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Analysis Of Working Capital On Profitability And Firm Value In Registered Construction Services Companies On The Indonesia Stock Exchange

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ABSTRACT: *The purpose of this study is to determine and analyze the effect of working capital on profitability and firm value in construction service companies listed on the Indonesia Stock Exchange. The population data in this study uses secondary data in the form of financial statements of Construction Service Companies that are Go Public listed on the Indonesia Stock Exchange (IDX) and the observation period is from 2017 to 2020. The research sample used is to use the entire population, which consists of 9 (nine) construction service companies. The data analysis used by the author is the Structural Equation Model (SEM). Hypothesis testing is done by multivariate analysis which is run through the SmartPLS program. Data analysis through partial Least Square (PLS) was carried out in two stages, namely: First, assessing the outer model or measurement model. Second, assessing the Inner model or structural model. The results showed that working capital had a positive and significant effect on profitability, working capital had a negative and insignificant effect on firm value, and profitability had a positive and insignificant effect on firm value.*
KEY WORD*: Working Capital, Profitability, Firm Value*

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I. INTRODUCTION

Firm value is determined by the earnings power of the firm's assets. Positive results indicate that the higher the value of earnings power, the more efficient the asset turnover and/or the higher the profit earnings obtained by the company. This will have an impact on the value of the company. According to Gitman & Lawrence (2015:130) ROA which is also sometimes called Return on investment (ROI) is a ratio used to measure the company's ability to generate profits with all available assets. The greater the ROA, the greater the level of profit achieved by the company and the better the position of the company in terms of asset use. The increase in the attractiveness of the company makes the company more attractive to investors because the rate of return will be even greater. This will also have an impact on the stock price of the company in the Capital Market, so that the value of the company will be even better with an increase in ROA.

The empirical gap in this study provides information about the effect of working capital on profitability and firm value so that it can be the basis of this research with the following description: Research conducted by Roni et al. (2018), Kabir et al. (2020), Adiyanto et al. (2020), Mulyono et al. (2018), Pham et al. (2020), Utia et al. (2018), Jana (2018) states that working capital has a significant effect on profitability, in contrast to research conducted by Fathony & Mahardika (2018), Aryawan & Indriani (2020), Prafitri et al. (2017) stated that working capital has no significant effect on profitability. Research conducted by Moussa (2018), Amarasekara et al. (2021), Wahyuni & Wibowo (2018), Setianto & Pratiwi (2019), Amelia & Kitri (2019), Sianipar & Prijadi (2018), Kawakibi et al. (2019), Ademola & Kemisola (2014) state that working capital has a significant effect on firm value, in contrast to research conducted by Banos-Caballero et al. (2020), Limin (2012) stated that working capital has no significant effect on firm value. Research conducted by Sabrin et al. (2016), Mubyarto (2020), Setiawanta et al. (2021), Sudiyatno et al. (2021), Chen & Chen (2011), Lambey et al. (2021), Fajaria & Isnalita (2018) state that profitability has a significant effect on firm value, in contrast to research conducted by Sudjiman & Sudjiman (2020), Nurwlandari et al. (2021), Reschiwati et al. (2020) states that profitability has no significant effect on firm value.

The research was conducted in a construction company, this is due to the lack of availability of property and the high demand for property by the community, which is a very good opportunity for businesspeople to start a business in the property sector. However, if there are more companies in the same field, the competition will be tougher. To anticipate growing competitors, the company needs additional capital to encourage the company's operational performance so that the company can maintain its business continuity. Investment in the property sector, especially construction, is considered the most promising investment and has great returns because the property sector is believed to continue to grow every year, but there is a slowdown and decline in sales and price increases. The cause of the slowdown was the pandemic, namely Covid-19, resulting in price fluctuations because of fluctuations in the stock market and the potential for rising inflation. The weakening of the rupiah against the dollar resulted in a decline in the construction stock index. The decline in construction companies was caused by various things. In terms of the booming shares of the property and construction sub-sectors, the two sub-sectors are indeed somewhat different. Construction stocks are not dependent on the BI rate. Construction issuers depend on the government's ability to provide infrastructure funding. In addition, the weakening of the rupiah that occurred had a negative impact on construction issuers, as it could hamper imports of construction raw materials.

