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# The Influence Of Working Capital On Profitability In Pharmaceutical Sub-Sector Companies On The Stock Exchange Indonesia 2018-2022

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***Abstract***

*This research is a type of quantitative research with the aim of determining the effect of working capital on profitability in pharmaceutical sub-sector companies on the Indonesian stock exchange in 2018-2022. This study uses secondary data, namely annual financial statements on pharmaceutical sub-sector companies in 2018-2022. The data analysis technique used is simple linear regression analysis. The sampling method is purposive sampling with a sample of 8 companies obtained from the Indonesia Stock Exchange. Based on the results of the analysis obtained, it is stated that working capital has a positive and significant effect on profitability, it is proven that t-calculation is greater than t-table, namely 2,060 > 2,028 and significance value (Sig.) 0.047 < 0.05, then H0 is rejected and H1 is accepted.*

***Keywords*: *Working Capital, Profitability, ROA***

## INTRODUCTION

In the current era of globalization, business competition between industrial companies is increasingly fierce. This makes them increasingly strive to maximize all the resources they have so that the company can operate optimally and obtain maximum company profits every period. In an effort to increase company profits, companies must indirectly carry out various series of operational activities to generate profits. Operational activities carried out by companies sometimes require quite a lot of costs. The costs required by the company usually come from working capital, sales of production goods, other assets owned by the company, or from debt. One of the supporting factors in financing a company's operational activities is working capital. In order for these operational efforts to run optimally, the company must be able to ensure the availability of sufficient working capital.

Working capital itself is used to finance short-term activities such as purchasing raw materials, operations or production and paying employee wages and other operational costs. Working capital is of course very important for a company because a company will always need working capital to finance its daily operations, for example making a down payment for purchasing merchandise, paying labor wages, employee salaries, etc., where the funds that have been spent are It is hoped that this will return to the company in the short term through the proceeds from its sales.

The availability of sufficient working capital is important for a company to fund its operational activities. Therefore, companies must be able to utilize working capital effectively and efficiently. Excessive working capital indicates capital inefficiency. This will result in losses for the company, resulting in a decrease in the company's level of profitability. On the other hand, a lack of working capital will also cause losses for the company because opportunities to gain profits will be wasted. For this reason, every business must manage its

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working capital effectively and efficiently in order to be able to generate profits which have an impact on achieving maximum profitability for the business.

Profitability or profitability is very important for a company because it can reflect the success and survival of a company. A company's ability to generate profits over a certain period is called profitability. The profitability ratio is a ratio that assesses a company's ability to make a profit.

The profitability ratio in this research is Return On Assets (ROA). Return on assets is used to see the extent to which the investment that has been invested is able to provide returns in accordance with expectations based on the assets owned. Return on assets analysis shows the company's ability to use all its assets to generate profits after tax (Meidiyustiani & Niazi, 2021)

Industrial companies are companies that produce various forms of goods to then sell in order to obtain maximum profits. To be able to achieve the company's goal, namely making a profit, management with high effectiveness is needed. Industrial companies themselves consist of five sectors, namely the goods and consumption sector, the basic chemical industry sector, the various industry sector, the agricultural sector and mining. The population in this study used pharmaceutical industry sector companies. The reason for using companies in the pharmaceutical industry sector is because this sector is one of the sectors that plays an active and prominent role. The pharmaceutical industry sector is experiencing fairly rapid development, this can be seen from the increasing number of pharmaceutical industry companies listed on the Indonesia Stock Exchange from year to year, so it is possible that pharmaceutical sector companies are really needed by the public and the future prospects will be very profitable.

Previous research shows that working capital has a significant positive effect on profitability. Because the higher the working capital turnover, the more efficient the use of working capital carried out by the company's management will reflect that the company has good performance, which will give a positive signal to investors because looking at the financial reports, profits are increasing (Anissa, 2019) .

Previous research also stated that working capital turnover does not have a significant effect on profitability. This is because working capital turnover is not high and its use is less effective, which results in reduced sales so that the company's profitability does not increase. (Renil Septiano, 2022).

## RESEARCH METHODS

The type of research used in this research is quantitative research using secondary data sources obtained from published financial reports published by the Indonesia Stock Exchange via IDX during the research period. The data collection technique used is a secondary method in the form of evidence, notes or historical reports that have been compiled in published archives (financial reports).

