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Working Capital Management in Efforts to Improve Profitability and Competitiveness of MSMEs

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ABSTRACT

Effective and efficient working capital management is necessary for every MSME so that the company's operational activities can increase profitability and competitiveness. Good working management can enable MSMEs to manage inventory, improve product marketing, and respond quickly to market changes, thereby increasing the competitiveness and profitability of MSMEs. The purpose of this service is to provide counselling on working capital management to Vezara MSMEs in PGC Cililtan East Jakarata. This training aims to make Vezara MSMEs understand working capital management so that cash can be used as efficiently as possible, selling goods as quickly as possible, avoiding liquidity problems and increasing production capacity. MSME owners must really know effective and efficient working capital management because this is the key to successful MSME operational activities in producing profitability and competitiveness. Therefore, the PKM Team needs to provide this training to help Vezara MSMEs make a profit.

Keywords: Competitiveness, MSMEs, Profitability, Working Capital

1. Introduction

Working capital is a vital aspect for Micro, Small and Medium Enterprises (MSMEs) in managing daily operations and increasing sales. Adequate access to working capital allows MSMEs to manage inventories, improve product marketing, and respond quickly to market changes, thereby increasing MSME competitiveness and profitability. Good working capital management can provide flexibility for MSMEs to focus on business expansion and improving operational efficiency (Putri & Anwar US, 2021)s. The need to emphasises the importance of working capital for MSMEs in overcoming financial challenges and increasing sales. Efficient working capital management can be a key factor in increasing MSME sales (Taufik et al., 2022). Effective working capital management helps MSMEs manage cash flow, avoid liquidity problems, and expand production capacity (Ross, 2015). According to Brealey et al. (2023) working capital is defined as investment invested in current assets or short-term assets, such as cash, banks, securities, receivables, inventory.

Working capital efficiency is the optimal utilisation of working capital in the company's operational activities (Azeez et al., 2016; S. S. A. Wibowo & Rohyati, 2018). Working capital efficiency also shows management's performance in managing company resources, because the more efficient the use of working capital, it shows that the better the company's performance. According to Weston and Copeland (1996) efficiency in working capital management is needed to ensure long-term continuity or success and to achieve overall company goals, which in this case increases wealth for owners (Yenni et al., 2021). If financial managers cannot manage working capital efficiently, it will be pointless to consider success in the long term. because short-term success is a prerequisite for achieving long-term success. Measuring the efficiency of a company's

working capital can be seen from the working capital turnover ratio. The ratio shows the relationship between working capital and sales. From the relationship between sales and working capital, it can also be seen whether the company works with high working capital or works with low working capital. The higher the turnover of funds obtained, the more efficient the company will be in carrying out its operations. Measurement of working capital efficiency can also be seen from cash turnover, receivables turnover and inventory turnover (Brigham & Houston, 2006).

Working capital is capital that is used to carry out operating activities of both large companies and small companies such as MSMEs (Murdiono et al., 2023). Broadly speaking, the definition of working capital can be expressed in several concepts consisting of quantitative, qualitative and functional concepts (Bhattacharya, 2015). Working capital according to the quantitative concept is based on the quantity of funds embedded in the elements of current assets, this definition is often called gross working capital (Wibowo & Azizah, 2022). Working capital according to the qualitative concept is a portion of current assets that can actually be used to finance the company's operations without waiting for liquidity, which is the excess of current assets over current debt. Working capital in this sense is often called net working capital (Rosyadah et al., 2022). Working capital according to the functional concept is working capital based on the function of funds in generating income. Any funds used in a particular accounting period all of which directly generate income in that period and there are some other funds used during that period. Meanwhile, according to Brealey et al. (2016), working capital is defined as investment invested in current assets or short-term assets, such as cash, banks, securities, receivables, inventory.