II. LITERATURE REVIEW

Effect of Working Capital on Profitability

Houston & Brigham (2017:206) Working capital is one of the important components in carrying out company activities. The working capital used is expected to be re-entered in a short time through sales. This is because working capital will rotate continuously each period can be reallocated to finance the company's operations. To be able to determine the efficient amount of working capital, it is first measured from the elements of working capital. The faster the turnover rate of each element of working capital, the more efficient working capital can be. Through good management, it is hoped that the capital embedded in the form of working capital can be utilized efficiently and effectively through the activities carried out by the company. Financial management plays an important role in planning and allocating capital, because the success or failure of the company's goals depends on the management of available working capital. In planning and allocating capital, financial management is required to be able to perform efficiency. All this can be realized by drawing a decision in the policy to determine the required capital.

Syamsuddin (2016:227) states that, the greater the net working capital, the greater the profit or profitability obtained by the company. This has also been proven in several previous studies that have been described previously that working capital has a positive effect on profitability. The amount of working capital will determine the size of the company's sales and profits. The greater the working capital, the greater the number of products produced. Thus, the number of products sold will also be greater, which is then followed by the greater the profit earned by the company.

Research conducted by Roni et al. (2018), Kabir et al. (2020), Adiyanto et al. (2020), Mulyono et al. (2018), Pham et al. (2020), Utia et al. (2018), Jana (2018) states that working capital has a significant effect on profitability, in contrast to research conducted by Fathony & Mahardika (2018), Aryawan & Indriani (2020), Prafitri et al. (2017) stated that working capital has no significant effect on profitability.

Sufficient working capital is better than excessive working capital, because excessive working capital indicates that the company cannot use the existing funds properly, so that the funds become unproductive. This will have an impact on the company's rate of return on capital or profitability. Likewise, working capital that is less than sufficient will be the cause of a setback or even the failure of a company and reduce the level of profitability (Munawir, 2012:103).

H1: Working capital has a positive and significant impact on the profitability of Construction Service Companies Listed on the Indonesia Stock Exchange

Effect of Working Capital on Firm Value

Referring to the concept of qualitative working capital or net working capital proposed by Sudana (2011: 87) states that working capital is the difference between current assets and current liabilities. If the company's working capital increases, it can be caused by an increase in current assets or unchanged current assets but a decrease in current liabilities. According to Gay & Diehl (2012:134) if the company has a tendency to increase working capital, it will result in inefficiency in the company which in turn has a negative influence on the value of the company. In companies that have an increasing trend of working capital, there will be an increase in current assets in the form of receivables or inventories which can cause inefficiency which ultimately has a negative impact on firm value. Vice versa, companies that have working capital decrease according to the qualitative concept can be caused by a decrease in current assets or fixed current assets but an increase in current liabilities. This condition can lead to efficiency in working capital management which in turn can have a positive influence on firm value.

Research conducted by Moussa (2018), Amarasekara et al. (2021), Wahyuni & Wibowo (2018), Setianto & Pratiwi (2019), Amelia & Kitri (2019), Sianipar & Prijadi (2018), Kawakibi et al. (2019), Ademola & Kemisola (2014) state that working capital has a significant effect on firm value, in contrast to research conducted by Banos-Caballero et al. (2020), Limin (2012) stated that working capital has no significant effect on firm value.

H2: Working capital has a positive and significant impact on firm value in Construction Services Companies Listed on the Indonesia Stock Exchange

The Effect of Profitability on Firm Value

Firm value is determined by the earnings power of the firm's assets. Positive results indicate that the higher the value of earnings power, the more efficient the asset turnover and/or the higher the profit earnings obtained by the company. This will have an impact on the value of the company. According to Gitman & Lawrence (2015:118) profitability is the ratio used to measure the company's ability to generate profits from investment activities. The greater the profitability, the greater the level of profit achieved by the company and the better the company's position in terms of asset use. The increase in the attractiveness of the company makes the company more attractive to investors, because the rate of return will be even greater. This will also have an impact on the stock price of the company in the Capital Market, so that the value of the company will be even better with an increase in profitability.

