ABSTRACT

THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY IN SMALL MANUFACTURING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE

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The object of the research presented in this paper is to provide empirical evidence on the effects of working capital management on profitability in small manufacturing companies listed in Indonesia Stock Exchange. Panel regressions (fixed effects) and instrumental variables were used to model a sample of 53 small manufacturing companies listed in Indonesia Stock Exchange, covering the time period 2012 – 2015. The empirical result showed the number of days account receivable and the number of days inventories had a negative effect to the profitability (ROA), while the rest variables have no significant level. The number of days accounts receivable, the number of days inventories, current asset ratio, current liabilities ratio, the sales growth of the company, and the leverage had effect to the profitability (ROA) simultaneously with or without control variables. Moreover, managers can improve the firms’ profitability by shortening receivable conversion period and inventory conversion period.

Keywords: Profitability, Working Capital Management, Small Companies.