

The Influence of Working Capital Management and ROE (Return On Equity) on Financial Performance at Letter Karya Timur Malang

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INDEXING	ABSTRACT
<p>Keywords: Keyword 1; Working Capital Management Keyword 2; ROE Keyword 3; Financial Performance Keyword 4; Letter Karya Timur Keyword 5; Influence</p>	<p>The aim of this study is to determine the effect of working capital management and return on equity (ROE) on financial performance at Letter Karya Timur Malang, both partially and simultaneously. Types of Quantitative Research. The data used is secondary data, in the form of financial statements in 2018-2024. Data analysis uses multiple linear regression analysis. Hypothesis testing using the T (partial) test and F test (simultaneous). Multiple linear regression results obtained by the two independent variables have a positive regression coefficient value and the coefficient of R Square's coefficient of 0.813 (contribution of the independent variable to the dependent variable of 81.3%). The results of testing the t (partial) test hypothesis found the two independent variables have a tcount > ttable value, with a significant <0.05; And the results of the F (Simultaneous) hypothesis testing obtained the Fcount > Ftable value, with significant <0.05. So it was concluded that working capital and return on equity (ROE) had a significant effect on financial performance at Letter Karya Timur Malang, both partially and simultaneously. Letter Karya management of East Malang is advised to increase the efficiency of working capital utilization and encourage profitability through cost management, increased profit margin, and optimizing income to support more optimal financial performance.</p>

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INTRODUCTION

Competition among companies is becoming increasingly intense in line with the development of globalization. Kamaludin (2011:2) states that competition among companies is influenced by high inflation, technological advancements that require significant capital, environmental issues, social factors, government regulations, and corporate operational involvement. This complex competition demands companies to manage their finances effectively. Hermawan (2021) explains that financial managers have three important roles, namely decision-making related to financing, investment, and short-term financial management.

Short-term financial management is related to operational activities that require funds in the form of working capital (Ismail, 2017). Kamaludin (2011:114) states that working capital management is one aspect that needs attention because more than half of the company's assets are part of current assets that should be monitored daily. Working capital is used to finance daily activities such as purchasing raw materials, employee salaries, and other operating costs. Kamaludin (2011:120) defines working capital as the company's investment in short-term assets such as cash, short-term securities, receivables, and inventory. Syamsuddin (2009:202) mentions that current

assets must be able to cover current liabilities to provide an adequate level of security. Emphasizes the importance of working capital management to face market imperfections such as activity delays and bankruptcy risks.

Return on Equity (ROE) is a ratio that indicates a company's ability to generate profit from its own capital as well as from investor capital. ROE is used to measure the effectiveness of a company in utilizing its available capital (Sukmawati and Garsela, 2016). Jumingan (2017) explains that Return on Equity (ROE) is used to determine the company's ability to generate profit using its own capital. Kasmir (2012:204) states that Return on Equity (ROE) or return on equity is a ratio used to measure net profit after tax against equity. A high ROE reflects the efficiency of the company and is capable of attracting investor confidence.

The increase in profit reflects good financial performance and demonstrates the success of capital management. The company's ability to generate profit is closely related to the management of working capital and the achievement of Return on Equity (ROE). Profit becomes the primary objective of the company because it is directly related to business sustainability, the welfare of owners and employees, and opportunities for business development. The aim of this research is to determine the effect of working capital management and Return on Equity (ROE) on financial performance at Letter Karya Timur Malang, both partially and simultaneously.

LITERATURE REVIEW

Working Capital

According to Sutrisno (2007:39), working capital is the funds needed by a company to meet its daily operational needs, such as purchasing raw materials, paying labor wages, settling debts, and making other payments. The working capital turnover is calculated using the following formula:

$$\text{working capital turnover} = \frac{\text{earning after tax}}{\text{total equity}}$$

Return on Equity (ROE)

