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THE INFLUENCE OF WORKING CAPITAL AND INVENTORY TURNOVER ON COMPANY PROFITABILITY

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Abstract

This study aims to analyze the influence of working capital and inventory turnover on the profitability of Food & Staples Retailing and Tobacco sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. This study uses a quantitative method with secondary data in the form of corporate financial statements. The data analysis technique used was multiple linear regression with the help of the IBM SPSS 25 program. The results show that partially, neither working capital nor inventory turnover have a significant influence on profitability. Similarly, simultaneously, working capital and inventory turnover together also did not have a significant effect on the profitability of the Food & Staples Retailing and Tobacco sub-sector companies during the 2021-2023 research period. A determination coefficient value (R Square) of 0.072 indicates that only 7,2% of the variation in profitability can be explained by working capital and inventory turnover, while the remaining 92,8% is influenced by other factors outside the model of this study. This study concludes that working capital management and inventory turnover in companies in this sub-sector have not been the main determining factors in increasing profitability.

***Keywords**: Working Capital; Inventory Turnover; Profitability; Food & Staples Retailing and Tobacco Companies; Indonesia Stock Exchange.*

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INTRODUCTION

In the era of free trade and rapid technological advancement, the way companies operate continues to change. To survive, gain profits, and expand their business, companies must be able to adapt and always stay one step ahead of their competitors.

The increasingly tight competition at the national and global levels demands companies to continuously innovate, improve efficiency, and enhance performance in order to keep up with the dynamics of the global economy (Firastika et al., 2024). Along with market growth and changes, companies also need to manage cash and working capital carefully to ensure operational smoothness. Working capital is an important source of funds in supporting daily business activities.

Working capital is the difference between current assets and current liabilities, which reflects the company's ability to finance its short-term operations. This surplus indicates the extent to which the company's current assets are financed by long-term funding sources such as long-term debt and equity. In the context of achieving profitability and maintaining business continuity, working capital plays a crucial role as the main support for daily activities, such as

cash management, receivables, and inventory. Therefore, the company's ability to manage and meet working capital needs becomes a critical factor in maintaining operational stability and smoothness.

The inventory turnover rate is closely related to the amount of capital invested. The higher the turnover, the more efficiently capital is used because the funding needs for holding inventory become lower. Well-managed inventory not only helps in smooth operations and fulfilling customer demand but can also reduce storage costs and recurring ordering costs (Denisa Salsabila Viyanis et al., 2023). Conversely, if investment in inventory is not managed properly, it can decrease the company's profitability. Profitability itself is an important indicator in assessing a company's financial performance, as it shows how capable the company is in generating profit. The higher the level of profitability, the greater the potential profit that can be achieved (Ndruru et al., 2022).

Profitability is a reflection of how well a company operates and generates profits. In other words, the higher the level of profitability, the better the company's financial performance. To support the smooth running of daily operations, a company needs sufficient working capital. Meanwhile, efficient inventory turnover can help reduce unnecessary costs and maintain a healthy cash flow. One commonly used measure of profitability is Return on Assets (ROA), which indicates how much contribution assets make in generating net income. The higher the ROA, the more effectively assets are used to create profits. This information is usually obtained from financial statements and serves as an important basis for assessing the performance and effectiveness of the company's financial management. Ultimately, achieving the company's main objective of maximizing profit heavily depends on good financial management (Anggraini & Cahyono, 2021).

Various previous studies have shown diverse results regarding the impact of working capital and inventory turnover on profitability. Septiano (2022) found that working capital does not affect profitability, while liquidity has a significant negative impact. Research by Setiawan (2023) also indicates that accounts receivable and inventory turnover do not significantly affect profitability, but cash turnover has a significant negative impact. Mutia Salsabila (2021) added that although sales revenue positively impacts profitability, working capital shows a negative effect. Conversely, several studies state that when working capital and inventory turnover are analyzed simultaneously, both can have a significant impact on profitability. However, this result is different from Dzakiroh's (2022) findings which stated that the two variables do not simultaneously affect profitability. In the context of increasingly fierce competition and changing consumer behavior, companies, especially in the primary consumer goods sector, need to manage resources such as working capital and inventory more carefully to remain competitive. The food & staples retailing and tobacco sub-sectors were chosen as the focus of the research because they are considered to have high potential for product innovation and investor interest (Anni Melissa, 2024).

Therefore, research on "The Influence of Working Capital and Inventory Turnover on the Profitability of Food & Staples Retailing and Tobacco Sub-Sector Companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023" becomes relevant for in-depth study. This topic is important because it can provide further understanding of how the management of working capital and inventory turnover affects the profitability of the companies.

