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Working Capital Determination in Indonesian Companies during the Covid-19 Pandemic

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Abstract

This study aimed to know the effect of the Covid-19 pandemic on the performance of companies in Indonesia, to analyze the working capital determination in Indonesia companies, to analyze the effect of Probability in financial distress in moderating the working capital relationship in Indonesia companies, and to analyze the influence of variables in providing its effect on the company's working capital. The sample used in this study was 59 companies registered in Indonesia for the period 2017-2021 taken by purposive sample method. The analytical method used was a multiple linear regression model using Spss 25 software. The results showed that companies that manage working capital through conservative policies were a financial strategy to ensure liquidity in fulfilling their obligations to creditors, firm age (company age), long-term debt, and sales growth has a positive effect on working capital. Thus, an older company can run the company by presenting a higher level of working capital which can generate profits and a better company reputation which allows the company to get credit more easily.

Keywords: Probability in financial distress; Indonesia; Working Capital.

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INTRODUCTION

The COVID-19 pandemic is a new virus that appear at the end of 2019 and had a huge impact on the world community, especially in the economic sector. World Health Organization (WHO) has designated COVID-19 as a global pandemic after it was first discovered in Wuhan, China, with a spread time of only 3 months , In Indonesia, COVID-19 was first discovered in March 2020, then the Indonesian government implemented a social-distancing policy to reduce the spread of the COVID-19 virus. When the government issued the policy, most of the business sectors decreased (Kompas.com). COVID-19 has caused economic instability, with an impact on registered companies on the Indonesia Stock Exchange. The impact of the COVID-19 pandemic can affect economic activity and then the company's operations will also be hampered.

The global economy in 2020 was marked by the COVID-19 pandemic which had an extraordinary impact on health, humanity, economy, and financial system stability. Health efforts to contain the spread of COVID-19 caused limited mobility and economic activity, increasing financial market uncertainty and a wave of contractionary economic growth in the world. The global economy contracted deeply, especially in the first half of 2020, and slowly improved in the second half of 2020, driven by progress in handling COVID-19. From COVID-19, three important lessons can be drawn in the global economy in the international trade system, the international monetary system, and the world financial system that deserve attention to increase the resilience of the global economy going forward (Laporan Perekonomian Indonesia, 2021).

Economic improvement in Indonesia continues with maintained stability in line with the decline in the spread of COVID-19. Inflation in 2021 was recorded as very low and supports economic stability. Consumer Price Index (CPI) inflation in 2021 was recorded at 1.87% (year of year), an increase compared to 2020 inflation of 1.68% (year of year), although it was below the target range of 3.0 at approximately 1%. This development was influenced by core inflation which was recorded as low at 1.56% (year of year), which was lower than core inflation in the previous year. The low core inflation was influenced by weak domestic demand as a result of the COVID-19 pandemic, stable exchange rates, and maintained inflation expectations, as well as the minimal effect of global price pressure on domestic (Laporan Perekonomian Indonesia, 2021).

The COVID-19 pandemic can weaken the company's working capital. The COVID-19 pandemic has slowed business activity as millions of people implemented social distancing to reduce the spread of COVID-19. Thus, the company is currently facing substantial limitations on cash and working capital which involves possible liquidity fluctuations. Disruption to economic activities due to the COVID-19 pandemic has caused the value of the company's assets to decline (Almaghrabi, 2022; Hassan et al., 2020), thus impacting the company's short-term capital requirements. Actions taken by the government to minimize the pandemic resulted in the closure of the consumer service business, resulting in a drop in demand for goods and services (Ke, 2022), inventory build-up, and delays in collecting receivables. This results in the company's cash being tied up for short-term operating purposes.

