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The Effect Of Working Capital Management On Trade Credit Provision With Corporate Financial Slack As Moderating Variabel

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Abstract: This research aims to test and identify the effect of working capital management on trade credit provisions with corporate financial slack as a moderating variable. This research uses a sample of food and staples retailing sub-sector firms listed on the Indonesia Stock Exchange for the 2020-2022 period. The ordinary least squares (OLS) regression approach is used in this research to test the hypothesis with the help of eviews version 13. The results of this research find that working capital management has a positive and significant effect on trade credit provisions and the corporate financial slack has a negative and significant effect on the relationship between working capital management on trade credit provisions.

Keyword: Working Capital Management, Corporate Financial Slack, Trade Credit Provision.

INTRODUCTION

Issues related to trade credit are issues that occur in companies and are an important concern for company management because they can affect the company's survival.(Lee et al., 2018) explained that trade credit represents business-to-business as a marketing tool for companies to build competitive advantages.(Frennea et al., 2019) explain that by providing trade receivables, companies can obtain better value because credit sales are able to adjust to customer needs and can strengthen the relationship between sellers and buyers. This condition shows that companies that sell on credit aim to increase company profits.

(Babich & Tang, 2012)explain that trade credit has unique advantages in achieving company operational goals, such as guaranteeing product quality, limiting opportunistic operational decisions of buyers, and sharing the risk of demand for products/services(Yang & Birge, 2018). This means that trade credit has an important role in company operational decisions.(El Ghoul & Zheng, 2016) explain that trade credit is a working capital component that represents the amount that can be collected by the seller when customers are allowed to

delay payment. Although trade credit has economic importance. However, there are high implicit costs in the form of lost cash discounts if customers make cash purchases(Hasan & Habib, 2019).

The importance of trade credit in a company can improve the relationship between sellers and buyers, so that company goals can be achieved. Therefore, this research tries to examine important factors that can influence trade credit provisions. This factor is working capital management. Working capital management shows the proportion of a company's net working capital compared to its total assets(Bei & Wijewardana, 2012). Working capital management shows a measure of liquidity that can identify the company's short-term conditions, namely whether the company can fund the company's operating activities (Hatane et al., 2023). Furthermore, (Hatane et al., 2023) explain that high interest rates, greater political instability and financial market underdevelopment are characteristic of developing countries and lead to the need for working capital management to face liberalization and rapid globalization.

(Kusuma & Dhiyaullatief Bachtiar, 2018) explain that efficient working capital management will help companies quickly respond to unexpected changes in the market, such as volatility in interest rates and prices in the market, so that they will gain a competitive advantage compared to competitors. Good working capital management will provide opportunities for company management to carry out trade credit with the aim of increasing company profitability. This condition can occur because the level of sales on credit is one of management's strategies to increase company profitability. The level of credit sales can be carried out by company management when working capital management is managed effectively and efficiently.

(Petersen & Rajan, 1997) explained that companies with declining sales or negative profits increase accounts receivable from customers in an effort to gain market share and sales. Molina & Preve (2012) explain that companies facing profitability problems try to implement aggressive credit policies to their customers to gain market share, especially if the company has the market power to do so without incurring significant sales losses. Thus, credit sales are considered to increase market share and are one of the company's management strategies. Checks are carried out using the forum discussion method or Forum Group Discussion (FGD) to state that a study can comply with its standards(Sinlae, 2023a).

Working capital management that is well managed by company management will provide opportunities for companies to provide trade credit to customers. However, this condition can be reduced when the company experiences financial gaps. The company's financial gap is a comparison between current assets and current debt owned by the company (Yanadori & Cui, 2013). This means that the company experiences a financial gap when the current assets owned by the company are unable to finance current debts. The higher the company gap indicates the lower the working capital management to increase credit sales to customers. The impact is that the company is unable to win market share, which ultimately has a negative impact on the company's survival.

The background description previously explained shows that this research aims to test and analyze the effect of working capital management on trade credit provisions which is moderated by corporate financial slack.The method of collecting data is carried out for research using a literature study method from existing theories, interviews, several discussions, as well as questions and observations at the research location(Sinlae, 2023b).

METHOD

Food and staples retailing sub-sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period were used by researchers in this study as research samples. The sample determination method uses purposive sampling with the following criteria.

