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# The Effect of Working Capital Policy on Financial Performance of LQ45 Companies on the IDX 2017-2019

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***ABSTRACT :*** The purpose of this study was to determine the effect of asset structure, working capital turnover, liquidity and working capital funding on financial performance. This research was conducted at LQ45 index companies listed on the Indonesia Stock Exchange for the period 2017-2019. The number of samples used was 31 with the sampling technique used was non probability sampling with purposive sampling method. The analysis technique used is multiple linear regression. Based on the analysis, it is found that the asset structure has a positive effect on financial performance. Working capital turnover has a positive effect on financial performance. Liquidity has no significant effect on financial performance. Working capital funding has no significant effect on financial performance as measured by Return On Assets (ROA).

***Keywords :*** *financial performance, asset structure, working capital turnover, liquidity, working capital funding*

## I. INTRODUCTION

The main objective of the company according to Houston (2009: 72) is to maximize wealth for its shareholders or to the company owners (stakeholders). One way to achieve company goals is to improve the company's financial performance. Financial performance is very important for a company because it reflects the success and survival of a company. The LQ45 index is an index consisting of 45 selected stocks with reference to two variables, namely trade liquidity and market capitalization (Darmadji and Fakhruddin, 2012: 130). The LQ45 company was chosen because the companies that are members of the LQ45 index are preferred stocks that have the highest ranking compared to other companies that are not members of the LQ45 index.

Several factors have the potential to affect the financial performance of LQ45 companies, one of which is the working capital policy (Syamsuddin, 2007: 229). The working capital policy is all current assets that can be used as cash that is owned by the company, or funds that must be available to finance the daily operations of the company, for example to pay employee salaries, buy raw materials, pay transportation costs, pay debts and so on (Sawir, 2008: 23). It is important to discuss working capital policies in an effort to improve financial performance. First, working capital policies are part of the company's short-term spending, which is in line with the company's short-term goal of improving financial performance. Second, based on the work function, working capital is flexible, relatively varied, and rotates rapidly Syamsuddin (2007: 229). Third, working capital is a continuous field of activity as well as being the main support for the company's operations. Several working capital policies that are relevant to affect the financial performance of LQ45 companies include asset structure, working capital turnover, liquidity, and working capital funding.

Asset structure is the classification of assets into various types of assets such as current assets, fixed assets and other assets (Weston, 2008: 240). Meanwhile, the asset structure according to Syamsudin (2007: 309) is the determination of how much the allocation for each component of the assets, both in current assets and in fixed assets. The greater the available current assets, the better because it shows the availability of cash, accounts receivable and inventory that can be used at any time to finance the company's operational needs to generate profits so that it can improve financial performance (Syamsuddin, 2007: 313). Research by Yulianti (2013) and Wardhana and Mawardi (2015) found that asset structure has a positive effect on financial performance. Meanwhile, research by Hanun (2008) and Megasari, et al (2020) found that current assets to total assets have no effect on financial performance.

Working capital turnover is the ability of working capital to rotate within a period of the company's cash cycle (Riyanto, 2011: 83). Working capital turnover measures the effectiveness of using current assets to generate sales. The greater this ratio indicates the effective use of available working capital in improving the company's profitability performance. The working capital turnover ratio is used to measure working capital turnover, namely the ratio of sales to current assets. Research conducted by Raheman (2007) and Amdani Dan

Desnerita (2015) found that the working capital turnover ratio has a positive effect on the level of financial performance. Research by Yulianti (2013), Hanun (2008), Rahmiyatun (2016) and Burhanudin (2017) found that working capital turnover has a positive effect on financial performance. Research by Megasari, et al (2020) and Burhanudin (2017) states that working capital turnover has no effect on financial performance.