According to Kasmir (2012:204) and also Yanto *et al* (2021), Return on Equity (ROE) or the return on equity or profitability of equity is a ratio used to measure net profit after tax against equity. This ratio indicates the efficiency of the use of equity; the higher this ratio, the better it is. This means the position of the company's owners is getting stronger, and vice versa. This ratio measures how much profit the company generates compared to the capital contributed by shareholders. The formula for ROE is as follows:

$$\text{ROE} = \frac{\text{earning after tax}}{\text{total equity}} \times 100$$

Financial Performance

According to Wild *et al.* (2008:101), financial performance is the acknowledgment of income and the association of costs, producing superior profit figures compared to cash flow for evaluating financial performance. In this study, financial performance is measured using Return on Assets (ROA) with the following formula:

$$\text{ROA} = \frac{\text{net profit}}{\text{Total of the asset}} \times 100$$

RESEARCH METHOD

The Types of this reseacrh is quantitative research. The data used is secondary data, which consists of the financial reports of Karya Timur Malang for the years 2018-2024. Data analysis uses multiple linear regression analysis. Hypothesis testing uses t-test (partial) and F-test (simultaneous)

RESULT AND DISCUSSION

Multiple Linear Regression Analysis

Multiple linear regression analysis is used to determine the magnitude of the influence of independent variables on the dependent variable. Here is the result of the multiple linear regression analysis,

Tabel 1. The Result of The Multiple Linear Regression Analysis

Variable	<i>Unstandardized</i>	
	<i>Coefficients</i>	
	<i>(B)</i>	<i>Std. Error</i>
Constant	5,665	1,895
X ₁	0,382	0,133
X ₂	0,583	0,183

Source : Processed Data, 2025

Based on table 1, the regression equation model is obtained as follows: $Y = a + b_1X_1 + b_2X_2 + e$
 $Y = 8.327 + 0.381X_1 + 0.364X_2 + 0.696$

Based on the regression equation, it can be explained as follows:

1. A constant of 5.665 means that if the values of the working capital management variable (X1) and Return on Equity (X2) are 0, then the value of the financial performance variable (Y) is 5.665.
2. The regression coefficient of the working capital management variable (X1) is 0.382, which means that if the working capital management variable (X1) increases by 1, the financial performance variable (Y) will increase by 0.382. Conversely, if the working capital management (X1) decreases by 1, the financial performance variable (Y) will decrease by 0.382. The results of this regression analysis indicate that working capital management has a positive effect on financial performance at Letter Karya Timur Malang.
3. The regression coefficient of the Return on Equity variable (X2) is 0.583, meaning that if the Return on Equity variable (X2) increases by 1, the financial performance variable (Y) will increase by 0.583. Conversely, if the Return on Equity (X1) decreases by 1, the financial performance variable (Y) will decrease by 0.583. This regression analysis shows that Return on Equity has a positive effect on financial performance at Letter Karya Timur Malang.

Analysis of Regression Coefficient (R²)

The coefficient of determination (R²) essentially measures how well the model explains the variation of the independent variable against the dependent variable. The results of the determination coefficient (R²) test are presented in the following table.

Tabel 2. coefficient of determination (R²) test

<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
0,901a	0,813	0,719	3,00930

Source : Processed Data, 2025

Based on table 2, it shows that the results of the simple regression analysis produced an R Square (R²) value of 0.813, which means that the contribution of the influence of working capital management and Return on Equity to financial performance is 81.3%, while the remaining 0.187 (18.7%) is influenced by other factors that were not studied.

Hypothesis Testing t test (Partial)

The t-test is conducted to determine the effect size of each independent variable on the dependent variable. The magnitude of the influence of the independent variables on the dependent variable can be found in the following table.

Tabel 3. T test (partial)

Variable	t _{count}	t _{table}	Sig t
X ₁ → Y	2,875	2,776	0,034
X ₂ → Y	3,191	2,776	0,004

Source : Processed Data, 2025

Based on table 3, it shows that the results of the hypothesis testing using the t-test can be interpreted as follows:

1. The Working Capital Management variable (X₁) has a t-statistic value > t-table (2.875 > 2.776) with a significant value of 0.034 (p value < 0.05) so it can be concluded that hypothesis H₁ is accepted, meaning that working capital management has a significant effect on financial performance at Letter Karya Timur Malang.
2. The Return on Equity variable (X₂) has a t value > t table (3.191 > 2.776) with a significant value of 0.004 (p value < 0.05), thus it can be concluded that the hypothesis H₂ is accepted, meaning that Return on Equity has a significant effect on financial performance at Letter Karya Timur Malang.

