

**SOME ASPECTS OF WORKING CAPITAL POLICY UPON
RETURN ON INVESTMENT ON COMPANIES ENTERING
CAPITAL MARKET IN INDONESIA
(A Case Study of Textile/Garment Industries)**

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ABSTRACT

The success of day-to-day operational management of a corporation is dictated by working capital policies that have been implemented, and as one of the measures is ROI. Considerations of working capital policy will not be apart from its financing, maximum credit line, level of working capital, circulation having been reached, decisions taken on the sizes of some types of current assets. This study is designed to learn to what extent those considerations have relationship and influence on ROI.

There are six points in the objective of this study of two major and four minor ones.

Adopted analysis was based on theoretical thoughts arguing that financing decision were initiated from decisions of what specific current assets to be required? How much funds to be needed ?; How would those amounts of funds be financed ? The first two questions (1 and 2) were in relation with investment decision and the third one was in relation with expenditure decisions. Product relative to working capital policy could be seen on figures of financial ratios in the variables revealed in this study.

This study was conducted on fourteen companies of textile/garment industries having been "Go Public" in Indonesia, by analysing financial statements for five years in the "pooling the data". Keeping in view that there are differences in the composition of current assets resulting on ROI on the composition of current assets of >50% and <50%, testings were therefore conducted on those two ROI averages and the differences were statistically insignificant, meaning one population.

Based on that theoretical premise, six hypothesis could then be made from this study consisting of two major and four minor ones, because there occurred multicollinearity in this analysis, the variable of current ratio was dropped and not included in either major nor minor hypothesis.

After testing on the above hypothesis, first major and first up to third minor ones were evidenced and acceptable, meaning results of this study could show that working capital policies were fairly dominant to influence ROI and relevant in the process of management decision making.

The evidences of second major and fourth minor hypothesis mean hierarchy process of working capital process to follow the occurred situation pattern, because working capital circulation is strongly influenced by the demand changes as one extern factor. If increase demand is occurred, it means to create a market opportunity which automatically makes opportunity for production. The opportunity for production needs planning to determine the size of investment on the current assets (cash, account receivable, inventory), to further consider finance resources and the expenditure ways. It will therefore be able to show suitability to the theory.

Further results of the study are that the success of working capital management to obtain ROI is much influenced by less than 50% internal and more than 50% external activities, but those both activities were interdependent and supporting and unseparable one to the other. In this relation, there are some aspects of working capital policy formulation and five dimensions are worth to be considered: (1) dependability to the situation; (2) intensity of working capital financing; (3) productivity perspective of working capital; (4) relationship of the working capital as a system and objectives of the company; (5) successful key factor of the component of current assets is inventory.