The company has an important thing to manage working capital to ensure the survival and growth of the company, then the company also needs funds to support the company's various operational activities to achieve profit. This fund is called working capital or often also referred to as working capital management which is used to measure the amount of optimum working capital. A manager must have the ability to plan and control capital to prevent shortages or excess funds that can affect the company's profitability. Working capital management is also a reference for decision-making and can detect if a loss occurs in order

to avoid bankruptcy. Working capital management can be measured by looking at current assets minus current liabilities and then dividing by total assets. The application of working capital is very important for large and small companies. According to (Dalci et al., 2019), the application of small companies and large companies is not the same. Because the larger the company, the shorter the cash conversion cycle, and vice versa, the smaller the company, the longer the cash conversion cycle (Uyar, 2009). The reason is that large companies have better access to the money market and also the capital market than large companies can meet cash quickly and efficiently compared to small companies (Abeyrathna & Priyadarshana, 2019).

A company must avoid liquidity failure because of the risk of not being able to meet its obligations to creditors. If working capital management is not efficient, it can lead to bankruptcy (Shin & Soenen, 1998; Tahir & Anuar, 2016). Companies that cannot fulfill their financial obligations can face financial crisis due to an imbalance in financing (Pindado et al., 2006; Yazdanfar & Öhman, 2020a).

Working capital management was connected to the short-term capital needed to fund operational needs, which is an important part of a company's balance sheet (Le, 2019). The theory from (Jensen & Meckling, 1976), states that the working capital metric is associated with the company's operating cycle metrics (Barros et al., 2022). (Deloof, 2003), argues that profitability increases for firms that work with lower inventories and accounts receivable, although profitability is lower for firms that delay paying suppliers.

Existing literature spreads that over-diversification leads to loss of value. (Jensen & Meckling, 1976; Stulz, 1990), argue that cash-rich firms may overinvest in businesses with poor investment opportunities leading to value losses. (Billett & Mauer, 2003), argue that diversified firms allocate capital inefficiently which lowers its value. Companies with more investment opportunities tend to be efficient in working capital management (Ujah et al., 2020), to buffer cash constraints, thereby increasing firm value. Furthermore, firms receive investment subsidies through investment tax credits (Sen & Turnovsky, 1990), as a means of government incentives.

Table 1. The Gap Phenomenon in Indonesia Registered Companies

Variabel	2017	2018	2019	2020	2021
Working Capital	4.275	5.209	7.979	11.657	13.045
Firm Size	5.672	6.373	6.535	5.748	5.113
Firm Age	4.118	4.178	4.238	4.298	4.358
Cash Flow	3.244	3.064	2.863	2.791	3.008
Long-term Debt	8.917	11.789	9.923	10.855	11.406
Sales Growth	2.145	2.125	2.050	1.978	2.171
Profitability financial distress	4.522	4.580	4.467	3.924	4.420

Source: Bloomberg, (data processed)

From table 1, it can be seen that working capital from the 2017-2019 period when the COVID-19 pandemic had not occurred has increased every year, and in 2020-2021 when the COVID-19 pandemic occurred, there was still an increase. However, the size, age, cash flow, long-term debt, sales growth, profitability, and financial crisis of firms fluctuated over time.

Various previous studies have analyzed working capital in SMEs: (Howorth & Westhead, 2003): SME Uk (Baños-Caballero et al., 2010): SME Spanish: (Singh & Kumar, 2017), analyze micro, small and medium enterprises in India. Working capital management may be negatively impacted by unregistered SMEs, since they lack access to long-term external financing (Nobanee & Abraham, 2015; Petersen & Rajan, 1997), implying a strong dependence on short-term financing, which makes ensuring growth, profitability, and

viability more difficult. Previous research has examined working capital management in various variables and also different objects.

To achieved this study, we used data collected from the population of 839 companies in Indonesia for the period 2017-2021. Then, the research sample was taken based on purposive sampling. This study provided two contributions to the company's financial management in general and working capital management in specifically.

Previous research on working capital focused on small companies such as SMEs. Thus, this study focused on the relationship between companies and working capital management in companies registered in Indonesia. The contribution of this research was related to the impact of financial crisis profitability on working capital.

Based on the background that has been described, the objectives of this study are as follows: (1) Analyze the determination of working capital in Indonesia companies, (2) Analyze the effect of profitability on the financial crisis in moderating working capital relationships in Indonesia companies, (3) Analyze the effect of variables independent in giving effect to the profitability of financial crisis and working capital.

