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The Impact of Working Capital Management on Financial Performance, Evidence from Automotive & Components Industry

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ABSTRACT: This study aims to examine and analyze the impact of Working Capital Management by measuring the Days Inventory Oustanding (DIO), Days Sales Outstanding (DSO), and Days Payable Oustanding (DPO) on Return on Assets (ROA) in automotive and component sub-sector firms listed on the IDX from 2011 to 2021. The sampling technique employed was a purposive sample of 11 businesses with 121 observations for 2011-2021 in the IDX-listed automotive and component sub-sectors. Panel data regression using the Common Effect Model is the method of analysis used. The results of this study reveal that the DIO and DPO have a significant negative effect on ROA, whereas the DSO has a positive effect. It is recommended that, while formulating optimal capital budgeting practices, businesses consider Working Capital Management. This paper's findings may help firm managers optimize their working capital management practices. The study's identification of working capital management as a substantial influence on firm profitability can interest policymakers.

KEYWORDS: DIO, DSO, DPO, Return on Asset

I. INTRODUCTION

The automotive and component industries are substantial contributors to the national economy. Indonesia's automotive & component manufacturing industry is the second largest in Southeast Asia, second only to Thailand, which controls nearly half of the automobile manufacturing in the ASEAN area. This industry is a significant milestone for the manufacturing sector, as numerous global automakers construct automobile manufacturing factories and expand their production capacity in Indonesia, the largest economy in Southeast Asia (Indonesia-Investments, 2017; Pradnyawati, 2021).

Due to the increase in Indonesia's gross domestic product (GDP) per capita, the automotive industry in Indonesia has also experienced remarkable growth in tandem with the industry's transition from a car production site for export (especially to the Southeast Asian market region) to a domestic car sales market. This sector has contributed investments of 99.16 trillion IDR, has an annual production capacity of 2.35 million units, and directly employs more than 38.39 thousand people. This industry's ecosystem is likewise fairly complex and widespread. There are numerous industries engaged in the production of two-wheeled vehicles, four-wheeled vehicles, and commercial vehicles. The involved businesses include finance, insurance, spare components, and even small and medium-sized workshops (Indonesia-Investments, 2017; Kartasasmita, 2021).

The automotive and component industries' performance over the last eleven years (2011-2020) has been erratic. Notwithstanding this, investors establishing their businesses in Indonesia continue to show interest in this field. Low auto ownership per capita, inexpensive labour costs, and a burgeoning middle class have compelled multinational automakers to spend extensively and expand production capacity in Indonesia (Indonesia-Investments, 2017). Figure I illustrates the historical performance of the automotive & component sub-sector industry from 2011 to 2021 using return on assets (ROA) as a proxy for the financial performance of firms listed on the IDX and company value as a proxy for the price-to-book value (PBV). Based on Figure 1, the automobile subsector's performance began to drop significantly between 2012 and 2015. Due to the advent of the COVID-19 pandemic wave, financial performance as a proxy for return on assets resumed its rising trend from 2016 to 2018 and subsequently plummeted from 2019 to 2020 (Gaikindo, 2020; BI, 2020). Even if the price-to-book-value (PBV) ratio of this industrial sector typically decreases yearly, the price-to-book-value-proxied company value in this industrial sector continues to remain above one. It suggests that even though the share price of this sector is relatively costly (PBV value ratio is greater than 1), its share price remains attractive to investors in a crisis.

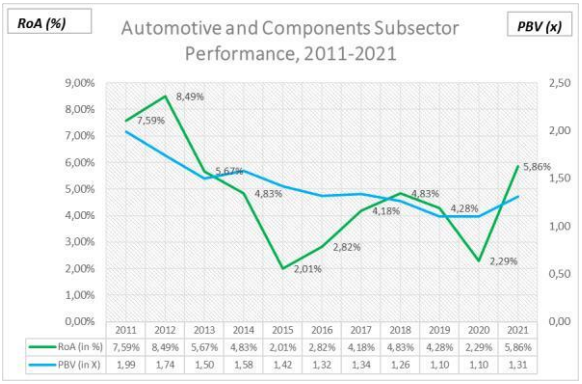

Figure 1. ROA and PBV of the Automotive and Components Sub-Sector 2011-2021.