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METHOD

This research was conducted with a quantitative approach, as its main focus is to test the relationship between variables based on numerical data. The type of research is causal associative, which means it aims to determine whether there is an influence between working capital and inventory turnover on the company's profitability. The objects of this research include companies from the Food & Staples Retailing and Tobacco subsectors listed on the Indonesia Stock Exchange (IDX) during the period from 2021 to 2023. This approach was deemed the most appropriate as it can provide a clear and measurable picture of the interrelations between the variables studied. The object of this research is companies classified in the Food & Staples Retailing and Tobacco subsectors on the Indonesia Stock Exchange (IDX). The population in this study includes all companies in these two subsectors that have consistently been listed on the IDX from 2021 to 2023. The sample selection was conducted using purposive sampling techniques, based on specific criteria such as the availability of financial reports for three consecutive years and the completeness of relevant data for this research. The type of data used is secondary data obtained from the companies' annual financial reports accessed through the official BEI website (www.idx.co.id).

Data collection was conducted through documentation studies, which involved searching, recording, and processing financial data from the companies that were the research samples. All data were then processed using predetermined formulas for each research variable. This study consists of two independent variables and one dependent variable. The first independent variable is working capital, calculated as the difference between current assets and current liabilities (Kasmir, 2021), the formula is:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

The second independent variable is inventory turnover, According to V. Wiratna Sujarweni (2017:65) in (Adolph, 2020) calculated using the formula:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Rata-rata Persediaan} = \frac{\text{Beginning Inventory} + \text{Ending Inventory}}{2}$$

Meanwhile, the dependent variable is the company's profitability, which is measured by the Return on Assets (ROA) ratio (Anggraini & Cahyono, 2021). ROA is calculated by the formula:

$$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100\%$$

The selection of ROA as an indicator of profitability is based on its ability to demonstrate the effectiveness of the use of company assets in generating profits.

In this study, the analysis methods used are descriptive analysis, classical assumption test where there is a normality test, multicoloniality test, heteroscedasticity test and autocorrelation test, simple linear regression analysis and there is also multiple linear regression analysis, determination coefficient and hypothesis test (t test (partial) and F test (simultaneous)).

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An estimate or hypothesis is a short-term assumption that is stated as a claim that must be verifiable. The research hypothesis is as follows:
H01: Working Capital (X_1) has no effect on Profitability (Y).
Ha1: Working Capital (X_1) affects Profitability (Y).
H02: Inventory Turnover (X_2) has no effect on Profitability (Y).
Ha2: Inventory Turnover (X_2) affects Profitability (Y).
H03: Working Capital (X_1) and Inventory Turnover (X_2) have no simultaneous effect on Profitability (Y).
Ha3: Working Capital (X_1) and Inventory Turnover (X_2) have a simultaneous effect on Profitability (Y).

RESULT

Research Findings

Data management in this study was carried out using IBM SPSS 25. Here are the results and discussions:

Table 1. Working Capital (Rp) 2021-2023

No.	Company Code	2021	2022	2023
1.	AMRT	-2.164.158.000.000	-1.725.032.000.000	62.947.000.000
2.	POWER	-167.689.331.000	-168.456.132.000	-160.034.347.000
3.	DMND	2.858.782.000.000	2.808.901.000.000	2.975.151.000.000
4.	EPMT	5.245.488.693.476	5.518.413.139.317	5.692.283.952.066
5.	KMDS	64.049.051.332	96.606.472.127	117.913.343.387
6.	MIDI	-1.156.079.000.000	-892.846.000.000	-177.466.000.000
7.	MPPA	-379.207.000.000	-755.563.000.000	-545.009.000.000
8.	PCAR	-379.207.000.000	-755.563.000.000	-545009000000
9.	RANC	878.885.077.166	-100.716.582.813	-144107512000
10.	SDPC	127.715.915.071	145.920.090.751	160.651.811.374
11.	WICO	26.772.867.873	-47.822.054.870	-70.129.483.220
12.	GGRM	30.943.295.000.000	26.320.117.000.000	24.578.749.000.000
13.	HMSP	19.358.846.000.000	16.817.404.000.000	16.763.360.000.000
14.	ITIC	-19.406.202.734	8.465.733.507	2.464.750.074
15.	WIIM	-30.204.188.763	1.214.519.124.142	1.496.407.295.982
	Average	**3.680.525.592.161**	**3.232.289.852.677**	**3.347.211.520.711**

Source: Data processed by the author from www.idx.co.id (2025)

The table image above shows the working capital trend of companies in the Food & Staples Retailing and Tobacco sub-sectors during 2021–2023. The average working capital decreased from IDR 3.68 trillion in 2021 to IDR 3.23 trillion in 2022, reflecting a decline in operational funding capabilities. However, in 2023 this figure will increase again to IDR 3.35 trillion, indicating an improvement in the company's capacity to finance its business activities.

