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The Influence of Working Capital Management on Financial Performance and Company Profitability

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Abstract

This study aims to analyze the effect of current asset management on company solvency and profitability, and to examine the moderating role of company growth rate in the relationship between current asset management and financial performance. The data used in this study were obtained from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period. The research method used is multiple linear regression to test the relationship between current asset management and financial performance, as well as to test the moderating role of company growth rate. The results show that better current asset management has a positive and significant effect on company solvency and profitability. In addition, the company growth rate was found to moderate the relationship between current asset management and financial performance, although the effect is negative. This study suggests that companies should focus on efficient current asset management to enhance financial performance, while also being mindful of the risks posed by rapid growth in maintaining solvency and profitability.

Keywords : Working Capital Management, Financial Performance, Company Profitability, Growth Rate

Introduction

Effective working capital management is crucial for the operational continuity and overall performance of a company. It ensures that the company maintains sufficient liquidity to meet its short-term obligations while optimizing the use of its net assets to support growth and profitability (Sowjanya & Singhal, 2024). Poor management in this area can lead to significant challenges, including difficulties in meeting financial obligations, which can reduce operational capacity and negatively affect profitability. Additionally, effective cash flow management is integral to this process, as it involves tracking inflows and outflows to maintain liquidity and make appropriate financial decisions (Mukafich & Pratama, 2024). Furthermore, efficient inventory management plays a crucial role in ensuring stock levels meet customer demand without overstocking, thereby minimizing costs and supporting operational efficiency.

Financial performance and company profitability are key indicators of business health and sustainability. Good financial performance is often assessed through various financial ratios, including liquidity, solvency, and efficiency ratios, which reflect how effectively a company

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manages its assets and liabilities in its operations (Kusuma & Estiningsih, 2023). Liquidity ratios, such as the current ratio, indicate a company's ability to meet short-term obligations, while solvency ratios assess its capacity to cover long-term debt. Efficiency ratios measure how well a company uses its resources to generate revenue, which is essential for maintaining profitability (Koapaha & Supit, 2022). Profitability, typically evaluated through profitability ratios, is greatly influenced by the efficiency of working capital management, which supports daily operations and contributes to overall financial health (Sembiring, 2020).

Effective working capital management is especially important for companies navigating competitive markets and economic uncertainty. Working capital includes current assets such as cash, receivables, and inventory, which are vital for daily operations. Balancing these assets with short-term liabilities is essential to avoid financial difficulties that may threaten business continuity (Narayanan et al., 2024). Efficient receivables management can improve cash flow and reduce the risk of bad debts, supporting liquidity (Naidu, 2024). Moreover, optimizing the cash conversion cycle enables companies to minimize working capital requirements and enhance cash flow, ensuring operational stability (Sharma et al., 2024).

Conversely, poor working capital management can increase costs and reduce profitability, ultimately jeopardizing the financial health of the company (Naidu, 2024). Therefore, a strategic approach to working capital management not only enhances operational efficiency but also plays a vital role in driving overall profitability..

Literature Review

Working Capital Management

Effective working capital management is essential for a company's short-term operational success, as it involves the strategic management of current assets such as cash, receivables, and inventory. By optimizing cash flow management, companies can ensure liquidity and meet short-term obligations, minimizing the risk of liquidity shortages (Sowjanya & Singhal, 2024). Additionally, efficient inventory management reduces storage costs and prevents stockouts, which is

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critical for maintaining stable cash flow (Locker & Grosse-Ruyken, 2013). Strong receivables management improves payment collection, ensures timely cash inflows, and reduces the risk of bad debt (Naidu, 2024). Lastly, effective short-term financing strategies support liquidity needs, enabling companies to navigate financial challenges and maintain operational stability (Schawel & Billing, 2012).

Company Financial Performance

A company's financial performance is a crucial indicator of its ability to generate profit and meet financial obligations, assessed through various financial ratios. Liquidity ratios, such as the current and quick ratios, evaluate a company's capacity to meet short-term commitments, while solvency ratios, such as the debt-to-equity ratio, reflect its ability to manage long-term obligations (Koapaha & Supit, 2022). Efficient financial performance indicates effective resource management, cost reduction, and revenue growth—all essential for sustaining long-term growth. Therefore, a comprehensive analysis of these ratios provides valuable insights into a company's financial health and operational efficiency, guiding stakeholders in their decision-making.

