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Original Article

Relationship of Working Capital Management and Leverage on Firm Value: An Evidence from the Indonesia Stock Exchange

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Abstract: The owners' prosperity level represents the high firm value. Investors' primary focus has shifted to the firm's value. The firm's value reflects the prosperity of its shareholders and investors. One of the primary company goals is to obtain maximum profit from business activities. However, the purpose of establishing a company is not only to achieve maximum profit but also to increase the prosperity of parties related to the company's business activities, such as shareholders and stakeholders, so that the company's value increases. Thus, the current investigation examines the relationship between working capital management and leverage towards firm value in the Indonesia Stock Exchange. This quantitative study utilized secondary data from the Central Bureau of Statistics of Indonesia from 2016 to 2020. The data were analyzed using time series regression by assisting econometrical software, namely EVIEWS-10. The results indicated that Working Capital Management positively and significantly affects firm Value. Besides that, leverage has a negative and significant effect on Firm Value. Also, profitability moderates the relationship between working capital and firm performance. Besides that, profitability does not moderate the relationship between leverage and firm performance. In conclusion, this study has identified the important factors influencing firm value, and leverage has not affected firm value. The findings of this research can be used as the basis for making investment decisions. The aspect measures the ability of the company's assets to generate a return on the investment made in the company's asset instruments.

Keywords: working capital management; leverage; profitability; firm value.

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1. Introduction

The firm value resembles the value or price of the shares where a high firm value will be willing to pay by prospective buyers if the company is sold associated with the price of company's shares (Kusumajaya, 2011). The higher the share price in companies listed on the capital market, the higher the wealth of the owners of the company reflected in the higher firm value will be. Companies having high scores show good performance achievements so those are a willingness of their owners. The higher the firm value, the greater the prosperity will be gained by the owner of the firm (Kesuma et al., 2013). In general, firm value can be measured using financial ratios, one of which is price-to-book value (PBV). The PBV ratio is a comparison of the market value of a stock to the book value, so that it can be seen whether the stock price level is overvalued or undervalued from the book value. The low PBV is reflected in the undervalued stock price, which indicates a decline in quality and performance. The increase in the firm's value is not only determined by the long-term financial policy but also by the short-term financial policy of the company in this case working capital management. Table 1 highlights the average firm value in manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2020:

Table 1. Range from Value of the Manufacturing Companies

No.	Company Sectors	Year				
		2016	2017	2018	2019	2020
1.	Basic and chemical industry manufacturing companies	3,65	2,55	3,73	2,71	3,74
2.	Consumer goods manufacturing companies	2,50	3,48	3,68	2,46	2,78
3.	Multi-industrial sector manufacturing company	4,30	4,25	5,34	5,46	4,18

Source: www.idx.co.id (2021)

Table 1 shows that the average firm value as measured by the Price to Earnings Ratio or share price per share/earnings in manufacturing companies has fluctuated. It has a different number and amount each year. The occurred increase and decrease were due to one of the reasons for the financial performance of the company. In addition, the size of the firm value obtained each year can affect the average value. Therefore, related companies must maintain firm value because a high firm value will lead the market to believe in the company's prospects in the future coupled with high dividend returns that make investors more interested, and with good financial performance that will show good growth since it has a high level of profitability and good dividend return. The facts carried out by the Investment Coordinating Board (BKPM) emphasize that the realization of Domestic Investment (PMDN) and Foreign Investment (PMA) in the manufacturing sector shows fluctuations with a trend of rising trade values from 2016 to 2020. This has been proven by realization of investment in 2016 amounted to Rp. 89.8 trillion, while in 2020 it was Rp. 199.1 trillion or an increase of 221.7%. This positive trend shows that Indonesia is still the prima donna for investors to invest in the manufacturing industry sector because domestic demand for various needs for manufactured products increases from year to year.

Optimal working capital management is minimizing working capital requirements and maximizing company income. If there is too much working capital, it will lead to inefficiency which in turn will have a negative impact on profitability and firm value (Pandey et al., 2010). Increasing firm value is a part of the company's corporate strategy and efficient working capital management is an important element in that strategy (Afza & Nazir, 2007). Furthermore, efficient working capital management is increasing the company's free cash flow which in turn increases the company's growth opportunities and the level of profit for shareholders (Eljelly, 2004) explains that efficient working capital management relates to planning and monitoring of current assets and current liabilities which in turn reduces the risk of not being able to pay short-term obligations by not excessive investment in current assets. (Siddiquee & Khan, 2009) explained that inefficient working capital management not only reduces profitability but also creates a funding crisis in the company. Consequently, efficient working capital management is a pivotal factor in maintaining sustainability, liquidity, solvency, profitability and firm value.