F test (Simultaneous)

The F test is conducted to determine the magnitude of the simultaneous (together) influence of the independent variables on the dependent variable. The magnitude of the influence from the independent variables on the dependent variable can be seen in the following table.

Tabel 4. F test (Simultaneous)

Variable	t _{count}	t _{table}	Sig t
X ₁ dan X ₂ → Y	11,980	6,944	0,005

Source : Processed Data, 2025

The Influence of Working Capital Management on Financial Performance

According to Kasmir (2012), working capital is the capital used to conduct the company's operational activities. Managing working capital is crucial to ensure the continuity of the company can be balanced between working capital and raw materials, thus allowing the company to be sustained. Based on the results of the first hypothesis test (H₁), it is proven that partially managing working capital has a significant effect on the financial performance of Letter Karya Timur Malang. On the other hand, the results of the multiple regression analysis show a positive coefficient value, indicating that working capital management has a positive effect on the financial performance of Letter Karya Timur Malang. This study supports previous research conducted by Santoso (2020) and the research by Sigalingging Sigalingging et al., (2024), which concluded

that working capital management contributes to improving financial performance.

The research results show that working capital management has a positive and significant impact on the financial performance of Letter Karya Timur Malang, which means that the better the company manages its working capital, the better the financial performance it generates. Efficient management of working capital, which includes the arrangement of cash, receivables, and inventory, can improve the company's liquidity, maintain operational smoothness, and minimize short-term financing needs. In the context of a company like Letter Karya Timur Malang, which is engaged in the services of making and installing advertising, working capital management becomes crucial, as cash flow and inventory turnover have a significant impact on revenue and operational costs. When working capital is managed well, the company is not only able to meet short-term obligations, but can also take advantage of market opportunities that require a quick response, thereby supporting profit growth. Therefore, this finding supports the financial management theory which states that the efficiency of working capital has a direct impact on the profitability and financial stability of the company.

This result is in line with the concept of modern financial management which places the management of working capital as an essential element in achieving optimal financial performance, as working capital is the lifeblood of the company's daily activities. When a company is able to manage the cash conversion cycle well, for example by accelerating accounts receivable collections and strategically slowing down debt payments, then the company's liquidity will be maintained, and reliance on short-term loans can be reduced. In other words, effective working capital management will minimize liquidity risk, increase operational efficiency, and support the achievement of short-term and medium-term financial targets.

The Influence of Return on Equity on Financial Performance

According to Kasmir (2012), Return on Equity (ROE) is a ratio that measures net profit after tax against equity. A high ROE can depict a healthy company's financial performance, as it shows the ability to manage equity to generate profit. In this study, financial performance uses Return on Asset (ROA), which certainly illustrates a significant relationship in assessing financial performance. ROA measures the efficiency of asset usage, while ROE measures the efficiency of equity usage, thus the relationship between the two can assist companies in making better decisions in managing finances and improving overall company performance. Furthermore, the results of the second hypothesis test (H2) prove that, partially, Return on Equity has a significant effect on financial performance as measured by Return on Asset (ROA) at Letter Karya Timur Malang. The results of the multiple regression analysis obtained a positive coefficient value, indicating that Return on Equity has a positive effect on financial performance. The results of this study support the previous research conducted by Rahman & Sari (2019), which similarly concluded that the use of Return on Equity significantly affects financial performance.

The research findings indicate that Return on Equity (ROE) has a significant impact on financial performance measured by Return on Assets (ROA) at Letter Karya Timur Malang. This illustrates a strong relationship between the effectiveness of using owner's equity and the overall efficiency of the company's assets. A high ROE reflects the company's ability to generate net profit from the capital invested by shareholders, which ultimately strengthens the overall financial position of the company. When a company is able to maximize returns on equity, it is usually supported by efficient asset management, so these two ratios reinforce each other and reflect solid performance. In the context of the Letter Karya Timur Malang, the increase in ROE indicates that the

company has successfully managed owner's equity productively, while the high achievement of ROA reflects the company's ability to utilize all of its assets to generate profit. This significant relationship reinforces that the company's strategy of maximizing profitability through efficient resource utilization has been effective.