The forecast of automobile sales in Indonesia is extremely dependent on the country's economic growth. Without a short- or medium-term rise in commodity prices, it will be difficult for auto sales to develop as they did between 2010 and 2015. (Indonesia-Investments, 2017; BI, 2011). On the other side, the potential for expansion is substantial. Less than 10% of the population owns an automobile in Indonesia, comparable to 99 autos per 1000 people. It suggests that Indonesia's automobile and component subsector industry has a great deal of area for expansion and potential for growth (Kartasasmita, 2021; Gaikindo, 2021).

External and internal factors contributed to the performance volatility of the automobile & components subsector. External elements include government policy assistance and global economic expansion (Indonesia-Investments, 2017). Moreover, this industry is part of a cyclical sector, an industrial sector that is very sensitive to seasonal fluctuations and easily influenced by climate or economic conditions. In comparison, the internal elements refer to financial performance conditions under the company's control, such as the company's asset management operations, whose analysis is approximated by the industry's activity ratio.

The activity ratio measures the capacity of a firm to utilize its assets. The component of this ratio's examination is the shortterm activity ratio, which influences the financial cycle of the organization (Prihadi, 2019). Working capital management (WCM) is among the short-term activity ratio characteristics frequently investigated in the study. Knowing the correlation to financial success as a proxy for return on assets (ROA) is vital as the relationship between these variables on financial performance is quite close. Return on assets (ROA) is a financial performance metric that attempts to evaluate the profit generated by total assets. Most of the literature indicates that ROA is a financial performance metric since it more accurately reflects the profitability and achievement of a business based on accounting.

Additionally, ROA reflects all resources shown in financial accounts (Lyngstadaas & Berg, 2016; Pais & Gama, 2015; Yazdanfar & Ohman, 2014; Prihadi, 2019). Several variables influence the return on assets. Among these is working capital management (WCM), which has a direct impact on a firm's liquidity, profitability, and solvency, hence playing a significant part in the evolution of corporate finance (Peel et al., 2000).

Several relevant literature and research documented the significant impact of working capital management on the firm financial performance. Previous research has examined the relationship between overall working capital management (WCM) and financial performance across various economic and industry variables (Koumanakos, 2008; Panda et al., 2021). Karaduman et al. (2011) and Alipour (2011) discovered a negative correlation between working capital management and financial performance. On the other hand, Lazaridis and Tryfondis (2006) and Stephen and Elvis (2011) discovered positive relationships between working capital management and financial performance. This research provides inconclusive results, and most of the findings pertain to large businesses.

According to the facts mentioned above and the reasons, there is a gap between prior research that could have indicated the effect of working capital management (WCM) on the business's financial performance. Therefore, research on the impact of working capital management (WCM) on financial performance is recommended. In this study, the association between working capital management (WCM) on financial performance will be empirically investigated in considerable depth.

II. LITEATURE REVIEW

A. Capital Structure Theory

Modern capital structure theory begins with the hypothesis of Modigliani and Miller (1958), also known as the MM theory. According to Modigliani and Miller (1958), capital structure is immaterial or does not affect business value. Financial managers

should not worry about capital structure since, in a perfect market, all capital structure combinations are beneficial. The firm's worth is unaffected by capital structure decisions. In the proof, Modigliani and Miller (1958) use the example of two debt-using and debt-free enterprises. Consequently, organizations that utilize debt have a higher enterprise value than those that do not. Under these circumstances, investors in companies that do not employ debt will sell their shares and purchase those of companies that do in the hopes of generating a greater return. This transaction will decrease the shares of companies that do not use debt while increasing the shares of companies that do use debt. Only if the share prices of the two firms are identical would this process cease; hence, the share price is not governed by the capital structure.

