THE EFFECT OF PROFITABILITY AND RISK MANAGEMENT ON WORKING CAPITAL MANAGEMENT

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Abstract
This study aims to examine the impact of working capital management on profitability and risks of business companies. Furthermore, this study also examines what are the differences of working capital management industries in the manufacturing sector. Some researchers proved that influence of working capital management on profitability (Rahemanand Nasr 2007; Marc Deloof (2003) and Hadori (2005)). In addition, Gitman (2009) also states that working capital management has an impact on firm profitability and risk. Business risk of each industry is different, thus working capital management will differ among industries. This study used data from 2001 until 2007 at the manufacturing sector firms which have coherent of annually financial statements during the study period and have been audited. In order to test the hypothesis, this study used regression analysis and analysis of variance. The research proves that working capital management affects profitability and risk of firm manufacturing sector during the period 2001-2007. Moreover, it also proves that there is a difference among working capital management industries in the manufacturing sector.

Keywords: working capital management, risk, profitability

Abstrak

Kata kunci: working capital management, risk, profitability

JEL Classification: G3, G30, G32

1. Background
Managers of firms need to consider risk and return in every decision that will be implemented. There are three important financial decisions that need to be considered by companies such as: investment decisions, financing decisions, and managerial decisions. Managerial decisions related to working capital management and it gets attention also important as well for the firm. Working capital management is important because almost all managers devote most of their time to the internal activities. In addition to current assets is also a significant part of total assets (Weston and Brigham, 1993: 412). Chandra (1984: 259) also says