LITERATURE REVIEW

Management of Working Capital

According to (Horne, James C. Van dan Wachowicz, 2012), Working capital management is the administration of various current assets of the company, namely, cash and marketable securities (securities or securities), receivables, and inventories and funding (especially short-term liabilities) needed to support the company's current assets.

According to (Chowdhury et al., 2018), working capital management is how to manage current assets and current liabilities. This management aimed to ensure that current assets and current liabilities can be managed properly to generate the required net working capital. Companies can take an aggressive working capital policy, namely to maintain a low level of current assets or have a high level of current liabilities (Baños-Caballero et al., 2014). Aggressive working capital management that has a low level of current assets can lead to a lower level of liquidity and make the company fail to meet its obligations. Then, aggressive working capital management policies can lead to stockouts, loss of customers, and high sales. The occurrence of company failure causes a lack of trust for stakeholders in carrying out business for the company (Heshmati, 2002). Thus, an aggressive policy can make the company experience difficulties in carrying out its operations and can increase the company's financial crisis (Baños-Caballero et al., 2014; Hill et al., 2010).

According to (Horne, James C. Van dan Wachowicz, 2012), each company has different policies for managing working capital. These policies include, (1) Aggressive policy, which is a policy with a low level of liquidity, funding is financed by short-term debt so that it has high risk but with a high return, (2) Moderate policy, using the matching fundamental approach explain the period of the source of funds that is adjusted to the period of the fund when needed, and (3) Conservative policy, which has a high level of liquidity and short-term debt that tends to be low so that the company's profitability is low.

Working Capital Determination and Hypothesis

Working capital management is influenced by several factors related to the nature of the firm. So, it is necessary to analyze the determinants of working capital in a firm.

Firm Size

Firm Size is scale from the total assets owned by the company in a certain period (Kusuma, 2016). According to (Ahmad & Wardani, 2014; Zalaghi et al., 2019), the larger the firm, the shorter the cash conversion cycle. According to resource-based theory, if a large firm has assets and large sales, the firm has a good image and better known by the public

(Christian Samosir, 2018). Based on the critical resource theory, the owner of a firm can direct the firm's resources, namely assets, intellectual property, and technology to support the firm size. A manager must manage and encourage the firm to be better in the resources that exist within the firm (Kusuma, 2016; Sukadana & Triaryati, 2018).

Working capital management through aggressive policies can increase bankruptcy (Hill et al., 2010). Large companies have a higher level of working capital investment so large companies have high sales, and accounts receivable levels. Then, large companies are easy to get credit from suppliers (Petersen & Rajan, 1997), from investments in working capital.

Therefore, in the efficiency of working capital management. Previous studies have identified a positive relationship between firm size and working capital (Akinlo, 2012; Lyngstadaas & Berg, 2016).

Based on this argument, the following hypothesis is formulated:

Hypothesis 1 = There is a positive relationship between Firm size and working capital.

Firm Age

According to (Gunawan & Juniarti, 2014), the longer the company is established, the higher the learning process which causes the firm to be better at managing operations to get a better profitability.

According to (Ang, 1991), firm age has a connection with firm's reputation, the greater age makes the basis between creditors and firm owners or managers. Therefore, firm age is an important determinant of working capital. Thus, companies that have been running their companies longer get greater investment in working capital than companies that have just built their companies (Baños-Caballero et al., 2010; Chiou et al., 2006).

According to (Chiou et al., 2006), registered Thai companies identified that there was a positive relationship between firm age and working capital investment. In the study, it explained that there was a positive relationship that made it easier to get access to credit at a lower cost, this happens if the firm has a longer age in running the firm.

Based on this argument, the following hypothesis is formulated:

Hypothesis 2 = There is a positive relationship between firm age and working capital.