In 1963, Modigliani and Miller changed their assumptions by incorporating the tax issue into their research. The result of the revised assumptions is that leverage will increase the company's risk and the cost of capital on its shares. According to him, the company's Weighted Average Cost of Capital (WACC) will remain constant even if its capital structure changes regarding the proportion of debt to shares. It is because the expense of debt offsets the increase in the cost of capital. According to the approach of Modigliani and Miller (1963), there are three fundamental propositions: (1) The total cost of capital and firm value are independent of the capital structure. They are constant across all leverage levels. The company's entire value is computed using the operating revenue stream and a discount rate that closely corresponds to the risk category. (2) The cost of share capital is equal to the level of capitalization of the shares plus the premium of financial risk, or the difference between the level of share capitalization and the level of the cost of debt multiplied by the ratio of debt to equity (Debt to Equity Ratio); and (3) The investment proposal cut-off level is entirely dependent on how the investment will be financed.

B. Hypothesis Development

Working capital management (WCM) is among the most crucial business choices. Days inventory outstanding (DIO), Days sales outstanding (DSO), and days payable outstanding (DPO) are the key components of Working Capital Management (WCM). Days inventory outstanding (DIO) describes the average number of days a company takes to convert its inventory into sales, including products in progress. A lesser quantity of DIO is desired because it indicates a shorter time to empty the stock. A more significant number of DIO incur high costs, such as warehouse costs, opportunity costs, insurance costs, etc., which may reduce the company's profitability. Based on past research, we suggest the following hypothesis regarding the DIO,

H_1: There is a significant relationship between DIO and firm financial performance.

DSO is typically calculated on an annual, quarterly, or monthly; it represents the average number of days it takes a company to collect payment after a sale. A business must recover its account receivables as quickly as possible. According to Raheman and Nasr (2007), enterprises with longer account receivables incur more significant opportunity costs, negatively influencing their profitability. There are mixed conclusions concerning the impacts of DSO on the firm's profitability. For example, Enow & Brijlal (2014) and Ademola (2014) investigated a positive correlation between DSO and a company's profitability. In contrast, the majority of studies, such as Javid & Dalian (2014), Mathuva (2012), Rezaei & Pourali (2015), and Fernández-López et al. (2020), find that DSO has a negative effect on a company's profitability (2020). In light of the contradictory findings of prior research, we propose the following hypothesis regarding DSO and company profitability,

H_2: There is a significant relationship between DSO and firm financial performance.

Days payable outstanding (DPO) is a frequently measured annual, quarterly, or monthly financial ratio. DPO describes the average days it takes a company to pay its payments and invoices to its trade creditors. A company with a high DPO might delay making payments and use the available cash for short-term investments, such as producing additional goods, managing operations, or earning interest, rather than paying its debts immediately. The enterprises increase their WC and free cash flow in this manner. Kayani et al. (2020), Pham et al. (2020), Musau (2015), and Mathuva (2012) discovered that DPO positively affects the profitability of businesses. Moussa (2018), Javid & Dalian (2014), and Serrasqueiro (2014), on the other hand, discovered a negative influence of DPO on business profitability. Given the contradictory outcomes of prior research, we present the following hypothesis:

H_3: There is a significant relationship between DPO and firm financial performance.

Based on the explanation and elaboration of the hypothesis presented above, the following framework was developed for this study,

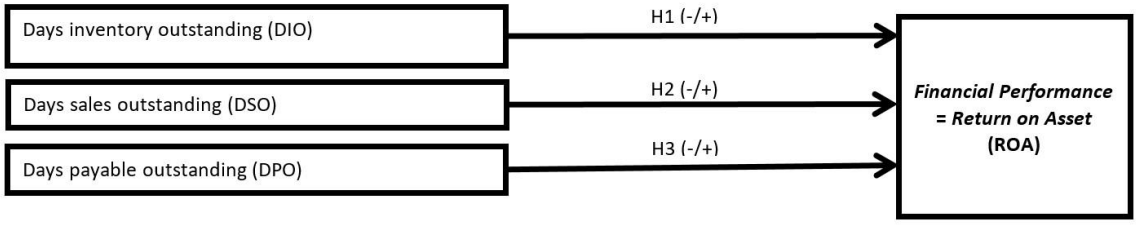

Figure 2. Research Framework

III. RESEARCH METHOD

A. Sampling Method

This study employed a form of sampling known as purposive sampling with specified evaluation criteria. The objective is to identify a research sample with specific considerations given to the study objectives (Kuncoro, 2013). The following criteria were used to conduct a purposeful sample selection.