Table 2. Working Capital Management of Manufacturing Companies Listed on Indonesia Stock

Code	Working Capital Management				
	2016	2017	2018	2019	2020
BRPT	18,918,911	43,023,45	44,538,447	49,354,389	70,796,876
BUDI	4,476,982	5,265,953	3,931,807	2,939,456	2,264,206
DPNS	868,877	774,483	696,130	808,491	428,337
EKAD	511,349	489,692	802,509	696,768	757,845
ETWA	2,331,049	2,332,731	2,158,936	2,114,569	2,069,816

Code	Working Capital Management				
	2016	2017	2018	2019	2020
INCI	347,993	569,546	669,35	603,788	738,779
UNIC	3,312,276	2,354,507	2,568,167	3,231,409	2,340,352

Source: www.idx.co.id (2021)

Table 2 shows that working capital management as measured by the working capital ratio of current assets/ liabilities in manufacturing companies is clearly described. The Manufacturing Companies listed on the Indonesia Stock Exchange in 2015-2019 were unstable and fluctuated. Then, there are several Manufacturing Companies listed on the Indonesia Stock Exchange experiencing a decrease in the acquisition of working capital management even though the company's income has an increase. This indicates that the performance of the Manufacturing Companies has not been maximized. The main objective of working capital management is to ensure that the company has the ability to operate with sufficient cash flow for payment of short-term debts that are due and operational financing. As a consequence, companies must make working capital policies such as better management of debt, receivables, investment, inventory for access to company cash. Based on this view, working capital management is one of the most important issues in corporate organizations in which financial managers must identify the optimal level of working capital (Nazir & Afza, 2009b, 2009a; Nwankwo & Osho, 2010).

Leverage is a ratio projecting the state of debt in the company's finances. According to Mesak (2019), leverage is a solvency or leverage ratio is a ratio used to measure the extent to which a company's activities are financed by debt. This understanding of leverage is also supported by the view of Brigham & Houston (2010) in their book which states that the leverage ratio is "a ratio that measures the extent to which companies use financing through debt (financial leverage) so that we are able to see the company's ability to optimize debt. Leverage ratio is a financial ratio that measures the company's ability to meet its long-term obligations, such as interest payments on debt, final principal payments on debt and other fixed obligations. Long-term debt is usually defined as an obligation to pay maturities of more than one year.

Table 3. Leverage Acquisition of Several Manufacturing Companies listed on the Indonesia Stock Exchange

Code	Leverage				
	2016	2017	2018	2019	2020
BRPT	2.22%	1.78%	1.73%	1.81%	2.28%
BUDI	2.71%	2.55%	1.68%	2.46%	2.91%
DPNS	1.14%	2.64%	2.22%	1.15%	1.29%
EKAD	1.51%	1.383%	2.39%	2.20%	1.38%
ETWA	3.41%	16.19%	43.19%	-13.19%	-6.46%
INCI	1.18%	1.19%	1.71%	2.13%	2.47%
UNIC	1.87%	2.62%	1.87%	2.98%	2.66%

Source: www.idx.co.id (2021)

Table 3 shows that the acquisition of leverage as measured by Total Debt/Total Equity in manufacturing companies describes clearly and significantly that several Manufacturing Companies listed on the Indonesia Stock Exchange in 2016-2020 were unstable and fluctuated. In addition, there were several Manufacturing Companies listed on the Indonesia Stock Exchange that have experienced a decrease in leverage even though the company's income has an increase. This indicates that the Value of the Manufacturing Company has not been maximized. Profitability according to Yusintha & Suryandari (2010) in Martalina (2011) is the company's ability to earn a profit. Investors invest shares in companies to get returns, which consist of yields and capital gains. The higher the ability to earn profits, the greater the return expected by investors. Thus, making the value of the company is better. Profitability is the company's ability to earn profits in relation to sales and total assets or capital (equity). In this case, it can be explained that knowing the profitability of a company is very important for investors and creditors. The profitability ratio describes the company's ability to obtain optimal profit through all capabilities from all available sources such as sales activities. The table below highlights the average profitability of consumer goods industrial companies listed on the Indonesia Stock Exchange in the 2016-2020 period:

