

# The Effect of Working Capital Turnover and Profitability of Inventory Turnover Manufacturing Companies Listed in Indonesia Stock Exchange

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**Abstract.** This research is to explain the relationship working capital turnover and inventory turnover on the level of profitability of manufacturing as well as how big the effect of working capital turnover and inventory turnover on the profitability of company. The effect the relationship between working capital turnover and inventory turnover on profitability (ROA) companies. Sample collection technique using purposive sampling method. Analysis of data using multiple linear regression. This study with multiple tested with multiple regression analysis, t-test, and test the coefficient of determination. Data used in this research is secondary data bay using the financial statement in the Indonesia Stock Exchange on 30 sample of company manufacturing period 2012-2014. The result of this study and discussion, it can be concluded that the working capital turnover indicator negative influence on profitability while inventory turnover indicator positive effect on profitability of the company manufacturing 2012-2014 period.

Keywords: working capital turnover, inventory, turnover on profitability, profitability

## Introduction

Working capital management is an important factor that has a direct positive effect on profitability as well as the liquidity of the company. Liquidity and profitability are both two different sides of the same coin. The optimal level of liquidity guarantee companies to meet their short-term debt and the proper management of the flow can be promised by a profitable business. Liquidity indicates the company's ability to respond to short-term liabilities. A company must optimize liquidity and profitability when doing their daily business activities. Working capital management contain a balance proportion of working capital components namely debtors, inventories debt and effective use of cash for everyday business operations. Proper optimization of working capital

balance means minimizing the company needed working capital to realize the revenue (Ganesa, 2007) There is a strong linear relationship between the company's profitability and working capital efficiency of the company's ability to benefit can be called enterprise. Profit is determined by the cost of revenues incurred in generating a high income.

Total income can be a good measure of the performance of the company, so that we can use as a measure of financial profitability of the company Working capital management is right to make sure that the company improve profitability. Effective working capital management is very important because a significant effect on the profitability of the company to minimize the investment in current assets. Working capital is funds that are required by the company to meet the operational needs of the company, includes a

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requirement for purchase of raw materials, payment of salaries, debt payments, and other payments (Sutrisno, 2009)

In Indonesia alone, the effect of working capital on profitability has been investigated several times. The study was conducted by Siswanto (2001) states that the working capital significantly influence the profitability of the company. The results of the study (Siswanto, 2001) reinforced by Kutisari (2013) and Yuliati (2013). Kutisari (2013) states that the working capital negatively affect profitability.

## Literature Review

### *Agency Theory*

Internal equity in accordance with the cost of funding, and would prefer to raise equity financing as a last resort. Internal funds are used first pecking order theory by Myers and Majluf (1984) argue that equities are less preferred means to increase the company's capital. When the manager issuing new equity, the investor will think that managers assess the company are too high and the manager took advantage of over-valuation. As a result, investors will give a lower value to the issuance of new shares. He stated that the company prioritize financing sources (financing and when the funds are depleted and then issuing debt, and when the debt cannot be published again the company will issue equity.

### *Working Capital*

Working capital is the amount of funds that are always available in the company that was used to finance the company's activities. The company's activities can be started if it had provided the funds that have been issued and can be readmitted within one year.

According to RJ (2001), working capital is the capital used to finance or refinance daily business or plans to come, where money or funds released was expected to be back in a short time through the sale of goods or production, then money or the funds will be constantly spinning in each period during the life of the company.

### *Protability*

According Munawir (2007) mentions that the profitability is demonstrating the company's ability to generate profits for a certain period. Profitability of a company is measured by the success of the company and the ability to use assets productively, thus the profitability of a company can be determined by comparing the profits obtained in a period by the number of assets or the amount of capital the company.

### *Turnover Working Capital*

Turnover of working capital, or working capital turnover ratio is one to measure or assess the effectiveness of the company's working capital during a certain period. That is how much working capital swirling for a period or a period (Kashmir, 2011). Husnan (2002) argued that the indication of a good working capital management is the efficiency of working capital as seen from the working capital turnover. The shorter the period of turnover, the faster turnover so that higher working capital turnover and the company more efficient and ultimately more and better profitability. Turnover of working capital that better reflects their financial organizer mechanism transparent and accountable management in the enterprise.