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Table 2. Inventory Turnover (in times) 2021-2023

No.	Company Code	2021	2022	2023
1.	AMRT	8,20	8,60	8,73
2.	POWER	3,23	3,27	4,34
3.	DMND	4,03	3,98	3,54
4.	EPMT	8,34	7,39	6,86
5.	KMDS	10,00	5,70	5,36
6.	MIDI	6,14	6,11	5,92
7.	MPPA	5,42	5,80	5,66
8.	PCAR	9,65	12,02	20,87
9.	RANC	6,08	5,62	5,74
10.	SDPC	6,52	5,91	5,72
11.	WICO	12,88	9,35	12,18
12.	GGRM	2,53	2,39	2,22
13.	HMSP	4,57	5,20	5,17
14.	ITIC	1,37	1,56	1,66
15.	WIIM	2,74	3,29	2,83
	Average	**6,11**	**5,75**	**6,45**

Source: Data processed by the author from www.idx.co.id (2025)

The table above presents an overview of inventory turnover in companies in the Food & Staples Retailing and Tobacco sub-sectors during the period 2021 to 2023. Overall, the inventory turnover rate in these two sub-sectors tends to be stable, in the range of 6, which indicates fairly consistent stock management from year to year. Some companies show improvements in terms of efficiency. AMRT, for example, saw an increase in the ratio from 8.20 to 8.73, reflecting a strengthening in the stock management system. Similar performance was also seen in DAYA which rose from 3.23 to 4.34, likely due to an improvement in distribution strategy or an increase in sales volume. However, not all companies have increased. Some actually show a decrease in efficiency. DMND and KMDS, for example, experienced a significant decline in inventory turnover. This can indicate a slowdown in sales or obstacles in logistics management.

Meanwhile, PCAR recorded a very high jump in ratio from 9.65 to 20.87. This increase reflects significant efforts in accelerating the flow of goods, which may be supported by marketing strategies or distribution channel expansion. There are also companies that tend to be stable such as MIDI and MPPA, with relatively little turnover over the past three years. On the other hand, GGRM and SDPC are declining, which could be a signal that there needs to be an evaluation in stock control or market demand. Companies such as WIIM and WICO show high numbers, but they are not stable, indicating fluctuations in strategy or changing market needs. From this data, it can be seen that the effectiveness of inventory management is highly dependent on the company's internal conditions as well as the response to market dynamics that occur throughout the observation period.

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Table 3. Profitability (Rp) 2021-2023

No.	Company Code	2021	2022	2023
1.	AMRT	7,23	9,45	10,17
2.	POWER	-7,50	-5,82	-2,34
3.	DMND	5,58	5,55	4,45
4.	EPMT	8,69	8,09	6,28
5.	KMDS	17,71	20,56	20,90
6.	MIDI	4,33	5,78	6,63
7.	MPPA	-7,25	-11,35	-7,01
8.	PCAR	1,17	4,79	8,70
9.	RANC	0,65	-6,17	-9,70
10.	SDPC	0,79	1,74	2,01
11.	WICO	-18,77	-31,58	-34,78
12.	GGRM	6,23	3,13	5,75
13.	HMSP	13,44	11,54	14,63
14.	ITIC	3,48	4,32	4,81
15.	WIIM	9,35	11,51	19,2
	Average	**3,008666667**	**2,102666667**	**3,313333333**

Source: Data processed by the author from www.idx.co.id (2025)

Table 3 above shows an overview of the company's profitability in the Food & Staples Retailing and Tobacco sub-sectors during 2021 to 2023, with the Return on Assets (ROA) indicator. The results show that the level of profitability between companies varies greatly. Some companies recorded stable profits, while others actually experienced recurring losses. KMDS is one of the companies with the most outstanding performance. For three consecutive years, the company recorded a high ROA, even increasing year after year. In contrast, WICO continues to record losses with a fairly deep negative ROA, indicating a serious problem in the efficient use of assets. In terms of development, several companies showed significant improvements. AMRT, for example, managed to increase the ROA from 7.23 to 10.17 in three years. MIDI and WIIM also recorded good growth in terms of profitability. PCAR even experienced a sharp spike, from a fairly low ROA in 2021 to a much higher ROA in 2023.

