

**THE ANALYSIS OF LIQUIDITY AND ITS EFFECT ON
PROFITABILITY, SALES AND WORKING CAPITAL
POLICY IN MANUFACTURING COMPANIES
LISTED ON INDONESIA STOCK
EXCHANGE**



Undergraduate Report By

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*Submitted to Economics Faculty of Sriwijaya University as the Requirement to
Achieve Economics Bachelor's Degree*

**MINISTRY OF EDUCATION AND CULTURE
SRIWIJAYA UNIVERSITY
ECONOMICS FACULTY**

2020

APPROVAL LETTER OF COMPREHENSIVE EXAMINATION

**THE ANALYSIS OF LIQUIDITY POLICY AND ITS EFFECT ON
PROFITABILITY, SALES AND WORKING CAPITAL POLICY
IN MANUFACTURING COMPANIES LISTED ON
INDONESIA STOCK EXCHANGE**

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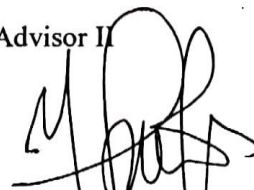


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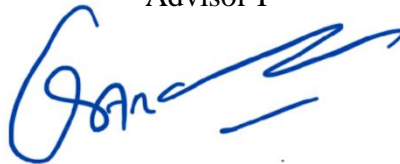
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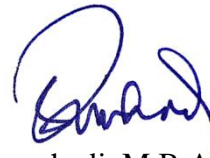
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Is true that original. There is no citation of other research which is not mentioned the sources in this research. I made this statement truly and if there is inconsistent statement later, I am willing to revoke the predicate of bachelor's degree.

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MOTTO

إِنَّ مَعَ الْعُسْرِ يُسْرًا (٦) فَإِذَا فَرَغْتَ فَانصَبْ (٧) وَإِلَىٰ رَبِّكَ فَارْغَبْ (٨)

“Indeed, with hardship (will be) ease (6) So when you have finished (your duties), then stand up (for worship) (7), And to your Lord direct (your) longing (8)”

“

(Q.S. Al-Insyiroh:6-8)

خَيْرُ النَّاسِ أَنْفَعُهُمْ لِلنَّاسِ

“The Best of humans is the most useful for others”

(H.R. Ahmad. Ath-Thabarani, Ad-Daruqutni)

This writting is tributed to :

- Allah SWT for His mercy and blessing upon us all this time and ever
- Rasulullah Muhammad SAW for his compassion to us
- My father and mother that never quit supporting and praying me
- My brother and sister who always give support and motivation
- All my best friends
- My pride Alma mater.

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All praises to Allah *Subhanahu Wa ta'ala* for His mercy and chances that given to me to accomplish my undergraduate report entitled “The Analysis of Liquidity and Its Effect on Profitability, Sales, and Working Capital Policy in Manufacturing Companies Listed on Indonesia Stock Exchange”. This undergraduate report is a requirement to achieve Economics Bachelor’s Degree from Economics Faculty of Sriwijaya University. In this opportunity I want to give my deepest appreciation to several parties who always dedicate their support for me in accomplishing my undergraduate report, those are:

1. My parents, family, brother and sister for their compassion, cares, support and motivation. May Allah always bless all of us.
2. Isni Andriana, S.E.,M.Fin., Ph.D, my first advisor who always guide me patiently and courage my spirit.
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7. Isni Andriana, S.E.,M.Fin., Ph.D, Head of Management Department, Economic Faculty of Sriwijaya University

8. Dr. Kemas M. Husni Thamrin, S.E., M.M, Secretary of Management department, Economics faculty of Sriwijaya University.
9. Lecturers of Economic Faculty, who give me a lot of knowledges.
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Finally, I give my highest gratitude for all of parties that I can't mention one by one. I do realize that this undergraduate report still has the mistakes, therefore all suggestions and comments are very important for better ahead. I hope this research will be useful and give contributions for society especially academic environment in Sriwijaya University. May Allah *Subhanahu Wa ta'Ala* always bless us with His Mercy. Amin Ya Robbal 'Alamin.

