

The Effectiveness Working Capital Management Small and Medium Enterprises (SMEs) Surabaya

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Abstract

This study is determined to analyse the effectiveness of working capital on the Siola MSME Central in Surabaya. This research uses the effectiveness ratio to assess the minimum cash balance, gross working capital turnover, accounts receivable turnover and inventory turnover. The method used was a qualitative descriptive approach by using quantitative data. This research was conducted on the Siola MSME Central in Surabaya which was built by the local government. The path analysis results show that the working capital on the Siola MSME Central is relatively less effective, with the minimum cash balance is on average of 0.32 times, the average gross working capital turnover is 0.20 times, the average accounts receivable turnover is 0.65 times while the inventory turnover is 1.85 times in each period of its cycle. The results of this study also indicate that the working capital management ability of each MSME business proprietor determines the effectiveness of the working capital itself.

Keywords:

Working Capital, Effectiveness, Small and Medium Enterprise (SMEs), Business, Pandemic Covid 19.

1. Introduction

Micro, Small and Medium Enterprises, abbreviated as MSMEs or Small Medium Enterprise (SME), is type of businesses that is very developed and plays an important role for the Indonesian economy. MSMEs have provided many contributions for the economic joints. The MSMEs have the ability to reduce the unemployment number by absorbing a huge number of unskilful labour forces. Therefore, MSMEs are an important part of building the economy of a country or region, as well as in Indonesia. MSMEs are subjected as one of the priorities on the development agenda in Indonesia. For MSMEs, every business activity will have impacts on the ability to fulfill short-term obligations (liquidity) and the company's ability to earn profits (profitability), therefore working capital must be managed and considered properly. There are many benefits from the availability of sufficient working capital, however there are also issues regarding its disadvantages.

Working capital is basically a continuous amount that must be available to support the business of a company that splits between expenses in obtaining materials or services, and the time of receipt of sales, or expenditures that are not fixed assets. With an increase in sales, the company's assets will also develop, even though some of these assets fluctuate seasonally. Management of working capital in MSMEs is an activity that refers to the arrangement of all current assets and current liabilities. Management of working capital at MSMEs is said to be effective if the available working capital is able to cover expenses of daily operational activities and other interests to reach the level of company profits.

The Siola MSME Centre has notably performed an increase since its establishment. Yet, recently during the corona-19 virus outbreak, which forces limitation in proprietors' mobility, the business has experienced uncertain condition with a decreasing in effectiveness. This is an important aspect and affects the operational activities of the trading business. Therefore, it is very important to assess the financial statements so that the management of the trading business can make the right decisions in determining the working capital for the sake of developing and increasing the liquidity of the trading business itself.

Based on the explanation above, the problem is considered interesting to be raised and studied more deeply. The following research questions are empirically investigated in this study

1. How is the working capital management on the Siola MSME central in Surabaya?
2. How is the effective management of working capital on the Siola MSNE central in Surabaya?

2. Research Method

The method used is a qualitative descriptive approach with quantitative data, because this research wants to clearly reveal the relationship between effective working capital management. This research was conducted on the Siola MSME central in Surabaya during the pandemic period.

The data analysis technique used in this research is descriptive qualitative with quantitative data with the following steps:

1. Identify the availability of working capital for MSME actors for the current year
2. Review the availability of minimum cash balances, accounts receivable balances, inventory balances
3. Identify needs for the cash, working capital, accounts receivable and inventory
4. Determine the minimum cash levels, working capital, accounts receivable turnover and inventory
5. Calculates the activity ratio. This activity ratio is to measure the effectiveness of working capital on the Siola MSME central in using its assets.