If the working capital is inefficient, it can cause the profits to be not optimal and can even cause losses (Kamaruddin, 2004). The efficient use of working capital shows the company's ability to utilise existing working capital, so as to increase the company's prosperity. Efficient use of working capital is to strive so that the available working capital is in accordance with the company's operational needs, meaning that the available working capital is neither excess nor deficient. Working capital efficiency is the optimal utilisation of working capital in the company's operational activities. Working capital efficiency also shows management's performance in managing company resources, because the more efficient the use of working capital, it shows that the better the company's performance. According to (Weston & Copeland, 1996) efficiency in working capital management is needed to ensure long-term sustainability or success and to achieve overall company goals, which in this case increases wealth for owners. If financial managers cannot manage working capital efficiently, it will be pointless to consider success in the long term. because short-term success is a prerequisite for achieving long-term success.

Measuring the efficiency of a company's working capital can be seen from the working capital turnover ratio. The ratio shows the relationship between working capital and sales. From the relationship between sales and working capital, it can also be seen whether the company works with high working capital or works with low working capital. The higher the turnover of funds obtained, the more efficient the company will be in carrying out its operations. Measurement of working capital efficiency can also be seen from cash turnover, receivables turnover and inventory turnover (Brigham & Houston, 2006).

Vezara micro, small and medium enterprises (MSMEs) are engaged in fashion, namely Muslim clothing, sales are carried out in retail and glosses. While opening a business, Vezara MSMEs have never sold on credit. Inventory of goods in the shop is obtained from purchases in Tanah Abang. To increase sales, UMKM Vezara uses a price strategy so that consumers are interested in buying Muslim clothing. Before conducting counselling, the PKM team conducted a survey to find out the problems faced by Vezara UMKM. So far, Vezara MSMEs fulfil their cash needs only with cash sales. Inventory of goods can only be provided when cash is collected.

From the survey results, several problems faced by Vezara MSMEs can be identified, namely:

1) Vezara MSMEs only sell their products by cash. To meet their cash needs is very difficult because sales only exist on certain days such as Thursday, Friday, Saturday and Sunday.
2) Vezara MSMEs in PGC must buy Muslim clothes for inventory in cash from suppliers in Tanah Abang. Vezara MSMEs have not tried buying or selling on credit. And this is done for a long time because the availability of cash is not sufficient. Not to mention paying service charges and others.
3) Vezara MSMEs do not understand the effective and efficient management of working capital.

Considering the importance of working capital management in order to maintain the life of MSME businesses, we, the PKM team from the Faculty of Economics, Tarumanagara University, feel compelled to help academically in the form of counseling and guidance on how to carry out efficient working capital management at Vezara MSMEs in PGC Cililitan, East Jakarta.

The purpose of this PKM activity is to find out how to manage working capital efficiently and calculate working capital needs in micro, small and medium enterprises (MSMEs). While the benefit is that it is hoped that MSME entrepreneurs will know how to manage working capital efficiently and be able to calculate working capital needs so that they can increase the profitability of MSMEs.

2. Methodology

The form of the PKM activity implementation method is online or not face-to-face with the owner of Vezara Collection. Counselling is done through Zoommetting with partners.

This PKM Programme activity is carried out in several stages as follows:

A. Preparation Stage.

The preparation stages for PKM activities include:

1. Contacting and coordinating with partners
2. Determining the schedule for conducting activities through ZOOM meetings

B. Implementation Stage

At the implementation stage of this service programme is to provide material on efficient and effective working capital management using various methods and approaches.

C. Evaluation Stage.

At this stage the PKM team evaluates the material provided and asks questions with partners and seeks solutions to the problems faced by partners. In this case, the partners listened and responded to the material of this PKM activity.

3. Results and Discussion

Community Service activities in the form of working capital counseling in an effort to increase profitability and competitiveness for MSMEs were carried out on 25 November 2024. This extension was carried out online using zoommetting at the Vezara Collection store located on the 2nd Floor no 302, Zona Kuning. The implementation of extension activities was carried out in accordance with the agreed schedule and materials and tasks to be given. The facilitator provided material online by providing explanations and providing time for discussion for participants.

This counseling activity focuses on providing an understanding of the importance of working capital management for MSMEs. Knowledge of working capital that is managed efficiently is crucial for business sustainability, especially to ensure smooth operations and achievement of predetermined goals. In this activity, each participant was given an understanding of the concept of working capital as reflected in the financial statements, especially on the balance sheet. We also explained the ratios that show the relationship between working capital and sales, which gives an idea of whether a company is running with high or low working capital. The more efficient the working capital turnover, the better the company's operational performance. This efficiency measurement can be seen from several indicators, such as cash, accounts receivable, and inventory turnover.

