The Effect of Working Capital and Retained Earnings on the Profitability of Food and Beverages Companies Listed in Indonesia Stock Exchange Period 2012-2017

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Keywords: Working capital, retained earnings, profitability, food and beverages companies.

Abstract: This study aims to examine and analyse whether profitability is affected by working capital and retained earnings of companies. This research is a quantitative study using an associative method. This research was conducted at Food and Beverage Companies listed on the Indonesia Stock Exchange for the period 2012 - 2017. The companies analysed amounted to 6 companies determined based on sampling criteria. The analysis method used is panel data analysis by using Eviews 10 computer programming. The results of this study found that working capital did not significantly influence profitability, while significantly retained earning affected the profitability of food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the 2012-2017 period.

1 INTRODUCTION

Competition in the business world has increased recently, so companies are required to be able to adjust to changes that occur and must be able to compete with other companies in order to maintain business continuity. Competition in the business world makes every company must improve its performance so that company goals can be achieved. One of the main goals of a company is to make a profit. Therefore the company will carry out various activities or activities within the company to achieve its objectives.

Companies must always try to maximise profits so that they can achieve results and optimal profit levels and can support all activities in the company. The sustainability of a company's business is influenced by various things, one of which is the company's profitability. Profitability is one of the factors that can assess the good or bad performance of a company or the company's ability to make a profit. Profitability is a ratio that can reflect the success and ability of a company to earn profits or profits. The ability of a company to generate profits for a certain period is called profitability (Munawir, 2004).

Factors that influence the high or low amount of profitability are working capital. For companies to obtain the maximum possible profit, can be done by increasing the amount of production that can be sold to make a profit or profit. One of the essential factors of production is the working capital used by the company to finance all activities or activities of the company's operations to ensure the survival of a company. Working capital is an essential factor in a company. A company needs to pay its obligations due to its necessity in their daily operations. The funds are expected to re-enter the company through the production sale.

Working capital management is related to the management of current assets and current liabilities of the company. If the company is not able to maintain working capital in sufficient amounts, then the possibility of the company will be in a state that is unable to pay obligations that are due and threatened with bankruptcy (Syamsudin, 2011). With an effective and efficient working capital management, the company can increase the amount of profitability in the company. There have been many studies on working capital, including those conducted by Tumiwa and Mamuaya (2019) which state that working capital has no significant effect on profitability. However, different from the results of research conducted by Felany and Worokinasih (2018) that working capital has a significant effect on profitability.

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One of the decisions that can be taken by the company in achieving its objectives to be able to maximise its profits is the funding decision. Funding decisions in the company must be able to choose sources of funds that are good and profitable for the company and can allocate these funds efficiently. Sources of funds can be obtained by the company through the company (internal) or from outside the company (extern). Retained earnings are profits from net income that are not distributed to shareholders which will later be reused or invested into the company to increase working capital so that it can be used to finance all operational needs in the company because less working capital will adversely affect the company itself. Retained earnings are the portion of profits reinvested in the company. Not all profits obtained by the company are distributed to the owners (shareholders) as dividends but, will be retained and reinvested in the company for various purposes (Jumingan, 2009).

The increasing amount of internal funding from retained earnings will strengthen the company's financial position in dealing with various financial difficulties faced by the company in the future. As can be used as a reserve to deal with activities that will arise in the future, can be used to pay off corporate debts, can be used to increase working capital or to finance company expansion in the future. Thus, the increasing amount of retained earnings within the company, it is also expected to increase revenue in the company through the activities carried out, so that it will affect the increase in the amount of profit earned by the company. Research on retained earnings conducted by Sari (2013), has the result that retained earnings have a positive and significant effect on EPS earnings per share. Similarly, research conducted by Anshory (2016) also states that retained earnings have a positive and significant effect on earnings per share (EPS).

Manufacturing industry companies are industrial companies that dominate companies listed on the Indonesia Stock Exchange. Companies in the manufacturing industry are grouped into several industry sub-categories, one of which is a food and beverage sub-sector company. The food and beverage sub-sector company are one of the companies that have enormous opportunities to grow and develop in the business world, with so many companies listed on the Indonesia Stock Exchange causing much competition in the business world so that the company managers are required to be able to compete with other companies and can maintain the survival of the company in the future.