Cash flow

According to (Horne, James C. Van dan Wachowicz, 2012), the cash flow statement aimed to report cash inflows and outflows in a company, which are separated into three categories, namely operating activities, investing activities, and financing activities. When used in with other information in financial statements, these reports can enable financial managers to assess and identify companies generating cash inflows from operations to pay debt, interest, and dividends, see the company's need for external funding, see differences between earnings. net and net cash flows from various operating activities that will affect cash and non-cash investments and financing transactions.

Cash flow is an important thing at working capital management determinant, a company with a high level of cash flow can rely on internal finance to invest in working capital at a lower cost. So, they can conduct a conservative working capital management. At a high level of internal finance, companies can invest more in working capital as described by (Fazzari & Petersen, 1993), in their research explaining about US companies. In the registered companies, (Chiou et al., 2006)explained that there is a negative relationship between cash flow and working capital. According to (Nazir & Afza, 2009), registered companies identify a positive relationship between cash flow and working capital.

Based on this argument, the following hypothesis is formulated:

Hypothesis 3 = There is a positive relationship between cash flow and working capital.

Long-term debt

The problem of asymmetry information between owners or managers and creditors is more visible in SMEs than in large companies. As a result, SMEs have difficulty accessing debt, especially long-term debt (Yazdanfar & Öhman, 2020b). In this discussion, SMEs can adapt their working capital to an aggressive policy by seeking low inventories for a shorter revenue period and then a longer payment period. Therefore, long-term debt is an important determinant SMEs of working capital (Nobanee & Abraham, 2015; Saarani & Shahadan, 2012).

According to (Nazir & Afza, 2009), a company's debt level has a negative relationship with working capital, which means that an increase in debt level explains efficient working capital management by reducing receivables and inventories. (Baños-Caballero et al., 2010), explained that there is a negative relationship between debt and working capital in SMEs in Spain.

Based on this argument, the following hypothesis is formulated:

Hypothesis 4 = There is a negative relationship between the level of long-term debt and working capital.

Sales Growth

Sales growth is a variable used to describe the company's sales growth rate in a certain period (Afeef, 2011). According to (Setyawan & Susilowaty, 2018), sales growth is a risk in analyzing the company's increase in sales this year compared to the previous year.

A company with high growth allows for a lower amount of working capital because the company is at a high growth rate and can generate high levels of cash flow and liquidity. However, a higher level of sales will result in a higher level of receivables and working capital requirements (Cuñat & Maffezzoli, 2007; Hill et al., 2010).

The growth of the company can describe receivables and inventories increase (Baños-Caballero et al., 2010). Companies with high sales growth have a lower level of working capital investment. Therefore, companies with high growth rates are more difficult to obtain external financial sources (Cuñat & Maffezzoli, 2007; Hill et al., 2010; Nobanee & Abraham, 2015).

Based on this argument, the following hypothesis is formulated:

Hypothesis 5 = There is a positive relationship between sales growth and working capital.

Management Working capital and financial distress

Previous studies have shown that more efficient working capital management will have a positive effect on Firm's value, liquidity, and profitability (Afrifa & Tauringana, 2015; de Almeida & Eid, 2014; Hill et al., 2010; Wasiuzzaman & Arumugam, 2013).

Components of working capital such as receivables, inventories, and payables have different effects on firm value, so an owner or company manager must manage these components efficiently to increase Firm's value, liquidity, and profitability (Aktas et al., 2015; Baños-Caballero et al., 2014).

Small investment in working capital will increase the risk of payments, reduced cash inflows (liquidity risk), lack of investment opportunities and decreased sales (Afrifa & Tauringana, 2015; Baños-Caballero et al., 2014; Hill et al., 2010).

