



The Effect of Capital Turnover on Business Profitability in MSMEs in Makassar City

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ABSTRACT

Business people attach great importance to the company's working capital. The current use of working capital can be used to determine whether working capital management is effective or not. To find out how working capital influences profitability in MSMEs in Makassar City, working capital turnover which includes net sales, current assets and current liabilities is used as the main measurement method. In this research, every MSME in Makassar City is the population. Sample selection was carried out using a purposive selection method consisting of 10 MSME financial reports in the form of balance sheets and profit and loss statements for a five year period (2018–2022). According to research findings, profitability is positively influenced by working capital turnover

INTRODUCTION

Various organizations are currently paying increasingly serious attention to the growth of SMEs. SMEs often struggle with issues related to cash, quality of human resources, technology, financial management, and product marketing. One issue that often arises is incoherent circulation of capital and credit, which is usually caused by a circular increase in credit and capital but is not in line with *redditività* (Suparyanto & Rosad, 2020). If a company is successful in generating profits, it is important to manage working capital turnover effectively and efficiently. (Desliana & Irawan, 2018).

The amount of money used to support a company's ongoing activities and generate cash is known as working capital. The company's investors anticipate quick returns. Working capital must be invested by the business in order to recover, and must be used effectively in order to achieve high profitability. By making it difficult for companies to increase profitability due to increased working capital (Gebry, 2022)

The ability of a business to obtain or generate profits that will be obtained and within a certain period of time is known as profitability. Estimated profitability ratios will also be low if the company's ability to generate profits is weak (Satya et al., 2022). Growth or decline in working capital, sales, and total assets are just some of the variables that influence a company's earnings. (Gufry, 2014) The profitability of a business serves as a means of describing its ability to generate profits over a long period of time. (Serina and Nilwan 2019).

Entrepreneurs need to consider profitability when conducting their business operations, according to the phenomena related to profitability in business. Profitability is an important issue for businesses, and can be used as a benchmark to determine whether a company is effective in managing its finances and generating profits (Satya et al., 2022). Therefore, if excess or deficiency impacts the profitability of the company, the organization must meet its working capital requirements. (Tonga et al., 2022) Working capital is important to support operations or business activities because without it, the company's operational activities cannot be carried out effectively.

In essence, working capital is part of the company's funds which acts as a link between the time the money is spent and the time it is received. Companies with more working capital than needed in 1929 will spend it inefficiently, and if there is less, operations may suffer (Zhang, 2017). Companies must invest working capital so they can pivot, and they must use working capital efficiently to achieve high profitability. It will be a challenge for businesses to increase profitability as a result of growing working capital. (Tabot and Brijlal, 2019)

According to Kovelskiy (2015) in his research project entitled "Impatto of the Results of His Research" the relationship between *redditività* and coefficient in *capitale circolante* is translated into the majority of its components, such as coefficient in *attività corrente*, relationship of circumferential capital rotation, relationship of stake rotation, and relationship Debtor turnover has a significant positive relationship. According to new research (Maili et al. 2022) rotating capital turnover has a beneficial impact on productivity (ROI). This is different

from (Rismayansyah, et al. 2022), who came to the conclusion that circulating capital has a negative impact on business productivity.

According to research conducted by Wirasari & Sari (2016), the turnover of capital invested in the food and beverage industry has a positive and significant effect on return on investment (ROI). As the capitalization rate of circulating capital increases, the overall productivity of the firm increases. The turnover rate of an organization's circulating capital is influenced by the active and passive components of circulating capital in generating sales. It was found in other research by Nasution and Fatima (2022) that circulating capital turnover has a significant positive impact on the profitability variable. This shows that the cooperative's operational capital is managed with the right aim to generate productivity. Cash turnover has a significant and favorable impact on productivity metrics. If a cooperative is to make a profit, its liquid liquidity must have high turnover. The more accurately the productivity ratio measures a company's ability to generate significant profits, the better it is (Kusuma, 2019). An organization's ability to generate profits is influenced by how its operating capital is managed (Profitability impacts on Organizational Operational Capital Management; Wirasari & Sari, 2016).

The aim of this research is to find out whether working capital has a negative effect on the responsiveness of small and medium enterprises (MSMEs). reducing the number of small and medium enterprises (MSMEs) that must operate because their productivity does not match employment trends and current economic conditions.

METHODOLOGY

To collect information about financial reports on working capital and profitability of MSMEs in Makassar, researchers used a quantitative research design with data collection procedures that included observation and documentation. One independent variable Working Capital Turnover (X) and one dependent variable Profitability (Y) are the variables that will be explored in this research. The following explains the research design:



Picture 1. Research Design

The population in this study is all information from the MPMI 2910 financial report in the city of Makassar. The benchmarks used in this research are from the financial and accounting records of 10 PMIs collected through deliberate benchmarking techniques. The criteria used in this research are the operational and complete budgets for the last five years, or 2018-2022.

The indicators are as follows:

Table 1. Indicators

Variable	Operational Definition	Indicator	Scala
Working Capital (X)	To find out the level of working capital turnover for MSMEs	$\frac{\text{WCTO}}{\text{net sales}} \\ \text{current assets} - \text{current liabilities}$	Ratio
Profitability (Y)	To measure how capable MSMEs are in achieving profitability	$\text{Return on Asset} \\ \frac{\text{Profit after tax}}{\text{Total Assets}} \times 100\%$	Ratio

This research uses panel data arranged in a series of temporal data and cross-sectional data using SPSS. In addition, direct regression analysis tests and T tests were carried out to test interactions between dependent and independent variables and determine mediation values.

a. Simple Regression Analysis

Regression analysis was used to verify the validity of the hypothesized results. Regression analysis is a direct mathematical equation that allows us to predict the influence between variables. The mathematical formula is as follows:

$$Y = a + b_1X_1 + e$$

Information:

Y = Profitability

X = Working Capital

a = Constant

b = Regression Coefficient

e = Standard error

b. Partial Test (T test)

To determine the individual influence of an independent variable, a partial test (T test) is used. The following provides the basis for the decision-making process used in a t test:

a. Ha is rejected if the sig value is > 0.05

b. Ho is accepted if the sig value is <0.05

RESULT

Hypothesis testing is used to determine the influence between independent and dependent variables. The following are the results of simple regression analysis via SPSS.