Food and beverage sub-sector companies are essential companies for the development of the nation's economy. However, that does not mean this company does not have problems in the company. The existence of very tight competition so companies must be able to obtain the maximum profit or profit from the capital they have and perform various activities to be able to survive and grow with the real competition in the business world today. This aspect has led researchers to become interested in making companies in the food and beverage sub-sector as the object of research.

The following is the profitability of PT. Indofood Sukses Makmur Tbk and PT. Nippon Indosari Corpindo Tbk, namely:

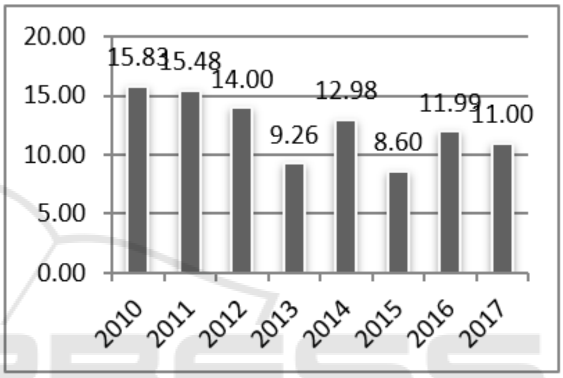

Figure 1: The profitability of PT. Indofood Sukses Makmur Tbk period 2010-2017.
Source: Data processed (2019)

Based on the data in Figure 1 above, it can be seen that the profitability of PT. Indofood Sukses Makmur Tbk in 2010-2017 tends to decrease and fluctuate.

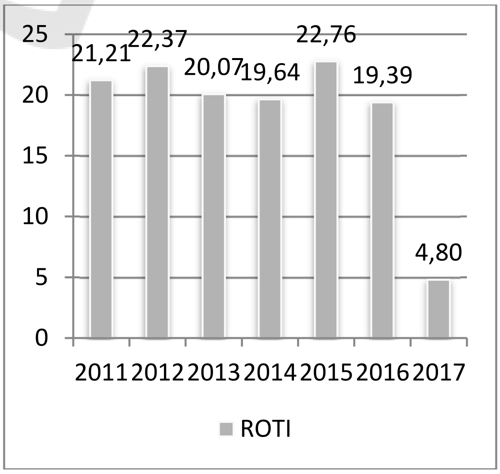

Figure 2: Profitability of PT. Nippon Indosari Corpindo Tbk period 2011-2017. *Source: Data processed (2019)*

Whereas in Figure 2 shows that the level of profitability (proxied by ROE) PT. Nippon Indosari Corpindo Tbk tends to decrease.

The tendency of decreasing the amount of profitability in this company can harm the company's development going forward because if the decline occurs continuously it will cause the company's stock prices to fall and investors are not interested in investing their capital in the company. If that happens then, the company could experience bankruptcy.

Working capital is significant in a company, so financial managers must be able to plan well the amount of working capital and its proper use and following the needs of a company. If working capital can be managed well, the profitability of the company can increase, but on the contrary, if working capital management is not proper, it will reduce the level of profitability of the company itself (Djarwanto, 2011).

A company to be able to meet the need for working capital that will be used for its operations requires an appropriate source of funding. It is also profitable for the company, because if the company uses excessively or too abundant sources of funding from outside the company, then it will harm the company itself because a significant interest rate that must be paid. (Ruthiana in Rahmadhania, 2010) states that if the company adds to the profits by a significant amount, then the number of dividends received by shareholders will decrease. If this is done continuously, then shareholders who need short-term funds will be disappointed.

Conversely, if the dividend distributed is magnified, the retained earnings will decrease. If the retained earnings are too small, the company will be very dependent on foreign capital. The opportunity to use their own capital which is relatively cheaper becomes insufficient. In the long run, this will have negative consequences for the company. Companies that have much debt will be disadvantaged, especially when the economic situation is terrible so the company cannot work efficiently.

