EAJ (Economic and Accounting Journal)
Vol. 5, No. 3, Sep 22
ISSN 2615-7888

Received: August 15, 2022 Revised: September, 15 2022 Accepted: September 21, 2022 Published: September 30, 2022

Inventory Efficiency and Company Liquidity's Impact on Company Performance

Thom Deutmar Londo Doaly
Department of Accounting, Universitas Pamulang
Email: dosen02355@unpam.ac.id

ABSTRACT
The purpose of this study is to determine whether there is (or is not) an effect of Inventory Efficiency (ITO) and Company Liquidity (QR) on Company Performance (ROA) in Textile and Garment sub-sector companies listed on the Indonesia Inventory Exchange from 2018 to 2020. In this study, Inventory Turnover (ITO) is used to measure inventory efficiency, Quick Ratio (QR) is used to measure company liquidity, and Return on Asset (ROA) is used to measure company performance. (ROA). The data used in this study is secondary data on Textile and Garment sector sub-companies listed on the Indonesia Inventory Exchange between 2018 and 2020. A total of 84 samples were collected. The research method employed was descriptive qualitative. Descriptive qualitative research focuses on problems as current facts from a population. The study's findings indicate that Inventory Turnover has no effect and is insignificant on Return on Assets in the sub-sector. The company should continuously monitor and maintain the Inventory Turn Over value and the Quick Ratio value to ensure that the expected rate of return on assets (ROA) is achieved. For investors, the Inventory Turn Over and Quick Ratio values can be used to evaluate the company's ability to process inventory and liquidity.

Keywords*: inventory efficiency, liquidity and performance*

1. INTRODUCTION

The primary goal of the company is to increase its value. High corporate value can increase shareholder prosperity to the point where shareholders are willing to invest their money in the company (Abdullah et al., 2016). Financial performance, particularly profitability in generating profits, influences one of the fluctuations in the company's value (Sellyndah Primadani Putri, 2013). Apart from indicating the company's ability to meet its shareholders' obligations, profit is also an element in creating company value, indicating its prospects.

Table 1: Inventory Turnover Data, Quick Ratio and Return on Assets in Consumer Goods Industry Sector Companies in 2015-2017 (In million rupiah)

No	Company	Variables	2015	2016	2017
1.	PT. Delta Djakarta Tbk (DLTA)	Inventory Turn Over	210.362	151.548	120.891
		Quick Ratio	84.457	152.086	171.744
		Return On Asset	151.715	213.421	270.498
2.	PT. Indofood Sukses Makmur Tbk (INDF)	Inventory Turn Over	3.754.028	3.641.399	4.959.416
		Quick Ratio	6.547.161	7.786.166	8.160.539
		Return On Asset	4.891.673	4.779.446	3.416.635

*Corresponding author's e-mail: dosen02355@unpam.ac.id

3.	PT. Akasha Wira International Tbk (ADES)	Inventory Turn Over	71.797	71.787	79.179
		Quick Ratio	38.965	74.592	84.788
		Return On Asset	25.868	83.376	55.656

Source: Data processing

According to the data in table 1, an increase in inventory turnover and the quick ratio does not always increase return on assets. The increasingly advanced development of the Indonesian business world necessitates that every company can compete and adapt by maximizing all available resources for the company's survival (Ariyagraha & Suprihhadi, 2018). Every business has a goal, which is to maximize earnings or profits. Companies must strive to maintain, if not improve, their financial performance effectively and efficiently (Purnama, 2019).

Prospective investors and shareholders must be aware of the release of financial statements to evaluate the company's financial performance (Ike & Satrio, 2019). Financial ratios in financial reports can be used to evaluate financial performance (Siregar & Mardiana, 2020). Users of financial statements can interpret and calculate the company's assets, debt, equity, profits, and market value with this understanding. These things are examined in a study (Farrell & Rizal, 2021). Return on assets (ROA) from the profitability ratio and inventory turnover (ITO) from the activity ratio are the variables used to measure company performance (Nabila, 2020).

Many studies have been conducted on the factors that influence profit. Several regression models were proposed as a profit estimation model (Nugrahanti & Fuadati, 2018). Financial ratios were generally used as proxies for profits and the factors influencing them. Profit was estimated using ratios such as return on assets (ROA) (Sari & Maryoso, 2022). Meanwhile, profit determinants were proxied by the quick ratio (QR), inventory turnover (ITO), et cetera (Satria, 2016).