Table 1. Sampling Criteria

No.	*Criteria*	Total
	Inclusion criteria	
1	Automotive and component sub-sector companies listed on the Indonesia Stock Exchange (IDX)	13
2	During the 2011 to 2021 study period, the analyzed automobile and component subsector companies were still in operation.	13
3	The company states the position of the Days sales outstanding (DSO), days inventory outstanding (DIO), and days payable outstanding (DPO), which are the critical components of Working Capital Management (WCM).	13
	Exclusion criteria	
1	During the period of study, 2011 to 2021, there are no complete financial report data available.	(1)
2	Automotive and component sub-sector companies that have not been listed (go public) on the Indonesia Stock Exchange (IDX) in the research period from 2011 to 2021.	(1)
	Final Sample Quantity	**11**
	Number of Observations Over 11 Years	**121**

B. Variable Operational Definitions

The following is a basic operational definition of each variable used in this research (Brealey et al. 2009; Brigham & Houston, 2009).

Table 2. Variable Operational Definitions

Variable	Parameter	Scale
Financial performance - *Return on Asset (Y)*	$\frac{EAT}{Total\ Aset}$	Ratio

Working Capital Management		Ratio
Days sales outstanding (DSO)	$\frac{Account\ Receivable}{Cost\ of\ Good\ Sold\ (COGS)}\ X\ 365$	
*D*ays inventory outstanding (DIO)	$\frac{Inventory}{Cost\ of\ Good\ Sold\ (COGS)}\ X\ 365$	
Days payable outstanding (DPO)	$\frac{Account\ Payable}{Cost\ of\ Good\ Sold\ (COGS)}\ X\ 365$	

C. Data Analysis Method

This study uses panel data regression analysis using the common effect model as the best selection model. The regression equation model employed in this investigation is as follows (Gujarati & Porter, 2013; Nachrowi & Usman, 2006; Ekananda, 2014; Basuki & Prawoto, 2017; Ghozali & Ratmono, 2017).

$$Y_{ROAit} = \alpha + \beta_1 DSO_{it} + \beta_2 DIO_{it} + \beta_3 DPO_{it} + +\varepsilon it$$

$Y_{(ROA)}$ is Return on Assets (ROA), α is a constant, β is the regression coefficient, DSO is The Days sales outstanding, DIO is the Days inventory outstanding, DPO is the Days payable outstanding, ε is an error term, i as automotive & component sub-sector company, and t as time series index.

IV. RESULT & DISCUSSION

A. Descriptive Statistics Result

The descriptive statistics for each variable in this study are shown in Table 3 below

Table 3. Descriptive Statistics

	ROA	DIO	DSO	DPO
Mean	**0.048040**	**91.85305**	**75.08756**	**59.16246**
Median	0.033510	71.88090	70.56029	50.87469
Maximum	0.240922	333.1492	173.8136	279.8160
Minimum	-0.134015	25.35398	20.68318	10.97867
Std. Dev.	**0.066897**	**60.44046**	**33.72002**	**38.50472**
Observations	121	121	121	121

The ROA has standard deviations more extensive than their respective mean values, indicating a critical deviation. In contrast, the deviation values for DIO, DSO, and DPO are less than the mean values, indicating a reasonable amount of variation.

B. Classical Assumption Test

1. Normality Test

Figure 3 below shows the Normality Test result using the Jarque-Bera Test. According to the outcomes of this test, the probability value of 0.493874 is greater than 0.05. Therefore, the residual data based on this test are normally distributed.