The purpose of this study is: (1) Knowing whether working capital has a significant effect on the profitability on food and beverage companies listed on the Indonesia Stock Exchange, (2) Knowing whether retained earnings have a significant effect on the profitability on food and beverage companies listed on the Indonesia Stock Exchange.

This research is expected to provide benefits for investors in investing their funds and for companies as a reference and consideration and evaluation in making funding decisions and working capital management in order to be able to achieve the company's goals in generating maximum profits.

2 LITERATURE REVIEW

2.1 Profitability

Profitability is the ability of a company with the overall funds invested in assets used for the company's operations to generate profits (Munawir, 2012). One way to measure profitability is to use Return on Equity (ROE). ROE shows that the company's ability to generate profits after tax using the company's own capital (Sudana, 2011). This ratio is significant for shareholders to know the effectiveness and efficiency of the processing of their own capital carried out by the company's management. The higher this ratio, the more efficient the use of their own capital is carried out by the company. The formula used in this ratio is as follows:

$$Return\ On\ Equity\ (ROE) = \frac{Earning\ After\ taxes}{Total\ Equity} \quad (1)$$

2.2 Working Capital

Working capital is the excess of current assets over short-term debt. This excess is referred to as networking capital. This excess is the number of current assets that comes from long-term debt and own capital (Jumingan, 2011). Meanwhile, according to Kasmir (2016), working capital is capital that is used to carry out company operations. Working capital can also be interpreted as investments that are invested in current assets or short-term assets, such as cash, securities, inventories and other current assets. Working capital used in this study is the growth of working capital. Working capital growth is the difference between end-of-year working capital and base year working capital. The formula for measuring networking capital growth is as follows:

$$\text{Working Capital Growth} = \frac{\text{Final Working Capital (n)} - \text{Basic Working Capital}}{\text{Basic Working Capital}} \text{ x } 100\% \quad (2)$$

2.3 Retained Earnings

Retained earnings are retained earnings for use in business activities. The primary source of retained earnings is profit from operations. Shareholders bear the highest risk in the company's operations and assume any loss and profit from the company's activities. Any profits not distributed to these shareholders will become additional equity (Kisio et al., 2011). According to Jumingan (2011), retained earnings are the portion of profits reinvested in the company. Not all profits obtained by the company are distributed to the owners (shareholders) as dividends but will be retained and reinvested in the company for various purposes. Retained earnings used in this study is retained earnings growth. Growth of retained earnings is the difference between year-end retained earnings and essential year retained earnings. The formula for measuring retained earnings growth is:

$$\text{Retained Earnings Growth} = \frac{\text{Final Retained Earnings (n)} - \text{Basic Retained Earnings}}{\text{Basic Retained Earnings}} \text{ x } 100\% \quad (3)$$

2.4 The Effect of Working Capital on Profitability

The amount of excess working capital can be harmful to the company in generating profits because many funds are unemployed, and vice versa if the amount of working capital that is less will harm the company so that working capital must be available in sufficient quantities. According to Djarwanto (2011), working capital should be available in sufficient quantities to enable the company to operate economically and not experience financial difficulties, for example, able to cover losses and overcome a crisis or emergency without jeopardising the company's financial situation. Harahap (2010) states that working capital affects the level of profitability because working capital is a current asset in a company that is used for investment, its management will significantly affect the level of profitability of the company. The results of research conducted by Makky et al. (2017) and Felany & Worokinasih (2018) state that working capital has a significant effect on profitability.

Hypothesis 1 (H_1) = Working Capital has a significant effect on profitability

2.5 The Effect of Retained Earning on Profitability

Retained earnings represent retained earnings for reuse in company activities. Any profits not distributed to shareholders will be added to the company's equity. If the company meets its funding needs from internal sources, it is said that the company is spending or financing internally. From the results of research conducted by Sari (2013) and Anshory (2016) states that retained earnings have a significant effect on EPS (one of the profitability ratios).

