The Influence Of Working Capital Efficiency, Company Growth, And Leverage On The Financial Performance Of Textile Industry Companies On The Indonesian Stock Exchange (BEI) In 2019-2022

Yulia Silvi[1], Yulia Efni[2], Fitri[3]
[1]*Riau University, Riau, Indonesia.
[2]Riau University, Riau, Indonesia
[3]Riau University, Riau, Indonesia
*yulia.silvi5394@student.unri.ac.id

ARTICLE INFO	ABSTRACT
  Keywords: Company Growth, Financial Performance, Leverage, Working Capital Efficiency	This study aims to determine the effect of working capital efficiency, company growth, and Leverage on the financial performance of textile sub-industry companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022. The research sample used purposive sampling and was obtained from 13 companies. The data type uses secondary data from the Indonesia Stock Exchange (IDX). The results of this study indicate that Leverage has a significant positive effect on financial performance while working capital efficiency and company growth have no significant impact on company financial performance.

INTRODUCTION

The rapid growth of businesses in Indonesia today has compelled companies across various sectors to compete and adapt to changes in the business environment. The textile industry is one of the sectors with strong competitiveness and business development aligned with economic conditions. The textile industry plays a crucial role in manufacturing by contributing significantly to export earnings, employing a large workforce, and meeting domestic market demand. The sector covers the production of fibers, yarns, fabrics, and finished garments (Kemenperin.go.id).

In recent years, competition in the textile industry has intensified due to the openness of global markets, leading to a decline in export demand and an increase in import demand in the domestic market. Local product sales in 2019 illustrate this trend: domestic absorption reached approximately 1.92 million tons in 2018 but decreased to 1.65 million tons in 2019. Conversely, the import market grew from 142,000 tons in 2018 to 193,000 tons in 2019. Additionally, in 2020, the Textile and Garment Industry experienced a significant decline in export value, dropping by USD 2.26 billion (17.55%) from USD 12.89 billion in 2019 to USD 10.63 billion (Kemenperin.go.id).

The textile industry also faced challenges due to the COVID-19 pandemic in 2020. As a result, it became one of the industries with a high contraction rate, recording a growth contraction of -8.88%. This contraction indicates a significant decline in production or sales activities over a specific period. The textile industry has continued to experience annual contractions in growth due to intense competition, which has forced companies to improve their performance to achieve corporate objectives.

Financial performance reflects a company's financial condition, providing insight into whether its financial state is good or poor and representing its achievements over a specific period (Nurwahyuni et al., 2020). A company's financial performance can be measured through financial statements by calculating profitability ratios. One commonly used profitability ratio is Return on Assets (ROA).

Several companies in the textile sub-industry listed on the Indonesia Stock Exchange (IDX) have experienced a decline in financial performance (ROA). For example, PT Indo-Rama Synthetics Tbk (INDR) recorded an ROA of 4.88% in 2019, which dropped to 0.86% in 2020, then rose again to 10.23% in 2021, and fell to 4.78% in 2022. Similarly, PT Trisula Textile Tbk (BELL) had a ROA of 3.86% in 2019, which declined to -2.80% in 2020, then increased to 0.45% in 2021, and rose slightly to 0.51% in 2022 (id.tradingview).

The decline in financial performance in this sub-industry reflects the inconsistency in ROA movement within the textile sub-industry. This situation motivates research to identify factors affecting the economic performance of companies in the textile sub-industry through financial statement analysis. Factors influencing financial performance include working capital, company growth, and Leverage.

LITERATURE REVIEW
Signaling Theory

Signaling Theory is a theory that explains how a company provides signals to external parties through information about the company's condition, which is presented in its financial statements. According to Brigham and Houston (2019), signaling theory refers to actions taken by a company's management that provide clues to investors about how management views the company's prospects. Signaling theory describes how managers convey signals to investors to reduce information asymmetry through financial statements (Irawan & Kusuma, 2019).

Trade-Off Theory

Companies use trade-off theory to determine the proportion of financing through debt and equity by considering the balance between costs and benefits. The trade-off in capital structure can be observed by balancing the tax shield benefits from increased debt against the rising agency costs. As long as the tax shield benefits exceed the additional agency costs, the company can continue to increase its debt. However, debt accumulation should stop when the tax shield benefits of additional debt are lower than the increase in agency costs (Abidin et al., 2014).

Financial Performance

According to Irham Fahmi (2018), financial performance is an analysis conducted to evaluate the extent to which a company has implemented financial management principles correctly and effectively. A company's financial performance can be analyzed using financial ratios. Return on Assets (ROA) measures a company's ability to generate net income by utilizing its total assets.

Working Capital Efficiency

Working capital efficiency can be measured using working capital turnover. Working capital turnover is used to assess the effectiveness of a company's working capital over a specific period. The working capital turnover period begins when cash is invested in working capital components and ends when it returns to cash (Riyanto, 2016).