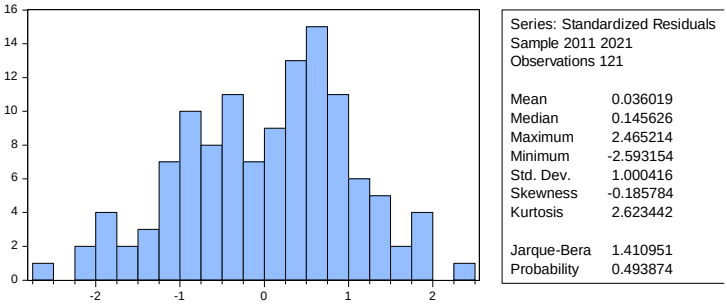

Figure 3. Normality Test Result

2. Multicollinearity Test

Multicollinearity test in this study by looking at the magnitude of the correlation value between each variable and its VIF value. If the correlation value exceeds 0.9 and the VIF value exceeds 10, there are indications of multicollinearity (Gujarati & Porter, 2013; Nachrowi & Usman, 2006; Ekananda, 2014; Basuki & Prawoto, 2017; Ghozali & Ratmono, 2017). The following are the results of the multicollinearity test. According to Table 3, all variables have a correlation coefficient of less than 0.90 and a VIF value of less than 10. Consequently, multicollinearity was not evident in this study's data.

Table 3. Multicollinearity Test Results

	ROA	DIO	DSO	DPO
ROA	1.000000	-0.144319	0.302426	-0.359074
DIO	-0.144319	1.000000	0.592486	0.523344
DSO	0.302426	0.592486	1.000000	0.153963
DPO	-0.359074	0.523344	0.153963	1.000000

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000203	**7.708443**	NA
DIO	1.59E-08	**7.272989**	2.184855
DSO	3.80E-08	**9.749691**	1.624966
DPO	2.60E-08	**4.909545**	1.452312

3. Heteroscedasticity Test

The Heteroscedasticity Test employing The White Test is shown in Table 4 below. According to the findings of the Heteroscedasticity test, Obs*R-Squared with Prob. Chi-Square is 0.0007, less than 0.05; hence, the model has a heteroscedasticity problem and does not meet the homoscedasticity requirements or assumptions. According to Gujarati & Porter (2013); Nachrowi & Usman (2006); and Basuki & Prawoto (2017); cross-section weights in the Eviews can be utilized as a corrective process if the model fails to meet the homoscedasticity assumptions. If testing the heteroscedasticity assumption leads to the conclusion that heteroscedasticity exists, then the correlation between unit cross-sections is examined. Based on this, the procedure for correcting the heteroscedasticity problem in this research model was carried out using the cross-section weights method in the Eviews 10 application through Feasible General Least Square with the estimated coefficient of Cross Section SUR (PCSE).

Table 4. Heteroscedasticity Test Results

Heteroskedasticity Test: White

F-statistic	3.865458	Prob. F(9,111)	0.0003
Obs*R-squared	28.87379	Prob. Chi-Square(9)	**0.0007**
Scaled explained SS	25.76253	Prob. Chi-Square(9)	0.0022

C. Regresion Result Test (Common Effect Model)

Based on prior heteroscedasticity testing, the Feasible General Least Square with the estimated Cross Section SUR (PCSE) coefficient is the optimal model for this study. Table 4 shows the outcomes of the model's regression analysis. The linear regression equation model generated from Table 4 is,

ROA(Y) = 0.029209 - 0.000358 (DIO) + 0.001066 (DSO) - 0.000480 (DPO)

The constant value is 0.029209, which means that if the DIO, DSO, and DPO variables are all 0, while the others are ceteris paribus, the ROA is 0.029209.

Table 4. Regression Test Result of *Common Effect Model*

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.029209	0.001442	20.25698	0.0000
DIO	-0.000358	1.20E-05	-29.70858	**0.0000***
DSO	0.001066	1.70E-05	62.63552	**0.0000***
DPO	-0.000480	1.45E-05	-33.02484	**0.0000***
	Weighted Statistics			
R-squared	**0.973479**	Mean dependent var		0.937193
Adjusted R-squared	**0.972799**	S.D. dependent var		6.125552
S.E. of regression	1.013823	Sum squared resid		120.2569
F-statistic	1431.528	**Durbin-Watson stat**		**1.982800**
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.305228	Mean dependent var		0.048040
Sum squared resid	0.373108	Durbin-Watson stat		0.564625

Based on Table 4 above, the following are the Regression Test Results of the Common Effect Model:

- **The Coefficient of Determination Test Result**

Based on the Regression Test Results of the Common Effect Model, The R-squared value obtained is 0.972799. It demonstrates that DIO, DSO, and DPO can explain 97.27 % of the dependent variable, namely ROA. The remaining 0.027201 (2.72%) is defined by causes or other factors outside the scope of this study's variables.