The formula for measuring the activity ratio is:

$$\text{Minimum Cash Balance} = \frac{\text{Sales}}{\text{Average Cash}}$$

$$\text{Gross Working Capital Turnover} = \text{Total Value of Current Assets}$$

$$\text{Accounts Receivable Turnover(RT)} = \frac{\text{Sales}}{\text{Average Receivables}} (100\%)$$

$$\text{Inventory Turnover (IT)} = \frac{\text{Cost Of Good Sold}}{\text{Inventory}} (100\%)$$

2.1. Analysis Model



Figure 1. Analysis Diagram for the Research

2.2. Operational Definition of Variables

1. Minimum Cash Balance. The owner's ability to guarantee the availability of the amount of cash required by his business activities for a certain period of time, so that activities run smoothly without any obstacles, while the measurement is called ratio data (Slamet, 2006: 2; Aji Soko, 2018: 12)
2. Gross Working Capital Turnover (Gross Working Capital). Working capital turnover shows how much the ability of MSMEs to utilize working capital to generate sales. The quality of the funds that are embedded in the elements of current assets where these assets are assets that once rotate will return to their original form Munawir (2007: 114-116).
3. Receivable Turnover. Soemarso S.R (2010: 393), states that "receivable turnover (receivable turnover) shows how many times an MSME collect its receivables from customers in a period". Accounts receivable turnover shows the efficiency of MSMEs in managing their receivables. A low receivable turnover indicates that collection efficiency is getting worse during that period due to the length of time that the collection is carried out.
4. Inventory Turnover. The ability of MSMEs to provide sufficient stock of high-quality goods to meet customer needs and minimize costs. Inventory Turnover Ratio serves to measure the number of times a company sells the average total inventory of goods that exist throughout the year. This ratio is a good indicator for assessing the quality of inventory and effective purchasing practices carried out by MSMEs.

3. Results And Discussion

In order to approach working capital effectiveness analysis, financial reports and current activities are required in order to assess the effectiveness of the working capital.

Table 1. The Current Asset Average and Total Turnover Average of the Siola MSME Central

Period December 2019 - June 2020						
No	MSME Siotala	Current asset				Sales
		Cash	Accounts Receivable	Inventory	COGS	
1	Arra Dimsum	IDR 3,125,000	IDR 1,042,000	IDR 104,667	IDR 1,269,814	IDR 2,124,929
2	Barokah, UD	IDR 11,000,000	IDR 7,120,000	IDR 183,967	IDR 1,798,286	IDR 2,997,143
3	Coco Frizz	IDR 7,626,667	IDR 3,202,000	IDR 364,667	IDR 1,633,486	IDR 4,083,714
4	Denil Pudding	IDR 10,291,333	IDR 6,565,200	IDR 259,333	IDR 1,789,394	IDR 4,591,771
5	Joana Cookie	IDR 10,000,000	IDR 7,774,600	IDR 124,000	IDR 1,174,686	IDR 2,937,371
6	Kasih Sejahtera	IDR 4,750,000	IDR 3,115,200	IDR 58,133	IDR 762,183	IDR 1,905,457
7	Kulit Kreasindo	IDR 3,000,000	IDR 1,052,990	IDR 191,003	IDR 790,186	IDR 1,975,464
8	Mamak Moet	IDR 6,000,000	IDR 4,616,400	IDR 3,440,400	IDR 687,486	IDR 1,734,786
9	Nabitha	IDR 7,083,333	IDR 4,840,880	IDR 235,667	IDR 1,059,106	IDR 2,741,764
10	New Salad	IDR 11,130,000	IDR 5,717,400	IDR 537,367	IDR 832,679	IDR 4,163,393
11	Niels	IDR 5,833,333	IDR 5,717,400	IDR 77,867	IDR 1,072,754	IDR 2,681,886
12	Rahayu Collection	IDR 6,500,000	IDR 3,000,000	IDR 58,333	IDR 1,041,979	IDR 2,604,946
13	Rahmad	IDR 5,000,000	IDR 3,447,200	IDR 89,940	IDR 609,073	IDR 2,017,386
14	Restu	IDR 5,764,833	IDR 2,529,200	IDR 99,067	IDR 699,150	IDR 1,997,571
15	Yunella Food	IDR 9,166,667	IDR 3,266,200	IDR 311,000	IDR 1,624,744	IDR 5,860,314

Source: Processed by the authors from the financial statement data of the central of the Siola MSME Central

