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ADVANCES IN GLOBAL SERVICES AND RETAIL MANAGEMENT

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The Impact of Working Capital on Cash Management Under IAS 7 Framework: An Examination of Tourism Listed Companies in Indonesia and Turkey

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Abstract

The objective of this study is to find the impact of capital on cash management in tourism industries. We employ three models for measuring cash management. Working capital structure is measured by working capital turnover ratio. In order to get more understand of our analysis, we hired control variables such firm performance, firm size and country specific. We applied panel analysis of 93 financial reports of Indonesian and 27 Turkish tourism listed companies. We apply three models of cash management which could not be find in another prior research. The output shows that each model found that our hypotheses is supported in among models. Applying three measurements of cash management also helps users to more understand the impact of working capital structure on cash management. The implication of this research is the ability of management in managing net working capital reflected in the operating cash flow performance. Research finding also can be useful for financial statement' users regarding investment decision.

Keywords: high quality cash flow, working capital management, fundamental analysis

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Introduction

Tourism is one of source of Gross Domestic Product (GDP) in a country. In Indonesia, tourism in 2017 reached \$ 14 Million equal to 13% of Indonesian GDP and in 2019 it increased \$ 6 Million and contributed 15% of GDP (Ollivand and Hoxton, 2019). Tourism in Turkey is also contributed for several aspect of its economics growth (Bal, et al, 2016). Turkish statistics noted that in 2017 tourism sector contributed 11,1% GDP and it increased 12,7% GDP in 2019. Based on the facts both Indonesian and Turkish tourism have been increased. Polat and Aydinli (2017) and Ministry of Culture and Tourism (2007) stated that Turkey has tourism plan for 2023 that begun at 2008. One of these plan is to emphasize the economic orientation of tourism. Ollivaud and Haxton (2019) stated that Indonesian government built new pillar of tourim in 2014 in order to diversify the economy. Government program indicate that tourism sector in both countries seems has positive opportunity in increasing their financial performance. Although, we understand that the increasing demand of tourism will be followed the increasing demand of operating cost. Operating cost should

be prepared by tourism firms in order to react the possibility of increasing demand of tourists. Therefore, the ability of the firm in providing liquid assets is important.

Liquid assets should be prepared by tourism industries in both countries since the need of cash to make payment to suppliers, such as transportation and travel for tourist or customer, hotels, restaurants, and other expenditures (Brigham and Houston, 2019). Furthermore, the more tourists the more adequate of cash have to be prepared. Without adequate of cash, firm will be depend on the external funding and of course in the future will have to pay for debt and interest expense. Therefore, it is important in increasing the preparation of liquid asstes in order to utilize governments program for increasing income of tourism industries. Moreover, Santos, et al. (2019) found that firms operatings in cultural tourism in nautical tourism activities make more efforts to minimize the assets that do not take part in the revenue generation process. It indicates that tourism industries need more attention in assets management for maximize tourism services to customers.

Cash is the most liquid assets of the firm. Cash management includes cash inflows and cash outflows management. Cash flow is one of fundamental of the firm because cash flow reflects the ability of the firm in offering liquid assets and the ability to manage the firm's resource such as liability and equity. It is also indicates the management performance and it will impact financial resource of the firm, so that we can conclude that cash management is the process of both how firm collect and manage cash flows of the firm (Kieso, 2018). International Accounting Standard (IAS) 7 "Statement of Cash Flow" stated that cash flow is the center of cash flow management (IASB, 2017). It reflected by the statement of cash flow in the financial report. Statement of cash flow consist of three kinds of cash flows such as, operating cash flow, financing cash flow and investing cash flow. Operating cash flow statement indicates the cash flow from operating activities. It is also implied that operating activities is based on the ability of net working capital which affected by the changes of account payable and account receivable. Thus, there is a relationship between working capital and cash flow of the firm as fundamental analysis. Working capital is related to financial position/balance sheet while cash flow is related to cash flow statement. In spite of these difference, the changes in of working capital will affect the cash flow (Kieso, 2018). The understanding of the cash flow statement lead us to understand that the changes in working capital also appears in the cash flow statement.

