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FACTORS AFFECTING THE PROFITABILITY OF PLANTATION COMMODITY BUSINESS AT PT XYZ

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Abstract: PT XYZ was a company engaged as a marketing agent for plantation commodities. The company added new business lines, expanding from marketing agents to traders and retailers. However, the addition of business lines did not increase the company's profitability. A research was conducted to analyze the factors that impacted the profitability of PT XYZ. The research used financial performance analysis and statistical analysis of working capital management on profitability, and it examined the interaction with the covid-19 pandemic using multiple linear regression. The variables used in the statistical analysis were days sales outstanding (DSO), days inventory outstanding (DIO), days payable outstanding (DPO), and cash conversion cycle (CCC). The control variables included current ratio (CR), debt to equity ratio (DER), investment policy (IP), financing policy (FP), and company size (size). Additionally, there was a moderating variable, the covid-19 pandemic (dummy). The dependent variable in the study was the gross operating profit (GOP). The results showed that the working capital management of PT XYZ from the aspect of liquidity had a net working capital that posed low risk and low return. Based on the company's financial statements, PT XYZ had a relatively high cost of sales. Regarding the leverage aspect, the company's debt-to-equity ratio increased, indicating that its capital or equity could not cover its debt. The variable day's inventory outstanding (DIO) had a negative and significant effect on the profitability of PT XYZ companies on the independent variable gross operating profit (GOP).

Keywords: commodity marketing company, gross operating profit, moderation of covid-19, profitability, working capital management

Abstrak: *PT XYZ merupakan perusahaan yang bergerak sebagai agen pemasaran komoditas perkebunan. Penambahan lini bisnis perusahaan dari agen pemasaran menjadi trader dan retail. Namun penambahan lini bisnis tidak meningkatkan profitabilitas perusahaan. Penelitian ini menganalisis faktor-faktor yang memengaruhi profitabilitas PT XYZ. Penelitian ini menggunakan analisis kinerja keuangan dan analisis statistik pengelolaan modal kerja terhadap profitabilitas dan interaksi dengan pandemi covid-19 dengan menggunakan regresi linier berganda. Variabel yang digunakan dalam analisis statistik adalah hari periode piutang (DSO), periode persediaan (DIO), periode hutang (DPO), dan siklus konversi kas (CCC). Variabel kontrolnya adalah current ratio (CR), debt to equity ratio (DER), investment policy (IP), financing policy (FP) dan ukuran perusahaan (size), serta terdapat variabel moderating yaitu pandemi covid-19 (dummy). Variabel dependen dalam penelitian ini menggunakan variabel gross operating profit (GOP). Hasil penelitian menunjukkan bahwa pengelolaan modal kerja PT XYZ dari aspek likuiditas memiliki net working capital yang low risk dan low return. Berdasarkan laporan keuangan perusahaan, PT XYZ memiliki harga pokok penjualan yang relatif tinggi. Berdasarkan aspek leverage, rasio utang terhadap ekuitas perusahaan semakin besar, sehingga modal atau ekuitasnya tidak dapat menutupi utangnya. Variabel periode persediaan (DIO) berpengaruh negatif dan signifikan terhadap profitabilitas perusahaan PT XYZ pada variabel independent gross operating profit (GOP).*

Kata kunci: *gross operating profit, moderasi covid-19, manajemen modal kerja,*

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INTRODUCTION

The company performs various activities to achieve the expected goals by running smoothly and combining all its resources. PT XYZ is a marketing agent company that has spearheaded the marketing of various commodities from plantation companies since 1968. PT XYZ's line of business as a trading company, and in 2019 added another line of business as a retail company. Commodities marketed by PT XYZ are commodities such as palm oil, tea, sugar, rubber and others usually produced by plantation companies. A company's sustainability can be assessed by how the company continues to be able to increase optimal profits and develop (Rahmananda and Gustyana, 2019). PT XYZ has added business lines to increase profits from sales. However, the results differed; PT XYZ's net profit decreased in 2019 and 2020 since adding business lines. If a company always increases its annual sales target, its net profit should also increase. The decrease in net profit indicates that the company is considered unable to maximize the increase in net profit generated through working capital management.