Activity ratios were used to determine how much progress the company made by repurposing existing resources (Jufrizen & Nasution, 2016). Inventory turnover shows how efficiently a company manages its inventory over a year. This ratio is highly dependent on the industry in which the company operates (Tarau et al., 2020).

The purpose of this study is to determine whether there is an effect or no effect of inventory Efficiency as measured by inventory turnover and company liquidity as measured by quick ratio on company performance as measured by return on assets in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2018-2020, both partially and simultaneously.

2. LITERATURE REVIEW

Financial performance can be interpreted as a description of the company's state. Specific measurements are required to analyze a company's financial performance. A company's performance can be evaluated in two ways: financial aspects and non-financial aspects. Analysis of financial reports prepared by management can be used to assess financial aspects. By analyzing the items in the financial statements, ratios that can be used as good and bad indicators of a company's financial performance can be discovered. When deciding which shares to invest in, potential investors consider the company's financial performance. Maintaining and improving financial performance is critical for a company for these shares to exist and remain in demand by investors.

According to Fahmi (2015), inventory turnover is the amount of inventory that can be obtained in one year by dividing the cost of goods sold by the average inventory balance. Because inventory is the primary component of goods sold, the higher the inventory turnover, the more influential the company is in managing inventory. Hayati et al. (2019) discovered that inventory turnover affects profitability; as inventory increases, total profit increases. According to Astuti & Aprianti's (2020) research, inventory turnover impacts

*Corresponding author's e-mail: dosen02355@unpam.ac.id

profitability. According to Rahmawati & Antung (2019) and Satriawaty Migang (2019) research, the inventory turnover variable does not affect the return on assets.

In this study, the indicator variable quick ratio liquidity was also used. The quick ratio determines whether a company has enough current assets (without selling inventory) to cover its short-term liabilities. The higher the quick ratio, the better the company can meet its current liabilities (Hantono, 2017).

The Quick ratio can determine a company's ability to meet short-term obligations with current assets. The higher the ratio value, the better the company's condition. The company's liquidity is good if the ratio is 1:1 or 100%. If there is a liquidity problem, the company can quickly convert assets into cash to pay off liabilities (Kusjono, 2020). As a result, the following hypothesis can be developed for this study:

H_1: Inventory Turnover has a significant impact on Return on Assets.

H_2: Liquidity has a significant impact on Return on Assets.

3. RESEARCH METHOD

The data type used in this study is quantitative, and the data source is secondary. The quantitative research method is a type of research whose specifications are systematic, planned, and structured from the start to the creation of the research design.

3.1. Data Collection Techniques

The source data used in this study is annual reports for sub-sector companies in the Textile and Garment listed on the Indonesia Stock Exchange, financial data for 2018 - 2020 were obtained from ICMD (Indonesia Capital Market Directory) and financial reports.

3.2 Operational Definitions of Variables

Table 2: Variable Measurement

Variable	Measurement
Company Performance	$Return\ on\ Assets = \frac{Net\ Income}{Total\ Assets}$
Inventory Turnover	$Inventory\ Turnover = \frac{Cost\ of\ Revenue}{Total\ Inventory}$
Liquidity	$Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liability}$

3.2. Sample Collection Techniques

The population in this study were all manufacturing companies in the consumer goods industry sector listed on the Indonesian inventory exchange. The selection of the research sample was based on the purposive sampling technique. The criteria used to select the sample are as follows:

Table 3: Sample Selection

Description	No Of Companies
Sub Sector Textile and Garment Companies listed on the IDX for period 2018 – 2020.	
Companies that provide complete annual financial reports for 2018 – 2020.	
Complete data available in the financial reports for 2018 – 2020.	
Number of research samples	28
Total sample data for research three years	84

3.3. Data Analysis Techniques

The data analysis method used is a statistical analysis method using SPSS software. Before the data is analyzed, for data analysis, it is first tested using the logit method. SPSS is computer software that can help analyze data and perform statistical and non-parametric calculations on a Windows basis.

