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SUSTAINABILITY AS A STRATEGIC BUSINESS ORIENTATION IN GLOBAL ECONOMY RECOVERY PHASE

Proceeding 12th International Annual Symposium on Management
Makassar - South Sulawesi, Indonesia
13th-15th March 2015

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Department on Management
Faculty of Business and Economics
Universitas Surabaya

Proceeding

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FOREWORD

INSYMA has become a tradition of its own for the Management Department of Universitas Surabaya. For more than a decade this event has become a forum for academics and practitioners to share knowledge. Every year Management Department always brings the latest theme that becomes an important issue for the development of science.

This year, INSYMA raise the theme **SUSTAINABILITY AS A STRATEGIC BUSINESS ORIENTATION IN GLOBAL ECONOMY RECOVERY PHASE**. This theme interesting, considering recently, the companies are adapting to volatile and uncertain conditions as a way of life to survive. There are some important business issues and each requires a specific and appropriate response. These issues are namely governance, innovation technology, operations, regulations, risks, strategy & growth, sustainability, talent and the economy issues. The company requires its own way to deal with each of these issue so that the companies can achieve business growth and survival.

Hundreds of scientific papers are sent to a conference committee, and the results of a rigorous selection of more than 90 elected. This paper is derived from a variety of authors, both within and outside the country, academics and practitioners. All the articles are then presented at the symposium and documented in these proceedings.

We hope that these proceedings can contribute to the development of science and business practices. Hopefully you can enjoy and gain valuable lessons from this article collection. We look forward to your participation in next INSYMA.

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CONTENTS

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Scanned by CamScanner

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FINANCE & ACCOUNTING

ISBN: 978-979-99365-9-2

ISBN: 978-979-99365-9-2

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ISBN: 978-979-99365-9-2

STRATEGIC MANAGEMENT

ISBN: 978-979-99365-9-2

ISBN: 978-979-99365-9-2

WORKING CAPITAL MANAGEMENT AND PROFITABILITY: A STUDY ON CONSUMER GOODS INDUSTRY

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Abstract

This study aimed to analyze the effect of working capital management on the profitability of consumer goods industry sector listed on the Indonesia Stock Exchange during the period 2009-2013. Number of observations in this study was 140 observations. In order to know the relationship occur among the independent variable (Average Collection Period, Inventory Conversion Period, Average Payment Period, and Cash Conversion Cycle) on Gross Profit Margin using the multiple linear regression analysis model, F-test and t-test was conducted. The control variables that were used in this study for the measurement of working capital management are Firm Size and Leverage. The study established that gross profit margin was positively correlated with Average Collection Period and Average Payment Period but negatively correlated with Inventory Conversion Period and Cash Conversion Cycle. The relationship between Inventory Conversion Period and Cash Conversion Cycle with Gross Profit Margin was insignificant. For the control variables, only debt ratio was positively correlated and significant with profitability. While firm size was negatively correlated and insignificant with profitability. The results suggest that managers can increase profitability of consumer goods industry sector by reducing average collection period and cash conversion cycle.

Keywords: Working Capital Management, Firm Size, Leverage, Profitability

DAY OF THE WEEK EFFECT: THE CASE OF MEXICO, INDONESIA AND TURKEY

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Abstract

This study aims to determine whether there is the phenomenon of calendar anomalies, especially the day of the week effect in the stock market of Mexico, Indonesia and Turkey. All three are known as MINT (Mexico, Indonesia, Nigeria and Turkey) are predicted to be the engine of world economic growth over the next ten years. The sample used in this study is the daily data of stock index movements in each country, during the period from 2009 to early February 2014. The results showed the absence of the phenomenon of day of the week effect in the equity markets of Mexico and Turkey. Different results occur in the Indonesian capital market which found there were differences in daily returns, the average return was lowest on Mondays and highest return on Wednesday.

Keywords: Calendar Anomalies Phenomenon, Day Of The Week Effect, Daily Return.

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Working Capital Management and Profitability :

A Study on Consumer Goods Industry

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Abstract *- This study aimed to analyze the effect of working capital management on the profitability of consumer goods industry sector listed on the Indonesia Stock Exchange during the period 2009-2013. Number of observations in this study was 140 observations. In order to know the relationship occur among the independent variable (Average Collection Period, Inventory Conversion Period, Average Payment Period, and Cash Conversion Cycle) on Gross Profit Margin using the multiple linear regression analysis model, F-test and t-test was conducted. The control variables that were used in this study for the measurement of working capital management are Firm Size and Leverage. The study established that gross profit margin was positively correlated with Average Collection Period and Average Payment Period but negatively correlated with Inventory Conversion Period and Cash Conversion Cycle. The relationship between Inventory Conversion Period and Cash Conversion Cycle with Gross Profit Margin was insignificant. For the control variables, only debt ratio was positively correlated and significant with profitability. While firm size was negatively correlated and insignificant with profitability. The results suggest that managers can increase profitability of consumer goods industry sector by reducing average collection period and cash conversion cycle.*

Keywords: *Working Capital Management, Firm Size, Leverage, Profitability*

1. Introduction

Global economic uncertainty and free trade, requires every company to step ahead of the competitors. The Company aims to produce a profit as much as possible, enlarge the scale of the business, and maintain the viability of the company. The Company will conduct various activities to achieve the objectives that have been set. Therefore, companies should consider the decisions that will be taken include three areas: Capital Budgeting, Capital Structure and Working Capital Management (Ross, Westerfield and Jaffe, 2003). Working Capital Management (WCM) decisions are very important and strategic because they affect the firm profitability and firm value. The main objective of working capital management is to reach optimal balance between working capital management components, receivable, inventory and payables and using the cash efficiently for day-to-day operations (Gill,2011).