Good working capital is working capital that shows a good safety margin by increasing every year (current assets are greater than current liabilities) (Maulina, 2021). Working capital is optimal when part of the capital requirement is met with long-term loans, cheaper than short-term loans, so the company can turn over excess working capital to generate income. Working capital management is needed to balance working capital and company cash flow. Calculating the cash conversion cycle is a method that is often used to analyze working capital management in order to analyze short-term financial planning (Brigham and Houston, 2019). However, this is still a matter of debate because several research results state that working capital management has a positive influence, and some state that working capital management negatively influences profitability. The research results of Kayani et al. (2019) and Prasad et al. (2019) stated that working capital management negatively influences profitability.

Meanwhile, other research results state that working capital management positively affects profitability (Erdian, 2022). Many previous studies used data from various companies, but using this method specifically for just one company is still rare. Likewise, there are few references to using the Covid-19 pandemic variable as a moderating variable, especially on working capital management. This is an interesting highlight for the future because it cannot be denied that the effects of the Covid-19 pandemic have had an impact.

Based on previous research, most companies with poor profitability are caused by working capital management errors, especially in retail companies. Financial performance illustrates a company's financial performance in a certain period regarding raising and channeling funds (Purwanti, 2021). Rizki et al. (2019) said that working capital is essential for retail companies, because most of the company's assets are current assets for companies operating in the retail sector. Management of working capital and company financial performance is the key to the company's business health (Parera and Priyashantha, 2018). Meanwhile, it cannot be denied that the COVID-19 pandemic has also affected economic conditions due to the lockdown policy. Lockdowns or restrictions on various activities impact the economic cycle itself. This was confirmed by Erdian (2022) who stated that the impact of the lockdown had reduced the profitability of many companies in 2020, especially retail companies.

Based on the background and problems with the company, this study aims to analyze the factors that influence the profitability of PT XYZ through financial performance analysis and analyze the effect of working capital management and the interaction of the COVID-19 pandemic on profitability. This research also formulates policies and managerial implications for the company.

METHODS

This research was conducted from January 2022 to June 2022. The research location is in Indonesia where the company PT XYZ is located. The data used in this study consisted of primary and secondary data. Primary data was obtained from interviews with management about the company's situation. An interview was conducted with one of the directors of the business and support division to find out information about the history and development of the company's business. Secondary data was obtained based on quarterly financial reports from January 2015 to December 2020, so the data obtained was 24 samples.

This research uses quantitative descriptive methods. The quantitative data used is time series data for five years based on the company PT XYZ's audited financial reports from 2015 to 2020. Data analysis uses multiple linear regression to predict how the dependent variable rises and falls if two or more independent variables are indicators (Wisudaningsi et al. 2019). The dependent variable used in this study is gross operating profit (GOP), which represents profitability. The independent variables consist of working capital management components, namely; days sales outstanding (DSO), days inventory outstanding (DIO), days payable outstanding (DPO) dan cash conversion cycle (CCC). This research also uses control variables in the form of a current ratio (CR), investment policy (IP), financial policy (FP), debt-to-equity ratio (DER) and company size (Size). Also, the COVID-19 moderating variable uses a dummy (0 is before the COVID-19 pandemic, 1 is when the COVID-19 pandemic occurred). Data was analyzed by Eviews 12 software.

The stages in multiple linear regression begin with determining the estimation model, which is then continued with testing assumptions, model suitability and hypotheses. There are two models following Erdian's (2022) research, as follows:

Without Moderation

$$GOP_t = a + b_1DSO_t + b_2DIO_t + b_3DPO_t + b_4CR_t + b_5DER_t + b_6IP_t + b_7FP_t + b_8Size_t + E_t$$

$$GOP_t = a + b_1CCC_t + b_2CR_t + b_3DER_t + b_4IP_t + b_5FP_t + b_6Size_t + E_t$$