There are several prior research in working capital and cash management areas. Some of researchers examined the impact of working capital on financial performance or profitability such as Aygün (2012) in Turkey, Aminu and Zainudin (2012) in Nigeria, Utia and Dewi (2018) in Indonesia, Khalid (2018) in Pakistan, Iqbal and Wang (2018), Sameni and Fakour (2019) in Iran, Högerle et al. (2020) in Germany, Wang et al (2020) and Anton and Nucu (2021) in Poland. Cash management and its impact on firm performance also examined by several reseachers, e.g. Abioro (2013), Thevaruban (2013), Olouch (2016), Pandey (2019) and Rahman and Sharma (2020). Kushi et al (2020) examined the impact of profitabilty on free cash flow in Pakistan. Rasvand and Tariverdi (2015) examined working capital management on operating cash flow. Based on the understanding of the relationship of working capital and cash flow in the financial management framework and the requirement of cash flow statement based on IAS 7, the important of tourism sector in both country and the opportunity of research on these topics, we propose to conduct this research. This paper aims to examine the impact of changing in working capital on cash management in tourism listed companies in Indonesia and Turkey. The reminder of the paper is as

follow. The second part of the paper is literature review and hypotheses development. Then, it will be followed by research methodology, result and discussion and conclusion respectively.

Literature Review

IASB (2017) stated that the goal of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of the firm. The definition of cash based on IAS 7 is cash on hand and demand deposits. IASB (2017) stated that in IAS 7 the meaning of cash equivalents are investments, are cash to which:

- held for short-term cash commitments rather than for investment or other activities,
- highly liquid,
- easily to convert cash, and
- insignificant risk of changes in value.

Based on IAS 7, statement of cash flow should be consists of 3 categories, such as cashflow from operating activities, cash flow from investing activities, and cash flow from financing activities. Operating activities defined by IAS 7 is production activities held by firm regarding to prime revenue goals activities excluding for investing and financing activities (IASB, 2017). Operating activities is the basic revenue-producing activities of the firm. Generally, cash flow from operating activities deals with the direct impact of profit/loss with the exception of long-term assets disposal (IASB, 2017). Cash flow from operating activities also assumed as cash flow to which cash inflow arising from basis of firm revenue activity.

Thevaruban (2016) stated that the importance of cash management is to assure the ability of providing adequate in cash flow in the short-term of business operation. The capability in providing cash in quick way indicates that management are capable in optimizing cash as the most liquid assets. Working capital concept helps the management to optimize firm's cash flow. Planning and monitoring of cash flow can be detect by using working capital concept. Olouch (2016) stated that the more of cash management effectiveness the more leads company's operation effectiveness. Firm management needs to manage corporate funds in order to provide short-term financing for operating activities. In the financial statement, cash information of the firm can be shown in financial position/balance sheet. This information indicates the balance of cash in hand of the firm. In other side, cash balance also can be found in statement of cash flow. Statement of cashflow displays detail of cash information both cash inflow and outflow. Therefore, statement of cash is important in order to get fundamental information which is displayed in balance sheet.

Statement of cash flow informs cash inflow and outflow from operating activities, financing activities and investing activities. Operating activities inform core of producing activities in the firm. Operating activities in the most important of cash management since operating activities are daily activity which is the resource of company's revenue. For example, operating activities can be cash receipt of sale of goods or services, cash receipt and payment from contract and trading activities, cash payment to suppliers, cash receipts and payments from hedge contracts. Cash flow from operation activities also reflects firm decision and credit policy. Furthermore, Rahman and Sharma (2020) stated that cash flow statement in lined to role of the firm in enhancing firm's effectiveness for planning, earnings objective, payment and liabilities that those activities will affect stock price, dividends policy and firm value. Thus, statement of cash flow is one of fundamental

element of the firm. Working capital informs the managerial decision in order to get financial stability since the main objective of working capital is related to daily firm operation and to enhance firm liquidity (Högerle, et al., 2020). Therefore, working capital management more related to current assets and current liabilities (Aminu and Zainudin, 2012). Moreover, working capital is also the reflection of how management deals with financial solutions, optimizing cash by applying credit policy and the capability of making the most properly of inventory cycle and cash collecting cycle (Brigham and Houston, 2019). Working capital also can be mentioned as one of financial policy of the firm (Sameni and Fakour, 2019). Since the working capital frequently deals with the decision of holding cash, how to make the best deals to customer for credit policies, and also how to manage current liability to suppliers (Bates, et al., 2009). Those decisions relate to cash flow. In line to those statements, Shubita (2019) also stated that each companies should manage working capital since it deals with cash holding decision and working capital management efficiency.

