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Capital Structure, Liquidity, Profit Growth, and Financial Performance of Culinary MSMEs Using Local Raw Materials

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Abstract

This study examines the capital structure, liquidity, profit growth, and financial performance of micro, small, and medium-sized enterprises (MSMEs) in the culinary sector based on local raw materials in Tasikmalaya City. A quantitative research approach with a descriptive-analytical method was employed, analyzing data from 33 sampled MSMEs. The findings reveal that the majority of MSMEs maintain a satisfactory capital structure, adequate liquidity, and positive profit growth. Furthermore, the financial performance of these MSMEs, particularly in terms of profitability, is commendable. The study concludes that there is a positive relationship between capital structure, liquidity, profit growth, and financial performance in these MSMEs, highlighting the importance of effective management in achieving business success.

*Keywords***:** MSMEs, culinary sector, local raw materials, capital structure, liquidity, profit growth, financial performance

1. Introduction

In the era of globalization and increasingly fierce business competition, a company's financial performance is at the core of the company's overall strategy. The welfare of company owners is not only reflected in the income and profits generated, but also in the company's ability to manage its financial resources effectively to achieve its long-term goals. Therefore, financial strategy is not just part of the company's operational plan, but is the foundation for overall strategic planning.

In this context, a company's financial performance is the main indicator in evaluating the health and sustainability of a business. Good financial performance shows that the company is able to generate stable profits, manages risks well, and has the ability to grow and develop in a dynamic market. However, achieving optimal financial performance is not easy, considering that companies have to face various challenges such as regulatory changes, market fluctuations and intensive competition. Financial strategy is a systematic approach to managing a company's assets, liabilities and capital. This strategy includes various decisions, from fund allocation to financial risk management, which aims to achieve the company's long-term goals. One of the main objectives of financial strategy is to ensure the availability of sufficient funds, at efficient costs, to support company operations and planned investment plans (Rosyadah, et al., 2022).

In carrying out a financial strategy, a company must consider various internal and external factors that can influence its financial performance. Internal factors such as capital structure, dividend policy, and investment decisions have a direct impact on a company's financial position. On the other hand, external factors such as market conditions, interest rate fluctuations, and regulatory changes must also be considered in making financial decisions. One of the key aspects of financial strategy is managing the company's capital structure. The right capital structure can help a company to optimize the use of its own and borrowed capital, thereby increasing company value and reducing the overall cost of capital. Decisions related to capital structure are also closely related to financial risk management, where companies must consider acceptable levels of debt without compromising financial stability (Anggraini, et al., 2022).

Decisions regarding financing through debt have significant implications for the company's capital structure. There are limitations that must be considered in the use of debt, such as certain ratio standards that determine the maximum permitted debt ratio. If a company's debt ratio exceeds this standard, then financial costs will increase rapidly, which in turn will affect the company's overall capital structure. Excessive use of debt can increase the risk of a company experiencing default because the interest and principal burden that must be paid becomes greater. Therefore, company management must work extra hard to diversify the risks associated with debt, with the aim of creating optimal financial performance.

Financial theories such as balance theory or trade-off theory support the idea that the use of debt is acceptable as long as the benefits obtained from the debt are greater than the interest burden that must be paid. However, it is important to remember that decisions regarding capital structure are not static and must be adjusted to market conditions and company needs.

Apart from policies related to capital structure, the company's liquidity level is also an important factor in achieving good financial performance. Liquidity is a company's ability to meet short-term obligations on time. The availability of sufficient funds allows companies to run their operations smoothly, which in turn can increase profits and company growth. On the other hand, insufficient liquidity can hinder company operations and have a negative impact on financial performance. A financial strategy that includes capital structure policies and liquidity management is the key to sustainable profit growth and optimal financial performance. It is important to understand that these principles do not only apply to large-scale companies, but are also relevant to Small, Micro and Medium Enterprises (MSMEs). MSMEs have a strategic role in the national economy and have the same need to optimize their financial performance.

Capital structure is an important aspect of company financial management. This concept involves a balance between own capital (equity) and foreign capital (debt), which basically reflects the financial resources used by a company to fund its operations. Foreign capital can consist of both long-term and short-term debt, while own capital can come from the company's retained earnings or equity participation by the owner. Capital structure can be measured using various methods, one of which is using the Debt to Equity Ratio (DER), which compares the company's total debt with its total equity. An optimal capital structure is one that can provide added value to the company, especially in terms of increasing profits and overall financial performance (Widjianingsih, et al., 2022).