With Moderation

$$GOP_t = a + b_1DSO_t + b_2DIO_t + b_3DPO_t + b_4DSO_{PANDEMIt} + b_5DIO_{PANDEMIt} + b_6DPO_{PANDEMIt} + b_7CCC_{PANDEMIt} + b_8CR_t + b_9DER_t + b_{10}IP_t + b_{11}FP_t + b_{12}Size_t + E_t$$

$$GOP_t = a + b_1CCC_t + b_4DSO_{PANDEMIt} + b_5DIO_{PANDEMIt} + b_6DPO_{PANDEMIt} + b_7CCC_{PANDEMIt} + b_8CR_t + b_9DER_t + b_{10}IP_t + b_{11}FP_t + b_{12}Size_t + E_t$$

Information: GOP_t (Profitability in period t); t (1,2,3,4,...,24 quarterly data 2015-2020); a (Constant); b_i (Regression coefficient of variable X_i ; i = 1 to 6); DSO_t (Days Sales Outstanding periode t sebagai variabel bebas); DIO_t (Days Inventory Outstanding period t as independent variable); DPO_t(Days Payable Outstanding period t as independent variable); CCC_t (Cash Conversion Cycle period t as independent variable); DER_t (Debt to Equity Ratio period t as control variable); CR_t (Current Ratio period t as control variable); IP_t (Investment Policy period t as control variable); FP_t (Financing Policy period t as control variable); $DSO\_PANDEMIC_t$ (Interaction of PANDEMIC period t and DSO period t as independent variables); $DIO\_PAMDEMIC_t$ (Interaction of PANDEMIC period t and DIO period t as independent variables); $DPO\_PANDEMIC_t$ (Interaction of PANDEMIC period t and DPO period t as independent variable); $CCC\_PANDEMIC_t$ (Interaction of PANDEMIC period t and CCC period t as independent variables); $SIZE_t$ (Company size in period t as control variable); E_t (Error term).

This research analyzes working capital management and other factors impacting profitability and analyzes PT XYZ company's financial performance. Analysis of financial performance based on the company's financial reports from the first quarter of 2015 to the fourth quarter of 2020 using analysis of financial ratios such as liquidity ratios, leverage, activity and company profitability.

This analysis is supported by statistical analysis to see the components of working capital management that have an impact on the profitability of the PT XYZ company and added moderation of the Covid-19 pandemic. Profitability projections that align with company objectives can be seen by testing the sensitivity of working capital management components that influence profitability. Knowing the components of working capital management that significantly influence profitability using statistical tests through multiple linear regression equations can help managers improve company goals, especially profitability. Figure 1 can be described as a guide to this research process.

Days Sales Outstanding and Profitabilities

The selling company can determine the policy regarding the credit it provides. Some companies have strict credit policies, but others implement loose ones. The policies used by both companies have risks. Companies that implement loose credit policies will certainly be at risk of having longer payment periods and causing a lack of liquidity. Of course, this will result in a longer process for circulating capital for future company activities, and there is even no possibility of bad debts occurring. Meanwhile, if the

company maintains a strict receivables policy, this will affect the customer's interest in further transactions with the company. Several previous studies stated that Days Sales Outstanding (DSO) has a negative effect on profitability (Setyadharma et al. 2019; Ramadhan, 2021; Erdian, 2022; Abidin, 2023). Based on previous research, the following hypothesis was obtained:
H1: Days Sales Outstanding (DSO) has a significant effect on profitability

Days Inventory Outstanding and Profitabilities

A company with a high level of inventory will, of course, generate quite high costs and impact, reducing a company's profitability (Ares et al. 2021). Meanwhile, the benefit of having inventory in a company is that it can prevent the company from losing sales and reduce supply chain risks. This indicates that the inventory period can certainly affect profitability. Several previous studies stated that the Days Inventory Outstanding (DIO) has a negative effect on profitability (Chowdhury et al. 2018; Mulyono et al. 2018; Abidin, 2023). Based on previous research, the following hypothesis was obtained:
H2 : Days Inventory Outstanding (DIO) has a significant effect on profitability

Days Payable Outstanding and Profitabilities

The debt credit period will show how many days the company takes to pay its suppliers. Of course, in maintaining good relations with suppliers, the company must maintain optimal working capital management. Brigham and Houston (2019) explain in their research that there are advantages to having a long debt repayment period, namely that the company will shorten the cash cycle. Several previous studies stated that Days Payable Outstanding (DPO) has a positive effect on profitability (Setyadharma et al. 2019; Panda et al. 2021; Abidin, 2023). Based on previous research, the following hypothesis was obtained:
H3 : Days Payable Outstanding (DPO) has a significant effect on profitability