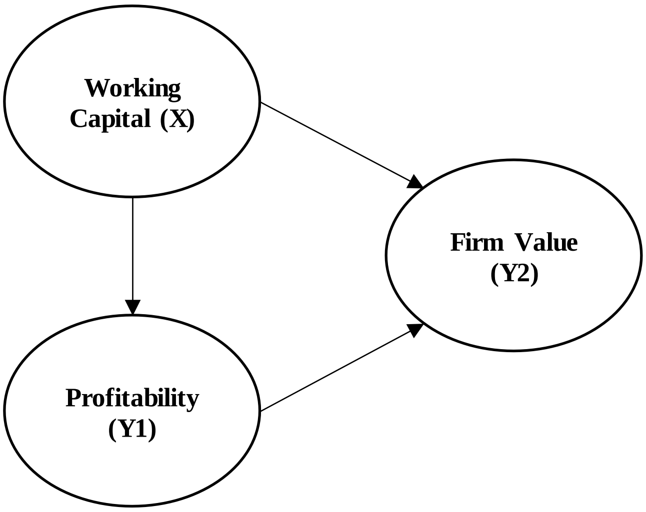
Research conducted by Sabrin et al. (2016), Mubyarto (2020), Setiawanta et al. (2021), Sudiyatno et al. (2021), Chen & Chen (2011), Lambey et al. (2021), Fajaria & Isnalita (2018) state that profitability has a significant effect on firm value, in contrast to research conducted by Sudjiman & Sudjiman (2020), Nurwlandari et al. (2021), Reschiwati et al. (2020) states that profitability has no significant effect on firm value.

The level of profitability itself is influenced by working capital indicating that the profitability variable can be considered as a variable that can intervene in the effect of working capital on firm value. Understanding the intervening variable according to Sugiyono (2009), that the intervening variable is a variable that theoretically affects the relationship between the independent variable (independent) and the related variable (dependent) into an indirect relationship and cannot be measured and observed. The intervening variable is an intermediate variable which lies between the independent variable (independent) and the related variable (dependent), so that the independent variable does not directly affect the emergence or change of the dependent variable.

H3: Profitability has a positive and significant impact on firm value in Construction Services Companies Listed on the Indonesia Stock Exchange

Based on the formulation of hypotheses, the research model proposed by the authors is as shown in Figure 1.

Figure 1: Conceptual Framework



Source: Result of author's analysis, 2022

III. RESEARCH METHODOLOGY

in this study is secondary data taken from the annual financial report (annual report) in the Indonesia Capital Market Directory (ICMD) companies listed on the Indonesia Stock Exchange. The population data in this study uses secondary data in the form of financial statements of Construction Service Companies that are Go Public listed on the Indonesia Stock Exchange (IDX) and the observation period starts from 2016 to 2020. Determination of the sample using the purposive sample method, namely the method of collecting sample data taken not randomly in other words the sample is selected based on certain considerations based on the research objectives. Determination of the sample with the following criteria: 1) Companies listed on the Indonesia Stock Exchange from 2016 to 2020. 2) Is a Construction Services Company, namely services that produce physical infrastructure and facilities in national development including study activities for preparing technical plans / design, implementation, monitoring and maintenance. 3) Is a state-owned company. 4) During 2016 to 2020 earn profit. The research sample used is the entire population, which consists of 9 (nine) construction service companies. In this research, information analysis uses the partial least square (PLS) approach. Partial least square analysis (PLS) is a multivariate statistical method that performs comparisons between multiple limited variables and multiple independent variables. PLS is a version of the SEM statistical procedure designed to solve multiple regressions when special cases exist in information, such as small research illustration dimensions, missing values, and multicollinearity.

IV. RESULT AND DISCUSSION

Data Analysis

The first-stage model evaluation focuses on the measurement model. Examination of the PLS-SEM estimation for the measurement model allows the researcher to evaluate the reliability and validity of the constructs. In particular, multivariate measurement involves using multiple variables to measure a concept indirectly. Evaluation of the measurement model includes tests of internal consistency reliability, indicator reliability, convergent validity and discriminant validity as shown in Table 1. There are two methods can be used to measure reliability of a construct, namely Cronbach's alpha or composite reliability. However, the use of Cronbach's alpha tends to provide a lower estimated value so that PLS-SEM is recommended to use composite reliability. Indicator reliability on PLS-SEM is measured from the outer loading value which shows the correlation between the indicator and its construct. Convergent validity in constructs can be measured using AVE. Discriminant validity can be measured from cross loading or the loading value of other constructs is a comparison to the value of the outer loading indicator associated with a construct where the required loading indicator value must be more than the cross loading value.