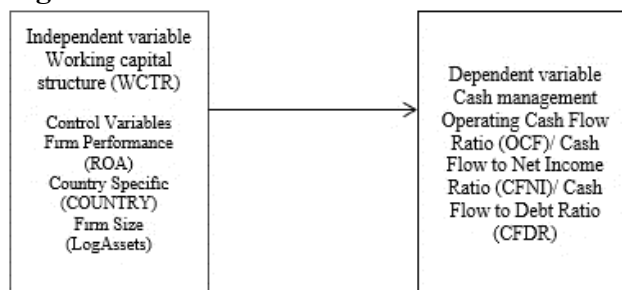
Rashvand and Tariverdi (2015) argued that working capital management is high-relates to operating cash flow. Consequently, their relationship will have impacted on the users decision of fundamental information. In their result, working capital has positive impact on operating cash flow. Sameni and Fakour (2019) also found that there was positive relationship working capital management on operatimng cash flow. Their research implied that the more effecient of working capital management the higher liquidity of firm assets.

According to the previous research and the understanding of relationship of both working capital and cash managment or cash flow, we propose the hypotheses of this research as follow.

- **H1:** There is positive impact of working capital on cash management.

The following figure is the research framework.

Figure 1. Research Framework



Methods

Sample

In this research, to examine the impact of working capital on the cash management in tourism firms both in Indonesia and Turkey. Samples in this reasearch is tourism listed companies in Indonesia and Turkey.

Data Collection

After collecting data, we analyzed all data using Eviews 10 version. The step of analysing data using Eviews explained as follow.

- According to the characteristic and the objective of the research we use panel analysis.
- Firstly, we conducted unit root test for the data set.
- Secondly, employed descriptive test which can inform the variability of the data.
- Then, we conducted test of model such fixed effect, random effect and common effect.
- The next step is analysed the output of the test in which model properly based on the result of the third step.

Data Sources

We collected Indonesian tourism listed companies in 2017-2019 of Indonesia Stock Exchange by downloading for its website www.idx.co.id. We did the same way to download Turkish tourism listed companies by surfing www.kap.org.tr. The following table reflects the Indonesian and Turkish tourism listed companies' data.

Table 1. Collected Data

No.	Explanation	Indonesia			Turkey		
		2017	2018	2019	2017	2018	2019
1	Total tourism listed companies	34	34	34	11	11	11
2	Unfound financial statement	(1)	(0)	(1)	(1)	(1)	(1)
3	Incomplete data	(2)	(3)	(2)	(1)	(1)	(1)
4	Data collected	31	31	31	9	9	9
5	Total		93			27	

Source: www.idx.co.id and www.kap.org.tr

Empirical Model

Based on the objective of the research, we employ three models that reflect the difference of cash management measurement. Three models used in this research are displayed as follow.

$$OCF = \alpha + \beta_1 WCTR + \beta_2 ROA + \beta_3 COUNTRY + \beta_4 LogAsset + \epsilon_1 \dots \dots \dots \text{(Model 1)}$$

$$CFNI = \alpha + \beta_1 WCTR + \beta_2 ROA + \beta_3 COUNTRY + \beta_4 LogAsset + \epsilon_1 \dots \dots \dots \text{(Model 2)}$$

$$CFDR = \alpha + \beta_1 WCTR + \beta_2 ROA + \beta_3 COUNTRY + \beta_4 LogAsset + \epsilon_1 \dots \dots \dots \text{(Model 3)}$$

We employ 3 models in this research since cash management based on IAS 7 is indicated by cash inflow such as cash receipt from customer and cash outflow, such as payment to suppliers. Moreover, we also considered the possibility of cash flow from operating to total debt since working capital deals with the cash payment to both short-term and long-term debt (Brigham and Houston, 2019). In order to explain the description of each model, table 2 below shows both the explanation and the measurement among variables.

Table 2. Variable Measurement

Variable	Abrev.	Formula
Cash Management/ Dependent (Model 1)	OCF	Operating Cash Flow = $\frac{\text{Cash flow from operating activities}}{\text{Current liabilities}}$
Cash Management/ Dependent (Model 2)	CFNI	Cash Flow to Net Income = $\frac{\text{Cash flow from operating activities}}{\text{Net income before tax}}$
Cash Management/ Dependent (Model 3)	CFDR	Cash Flow to Debt Ratio = $\frac{\text{Cash flow from operating activities}}{\text{Total Debt}}$
Working Capital/Independent	WCTR	Working Capital Turnover Ratio = $\frac{\text{Net Sales}}{\text{Current Assets} - \text{Current Liabilities}}$
Firm Performance/Control	ROA	Return on Asset = $\frac{\text{Income before tax}}{\text{Total Asset}}$
Country Specific/Control	COUNTRY	1 for Indonesia, 0 for Turkey
Firm size/Control	LogAset	Logarithma of total asset

Findings

The Augmented Dickey-Fuller (ADF) test is a test which is conducted in order to make sure that the data set in the research is stationary (Gujarati and Porter, 2015). To employ this test, generally using the null hypothesis. Null hypotheses indicates that autoregressive model has a unit root. Therefore, we should reject null hypotheses in order to get stationary data set (Gujarati and Porter, 2015).