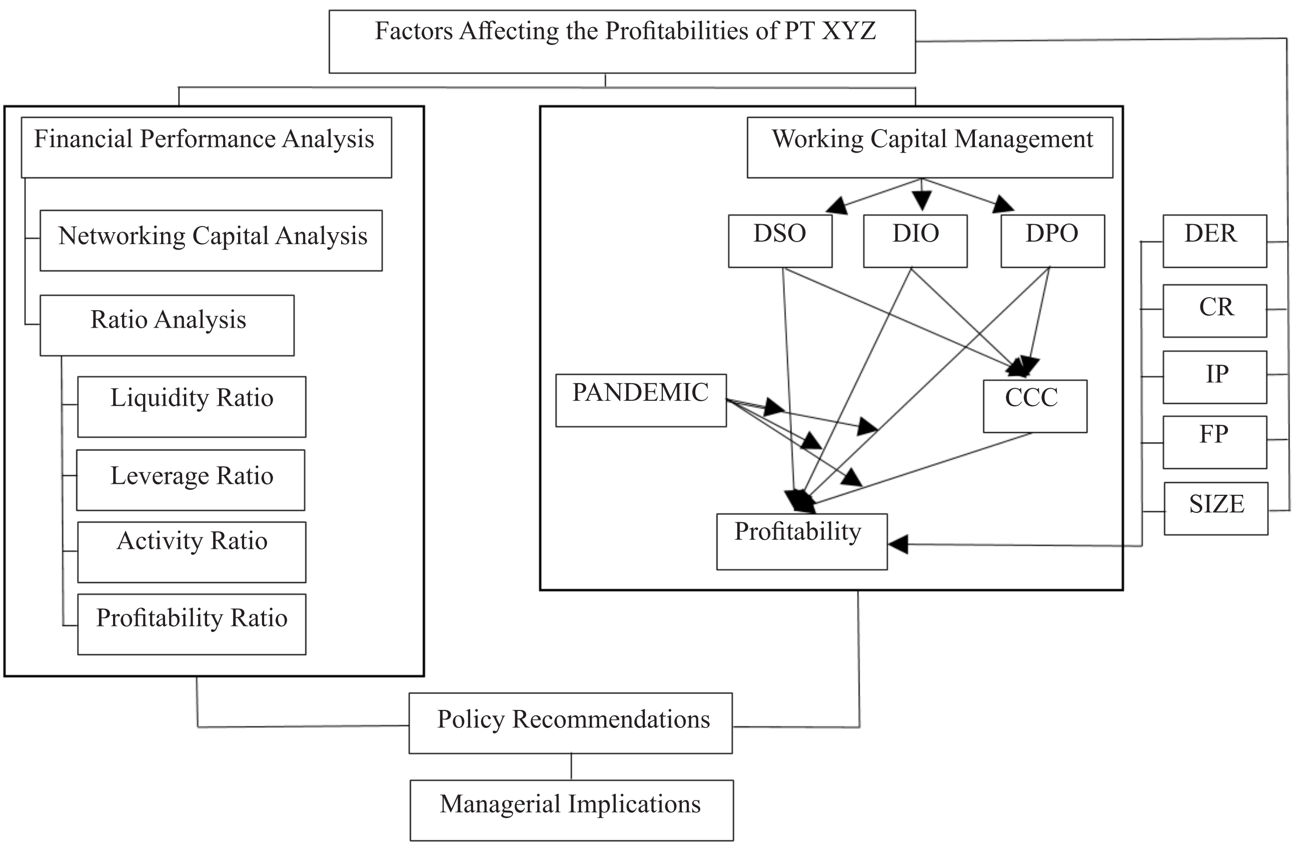

Figure 1. Research framework

Cash Conversion Cycle and Profitabilities

Cash Conversion Cycle (CCC) is a comprehensive performance benchmark usually used to review a company's ability to manage its working capital. Of course, in a competitive environment, a company's sustainability depends on the company's ability to manage this. Efficient CCC management calculations include the receivables collection period, inventory period and accounts payable period. This is clarified by other research, which states that the negative relationship between CCC and profitability means that companies with shorter CCC days are more profitable than companies with long CCC cycles. Many previous research results suggest a negative relationship between CCC and profitability (Utia et al. 2018; Shah et al. 2018; Setianto and Pratiiwi, 2019; Maharani et al. 2023). Based on previous research, the following hypothesis was obtained:
H4: Cash Conversion Cycle (CCC) has a significant effect on profitability