However, not all companies show improved performance. DAYA and MPPA continued to record negative ROA for three years, although the losses seemed to be starting to reduce. RANC also recorded a consistent decline, while DMND and EPMT experienced a year-over-year decline in ROA, which could be a signal that companies need to reevaluate their asset management strategies. Some companies experience fluctuations but remain in the healthy category. GGRM had dropped in 2022 but recovered in 2023. HMSP remained stable in the double digits and demonstrated the ability to maintain asset performance efficiency. Companies such as ITIC and SDPC show a slow but consistent trend of increasing ROA, which signals a direction of improvement although not too prominent. Overall, the ROA data shows that although most companies are experiencing challenges, there are indications of improvement in the last year of observation. The average ROA in 2023 increased compared to the previous year, which gives hope for a recovery in efficiency and operational performance in the sector.

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Table 4. Descriptive Statistical Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
WORKING CAPITAL	45	-2164158000000.00	309432950000000.00	3420008988516.5557	7975026815865.04100
INVENTORY TURNOVER	45	1.37	20.87	6.1042	3.61305
PROFITABILITY	45	-34.78	20.90	2.8109	11.48270
Valid N (listwise)	45				

Source: IBM SPSS 25 (Data processed, 2025)

Table 4 above shows descriptive statistics from 45 sample companies during 2021–2023. The average profitability (ROA) was recorded at 2.81 with a minimum value of -34.78 and a maximum of 20.90. A negative value indicates a loss in some companies, while the highest positive value indicates success in generating profits. The standard deviation of 11.48 indicates a considerable variation in profitability between companies.

The working capital variable (X_1) shows a significant difference, with a minimum value of -2.16 trillion and a maximum of 30.94 trillion rupiah. The average is at 3.42 trillion, but the high standard deviation (7.98 trillion) indicates a large difference in the financial management capacity between companies.

The inventory turnover (X_2) has an average of 6.10, with a value range between 1.37 and 20.87. The standard deviation of 3.61 reflects the efficiency imbalance in stock management between companies. Overall, this data shows that there is a considerable variation in performance among the companies in the sub-sectors studied.

Table 5. Working Capital Coefficients Test

Coefficient						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.740	1.842		.945	.350
	WORKING CAPITAL	3.130E-13	.000	.217	1.460	.151
a. Dependent Variable: PROFITABILITY						

Source: IBM SPSS 25 (Data processed, 2025)

Based on table 5 above, the results of the working capital *coefficients* test are obtained as follows:

$$Y = 1{,}740 + 3{,}130 \times 10^{-13} X1 + e$$

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From the results of the working *capital coefficients* test equation above, it can be presented as follows:

1. The value of α (constant) has a positive value of 1.740, indicating that if the value of the variable capital cooperates with 0, the profit level is 1.740.
2. The value of β (working capital regression coefficient) has a positive value of 3.130 × 10^{-13} or 0.0000000000003130. It shows that for every increase/decrease in the working capital variable by 1 unit, the profitability level will increase/decrease by 0.00000000000003130.
3. A significant value of 0.151 > 0.05 was obtained and a tcal value of 1.460 < a table of 2.018. This shows that the working capital variable has no effect on profitability.

Table 6. Test Inventory Turnover Coefficients

Coefficient						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.023	3.346		2.099	.042
	INVENTORY TURNOVER	-.690	.473	-.217	-1.459	.152
a. Dependent Variable: PROFITABILITY						

Source: IBM SPSS 25 (Data processed, 2025)

Based on table 6 above, the results of the inventory turnover *coefficients* test are obtained as follows:

$$Y = 7.023 - 0.690 X2 + e$$

From the results of the inventory turnover *coefficients* test equation above, it can be presented as follows:

1. The value of α (constant) has a positive value of 7.023, indicating that if the value of the inventory turnover variable is equal to 0, then the profit level is 7.023.
2. The value of β (the regression coefficient of inventory turnover) is -0.690 and has a negative value. It shows that every increase/decrease in the inventory turnover variable by 1 unit, the profitability level will decrease/increase by 0.690.
3. A significant value of 0.152 > 0.05 and a tcal value of -1.459 < a ttable of 2.018. This shows that the inventory turnover variable has no effect on profitability.

