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WORKING CAPITAL MANAGEMENT, FIRM EFFICIENCY, AND PROFITABILITY OF THE SMALL AND MEDIUM ENTERPRISES REGISTERED ON THE INDONESIA STOCK EXCHANGE IN THE TIME OF COVID-19

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ABSTRACT
This study has two primary objectives. First, determine how the working capital management strategies were applied by small and medium-sized firms (SMEs) to perform managerial tasks during the COVID-19 epidemic. Second, look into how, in the epidemic of COV-19 period, working capital and company efficiency are related. Small and medium-sized businesses that were listed on the Indonesia Stock Exchange (IDX) provided the data used in this investigation. The method employed was purely descriptive in the realm of research and exploration, and analysis of multiple linear regression was conducted using the Eviews 10 program. According to our research, during the COVID-19 epidemic, 40% of SMEs employed aggressive working capital measures. Prior to the pandemic in 2019, the policy of over 85% of SMEs was aggressive working capital. The second conclusion was that, statistically speaking, working capital strategies during the COVID-19 epidemic increased profitability.
Keywords: Working capital management, firm efficiency, SME profitability

1. INTRODUCTION

The year of 2019 was about to come into its end when The Coronavirus Disease 2019 Pandemic began to be the biggest problem over the world. One of the countries affected was Indonesia. The pandemic's impacts were on economic, social and political sectors in the whole country. In the economic sector, the pandemic affected micro, small and medium enterprises (SMEs). The pandemic caused several impacts; in the aspect of the sales income decreased into 67.77%, the marketing aspect decreased into 49%, the SME capital aspect that required capital was 82.2%, the workforce aspect reduced the number of employees by 22%, and the bank instalment payment ability aspect (BPS/catalogue 3101040 in 2020). SMEs had implemented online sales strategy and it increased during the Covid-19 outbreak. The SMEs which implemented online selling were stronger than SMEs which had offline selling. The growth of SMEs with the digital ecosystem reached more than 12 million in 2021, or only 19 percent of MSMEs in Indonesia. Ministry of Economy (2022) mentioned that SMEs contributed around 61 percent on the national GDP and they contributed on 97 percent workforce in total. In addition, SMEs were often being the buffers, they were more resilient, and they had well-recovery skill whenever there was economic crisis.

The growth of SMEs is limited by some problems such as limited working capital, narrow business networks (Adawiyah et al., 2015), lack of banking access, poor managerial skill, and technology illiterate (Saleh & Ndubisi, 2006; Abor & Quartey, 2010; Pansiri & Temtime, 2008). Various problems above are, in fact, interrelated and interact each other. A more in-depth micro understanding of the internal conditions of SMEs is needed by the supervisor so that the guidance does not only focus on one side, for example managerial skills regarding working capital management and investment policies in many activations or selecting funding sources. Lynch (2004) stated that the capital budgeting and management is related to the management of current assets and liabilities which can minimize bankruptcy and maximize profitability risks. Many SMEs primarily were having low management skill especially in managing their working capital and finance (Matadeen & Aukhorjee, 2014). Bellouma (2011) said that if liquidity and profitability were balance, high working capital management level would be achieved. Companies with high level of current assets that applied working capital management policies had lower liquidity risk (Asfawu, 2019).

2. REVIEW OF LITERATURE

2.1. Foundational Theory

2.1.1. Cash Conversion Cycle Theory (CCC)

In 1980, Richards & Laughlin introduced CCC theory by dissecting the constituent parts of effective working capital management. Because CCC is all about concepts and components that are connected to one another, it becomes the key to understanding how working capital should be managed. It covers materials in their natural state, products that have been completed, and the results obtained which represent levels of inventory. In addition, Korode (2017) said that CCC also covers receivables and payments which represent cash portion Richards & Laughlin (1980) found that most of financial managers' time are spent to decide on assets and short-term liabilities. Then, Oladimeji & Aladejebi (2020) considered CCC model constituents are Inventories, receivables, and payables. Furthermore,(Belghitar & Khan (2013) mentioned that CCC theory has the relevancy to be applied during the financial crisis period. Campello et al. (2011) found that CCC is applicable to the companies with significant growth opportunities and companies in emerging markets like SMEs which having loan problems. Next, Anagnostopoulou (2012) stated that public and private companies should apply CCC theory.