Various previous studies have shown that capital structure has a significant influence on company profit growth. Some studies find a significant positive relationship between capital structure and profit growth, while others find a negative or insignificant relationship. However, it is important to remember that each company has a different context and characteristics, so the influence of capital structure on financial performance may vary.

Apart from capital structure, liquidity is also a key factor in maintaining a company's financial health. Liquidity reflects a company's ability to meet short-term financial obligations with assets that can be immediately liquidated. Liquidity ratios, such as the Cash Ratio (CR), are used to measure how liquid a company is. Liquid companies are able to pay their short-term obligations using funds originating from current assets, while illiquid companies are at risk of being unable to meet their financial obligations (Gikorashvili, 2022).

In the context of creditor risk, liquidity is a very important factor because it shows the company's ability to fulfill its financial obligations on time. Therefore, good liquidity management is key in maintaining the company's financial stability and minimizing the risk of default. By understanding the importance of capital structure and liquidity in achieving optimal financial performance, this research aims to investigate the influence of both on profit growth and financial performance of local product-based culinary MSMEs in Tasikmalaya City (Hafizuddin-Syah, et al., 2018). It is hoped that the results of this research can provide valuable insight for MSME managers and other stakeholders in developing effective financial strategies to support the growth and sustainability of their businesses.

Good liquidity shows that the company has the ability to meet short-term financial obligations using available funds or current assets. This indicates that the company has sufficient cash or current assets to support its business operations. However, excess liquidity can result in sub-optimal use of funds because many funds are idle without being used productively to generate profits. On the other hand, low liquidity can become an obstacle in funding the company's business operations, which in the end can hamper profit growth. The formula for calculating profit growth (Y) in this research is as follows:

$$Y = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100\% \tag{1}$$

Information:

- Y= Profit Growth
- Y_t= Profit after tax for the current period
- Y_{t-1}= Profit after tax for the previous period

The formula calculates the profit growth percentage by comparing the profit after tax for the current period (Y_t) with the profit after tax for the previous period (Y_{t-1}), then the result is divided by the profit after tax for the previous period (Y_{t-1}) and multiplied by 100% to get the percentage value.

Several previous studies have shown that liquidity has a significant influence on company profit growth. Some studies find a positive and significant relationship between liquidity and earnings growth, while others find that this relationship is not significant. However, it is important to remember that each company has a different context and characteristics, so the effect of liquidity on financial performance may vary.

Profit growth is an indicator that explains the company's growth prospects in the future. Profit growth is measured as the percentage increase in net profit generated by the company from the previous period. Good profit growth shows that company management has succeeded in managing resources effectively and efficiently, thereby improving the company's overall financial performance. Strong profit growth can contribute to improving overall financial performance.

To measure financial performance in this research, the Return on Assets (ROA) profitability ratio is used. ROA measures a company's ability to generate profits using the assets it owns. This ratio relates the profits obtained from company operations to the amount of investment or assets used to generate these profits. ROA can provide an overview of the efficiency of using company assets in generating profits. Therefore, ROA is an important indicator in evaluating a company's financial performance.

2. Materials and Methods

The research method used in this research is quantitative research with a descriptive analytical method approach. This approach is used to provide a systematic, factual and accurate description of capital structure, liquidity, profit growth and financial performance, as well as to analyze the influence of capital structure and liquidity on profit growth and its impact on the company's financial performance.

This research uses a survey approach, where data will be collected from a selected sample of the culinary-based MSME population in the city of Tasikmalaya. The population of culinary-based MSMEs is 545 business units. In this research, the sample size chosen was 33 MSMEs. Determination of the sample size is based on Roscoe's guidelines which state that a suitable sample size in research is between 30 to 500, taking into account aspects of energy, costs and time opportunities. The sampling technique used is purposive sampling with special consideration for MSMEs that use local raw materials and have been operating for a minimum of 5 years. This is done to ensure that the sample selected represents the relevant population and has sufficient experience in operations.

The data collected will be analyzed using the multiple regression analysis method to test hypotheses 1 and 2, as well as the linear regression analysis method to test hypothesis 3. Regression analysis is used to evaluate the relationship between independent variables (capital structure and liquidity) and dependent variables (profit growth and performance financial), as well as to identify its influence and impact statistically. By using this approach, it is hoped that research can provide a deeper understanding of the factors that influence the financial performance of culinary-based MSMEs in the city of Tasikmalaya.

3. Results and Discussion

The results of this research provide an important picture of the condition and performance of culinary MSMEs based on local raw materials in Tasikmalaya City. Analysis of capital structure, liquidity, profit growth and financial performance is the basis for understanding the extent to which these businesses are able to survive and grow in a dynamic economic environment. From the data collected, it can be concluded that culinary MSMEs in Tasikmalaya City have a relatively balanced level of capital structure, using a combination of their own capital and adequate loans to support their operations.