Table 1. Sample Selection Process

Criteria	Sample
Food and staples retailing sub-sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period.	13
Number of sample observations (13 x 3)	39
Companies that have complete data	(4)
Number of final sample observations	35

Source: Secondary Data Processed by Researchers, 2023

The variables of this research are working capital management, company financial gaps, and trade credit provisions. The operational definitions and measurements of these three variables are as follows.

Table 2. Operational Definition and Variable Measurement

Definition	Measurement	Scale
Trade Credit Provision: Comparison between trade receivables and previous total assets (Osinubi, 2020)	$\frac{Account\ Receivable}{Lag\ Total\ Asset}$	Ratio
Working Capital Management: The proportion of a company's net working capital compared to its total assets (Bei & Wijewardana, 2012; Hatane et al., 2023).	$\frac{Acc.Receivable + Inventory - Acc.payable}{Total\ Aset}$	Ratio
Corporate Financial Slack: Comparison between current assets and current liabilities owned by the company (Yanadori & Cui, 2013).	$\frac{Current\ Asset}{Current\ liabilities}$	Ratio

Source:(Bei & Wijewardana, 2012);(Hatane et al., 2023); (Osinubi, 2020); (Yanadori & Cui, 2013)

The ordinary least squares (OLS) regression approach was used by researchers in this study to test the hypothesis. Researchers used the Eviews version 13 analysis tool to test the research hypothesis. Before testing the hypothesis, this research uses the classical assumption test as a condition for using the OLS method. The classical assumption test consists of multicollinearity, heteroscedasticity and autocorrelation tests. The normality assumption test was not used by researchers in this study because the sample size for this study fulfilled the central limit theorem, namely > 30. (Cooper & Schindler, 2006) explained that a sample size > 30 indicates that the residuals are assumed to be normally distributed.

RESULT AND DISCUSSION

The aim of this research is to test and analyze the effect of working capital management on trade credit provisions which is moderated by corporate financial slack. Based on these objectives, it can be seen that there are working capital management, corporate financial slack, and trade credit provision variables. To describe several of these variables, the variable descriptive statistics display is as follows.

Table 3. Descriptive Statistics

Variable	Obs.	Min.	Max.	Mean	Std.dev
Working Capital Management	35	-0,068	0,439	0,169	0,153
Corporate Financial Management	35	0,555	8,624	1,714	1,605
Trade Credit Provision	35	0,006	0,452	0,163	0,146

Source: Secondary Data Processed by Researchers, 2023

Based on the table above, it can be seen that the working capital management variable shows a minimum value of -0.068, a maximum value of 0.439, a mean value of 0.169, and a standard deviation of 0.153. Furthermore, this research shows that the corporate financial management variable has a minimum value of 0.555, a maximum value of 8.624, a mean value of 1.714, and a standard deviation of 1.605. Finally, the trade credit provision variable shows a minimum value of 0.006, a maximum value of 0.452, a mean value of 0.163, and a standard deviation of 0.146. This research uses the ordinary least squares (OLS) regression approach to test the hypothesis. This approach requires classical assumption tests, namely multicollinearity, heteroscedasticity and autocorrelation tests. This research does not use the normality assumption test because the number of observations meets the central limit theorem. The results of the classical assumption test are as follows.

Table 4. Autocorelation Test

	TCP	MMK	KKP	MMK*KKP
TCP	1,000	0,875	0,323	0,636
MMK	0,875	1,000	0,347	0,768
KKP	0,323	0,347	1,000	0,819
MMK*KKP	0,636	0,768	0,810	1,000

Notes:

TCP: Trade Credit Provision, MMK: Working Capital Management, KKP: Corporate Financial Management.

Source: Secondary Data Processed by Researchers, 2023

Based on this table, it can be seen that the correlation value between all independent variables is <0.90. (Ekananda, 2019) explains that if the correlation value between the independent variables is <0.90, it indicates that the model has no correlation between the independent variables, so it is free from multicollinearity problems.

This research uses Huber-White to correct the heteroscedasticity problem of the regression model. This condition is in accordance with what was explained by(Ghozali & Ratmono, 2017) correction of heteroscedasticity problems can use Huber-White, so that the corrected output can be used directly to test research hypotheses.

