CHAPTER I

INTRODUCTION

A. Background

In this era, companies compete to become the most successful and best companies. The competitive advantage of every company must be developed in order for the company to survive in any situation. The advantage that can be developed in a company is the company's financial performance. One of the components that includes the company's financial performance is the management of working capital. Research by (Rey-Ares et al., 2021) states that working capital management has a significant influence on the profitability and liquidity of an enterprise.

Based on surveys that have been conducted, it is stated that financial managers often have to allocate days to manage and optimize decision making in terms of working capital (EL-Ansary & Al-Gazzar, 2021). That's why working capital decisions are so difficult and require a variety of considerations. One aspect of consideration is investment in the short term which can then be converted into other types of assets. Companies also need to consider managing their bonds. A strong company must be able to pay its short-term obligations on time according to the set deadlines. Overall, decisions about working capital change over time and require a lengthy process.

Capital management is considered important for many reasons. This is clearly seen in manufacturing companies. Research analyzed by (EL-Ansary & Al-Gazzar, 2021), The data reveals that current assets are more than total assets, which is about 50% versus 30% for the company. Thus, it is important for companies to pay serious attention to the management of their current assets. Excess current assets can hinder the potential for optimal investment returns. On the other hand, having too few current assets can also cause

constraints and difficulties in running business operations efficiently. Therefore, the company must find the right balance in the management of its current assets to achieve good business performance.

According to research (Kafeel et al., 2020), every company has goals. First, the company aims to maintain liquidity. Secondly, the company strives to achieve maximum profit. The company certainly wants to achieve the maximum profit in order to survive in the long term. Companies should also not neglect liquidity, because if ignored, companies risk bankruptcy. It is clear to see that working capital management has a very important role to play in this situation. Working capital management can provide proper consideration regarding the alternatives to be used by the company, which will later affect the level of profitability of the company.

The Company aims to maintain Liquidity. Research analyzed by (Chandra et al., 2019), states that companies tend to prefer to use funds that come from internal sources rather than seek external funding. Companies with high levels of liquidity will be less willing to use debt to finance their operations.

The company strives to achieve maximum profit. To achieve maximum profit, companies can manage their resources efficiently to support business operations. These resources include cash, investments due in the next financial year, receivables, inventories, and prepaid expenses, this statement is taken from data from the Financial Services Authority (FSA). Companies need to manage their current assets effectively because these assets will be used in the company's operations. A well-executed company management is expected to run its operations smoothly, increase production, and increase its profitability. These results show that companies with a high level of profitability tend to show fundamental strength in the financial aspects of the company (Chandra et al., 2019).

Companies that successfully manage working capital efficiently can improve their ability to better manage current assets and liabilities (Seth et al., 2020). Efficient management of the company's working capital can provide a large stock of ready-to-sell goods. The purpose of providing sales facilities is so that companies can implement credit sales policies, which have a positive impact on both the company and its consumers. Credit policies can encourage increased product sales for companies and provide an opportunity for consumers to evaluate product quality before making payments (Seth et al., 2020).

This lending policy can also have a positive impact on companies when purchasing raw materials from suppliers. One of the advantages of delaying payment is that the company has the opportunity to evaluate the quality of the purchased raw materials. In addition, credit policy also has benefits as an economical source of funding and can be adjusted to the needs of the company (Seth et al., 2020). Late payments can also have negative consequences because if there are discounts offered, delays in payment can actually harm the company.

In the aspect of working capital, companies also need to manage receivables (Amponsah-Kwatiah & Asiamah, 2020). This management involves the preparation of policies related to the process of collecting receivables. This policy has an important role in assisting companies in collecting receivables in a timely manner.

The filling process requires the manager to analyze whether there are any problems in the process. Debt turnover has the potential to affect the profitability of a business (Bussoli & Conte, 2020). Understanding the time period needed, the company collects unpaid debts, the company can also evaluate the extent to which the policies implemented support debt collection efforts quickly. Raising money for too long will result in too many investments stuck in the form of debt that is difficult to realize. This situation has the potential to harm

the company because there is a possibility that the collected debt is difficult to disburse. This condition has the potential to reduce the company's profitability (Wahjudi, 2020).

Stock of goods is part of the working capital component. Often, stock of goods becomes an important part of current assets that are important and require special attention. Most companies maintain stock of goods at some level. This is done because the company wants adequate stock availability so that the company's sales process remains smooth. If the stock of goods is insufficient, the risk of declining sales below the expected target can occur. The management carefully manages the company's stock of goods to ensure optimal smooth sales activities.

Excessive inventory investment can cause companies to face financial burdens such as storage costs, insurance costs, tax liability, impairment costs, and potential physical damage to the inventory itself. If this load becomes significant, the impact can reduce the level of profitability. An increase in excessive investment in inventory is also an indicator of constraints in inventory management. It is likely that the company's products have difficulty in selling, so the stock of goods becomes piled up. Insufficiency of goods can be a sign that the sales strategy needs to be adjusted so that inventory can be managed more effectively by the company.