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ABSTRACT

THE ANALYSIS OF LIQUIDITY AND ITS EFFECT ON PROFITABILITY, SALES AND WORKING CAPITAL POLICY IN MANUFACTURING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE

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This study aims to analyze the liquidity through cash conversion cycle management and to examine the effect of liquidity on profitability, sales and working capital policy in manufacturing companies listed on Indonesia Stock Exchange in the period 2014-2018. Profitability is proxied by return on asset, sales (Total Sales) and working capital policy (Short-term debt to assets and current assets to total assets). The population of the study is manufacturing companies listed on Indonesia Stock Exchange. Purposive sampling method used as the sampling method. There are 21 manufacturing companies as the samples of the study. The type of data used in this study is quantitative and data sources of this study is secondary data. Descriptive statistic and simple linear regression analysis used as the research methodology. The result of descriptive analysis shows CCC benchmark of manufacturing companies is 95.0590 days with the highest value at 408.98 days and the lowest at -19.62 days. It is found that CCC has negative and significant effect on return on asset and total sales as well it has positive effect and significant on short-term debt to assets nevertheless CCC has positive but insignificant effect on current assets to total assets.

Keyword : Cash Conversion Cycle (CCC), Return on Assets, Total sales, Shor-term Debt to Assets (STDA), Current Asset to Total Assets (CATA)

ABSTRAK

ANALISIS LIKUIDITAS DAN PENGARUHNYA TERHADAP PROFITABILITAS, PENJUALAN DAN KEBIJAKAN MODAL KERJA PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BURSA EFEK INDONESIA

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Penelitian ini bertujuan untuk menganalisis likuiditas melalui pengelolaan *cash conversion cycle* dan untuk menguji pengaruh likuiditas terhadap profitabilitas, penjualan dan kebijakan modal kerja pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode 2014-2018. Profitabilitas diproxikan oleh *return on asset*, penjualan (total penjualan) dan kebijakan modal kerja (*Short-term debt to assets* dan *current assets to total assets*). Populasi pada penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa efek Indonesia. Metode *purposive sampling* digunakan sebagai metode *sampling*. Jumlah sampel yang digunakan dalam penelitian ini adalah sebanyak 21 perusahaan. Jenis data yang digunakan dalam penelitian ini adalah data kuantitatif dan sumber data penelitian ini adalah data sekunder. Metode penelitian ini menggunakan analisis deskriptif statistik dan regresi linier sederhana. Berdasarkan hasil analisis deskriptif rata-rata standar CCC perusahaan manufaktur adalah 95.0590 hari dengan nilai CCC maksimum selama 408.98 hari dan CCC minimum selama -19.62 hari. Hasil penelitian menunjukkan bahwa CCC berpengaruh negatif dan signifikan terhadap *return on assets* dan total penjualan serta berpengaruh positif dan signifikan terhadap *Short-term debt to assets*. Sementara CCC berpengaruh positif namun tidak signifikan terhadap *current assets to total assets*.

Kata Kunci : *Cash Conversion Cycle (CCC), Return on Assets, Total sales, Short-term Debt to Assets (STDA), Current Asset to Total Assets (CATA)*

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- ✓ SEABC is annual agenda in Sriwijaya University that is participated by international academics to conduct a discussion regarding economics, accounting and business topic.

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CHAPTER I

INTRODUCTION

1.1. Background

The manufacturing industry sector is one of the important sectors in national economic development. The manufacturing industry sector is one of the pillars of the national economy because this sector provides a significant contribution to Indonesia's economic growth. It is proven by manufacturing industry still became the biggest contributor to the 2018 National Gross Domestic Product (GDP) which was 19,89% compared to other sectors (www.bps.go.id, 2019). The high GDP of manufacturing companies show the high sales of production goods in a country and the high production will require the high fund to meet the needs. Therefore the effective management of company operational activities is the important thing to drive the business.

One of the factors that play a role in running and financing the operational activities is through working capital (Panigrahi, 2018). Manufacturing companies as the type of company that has complete business activities which consist of production, sales or even providing the services for the customers certainly will require the high working capital needs. The companies that have effective and efficient working capital management will certainly affect the performance of a company, therefore the balance of working capital is something that must be considered. According to Singh & Kumar (2017) working capital management is

a decision made by a company regarding the amount and composition of current assets and current liabilities in a business.

The excessive level of working capital shows the existence of idle money or current assets that are not managed effectively and efficiently, idle money can indirectly affect company profits because the funds should be used in various interests such as business development or used to finance company short-term investments (Telly, 2015) while the shortage of working capital may indicate liquidity problems, the company has difficulty to meet its current obligations such as the employee salaries payment, the account payables payment and other expenses due to the unavailability of sufficient funds to meet those needs (Tuffour & Boateng, 2017).