Table 5. Multicolinearity Test

	Main Effect	Moderating Effect
Nilai Durbin-Watson	1,017	1,301
Conclusion	Free of Autocorelation	Free of Autocorelation

Source: Secondary Data Processed by Researchers, 2023

Based on this table, it can be seen that the Durbin-Watson main effect test value is 1.017 and the moderating effect is 1.301. These two values are in the range -2 to 2 and are free from autocorrelation problems. Santoso (2010) explains that if the Durbon-Watson value ranges from -2 to 2, then there is no autocorrelation problem.

This research tests the hypothesis of the influence of working capital management on trade credit provisions with corporate financial slack as a moderator. The results of the hypothesis test are as follows.

Table 6. Hypotheses Test

Independent Variable	Dependent Variable: Trade Credit Provision Ordinary Least Square (OLS) Main Effect			Dependent Variable: Trade Credit Provision Ordinary Least Square (OLS) Moderating Effect		
	coef.	t-stat.	sig.	coef.	t-stat.	sig.

const.	0,021	2,549	0,130	-0,029	-1,819	0,078
MMK	0,833	13,699	0,000	1,237	9,392	0,000
KKP				0,047	3,451	0,001
MMK*KKP				-0,261	-2,995	0,005
F-Stat.	108,852			43,093		
Sig.	0,000			0,000		
Adjusted R^2	76%			78,7%		
Obs.	35			35		

Notes:

TCP: Trade Credit Provision, MMK: Working Capital Management, KKP: Corporate Financial Management.

Source: Secondary Data Processed by Researchers, 2023

H_1 of this research is that working capital management has a positive effect on trade credit provisions. The results of this study found that the effect of working capital management on trade credit provisions has a coefficient of 0.833; t-statistic is 13.699 and significance is 0.000 <0.05. This condition shows that working capital management has a positive and significant effect on trade credit provisions, so that H_1 is supported.

Working capital management is a liquidity measure that can identify a company's short-term conditions, namely whether the company can fund the company's operational activities (Hatane et al., 2023). The company can give a positive signal to customers that working capital management is well managed by company management, so that company management decides to provide credit sales to customers. (Kusuma & Dhiyaullatief Bachtiar, 2018) explain that efficient working capital management will help companies quickly respond to unexpected changes in the market, such as volatility in interest rates and prices in the market, so that they will gain a competitive advantage compared to competitors.

H_2 of this research is that corporate financial slack can reduce the influence of working capital management on trade credit provisions. The results of this study found that the effect of working capital management*corporate financial slack on trade credit provisions had a coefficient of -0.261; The t-statistic is -2.995 and the significance is 0.005 <0.05. This condition shows that corporate financial slack can reduce the influence of working capital management on trade credit provisions, so that H_2 is supported.

(Deari et al., 2022) explain that companies that have excessive amounts of current assets can reduce company returns because current assets are not used by the company effectively and efficiently to increase company profits. Companies experiencing financial gaps occur when the current assets owned by the company are unable to finance current debts. The higher the company gap indicates the lower the working capital management to increase credit sales to customers. The result is that the company is unable to win market share, which ultimately has a negative impact on the company's survival.

CONCLUSION

The aim of this research is to test and analyze the effect of working capital management on trade credit provisions which is moderated by corporate financial slack. This research uses a sample of food and staples retailing sub-sector companies during 2020-2022 to test the research hypothesis. However, 2019 is used as the base year to measure the trade credit provision variable. The purposive sampling method was used by researchers in this study to test the hypothesis and analysis approach using ordinary least square (OLS) regression. The results of this research found that working capital management has a positive and significant

effect on trade credit provisions. Furthermore, corporate financial slack can reduce the influence of working capital management on trade credit provisions.

An important implication of this research is that when company management manages working capital effectively and efficiently, it will provide a positive signal to customers, so that customers can buy on credit from the company. The aim of providing credit to customers is toincrease market share which will have an impact on the company's long-term performance. However, companies need to take into account the availability of current assets to meet current debt needs. This condition is important because current assets can finance the company's current debt needs.This research has the limitation that this research uses the food and staples retailing sub-sector, so this research cannot be generalized to all companies listed on the Indonesia Stock Exchange. Therefore, further research can use manufacturing or mining companies listed on the Indonesian Stock Exchange by taking the phenomenon into account. In addition, the sample companies in this study only used the 2020-2022 period, so future research can use a longer period.

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