Interaction of the COVID-19 and Working Capital Management on Profitability

Previous research results stated that the COVID-19 pandemic impacted company performance and profitability (Wahyudi, 2020; Shen et al. 2020). This is confirmed by research by Erdian (2022), which states that the COVID-19 pandemic moderates working capital management on company profitability. Following research by Asri et al. (2022), the COVID-19 pandemic variable in this study will be measured using a dummy variable where 0 is for the situation before the pandemic (2015-2019) and 1 for the situation where the pandemic occurred (2020).
H5: The COVID-19 pandemic moderates working capital management, which has a significant effect on profitability

RESULTS

Company Financial Performance Analysis

Net Working Capital

Based on the analysis of net working capital, PT XYZ uses a loose policy in investing (Table 1). Brigham and Houston (2019) state the characteristics of companies with loose policies are that the company's total current assets are more prominent because the company provides credit in its sales so that its receivables are high. PT XYZ has a net working capital which is positive every year and indicates that the company uses a conservative policy where most of its operational activities are financed by current assets. According to Rauhaty (2021), companies with a conservative approach have low risk, but the results are also relatively low.

Ratio Analysis

The liquidity ratio analysis using the current and quick ratios shows that the company's ability to pay its short-term obligations has decreased since the addition of business lines. This should be a concern for the company. If this is not controlled by the company, in the future, the company will have increasing difficulty paying its short-term obligations so that the company will not be liquid (Shofwatun et al. 2021). Likewise, the condition of the company's leverage ratio which uses the debt-to-assets ratio (DAR) indicator, shows that the company's assets are still capable of financing its obligations. However, with conditions tending to decline, companies must pay attention to this. Meanwhile, conditions using the debt-to-equity ratio (DER) indicator show that the company's capital (equity) is not fully capable of financing the company's obligations, both long and short obligations. Results of analysis of ratios at PT XYZ for 2015-2020 in Table 2.

Table 1. Results of net working capital analysis (Billion Rupiah)

Year	Total Current Assets	Total Current Liabilities	Net Working Capital
2015	121	20	101
2016	126	18	107
2017	140	19	120
2018	299	146	153
2019	1066	920	146
2020	733	617	115

Table 2. Results of analysis of ratios at PT XYZ for 2015-2020

Ratios	Condition	Meaning
Liquidity Ratio	Tends to decrease	The results indicate that the company PT XYZ can still pay its short-term obligations. However, this must be taken into account because since the addition of business lines, the company's liquidity ratio has tended to decrease
Leverage Ratio	Tend to increase	Increasing the leverage ratio will make it difficult for companies to generate profits (Rizki, 2019)
Activity Ratio	Tends to decrease	This indicates that the company is trying to accelerate the turnover of its working capital
Profitability Ratio	fluctuating	The profitability obtained by the company after adding a business line is similar to before adding a business line

The results of the activity ratio which tends to decrease, indicate that the company is trying to speed up its business processes from issuing cash to returning cash (Hasan, 2021). Because the company's sales use the credit system, of course the company accelerates the return of receivables into cash so that bad debts do not occur, which can hinder the return of company cash as the next working capital. Based on the results of the company's profitability ratios, it is known that the net profit generated by the company before or after adding business lines has no difference. This means that the addition of the company's business line only increases sales, but not net profit, so it can be seen that the company has a large enough cost of goods sold/ COGS so that the profit generated by the company is only small (Nurazhari and Dailibas, 2021).