Table 1: Evaluation of Measurement Model

Variables and Indicators	Loadings	Composite Reliability	AVE	Cross Loading
• Working Capital (X)				
1) CR	0.724	0.717	0.748	Yes
2) RTR	0.928			
3) WCTA	0.924			
4) WCTR	0.102			
• Profitability (Y1)				
1) OPM	0.378	0.917	0.847	Yes
2) ROE	0.959			
3) ROI	0.673			
• Firm Value (Y2)				
1) PBV	1.000	1.000	1.000	Yes
2) PER	0.359			

Source: Calculated using SmartPLS, 2022

Hypothesis Test

After ensuring that the measurement model of the construct is reliable and valid, then hypothesis testing is carried out. Hypothesis testing in this study is carried out on a structural model or inner model which shows a direct or indirect relationship between exogenous and endogenous latent variables. Hypothesis testing is based on the significance value of the path coefficient after resampling or bootstrapping 5,000 times. The statistical test used is the t test with a confidence level of 95% or a significance level of 5%. The hypothesis is accepted if the t value is more than the t-table value for the two-tailed test, namely 1,96. The results of boostraping procedur as shown in Table 2.

Based on Table 2, the results of hypothesis testing can be interpreted as follows:

1. Working capital has a negative and insignificant effect on profitability in Construction Service Companies Listed on the Indonesia Stock Exchange, this can be proven by the coefficient value of -0.251 and the T-statistic value of 1.384 < 1.96 and the significance value of 0.167 > 0.05.
2. Working capital has a negative and insignificant effect on firm value in Construction Services companies listed on the Indonesia Stock Exchange, this can be proven by the coefficient value of -0.154 and the T-statistic value of 1.118 < 1.96 and the significance value of 0.264 > 0.05.

3. Profitability has a positive and significant effect on firm value in Construction Services companies listed on the Indonesia Stock Exchange, this can be proven by the coefficient value of 0.466 and the T-statistic value of 4.950 > 1.96 and the significance value of 0.000 < 0.05.

Table 2. Bootstraping Results

Path Coefficients				
Variable	Original Sample	t Statistics	p Values	5% Significance Level
Working Capital → Profitability	-0.251	1.384	0.167	Insignificant
Working Capital → Firm Value	-0.154	1.118	0.264	Insignificant
Profitability → Firm Value	0.466	4.950	0.000	Significant

Source: Calculated using SmartPLS, 2022

Discussion

Working capital has a negative and insignificant effect on the profitability of Construction Services Companies Listed on the Indonesia Stock Exchange, this means that any increase in working capital has not been able to increase the profitability of Construction Services Companies Listed on the Indonesia Stock Exchange with an insignificant or insignificant increase.

The results of this study are in line with the research conducted by Roni et al. (2018), Kabir et al. (2020), Adiyanto et al. (2020), Mulyono et al. (2018), Pham et al. (2020), Utia et al. (2018), Jana (2018) states that working capital has a significant effect on profitability, the results of this study are not in line with research conducted by Fathony & Mahardika (2018), Aryawan & Indriani (2020), Prafitri et al. (2017) stated that working capital has no significant effect on profitability.

Houston & Brigham (2017:206) Working capital is one of the important components in carrying out company activities. The working capital used is expected to be re-entered in a short time through sales. This is because working capital will rotate continuously each period can be reallocated to finance the company's operations. To be able to determine the efficient amount of working capital, it is first measured from the elements of working capital. The faster the turnover rate of each element of working capital, the more efficient working capital can be. Through good management, it is hoped that the capital embedded in the form of working capital can be utilized efficiently and effectively through the activities carried out by the company. Financial management plays an important role in planning and allocating capital, because the success or failure of the company's goals depends on the management of available working capital. In planning and allocating capital, financial management is required to be able to perform efficiency. All of this can be realized by drawing a decision in the policy to determine the required capital.

Syamsuddin (2016:227) states that, the greater the net working capital, the greater the profit or profitability obtained by the company. This has also been proven in several previous studies that have been described previously that working capital has a positive effect on profitability. The amount of working capital will determine the size of the company's sales and profits. The greater the working capital, the greater the number of products produced. Thus, the number of products sold will also be greater, which is then followed by the greater the profit earned by the company.

