

CHAPTER V

CONCLUSION

5.1 Research Conclusion

This research focus on the effect of working capital management toward profitability of manufacturing companies sector foods and consumption goods listed on Indonesia Stock Exchange (IDX). The period of investigation is 2011 to 2015 by using the sample of 13 companies. The research stated that the conclusions are as follows:

1. There is positive effect of accounts receivable days toward profitability.

This result is explained depending on the Indonesian environment and industry, the longer the accounts receivable days means that companies try to enhance its sales by increasing the credit sales and this is the new trend in Indonesia, the customers have many installments offers with zero interest and the higher profit companies will increase accounts receivable because they own the sufficient cash and they can increase the current assets from credit sales that leads to increasing on profitability.

2. There is positive effect of inventory days toward profitability. Stocking the right amount is really important. If you order too little, your customers will start looking elsewhere when you are out-of-stock of popular items. But if you order too much, there is a chance you will be stuck with lots of extra stock that you will be forced to sell at clearance prices or risk having them become obsolete. And this results are also depending on the industry

that we are investigated because the stock for sector foods and consumption goods is really important, and it will lead to more sales.

3. There is positive effect of accounts payable days toward profitability. These results show a positive effect because the longer the company pays its debts, the company can allocate the debts to fund the business operation and it will lead to increasing on profitability. And the company holds onto cash longer, increasing its investment potential.
4. There is positive effect of cash conversion cycle toward profitability. It means that the longer the cash conversion cycle will reduce the costs for business operation and taxes, because the shorter the cash conversion cycle will lead to increasing in operating costs and taxes for products.
5. There is negative effect of net trade cycle toward profitability. These results imply that a firm with a relatively short net trade cycle is more profitable. The negative relationship between profits on sales and NTC could be explained by market power or market share, i.e. a shorter NTC because of bargaining power with suppliers and/or customers as well as higher profitability due to market dominance. It implies that a firm with a relatively short net trade cycle is more profitable and has a higher risk-adjusted stock return per unit of total risk.

5.2 Research Limitation

The period of investigation is short-term, which is 5 years and a few samples from specific sector, that is because the previous year of financial statements is incomplete and inconsistent and also we want to investigate a narrow and specific industry to find the objective results.

5.3 Suggestion

1. This research only uses one measure to measure the profitability and degree of aggressiveness of working capital policy. However there are lots of measures of profitability (ROE, ROI, etc.) and degree of aggressiveness of the working capital policy (current ratio).

More research can be carried out by considering different measures of profitability and degree of aggressiveness of working capital policy in order to explore the effect of working capital policy toward profitability of the firm. Results can differ from this study by the use of different measures of profitability and degree of aggressiveness of working capital policy.

2. In order to find out the effect of working capital management toward profitability most of the empirical studies focused on the accounting measures of profitability. Research can be repeated by considering the performance measures of profitability e.g. economic value added, market value added, etc.

3. Use the longer time period of observation, the longer time period more good opportunity to obtain reliable information about the variables to make accurate forecasting.

5.4 Implication

This research will be useful for certain parties which are used for their intended purpose as follows:

1. For company, especially financial managers when planning and control of working capital in order to effectively and efficiently, as well as pay more attentions to variables that determine the profitability of the company, so it can be considered and evaluated again.

2. For academics, authors hope the results of this study can be useful to learn more about the effect on profitability and working capital may be a reference as well as a comparison for future studies.