- **F-Test Result**

Based on the regression findings, the independent factors affect the dependent variable (ROA) concurrently with a computed F value of 1431.528 and a probability value of 0.000000, which is less than the significant value of 0.01 (1%). Thus simultaneously, the independent variables in this study have a significant effect on the dependent variable.

- **Hypothesis Test Result (t- Test)**

1st Hypothesis Test (*H_1*). The partial test (t-test) on the DIO variable revealed a t-value of -29.70858 and a probability of 0.000000. Thus, at a significance level of 0.01 (1%), the formulation of the first hypothesis (H1) could be accepted, and it can be stated that the DIO factor significantly negatively affects ROA. The regression coefficient for the DIO variable is -0.000358, which indicates that if the other independent variables are kept constant and the DIO value increases by 1, the ROA value will decrease by 0.000358. If the other independent variables have a stable value and the DIO value lowers by 1, the ROA value will increase by 0.000358.

2nd Hypothesis Test (*H_2*). The partial test (t-test) on the variable DSO revealed a t-value of 62.63552 with a probability of 0.000000. It indicates that at a significance level of 0.01 (1%), the second hypothesis (H_2) formulation could be accepted so that a significant adverse effect between the DSO variable and ROA. The DSO variable has a regression coefficient of 0.001066, which indicates that if the other independent variables are kept constant and DSO increases by 1, ROA will increase by 0.001066. If the other independent variables have a fixed value and the value of DSO decreases by 1, the value of ROA will decrease by 0.001066.

3rd Hypothesis Test (*H_3*). The partial test (t-test) performed on the DPO variable revealed a t-value of -33.02484 with a probability of 0.000000. Thus, at a significance level of 0.01 (1%), the formulation of the third hypothesis (H_3) can be accepted. It can be stated that the DPO variable has a significant negative effect on ROA. The DPO regression coefficient is -0.000480, which indicates that

if the other independent variables are held constant and the DPO value increases by 1, the ROA value will decrease by 0.000480. If the other independent variables have stable values and the DPO value decreases by 1, the ROA value will increase by 0.000480.

D. DISCUSSIONS

1. The Impact Days Inventory Outstanding (DIO) on firm financial performance

The t-test indicates that DIO has a negative effect on ROA. These results correspond with and are supported by the findings of Yousaf et al. (2021); Gołaś (2020); Musau (2015); Fernández-López et al. (2020); Gołaś & Bieniasz (2016); Shin et al.(2016); Ganas & Hyz (2015); Isaksson & Seifert (2014); Hofer & Eroglu (2011); Koumanakos (2008); Boute et al. (2007); Serrasqueiro (2014); and Jayarathne (2014) that investigated a negative relationship between the DIO and firm's profitability. Days Inventory Outstanding is a ratio that measures the overall discrete inventory component, which includes raw material, indirect material, work-in-progress, finished goods, expired inventory, inventory in transit (inventory in transit), and MRO (Maintenance, Repair and Overhaul) inventory as it appears in the financial statements. This ratio quantifies the rate (in days) at which manufacturing firms deplete bills of materials (BOM) and non-bills of materials (BOM) inventories, commencing with the consumption of raw materials, production, and distribution of finished goods.