Based on this argument, the following hypothesis is formulated:

Hypothesis 6 = Probability in financial distress has a positive impact moderating on working capital

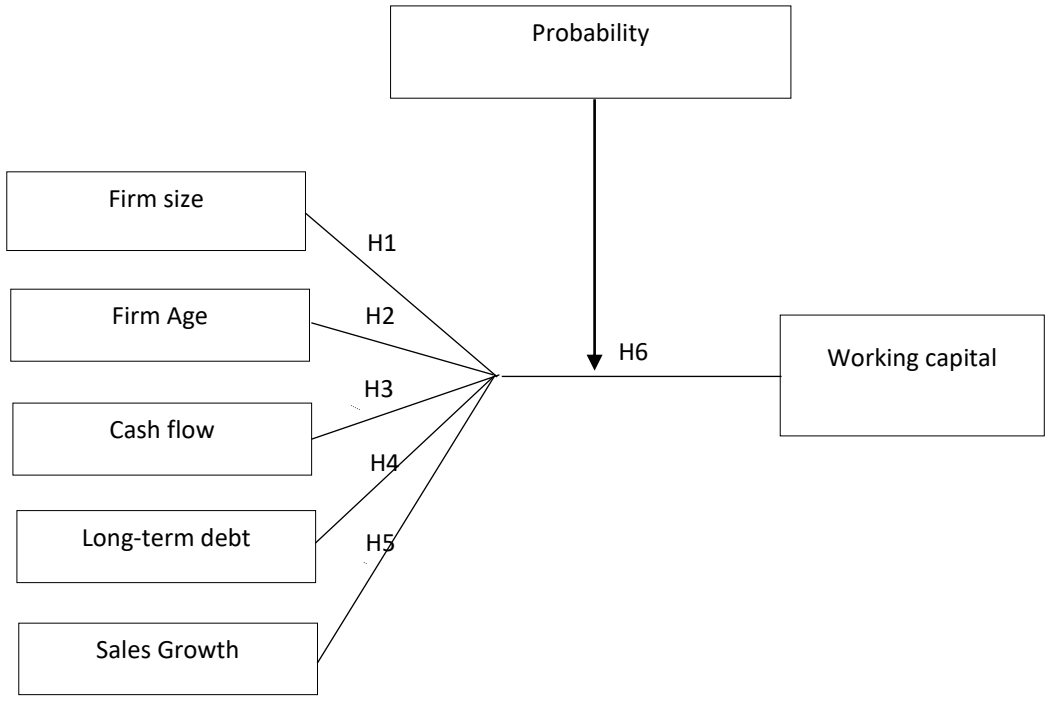

Figure 1. Framework

DATABASE

Database

The data used in this study were from the Bloomberg Finance Lab for the 2017-2021 period, with 839 companies. 59 companies were selected using the purposive sampling technique according to the following criteria:

Table 2. Number of Samples Based on Sample Criteria

NO.	Information	Number of Companies
1.	Companies registered in Indonesia during the period 2017-2021	839
2.	Companies with complete data needed to calculate the variables in the study during the period 2017-2021	(780)
3.	Companies that are used as samples for research	59
Total samples 59 x 5		**295**

Source: Bloomberg finance lab (data processed)

RESEARCH METHOD

Research Variable

Table 2 describes the variables used and their measurements. Explained the formulas in the variable, $PI_{i,t} * WCap_{i,t-1}$, and Probability in financial distress, $PI_{i,t} *$ estimated based on the following model: Prob (Y) > 0 = $\beta_0 + \beta_1 \frac{EBIT_{i,t}}{TA_{i,t-1}} + \beta_2 \frac{OE_{i,t}}{TA_{i,t-1}} + \beta_2 \frac{CP_{i,t}}{TA_{i,t-1}} + d_t + \eta_t + \mu_t$, where the dependent variable is a binary variable that takes a value of 1 for companies experiencing financial crisis, and 0 otherwise. In this study we draw from (Andrade & Kaplan, 1998;

Pindado et al., 2006), to classify companies that experience financial crisis if income before interest, taxes and amortization is lower than financial expenditure.