These multiple regression analysis methods were carried out on the model proposed by research using SPSS Software version 10 to predict the relationship between the independent and dependent variables. The multiple regression analysis equations are:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$

*Corresponding author's e-mail: dosen02355@unpam.ac.id

Where:
Y = Company Performance
α = Constant
β1 = Coefficients
X1 = Inventory Efficiency
X2 = Company Liquidity
e = error

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 4: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		84
Normal Parameters[a,,b]	Mean	.0000000
	Std. Deviation	.14859741
Most Extreme Differences	Absolute	.140
	Positive	.140
	Negative	-.073
Kolmogorov-Smirnov Z		1.286
Asymp. Sig. (2-tailed)		.073

a. Test distribution is Normal.

b. Calculated from data.

Source: Proceed by SPSS, 2022

The data has a normal distribution, according to the results of the data normality test using the Kolmogrov-Smirnov test. It is demonstrated by the Kolmogrov-Smirnov value, which has a significant value of 0.248. Where 0.248 > 0.05 is significant. The Kolmogrov-Smirnov value must be greater than 0.05 to be significant. As a result, the data has a normal distribution. As a result, it is possible to conclude that the regression model in this study meets the assumption of normality or has a normal distribution and is worthy of further investigation.

Table 5: Multicollinearity test

Variables	Tolerance	VIF
Inventory Efficiency	0.998	1.002
Company Liquidity	0.998	1.002

Source: Proceed by SPSS, 2022

From the data in the table above, it can be seen that the Variance Inflation Factor (VIF) value for the ITO variable (X1) is 1.002; QR (X2) of 1.002; Each independent variable does not have a value of more than 10. Likewise, the Tolerance value at ITO is 0.998, QR variable of 0.998; for Each independent variable, the tolerance value is more significant than 0.1. So it can be concluded that there are no symptoms of multicollinearity between the independent variables, which are indicated by a tolerance value greater than 0.1 and a VIF value less than 10, so it can be concluded that further analysis can be carried out using a multiple regression model.

Table 6: Regression test

Variables	Coefficient	Sig.
Inventory Efficiency	1.842	0.069
Company Liquidity	-0.177	0.860

Source: Proceed by SPSS, 2022

*Corresponding author's e-mail: dosen02355@unpam.ac.id

4.2. Discussion

The t-test is used to determine the significance of each constant and independent variable. The ITO variable has a table value of 1.66365 (test t = n (84) - k (2) = 82), as shown above. Because ITO has a significant value of 0.069 0.05, the result is t-count t-table (1.842 1.663). It demonstrates that the research hypothesis rejects, implying that ITO has no significant positive effect on ROA at Sub Sector Textile and Garment Companies listed on the IDX from 2018 to 2020.

The company liquidity variable has a t-count of -0.177, a t-table of 1.66365, and a significant value of 0.860 0.05 for t-table t-count t-table (-1.66365 -0.177 1.66365). It indicates that the research hypothesis rejects, implying that QR has no significant effect on ROA at Sub Sector Textile and Garment Companies on the IDX from 2018 to 2020.

Liquidity is related to the company's overall financial condition and the ability to convert certain current assets into cash. The current ratio, inventory to net working capital, cash, and quick ratios are commonly used liquidity ratios (Kasmir, 2015).

5. CONCLUSIONS

Based on the findings of the analysis and discussion, and concerning the study's formulation and objectives. It demonstrates that the research hypothesis is rejected, indicating that inventory efficiency and company liquidity do not significantly affect company performance at Sub Sector Textile and Garment Companies listed on the IDX from 2018 to 2020.

Based on the conclusions presented, the company should continuously monitor and maintain the inventory turnover value and the quick ratio value to achieve the expected rate of return on assets (ROA). The inventory turnover and quick ratio values can be used as analytical material in evaluating the company's effectiveness in inventory processing and liquidity.

This study only uses two variables to explain the effect on return on assets, namely, inventory turnover and quick ratio, and it only covers the period from 2018 to 2020. As a result, similar research can be conducted in the future, but with the addition of other variables that influence the return on assets that were not tested in this study. Subsequent research can broaden research topics by investigating the factors influencing return on assets in other industrial sectors.

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*Corresponding author's e-mail: dosen02355@unpam.ac.id