According to Riyanto (2011: 90), liquidity is the ability of a company to fulfill its financial obligations that must be fulfilled immediately, or the company's ability to meet financial obligations when they are collected. Company liquidity describes the company's ability to meet its short-term obligations. Horne (2012: 182). In general, the higher the level of liquidity, the better the company's ability to fulfill its short-term obligations, this is able to increase the company's credibility in the eyes of creditors and investors (Halim, 2008: 32). According to Horne (2012: 127), liquidity is inversely proportional to company performance, namely an increase in liquidity is usually followed by a decrease in company performance due to excess productive assets that are not utilized by the company, it is necessary to manage optimal work policies so that the company remains liquid and its profitability is not disturbed. . Research by Wartini (2006), Wardojo, et al (2015), Santini and Bhaskara (2018), and Yuniarta (2015) found that liquidity has a positive effect on financial performance. Research by Sari (2017) and Megasari, et al (2020), found that liquidity did not have a significant effect on financial performance.

Working capital funding according to (Riyanto, 2011: 99) is debt financing used by companies by showing the amount of short-term debt to all loans owned by the company to increase profitability. The debt structure is used to measure working capital funding. The debt structure describes a composition of the debt term used by the company, both short, medium and long term and is influenced by the size of the debt (Riyanto, 2011: 113). The research of Mathuva (2009) and Megasari, et al (2020) found that working capital funding has a negative effect on financial performance. Meanwhile, research by Yulianti (2013), Wahba (2018), Wardojo, et al (2015) and Santini and Bhaskara (2018) found that working capital funding has a positive effect on financial performance. Research by Herdiyanto (2014) and Herdiyanto and Darsono (2015) found that debt structure has a positive effect on financial performance. The results of these studies indicate that there is still inconsistency regarding the effect of working capital policies on company performance which encourages researchers to replicate previous research. One of the factors causing the inconsistency is that managers have not optimally managed working capital policies to improve financial performance. It is very important to manage working capital to avoid the company from the risk of bankruptcy.

## II. CONCEPTUAL MODEL AND HYPOTHESIS

The asset structure according to Syamsudin (2007: 309) is the determination of how much the allocation for each component of the assets, both in current assets and in fixed assets. In the problem of the agency, an imbalance in control of information will lead to the emergence of a condition called information asymmetry. in a company. The greater the available current assets, the better because it shows the availability of cash, accounts receivable and inventory that can be used at any time to finance the company's operational needs to generate profits so that it can improve financial performance (Syamsuddin, 2007: 313). Several researchers, such as Yulianti (2013), Rahmiyatun (2016) and Mudjijah and Hikmanto (2018) have conducted research and found that asset structure has a positive effect on financial performance.

**$H_1$: Asset structure has a positive effect on financial performance**

Working capital turnover is a comparison between sales and the total number of current assets owned by a company in a certain period. The greater this ratio shows the effective use of available working capital in improving company performance (Riyanto, 2011: 83). This means that the greater the working capital turnover ratio, the better a company is where the percentage of existing working capital is able to generate a certain number of sales. Working capital turnover is related to agency cost. Agent costs will come out if there is a problem with the agent, the level of agency cost can be reflected in the high rate of working capital turnover. The more efficient the use of working capital is, the smaller the cost of supervision will be. So that the level of shareholder trust in managers will be even greater. Research by Yulianti (2013), Hanun (2008), Kusumo (2017) and Amelia and Cahyono (2020) states that working capital turnover has a positive effect on financial performance.

**$H_2$: Working capital turnover has a positive effect on financial performance**

According to Riyanto (2011: 90), liquidity is the ability of a company to fulfill its financial obligations that must be fulfilled immediately, or the company's ability to meet its financial obligations when they are collected. According to Halim (2008: 32), liquidity measures a company's ability to meet short-term debt using its current assets. A company that is able to fulfill all its financial obligations can be said to be liquid, but if the opposite occurs it can be said that the company is not liquid. Companies that have a high level of liquidity also tend to have other current assets that can be withdrawn at any time. Low liquidity will cause a decrease in the price of the shares concerned, on the other hand, a high enough liquidity value is not necessarily good, because in certain conditions it indicates that there is little activity which can ultimately reduce the company's ability to generate profits. Research by Wartini (2006) and Yuniarta (2015) and Mudjijah and Hikmanto (2018) states that liquidity has a positive effect on financial performance.