Working capital can be measured comprehensively using CCC because it shows the period of when spending on purchasing raw materials and collecting sales on finished goods (Padachi, 2006). Korode (2017) mentioned that CCC is the total of inventory days and accounts receivable days, then it was subtracted by accounts payable days. In addition, Arnold (2008) mentioned that the shorter the CCC is, the smaller the necessary resource is. Conversely, the longer the CCC is, the higher the required investment for the working capital.

2.1.2 Working Capital Management (WCM)

A company financial management has WCM as its crucial component. Kolapo, Oke, & Ajayi (2015) stated that WCM is the result of its strong relationship with the objectives of a company's liquidity, profitability, and solvency. Nwankwo & Osho (2010) argued that WCM is considered efficient if it has continual operation and some decisions which determine company investment level in each type of current asset, short and long-term loan that finance its assets. Simon et al. (2018) mentioned that corporate entity success depends on its ability to solve liquidity and profitability conflicts. Tran et al. (2017) stated that companies can shorten its operating and cash cycle by managing working capital efficiently then ultimately company profitability will be increased. Tran et al. (2017) argued that the shorter the company's operations and cash cycle, the greater the company's ability to make profits. Hirnissa & Zariyawati (2017) it has been noted that companies can achieve high profitability by effectively and efficiently managing their working capital..

Working capital is a necessary component funds utilized by the company to smoothly conduct its day-to-day operations. Working capital is an significant indicator of the company's financial well-being. Capital management work involves making strategic decisions to achieve a balanced risk-return ratio. The company's long-term financial decisions are approached with a more empirical perspective, in contrast to the short-term decision making involved in managing working capital. The effective administration of the working capital is intricately linked to the administration of a company's present assets and obligations. A significant portion of corporate finance literature centers around long-term budgeting choices, including company capital structure, dividend policy, investment options, and value. The company's existing assets consist of term assets, in short. These assets have a limited lifespan, typically lasting only one financial/accounting year. Given the importance of current assets and current liabilities in the overall composition of total assets, it is crucial to conduct a thorough and comprehensive examination of these components (Vijayakumar in Nugraha et al. 2022).

Small and medium-sized enterprises (SMEs) rely more heavily than large corporations do on effective working capital management due to their restricted financial resources (Tauringana & Adjapong Afrifa, 2013). Furthermore, in addition to Gorondutse et al. (2017), the relevance of efficient working capital management is emphasized for small and medium-sized enterprises compared to larger companies. Capacity for efficient administration of working capital leads to increased productivity as it enables companies to repurpose idle company resources for uses that have great value. Kasoji (2017) mentioned that managing working capital takes a big role in maximizing the company efficiency in the operation and maximizing the profit. The effective management of working capital assists companies’ maintenance in liquidity which means there is enough cash flow to purchase obligations in short period and to obtain capital in low cost (Barine, 2012). Then, if the WCM is neglected, the corporate would be failed (Javid & Dalian, 2014; Sadiq, 2017). Lastly, managing working capital efficiently is being the main aspect for sustaining life, growth, and profitability.

