover and working capital turnover on the profitability of Food and Beverages companies on the Indonesia Stock Exchange (IDX), it can be concluded that cash turnover has a negative and significant effect on profitability. This shows that high cash turnover can reduce profitability. Working capital turnover has a negative and insignificant effect on profitability. This shows that the higher the working capital turnover, the lower the profitability, although the effect is not significant. Cash turnover and working capital turnover together have a positive effect on profitability. Investors should assess cash turnover to determine the company's profitability because it has been proven to have an effect. For further researchers, it is recommended to add research samples so that the results are better in influencing profitability.

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