Liquidity is another important factor that influences the financial stability of MSMEs. By having adequate liquidity, MSMEs can fulfill their financial obligations in a timely manner, avoid liquidity problems that can hamper operations, and enable them to take advantage of investment opportunities that may arise. Profit growth is an indicator of the success of MSME businesses in generating profits from their operational activities. With a significant profit growth rate, MSMEs can show that their business model is successful and able to develop over time. This is a positive signal for the sustainability of their business in a competitive market.

In addition, financial performance, mainly measured through Return on Assets (ROA), provides an idea of how efficient MSMEs are in using their assets to generate profits. With a high ROA, MSMEs show that they are able to manage their assets well and generate significant profits for their owners. bOverall, the results of this research provide a deeper understanding of the financial dynamics of culinary MSMEs in Tasikmalaya City. Further analysis of the relationship between variables and other factors that influence financial performance can provide valuable insight for policy makers, business owners and other related parties in supporting the growth and sustainability of MSMEs in the region.

Table 1. Descriptive Statistics for Financial Variables

		Debt to Equity Ratio	Liquidity	Profit Growth	Financial Performance
N	Valid	33	33	33	33
	Missing	0	0	0	0
Mean		16.663	19.221	0.3157	0.0456
Median		17.803	16.044	0.3104	0.0404
Std. Deviation		101.852	120.097	0.11085	0.02481
Minimum		0.3821	0.7747	0.1200	0.0068
Maximum		38.792	67.825	0.5100	0.0954

The table provided offers a comprehensive overview of the financial landscape within culinary-based Micro, Small, and Medium Enterprises (MSMEs) utilizing local raw materials in Tasikmalaya. Let's delve deeper into each variable:

The Debt to Equity Ratio signifies the proportion of debt to equity within these MSMEs. With a mean value of 16.663 and a median of 17.803, it suggests that, on average, these enterprises tend to rely moderately on debt financing compared to their equity capital. This indicates a balanced approach to financial structuring, where debt is utilized to a significant extent but does not overshadow the equity component. It's noteworthy that the mean and median values are relatively close, indicating a symmetrical distribution, where most MSMEs fall within a similar range of debt-to-equity ratios. Overall, this demonstrates prudent financial management, where businesses leverage debt financing without overextending their financial obligations.

The liquidity aspect, as reflected by the Cash Ratio, portrays the ability of MSMEs to meet their short-term financial obligations using their liquid assets. With a mean of 19.221 surpassing the median of 16.044, it implies that, in general, these MSMEs maintain good liquidity levels. This suggests that the majority of businesses have adequate cash reserves or liquid assets to sustain their day-to-day operations without facing liquidity constraints. A higher mean compared to the median indicates that there might be a few MSMEs with exceptionally high liquidity, potentially resulting from conservative financial management practices. Overall, this underscores the financial stability and operational resilience of these enterprises in Tasikmalaya.

Profit growth is a crucial metric indicating the rate at which MSMEs are expanding their profitability over time. With a mean value of 0.3157 and a median of 0.3104, it suggests a moderate level of profit growth across these enterprises. The close alignment between the mean and median values indicates a relatively symmetrical distribution, with most MSMEs experiencing comparable levels of profit growth. This signifies that the majority of businesses have been successful in managing their operations efficiently, leading to consistent and satisfactory profit growth. It also implies that these enterprises are adapting well to market dynamics and capitalizing on growth opportunities within the culinary sector in Tasikmalaya.

In essence, the descriptive statistics provide valuable insights into the financial health and performance of culinary-based MSMEs in Tasikmalaya. These enterprises exhibit prudent financial management practices, maintaining a balanced debt-to-equity structure, adequate liquidity, and sustainable profit growth. Such findings are indicative of a thriving entrepreneurial ecosystem within the local culinary industry, underpinned by effective financial strategies and operational resilience.

Table 2. Output of Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.650	0.424	0.385	0.0869727

Table 3. Results of F-Statistic for ANOVA

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	0.166	2	0.083	10.980	0.000b
	Residual	0.227	30	0.008		
	Total	0.393	32			

Table 4. Results of T-Statistic for Coefficients

Model		Unstandardized		Standardized			Correlations		
		B	Std. Error	beta	t	Sig.	zero-order	partial	part
1	(Constant)	0.139	0.045		3.065	0.005			
	Struktur Modal	0.034	0.016	0.310	2.120	0.042	0.093	0.361	0.294
	Likuiditas	0.063	0.014	0.679	4.638	0.000	0.580	0.646	0.643

Based on the results of the statistical F-test, it can be concluded that the structure of capital and liquidity, simultaneously, have a significant positive effect on profit growth with an influence of 42.3%. This implies that an increasingly optimal capital structure and adequate liquidity can enhance profit growth.

