

CHAPTER I

INTRODUCTION

1.1. Background Of The Study

The Indonesian Capital Market is experiencing rapid growth recently, as evidenced by the increasing number of shares transacted and the increasing volume of stock trading. In line with these rapid developments, the need for relevant information in investment decision making in the capital market is also increasing. Capital Market is an indicator of the economic progress of a country and supports the economy of the country concerned (Robert Ang, 1997).

Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm and for fulfilment of twin objectives of liquidity and profitability.

Working capital management of a firm has been recognized as an important area in financial management. This field can include decisions about the amount and the combination of current assets and financing them. The process of working capital management includes decisions about a different aspect of cash investment, the maintenance of a certain level of inventories and managing of receivable and payable accounts. The main goal of working capital management is to keep an optimized balance between each component of working capital (Gitmen, 2009). A Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

The needs of efficient working capital management must be considered in relation to other aspects of the firms' financial and non-financial performance. An efficient Working Capital Management is expected to contribute to the high financial performance.

All companies require working capital in order to finance the operations in the company. A company in running its business aiming to earn profits that companies are expected to be able to maintain the viability of the company and is trying to develop its business, to run the operational activities every day then the company must have a purpose that has been set before, namely in order to maximize revenue for its shareholders by increasing the profitability of the company.

Working capital management is the ability to manage current assets and in fact effectively and smoothly efficient (Makori & Jagongo, 2013). A similar thing also disclosed endra, & Jagananathan Perumal (2014), working capital management is short term and asset management in fact, the company in the short term wherein it related to decision financing assets. So, it can be concluded that the management of working capital is the management of current assets and the actual the company smoothly, including financing in current assets effectively and efficiently. Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980). Specifically, working capital investment involves a tradeoff between profitability and risk.

The effective working capital management is very important because it affects the performance and liquidity of the firms (Taleb et al., 2010). The main

objective of working capital management is to reach an optimal balance between working capital management components (Gill, 2011). The efficient management of working capital is a fundamental part of the overall corporate strategy to create shareholders' value (Nazir and Afza, 2008). Therefore firms try to keep an optimal level of working capital that maximizes their value (DeLoof, 2003). Firms are being increasingly cautious in working capital management nowadays. They recognize the contribution of working capital in profit enhancement (Ching, Novazzi and Gerab, 2011), improved management of accounts receivables, inventory payable, account payable (Myers, 2006) etc.

Prasad (2001) conducted a research study on the working capital management in paper industry. His sample consisted of 21 paper mills from large, medium and small scale for a period of 10 years. He reported that the chief executives properly recognised the role of efficient use of working capital in liquidity and profitability, but in practice they could not achieve it. The study also revealed that fifty percent of the executives followed budgetary method in planning working capital and working capital management was inefficient due to sub-optimum utilisation of working capital.

In the previous study stated a small-medium enterprise companies that are less efficient in managing working capital during 2010-2013 in Malaysia (Kasiran, & Mohamad, & Chin, 2016). In this research, working capital is important to ensure the sustainability of the companies in order to keep growing to compete with others. And the purpose of this research is to analyze Working Capital Management Efficiency: On The Transportation Sector Period 2014-2018

as a beginning for future analysis. Since a lot of facets WCM efficiency is still unexplored particularly from the transportation sector in Indonesia, research in these local aspects is meaningful.

1.2 Research problem :

Based on the background of case study, the problem identification in this research is to analyze how Working Capital Management Efficiency on the transportation sector. The problem will be examined in this study as follows:

- Does the Performance Index and Utilization index have an impact on the Efficiency Index on the transportation sector firms period 2014-2018?

1.3 Research purpose :

The purpose of research based on the problem described above, it is will be arranged as follows:

- To analyze the efficiency of working capital management on quarterly based data on transportation firms sector from year 2014 to 2018.

1.4 Research Benefit :

Based on the formulation of the problem mentioned above the potential research contributions of this study is as follows:

1. Benefits for the company is to utilize the maximize working capital management in order to obtain a good efficiency index.

2. Benefits for the investor is to get information that the company has a great efficiency index.
3. Benefits for general reader is to get knowledge about working capital management.

1.5 Systematic Of Writing

A. This research's systematic of writing, arranged as follows:

CHAPTER I : INTRODUCTION

This chapter includes introduction which consists of background of study, the research problems, purposes of the study, benefits of the research, and the explanation of writing systematic.

CHAPTER II : LITERATURE REVIEW

This chapter contains theoretical background of variables used in this study. They are summary of previous studies and theoretical framework.

CHAPTER III : RESEARCH METHODOLOGY

This chapter explains the methodologies of the research. It provides the information about research design, source of data, population and sample data, measurement and analytical tool.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

In this chapter, there are results of data analysis and the discussion as the implication of this study.

CHAPTER V: CONCLUSION

In this last chapter covers summaries and results of the research. It deals conclusion, research limitation, and implication of study and research.