

SME Working Capital Strategy to Increase Profitability During The Covid-19 Pandemic



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ABSTRACT: The Covid-19 pandemic has an impact not only on the manufacturing sector but also on the SME sector. One way that is done by SMEs is to strengthen financial strategies to maintain the continuity of SME businesses. This study aims to see how SME actors view the existence of a pandemic in Indonesia, what business strategies and financial strategies are being carried out to survive the current pandemic situation. This study uses qualitative methods to be able to understand the perspective or point of view of looking at the financial strategies carried out by SMEs during the Covid Pandemic so that businesses can continue to this day. The research was conducted on SMEs in Natural Stone. The results showed that MSMEs experienced a decrease in sales volume. SMEs use several strategies in their financial management. One of the cost-efficiency financial strategies is to process waste into goods of the sale value. SMEs also use a risk management strategy by creating business-specific savings whose needs are used to finance the business when unforeseen conditions occur. SMEs also manage working capital by applying a conservative working model and withdrawing accounts receivable.

KEYWORDS: SMEs, Covid-19, working capital

I. INTRODUCTION

Covid-19 is an epidemic that paralyzes several activities, including economic activities. The Covid-19 outbreak is known to be caused by a Coronavirus that attacks the respiratory tract. It was first discovered in China in 2019 and until now this virus still exists because of its very fast development and transmission. The COVID-19 pandemic is not only threatening from the health aspect but also harms the economy. The Covid pandemic has had a significant impact, one of which is on the SME sector, causing supply chain disruptions to occur globally (Prasad et al. al., 2019; Shafi et al., 2020). The main victims of the COVID-19 outbreak are micro, small & medium enterprises (SMEs). SMEs when compared to large companies do not have sufficient resources, especially financial and managerial (Bartik et al., 2020). SMEs are the backbone of the economy characterized by extraordinary business flexibility, small production volumes, and simple organizational structures (Lazarevic-Moravcevic, 2019).

The crisis due to the pandemic forced SMEs to find the right business formulation to be able to maintain their business. SMEs must be able to carry out the development of daily activities combined with work experience that supports the achievement of the goals and objectives that have been set in their planning (Bruque & Moyano, 2007). Another important factor that must be considered during the Covid-19 pandemic is the efficiency of resource utilization. Resource efficiency is closely related to working capital management. Working capital has three roles, respectively as the life force of the business, one of the functions of business continuity, and one aspect of financial management. Companies that manage their working capital very efficiently will have less risk of liquidity problems (Prasad et al., 2019). Working capital management that leads to efficiency is the key to successful performance (Jamil et al., 2015).

The importance of the financial impact of the current COVID-19 pandemic has attracted the attention of many financial and economic researchers around the world. The thing to note is that in times of financial crisis, one of the right solutions to eliminate financial problems is to make the right decisions regarding working capital management policies (Salehi et al. 2019). Working capital is needed by every company to make expenses for daily operational activities. Working capital is the company's investment in current assets (Munandar et al, 2019). Banos-Caballero et al. (2014) revealed a non-linear relationship between working capital and firm performance, which implies the optimal level of working capital investment that financial managers can maximize firm profits by managing and optimizing their working capital level. Pais and Gama (2015) report that working capital management has a positive relationship with the profitability of SMEs. Effective working capital management in a company can

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be seen from several indicators, including cash management, accounts receivable management, and inventory management (Deloof, 2003).

The goal of all business activities is business success and success. Entrepreneurial success is a construct that does not have a clear definition, but there is agreement that society benefits from successful entrepreneurship (Casson, 2003). Entrepreneurial success measures can enable the identification of current and future successful ventures, and refine public policies that target success rates from the outset (Fried and Tauer, 2009; Zhao et al., 2010). Business literature shows that the measure of financial profitability is very important in assessing entrepreneurial success (Gupta & Mirchandani (2018), Juhdi & Juhdi (2013). Profitability according to Husnan (2001) is the company's ability to earn a profit (profit) within a certain period. the profitability of the company, the survival of the company will be more guaranteed. The level of profitability is an indicator of the company's success, especially its ability to generate profits by utilizing its resources such as assets or equity. This study aims to identify working capital efficiency strategies needed to respond to the impact of the ongoing pandemic on Batu Alam SMEs by implementing ICT to improve their performance. In particular, this study emphasizes paying more attention to the risks posed by the uncertainty of the external environment for SMEs and assisting these companies in predicting risks at an early stage of decision-making and business planning, as well as determining their countermeasures. Large-Scale Social Restrictions (PSBB) to anticipate and reduce the spread of the coronavirus. This social distancing has a significant effect on Batu Alam SMEs. Based on this thought, this study tries to examine the effect of working capital efficiency strategies on the performance of Batu Alam SMEs in maintaining their performance through the application of ICT.