## RESULTS AND DISCUSSION

A. Results

1. Simple Linear Regression Test

Simple Regression Analysis is an approach method for modeling the relationship between one dependent variable and one independent variable. In simple regression analysis,

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the relationship between variables is linear, where changes in variable X will be followed by constant changes in variable Y

Table 1 Simple Linear Regression Analysis Test Results

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Say. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 6,836 | 1,233 | | 5,546 | ,000 |
| | CAPITAL | 6,213E-013 | ,000 | ,325 | 2,060 | ,047 |
| a. Dependent Variable: ROA | | | | | | |

*Source: Processed Data 2024 (SPSS Program Output)*

Based on table 4.1 *coefficients* The obtained value of a is 6,836, the value of b is 6,213E-013. When put into a simple linear regression equation, the results are as follows:

**Y = 6,836 + 6,213E-013 X**

From the regression equation above it can be interpreted as follows:
1. a = 6.836 shows that if the value of X (does not change) then the constant value of Y is 6.836. This means that ROA changed by 6,836%.
2. b = **6,213E-013** states that if working capital increases by IDR 1, then ROA will increase by 6,213E-013.
3. Hypothesis testing

a. T Test (Persial Test)

Partial t test (*partial t-test*) is a statistical method used to test whether a certain independent variable significantly influences the dependent variable in a simple linear regression model, when control for other independent variables has been carried out. The partial t test allows us to evaluate the individual contribution of a specific independent variable to the dependent variable, while controlling for the influence of other independent variables.

Based on table 4.1, the t-calculated Working Capital (X) value is 2,060. Next determine the t-Table. The t distribution table is searched at $\alpha/2 = 0.05 = 0.025$ with degrees of freedom N-k-1, namely 38 – 1 – 1 = 36, then we get a t-table of 2.028. Because the t-count is greater than the t-table, namely 2,060 > 2,028 and the significance value (Sig.) 0.047 < 0.05, H0 is rejected and H1 is accepted. So it can be interpreted that there is a significant influence between Working Capital and Profitability which is proxied by ROA

b. Determination Test (R2)

This analysis is used to determine the magnitude of the influence of the independent variable (*independent variable*) to related variables (*dependent variable*), usually asked in percentages. This coefficient of determination can be calculated using the formula:

IJERFA International Journal of Economic Research and Financial Accounting

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$$\textbf{Kd} = r2 \ \ \textbf{x 100\%}$$

Where:
Kd = Coefficient of Determination
r = Correlation Coefficient

Table 2 Coefficient of Determination Test Results

| **Model Summary[b]** | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | ,325[a] | ,105 | ,081 | 6,30322 | ,796 |
| a. Predictors: (Constant), MODAL | | | | | |
| b. Dependent Variable: ROA | | | | | |

*Source: Processed Data 2024 (SPSS Program Output)*

From the spss output table above Summary of Determination Coefficient Test, the coefficient of determination (*R square*) of 0.105 or 0.105 x 100 = 10.5% which means that variations in the rise and fall of the dependent variable (Y) are influenced by variations in the rise and fall of the independent variable (X) by 10.5% and the remaining 89.5% is influenced by factors- other factors that researchers did not examine.

B. Discussion

Based on the results of the tests carried out in this research, a discussion will be carried out which provides some detailed information about the research results and how variables influence other variables. The independent variable in this research is Working Capital (X), while the dependent variable is Profitability which is proxied by ROA (Y).

The results of this research show that Working Capital has a positive and significant effect on Profitability in pharmaceutical sub-sector manufacturing companies for the 2018-2022 period. In other words, the faster the turnover of working capital, the more sales the company will achieve and the greater the profits the company will make. The large profits obtained by the company make the company's profitability increase.

This result was obtained from the t-calculated Working Capital (X) value of 2,060 and t-table 2,028. Because the t-count is greater than the t-table, namely 2,060 > 2,028 and the significance value (Sig.) 0.047 < 0.05, H0 is rejected and H1 is accepted. So it can be interpreted that there is a significant influence between working capital and profitability which is proxied by ROA.

Sufficient working capital will enable a company to operate as economically as possible, but excessive working capital indicates unproductive funds and this will cause losses for the company, and conversely, insufficient working capital is the main indicator of a company's failure.

The results of the research that has been carried out are in line with previous research conducted by (Anissa, 2019) stating that working capital has a positive and significant effect on profitability. This means that increases and decreases in working capital turnover during the research period affect profitability. The higher the company's working capital turnover, the higher the company's profitability. Because the higher the working capital turnover, the more

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efficient the use of working capital by the company's management, which will reflect that the company has good performance.

## CONCLUSION

Based on the results of research that has been carried out, the effect of working capital on profitability in pharmaceutical sub-sector companies in 2018-2022. It can be concluded that the results of this research show that working capital has a positive and significant effect on profitability in pharmaceutical sub-sector companies in 2018-2022. The higher the company's working capital turnover, the higher the company's profitability. Because the higher the working capital turnover, the more efficient the use of working capital carried out by the company's management, it will reflect that the company has good performance, which will give a positive signal to investors because they see from the financial reports increasing profits.

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