Table 2. Simple Regression Test Results

		Coefficients^a			
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	T
1	(Constant)	29.114	.818		35.605
	MODAL KERJA	10.636	.352	.975	30.186
N = 50					
R ² = 0,950					
Adjusted R Square = 0,949					

a. Dependent Variable: PROFITABILITAS

Source: SPSS Data Processing Results, 2023

1. Based on the findings in the previous section, the cost (a) at point B is 29,114 while the circular capital (b) is 10,636, so the formulation of the regression equation is obtained as follows:

$$Y = 29.114 + 10.636X$$

From this equation, the Profitability value is 29,114, proving that the value of redistributive activities is 29,114 without any circular capital value. According to the circular capital regression coefficient (X), namely 10.636; redditivt value increases by 10,366 for each additional unit of circular capital.

2. The significant value of the capital fluctuation variable is 0.001, in accordance with the output data above. It can be concluded that the hypothesis is accepted because the redditiva significance ranges between 0.001-0.05. Therefore redditivity is influenced by factors related to the capital market, and the variable value is 30.186. The hypothesis showing the influence of capital variations on production is accepted because the estimated t value is 30.186 and the t table value is 1.677. As a result, changes in operating capital turnover have only a small impact on changes in income.
3. Based on the output findings above, the R2 value is 0.950 or 95% which shows a very strong relationship between the independent and dependent variables. The ROA variable can be explained by the circulating capital turnover variable so that the Rsquare value is 0.949 or 94.9%. The model does not take into account the remainder (100% - 94.9% = 5.1%), which can be explained by external factors or causes.

Table 3. Simple Regression Test Results

Coefficients ^a						
Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	29.114	.818		35.605	.000
	MODAL KERJA	10.636	.352	.975	30.186	.000

a. Dependent Variable: PROFITABILITAS

Source: SPSS Data Processing Results, 2023

The calculated t value for the working capital variable is 30.186 which can be seen from the SPSS results above. It is clear that the hypothesis is correct because the calculated t value is $30.186 > t$ table 1.677, this shows that the working capital factor does influence profitability.

DISCUSSION

Based on the results of regression research, working capital turnover has a favorable influence on profitability as shown by the variable beta coefficient value of 10.636 in Table 2. So if working capital turnover is faster for a while, MSMEs will make more money. Working capital turnover is significantly correlated with profitability, with a significant value of 0.001 - 0.05. The regression coefficient value of working capital turnover describes the relationship between profitability as measured by ROA and working capital turnover. Therefore, if working capital is turned over just once, 1,063.6% more MSME owners will see an increase in profitability.

Every business needs working capital to fund daily operations such as paying salaries to employees, where the money or benefits are supposed to be paid back in a short time through the sale of business-related goods (Bellouma, 2011). Proceeds from sales of these products will be used to fund additional activities leading up to the publication of new titles. So that money or funds will continue to flow every month as long as the activity is still ongoing. The circulation of circulating capital is quantified in this research. Circular capital rotation serves as a measure of circular capital. It is said that the difference between current activity and current passivity constitutes circular capital. According to Sanda and others.

Theoretically, the results of a company's activities, which measure productivity, will increase rapidly if its rapidly fluctuating capital operates. The latest theory by Prati et al. (2018) confirmed that circulating capital has a significant influence on increasing productivity as measured using ROA, and the regression coefficient value shows a positive relationship, meaning that circulating capital will increase productivity if it rotates once. Their results serve as support for this study. The ratio between operating capital and sales that a business owner can expect for each unit of operating capital is measured by operating capital turnover. Capital turnover shows how capital and income generated by business actors interact.

Based on research findings (Rismansyah et al., 2022), the use of circulating capital at PT. Semen Tonasa has been successfully and effectively implemented to increase company productivity over the last five years (2011-2015). Calculations for the circulating capital turnover index (WCTO) and the current exchange rate index (CR) show this. As a result, organizations with high growth rates are more likely to add external money in the form of debt to their capital structure than businesses with slower growth rates (Tabot & Brijlal, 2019). This is because the latter's internal resources are insufficient to meet the demands of the former. According to the hierarchy, this is the case. According to one theory, funding preferences are evolving from using internal money to using external funds. Growth opportunities have a favorable impact on capital structure, as stated by (Serina, 2022) who provides evidence of this.

To carry out its daily business activities, the company uses working capital. The company anticipates that the money it releases will be used to continue its business operations. Research findings (Rajindra et al., 2018) show that larger sales volumes result in faster working capital turnover, resulting in quick return of capital to the business and high profits as well. High profits also boost the company's return on investment (ROI). The ROI's ability to grow in 1937 will allow the business to attract more investors, increasing working capital. Research findings (Kovelskiy, 2015) that working capital turnover has a profitable and large impact on profitability support this statement.

CONCLUSION AND RECOMMENDATION

Working capital turnover has a significant effect on the profitability of MSMEs in Makassar City, in accordance with the findings of the discussion above. Working capital turnover will increase rapidly if that happens, as will profitability, as determined by return on assets. Faster working capital turnover leads to a quick return on investment for the company and significant profitability.

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