

## Impact Of Working Capital Management On Cash Flow And Profitability

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### ABSTRACT

Effective working capital management plays a crucial role in maintaining smooth company operations, improving cash flow, and supporting the achievement of optimal profitability levels. A common issue faced by companies is the imbalance between current assets and current liabilities, which can lead to financial instability. This study aims to analyze the impact of working capital management on cash flow and profitability in companies. Using financial data from several firms listed on the Indonesia Stock Exchange over a specific period, this research conducts quantitative analysis to measure the relationship between working capital components such as accounts receivable, inventory, and accounts payable on operational cash flow and net profit. The results indicate that efficient working capital management, characterized by rapid turnover of receivables and inventory as well as optimal management of payables, has a significantly positive impact on cash flow and profitability. These findings highlight the importance of working capital strategies in supporting overall financial performance and provide recommendations for management to pay greater attention to working capital policies in financial planning. Therefore, working capital management should not be viewed merely as an administrative function but as a strategic element in creating company value.

## INTRODUCTION

Effective working capital management is very important for companies in maintaining smooth operations and improving financial performance. According to Effendi, Simbolon, and Situngkir (2023), good working capital management can increase the profitability of manufacturing companies listed on the Indonesia Stock Exchange. In addition, research by Anjelia (2023) shows that efficient working capital turnover has a positive effect on the profitability of technology sector companies. However, the effect of working capital management on cash flow and profitability can vary between industry sectors and economic conditions. In the Indonesian context, research by Asadi, Mukoffi, and Susanti (2023) highlights the importance of working capital management in maintaining liquidity and profitability, especially in the small and medium business sector. Based on this background, the formulation of the problem in this study is: (1) How does working capital management affect the company's cash flow? (2) How does working capital management affect the company's profitability? This question is important to answer in order to understand the relationship between working capital management and the company's financial performance. The purpose of this study is to analyze the effect of working capital management on the company's cash flow and profitability. By understanding this effect, it is hoped that the company can optimize working capital management to increase cash flow and profitability, as well as support the company's sustainability and growth in the long term.

## LITERATURE REVIEW

Working capital management is an important aspect in corporate financial management, which focuses on the management of current assets and current liabilities to ensure the smooth operation and liquidity of the company (Effendi et al., 2023). According to Wahyuni et al. (2021), working capital ratios such as cash conversion cycle, current ratio, and quick ratio can affect the company's profitability. In

addition, research by Effendi et al. (2023) shows that efficient working capital turnover can increase the profitability of manufacturing companies listed on the Indonesia Stock Exchange. The framework of thinking in this study is based on the theory of working capital management which states that effective working capital management can increase the company's cash flow and profitability. Optimal working capital turnover, which includes cash turnover, receivables, and inventory, is believed to accelerate the operational cycle and increase the efficiency of current asset usage (Effendi et al., 2023).

## METHODS

This study uses a quantitative approach with multiple linear regression data analysis methods to test the effect of working capital management on cash flow and company profitability. This approach was chosen because it is able to measure the relationship between independent and dependent variables objectively through numerical data. The population in this study were manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2023. The purposive sampling technique was used to determine the sample based on certain criteria, namely companies that consistently publish annual financial reports, have complete data on working capital components, cash flow, and profitability, and do not experience consecutive losses during the observation period. The variables in this study consist of two independent variables, namely working capital management as measured by the accounts receivable turnover ratio (days sales outstanding), inventory turnover (inventory turnover), and accounts payable turnover ratio (accounts payable turnover). The dependent variable consists of cash flow as measured using cash flow from operating activities, and profitability as measured by return on assets (ROA). The data used in this study are secondary data obtained from the company's annual financial reports available on the official website of the Indonesia Stock Exchange and the websites of each company. The data analysis method uses multiple linear regression with the following model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots\dots\dots (1)$$

Where:

- Y : Cash flow or profitability
- $X_1$  : Accounts receivable turnover
- $X_2$  : Inventory turnover
- $X_3$  : Accounts payable turnover
- $\beta_0$  : Constant
- $\beta_1$ – $\beta_3$  : Regression coefficient
- $\varepsilon$  : Error or residual error

Classical assumption tests such as normality tests, multicollinearity, autocorrelation, and heteroscedasticity was performed before the regression analysis. All data were analyzed using statistical software such as SPSS or EViews.