2.1.3 Firm Efficiency

Firm efficiency is the productive dimension and key element of overall performance of the firm. In other word, it is the ability in converting inputs into outputs which are translated into financial benefits (Eling & Jia, 2019). Theoretically, Subrahmanyam & Titman (2001); Vuolteenaho (2002) stated that there is an agreement that the firms which have efficient operation are the ones that using their own resources, determining their own future cash flows, and increases prices of stock. In spite of that, there are two contrast point of view on how efficient firms has the effect on stock returns. First point of view said that firms that use inefficient resources have riskier cash flows in the future, but they attract the investors. Demsetz (1973); Peltzman (1977) mentioned that these firms are having higher returns, obtaining higher profits, and having stronger position in the market because of the lower production costs compared to the inefficient ones. As a result, the firms can be less vulnerable to face demand shocks and industry competition; resulting in lower returns for investors (Nguyen & Swanson, 2009).

The second point of view argued that firms that more efficient in using their resources have more certain cash flows in the future and have lower corporate risk significantly (Frijns et al., 2012). Stochastic Frontier Analysis (SFA) was used by Nguyen & Swanson (2009) to analyse firm efficiency score. It found that efficient firms had much lower returns than inefficient companies. The findings documented in 1980 to 2003, there was significant negative relation of firm efficiency and returns of stock in the US. Whereas, Frijns et al. (2012) used Data Envelopment Analysis (DEA) to analyse efficiency score of the firms. The result showed that in 1988 to 2007, US firms which were more efficient surpassed the US firms which were more inefficient. This shows that firms that use resources more efficiently have higher future cash flows. more promising future and lower potential risk of corporate default.

Panda et al. (2021) had two purposes in his study. First, a look at how SMBs manage their working capital and how it affects their bottom line. Next, examine the impact of macroeconomic factors on company profitability in Indian SMEs from 2010 to 2017. This will be done by efficiently managing working capital and utilizing the Feasible Generalized Least Squares Regression model (FGLS). Its conclusion showed negative relation among working capital managerial, receivables, and profitableness. Another finding was positive relation among inventory, accounts payable, and profitability. Asfawu (2019) did the analysis using stratified sampling technique, Pearson Correlation analysis, and multiple linear regression techniques on the working capital management effect toward SMEs' capacity to earn a profit in Guji Zone area. Then, simple proportional formula Taro Yamane was used to determine the sample size from 224 respondents as the total population. The results indicate that the Account Payable Period (APP), Inventory Holding Period (IHP), Approaches to Working Capital (AWC), and Account Receivable Period (ARP) have a significant influence over the management of working capital for SMEs. However, it is worth noting that these factors are negatively associated with the profitability of SMEs in East Guji Zone.

Gorondutse et al. (2017) examined working capital management influence on SMEs profitability in Malaysia using panel data regression analysis in 2006-2012. It found positive relation on net operating profit (NOP) and the CCC. Advance working capital management skill will increase NOP which is proven by the use of short-term assets and liabilities in more effective way. Afrifa & Padachi (2016) investigated whether or not the working capital level measured using CCC and SME profitability measured using panel data regression analysis on 160 SMEs as the samples in 2005-2010 were having relation. The results indicated the working capital level and profitability were positively related. Optimal working capital increases SMEs profitability. The practical implications that companies must try and achieve optimal working capital, so that profitability will be optimal as well.

Firm efficiency role toward profitability differs from one industry to another. Neukirchen et al. (2022) found that during Covid-19 pandemic, company efficiency explained stock returns significantly. In actual of fact, companies which have higher efficiency surpass the ones with lower efficiency. This suggests that companies that more efficient in using their resources have more promising cash flows in the future and a lower potential risk of non-payment.

2.2 The development of a Research Framework and The creation of Hypotheses

2.2.1 Working capital management for Micro, Small, and Medium Enterprises (MSMEs)

Management of working capital is the process by which micro, small, and medium-sized businesses (MSMEs) keep an eye on and exert control over their current assets and liabilities. This is especially important for MSMEs (micro, small, and medium-sized businesses) to successfully control their available working capital since, on average, they have less financial resources and are therefore more mindful about financial flow difficulties.