The Effect of Working Capital Management Without Moderation of the COVID-19 Pandemic

Of the nine variables described in the regression equation, only eight variables are used to get optimal results (Table 3). The omitted variable is the FP variable, which has a high correlation >0.9 with several variables. According to Ghozali and Ratmono (2018), if the correlation matrix value between independent variables has a significance level of 90% or greater (>0.90), then there is multicollinearity. Therefore, the independent variable FP cannot be used in the model, whereas the CCC and DER variables are entered into a separate modeling because the CCC variable has multicollinearity with DSO and DER has multicollinearity with DIO.

The regression results on the DIO variable have a negative and significant effect on the profitability of PT XYZ company at the 5% level. This means that a decrease in the inventory period for one day will increase the company's GOP by 0.016593. The negative influence of DIO on profitability shows that increasing or decreasing company inventory will affect company profits. The shorter the inventory period, the faster the company's products are sold so that the company's revenue increases, and increasing revenue will increase profits. Even though the company's inventory is relatively new and small, it must still pay close attention to its current inventory strategy. If, in the future, the company increases its sales target but cannot control inventory, it will cause inventory to pile up and impact decreasing profitability (Setiyanto and Aji, 2018). Similar results were also obtained by research by Chowdhury et al. (2018), and Mulyono et al. (2018).

Based on the four control variables used, three variables significantly affect the profitability of PT XYZ company. First, the leverage variable (debt) negatively and significantly affects profitability. These results indicate that companies are more likely to use internal funds in their operational activities and short-term debt (Wahyuni et al. 2018). After the addition of business lines, PT XYZ began to have short-term debt to banks because the capital owned by PT XYZ could not be fully able to finance all of its obligations. Putri and Kusumawati (2020) said that the smaller the use of corporate debt, the higher the company's profitability.

The CR variable positively and significantly affects profitability in both models. These results follow Wedyaningsih et al. (2019) and Wulandari's (2021) research that CR has a significant positive effect on profitability. This indicates that the greater the company's current assets can increase its profitability. However, it needs to be aware that the company must still be able to control the level of CR so there are no idle funds. Idle funds can reduce a company's profitability (Ningsih, 2020). Size has a significant positive effect on profitability in both models at the 1% level, indicating that the greater the sales, the greater the profit the company will generate (Erdian, 2022). The same results were presented in the research of Simon et al. (2019).

The Effect of Working Capital Management With Moderation of the COVID-19 Pandemic

The analysis of working capital management and its components, namely DSO, DIO, DPO and CCC, show similar results to the previous model, where DIO alone significantly affects GOP negatively at the 5% level (Table 4). Likewise, the regression analysis results of the four control variables show similar results to the previous model. CR and Size have a significant positive effect on the profitability of PT XYZ. Leverage with the DER indicator significantly negatively affects GOP at the 1% level, while IP has no significant effect on profitability.

Table 3. Results effect of working capital management without moderation

Explanatory Variables	Response Variables	
	GOP	GOP
C	-0.219758	-0.379387**
DSO	-0.000059	
DIO	-0.016593**	
DPO	-0.001804	
CCC		0.000196
DER		-0.060703***
CR	0.031462**	0.026860**
IP	0.064036	0.143044
Size	0.042425***	0.061887***
R2	0.625487	0.616383
Adjusted- R2	0.493307	0.509822
F-statistic	4.732056	5.784349
Prob (F-statistic)	0.005237***	0.002354***
DW	1.355660	1.317283

Table 4. Results effect of working capital management with moderation (model 1)

Explanatory Variables	Response Variables			
	GOP	GOP	GOP	GOP
C	-0.213031	-0.209726	-0.207848	-0.213028
DSO	-0.000101	-0.000109	-0.000098	-0.000102
DIO	-0.019274**	-0.019629**	-0.018505**	-0.019297**
DPO	-0.001812	-0.001821	-0.001823	-0.001812
DSO_PANDEMI	0.000211			
DIO_PANDEMI		0.004048		
DPO_PANDEMI			0.008124	
CCC_PANDEMI				0.000205
CR	0.032932**	0.032966**	0.032475**	0.032938**
IP	0.067649	0.067815	0.067083	0.067653
Size	0.041702**	0.041413**	0.040815**	0.041713**
R2	0.633803	0.635045	0.631779	0.633875
Adjusted-R2	0.473592	0.475378	0.470682	0.473695
F-statistic	3.956050	3.977293	3.921739	3.957271
Prob (F-statistic)	0.010789**	0.010542**	0.011201**	0.010775**
DW	1.450812	1.455782	1.415149	1.451730