II. METHOD

Researchers use qualitative methods to understand perspectives or perspectives on working capital management strategies carried out by MSMEs during the Covid Pandemic so that businesses can continue to this day. In this study, the researchers chose to research MSMEs in Batu Alam. Researchers in this study used the purposive sampling method to be able to select informants who were determined by several criteria. From the criteria that have been determined, the object of research that is used as an informant in this study is a total of 10 MSMEs. In data collection techniques, researchers used three ways, namely by conducting in-depth interviews, observation, and documentation

III. RESULT AND DISCUSSION

The COVID-19 pandemic is a condition of public health in the village that is quite healthy and not much affected. Some MSMEs have been affected by the covid pandemic due to government regulations for social restrictions, PPKM, and so on. With this, sales are disrupted which affects business operations. It can be said that the average operation of MSME companies is only 65%. This decline in turnover occurred due to a decrease in sales due to the government's PSBB, PPKM, and other policies aimed at preventing. The economic stagnation caused by the policy caused sales to also decline, capital and distribution were hampered, the difficulty of additional raw materials, namely oxygen, which during this pandemic many people needed oxygen for health. So that the need for oxygen for production activities becomes more difficult and more expensive.

These results are in line with research conducted by Purnomo (2019) which states that currently many MSMEs are experiencing various problems such as decreased sales, capital, hampered distribution, difficulty in raw materials, decreased production, and the occurrence of many layoffs for workers and laborers who then become a threat to the national economy. On the other hand, MSMEs also faced many problems before the COVID-19 pandemic, namely limited working capital, low human resources, and lack of mastery of science and technology (Sudaryanto & Hanim, 2002). Fitriyani et al (2017) also stated that the Covid-19 pandemic not only affected large industries but also the small and medium business sectors such as MSMEs. MSMEs also receive the impact because of various policies set by the government as a form of anticipation against the transmission of the Covid-19 virus. One of the policies is the Lockdown policy. The results also show that the global COVID-19 crisis does not have a significant impact on working capital management policies (Gadelius and Larsson (2019) and Chang et al. (2019).

a. Working capital efficiency strategy

The efficiency strategy carried out is managing working capital by minimizing expenditure and making new types of products and prices for a wider market share. Working capital is well managed so that it can support sales figures and the movement of the sales wheel given the current pandemic conditions. MSME Batu Alam performs working capital efficiency by maximizing the use of raw materials in the form of small waste stones to be processed into products that have a selling value. In addition to the management of raw materials, management is also carried out on accounts receivable. Kasmir (2019) states that in managing working capital, ultimately it is necessary to spell out a strategy. The working capital strategy consists of a conservative, moderate working capital strategy and an aggressive working capital strategy. In an aggressive working capital strategy, there

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are fixed assets that are funded by seasonal funds or short-term liabilities, the aim is to prioritize high returns or profitability even though the risks faced by the company are also high. In a moderate working capital strategy, each current asset is funded with seasonal funds or short-term liabilities, and fixed assets are also funded with long-term liabilities, the goal is to balance the returns or profitability with the risks that must be borne by the company. While in a conservative working capital strategy, some of the permanent current assets are financed with long-term liabilities or permanent funds, the goal is to prioritize low risk even though the profitability or profit generated is also low.

The global coronavirus pandemic has produced a humanitarian crisis like no one has ever experienced before, with sudden and dramatic disruptions across all industries and markets. Businesses must respond from time to time as they receive insights with each news cycle. They must also be prepared to act quickly and aggressively to counter any intrusion and protect their most valuable assets while anticipating unforeseen future changes.

To ensure business continuity during economic crises, businesses are looking for ways to optimize their cash management and working capital processes (Struwig & Watson, 2021). The goal of an effective WCM is to ensure that businesses have adequate and ready access to the necessary funds for day-to-day operating expenses, while also ensuring that assets are invested most productively (Norton et al. 2011). Efficient working capital management plays an important role in the company's overall strategy to create shareholder value or company value (Gitman and Zutter, 2012: 600). Efficient use of working capital means achieving an ideal balance in investment and working capital funding (no more and no less) (Charitou, 2012: 63). Efficient working capital management allows a company to react quickly to changes that occur in the economic environment and gain a competitive advantage over its competitors (Ching, et al, 2011: 74). Efficient use of working capital because of the belief that this action affects the company's overall financial performance in the long term. On the other hand, companies that fail to manage working capital will be brought into a state of insolvency and financial distress (financial distress), and bankruptcy can occur.

The efficiency of working capital management aims to ensure an optimal balance between profitability and risk. This objective can be achieved by continuous monitoring of working capital components such as cash or cash equivalents, receivables, inventories, and accounts payable. Even the efficiency of working capital management is a fundamental part of the company's overall strategy in creating corporate value (Deloof, 2003: 573). The value of the company will be reflected in its share price. Stock prices in the capital market are formed based on an agreement between investor demand and supply so that the stock price is a fair price that can be used as a proxy for company value (Wijaya, et al, 2010: 2). The dilemma in working capital management is to achieve the desired trade-off between liquidity and profitability (Smith, 1980). Referring to the risk and return theory, investments with more risk will result in more returns. Thus, companies with high working capital liquidity may have low risk, hence low profitability. On the other hand, companies that have low working capital liquidity face high risks resulting in high profitability (Ray, 2012: 127). The optimal level of working capital is determined largely by the method of managing current assets and current liabilities. This requires continuous monitoring to maintain appropriate levels in the various components of working capital. Especially for manufacturing companies whose current asset accounts cover more than half of the company's total assets (Gitman and Zutter, 2012), it is appropriate to get full attention in making company managers' decisions.