According to a study by Olfimarta & Wibowo (2019), the findings suggest that there is a strong correlation between working capital turnover and company performance, specifically the gross profit margin. These findings indicate that utilizing productivity rises with an increase in working capital, which in turn drives higher sales or income for the company. When sales go up, it's a positive thing for the company. It means that the company's profitability increases, which in turn has a good impact on the company's overall performance.

Typically, every business organization requires an ample amount of working capital to operate effectively. The importance of working capital cannot be overstated for a company to sustain its operations and achieve profitability. By optimizing the efficiency and effectiveness of working capital, the company can enhance its financial performance. This phenomenon occurs due to the direct correlation between the speed of working capital turnover and the conversion of working capital into cash. Having enhanced levels of working capital empowers companies to boost their sales and secure more substantial discounts on upfront payments, ultimately enhancing the overall value of the company. Efficient management of working capital is crucial for enhancing company performance (Li et al., 2014).

In their journal titled "Effectiveness of MSME Financial Management in Palangka Raya City as a Strategy in the New Normal COVID-19 Period," Ompusunggu & Nanda (2023) reached the conclusion that financial management plays a crucial role in achieving business success. In Palangkaraya, there are several crucial financial management roles that require careful attention. These include efficiently managing and allocating funds, ensuring the financial health of the organization, devising long-term financial strategies, making prudent investment decisions, and adhering to relevant financial rules and regulations. Nevertheless, there are challenges that hinder the adoption of financial management practices by MSMEs. These challenges encompass a dearth of comprehension and awareness regarding financial management, constrained human resources, distinctive hurdles in the business environment, and limited access to financial resources. Thus, it is crucial to enhance the understanding of the significance of the administration of finances, nurture the development of highly trained individuals, and improve the availability of financial resources for the successful implementation of effective financial management practices.

h1: The success of MSMEs is greatly influenced by working capital.

2.2.2 An exploration into the relationship between working capital and firmly effective for MSMEs while the COVID-19 pandemic

Having sufficient working capital is essential for a company to effectively handle its daily operations, including procuring primary resources, compensating employees, and covering various operational expenses. Efficiency is crucial for a company to thrive, as it directly impacts its profitability. By effectively utilizing its existing resources, a company can maximize its financial gains. During these unprecedented times of the COVID-19 pandemic, companies are grappling with a multitude of challenges, including dwindling demand, escalating costs, and a climate of market uncertainty. Therefore, management of working capital should be a primary concern. if the firm is to continue operating profitably. It is essential to handle working capital in an efficient manner for every company if they are to survive and flourish during the difficult times of the COVID-19 epidemic.

In a recent journal article titled "Efficiency and Working Capital Policy During the COVID-19 Pandemic," (Ruhadi, 2021) found that a significant number of industrial companies (67%) adjusted their working capital policies from aggressive to conservative in order to uphold efficiency amidst the COVID-19 pandemic. It is evident that this has a favorable impact on the overall asset turnover, which refers to the company's effectiveness in utilizing assets to generate sales. The decline in current asset turnover during the pandemic has resulted in a decline in the company's effectiveness in utilizing assets to create sales.

In their study, Wahidhani & Fitrianti (2022) have uncovered important insights into the effects of working capital and productivity on profitability amidst the COVID-19 pandemic. Specifically, they conducted a case study on MSMEs in Bogor City and found that the profitability of MSME actors is heavily impacted by both working capital and productivity, either individually or in combination. The level of profitability obtained by MSME players is directly proportional to the amount of working capital used and the level of productivity carried out. According to a study conducted by Hariadi et al. (2022), it was found that enhancing company efficiency through innovation can lead to increased sales and improved performance for MSMEs.

h2: There is a direct and mutually reinforcing connection between working capital and company efficiency that has an effect on output of MSMEs during the COVID-19 epidemic.

3. METHODS

This study used financial statement of the SMEs that were registered on the Indonesian stock exchange from the year of 2019 to 2021 as secondary data. It was taken from the IDX website http://idx.co.id and the type was panel data.