Company Growth

Company growth reflects a company's ability to maintain its economic position amidst the development of the economy and its business sector (Suwardika & Mustanda, 2017). Company growth can be measured through asset growth. Asset growth refers to the increase in the total assets owned by a company.

Leverage

Leverage describes a company's ability to meet its long-term obligations or settle its liabilities in the event of liquidation. One leverage ratio is the Debt-to-Asset Ratio (DAR). The Debt-to-Asset Ratio (DAR) measures the proportion of total debt to total assets (Kasmir, 2019).
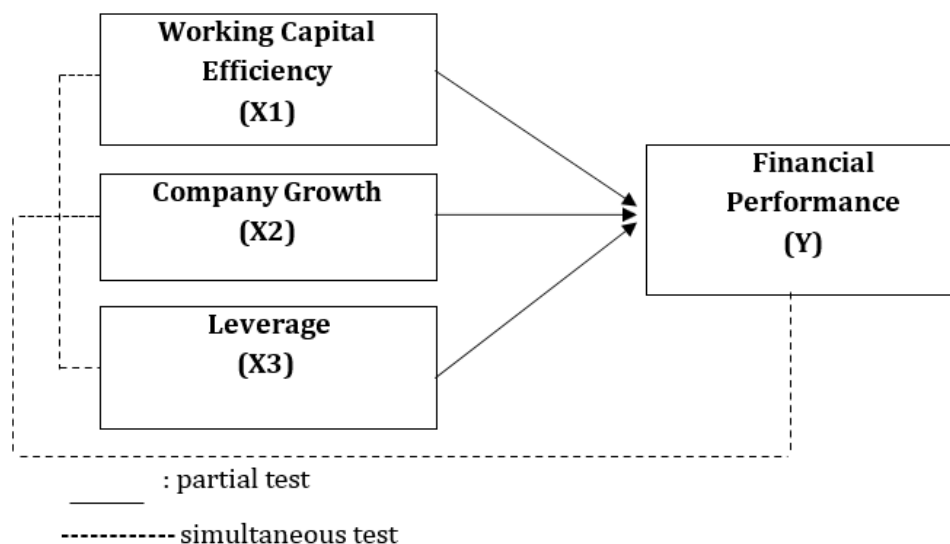
RESEARCH MODEL

: partial test

----------- simultaneous test

Figure 1. Rresearch Model

Hypothesis Development

H1: Working Capital Efficiency significantly affects Financial Performance
H2: Company Growth significantly affects Financial Performance
H3: Leverage significantly affects Financial Performance

METODH

The type of data used in this research is quantitative, which consists of numerical data obtained from the financial statements of the companies selected as research samples. The data source used is secondary data. This data consists of economic reports from companies in the textile sub-industry for 2019- 2022, obtained from the official website of the Indonesia Stock Exchange (IDX). The sampling technique used is purposive sampling, with the following criteria for sample selection:

1. Textile sub-industry companies listed on the Indonesia Stock Exchange (IDX) during the observation period from 2019 to 2022.
2. These companies have issued and published complete financial statements during 2019-2022.

Financial Performance

A company's financial performance can be measured using Return on Assets (ROA). ROA indicates the company's ability to utilize its total assets to generate profit after tax. This ratio is essential for evaluating the effectiveness and efficiency of management in managing the company's total assets.

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

Working Capital Efficiency

Working capital efficiency can be measured using working capital turnover. Working capital turnover is a ratio used to assess or evaluate the effectiveness of a company's working capital over a specific period.

$$WCE = \frac{Sales/Revenue}{Current\ Assets - Current\ Liabilities} \times 100\%$$

Company Growth

Company growth can be measured by asset growth. Asset growth refers to the change (increase or decrease) in the total assets owned by the company. Asset growth is calculated as the rate of change in holdings in a given year compared to the previous year.

$$Asset\ Growth = \frac{TA_t - TA_{t-1}}{TA_{t-1}} \times 100\%$$

Leverage

Leverage refers to a company's ability to meet all its obligations. One of the leverage ratios is the Debt-to-Asset Ratio (DAR). The debt-to-asset ratio (DAR) is a debt ratio used to measure the proportion of total liabilities to total assets.

$$Debt\ to\ Asset\ Ratio = \frac{Total\ Debt}{Total\ Assets} \times 100\%$$

RESULTS AND DISCUSSION
Coefficient Determination Test
Table 1. Coefficient Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.460ª	.212	.163	.2666327

Table 1 shows that the coefficient of determination (Adjusted R Square) of 0.212 is the same as 21.2% of the dependent variable, which the independent variable can explain. In other words, working capital efficiency, company growth, and Leverage influence financial performance by 21.2%. In contrast, the rest is influenced by different variables outside the three independent variables included in the model.