The amount of profit in a company will positively affect the ability of the company to have a substantial income as well. In this case, retained earnings act as a source of internal funds for the company to carry out activities within the company. The higher the source of internal funds from retained earnings, it can strengthen the company's financial position in the face of financial difficulties in the future, to pay off debt, increase the amount of equity, and to finance the company's expansion in the future. Thus, the increasing amount of retained earnings in company equity, it is expected that the higher the income earned by the company through its activities that are increasing, so that it will affect the increase in profits in the company. This statement is in line with Riyanto (2010), who explained that the reasons for companies to hold profits are to stabilise investment and improve the financial structure of the company.

Hypothesis 2 (H_2) = Retained Earnings has a significant effect on profitability

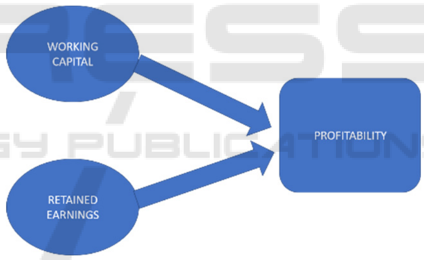

Figure 3: Framework research.

3 RESEARCH METHODS

This research is causal associative research that is quantitative because this research relates to the object of research, namely in companies with a certain period in the form of the company's annual financial statements. Moreover, information relating to the company that is tailored to the purpose of the study. Causal associative research is research that aims to determine the effect between two or more variables. This study explains the relationship of influence and influence of the variables to be examined.

The population in this study is the food and beverage sub-sector industry companies (Food and Beverages) which were listed on the Indonesia Stock

Exchange during the period 2012-2017. The data used in this study are secondary in the form of published financial statements. The data collection technique in this study was to use purposive sampling, which is sampling with specific criteria. Based on the sampling criteria where the selected sample is six companies with a period of 6 years, from 2012-2017 with a total of 36 data.

The data analysis technique used in this study is to use panel data analysis which is a combination of cross-section data and time series data using data processing applications in the form of Eviews 10.

4 RESULTS AND DISCUSSION

4.1 Data Analysis

4.1.1 Descriptive Analysis

Table 1: Descriptive Statistics.

	ROE	WC Growth	RE Growth
Mean	18.11066	29.67908	15.85503
Median	18.44145	12.83915	16.12175
Maximum	40.18710	270.0462	127.4153
Minimum	4.800000	-44.85350	-48.56370
Std. Dev.	8.655132	57.49393	29.40454
Observations	36	36	36
Cross sections	6	6	6

Source: Data processed (2019)

Statistical descriptive test results presented in Table 1 shows the profitability proxied by ROE shows the lowest value of 4.800000 or 4.80%, namely the company PT. Nippon Indosari Corpindo Tbk (ROTI) and the highest value is 40,18710 or 40.18%, namely the company PT. Delta Djakarta Tbk (DLTA), while the average profitability level proxied by ROE of 18,11066 or 18.11% shows that the amount of return on the company's profits to investors is 18.11%. In the variable working capital (WC), which is proxied by the growth of working capital shows that the lowest / smallest value of -44.85350 or -44.85%, namely the company PT. Indofood Sukses Makmur Tbk (INDF) and the highest / most significant value is 270.0462 or 270.04%, namely the company PT. Nippon Indosari Corpindo Tbk (ROTI), While the average working capital (WC) which is proxied by working capital growth is 29.67908 or 29.67%. On the variable, retained earnings (RE) which are proxied by the growth of retained earnings shows that the lowest value of -48.56370 or -48.56% is at PT. Mayora Indah Tbk (MYOR) and the highest value is 127.4153 or 127.41% also in the same company, namely the company PT. Mayora Indah Tbk (MYOR), While the average retained earnings (RE) which is proxied by the growth of retained earnings is 15.85503 or 15.85%.

4.1.2 Panel Data Regression Analysis

Based on tests that have been conducted by researchers using the Chow Test, Hausman Test and Lagrange Multiplier Test, it can be seen that the model follows the Random Effect Model. The results of testing between Working Capital and Retained Earnings on Profitability using the Random Effect Model will be presented in the following table:

Table 2: Random Effect Model (REM).