### *Hypothesis*

The amount of current assets gives the sense that the company has good liquidity, so that the working capital to sustain the operations of the company (Weston, 1999). Munawir (2004) states that the working capital turnover ratio shows the relationship between working capital to sales.

Factors affecting the working capital of the high and low profitability. Every company in need of capital for capital operations affect the company to achieve its objectives, so that high profitability strongly support the company's operations to the maximum

H1: Working capital turnover positive effect on profitability

According Munawir (2004) inventory is one part of the working capital. Inventory is a current asset that has a large enough quantity for the company. Inventory turnover period is the time it takes the company to hold inventory in the warehouse. The slower the company hold its inventory, it will lower the cash generated from the sale of the inventory,

where it will have an impact on the reduction of funds for working capital, and lowering operating company. Furthermore, this will have an impact on the decline in sales volume that would reduce corporate profits. That's why it can be concluded that the smaller the number of inventory turnover, the higher profitability generated by the company. The second hypothesis to be tested by the researchers are:

H2: Inventory turnover positive effect on profitability Based on the development of hypotheses that have been described, the authors

## Results and Discussion

### Characteristics of samples

The study population used in this study is company (manufactur) listed on the Indonesia Stock Exchange (BEI) period 2012-2014. Companies that became the study sample was 30 companies per year, then total the study sample of 30 companies for a year, during the time span from 2012 to 2014 was a total sample of 90 Research with panel data regression was used to notice the influence of the independent variables on the dependent variable. The regression model as follows:

$$ROA = \alpha + \beta_1 PMK + \beta_2 PP + e$$

Table 1 Results and Resume of Hypothesis Test

Hypothesis	Variable	Sig
H1: Turnover of working capital positive effect on the profitability	PMK → ROA	0.8118
H2: Inventory turns positive effect on the profitability	PP → ROA	0.6868

\*\* Significant at  $\alpha=5\%$

### Inventory Turnover Positive Impact on Profitability

From the results of Table 1 in mind that the value of the P-value of 0.8118 PMK > 0.05, so that the turnover of working capital does not affect the profitability, working capital turnover ratio to measure and assess how effectively the company uses working capital owned to obtain profitability for the company. But the sample companies do not effectively utilize working capital to influence the level of profitability that is owned by the company.

These results are not in line with the results of research conducted by Riyanto (1995) and Munawir (2002), which shows working capital turnover has an influence on profitability (ROA) in theory.

### Inventory Turnover positive effect on profitability

From the results of Table 1 in mind that the value of PP 0.6868 P-value > 0.05, so that the inventory turnover has no influence on profitability, as measured by (ROA). Inventory turnover is the activities undertaken by the company in terms of calculating how the company's efficiency in using capital stock in terms of achieving huge profits for the company.

Results from the study showed that the rate of inventory turnover has no influence on the value of turnover of assets within the company according to this theory shows that firms in the manufacturing sector utilizing the inventory effectively to generate turnover of assets within the company, and therefore the rotation of assets that are not supported cause the level of profitability also declined.

## Conclusion

Based on the results of research on the effect of working capital turnover and inventory turnover on the profitability of companies listed on the Stock Exchange in 2012-2014. By getting a sample of 30 companies for 4 years, it can be concluded as follows:

These results indicate that the turnover of working capital is not a significant influence on profitability. Turnover of working capital on profitability (ROA), declare that the working capital turnover does not affect the profitability (ROA). Inventory turnover to profitability, menyatakan Inventory Turnover has no influence on ROA, dikarnakan existing Inventory Turnover in the company sample is not memengaruhi asset turnover rate in the company was more influenced by the level of capital.

Future studies are recommended to measure the company's performance variables using a proxy-based accounting and financial performance over a market-based ratios such as ROE, EPS, and other ratios. For further research that takes a similar topic, you should take an average indicator that there are financial are reported as cash, inventory (which annually), sales, CoGS or other assets.

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