Company Profitability

Profitability is an important measure of a company's success and is heavily influenced by effective working capital management. By efficiently managing current assets and liabilities, companies can enhance cash flow and reduce operating costs, leading to higher profit margins and net income (Alsulayhim, 2019). This relationship highlights the importance of working capital in achieving financial goals, as it directly impacts profitability (Pattiasina et al., 2024). A strategic approach to working capital and cash flow management can significantly improve a company's profitability in line with its broader financial objectives.

The Relationship between Working Capital Management, Financial Performance, and Profitability

Effective working capital management significantly enhances financial performance and profitability. Deloof (2003) found that companies with efficient working capital management achieve better financial outcomes, as they can reduce financing costs and improve operational efficiency

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(Yusoff et al., 2018). By optimizing these components, companies can minimize costs and maximize returns, ultimately increasing profitability. The relationship between working capital management and financial performance highlights the importance of strategic operational practices in achieving business success.

Methods

This study uses a quantitative method with a descriptive approach to examine the influence of working capital management on financial performance and company profitability. The population in this study includes companies listed on the Indonesia Stock Exchange (IDX) in the industrial sector with complete and published financial statements during the 2018–2022 period. The sample includes manufacturing companies listed on the IDX.

Research Variables:

- **Independent Variable (X):** Working Capital Management
- **Moderating Variable (Z):** Company Growth Rate
- **Dependent Variable (Y):** Financial Performance and Profitability

Hypotheses:

- **H1:** Better working capital management (current ratio, quick ratio, and cash conversion cycle) positively affects financial performance and profitability.
- **H2:** Company growth rate moderates the relationship between working capital management and financial performance and profitability.
- **H3:** Working capital management does not significantly affect financial performance and profitability.

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Results and Discussion

1. Normality test

Table Normality Test

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Unstandardized Residual	64	-0,49086	0,67969	0,0000000	0,30727172	0,481	0,299	-0,516	0,590
Valid N (listwise)	64								

- Interpretation

1. Skewness

Skewness value: 0.481 Since the skewness value is between -0.5 and +0.5, it indicates that the data distribution is relatively symmetrical and not too skewed to the left or right. A positive value indicates a slight tendency of the distribution to the left (positive skew), but this value is still within acceptable limits.

2. Kurtosis

Kurtosis value: -0.516 ,The kurtosis value for a normal distribution should be close to 0. A negative kurtosis value indicates that the data distribution is slightly flatter than a normal distribution (platykurtic). In general, kurtosis values between -2 and +2 are often considered to indicate that the data distribution is not far from normal.

Based on the skewness and kurtosis values given, we can conclude that the residuals (the difference between predicted and observed values) are close to a normal distribution, which means that the regression model used is likely not violating the normality assumption.

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2. Multiple Linear Regression Analysis

Table T test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,379	3	0,126	1,317	,277[b]
	Residual	5,762	60	0,096		
	Total	6,142	63			
a. Dependent Variable: Company Financial Performance and Profitability						
b. Predictors: (Constant), The Influence of Growth Rate on the Relationship between Working Capital Management and Financial Performance, Working Capital Management, Company Growth Rate						

Interpretation

F value = 1.317, Sig. = 0.277, The p-value indicates the statistical significance of the F test. If the p-value is greater than the commonly used significance level (usually 0.05), then we cannot reject the null hypothesis that the regression model does not provide a significant explanation for the variation in the company's financial performance and profitability.

Table T Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,498	0,110		4,529	0,000
	Working Capital Management	-0,003	0,007	-0,086	-0,366	0,716
	Company Growth Rate	-0,081	0,044	-0,497	-1,832	0,072
	The Effect of Growth Rate on the Relationship of Working Capital Management to Financial Performance	0,003	0,002	0,532	1,392	0,169
a. Dependent Variable: Company Financial Performance and Profitability						

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1. F test

Table F test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12,462	3	4,154	3,118	0,000[b]
	Residual	208,051	56	3,715		
	Total	220,514	59			
a. Dependent Variable: Solvabilitas dan Profitabilitas Perusahaan						
b. Predictors: (Constant), XM, Pengelolaan Aset Lancar, Tingkat Pertumbuhan Perusahaan						

Interpretation

The F value = 3.118 indicates that this regression model explains the variation of the data quite well, but we need to look at the p-value to determine its significance. Since the p-value = 0.000 is smaller than 0.05, it can be concluded that the regression model is statistically significant. In other words, the variables in the model (current asset management, company growth rate, and interaction variable XM) together have a significant effect on the company's solvency and profitability.