3.1. Activity ratio

Table 2. Monthly Calculation of Activity Ratio Components

	January	February	March	April	Mei	June	July	Average
Minimum Cash Balance	0.45	0.44	0.43	0.14	0.03	0.43	0.32	0.32
Gross Working Capital Turnover	0.28	0.27	0.27	0.08	0.02	0.26	0.2	0.20
Accounts Receivable Turnover	0.99	0.77	0.87	0.25	0.04	0.97	0.65	0.65
Inventory Turnover	3.54	2.84	2.69	0.68	0.08	1.26	1.85	1.85
Average	1.32	1.08	1.07	0.29	0.04	0.73	0.76	0.75

Source: data processed

1. Minimum cash balance If you look at the average Siola SMEs Center industry, the minimum cash turnover in January is 0.45 times where the lowest cash turnover is SMEs Mamak Moet with minimum cash balance turnover of 0.33 times and the most effective minimum cash balance turnover is SMEs Restu that is, 0.58 times cash rotates per period. In February it also decreased to 0.44 times cash revolved each period, in March it also decreased to 0.43, in April it was 0.14 times cash rotated per period. Boasting the following May, the minimum cash balance becomes ineffective because the minimum cash turnover becomes 0.03 times the rotating cash of each SMEs operation in one period is said to be ineffective because it is under the minimum cash turnover effectiveness standard of 10%. In the following June, the Siola SME Center Industry average increased again to 0.43 times and was on the effective line.
2. The average gross working capital turnover of the Siola SME Center industry in January was 0.28 times while entering February and March it fell to 0.27 times and in April it fell to 0.08 times becoming ineffective, entering May is increasingly ineffective because working capital turnover can only be rotating 0.02 times. The cause of this ineffectiveness is the occurrence of a pandemic or health epidemic called COVID-19. However, when entering June, the turnover of working capital again increased to 0.26 times. It can be said that Rp. 1,- for working capital can generate sales of as much as Rp. 0.2.-. This indicates a lack of existing working capital management. While the standard according to Kasmir is 6 times, it can be said that the working capital turnover ratio is not effective because it is below the standard.
3. Accounts receivable turnover using accounts receivable turnover ratio in January averaged 0.99 times receivable turnover, while in February it decreased to 0.77 times and rose again in March to 0.87. However, in May there was a significant decrease to 0.04 times and again in June to 0.97 from credit sales, so that the average collection of accounts receivable for 46 days. Meanwhile, according to Kasmir, the standard effective inventory rotation ratio is 15 times. A low accounts receivable turnover means that the working capital is bound to take longer. It can be said that accounts receivable turnover is less effective because it is below standard.
4. The average supply turnover in January was 3.54 times, in February it decreased to 2.84 times and in March it continued to decline to 2.69 times, in April it also decreased to 0.68 times, even in February the inventory turnover was 0.08, but again improved in June to 1.26 times. This shows that the funds held in stock decrease each period. According to Kasmir the standard effective inventory ratio is 20 times. It can be said that the supply turnover of Siola MSME Centre is ineffective because it is below the standard. The lower the existing inventory turnover, the higher the working capital required. Conversely, the higher the inventory turnover, the lower the working capital required.

4. Conclusion

Based on the results of working capital effectiveness analysis, several conclusions can be drawn that are useful to answer the problem formulation and research objectives that have been previously stated.

The effectiveness of Gross Working Capital Turnover by using the Activity Ratio is less effective, with a value that includes Gross Working Capital Turnover from January to July decreasing every month with an average value of Rp. 0.20 meaning that each Rp 1 working capital can generate sales amounting to Rp 0.20. This shows the lack of existing working capital management. Inventory also likewise has an average value of 1.85 times indicating that the funds held in the spinning inventory can reach 1.85 times per turnover period. Accounts receivable turnover shows ineffectiveness with the average value of accounts receivable turnover which is 0.65 times, meanwhile according to

Kasmir the standard effective receivable turnover ratio is 15 times. Low accounts receivable turnover means longer working capital. It can be said that the instrument turnover was not effective because it was below the standard.

Based on the results of the discussion and conclusions above, the researcher suggests that the Siola UMKM Center in Surabaya should be even more effective in utilizing existing resources or assets so that companies can use capital to increase sales. In each sales transaction, the researcher also recommends that each MSME business proprietor be able to make a simple report regarding the cash flow in and out of the existing cash balance so that he can find out how much minimum cash balance each MSME actor has.

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Biographies

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