Table 7. Working Capital Coefficients, Inventory Turnover and Profitability

Coefficient						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.212	3.749		1.390	.172
	WORKING CAPITAL	2.395E-013	.000	.166	1.065	.293
	INVENTORY TURNOVER	-.528	.496	-.166	-1.063	.294
a. Dependent Variable: PROFITABILITY						

Source: IBM SPSS 25 (Data processed, 2025)

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Based on table 13 above, the results of the multiple linear regression test are obtained as follows:

$$Y = 5{,}212 + 2{,}395 \times 10^{-13} X_1 - 0{,}528 X_2 + e$$

From the results of the multiple linear regression test equation above, it can be interpresented as follows:

1. The value of α (constant) has a positive value of 5.212, indicating that if the variable value of working capital and inventory turnover is equal to 0, then the profit level is 5.212.
2. The value of ß1 (working capital regression coefficient) has a positive value of 2.395×10^{-13} or 0.00000000000002395. It shows that every increase/decrease in the working capital variable by 1 unit, the profitability level will increase/decrease by 0.00000000000002395.
3. The value of ß2 (inventory turnover regression coefficient) is -0.528 and is negative. It shows that for every increase/decrease in the variable of inventory turnover of 1 unit, the profitability level will decrease/increase by 0.528.

Table 8. Determination Test

Model Summary[b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.269a	.072	.028	11.32064

a. Predictors: (Constant), INVENTORY TURNOVER, WORKING CAPITAL
b. Dependent Variable: PROFITABILITY

Source: IBM SPSS 25 (Data processed, 2025)

The R Square *determination test* yielded a value of 0.072 as seen in Table 14 above. This shows that working capital and inventory turnover, which are independent variables, can only explain about 7.2% of the variation in the dependent variable, i.e. profitability. Explained by other factors not included in this model that were not researched was around 92,8%.

Table 9. F Test (Simultaneous)

NEW ERA

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	418.918	2	209.459	1.634	.207b
	Residual	5382.585	42	128.157		
	Total	5801.503	44			

a. Dependent Variable: PROFITABILITY
b. Predictors: (Constant), INVENTORY TURNOVER, WORKING CAPITAL

Source: IBM SPSS 25 (Data processed, 2025)

The result of the data in table 16 above, the value of $f_{calculated}$ is 1.634 < $f_{of\ table}$ 3.21, with a value of (a) = 5% or (0.05). Significance value (Sig.) 0.207 > 0.05. This means that working capital and inventory turnover simultaneously have no significant effect on profitability.

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The Influence of Working Capital on Profitability

The profit of the food and tobacco retail business in 2021-2023 was not significantly affected by working capital, different from the general view. This is because the food retail sector is driven more by sales volume and operational efficiency, while tobacco is driven by taxes, customs, and large production and marketing costs. Macro factors such as inflation and rising operating costs also play an important role. These results are consistent with research (Septiano et al., 2022), implying working capital may not be the primary determinant of profitability in these sectors.

The Effect of Inventory Turnover on Profitability

The profitability of the food & staples and tobacco retail business in the 2021-2023 period was not too affected by inventory turnover. This is due to the nature of the food industry where demand is stable and turnover is already high, so additional efficiency in inventory will not change revenue much, especially with small profit margins. Meanwhile, in the tobacco industry, profits are determined more by a stable market, loyal consumers, and strict regulations (such as taxes), rather than the speed of inventory turnover. Furthermore, external factors such as inflation, rising raw material prices, and operational costs (salaries, logistics) have a much greater impact on net profit than inventory management. These findings are supported by research (Ermaya & Novitasari, 2016) and (Setiawan & Putri, 2023), which both indicate that inventory turnover is insignificant to profitability, signaling that neither shortages nor inventory buildup have a strong linear relationship with a company's profitability.

The Influence of Working Capital and Inventory Turnover on Profitability

The study found that working capital and inventory turnover were only able to explain 7.2% of the variation in profitability, leaving 92.8% influenced by factors outside the model. This low R Square number corroborates the conclusion that the two variables do not have a significant impact on profitability, in line with the study (Yang et al., 2023). This is also reinforced by research (Kusumaningati & Sugianto, 2021) which shows that revenue and expenses have a much greater influence, up to 97.3%, on profitability. It is clear to see that in this business context, revenue and costs are much more dominant determinants of profits compared to working capital management or inventory turnover.

CONCLUSION

1. Working capital, when analyzed separately (partially), does not show a significant influence on the level of profitability of the company in the related sub-sectors.
2. Similar results were also found in the inventory turnover variable, where there was no partially significant relationship with the company's profitability.
3. Even when the two variables were tested simultaneously, they still did not have a significant impact on the company's profitability in this study period.

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