Analysis of Determinant Coefficient

Table R Square

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,238[a]	0,257	0,006	1,92749
a. Predictors: (Constant), XM, Current Asset Management, Company Growth Rate				
b. Dependent Variable: Company Solvency and Profitability				

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Interpretation

1. Working Capital Management = t = -0.366, Sig. = 0.716

A small t value and a p-value greater than 0.05 (0.716) indicate that working capital management is not significant in influencing the company's financial performance and profitability. This means that the working capital management variable does not have a significant influence in this regression model.

2. Company Growth Rate = t = -1.832, Sig. = 0.072

A t value greater than 1 and a p-value slightly greater than 0.05 (0.072) indicate that the company's growth rate is approaching significance, but not significant enough at the 0.05 level. This indicates that the company's growth rate may have an influence on financial performance and profitability, but its influence is still not strong enough to be considered significant at the level of significance commonly used (0.05).

3. The Effect of Growth Rate on the Relationship between Working Capital Management and Financial Performance = t = 1.392, Sig. = 0.169

A small t-value and a p-value greater than 0.05 (0.169) indicate that the effect of growth rate on the relationship between working capital management and financial performance is not significant. This indicates that although there is a hypothesized relationship, its effect is not significant enough to affect the company's financial performance and profitability.

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2. Determinant Coefficient Analysis

Table R Square

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,249[a]	0,062	0,015	0,310

a. Predictors: (Constant), The Influence of Growth Rate on the Relationship between Working Capital Management and Financial Performance, Working Capital Management, Company Growth Rate

4. Hypothesis Testing

H1: Better working capital management (current ratio, quick ratio, and cash conversion cycle) has a positive effect on the company's financial performance and profitability.

Based on the results of the t-test for the working capital management variables (current ratio, quick ratio, and cash conversion cycle), a p-value of > 0.05 was obtained, indicating that working capital management does not have a significant effect on the company's financial performance and profitability. H1 is Rejected

H2: The company's growth rate moderates the relationship between working capital management and the company's financial performance and profitability.

Based on the results of the t-test for testing the interaction between the company's growth rate and working capital management, the p-value = 0.169, which is greater than 0.05, indicating that the company's growth rate does not significantly moderate the relationship between working capital management and financial performance. H2 is rejected

H3: Working capital management does not affect the company's financial performance and profitability.

Based on the results of the F-test, the overall regression model shows a p-value = 0.277, which is greater than 0.05. This shows that working capital management, in the context of this model, does not have a significant effect on the company's financial performance and profitability. H3 Accepted.

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Conclusion

1. Working Capital Management and Financial Performance

The results of the analysis show that working capital management, as measured by the variables current ratio, quick ratio, and cash conversion cycle, does not have a significant effect on the company's financial performance and profitability. This can be seen from the results of the t-test which shows that these variables do not contribute significantly to improving the company's financial performance, with a p-value greater than 0.05.

2. Company Growth Rate as a Moderating Variable

This study also tests the moderating role of the company's growth rate in the relationship between working capital management and financial performance. Although the company's growth rate shows a moderating effect that is close to significant, its effect on the relationship is not strong enough to be considered significant at the 0.05 significance level. Therefore, it can be concluded that the company's growth rate does not significantly moderate the relationship between working capital management and financial performance.

3. Working Capital Management and Profitability

Better working capital management does not show a significant impact on the company's profitability, in accordance with the results of the F test which shows that the overall regression model is not significant. This means that there are other factors that may have a greater influence on a company's profitability that are not covered in this model.

Overall, although working capital management remains an important component of a company's financial management, the results of this study indicate that there are many other factors that need to be considered to comprehensively understand its influence on a company's performance and profitability.

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