Table 4. Profitability (ROA) of Manufacturing Companies listed on the Indonesia Stock Exchange

Code	Profitability				
	2015	2016	2017	2018	2019
BRPT	2.16%	2.43%	11.28%	6.28%	2.24%
BUDI	2.25%	2.75%	3.62%	3.45%	3.94%
DPNS	4.30%	4.29%	5.18%	3.43%	3.23%
EKAD	8.81%	11.44%	11.21%	9.26%	7.26%
ETWA	11.58%	-15.81%	-6.61%	-11.44%	-9.38%
INCI	8.55%	10.66%	3.41%	5.22%	3.46%
UNIC	-	-	7.74%	5.52%	4.53%

Source: www.idx.co.id (2021)

Table 4 shows that the profitability as measured by Profit after Tax/Total Assets in manufacturing companies from the given table describes clearly and significantly that Manufacturing Companies listed on the Indonesia Stock Exchange in 2016-2020 were unstable and fluctuated. Furthermore, there are several Manufacturing Companies listed on the Indonesia Stock Exchange that have experienced a decrease in profitability even though the company's income has increased. This indicates that the value of the Manufacturing Company has not been maximized. Firm value is an investor's perception of the company's level of success in managing resources at the end of the current year reflected in the company's stock price. The higher the stock price, the higher the value of the company. On the contrary, the lower the stock price is, the value of the company is also low or the company's performance is not good. A high firm value is the hope of every company as it will have a positive impact on the company. The value of the company can be seen from the stock price. If a company has a high share price, the company is financially capable. This will foster investor confidence that the company has potential prospects in the future. Increasing the value of the company will be achieved if there is cooperation between the company's management and stakeholders in making decisions concerning the company's finances.

2. Literature Review

2.1. Working capital management

Working capital management is an aspect that must be considered in the company. If the company cannot maintain a satisfactory level of working capital, it is likely that the company will be in a state of insolvency (unable to pay its maturing obligations). Current assets must be large enough to cover current liabilities so that they represent a satisfactory margin of safety. (Esra & Apriweni, 2002) defined working capital management as an activity that includes all management functions of current assets and short-term liabilities of the company contained in the company in order to be able to finance expenses or company operations. From this understanding, it can be concluded that the main concern in working capital management is the management of the company's current assets, namely cash, securities, receivables and inventories as well as funding (especially current liabilities) needed to support current assets. The company finances and invests in managing and revolving capital. This can reflect the policies made by the company in implementing working capital management. Working capital management aims to manage current assets and current liabilities so as to obtain proper networking capital and ensure the company's level of liquidity (Martono, 2001).

2.2. Leverage

Leverage is a ratio projecting the state of debt in the company's finances. Leverages according to several experts are: (Kasmir, 2014) stated that "leverage is a solvency or leverage ratio used to measure the extent to which a company's activity financed with debt." It is in line with what was expressed by Kasmir, (2014). This understanding of leverage is reaffirmed by Akbar & Fahmi, (2020) who stated that leverage is: "The leverage ratio is a measure of how much the company is financed with debt. The use of debt that is too high will endanger the company because the company will fall into the category of extreme leverage, namely the company is trapped in a high level of debt and it is hard to release the debt burden. Based on the aforementioned understanding, it can be concluded that the leverage ratio is a financial ratio that measures the company's ability to meet its long-term obligations (long-term loans) such as interest payments on debt, final principal payments on debt and other fixed obligations. Long-term debt is usually defined as an obligation to pay maturities more than one year. This leverage ratio compares the company's overall debt burden to its equity. In other words, this ratio shows how much of the company's assets are owned by shareholders compared to assets owned by creditors (debtors). If the shareholders have more assets, the company is declared to be less leveraged. However, if the creditor (debtor) owns the majority of assets, the concerned company is said to have a high level of leverage. The solvency ratio or leverage ratio is very helpful for management and investors to understand how the level of capital structure risk in the company is.