Contracting companies in this case have different operating schedules from most industries. The contractor and property industry has a large capital and operational schedule based on a specified contract. This can be affected by some changes made based on the situation such as changes in the price of building materials and standards set by the client / buyer. By increasing the amount of working capital, the preparation of capital liquidity will be even greater and facilitate the construction process to completion. This affects the effectiveness of Working Capital to Total Assets as reflected in the previously analyzed model. Management must increase the level of effectiveness of working capital in estimating operating costs and increasing company profits.

The operational system of a construction company requires the company to have a fluctuating operational budget and schedule, due to several factors that also affect the profitability of a construction company, firstly, internal factors such as the size of the project, the complexity of the project, unique raw materials, and the location where the construction is carried out. This is very influential on changes in raw material prices, and the level of project inventory which tends to make profitability even smaller. Both external factors, such as market conditions, inflation, availability of materials, political uncertainty, weather, and others. This explains the phenomenon of 82.50% of variables outside the research model that can occur and affect the development process and affect the profit that will be generated by each project. External factors like this can be a high-risk factor because they can occur at any time and are unpredictable, but also contain profit potential that can increase the company's profitability.

Working capital has a negative and insignificant effect on the value of the construction service company listed on the Indonesia Stock Exchange, this means that any increase in working capital will reduce the value of the construction service company listed on the Indonesia Stock Exchange with an insignificant or insignificant decrease.

The results of this study are not in line with research conducted by Moussa (2018), Amarasekara et al. (2021), Wahyuni & Wibowo (2018), Setianto & Pratiwi (2019), Amelia & Kitri (2019), Sianipar & Prijadi (2018), Kawakibi et al. (2019), Ademola & Kemisola (2014) state that working capital has a significant effect on firm value, the results of this study are in line with research conducted by Banos-Caballero et al. (2020), Limin (2012) stated that working capital has no significant effect on firm value.

Referring to the concept of qualitative working capital or net working capital proposed by Sudana (2011: 87) states that working capital is the difference between current assets and current liabilities. If the company's working capital increases, it can be caused by an increase in current assets or unchanged current assets but a decrease in current liabilities. According to Gay & Diehl (2012:134) if the company tends to increase working capital, it will result in inefficiency in the company which in turn has a negative influence on the value of the company. In companies that have an increasing trend of working capital, there will be an increase in current assets in the form of receivables or inventories which can cause inefficiency which ultimately has a negative impact on firm value. Vice versa, companies that have working capital decrease according to the qualitative concept can be caused by a decrease in current assets or fixed current assets but an increase in current liabilities. This condition can lead to efficiency in working capital management which in turn can have a positive influence on firm value.

The construction service company has a predetermined selling price and contract value from before the project was carried out. Financial management must properly project operating costs and decide on retained earnings during the development period. Because it must have a flexible budget, financial management must use retained earnings or even increase debt as a preparation for the risk of loss due to internal and external factors discussed in the previous section. However, because the operational schedule is based on a work contract, the Receivable Turnover Ratio is a factor that can influence the decision on retained earnings to maintain liquidity and capital management efficiency.

Seeing that PER is an absolute reflection of Firm Value, management decisions regarding retained earnings and dividends are important in signaling the company's prospects to investors. If the increase in working capital is not supported by a smooth and piling receivables turnover, then retained earnings will be the second choice and it will reduce dividends which can make the Company Value decrease. Referring to the explanation level of influence outside the research model of 65.80%, apart from the influence of profitability, firm value can also be influenced by factors outside the research model such as leverage and consumer/buyer satisfaction. Companies can also maintain dividends by increasing debt levels. This can be a reference for expanding research by adding related variables that are also related to construction service management.

Profitability has a positive and significant effect on firm value in Construction Services Companies Listed on the Indonesia Stock Exchange, this means that any increase in profitability will be able to increase the value of Construction Services Companies Listed on the Indonesia Stock Exchange with a real or significant decrease.

The results of this study are not in line with the research conducted by Sabrin et al. (2016), Mubyarto (2020), Setiawanta et al. (2021), Sudiyatno et al. (2021), Chen & Chen (2011), Lambey et al. (2021), Fajaria & Isnalita (2018) stated that profitability has a significant influence on firm value, the results of this study are in line with research conducted by Sudjiman & Sudjiman (2020), Nurwlandari et al. (2021), Reschiwati et al. (2020) states that profitability has no significant effect on firm value.