Table 1. Size

Variable's	Variable Measurement
Working Capital Requirements ($WCap_{i,t}$)	$\frac{\text{Current Assets – Current Liabilites}}{\text{Total Assets}}$
Firm Size (Ukuran Perusahaan) ($SIZE_{i,t}$)	Total Assets
Firm Age (Usia Perusahaan) ($AGE_{i,t}$)	Firm existence
Cash flow ($CF_{i,t}$)	$\frac{\text{Net Profit}}{\text{Total Assets}}$
Long-term Debt ($LLEV_{i,t}$)	$\frac{\text{Long-term debt}}{\text{Total Assets}}$
Sales Growth (Pertumbuhan Penjualan) ($GROWTH_{i,t}$)	$\frac{[\text{Sales } (t) - \text{Sales } (t-1)]}{\text{Sales } (t-1)}$
$PI_{i,t}$ * $WCap_{i,t-1}$	$[\beta_1 \frac{EBIT_{i,t}}{TA_{i,t-1}} + \beta_2 \frac{OE_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{CP_{i,t}}{TA_{i,t-1}} + d_t + \eta_t + \mu_i] * WCR_{i,t}$, where $EBIT_{i,t}$ is earnings before interest and taxes, $OE_{i,t}$ is operational expense, and $CP_{i,t}$ is cumulative profitability

Data Analysis Method

The analytical method used was a multiple linear regression model using Spss 25 software to know the effect of Size, Age, Cash flow, Long-term Debt, and Growth on Probability in financial distress and Working capital. The classical assumption test is performed before multiple regression analysis.

Descriptive Statistics

Descriptive statistics were used to determine the average value and standard deviation of each variable. The results of the descriptive statistics of the variables used explained that the average working capital was 117%, and the average level of long-term debt was 144%. The average Cash flow was 16%. Then the average Firm size was 66%. The average age of the Firm was 108 years, and the average sales growth was 1.3%.
The following are the results of descriptive statistics :

Table 4. Descriptive statistics

	N	Minumum Statistic.	Maximum Statistic.	Mean		Std. Deviation Statistic.
				Statistic	Std. Error.	
WORKING CAPITAL	295	-972.18	992.79	116.8610	19.09167	327.91020
FIRM SIZE	295	1.06	987.42	65.7596	10.04384	172.50865
FIRM AGE	295	10.00	108.00	37.8780	0.97351	16.72055
CASH FLOW	295	0.75	255.58	16.3966	1.53573	26.37697
LONG-TERM DEBT	295	1.01	988.81	143.5529	13.75406	236.23382
SALES GROWTH	295	-171.65	115.67	1.2909	1.08819	18.69033

Source: Processed results of Spss 25 data (data processed)

Classic assumption test

Is the method of least squares (Ordinary least square = OLS). Then, the classical assumption test is carried out using several test methods, namely:

Multicollinearity Test

This test was conducted to overcome multicollinearity in the Koutsoyiannis method, namely moving variables to get more data which also used in the VIF (Variance Inflation Factor) method to find the presence or absence of symptoms in multicollinearity.

The following are the results of the Multicollinearity Test with the SPSS 25 program:

Table 5. Multicollinearity Test Results...

Variable	Tolerance Value	VIF	Conclusion
FIRM SIZE	0.916	1.091	There is no multicollinearity
FIRM AGE	0.985	1.015	There is no multicollinearity
CASH FLOW	0.968	1.033	There is no multicollinearity
LONG-TERM DEBT	0.940	1.064	There is no multicollinearity
SALES GROWTH	0.993	1.007	There is no multicollinearity
PI * WCap	0.918	1.089	There is no multicollinearity

Source: Processed results of Spss 25 data (data processed)

Heteroscedasticity Test

The heteroscedasticity test is a method that uses a glacier test that tests the presence or absence of heteroscedasticity. In this test, error regression performed on the confounders in each of the independent variables that are suspected. From these results, a decision was taken, namely the significance number > 0.05 from the 95% confidence level, therefore there is no heteroscedasticity.