3.1 Model of the Research

During the 2019–2021 COVID-19 time frame, this study investigated the effect of working capital management and company efficiency on profitability. Profitability (Y) is the dependent variable on which the preceding hypotheses are tested, while working capital management (X) and company efficiency (Y) are the latent variables that describe the relationship between the two. From 2019 to 2021, the peak years of the COVID-19 epidemic, this study examined how working capital management and corporate efficiency affected profitability. Profitability (Y) is the dependent variable on which the preceding hypotheses are tested, while working capital management (X) and company efficiency (Y) are the latent variables that describe the relationship between the two.

We shall delve into the profound influence that capital the budgeting and management has on the financial success of small and medium-sized enterprises (SMEs) in the enchanting land of Indonesia. This study will utilize the following research model:

$ROA = f(CCC+EF+DR+CR+QR)$….(1)
Equation (1) is translated into:
$ROA = \alpha+\beta 1CCC+\beta 2EF + \alpha 1DR + \alpha 2CR+\alpha 3QR + \varepsilon$…..(2)

Return on Assets (ROA) can be considered as a dependent variable., measures SME profitability resulting from efficient working capital management. Next, we have the CCC and EF as the independent variables. Additionally, we have control variables such as DR, CR, and QR. Here is a breakdown of the measurements within Table 1:

Table 1. Measurement of Variables and Formulation of Research Hypotheses

Variable.type	Abbrevi.ation.	Measur.ement.	Impact.
Profitability	Dependent	ROA	ROA = Net income/total assets

CCC	Independent	CCC = DOI+DSO-DPO	(Average ages of stocks ×365/Cost of goods) + (Mean accounts receivable ×365/turnover) - (Mean payment ×365/ cost of good) +/-
Firm efficiency	Independent	BOPO	(operating expenses/ operating income) \ +/-
Debt Ratio	Control DR		debt /Assets in total x 100
Current-Ratio	Control CR		current assets/current liabilities in total
Quick-Ratio	Control QR		(CurrentAssets–Inventory)/Current liabilities

4. RESULT AND DISCUSSION

4.1 Statistical Analysis and Description

Descriptional analysis results are presented in Table 2. This table provides an overview of the management of working cash and the effectiveness of businesses during the pandemic caused by COVID-19 from 2019 to 2021:

Table 2. Statistical Description

Value Description	CCC	BOPO	ROA
Mean	8.113094	56.17778	-2.249086
Median	16.29220	72.73000	0.749805
Maximum	96.52982	102.0162	39.74104
Minimum	-93.05359	-10.92596	-50.30166
Above Average (%)	60	57	42
Below Average (%)	40	41	58

Source: Processed from Secondary Data from 2019 to 2021

The information presented in Table 2 provides an overview of small and medium-sized enterprises (SMEs) during the epidemic of COV-19. The table outlines various conditions that are relevant to this topic. The achieved profitability was -2.2 percent on average. The highest achieved profitability was 39.74 percent, while the lowest recorded profitability was -50.30 percent. In terms of profitability, 42 percent of SMEs performed above average, while the remaining 58 percent fell into the below average category;

Based on the working capital management policy used during the epidemic of COVID-19, it can be explained that most SMEs are implementing a more cautious approach to managing working capital of 60 percent, whereas in normal times most of them are implementing an aggressive working capital policy of 84 percent. While company efficiency during the Covid-19 pandemic averaged 56.17 percent, the highest company efficiency reached 102 percent and the lowest was minus 10.92 percent.

4.2 Results of the Research Model Test

Table 3. Multicollinearity Test Results

variable	Working Capital Management	Company Efficiency
Working Capital Management	1,000000	-0,119599
Company Efficiency	-0,119599	1,000000

Source: Processed Secondary Data in 2019 to 2021

The coefficient value for the variables was found to be less than 0.90 as shown in Table 3. This was in accordance with the criteria for the test, which stated that there should not be a correlation coefficient between variables that had a value higher than 0.90. As a direct consequence of this, there was no issue with the data containing multicollinearity.