Initially, the MSME partners were confused because they did not understand the concept of working capital and its management well. Most of them were only familiar with the type of capital channeled by the government through banks, such as Kredit Usaha Rakyat (KUR) or small micro credit, which is different from working capital. Business capital is funds used to start a business, while working capital is part of current assets used to finance the company's daily operations. After an in-depth explanation from the PKM team,

partners began to understand the importance of working capital management in order to increase the profitability and liquidity of their business. At the next stage, the PKM team provided an explanation on how to manage working capital properly so that Vezara MSMEs do not experience cash shortages in running operations. This involved understanding some of the financial ratios needed to assess the level of cash flow turnover, which is important for the smooth running of business activities.

The availability of cash in the company must be maintained such as the cash conversion cycle to determine how much cash will turn into products and become cash again in addition to how long inventory and account receivable can turn into cash. The sales system must be maintained, for example, if necessary to increase sales, credit sales can be made, but MSMEs must consider it, especially to determine credit terms and credit standards so that MSMEs can still make a profit. This really must be understood by partners. What is clear is that sales must be profitable and cash needs must be met. Working capital that is too high will reduce profitability while working capital that is too low will reduce the company's liquidity.

The PKM team's explanation of working capital was well followed by the partners. Partners also asked several questions about working capital and also other things about venture capital that were of interest to partners. Questions and answers and discussions with partners can ultimately add to partners' insights into efficient working capital management to increase profitability and competitiveness for MSMEs.

This PKM activity went very smoothly until the end of the meeting, reflecting the effective cooperation between the PKM Untar team and MSME partners. The partners felt greatly helped by the assistance provided by the PKM team regarding working capital management. In the context of MSMEs, good working capital management is very important to maintain a balance between income and expenses, and to ensure smooth business operations. With a deeper understanding of how to manage cash, inventory, and receivables, MSME partners can optimize their liquidity, which in turn improves their ability to meet short-term obligations and reduces financial risk.

In addition, better working capital management also has an impact on increasing profitability. By utilizing working capital efficiently, MSMEs can increase production capacity and expand market reach, which in turn increases revenue. The competitiveness of MSMEs also increases as they can manage their resources more optimally and respond more quickly to market changes. The MSME partners acknowledged that the knowledge they gained from the PKM team is very relevant and applicable, and can be directly applied in their daily business practices.

In addition to the direct benefits, the partners also considered that the relationship established with the PKM Untar team was very valuable. They hope to continue collaborating to deepen their understanding of financial management and other aspects that affect the sustainability of their business. Therefore, they are eager to maintain this relationship in the long run, because they see that the assistance provided has a sustainable positive impact on the development of their business. PKM Untar team is expected to be a strategic partner in supporting the achievement of economic and business goals of MSME partners.

4. Conclusion

Based on the results of the activities carried out by the PKM team with Vezara Collection partners, it can be concluded that an in-depth understanding of efficient working capital management is crucial to improve the profitability, competitiveness, and liquidity of MSMEs. The counseling activities carried out provide very meaningful insights for MSME actors about the importance of efficient working capital management, which includes optimal management of cash, receivables, and inventory. Through this understanding, MSMEs are expected to improve their ability to manage financial resources more effectively, which in turn will improve operational performance and increase profits. These greater profits will also increase the competitiveness of MSMEs in an increasingly competitive market, while providing better financial resilience.

As a follow-up, it is strongly recommended that this extension activity not only stop at the information provision stage, but also continue with further mentoring. This mentoring is crucial to ensure that MSMEs can practically and consistently apply the working capital management concepts they have learned. With ongoing guidance, MSMEs can better understand the dynamics of efficient working capital management, as well as get

immediate solutions to the problems they face in running their businesses. This will help them to overcome difficulties in financial resource management, improve operational efficiency, and enhance their ability to survive and grow in the long term. This ongoing support, whether in the form of additional training, case discussions, or other technical assistance, will go a long way in improving MSMEs' ability to manage working capital efficiently and sustainably.

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