Working capital is an important issue in financial decision-making because it is part of an investment in assets that require appropriate investment financing. However, working capital is always ignored in financial decision-making because it involves investment and financing in the short term (Sadimajeed, et al, 2012: 80). Furthermore, working capital management also acts to limit financial performance, because it does not contribute to return on equity (Sanger, 2001). An important part of working capital management is needed to maintain liquidity in daily operations to ensure smooth operations and fulfill company obligations (Eljelly, 2004: 48).

Bruna and Depoix (2020) point out that businesses need to adopt a proactive approach to working capital to ensure greater opportunities to successfully overcome many challenges. Bruna and Depoix (2020) further propose that businesses need to focus on the availability of their cash and, as such, create a payables and receivables checklist. This checklist shows that businesses need to extend payment terms, write off early payments, and close down unnecessary inventory to reap the benefits of a quick cash release of accounts payable. It is critical to intensify collection, cash collection, and dispute management to accelerate cash inflows while enhancing credit risk management activities to secure client payments as they are due.

b. Applying Conservative working capital

Schwartzkopf (2020) finds that businesses, both during and post COVID-19, must respond to the impact of the global pandemic calmly to ensure that they can get out of it. Bruna and Depoix (2020) identify that businesses and individuals experience demand volatility, with a clear example being the over-demand for food and household products that affects

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everyone around the world. In addition, businesses are hampered by revenue reductions as imposed by government guidelines on store closures that severely affect all sectors of the economy, and in particular the retail sector. Businesses are also faced with the investments needed to ensure workforce safety, including improved cleaning services, hard-to-find hand sanitizers, and cleaning products, as well as large investments in communications. Technology to support millions of employees working from home (Schwartzkopf 2020).

Applying Conservative working capital to minimize risk even though the profit is also low. Because the main focus of business is not only profit but also survival during the pandemic. Another financial strategy used by MSMEs in Batu Alam is by applying working capital with a conservative concept which is done by using cold funds to finance part of the business needs and withdrawing accounts receivable for business purposes with the aim that if there is a business decline it will not leave long-term debt so less risk. This research is in line with the opinion of Kamaluddin (2017) which states that the conservative working capital strategy of some permanent current assets is financed with long-term liabilities or permanent funds, the goal is to prioritize low risk even though the profitability or profit generated is also low.

Conservative Policy In the conservative model policy, the determination of a relatively high level of current assets results in high company liquidity. The next implication is that there is a low risk of inventory shortages or lost sales opportunities but low profitability (Weston and Copeland, 2012). Accounts payable period, cash conversion cycle, and net trading cycle have a positive effect on company performance. The period of trade receivables and inventory turnover in units of days has a negative relationship with company performance (Sadiq, 2017) (1) MSMEs are the main players in driving the country's economy because their number is almost 99.9% of the total number of domestic companies, (2) MSMEs have difficulties financial and marketing limitations, (3) very low MSME innovation, (4). There are still few women entrepreneurs due to obstacles in education, cultural and religious views. (Tambunan, 2011)

This gives several signals that during the pandemic, the company is trying to implement a fairly conservative working capital management strategy. High financial liquidity ratio, CCC and lower yield of accounts receivable turnover in days concerning liability turnover ratio in days indicate the use of a safe strategy built on conservative principles. Krell (2020) highlights a WCM best practice study, which identifies several improvements that businesses can consider to mitigate the impact of extreme change. Things that can be done include aligning the WCM process with the company's strategy, fostering cross-functional engagement, identifying WCM values and risks, deploying supporting technologies to increase efficiency and support process improvement, and continuing to improve capabilities.

CONCLUSIONS

The COVID-19 pandemic and the resulting economic crisis, have left businesses grappling with the challenges of ensuring continuity while working remotely, accessing short-term liquidity, and supporting supply chains. The impact of the COVID-19 epidemic has weakened the financial situation of business organizations around the world. The restrictive mechanisms put in place to curb the spread of the deadly disease create bottlenecks in supply chains, have a negative impact on organizational liquidity and profitability, and threaten the survival of companies large and small around the world. The results support the theory that working capital management policies can be improved by continuously reviewing variable costs, working with key partners, access to cheaper funds, and holding short-term assets with caution amid a crisis. Accurately managed WCM policies are critical to business continuity. It is therefore important to have a balance between profitability and liquidity, to avoid the possibility of their business failing. People view the Covid-19 pandemic as a disease that has a big impact on their business. Although the business is still running, its turnover tends to decrease. MSME Batu Alam uses an efficiency strategy that is carried out by managing working capital by minimizing expenditure and making products with new types and prices for a wider market share. Applying conservative working capital to minimize risk even though the profit is also low because the main focus of the business is not only on profit but also on survival during the pandemic.

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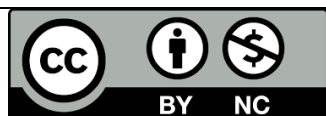
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