Results of Hypothesis Test

Table 4 below presented the independent variables (working capital management and company efficiency) and dependent variable (profitability) relation:

Table 4. Results of Hypothesis Test

Variable	Coefficient	Std.Error	t-Statistic	Prob.
Working Capital Management	0,056510	0,025844	2,186634	0,0308
Company Efficiency	0,089463	0,026586	3,365025	0,0010

Source: Processed Secondary Data in 2019 to 2021

According to the findings of the hypothesis test presented earlier, the variables of working capital management and company efficiency had a positive and significant impact on a business's ability to generate profits. The results of the study are presented in Table 4, which shows that the probability value was 0.03 0.05, and the coefficient value was 0.056. In this instance, effective management of working capital did have a favorable effect on profitability.

The hypothesis test results of the company efficiency in the Covid-19 period found a positive significant effect with 0.00 <0.05 probability value and 0.089 coefficient value so that, in the Covid-19 period, company's efficiency affected positively on profitability.

Coefficient of Determination Test

Table 5. Result of the Determination Coefficient Analysis

R-squared	0.818191	Mean dependent var	-0.881094
Adjusted R.squared	0.711530	S.D dependent var	8.010830
S.E of regression	8.185310	Sum squared resid	7718.195
F-statistic	7.670933	Durbin Watson stat	2.776771
Prob(F-statistic)	0.000000		

Original source: Processed Secondary Data in 2019 to 2021

The Coefficient of Determination Test (R2) is a numerical representation that indicates the effectiveness of an independent variable in its corresponding function. According to the findings presented in Table 5, corrected R-squared value was 0.7115. The profitability of 71.1% can be attributed to factors such as working capital management, company efficiency, loan ratios, current ratios, and quick ratios. Additionally, it is worth noting that the remaining 28.9% can be attributed to other variables that were not included in the research model.

Discussion

This study explores the methods via which small and medium enterprises (SMEs) navigate management strategies, specifically focusing on working capital policies, when in the throes of the COVID-19 epidemic. During the COVID-19 epidemic, we not only analyzed the connection between working capital and business efficiency, but also the cyclical nature of this relationship. Statistical evidence suggests, it is evident that during the epidemic of COV-19, the majority of SMEs adopted a cautious approach to their working capital, with a policy of 60 percent. In contrast, under normal circumstances, most SMEs pursued a more assertive working capital policy of 84 percent. As per a prior study conducted by Ruhadi (2021), it was also noted that amidst the epidemic of COV-19, a majority of companies opted for conservative working capital policies. Throughout this study, the average company efficiency during the epidemic of COV-19 stood at 56.17 percent. Notably, the highest recorded company efficiency reached an impressive 102 percent, while the lowest dipped to a concerning minus 10.92 percent.

The epidemic of COV-19 has had a profound effect on the global economy, including Indonesia. Many companies are facing the challenge of balancing their financials amidst changing market conditions, prompting them to reevaluate their strategies for managing working capital. One of the modifications that have been implemented is the transition from a more assertive to a more cautious approach in managing working capital. There are several factors that led companies to shift their working capital management policies from aggressive to conservative during the epidemic of COV-19. These include a decline in demand, rising costs, and the overall uncertainty in the market (Birajdar, 2023).

The results of the hypothesis test show that there is a positive and significant impact on profitability from working capital management and company efficiency. The findings align with the research conducted by Eha Hasni Wahidhani and Dewi Fitrianti in 2022. The administration of a company's working capital and the efficiency of a company are closely connected and play a crucial role in determining the company's profitability. Effective management of working capital is crucial for ensuring that the company has enough funds to support its day-to-day operations. Additionally, improving company efficiency can lead to cost reductions and enhanced productivity.