2.3. Firm Value

Firm value is an investor's perception of the company's level of success which is often associated with stock prices. High stock prices make high company value as well. A high company value will make the market believe not only in the company's current performance but also in the company's prospects in the future. The higher the share price, the higher the prosperity of shareholders. Maximizing shareholder wealth also means that management must maximize the present value of the expected return in the future. The firm value will be reflected in its share price. The market price of company shares formed between buyers and sellers when a transaction occurs is called the company's market value, because the stock market price is considered a reflection of the actual value of the company's assets. The company value formed through the stock market value indicator is strongly influenced by investment opportunities. The existence of investment opportunities can provide a positive signal about the company's growth in the future, so that it can increase the company value (Susanti & Asamara, 2010). Company value is usually indicated by price to book value. A high price to book value (PBV) will make the market believe in the company's future prospects. This is also what the owners of the company desire, because a high company value indicates that the prosperity of shareholders is high as well.

The higher the share price, the higher the prosperity of shareholders. To achieve company value, investors generally leave their management to professionals.(Kusumadilaga, 2010) explained that enterprise value (EV) or also known as firm value (company value) is an important concept for investors, because it is an indicator for the market to assess the company as a whole. Company value is the price that prospective buyers are willing to pay if the company is sold. The profitability of a company shows the ratio between profit and assets or capital that generates the profit. In other words, profitability is the ability of a company to gain profit. (Brigham & Houston, 2010) stated that profitability is the net result of a series of policies and decisions. According to Ezwita, (2014), the profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the level of company management effectiveness. This is indicated by the profit generated from sales and investment income. The point is that the use of this ratio shows the company efficiency.

Wahidahwati, (2002) revealed that the profitability ratio or the profitability ratio shows the company's success in generating profits. Profits that deserve to be distributed to shareholders are profits after interest and taxes. The greater the profit obtained, the greater the company's ability to pay dividends. Managers will not only get dividends, but will also get greater power in determining company policies. Thus, the greater the dividend (dividend payout), the saver the capital cost will be. On the other hand, the managers (insiders) can increase their power and even increase their ownership due to receiving dividends as a result of high profits. So, profitability is an important consideration for investors in their investment decisions.

3. Materials and Methods

3.1. Research Design

The overall procedure for planning and implementing research which includes procedures for data collection and data processing that have been determined. In carrying out a research, a researcher must develop a research design adapted to the type and purpose of the research. In accordance with the research objectives and the nature of the problem to be studied, this research uses quantitative and secondary data. In terms of its nature, this research is a quantitative research. Quantitative research is not too focused on the depth of the data. The important thing is to be able to record as much data as possible from a wide population. Although the research population is large, it can be easily analyzed, either through statistical formulas or computers. So, solving the problem is dominated by the role of statistics.

Quantitative research is an effort to develop knowledge and test theories. Mc Millan and Schumacer cited the opinion of (Niemiec et al., 1996), there are five steps of developing knowledge through research, namely: 1) identifying research problems; 2) conduct empirical studies; 3) do a replica or repetition; 4) uniting (synthesis) and reviewing; 5) use and evaluate by implementers. Through these stages, answers will be obtained from the research objectives through scientific methods guided by logic, so that the results obtained can scientifically and logically be accepted makes sense (Bachri, 2010). One of the tests that must be passed in multiple linear regression analysis is the classical assumption test. (Ghozali, 2018) said that the classical assumption test was carried out so that the multiple linear regression model met the BLUE (Based Linear Unbiased Estimator) criteria. Hypothesis testing conducted in this study was conducted to determine the effect of the independent variable (Working Capital Management and Leverage) on the dependent variable (Firm Value). The test consists of t-test (partial test) and F-test (simultaneous test). In addition to using multiple regression analysis, this study also used the Moderated Regression Analysis (MRA) method to analyze the effect of the moderator variable on the relationship between the independent variable and the dependent variable.

3.2. Population and Sample

The population is a generalization area consisting of objects or subjects that have certain qualities and characteristics applied by researchers to study and then conclusions are made related to the research problem (Sudjana, 2010). The population in this study amounted to 126 Manufacturing Companies listed on the Indonesia Stock Exchange. The sample used in this study was a manufacturing company on the Indonesia Stock Exchange with certain criteria. The sampling method used is purposive sampling, namely the sample is selected based on the criteria for conformity with the research criteria. Purposive sampling is one of the non-random sampling techniques where the researcher determines the sampling by determining the specific characteristics that are in accordance with the research objectives so that it is expected to be able to answer the research problem. As many as 40 manufacturing sector companies were selected according to purposive sampling, so that 200 data from the annual financial statements of manufacturing companies that met the requirements from 2015 to 2019 were selected which will be used as research samples.