The regression results on the working capital management variable moderated by the Covid-19 pandemic have no significant effect on profitability (Table 5). This result differs from Erdian's (2022) working capital management component variables research. This happens because data from before the pandemic dominate the data used, while the data during the pandemic was only less in 2020, so there was no significant influence. This also explains that PT XYZ's profitability decline occurred before the Covid-19 pandemic. DIO has a negative effect on profitability, but in the regression results, the Covid-19 pandemic does not moderate the effect of inventory age on GOP. These results indicate that under any circumstances, it is essential for PT XYZ to manage its inventory efficiently in order to increase the company's profitability.

Policy Recommendations

Based on the research results, the proposed policy recommendations are as follows: 1) Make strategic efforts to optimize the best financial benefits, such as minimizing costs so that they are efficient; 2) The composition of the current capital structure needs to be changed by maximizing its capital. This can be done by withholding dividends from being distributed first and using them as their capital; 3) PT XYZ needs to consider an inventory management strategy for the future if the company wants to increase sales targets.

Managerial Implications

Based on financial report analysis, the cost of goods sold component is quite large compared to the sales generated. The company is expected to be able to minimize the cost of goods sold so that it becomes more efficient and effective. Management must pay attention to changes in the company's ratios and have a strong strategy when adopting a conservative approach, which has risks to liquidity and low returns. PT XYZ must also pay attention to the company's leverage ratio because the company's capital cannot fully finance all the company's obligations. PT XYZ needs to pay attention to its short-term debt. If some of the debt is short-term, the business risk is more remarkable than long-term debt. Especially borrowing working capital from related parties and banks with high interest. Based on the research results, the inventory period is the working capital variable that influences profitability. Meanwhile, the control variables that influence are DER, CR, and size. PT XYZ can better maintain inventory management so that it is not held up for too long and incurs additional costs by being consistently selective in choosing inventory according to customer needs so that inventory can be sold immediately and not held up.

Tabel 5. Results effect of working capital management with moderation (model 2)

Explanatory Variables	Response Variables			
	GOP	GOP	GOP	GOP
C	-0.402392**	-0.406324**	-0.399068**	-0.402513**
CCC	0.000165	0.000158	0.000158	0.000165
DSO_PANDEMI	0.000357			
DIO_PANDEMI		0.007469		
DPO_PANDEMI			0.019193	
CCC_PANDEMI				0.000345
DER	-0.076264***	-0.080390***	-0.078429***	-0.076335***
CR	0.029359**	0.029636**	0.029305**	0.029360**
IP	0.173619	0.182483	0.185651	0.173652
Size	0.064402***	0.064923***	0.063062***	0.064437***
R2	0.638163	0.644708	0.645287	0.638224
Adjusted-R2	0.510456	0.519310	0.520094	0.510538
F-statistic	4.997088	5.141322	5.154339	4.998395
Prob (F-statistic)	0.004042***	0.003521***	0.003477***	0.004037***
DW	1.394190	1.391234	1.347574	1.395084

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

PT XYZ adheres to a conservative system characterized by low risk and low return. PT XYZ also adheres to a loose policy, characterized by a larger amount of current assets the company owns. PT XYZ has a cost of goods sold, which is a large percentage compared to sales, especially after adding business lines. Based on the leverage ratio, the percentage of debt to equity ratio is getting bigger every year, and short-term debt is getting more prominent over the last five years. Based on the working capital management component, the variable that has a negative influence on the gross operating profit of PT XYZ is the inventory period. Moreover, the Covid-19 pandemic conditions do not moderate the influence of working capital management on profitability. Based on the analysis results, several policies are suggested to companies, such as minimizing costs. Hence, they are efficient, maximizing their capital, and considering inventory management strategies for the future.

Recommendations

For further studies and research could be using more detailed data, such as monthly company data. The limited scope of this research is only limited to financial aspects. It is hoped that further research can further analyze the factors that influence profitability from PT XYZ's marketing and human resources (HR) aspects. As well as adding variables to the research such as interest rate variables, sales costs, and others.

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