The following are the results of the Heteroscedasticity Test with the SPSS 25 program:

Table 6. Heteroscedasticity Test Results

Variable	Sig.	Kesimpulan
FIRM AGE	0.807	There is no Heteroscedasticity
CASH FLOW	0.093	There is no Heteroscedasticity
LONG-TERM DEBT	0.112	There is no Heteroscedasticity
SALES GROWTH	0.108	There is no Heteroscedasticity

PI * WCap	0.242	There is no Heteroscedasticity

Source: Processed results of Spss 25 data (data processed)

Multiple Regression

The analysis was conducted to see the effect of each variable Firm Size, Firm Age, Cash flow, Long-term debt and Sales growth, namely partially and simultaneously to determine whether or not the ratio variables had a significant effect on PI*Wcap and WCap.
The following are the results of multiple regression analysis with the SPSS 25 program:

Table 7. Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	71.809	14.964		4.799	0.000
	FIRM SIZE	-0.147	0.033	-0.255	-4.471	0.000
	FIRM AGE	0.132	0.338	0.022	0.391	0.696
	CASH FLOW	0.124	0.216	0.033	0.571	0.568
	LONG-TERM DEBT	0.032	0.024	0.076	1.308	0.192
	SALES GROWTH	0.301	0.301	0.056	0.999	0.319

a. Dependent Variable: PI*WCap (data processed)

Table 8. Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	243.189	35.921		6.770	0.000
	FIRM SIZE	-0.159	0.079	-0.122	-2.018	0.045
	FIRM AGE	0.191	0.782	0.014	0.244	0.807
	CASH FLOW	-0.842	0.500	-0.099	-1.684	0.093
	LONG-TERM DEBT	0.090	0.057	0.095	1.596	0.112
	SALES GROWTH	1.122	0.697	0.093	1.611	0.108
	PI * WCap	-0.159	0.136	-0.071	-1.173	0.242

a. Dependent Variable: WCap (data processed)

Table 9. ANOVA Test Results

	Model	Sum of Squares	df	Mean Square	f	Sig.
1	Regression	238166.639	5	47633.328	5.134	.000(b)
	Residual	2681099.996	289	9277.163		
	Total	2919266.635	294			

a. Dependent Variable: PI*WCap
b. Predictors: (Constant), SALES GROWTH, FIRM SIZE, CF, FIRM AGE, LONG-TERM DEBT

Table 10. ANOVA Test Results

	Model	Sum of Squares	df	Mean Square	f	Sig.
1	Regression	1296928.091	6	216154.682	2.053	.059(b)
	Residual	30315451.715	289	105261.985		
	Total	31612379.806	294			

a. Dependent Variable: WCap
b. Predictors: (Constant), PI * WCap, SALES GROWTH, FIRM SIZE, CF, FIRM AGE, LONG-TERM DEBT

RESULT AND DISCUSSION

Large companies can negotiate with suppliers and banks which allows them to obtain more favorable credit terms. So, the company can obtain current liabilities at a higher level. Large companies also run working capital management through aggressive policies and invest less in working capital. Various studies have explained (Chiou et al., 2006; Nyeadi et al., 2018), there was a positive relationship between company size and working capital. According to Palombini and Nakamura (2012), Brazilian registered companies, Gill (2011) Canadian registered companies explained that there was a negative relationship between company size and working capital.

Based on the test results, it is shown in Hypothesis 1 from the calculation results that the t value = -(4.471) > t table value 0.05 (df = 292) = 1.9682 at the 0.000 significance level, Hypothesis 1 is accepted. So, the conclusion is that there is a significant influence between Firm Size (Company Size) Probability in financial distress. Hypothesis 2 t arithmetic value 0.391 < t table value 0.05 (df = 292) = 1.9682 at a significant level of 0.696, Hypothesis 2 rejected. It is concluded that there is no significant effect between Age (Age of the company) on Profitability Financial Distress. Hypothesis 3 from the calculation results obtained the value of t count = -0.571 < value of t table 0.05 (df = 292) = 1.9682 at the significance level of 0.568, Hypothesis 3 is accepted. In conclusion, there is no significant effect between Cash Flow on Probability in financial distress. Hypothesis 4 results in t-count 1.308 < t-table value 0.05 (df = 292) = 1.9682 with a significant level of 0.192, Hypothesis 4 rejected. It can be concluded that there is no significant effect between Long-term Debt on Probability in financial distress. Hypothesis 5 is the result of the calculation of the t-count value 0.999 < t-table value 0.05 (df = 292) = 1.9682 with a significant level of 0.319, Hypothesis 5 rejected. It concluded that there is no significant effect between Growth (Company growth) on Probability in financial distress. Hypothesis 6 is the result of calculating the calculated F value 5.134 > t table value 0.05 (df = 292) = 1.9682 with a significant level of 0.000, Hypothesis 6 is accepted. So, in conclusion there is a significant effect of Size, Age, Cash Flow, Long-term Debt, and Growth together on Probability in financial distress.