The purpose of the company in managing working capital is to obtain high profits. The Company that have high profitability show that the company can manage its working capital efficiently, efficient working capital management can be achieved through product sales activities in a short time so that the company can generate cash inflow faster to fund subsequent operational activities (Widiyanti, 2012). The increase in cash inflow will also affect the working capital policy to be carried out by the company both in terms of investment and financing, the availability of sufficient cash will certainly cause the company conduct investment activities to avoid idle cash or being used to finance production activities and other business operations thus the company can reduce the use of external funds.

Nevertheless the profitability of manufacturing companies in the last 5 years shows the instability of earnings movements. Based on data processed by researchers regarding the profitability movement of manufacturing companies listed on the Indonesian stock exchange, it showed that the return on assets (ROA) of manufacturing companies in 2014 was 9.98% but in 2015 it decreased to 7.76% then in 2016 it became 9.59% , in 2017 it decreased to 9.39% and in the following year profitability experienced a fairly high increase to 10.67%. The profitability movement is certainly influenced by how companies manage their working capital, according to Widiyanti (2012) on the research that high profitability is influenced by the efficiency of working capital. The decreasing of profitability at manufacturing companies indicates that working capital is not managed efficiently.

In addition to profitability, sales are also the result of working capital management efficiency. This is because the more efficiently the company manages working capital it means the faster the company gets cash inflow from product sales in order to fund subsequent operational activities. This indicates that the more efficient working capital, the higher the sales made by the company because working capital turnover is faster so the company can increase production activities and certainly will have an impact on the sales volume. This is consistent with the research result conducted by Motlíček & Martinovičová (2014) which state that the size of sales is strongly influenced by the working capital size. but the phenomenon that occurs in manufacturing companies where there is a slowdown in sales in the third quarter / 2019 which is only 1.8%, it is lower than

the same period in the previous year that product sales at manufacturing companies can reach 4.6% (m.bisnis.com , 2019). This indicates that there are inefficiencies in working capital management as explained in the previous paragraph.

Therefore the efficiency of working capital through the balance of working capital is important because working capital balance can provide information to the company about the management of current assets and current liabilities in order to produce profitability and also as the anticipation of liquidity problems arising from the high amount of production costs that affect the level of profitability and sales. This working capital balance will also ultimately provide information for managers in taking working capital policies both in terms of investment and financing. Based on a report published by the Indonesia Stock Exchange about the problematic issuers, of which among 40 companies, 4 manufacturing companies are included those are PT. Tiga Pilar Sejahtera Tbk, PT. Sentex Tbk, PT. Jakarta Kyoei Steel Works and PT.Asia Pacific Fibers Tbk (www.idx.co.id, 2019)

These companies have business operational financing problems. One of them is PT.Tiga Pilar Sejahtera Tbk experienced bankruptcy problems, a situation where the company was unable to pay its debts. The amount of the company's debt are Rp.427.93 billion and \$. 4.54 million (www.kompas.com, 2019) This indicates that inefficiency of company's liability management in financing the company's operational activities. Therefore the working capital policy needs taking by the company to avoid the liquidity problems. Thus the efficiency of

working capital needs to be done in order to overcome the business operational problems.

Therefore, based on all the phenomena explained before that the balance of working capital is an important thing to be considered in an effort to improve company performance according to the financial perspective. One way that companies can do to maintain the stability and effectiveness of working capital management is through liquidity management (Sugathadasa, 2018) where the good liquidity is a key that determines the success of a company (Uyar, 2009).

The liquidity position of a company is materially affected by the level of account receivables, inventories and current liabilities, the effective management of these components is the company's effort to create good liquidity conditions (Majanga, 2015) thus the management of cash conversion cycle (CCC) is the most widely used measures to evaluate the company liquidity management (Sugathadasa, 2018). The indicator of CCC that consist of account receivable, inventories and account payable are considered to be more representative in efforts to managed the company liquidity. According to Bhutto (2011) and Wilujeng (2013) the good CCC management will impact on the improvement of company performance in terms of profitability, sales and working capital strategies both working capital financing and investing.