Furthermore, based on the results of the t-test, the regression equation obtained is as follows:

$$Y = 0.139 + 0.034X_1 + 0.063X_2 + eY = 0.139 + 0.034X_1 + 0.063X_2 + e \quad (2)$$

The coefficient value of the capital structure regression, amounting to 0.034, indicates a significant positive direction, as evidenced by the Sig value of 0.042, which is less than the alpha value of 0.05. This means that the capital structure significantly influences profit growth by 13.03% in culinary MSMEs based on local raw materials in the city of Tasikmalaya. This suggests that an improved and optimal capital structure can enhance profit growth.

Similarly, the coefficient value of liquidity regression, which is 0.063, also indicates a significant positive direction, as evidenced by the Sig value of 0.000, which is less than the alpha value of 0.05. This implies that liquidity significantly influences profit growth by 41.73% in culinary MSMEs based on local raw materials in the city of Tasikmalaya. This suggests that adequate liquidity (neither too liquid nor illiquid) can enhance profit growth.

Table 5. Determination Coefficient Output

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.496	0.246	0.225	0.0218609

Table 6. T Statistical Test ResultsCoefficientsa

Model		Unstandardized		Standardized		
		B	Std. Error	beta	t	Sig.
1	(Constant)	0.010	0.012		0.894	0.378
	profit growth	0.112	0.036	0.498	3.192	0.004

The coefficient value of the profit growth regression, which is 0.112, indicates a significant positive direction, as evidenced by the Sig value of 0.003, which is less than the alpha value of 0.05. This means that profit growth significantly and positively affects financial performance by 24.7% in culinary MSMEs based on local raw materials in the city of Tasikmalaya. This implies that the better the profit growth, the better the financial performance.

The research results indicate that, partially, the capital structure has a positive and significant effect on profit growth. This suggests that culinary MSMEs based on local raw materials in Tasikmalaya are quite adept at determining their capital structure policy. The descriptive statistical assessment shows a sufficiently high Debt to Equity Ratio, indicating that MSMEs are prudent in choosing financing for their businesses through loans (debt) as leverage to increase profits without taking significant risks, as the average debt of MSMEs does not exceed their own capital. MSMEs understand the limitations of financing decisions through debt, as increasing debt increases the burden of interest and principal payments, posing high risks.

Additionally, the positive and significant partial effect of liquidity on profit growth indicates that culinary MSMEs based on local raw materials in Tasikmalaya are capable of managing their liquidity or current asset availability. The liquidity level of MSMEs is quite good, meaning it is neither too liquid nor illiquid. Adequate availability of current assets has been proven to assist MSMEs in their profit growth. Furthermore, profit growth, which has a positive and significant effect on financial performance measured by the profitability ratio ROA, indicates that culinary MSMEs based on local raw materials in Tasikmalaya have successfully increased their profits. Positive profit growth can enhance the financial performance of MSMEs by reflecting efficient and effective resource management, ultimately leading to improved profitability and overall financial health.

4. Conclussion

Based on the analysis of the data, the following conclusions can be drawn:

a). The capital structure of micro, small, and medium-sized enterprises (MSMEs) in the culinary sector based on local raw materials in Tasikmalaya City is generally satisfactory. This is evident from the Debt to Equity Ratio (DER), indicating that the majority of MSMEs use financing from debt in a reasonable amount without exceeding their own equity.

b). The liquidity of these MSMEs is also considered to be quite good, as most of them are able to maintain liquidity to finance their day-to-day operations.

c). The profit growth of MSMEs in the culinary sector based on local raw materials in Tasikmalaya City is also quite positive. This indicates that the majority of MSMEs have been able to manage their businesses efficiently and effectively, resulting in satisfactory profit growth.

d). In terms of financial performance, these MSMEs have also achieved good results, especially in terms of profitability measured by Return on Assets (ROA). This suggests that MSMEs are able to generate adequate profits using their assets.

e). Overall, there is a positive relationship between capital structure, liquidity, profit growth, and financial performance in MSMEs in the culinary sector based on local raw materials in Tasikmalaya City. This indicates that MSMEs that are able to manage their capital structure and liquidity well tend to achieve better profit growth, which in turn improves their overall financial performance.

Therefore, MSMEs in the culinary sector in Tasikmalaya City can be considered as successful examples in managing key aspects of their businesses, ultimately leading to positive growth and overall performance.

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