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THE EFFECT OF WORKING CAPITAL MANAGEMENT AND FAMILY OWNERSHIP ON PROFITABILITY AND LIQUIDITY (STUDY OF FAMILY COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2018-2022)

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ABSTRACT

This article aims to examine the impact of working capital management and family ownership on the profitability and liquidity of family-owned companies listed on the Indonesia Stock Exchange from 2018 to 2022. The research utilizes a quantitative approach by analyzing financial data about working capital, family ownership, profitability, and company liquidity. The data used in the study is obtained from publicly available financial reports of family-owned companies listed on the Indonesia Stock Exchange. Data collection is conducted through a thorough review of documentation. The research sample consists of active family-owned companies that possess complete data for analysis. Multiple linear regression is employed to assess the relationship between working capital management, family ownership, profitability, and company liquidity. The findings reveal that both working capital management and family ownership significantly influence the profitability and liquidity of family firms. These findings offer valuable insights for family firm management to enhance their financial performance. Effective management of working capital can contribute to improved profitability and liquidity, while family ownership also plays a crucial role in determining the financial performance of family-owned companies. Furthermore, in addition to its practical implications, this research contributes theoretically to the existing literature on working capital management and family ownership, specifically in the context of family-owned companies in Indonesia.

Keywords: *working capital management, family ownership, profitability, liquidity*

INTRODUCTION

Over time, competition between companies is getting tougher, forcing companies to achieve profitability in order to survive and develop. In achieving this goal, financial performance is a key factor to consider. One very important aspect of financial performance is working capital, which has a significant role in the daily operations of a company and has an impact on the company's liquidity and stability. Financial managers, as decision-makers, often prioritize managing the use of working capital, which is known as working capital management.

Mardiyana & Murni (2018) state that working capital management involves efforts to optimize company value by managing current assets and short-term liabilities. The main objective is to ensure that the management of current assets generates returns at least equal to or higher than the cost of capital used while monitoring the cash flow of current assets. Working capital efficiency reflects the ability to maintain the availability of adequate working capital. In working capital management, there are three factors that need to be considered, namely cash, accounts receivable, and inventory. The faster the rotation of each of these factors, it can be said that working capital operates efficiently.

According to Fahmi & Adi (2020) quoted by (Saputra, 2021), working capital refers to investments made by companies in short-term assets such as cash, securities, inventories, and receivables. The sign of a good company is its ability to meet obligations without relying on loans from other parties, such as banks. As a result, the company focuses on improving quality and attractiveness to investors, which in turn increases the turnover of working capital, cash and inventories that contribute to profits.

Liquidity is used by companies as an indicator to identify risks, both high and low risks (Galletta & Mazzù, 2019). Liquidity describes a company's ability to meet short-term obligations to support daily operations. Company managers show that effective working capital management can increase company liquidity. Therefore, efficiency in working capital management is a key factor in measuring company liquidity, because the higher the level of liquidity, the more efficient the company's working capital management (Chakraborty et al., 2021; Moon & Bates, 1993).

The role of liquidity in company performance has its own significance, because it can reflect the extent to which a company can achieve success (Jihadi et al., 2021). A high level of liquidity indicates a favorable situation for the company, especially from a creditor's perspective, because it shows the company's ability to pay current liabilities before maturity. However, from the perspective of stakeholders, too high liquidity is considered unprofitable because it indicates that funds are not being used efficiently. Liquidity is the main indicator for a company in evaluating its ability to pay off short-term debt and can be measured using the current ratio.

According to Singh & Pandey (2008), working capital management has the potential to generate significant profits in a relatively short time for the company. Working capital management aims to meet the company's needs, and if excess funds are available, they will be used to cover predetermined expenses within a one-year period and maintain the company's liquidity level. Baker et al. (2019) also emphasize the importance of liquidity in working capital management. The findings from the research by Abdullah et al. (2022) show that there is a significant influence between working capital management and liquidity. Singh & Pandey (2008) also states that an increase in working capital management will have a positive impact on company liquidity.

Companies that are able to manage working capital optimally have the potential to maximize firm value. On the other hand, having a large inventory and extending credit to customers on sales can increase a company's sales volume. According to Rahmaita & Nini (2021), the working capital turnover rate reflects the extent to which working capital is used effectively within the company, where the higher the working capital turnover rate, the more efficiently the working capital is used. When working capital rotates quickly, companies have greater opportunities to increase profitability. Therefore, working capital management and its components need to be managed efficiently, because this can affect the stability of the company's profit level (Loekito & Setiawati, 2021).

The results of research conducted by Utami and Dewi in Mardiyana & Murni (2018) with the title "The Effect of Working Capital Management on the Profitability of Manufacturing Companies Listed on the Indonesia Stock Exchange" concluded that cash turnover, accounts receivable turnover, and inventory turnover have a positive and significant impact on profitability in manufacturing companies listed on the Indonesia Stock Exchange. On the other hand, research conducted by Mardiyana & Murni (2018) entitled "The Effect of Working Capital Management on Profitability in Pharmaceutical Companies Listed on the IDX" found that cash turnover and accounts receivable turnover had a significant impact on profitability, while inventory turnover did not have a significant impact on tobacco companies. Overall, cash turnover accounts receivable turnover, and inventory turnover together have a significant effect on the profitability of tobacco companies. The difference between this research and previous research lies in the company sector studied, namely family companies on the Indonesia Stock Exchange during the 2018-2022 period, as well as the inclusion of family ownership variables and liquidity ratios.