Management must properly manage its debt payments. Management must be able to analyze when to pay debts and when to postpone debt payments. Late payments at the time of purchasing inventory occur because the company wants to assess in advance whether the goods purchased are in accordance with company standards. On the plus side, late debt payments can also be cheap financing for companies when buying raw materials. Credit policies that provide discounts will cause losses for the company if it delays payment.

In addition to the above, there are various reasons why management delays payment. Starting from the lack of availability of cash used to pay bills. Lack of cash can be caused

by a variety of things. There could be problems in collecting receivables, so that receivables that should be collected and converted into cash cannot be realized. Another cause is the presence of unsold inventory of goods that will reduce the revenue coming into the company both cash sales and credit sales.

The topic researched this time has been researched by many researchers before. Different opinions have been found between one researcher and another. Based on research that has been researched previously by (Raheman & Nasr, 2007) using a sample of Pakistani companies listed on the Karachi Stock Exchange and research by (Singhania & Mehta, 2017) which uses samples from all companies in Asia listed on the Stock Exchange. The results of their research analysis on working capital management use several variables, namely Average Collection Period, Inventory Turnover, Average Payment Period, Liquidity, Firm Size, dan Debt Ratio.

Average Collection Period on research by (Raheman & Nasr, 2007; Singhania & Mehta, 2017) find results Average Collection Period has a significant negative influence on the profitability of the enterprise. Dissent occurs in research (Fryer et al., 2018) Average Collection Period has a significant positive effect on the profitability of the enterprise. Research by (Raheman & Nasr, 2007; Socrates & Gopalakrishna, 2016) revealed that Inventory Turnover has a significant negative effect on the profitability of the company. In contrast to research by (Fryer et al., 2018; Singhania & Mehta, 2017) Inventory Turnover has a significant positive effect on the profitability of the enterprise. Previous research by (Raheman & Nasr, 2007; Tahir et al., 2016) It was found that the Average Pay Period has a significant negative effect on the profitability of the company. Dissent by (Singhania & Mehta, 2017) that the Average Payment Period has a positive effect also negatively affects the profitability of the company.

Research by (Nanda & Panda, 2018; Raheman & Nasr, 2007) found that liquidity was significantly negatively related to the profitability of the company. In contrast to research (Chika et al., 2022; Wahjudi, 2020) Liquidity is positively related to the profitability of the company. Previous research by (Raheman & Nasr, 2007; Samo & Murad, 2019; Singhania & Mehta, 2017) found that Firm Size has a positive effect on company profitability. Research by (Alarussi & Alhaderi, 2018; Raheman & Nasr, 2007) It was found that the debt ratio has a significant negative effect on the profitability of the company. In contrast to research (Mangesti Rahayu et al., 2020) The debt ratio has both positive and negative effects on the profitability of the company. What these studies have in common is that they both examine the effect of efficient working capital management on profitability. The difference in this study is the object of research and the time of study. This study will further examine the relationship between working capital management and companies, namely Manufacturing Companies in the Food and Beverage Industry Sub-Sector in Indonesia.

B. Problem Statements

Based on the background and subject matter, the formulation of the problem proposed in this study is application in working capital management consisting of:

1. Does Average Collection Period affect profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia?
2. Does Inventory Turnover affect profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia?
3. Does the Average Payment Period affect profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia?
4. Does Liquidity affect profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia?

5. Does Firm Size affect the profitability of manufacturing companies in the food and beverage industry sub-sector in Indonesia?
6. Does the Debt Ratio affect profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia?

C. Purpose and Benefit of Research

1. Research Purpose

a. To determine the effect of working capital management, firm size, and leverage on the Average Collection Period indicator to increase profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.
b. To determine the effect of working capital management, firm size, and leverage on the Inventory Turnover indicator to increase profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.
c. To determine the effect of working capital management, firm size, and leverage on the Average Payment Period indicator to increase profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.
d. To determine the effect of working capital management, firm size, and leverage on Liquidity indicators to increase profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.
e. To determine the effect of work model management, firm size, leverage on Firm Size indicators to increase profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.

f. To determine the effect of work model management, firm size, and leverage on the Debt Ratio indicator on increasing profitability in manufacturing companies in the food and beverage industry sub-sector in Indonesia.

2. Research Benefit

This research is expected to provide the following benefits:

a. For Enterprise

The results of this study are expected to provide benefits for companies and shareholders who want to apply working capital management, firm size and leverage to increase company profitability, especially for manufacturing companies in the food and beverage industry sub-sector in Indonesia.

b. For Academics

This research is expected to become literature for fellow students and other parties who will compile a thesis or research on the effect of working capital management, company size, and leverage on profitability in the manufacturing industry of the food and beverage sub-sector in Indonesia.

c. For Researchers

This research is expected to provide benefits in the form of additional knowledge for the author related to the application of working capital management, firm size, and leverage on profitability in the manufacturing industry sub-sector of the food and beverage industry in Indonesia.