Simultaneous Test
Tabel 2 F Test Result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.917	3	.306	4.300	.009b
	Residual	3.412	48	.071		
	Total	4.330	51			

Table 2 shows that the significance value is 0.009, where the value is < 0.05. So, the independent variables together (simultaneously) affect the dependent variable (financial performance).

Partial Test
Tabel 3 T-t Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.385	.178		2.158	.036
	Working Capital Turnover	.029	.152	.029	.189	.851
	Asset Growth	-.178	.137	-.178	-1.293	.202
	Debt to Asset Ratio	.393	.156	.393	2.526	.015

Working Capital Efficiency on Financial Performance
Based on the study's results, it is stated that working capital efficiency, measured using working capital turnover, does not significantly affect the financial performance of companies in the textile sub-industry. However, the regression coefficient indicates a positive value, meaning that an increase in working capital efficiency would improve the financial performance of companies in the textile sub-industry.

In line with signaling theory, the market interprets this ratio as a signal that the company has good managerial ability in managing current assets and short-term

liabilities, which can enhance investor confidence. A high ratio can improve financial performance and send a positive signal to investors. In this study, working capital turnover does not affect economic performance, meaning working capital efficiency does not directly influence financial performance in the textile sub-industry.

Working capital turnover cannot affect financial performance in the short term due to delayed inventory and accounts receivable turnover. However, working capital turnover can influence long-term financial performance if the company has a fastworking capital turnover, meaning the company can convert its assets into income-generating sources.

Company Growth on Financial Performance

Based on the study's results, it is stated that company growth, measured by asset growth, does not affect financial performance. However, the regression coefficient shows a negative value, meaning that every increase in company growth will decrease the economic performance of companies in the textile sub-industry. In signaling theory, an increase in asset growth can be a positive signal to investors that the company can expand. However, if company growth is not followed by improved financial performance, it sends a negative signal to the market. The market may interpret that the company is ineffective in managing its growth and that management is incompetent in making decisions.

The research found that company growth, measured by asset growth (AG), did not significantly impact financial performance. However, there is an indication that when the company experiences an increase in assets, its economic performance tends to decline. The decline in financial performance with increasing asset growth occurs when companies aggressively expand, requiring significant investments but without a corresponding increase in revenue or profit. Growth in assets from adding fixed assets, such as factories or new machinery, needs time to become fully operational and significantly contribute to profits. However, depreciation, maintenance, and asset management costs could increase the company's expenses, negatively impacting financial performance.

Leverage on Financial Performance

Based on the study's results, it is stated that Leverage, measured by the debt-to-asset ratio (DAR), affects financial performance. The regression coefficient shows a positive value, meaning that an increase in Leverage will improve the economic performance of companies in the textile sub-industry. In line with signaling theory, an increase in Leverage can be seen as a positive signal to the market, indicating that management is confident in the company's prospects and is willing to take on debt to support growth, thereby increasing the company's value in the eyes of investors. This study also aligns with the trade-off theory, which suggests that the company can effectively use debt to enhance assets. Productivity will improve its ROA. This means the company has successfully balanced debt and equity without excessively increasing the risk of bankruptcy.

Leverage in the textile industry can improve financial performance by using debt, which helps enhance the company's performance. This indicates that companies in this sector are primarily financed by debt. Debt can be used to improve production efficiency and expand operations, for example, by adding new machinery

to increase output and reduce production costs. However, this study found that the DAR value continued to increase yearly, meaning companies in this industry are financing their assets more with debt than equity, resulting in negative equity values. Some companies in this industry continue to experience yearly losses because their revenue does not increase, leading them to use debt to finance all their activities.

CONCLUSIONS

This study aims to determine the effect of working capital efficiency, company growth, and leverage on the financial performance of companies in the textile sub-industry listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Based on the data analysis results, working capital efficiency has a positive but insignificant effect on financial performance, company growth has a negative but insignificant impact on economic performance, and Leverage has a significant positive effect on economic performance.

IMPICATIONS AND LIMITATIONS

In this study, decision-makers in companies within the textile sub-industry are expected to maintain Leverage at a healthy level. Excessive use of debt can increase financial risk, so policies related to managing leverage risk must be implemented. Future researchers should add or replace variables with others, such as the current ratio, company size, dividend policy, capital structure, and operational expenses to income, to identify factors that can influence a company's financial performance.

The results of this study may not be generalizable to all industry sectors, as the research focuses on the textile sub-industry. The textile industry faces serious financial challenges, including high debt levels, cumulative losses, and insufficient revenues to cover operational costs. This study only uses three financial ratios: working capital efficiency, company growth, and Leverage. These limitations may result in the findings not fully representing all factors that could influence economic performance

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