**$H_3$: Liquidity has a positive effect on financial performance**

According to Riyanto (2011: 99), working capital funding is debt financing used by companies by showing the amount of short-term debt to all loans owned by the company. The debt structure is used to measure working capital funding, which is the ratio of current liabilities to total liabilities. The debt structure describes a composition of the debt term used by the company, whether short, medium, or long term and is influenced by the size of the debt (Riyanto, 2011: 113). Sources of investment capital in current assets can come from short-term capital in the form of current debts and long-term capital in the form of long-term loans or equity. This ratio emphasizes the importance of debt financing for companies to improve financial performance. The greater the percentage of funding comes from shareholder equity, from the creditor's point of view, the greater the protection for the lender. The higher this ratio, the greater the financial risk that can interfere with the achievement of financial performance. The smaller this ratio, the better or the smaller the financial risk that causes the company to avoid bankruptcy problems. Yulianti's research (2013) states that working capital funding has a positive effect on financial performance. Herdiyanto's research (2014) shows that debt structure has a positive effect on financial performance.

**$H_4$: Working capital funding has a positive effect on financial performance**

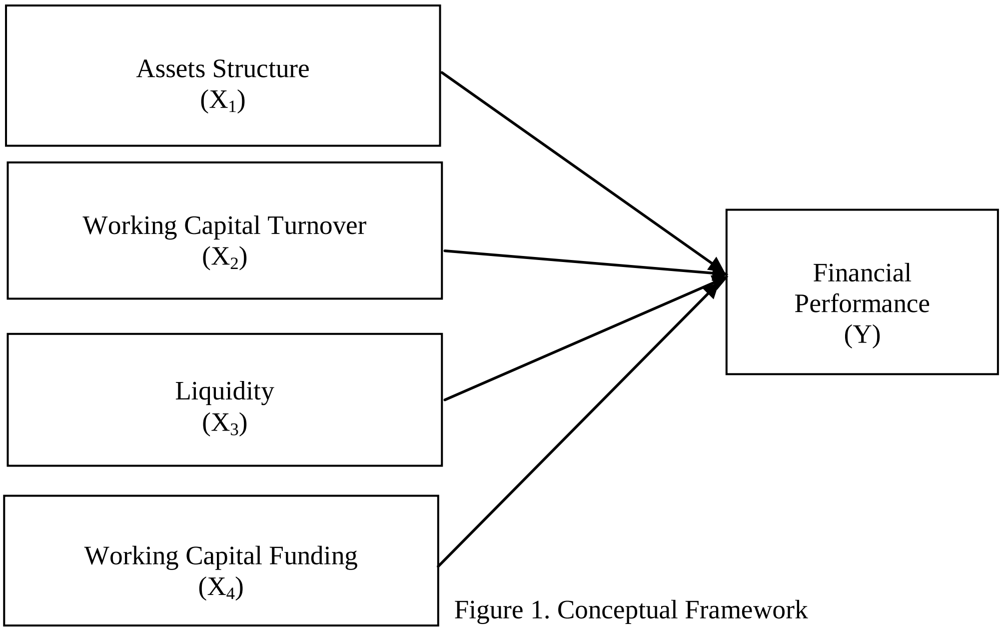


Figure 1. Conceptual Framework

## III. RESEARCH METHODS

This research was conducted at LQ45 index companies listed on the Indonesia Stock Exchange for the period 2017-2019. The population in this study are all companies listed as the LQ45 Index on the IDX from 2017-2019. The population in this study were 45 companies. The sample used in this research is LQ45 companies listed on the IDX for the 2017-2019 period which were selected through purposive sampling technique. The number of samples selected was 31 companies. The data collection method used in this study is the non-participant observation method. The data analysis technique used in this research is multiple linear regression test. In measuring company performance, every organizational unit in the company can use ROA to determine the financial performance of each business unit.