Variabel	Coefficient	STD. Error	t-Statistic	Prob.
C	16.64417	4.166414	3.994843	0.0003
WC?	-0.005801	0.015207	-0.381443	0.7053
RE?	0.103352	0.025706	4.020536	0.0003
Random Effects (Cross)				
_DLTA--C	13.27862			
_ICBP--C	0.057210			
_INDF--C	-5.710229			
_MYOR--C	1.243489			
_ROTI--C	1.066996			
_SKLT--C	-9.936083			

Source: Data processed (2019)

The coefficient value for the Working Capital (WC) variable, which is proxied by the growth of working capital is -0.005801. Retained Earnings (RE) variable is proxied by the growth of retained earnings of 0.103352 based on the p-value of the two independent variables. There are one significant variable namely Retained Earnings (RE) which is proxied by the growth of retained earnings which has a p-value <0.05 of 0.0003 or $0.0003 <0.05$, while Working Capital (WC) which is proxied by working capital growth is not significant because the p-value$>$ 0.05 is equal to 0.7053 or $0.7053> 0.05$.

Based on the value of each company that has increased profitability, there are four companies, namely PT. Delta Djakarta tbk amounting to 13,27862, PT. Indofood CBP Sukses Makmur Tbk at 0.057210, PT. Mayora Indah tbk amounting to 1.243489, PT. Nippon Indosari Corpindo Tbk amounting to 1.066996. Two other companies experienced a decrease in profitability, namely PT. Indofood Sukses Makmur Tbk amounting to -5.710229, PT. Sekar Laut Tbk of -9.936083. Of the six companies that have the most substantial influence on the research, variables are PT. Delta Djakarta Tbk of 13,27862 and the lowest value is the company PT. Sekar Laut Tbk of -9.936083.

From the results of the calculation of the Random Effect Model estimates in the table, a panel data regression equation can be formed as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \ldots + \beta_n X_{nit} + e$$

$$Profitability\ (ROE) = \alpha + \beta_1 WC + \beta_2 RE + e$$

$$\textbf{Profitability (ROE)= 16.66417– 0.0055801WC + 0.103352RE}$$

The constant value in the equation of 16.66417 shows that if all the independent variables (Working Capital and Retained Earnings) are considered to be 0, the profitability is 16.66417. Regression coefficient value of Working Capital (WC) of -0.0055801 which means the value of Working Capital has a negative relationship or for every 1% change in Working Capital the profitability has decreased by 0.0055801.

4.2 Hypothesis Test

Table 3: Partial Test Results (t-test).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.64417	4.166414	3.994843	0.0003
WC?	-0.005801	0.015207	-0.381443	0.7053
RE?	0.103352	0.025706	4.020536	0.0003
Adjusted R-squared	0.301481			

Source: Data processed (2019)

Based on table 3, testing the Working Capital (WC) variable retained earnings to profitability produces a statistical value of t of -0.381443 with a significance level (p-value) of 0.7053 (> 0.05). Because the p-value> α (5%), it can be concluded that Hypothesis 1 is rejected, which means that working capital does not significantly influence profitability. The results of this study are also strengthened by previous studies by Tumiwa and Mamuaya (2019), in which this study also shows that working capital does not influence profitability.

Testing the retained earnings variable (which is proxied by the growth of retained earnings) against profitability (which is also proxied by ROE) produces a statistical value of t of 4.020536 with a significance level (p-value) of 0.0003 (<0.05). Because the p-value <α (5%), it can be concluded that Hypothesis 2 is accepted, which means that Retained Earnings has a significant effect on profitability. The results of this study are also strengthened by previous research conducted by Anshory (2016), which shows that retained earnings have a significant effect on profitability.

5 CONCLUSIONS

First, working capital does not significantly influence profitability. This state is caused by the use of working capital related to company activities in obtaining funds and spending these funds into various forms of company operational activities that have been carried out effectively and efficiently so that working capital does not affect profitability. Second, retained earnings have a significant effect on profitability. This situation is because retained earnings are profits which are not distributed to shareholders as dividends but will be retained for reuse by the company to increase working capital so that it can finance all operational needs within the company.

This research can be continued by using other variables besides those used in this study, such as Liquidity, Leverage, Solvency, Fixed Assets, Firm Size and others as independent variables on profitability. Moreover, it is expected to use more samples and also use longer observation years.

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