Table 3. Summary of Unit Root Test Output

Variables	ADF t-statistic	Probability value
WCTR	-10.66987	0.0000
OCF	-10.08544	0.0000
CFNI	-10.89150	0.0000
CFDR	-8.719248	0.0000
ROA	-6.272222	0.0000
COUNTRY	-18.57418	0.0000
LOGASSET	-11.03321	0.0000

The probability value of ADF test shows that all the variables found less than α 0,05. It indicates that null hypotheses of unit root test is rejected. We can conclude that all the variables have a stationary.

Table 4. Summary of Model Estimation Test Output

Model Estimation Test	OCF		CFNI		CFDR	
	P-Value	Result	P-Value	Result	P-Value	Result
Chow test	0.0451	Fixed effect	0.1763	Common Effect	0.1157	Common Effect
Hausman Test	0.6658	Common Effect	0.0493	Random effect	0.0000	Fixed effect
Lagrange Multiplier	0.8222	Common Effect	0.2088	Common Effect	0.0888	Random effect
Final model estimation		Common Effect		Common Effect		Random effect

Based on the step which have to be done in the panel analysis, we have test three model estimation in order to make the most properly of the regression model to be analyzed (Gujarati and Porter, 2015). In this study we actually did Chow test, Hausman test and Breusch Pagan test. Table IV above shows each model of the research to all those tests. The conclusion of all tests is also can be shown in the table. We can understand that in Model 1 we employ common effect model for regression analysis. In the case of Model 2 we also employ common effect model. Then, for the third model we decided to use random effect model.

Table 5. Summary of Multiple Regression Output

Variables	OCF		CFNI		CFDR	
	t-Statistic	P-Value	t-Statistic	P-Value	t-Statistic	P-Value
C	4.688162	0.0000	4.298089	0.0000	2.914193	0.0045
WCTR	2.050879	0.0092	2.69087	0.0014	2.317949	0.0013
ROA	3.068964	0.0029	2.78992	0.0274	1.491187	0.1598
COUNTRY	2.724268	0.4708	2.143273	0.2658	2.313783	0.0309
LOGASSET	3.317949	0.0013	2.066113	0.0514	2.298507	0.0319
R-squared	0.187344		0.135606		0.124645	
Adjusted R-squared	0.140639		0.106470		0.095138	
F-statistic	4.011262		4.654121		4.224335	
Prob. (F-statistic)	0.002537		0.004548		0.007685	

Table 5 above shows the result of multiregression test of each model. Based Model 1 indicates the dependent variable is measured by operating cash flow ratio. We can explain the result of model 1 as follow. Model 1 indicates that working capital has positive impact on cash management. The statistic shown P-value less than α 0,05. Not only working capital, firm size and firm performance found positive impact on cash management. Adjusted R-square of the model is 14%. Probability of F-statistic shows less than α 0,05. It implies that the model and the regression results can be used to explain the hypotheses.

In the model 2, cash management is measured by cash flow from operating activities divided by net income or cash flow ratio to net income. It found that working capital has positive impact on cash management. Adjusted R-square of the model is 10,6 %. Probability of F-statistic shows less than α 0,05. It implies that the model and the regression results can be used to explain the hypotheses.

Consistent to model 1 and model 2, in the model 3, cash management which is measured by cash flow ratio to debt. It indicates positive impact of working capital on cash management. Adjusted R-square of the model is 9 %. Probability of F-statistic shows less than α 0,05. It implies that the model and the regression results can be used to explain the hypotheses.

According to statistics result, the first model is the most appropriate model to represent cash management since in the first model adjusted R-square found the highest percentration. Fortunately, in among models, statistics result indicates that all variables applying in the research consistently found similar result, even in their control variables.

Table 5 above indicates the regression output variables test. Based on the output of regression test, in among models cash management measurement shows similar result. In model 1, cash management is measured by cash flow from operating activities divided by current liabilities. This ratio indicates the capability of firm in making payment for current liabilities. Current liabilities is important aspect in the cash management since current liability related to cash conversion cycle (Brigham and Houston, 2019). Short-term account payable indicates unpaid of short-term liabilities to suppliers. Generally, firm tries to match the payment to supplier by considering the cash conversion cycle and the possibility of achieving discount from suppliers. Cash conversion cycle is one of the way in managing working capital (Brigham and Houston, 2019). Therefore, in model 1, we argue that working capital turnover have positive impact on the cash flow from operating activities to current liabilities ratio. Thus, hypothese of this research is supported. The output of the model 1 shows that in both Indonesia and Turkey, tourism listed companies has positive impact of working capital turnover on cash flow operating activities to current liabilities.