Higher inventory typically involves expensive storage, selling, handling, and administrative expenses (Modi & Mishra, 2011). As a result of the unpredictability of demand, surplus inventory occurs (Brandenburg, 2016; Hoberg et al., 2016). If the company's demand estimates are accurate, inventory availability and volatility can be maintained at an acceptable level. In practice, however, poor and frequently fluctuating demand forecasting is the cause of excess finished goods inventory resulting from changes in customer preferences or rivals' competitive strategy (Christopher, 2000; Eroglu & Hofer, 2014). Unanticipated requests for product enhancements and new product launches result in shorter product life cycles and a rise in the volatility of finished product inventory (Peres et al., 2010). Under these conditions, businesses are compelled to implement discounting techniques for still-available products of the preceding generation (Slotegraaf & Pauwels, 2008). In contrast, firms must foresee the desire for a diverse product portfolio and the demand for the subsequent generation of unique items (Bendig et al., 2018).excessive inventory causes costly warehousing, supplying, handling, and administrative costs (Modi & Mishra, 2011). Due to demand's unpredictability, surplus inventory occurs (Brandenburg, 2016; Hoberg et al., 2016). If the company's demand projections are accurate, inventory availability and volatility of finished items can be kept to an acceptable minimum. In practice, however, poor and regularly shifting demand forecasting is the cause of excess inventory due to changes in client preferences or the competitive strategies of rivals (Christopher, 2000; Eroglu & Hofer, 2014). Unanticipated demands for product improvements and new product launches lead to shorter product life cycles and an increase in completed product inventory instability (Peres et al., 2010). Under these circumstances, businesses must use discounting strategies for still-available previousgeneration products (Slotegraaf & Pauwels, 2008). In contrast, businesses must anticipate the demand for a complex product range and the demand for the next generation of unique products (Bendig et al., 2018).

2. The Impact Days Sales Outstanding (DSO) on firm financial performance

The results of the t-test revealed that the DSO variable positively influences ROA. This study's findings contradict those of Javid & Dalian (2014), Mathuva (2012), Rezaei & Pourali (2015), and Fernández-López et al. (2020), who found a negative impact of DSO on ROA but consistent with those of Enow & Brijlal (2014) and Ademola (2014), who found a positive relationship between DSO and a firm's profitability. In the case of Days Sales Outstanding, the study accepts the hypothesis (H_3) that a conservative approach to Sales Outstanding management could assist the Indonesian Automotive Industry in maximizing profitability. In Indonesia, the majority of car sales occur in instalments. Direct installation purchases will improve the revenues of the multiple industry ecosystems involved. This industry's ecosystem includes financial and insurance firms, spare parts suppliers, and SME workshops. Extending Days Sales Outstanding in the automotive industry has the benefit of contributing to the sustainability of the dynamic business ecosystem.

3. The Impact Days Payable Outstanding (DPO) on firm financial performance

According to the t-test, DPO has a negative influence on ROA. These findings are consistent with and reinforced by the findings of Moussa (2018), Javid & Dalian (2014), and Serrasqueiro (2014), who revealed that DPO has a negative influence on business profitability. Indonesia's automobile sector has a reasonably complicated and extensive ecosystem. Several industries engage in the production of two-wheeled vehicles, four-wheeled vehicles, and commercial vehicles. The active businesses include finance, insurance, spare components, and small and medium-sized enterprises. This finding indicated that reducing the time it takes for SMMEs to settle their debts will boost their profitability. This result means that paying off creditors, which in most cases are suppliers early, will enable suppliers to deliver better products or services, boosting the quality of products and services provided to customers and consequently profitability (Enow & Brijlal, 2014; Deloof, 2003).

V. CONCLUSIONS

Working capital is fundamental for all businesses. Working capital management is essential to a company's profitability. This study's primary objective is to investigate the association between working capital management (WCM) and business profitability in the Indonesian Automotive Industry. The findings of the pooled regression indicated that all aspects of WCM had a substantial impact on the firm's profitability. A comprehensive analysis of each component of working capital (DIO, DSO, and DPO) can significantly boost a company's profitability by managing its working capital in an efficient or optimal approach.

This study examines the factors influencing financial performance as measured by return on assets. These factors are only measured through working capital management in automotive and component sub-sector companies for the period 2011-2021, which are included in the cyclical company cluster whose sales and profits are susceptible to the business cycle and economic growth of a given country. Additional research is required to examine the cluster of non-cyclical enterprises (non-cyclical companies). The impact of factors or other variables on working capital management's financial performance requires additional investigation.

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