$$ROA = \frac{\text{Net profit}}{\text{Average total assets}} x100\% \quad \text{(Kasmir:2018)}$$

The assets structure formula can be written as follows:

$$\text{Current Assets to Total Assets Ratio} = \frac{\text{Current assets}}{\text{Total assets}} x\ 100\% \quad \text{(Kasmir:2018)}$$

The working capital turnover formula can be written as follows:

$$\text{Working Capital Turnover} = \frac{\text{Sales}}{\text{Current assets}} \text{ (Kasmir:2018)}$$

The quick ratio formula can be written as follows:

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}} \text{x } 100\% \text{ (Kasmir:2018)}$$

According to Riyanto (2011: 99), working capital funding is debt financing used by companies by showing the amount of short-term debt to all loans owned by the company. Measured by the debt structure ratio, which is the ratio of current liabilities to total liabilities owned by the company to generate company profits. This ratio can be formulated as follows:

$$\text{Debt Structure} = \frac{\text{Current Liabilities}}{\text{Total Liabilities}} \text{ x } 100\% \text{ (Kasmir:2018)}$$

## IV. RESULTS AND DISCUSSION

The financial statement data used is the 2017-2019 period data. Based on the sample selection criteria selected through a selection process as follows:

**Table 1 Sample Selection Results**

| No. | Information | Total |
|---|---|---|
| 1 | LQ45 company that published audited financial reports on the IDX in 2017-2019 | 45 |
| 2 | Companies that have been delisted (out) from the LQ45 Index on the IDX for 3 consecutive years 2017-2019 | (9) |
| 3 | Companies that incurred losses in 2017-2019 | (5) |
| 4 | The number of LQ45 companies observed | 31 |
| 5 | The observed LQ45 company period | 3 |
| | Amount of observed data | 93 |
| Source: *Data processed, 2021* | | |

Hypothesis test (t test) shows how far the influence of one independent variable individually can explain the dependent variables. In this study using multiple linear regression analysis. Multiple Linear Regression Analysis is used to examine the effect of independent variables on the dependent variable and to show the direction of the relationship between these variables.

**Table 2 Hypothesis Test Results**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | **Unstandardized Coefficients** | | **Standardized Coefficients** | **Sig.** | **Hasil Uji** |
| | | **B** | **Std. Error** | **Beta** | | |
| 1 | (Constant) | -8.35 | 2.83 | | 0.00 | |
| | Assets Structure | 0.08 | 0.04 | 0.38 | 0.04 | $H_1$ accepted |
| | Working Capital Turnover | 0.07 | 0.00 | 0.66 | 0.00 | $H_2$ accepted |
| | Liquidity | 0.00 | 0.00 | 0.18 | 0.33 | $H_3$ rejected |
| | Working Capital Funding | 0.03 | 0.03 | 0.07 | 0.37 | $H_4$ rejected |
| Source: *Data processed, 2021* | | | | | | |

The regression equation can be written as follows:

$$\hat{Y} = -8{,}35 + 0{,}08X_1 + 0{,}07X_2 + 0{,}00X_3{}^{*)} + 0{,}03X_4{}^{*)} + e$$

*) The effect of liquidity ($X_3$) and working capital funding ($X_4$) on financial performance ($\hat{Y}$) has no significant effect.