Firm value is determined by the earnings power of the firm's assets. Positive results indicate that the higher the value of earnings power, the more efficient the asset turnover and/or the higher the profit earnings obtained by the company. This will have an impact on the value of the company. According to Mardiyanto (2009: 196) profitability is the ratio used to measure the company's ability to generate profits from investment activities. The greater the profitability, the greater the level of profit achieved by the company and the better the company's position in terms of asset use. The increase in the attractiveness of the company makes the company more attractive to investors because the rate of return will be even greater. This will also have an impact on the stock price of the company in the Capital Market, so that the value of the company will be even better with an increase in profitability.

This study found that there is an effect of profitability as a mediating variable between working capital and profitability, but the value of the effect is not significant. These results are supported by research conducted by Sudiyatno et al. (2021) stated that working capital has a positive and insignificant effect on firm value through profitability. In contrast to the research conducted by Kawakibi et al. (2019) indicates that profitability can be a mediating/intervening variable between working capital and firm value because in the research of Kawakibi et al. (2019) the effect of mediation on profitability is positive and significant.

The important role of working capital management is related to the fact that most companies invest large sums of money in current assets and rely on current liabilities as a source of financing. Working capital management consists of all decisions related to the management of current assets and liabilities, i.e. determining the optimal amount of cash, receivables, inventories, and current liabilities and the relationship between current liabilities and current assets Working capital management also refers to the activities of funding, investing and controlling net current assets through various company policies. By managing working capital, companies can shorten operating and cash cycles, thereby increasing profitability. Good working capital management company, namely short cash conversion cycles to speed up inventory sales, speed up the receivable collection period, and slow down the company's debt payments so that the company's profitability is high. The shorter the cash cycle in a retail company, the higher the profitability. the cash cycle shows an efficient use of cash so as to reduce the cost of capital and ultimately increase the company's return. High company profitability is a signal that the company has positive prospects so that the company's value is also high for investors. The relationship between profitability and firm value is in line with signaling theory, namely the increase in profitability contained in financial statements can provide a positive signal for investors related to company performance.

V. CONCLUSION, LIMITATION AND FUTURE RESEARCH

Based on the formulation of the research objectives and research hypotheses as well as the results of research and discussion, it can be concluded several things as follows: 1) Working capital has a negative and insignificant effect on profitability in Construction Services Companies Listed on the Indonesia Stock Exchange, this means that every increase in working capital, it has not been able to increase the profitability of Construction Services Companies Listed on the Indonesia Stock Exchange with an insignificant or insignificant increase. 2) Working capital has a negative and insignificant effect on the value of the company in the Construction Services Company Listed on the Indonesia Stock Exchange, this means that any increase in working capital will decrease the value of the Construction Services company Listed on the Indonesia Stock Exchange with an insignificant decrease or not significant. 3) Profitability has a positive and significant effect on firm value in Construction Services Companies Listed on the Indonesia Stock Exchange, this means that any increase in profitability will be able to increase the value of Construction Services Companies Listed on the Indonesia Stock Exchange with a real or significant decrease. Profitability also has a role in why working capital does not directly have a negative impact on firm value because increasing working capital also increases profitability which also increases the potential for increasing firm value.

Based on the conclusions above, the suggestions that can be given through the results of this research both to companies, investors and for the development of further research are as follows: 1) For companies, company management should increase the optimal level of Capital Structure to minimize excess profits by considering the accuracy of accounts receivable turnover and offset it with effective debt. This will maximize profits and increase the value of dividends and increase the value of the company in the eyes of investors. 2) In addition, specifically based on the type of industry, the construction company management must also consider reducing risks from internal and external factors based on the type and scale of the company itself by adding several types of reports apart from financial statements. 3) For investors and potential investors who are interested in the construction service industry in investing in shares, it is better to pay attention to the stock price level, to also pay attention to the capital structure, or working capital, which describes how management manages the assets and debts of the company. Companies that have high current assets will be more likely to have other assets that can be liquidated at any time without experiencing a decrease in market value (selling securities). Companies with this position often have liquidity problems, so investors prefer to buy shares of companies with high current asset values compared to companies with low current asset values. 4) In future research, it is necessary to add other financial ratios as exogenous variables, because it is very possible that other financial ratios that are not included in this study have a strong effect on firm value. 5) Further research is expected to be able to examine more deeply, not limited to the variables that have been studied, but it is necessary to add other variables and are expected to use a wider scope of research objects. In addition, in further research, it is hoped that existing analytical models can be developed to obtain more in-depth results.

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