These result indicates that the higher ratio of cash flow indicates the more managed working capital of the firm.

In model 2, cash flow management is measured by cash flow from operation divided by net income. It implies indication of quality firms' earnings. Cash flow from operation activities based on IAS 7 inform all the operational activities of the firm not only cash receipt from sales or services (IASB, 2017). For instance, operating activity of the firm includes amortization expense that deals with firms' earnings eventhough factually amortization does not mean to cash outflow. The higher of credit sales also indicates the lower capability of management in converting cash cycle. Therefore, cash flow from operating divided by net income indicates the capability of management in creating net income from operating cash flow. The higher cash flow from operating to net income ratio indicates the higher capability of management in managing assets to create net income. In this model, we found that both in Indonesia and Turkey, those argument is line on their result. Hence, hypohese of this research is supported. Both of countries' tourism listed companies are found positive impact of working capital turnover ratio on cash flow from operating activities to net income ratio. In the other words, in both countries' investors could employ the information of cash flow from operating ratio to net income to foresee the firms' working capital turnover ratio. It also indicates the firms' financial health since these ratio reflects the ability of cash management in creating net income.

In model 3, cash flow management is measured by cash flow from operation divided by total debt. This ratio implies the ability of management in managing cash flow for payment related to debt both long-term and short-term debt (Brigham and Houston, 2019). The capability of paying debt indicates the financial healty of the firms. Firms which have not ability to pay their debt means there is posibility of financial distress. Working capital is related to how firm deals with payment to suppliers in short-term and long-term. The more ability of paying firm liability to supplier indicates the more manage cash of the firm. In this model is found that in both countries' toursim listed companies has positive impact of working capital turnover ratio on cash flow from operating ratio to total debt. Therefore, hypohese of this research is supported. Investors in both countries also could consider the information of working capital turnover ratio as the indication of the ability of firm in managing cash outflow for paying both short-term and long-term debt. The higher total debt which have to pay by firm in future indicates the less effective of cash management. Those cost will affect the optimizing cash flow in creating net income in the future.

In this research we also considered control variables such as firm performance, firm size and country specific. Firm peformance reflects the ability of firm in using assets to create firm' income (Brigham and Houston, 2019). Based on the output of regression, all the model found that firm performance has positive impact on cash management. The higher of firm capability in reaching firm performance motivates managers to manage their cash effectively. This findings consistent to several results of previous researches such as Thearuban (2016), Kushi, et al. (2020) and Rahman (2020). Firm size is considered as control variable because the bigger of firm size motivates manager to effectively manage their assets. We found that firm size has positive impact on cash management. This finding also in line to Pandey (2019) and Shubita (2019). They argued that difference of firm size affect manager decision of cash management. Country specific is consired as control variable since in this research consists of both Indonesia and Turkey tourism listed companies. We employ country specific as 1 for Indonesian tourism listed companies and 0 for Turkish tourism listed companies. Based on statistic result we found that among models, country

specific have no impact on cash management. It indicates that in tourism listed companies both Indonesia and Turkey has similar issues in applying cash management. This finding in line to Williams (2009). He stated that in emerging and developing countries-such as Indonesia and Turkey in this research- they will be similarity in making firm priorities cash management decision.

Conclusion

The framework to understand the impact of working capital on cash management is started by financial management framework. Financial management framework gives the framework in managing both operating, financing, and investing activities. Those activities generally mixed in the frame of working capital management, including how to optimize cash of the firms, how to make cash conversion cycle to optimize the achievement of company's income, liquidity and well-managed cash flow. In the other side, IAS 7 Statement of Cash Flow requires all the listed companies to present the information of cash flow statement including cash flow from operating activities, financing activities, and investing activities. Statement of cash flow helps the financial statement users to interpret the information stating in financial statement/ balance sheet and income statement. Based on these framework, we consider that there is useful research design regarding the relationship of working capital and cash management using IAS 7 framework. We also consider that cash flow consists of cash inflow and cash outflow based on IAS 7 so that we employ 3 models to measure cash management. Besides, we involve debt to equity ratio and current ratio as control variables. Based the analysis of this study, we pointed;

- Working capital has positive impact on cash management in each model in both countries' tourism listed companies.
- Control variable, both firm performance and firm size also logically support the explanation of the impact of working capital on cash management.
- Both Indonesia and Turkish' tourism listed companies have no difference in practicing cash management.

This research needs to be expanded to be more capable in explaining factors which affecting the decision of cash management of tourism listed companies.

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