METHOD

This research is a replication of previous research, which means repeating previous similar studies using different samples, variables, and periods. The main difference in this study lies in the company that is the object of research, the research variables considered, and the period of research conducted.

Variables and Variable Measurement

The variables and measurements used in this study intend to determine the relationship between the independent variables, moderating variables, and control variables on the dependent variable, each of which is measured as described below:

Table 1. Variable Identification and Measurement l

Variable Type	Variable name	Definition of Operational Variables	Reference
Independent Variables	Working Capital Management	CCC = DSO + DII - DPO	(Abdullah et al., 2022)
Dependent Variable	Profitability	ROA = Net income / Total Assets	(Abdullah et al., 2022)
	Liquidity	CR = Current assets / Current liabilities	(Abdullah et al., 2022)
Moderation Variables	Family Ownership	Percentage of share ownership of more than 25%	(Abdullah et al., 2022)
Control Variables	Size	Total Assets	(Abdullah et al., 2022)
	Age	Number of years since the establishment of the company	(Abdullah et al., 2022)
	leverage	Total debt / Total equity	(Abdullah et al., 2022)
	Sales Growth	$\frac{\text{Net sales (t)- Net Sales (t-1)}}{\text{Net Sales (1-t)}}$	(Tonggano & Christiawan, 2017)

Sampling Method

This study adopts a quantitative approach using secondary data. The secondary data used comes from annual reports of family companies in the manufacturing sector that are listed on the IDX for the 2018-2022 period which has complete financial statements totaling 21 companies. Sources of data were obtained through the company's official website and IDX. Purposive sampling was used as a sampling technique in this study, with the aim of obtaining a well-represented sample.

Table 2. Sampling Criteria

No.	Information	Amount
1.	Manufacturing company listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2022	161
2.	A company that owns ownership minimum 25% shares owned member or group family certain and shares family invested by children company family	21
3.	Issuing company report finance in a manner complete about the required variables in study during the period 2018 to 2022	21
4.	The total sample used	21

The test method used in this study is a multiple linear regression test to test the hypothesis of influence between variables consisting of:

1. Test r square
2. t-test.

RESULTS AND DISCUSSION

In the context of family ownership, this study also analyzes the effect of family ownership on the profitability and liquidity of family firms. The results of the analysis show that family ownership has a significant positive effect on the profitability of family firms. This can be explained by the fact that family ownership can create long-term commitment to the company and encourage decision making that supports the company's growth and sustainability (Fahmi & Adi, 2020).

However, interestingly, the effect of family ownership on the liquidity of family firms is not proven to be significant. This may be due to differences in dividend distribution policies among the family firms studied (Chen et al., 2020). Although family ownership can provide trust and long-term stability, the decision to distribute profits as dividends still depends on the company's dividend policy. Therefore, further research is needed to understand the role of family ownership in maintaining the liquidity level of family companies (Rosmawati et al., 2017).

Furthermore, we look at the moderation of other factors such as company size, company age, leverage, and sales growth on the relationship between working capital management, family ownership, and financial performance of family firms (Tonggano & Christiawan, 2017).

In the context of firm size, the analysis shows that firm size has a moderating effect on the relationship between working capital management and liquidity. This means that the effect of working capital management on liquidity is more significant in larger family firms. Perhaps this is because larger companies have a larger operational scale and require more effective working capital management to meet higher liquidity needs.

Firm age, as a moderator variable, does not affect the effect of working capital management and family ownership on the profitability and liquidity of family firms (Supramono & Nanna, 2022). These findings indicate that the effect of working capital management and family ownership remains consistent regardless of firm age.

Leverage and sales growth are also not proven to moderate the relationship between the variables studied. This means that the influence of working capital management and family ownership on the financial performance of family firms is not affected by the level of leverage or the company's sales growth.

Overall, the findings of this study provide a deeper understanding of the effect of working capital management and family ownership on the profitability and liquidity of family firms. This study also shows that firm size can moderate the relationship between working capital management and liquidity. However, further research is needed to broaden our understanding of the role of other factors, such as firm age, leverage, and sales growth, in the context of family firms on the Indonesia Stock Exchange (Maula & Adi, 2017).

CONCLUSION

Working capital management has a significant positive effect on the profitability and liquidity of family firms. By managing current assets and current liabilities properly, family companies can achieve higher levels of profitability and maintain a healthy level of liquidity. Family ownership also has a significant positive effect on the profitability of family firms. Family ownership can create long-term commitment to the company and encourage decision-making that supports the company's growth and sustainability. The effect of family ownership on the liquidity of family companies is not proven to be significant. However, further research is needed to understand the role of family ownership in maintaining the liquidity level of family firms by considering other factors, such as the company's dividend policy. Firm size moderates the relationship between working capital management and family business liquidity. The effect of working capital management on liquidity is more significant in larger family firms, perhaps because larger operational scales require more effective working capital management. Firm age, leverage, and sales growth do not affect the effect of working capital management and family ownership on the financial performance of family firms. The influence of the two variables remains consistent regardless of these factors.

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