**The Effect of Asset Structure on Financial Performance**

Based on the test results of the asset structure variable on financial performance, it shows the t value of 2.04 with a significance of 0.04 which is smaller than α (0.05). These results indicate that $H_1$ is accepted, namely the asset structure has a positive effect on financial performance, where the greater the asset structure in a company, the better the financial performance of the company. These results indicate that H1 is accepted, that is, the asset structure has a positive effect on financial performance. The implication for LQ45 companies listed on the Indonesia Stock Exchange is that these companies must strive to improve their asset structure to improve financial performance as measured by Return On Assets (ROA). This is very important to increase the most liquid assets that can be used at any time to finance company operations in generating profits for the sake of achieving good financial performance. The results of this study are consistent with the results of research by Yulianti (2013), Rahmiyatun (2016) and Mudjijah and Hikmanto (2018) who found that asset structure has a positive effect on financial performance.

**The Effect of Working Capital Turnover on Financial Performance**

The results of testing the working capital turnover variable on financial performance show the t value of 8.33 with a significance of 0.00 which is smaller than α (0.05). These results indicate that $H_2$ is accepted, namely working capital turnover has a positive effect on financial performance, where the higher the working capital turnover, the better the financial performance performed by the company. The implication of working capital turnover research shows that this variable has a significant positive effect on financial performance in LQ45 companies. Working capital is one of the things that is very important for the company because the company always needs working capital in order to finance the daily activities of the company where the funds that have been spent are expected to be able to quickly return to the company's cash through the sales proceeds. So good and sufficient working capital will support high financial performance, the higher the turnover rate of working capital, the more effective the use of working capital and the faster the working capital rotates, the greater the benefits to improve financial performance. The results of this study are consistent with the results of research by Yulianti (2013), Hanun (2008), Kusumo (2017) and Amelia and Cahyono (2020) which state that working capital turnover has a positive effect on financial performance.

**The Effect of Liquidity on Financial Performance**

The results of testing the liquidity variable on financial performance show a t value of 0.99 with a significance of 0.32 which is greater than α (0.05). These results indicate that $H_3$ is rejected, that is, liquidity does not have a significant effect on financial performance. This is probably due to the cash in the company that is used to pay the company's short-term obligations so that it does not affect the profits earned by the company and the inventory turnover in the company also has no effect on profits to improve financial performance. The results of this study are consistent with the results of research by Megasari et al. (2020) which states that liquidity has no effect on financial performance.

**The Effect of Working Capital Funding on Financial Performance**

The results of testing the working capital funding variable on financial performance show a t value of 0.90 with a significance of 0.37 which is smaller than α (0.05). These results indicate that $H_4$ is rejected, that is, working capital funding has no effect on financial performance. Working capital funding (debt structure) does not have a significant effect on financial performance as measured by Return On Assets (ROA). This implies that an increase in working capital funding in the form of an increase in the number of loans used to finance company operations does not lead to a significant increase in profitability. The results of this study are consistent with the results of research by Rahmiyatun and Nainggolan (2016) and Megasari, et al (2020) which state that working capital funding has no effect on financial performance.

## V. CONCLUSION

Based on the results of data analysis and the discussion that has been described, it can be concluded that the asset structure has a positive effect on financial performance. Working capital turnover has a positive effect on financial performance. Liquidity has no effect on financial performance. Working capital funding has no effect on financial performance.

Suggestions that can be given in this study, the results of this study can provide information to pay attention to company performance because the asset structure and the rate of working capital turnover have an effect on financial performance. This aims to obtain maximum financial performance for the company. Companies are expected to be more careful in managing assets and working capital owned by the company to provide confidence in the safety of funds that will be invested by investors so that they do not cause agency conflicts that lead to poor financial performance. By paying close attention to financial performance, investors will be interested in delivering complete and transparent information. This will affect the sustainability of the company. This research can provide information to investors before making an investment into a company, it is better if prospective investors consider the company's financial condition, by paying close attention to how good asset management and working capital are in the company so as not to cause agency conflicts that can lead to profits and welfare for investors. Future research is expected to increase the observation period and use other variables that affect financial performance. For example, by using the net profit margin.

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