4. Results and Discussion

This study would discuss the sampled manufacturing companies, namely manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period. This study was conducted to examine the effect of the financial ratios of Working Capital Management and Leverage on Firm Value with Profitability as Moderating Variable. There were 155 companies listed on the Indonesia Stock Exchange, but the samples in this study were 40 companies because they met the sample criteria, namely manufacturing companies.

Table 5. Results of Hypothesis Testing

Variable	Coefficient	Std. Error	t-stat	Prob.
Constant	24.371	7.219	3.375	0.000
Working Capital	0.402	0.414	2.972	0.000
Leverage	-5.947	4.085	-1.455	0.040
Profitability	1.074	8.971	0.119	0.904
R Square	0.210		S.E. Regression	21.920
F-stat	0.747		Prob.	0.529

Dependent variable: Firm Performance

Table 5 displays Working Capital has a significant positive effect on firm performance. The regression coefficient is 0.402, std. error is 0.414, t-stat is 2.972 and significance is 0.000. Leverage has a significant negative effect on firm performance. The regression coefficient is -5.947, std. error is 4.085, t-stat is -1.455 and significance is 0.040. Profitability has not significant effect on firm performance. In addition, this study conducts the moderating effect of profitability. The moderating variable (Z) in this study is profitability which will be tested whether it can affect the relationship between the dimensions of the Working Capital Management and Leverage variables on Firm Value. According to Ghozali, (2018), if a variable with a significant coefficient value is smaller than the alpha value. It means that it is significant and has a negative value. This variable can be used as a moderating variable. The moderating hypothesis is accepted if the t count is negative and significant and there is no multicollinearity interference in this model.

Table 6. The Results of Moderating Effect

Variable	Coefficient	Std. Error	t-stat	Prob.
Working Capital*Profitability -> Firm Performance	-4.515	3.402	-1.327	0.015
Leverage*Profitability -> Firm Performance	10.286	12.708	0.809	0.419
R Square	0.020		S.E. Regression	21.816
F-stat	0.816		Prob.	0.529

Table 6 shows the result of moderating effect. The result indicated that profitability moderates the relationship between working capital and firm performance. The moderating coefficient is -4.515, std. error is 3.402, t-stat is -1.327 and significant at 1 percent (0.015). Besides that, profitability does not moderate the relationship between leverage and firm performance.

5. Conclusions

The Manufacturing Companies listed on the Indonesia Stock Exchange will always maintain firm value, and this research should be a strategy or consideration so that Manufacturing Companies pay attention to firm value in carrying out company activities. This means that the Manufacturing Companies maintain good firm values. This is in order to be able to significantly increase firm value. Paying attention to Working Capital Management, Leverage, Profitability and especially firm Value is aspect which is very attractive to investors in conducting technical analysis and predicting the movement of the company's stock price. It will be even more interesting if the company has a good firm value. So that investors can find out risk analysis and predict firm value and investors will be of course interested in investing their funds in the company. Working capital management in the company will always rotate in accordance with the company's operating turnover. The working capital turnover period begins when capital is invested into working capital components, through the operating process until the funds return to cash. The shorter the operating process is, the faster the working capital turnover rate will be.

A company that has debt will have a fixed financial burden, interest and credit return and thus lead the company into liquidation. As a result, companies tend to pay lower dividends in order to maintain a good liquidity position and cash flow. By adapting agency theory, the dividend paid by the company becomes a substitute mechanism for controlling agency conflicts due to the acquisition of leverage and profitability. One of the economic means managed jointly to maximize profit and value is the company. The success of a company can be seen from the ability of working capital management and leverage management in seeing future opportunities. To achieve the company's goals, a good management of the company's working capital is needed. Working capital management is a component that directly affects the profitability and liquidity of the company. Therefore, companies need to manage working capital so that the amount is not too large or too small. Profitability is a description of the company's ability to generate profits by using all the capital owned by the company. The company's ability to generate profits is carried out through the company's investment and financing policies. The ability to earn a profit on the company will be inversely proportional to the company's ability to manage debt. This is because the increased liquidity is the cost of the company's inability to earn a profit. When the company wants to increase its profitability, the company will face a decrease in liquidity.

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