The results of the next hypothesis in Hypothesis 1 from the results of the calculation of the calculated t value –(2.018) > t table value 0.05 (df = 292) = 1.9682 significant level 0.045, Hypothesis 1 is accepted. So, the conclusion is that there is a significant influence between Firm Size (company size) on Working capital. Hypothesis 2 from the results of the calculation of the t arithmetic value of 0.244 < t table value 0.05 (df = 292) = 1.9682 with a

significant level of 0.807, Hypothesis 2 rejected. It is concluded that there is no significant effect between Age (company age) on Working capital. Hypothesis 3 of the calculated t value –(1.684) < t table value 0.05 (df = 292) = 1.9682 significant level 0.093, Hypothesis 3 rejected. It is concluded that there is no significant effect between Cash Flow on Working capital. Hypothesis 4 from the results of the calculation of the t arithmetic value of 1.596 < t table value 0.05 (df = 292) = 1.9682 at a significant level of 0.112, Hypothesis 4 rejected. It is concluded that there is no significant effect between Long-term Debt on Working capital. Hypothesis 5 is the result of calculating the t-count value 1.611 < t-table value 0.05 (df = 292) = 1.9682 significant level 0.108, Hypothesis 5 rejected. So, the conclusion is that there is no significant relationship between growth and working capital. Hypothesis 6 of the calculated t value –(1.173) < t table value 0.05 (df = 292) = 1.9682 significant level 0.242, Hypothesis 6 rejected. It is concluded that there is no significant effect between Probability in financial distress on Working capital.

CONCLUSION

The results of this study explain that working capital on firm size (company size), Cash Flow, and Probability in financial distress has a negative impact on working capital. If the results of firm size (company size) increase, higher cash flow, and Probability in financial distress can reduce working capital, this can allow for aggressive policies on working capital. This problem will cause default risk which explains the fulfillment of obligations to creditors. But when firm size (company size), cash flow, and Probability in financial distress are higher, it will create strength for the company in negotiating its credit terms.

If there is a disturbance in operational activities, it can cause a large opportunity loss (Siagian, 2015) . According to (Dalci et al., 2019), companies can provide policies by easing credit to consumers, then investing in inventory and paying trade payables quickly to increase company profitability. The steps that can be taken are to reduce inventory holding costs, supply costs, risk of delivery disruptions, prevent additional production costs and make faster debt payments in order to get discounts on debt payments.

On the firm age (company age), long-term debt and sales growth have a positive effect on working capital. Thus, older companies can run the company by presenting a higher level of working capital which can generate profits and a better company reputation and allow the company to get credit easily.

In summary, companies that manage working capital through conservative policies as a financial strategy to ensure liquidity in fulfilling their obligations to creditors. However, this strategy can prevent alternative investment opportunities through higher returns. As a result, the owner/manager of the company can analyze the impact of working capital management through conservative policies on firm value. Policymakers are expected to take the following steps to benefit the company, namely contributing to efficient working capital management and always creating investment opportunities that contribute to the wealth and value of the company. In this case, namely economic policy in general and industrial policy in particular.

Further research can analyze the effect of working capital management on more diverse profitability of financial distress, adding other variables such as current assets to total assets ratio (CATAR) and current liabilities to total assets ratio (CLTAR) or other profitability measurement variables such as return on equity (ROE) and net profit margin (NPM). In addition, further research can examine the effect of each component of the cash conversion

cycle, namely the average billing period or average payment period (APP) on profitability. Profitability financial distress used as a moderating variable in this study resulted in an insignificant relationship. It is recommended for further research to use variables that are thought to affect profitability as control variables.

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