The management of CCC is based on the management of accounts receivable, inventory and accounts payable, the company can shorten the CCC by accelerating account receivables collection and inventory sales, it intends to provide cash inflow for the company while on account payable, company can

delay the payment so that the funds can be turn back for company's business activities. The shorter CCC time interval shows the company's effectiveness in managing liquidity (Majanga, 2015). The shorter the CCC, the faster the company can collect cash inflow, so the company can maximize the use of cash inflows into various corporate interests in an effort to gain the higher profit, for example to fund the company's short-term investment or other profitable business activities.

The short length of CCC indicates that the company is able to manage accounts receivables and inventory effectively in providing cash inflows for the company. One of the company's efforts to improve the company's liquidity optimization is through CCC, by accelerating the sale of inventory both in cash and credit (Suzan & Risyana, 2018). This will certainly have an effect on the company's sales level (Uyar, 2009)

In addition to the effect of CCC on profitability and sales, CCC is used to measure how long the company can collect cash from the results of the company's operations which will ultimately affect the amount of cash proportion to be saved on current assets. this will certainly have an effect on the management of assets and liabilities of the company (Wilujeng, 2013). The length of CCC affects the proportion of the company's cash inflow. This will affect the working capital policy that will be carried out by the company both in terms of working capital investing and financing (Bhutto *et al.*, 2011).

Beside the phenomena gap that occurred, Some of the previous studies have different results. According to the research that conducted by Chang (2018) about

the relationship between CCC and profitability in global companies showed that CCC has a negative relationship with profitability and so did Nwude, Agbo & Lamberts (2018) on his research about the relationship of CCC and profitability in Nigerian public listed insurance companies showed that CCC has a negative relationship with profitability. The research of Sugathadasa (2018) on Manufacturing companies listed in Colombo Stock Exchange also stated that there is significant relationship between CCC and profitability, therefore CCC take the important role in order to enhance the firm's profitability and sales.

On the other hand, the research conducted by Cristian & Raisa (2017) about liquidity management through CCC on profitability in Romanian Industry shows positive relationship between CCC on ROA (Return on Asset) , Panigrahi (2018) on his research in India's cement manufacturing companies about CCC and firm's profitability during 10 years from 2001-2010 shows CCC has positive relationship on profitability , Khurramshabbir (2018) on Pakistan's tobacco industry during 2010-2017 show positive relationship between CCC and return on equity and Zakari & Saidu (2016) on their research in Nigerian telecommunication companies are quite contradictory to the CCC concept and previous studies where the results of the studies stated that the CCC has a positive relationship with profitability.

Based on the explanations about phenomena gap and research gap previously, there are inconsistent result between the findings and the concepts. The differences of time period and object can be the factors that affect the varying result of the research considering liquidity is something that always change in any

time therefore the result inconsistencies may happen, Therefore it is very important for companies to be able to know the policies that must be taken in the continuity of the business of each company thus it can be used as a reason to conduct further research, this research is entitled "**The Analysis of Liquidity and Its Effect on Profitability, Sales and Working Capital Policy in Manufacturing Companies Listed on Indonesia Stock Exchange**"

1.2. Research Questions

Based on the the phenomena and research gap of this study, the research questions in this study are as follows :

1. What is the Effect of Liquidity on Profitability in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018?
2. What is the Effect of Liquidity on Sales in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018?
3. What is the Effect of Liquidity on Working Capital Policy in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018?

1.3. Research Objectives

In accordance with the research questions that have been compiled in this research, the objectives of this study are :

1. To analyze Liquidity on Profitability in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018.
2. To evaluate Liquidity on Sales in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018.
3. To identify Liquidity on Working Capital Policy in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014-2018.

1.4. Research Contributions

The research that will be carried out is expected to be contribution for:

1.4.1. Theoretical Contributions

1. Provide a reference for future researchers who are interested in researching then analysis of liquidity on profitability, sales and working capital policy.
2. As additional academic references and literacies on liquidity in financial management.

1.4.2. Practical Contributions

1. To apply the knowledge that the author has during studying in management study program of Sriwijaya University. At the same time, to add the insight and knowledge of the author about liquidity analysis and its effect on profitability, sales and working capital policy.

2. The results of this study are expected to be used by students as sources of reference to develop and support further research relating to liquidity analysis and its effect on profitability, sales and working capital policy.
3. As information for company's management in managing working capital through liquidity in the financial sector.

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