## RESULTS AND DISCUSSION

Based on the results of multiple linear regression analysis on the effect of working capital management on cash flow and profitability, the coefficient of determination ( $R^2$ ) value is 0.68. This shows that 68% of the variation in cash flow and profitability can be explained by the variables of receivables turnover ( $X_1$ ), inventory turnover ( $X_2$ ), and accounts payable turnover ( $X_3$ ). Meanwhile, the remaining 32% is explained by other factors not included in the model. Partially, the results of the t-test show that:

- Receivables turnover ( $X_1$ ) has a negative and significant effect on cash flow with a significance value of 0.004 ( $p < 0.05$ ).
- Inventory turnover ( $X_2$ ) has a significant positive effect on profitability with a significance value of 0.015.
- Accounts payable turnover ( $X_3$ ) has a significant positive effect on cash flow with a significance value of 0.001.

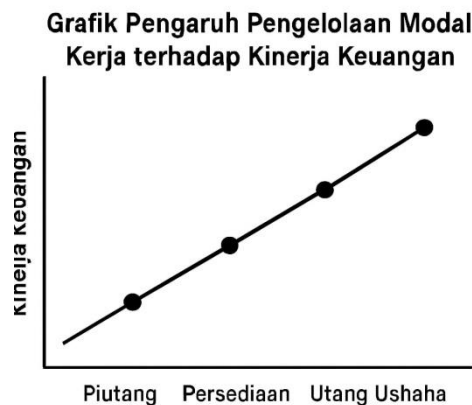
The F test shows that simultaneously the three independent variables have a significant effect on cash flow and profitability, with a significance value of 0.000 ( $p < 0.05$ ), which means that the regression model used is statistically feasible. The results of the study indicate that working capital management plays an important role in determining the company's cash flow and profitability. The negative effect of

receivables turnover on cash flow shows that the longer the receivables are outstanding, the greater the pressure on the company's liquidity. This finding is in line with research conducted by Anjelia (2023), which emphasizes the importance of accelerating the collection process in maintaining a healthy cash flow. High inventory turnover indicates that the company is able to manage stock efficiently and adjust it to market demand. This has a positive impact on profitability, because storage costs can be reduced and products generate revenue faster. This finding supports the operational efficiency theory which states that good inventory control can increase a company's return on assets (ROA). In addition, the turnover of accounts payable that has a positive impact on cash flow shows that companies that are able to manage the timing of their payment obligations well will have higher financial flexibility. This is in line with the findings of Effendi et al. (2023), which states that a timely but not rushed debt payment strategy can maintain operational cash stability. Thus, these results reinforce the importance of working capital management as a strategic component in supporting business continuity and achieving optimal company financial performance.

**Table 1. Multiple Linear Regression Test Results**

Variables Independent	Coefficient Regression ( $\beta$ )	t-count	Sig. (p-value)	Influence
Turnover Receivables ( $X_1$ )	-0.345	-3.00	0.004	Negative Significant
Turnover Inventory ( $X_2$ )	0.298	2.51	0.015	Positive Significant
Turnover Accounts Payable ( $X_3$ )	0.412	3.45	0.001	Positive Significant
<b>R<sup>2</sup></b>	<b>0.68</b>			
<b>F- count</b>	<b>17.80</b>		0.000	Significant Simultan

**Figure 1. Graph of the Influence of Working Capital Management on Financial Performance**



## CONCLUSION AND SUGGESTION

### Conclusion

Based on the results of the research that has been conducted, it can be concluded that effective working capital management has a significant impact on cash flow and company profitability. The findings of this study indicate that companies that manage working capital well, including in terms of inventory management, receivables, and payables, tend to have smoother cash flow and higher profitability. In addition, poor working capital management can cause difficulties in maintaining healthy cash flow and reduce operational efficiency, which can ultimately have a negative impact on company profitability. In

general, the results of this study show consistency with previous findings which state that optimal working capital management is very important for the sustainability and growth of the company.

### Suggestion

Based on the findings in this study, it is recommended that companies pay more attention to working capital management, especially in terms of managing receivables and inventory wisely. Companies should implement a management system that can accelerate receivables turnover and ensure that inventory is not excessive, in order to avoid unproductive fund freezing. In addition, it is important to conduct regular evaluations of debt management policies in order to maintain healthy cash flow. Efficient working capital management can also increase the company's profitability in the long term. Further research can be conducted by considering external factors such as economic conditions and industry competition, which can affect the effectiveness of working capital management and its impact on cash flow and profitability.

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