Implications for Further Research

The point of this research is to examine the use of working capital strategies during the pandemic and to assess the connection between working capital and business effectiveness in the post-COVID-19 period. This research focuses on MSMEs that are included in the IDX of the Indonesia Stock Market. This study exclusively examines businesses of a medium size and below that are stocks traded on the Indonesia Stock Exchange during the 2009 COVID-19 epidemic. There is a need for more study into how it relates to managing working capital and firm efficiency and profitability in business in a variety of industries and market settings. In addition, this research solely focuses on elucidating the correlation between working capital management, company efficiency, and company profitability. More study is needed into the many variables that impact a business's ability to efficiently handle its liquid assets. The scope of the business, the field in which it operates, and the current state of the market are all examples of such variables.

Implications in Practice

This study emphasizes, from a practical viewpoint, the role of working capital management in a Business and efficiency improvements in boosting business profitability. Businesses need to minimize costs and maximize revenue by optimizing their use of working capital and increasing overall efficiency. Companies also need to adjust their working capital management and overall productivity to reflect current market trends. In today's ever-changing market landscape, it is vital for firms to modify their approach to managing working capital and boost corporate efficiency in order to prevent potential losses. This is particularly significant in light of uncertain conditions like the ongoing pandemic of COVID-19. Technology has allowed businesses to improve their management of working capital and company efficiency. Technology plays a crucial role in assisting companies in monitoring cash flow, effectively managing inventory, and enhancing overall productivity**.**

6. CONCLUSION

Managing working capital in the context of the Covid-19 epidemic, 2019 to 2020 period, which applied by SMEs was conservative working capital policies (60 percent). While during the period before the Covid-19 pandemic, only 16 percent of SMEs applied conservative policies. This is a reflection that during the Covid-19 pandemic, generally SMEs business actors were more careful in dealing with economic conditions, which were marked by low household consumption or a very significant decrease of people's purchasing power. This also informed that SMEs were more oriented towards the funding aspect by reducing the company's cost of funds, which was found in this study to have lower working capital than the optimal level.

This research agreed to the prior research by Bano Caballero et al. (2010, 2014) which mentioned that in the condition of below optimal working capital level, SMEs have to do more working capital investment, so that the turnover will be increased. Then, company should increase customers' credit sales, add more inventory to sustain product prices, and maintain production lines to open business opportunity. Having more working capital investment is like cutting the amount of suppliers' fee, collecting more discounts. It also helps companies to cut input expense and also beneficial in maintaining good relation with the suppliers.

Furthermore, another variable that is Firm efficiency explains profitability during the COVID-19 pandemic in very significant way. The fact is the companies which have high efficiency outperform the less efficient ones with the percentage of 56.17 percent. This shows that promising future cash flows will be on the SMEs that use their resources more efficiently during the COVID-19 pandemic. These companies are also will have lower non-payment risk potential.

This research findings are becoming particular interest to SMEs. First, they should focus on managing and maintaining the working capital on its optimal level. Working capital management is crucial aspect in the SMEs' growth and long-term maintenance. If the company lacks on working capital, it is likely that the company will lose revenue and profits. In addition, working capital management is also the key for better company performance. Then, good working capital management is good for increasing liquidity and good for the finance of the company. Furthermore, good working capital management will increase investors' confidence because credit organizations will assess the company's balance to be one of investment decision aspects in their chosen SMEs.

Nevertheless, working capital management effect on profitability depends on each company characteristic as explained in the analysis such the capital market approaching ability and the financial crisis of the company. Consequently, company managers must define the company's financial situation in order to control working capital efficiently.

The government in Indonesia as a regulator who has an interest in the sustainability of SME businesses and functions as a provider of employment to the community, in which the results will benefit companies, investors, economists, and the government are also able to understand the determinants of efficiency. The government has the power to support SMEs in making the right decisions about the company efficiency level betterment. It will increase investment which, in turn, generally improves the economy of the country.

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