Optimization of working capital balance means minimizing the working capital requirement and realizing maximum possible revenues (Ganesan, 2007)

2. Literature Review

Several studies have shown that there are different effects of each variable on the profitability of the company's working capital. Murhadi (2013) conducted research on working capital management and profitability in the period 2008-2011 on the Stock Exchange company incorporated in the LQ-45 and out the financial sector. The results of this study indicate that the Average Collection Period (ACP) and the Cash Conversion Cycle (CCC) does not affect the profitability of the company, while Average Payment Period (APP) and Inventory Conversion Period (ICP) significant positive effect on the profitability of the company. Murhadi (2013) also found that leverage significant negative effect on the profitability of the company. Leverage will reduce profitability because interest expenses will be greater than the benefits of the tax savings. Another study conducted by Vural, Sokmen, and Cetenak

(2012) who found that there was a significant negative correlation between the ACP, ICP and CCC on the profitability of the company. Shortening the ACP and the CCC can increase the profitability of the company. Companies can roll back the money obtained into other investments. While research Rahman (2011) found that there is a positive relationship between working capital efficiency and profitability ratios. In this case the company must reduce the CCC become shorter and manage working capital more efficiently to improve the profitability and performance of the company.

3. Research Methods

This study uses secondary data from companies in the consumer goods industry sectors listed on the Stock Exchange 2009-2013. Independent variables used in this study is the working capital : ACP, ICP, APP, and CCC. The dependent variable is the profitability of the company : Gross Profit Margin (GPM) obtained from the company's operating gross profit divided by sales. GPM is used as the dependent variable because this ratio reflects the operational activities of the company earnings results that are not affected by financing activities. While the control variables used in this study is the firm size measured using Ln (total assets) and leverage as measured by debt ratio.

Multiple linear regression models were used in this study is based on Murhadi (2013), DELOOF (2003), and Enqvist, Graham and Nikkinen (2012), namely:

$$GPM = \beta0 - \beta1.ACP + \beta2.SZ + \beta3.DR + u \quad (1)$$
$$GPM = \beta0 - \beta1.ICP + \beta2.SZ + \beta3.DR + u \quad (2)$$
$$GPM = \beta0 + \beta1\ .app + \beta2.SZ + \beta3.DR + u \quad (3)$$
$$GPM = \beta0 - \beta1.CCC + \beta2.SZ + \beta3.DR + u \quad (4)$$

4. Result and Discussion

This study used a sample of listed companies in the consumer goods industry sector during this period and have to meet certain criteria in order to obtain 28 companies. Descriptive statistics are shown in Table 2.

Tabel 2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GPM	140	8,19	71,86	35,1553	18,12147
ACP	140	4,65	161,62	55,3023	35,76852
ICP	140	22,41	322,07	110,2471	59,62852
APP	140	2,00	131,06	39,2845	26,91379
CCC	140	-2,14	349,15	126,2649	76,74066
SZ	140	11,34	18,17	14,2152	1,62139
DR	140	,09	,90	,3967	,17409

In Table 2 it can be seen that the average Gross Profit Margin of the company is 35.16% with average collection period of 55 days, inventory conversion period is 110 days, average payment period of 39 days and cash conversion cycle of 126.26 days. Cash conversion cycle in this descriptive analysis is a measure of the efficiency of working capital management company. While the average value of firm size is 14.22 and the average composition of debt to total assets reached 39.67%. Based on the survey results revealed that each of the multiple linear regression model in this study has been free from heteroscedasticity, multicollinearity, and autocorrelation and have to meet the assumptions of normality. four model are developed to find the significant relations between working capital management variables with profitability:

$$GPM = 31{,}394 + 0{,}140\ ACP + 0{,}775\ SZ - 37{,}783\ DR + u$$
$$GPM = 57{,}316 - 0{,}001\ ICP - 0{,}335\ SZ - 43{,}702\ DR + u$$
$$GPM = 47{,}784 + 0{,}170\ APP - 0{,}096\ SZ - 45{,}208\ DR + u$$
$$GPM = 56{,}488 + 0{,}003\ CCC - 0{,}322\ SZ - 43{,}268\ DR + u$$

The results of the relationship between the independent variables and control variables on the dependent variable are presented in Table 3.

Tabel 3
Inferential statistics for WCM components against Profit

Variabel Dependen: GPM (*Gross Profit Margin*)									
Variabel Independen	**Model 1**		**Model 2**		**Model 3**		**Model 4**		**Ekspektasi**
	Beta	**t**		**t**		**t**		**t**	
Constanta	31,394	2,199	57,31	4,533	47,784	3,908	56,488	4,285*	
ACP	0,140	3,293							Negatif
ICP			-0,001	-0,025					Negatif
APP					0,170	3,374			Positif
CCC							0,003	0,170	Negatif
SZ	0,775	0,835	-0,335	-0,372	-0,096	-0,111	-0,322	-0,357	Positif
DR	-37,783	-4,581	-43,70	-5,124	-45,208	-5,616	-43,268	-4,985*	Negatif
F	14,617*		10,19		14,839		10,202		
R^2	62,6%		62,4%		63,2%		62,4%		

* Sig at α = 5%

Table 3 presents the results of inferential statistical tests were performed on models 1, 2, 3, and 4. The results of this study are consistent with previous studies conducted by Muhammad, Jan and Ullah (2012), Jayarathne (2014) and ElvaJunine (2012). The increase in the invested company in the form of receivables could increase the proportion of credit sales of total sales that the company's profitability will also increase (Manullang, 2005, p.38). Companies can slow down the payment term credit sales if the benefits of increased sales is greater than the cost of bad debts and the opportunity cost (Murhadi, 2013). Model 2 shows that the partial effect is leveraged while ICP and firm size had no significant effect. Model 2 shows that ICP negative but insignificant effect. This indicates that the acceleration of the conversion period inventory conducted by the company does not lead to an increase or decrease of the profitability of the company. The results of this study are consistent with previous studies conducted by Vural et al (2012) and Osundina (2014). Osundina (2014) suggests that the inventory conversion period is too long to have a greater percentage of damage on raw materials and finished goods, this will lead to low profitability of the company. Companies that are too long to invest in inventory will lead to an increase in storage costs, maintenance costs, and opportunity costs that the company's profitability will decline. Inventory conversion period must be managed efficiently by speeding up the time of conversion of raw materials into finished goods then sold to the market. If the company can accelerate the conversion period, the supply of available funds may be used for other, more profitable investments. In model 3 shows that the partial effect is APP and leverage while firm size had no significant effect. Model 3 shows that APP positive and significant impact on the profitability of the company so that the third hypothesis is accepted. The results of this study are consistent with previous studies conducted by Murhadi (2013), Rahman (2011), Mathuva (2010), Jayarathne (2014), and ElvaJunine (2012). The longer the company to pay the debt then profitability will increase. Companies can use the first available cash to invest in short-term assets that are liquid to generate income that can increase the profitability of the company (Murhadi, 2013). Although debt payments can be slowed, companies still need to adapt them to the maximum limit for payment of debt that has been determined by the creditors. By doing so, debt payments can be slowed down without damaging the reputation and credibility of the company.

In model 4 indicate that the partial effect is leveraged while the CCC and firm size effect is not significant. Model 4 shows that the CCC positive but not significant effect on the profitability of the company. The results of this study are consistent with previous studies conducted by Murhadi (2013) and Osundina (2014). Murhadi (2013) argued that although the company is able to shorten the cash conversion cycle, but this was not a significant impact on corporate profits. This is due to the average cash and cash equivalents of the company is relatively low at 20.78% of total current assets.The results of this study are consistent with previous studies conducted by Nilmawati (2011). Nilmawati (2011) suggested that the size of the company negatively affect the profitability of the company, this

means that companies with a large size would have a lower profitability. According Falope and Ajilore (2009), small companies easier to control the assets. However, the results in this study no significant effect so that firm size does not lead to an increase or decrease in the profitability of the company.
Leverage has a negative and significant coefficient on the profitability of the company. The results of this study are consistent with previous studies conducted by Murhadi (2013), Enqvist et al (2012), Nilmawati (2011), Raheman et al (2010), Mathuva (2010), Raheman and Nasr (2007) and Jayarathne (2014). Murhadi (2013) suggested that high debt will increase interest expense which can lead to the possibility of bankruptcy is greater than the tax benefits received by the company.

5. Conclusion

In this paper, four models developed to make an empirical research on the associations between working capital management with firm‟ s performance (profitability). Based on the test results in models 1, 2, 3, and 4 by using the F test result, the variables used in each of these models simultaneously and significant effect on profitability the company. While based on the results of hypothesis testing using t test, the results showed that only the independent variable APP, ACP and control variables (leverage /DR) give significantly influence the profitability of the company. Based on the results of this study indicate that the profitability of the company depends on the effective management of working capital. Therefore, companies should focus on reducing the cash conversion cycle by collecting receivables as soon as possible and slow down payment of debt to invest in prior to the short-term investment more profitable. This will cause the company's cash conversion cycles are getting shorter and the increased profitability of companies that can maximize shareholder value and has a good chance. In this study, there are limitations that can be considered for further research. Therefore, further research is expected to do research with a longer period to obtain more accurate results.

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