The findings of this research are in line with the fundamental principles of financial ratio analysis, where ROE and ROA are the main indicators for measuring a company's success in generating profits from two different yet interconnected perspectives, namely equity and total assets. ROE is typically considered a profitability indicator from the shareholders' perspective, while ROA provides an overview of how effectively the company utilizes all of its assets, including those financed by debt. When ROE is high but ROA is low, it may indicate that the company is using high leverage; however, in this case, both ROE and ROA show performance trending positively, as both have increased year over year, indicating that the company's management has been able to maintain a balance between risk and return. In practice, the balance between these two ratios indicates a healthy capital structure and targeted investment strategies. Therefore, this result strengthens the understanding that good financial performance is influenced not only by operational results but also by funding structure and efficiency in asset usage.

The Influence of Working Capital Management and Return on Equity on Financial Performance

Based on the results of the third hypothesis test (H3), it is proven that working capital management and Return on Equity (ROE) simultaneously have a significant effect on financial performance at Letter Karya Timur Malang. The existence of simultaneous influence indicates that the combination of working capital management and Return on Equity (ROE) together can determine the level of financial success of the company. The results of the multiple linear regression analysis also yield a very high R Square (R²) value, indicating that the two independent variables studied (working capital management and Return on Equity) have a very high impact on improving employee performance at Letter Karya Timur Malang. The results of this study illustrate that when both aspects (working capital management and Return on Equity) are optimally managed, the company is not only able to maintain short-term liquidity but also demonstrates competitiveness in generating profits on the invested capital. Proper working capital management will keep cash flow stable, while high ROE reflects maximum returns for shareholders, thus both reinforce the overall financial position of the company. In this context, Letter Karya Timur Malang has proven that the synergy between these two internal factors is an important foundation in creating healthy and sustainable financial performance.

The results of this study also illustrate that financial performance is not only influenced by a single variable, but rather by a combination of various complementary internal factors, especially in terms of working capital management and the effectiveness of using equity capital. When a company successfully maintains stable working capital, the risk of operational disruptions due to a lack of funds can be minimized, and at the same time, achieving a high ROE indicates that the company is capable of generating net profits commensurate with the owners' investment (Choiriyah *et al.*, 2020). Thus, these two indicators operate in parallel, where success in one aspect will encourage improvement in the other aspect, resulting in a stronger and more consistent impact on financial performance. The results of the multiple linear regression analysis show that the Return on Equity (ROE) intelligence variable has a higher regression coefficient (b) compared to the working capital management variable,

indicating that ROE has a more dominant effect on financial performance compared to working capital management. This finding suggests that the return on owners' equity is the most indicative of the company's financial success, as ROE directly measures how much net profit a company can generate from the funds invested by shareholders.

In this context, ROE becomes the main barometer in assessing management efficiency in using its own capital to generate profits, which means the higher the ROE, the greater the added value the company provides to its capital owners. While working capital management does play an important role in maintaining the smoothness of daily operations, its impact on financial performance is not as strong as that of the profitability of the owner's capital itself. Therefore, ROE's dominance in influencing financial performance signals that financial management strategies should focus on efforts to continuously improve net profit, as well as optimizing an efficient capital structure, as well as described by Sari *et al* (2023).

CONCLUSION

Based on the research results and discussions in the previous chapter, the following conclusions can be drawn:

1. Working capital management has a significant effect on financial performance at Letter Karya Timur Malang, indicating that the better the working capital management, the more significant the impact on improving financial performance.
2. Return on Equity has a significant effect on financial performance at Letter Karya Timur Malang, indicating that the higher the rate of return on equity, in terms of the company's ability to generate profit from equity, the greater the impact on the company's financial performance.
3. The management of working capital and Return on Equity (ROE) simultaneously has a significant effect on financial performance at Letter Karya Timur Malang, indicating that when these two aspects (working capital management and Return on Equity) are managed optimally, the company is not only able to maintain short-term liquidity but also demonstrates competitiveness in generating profits from the invested capital.

The management of Letter Karya Timur Malang is advised to improve the efficiency of working capital utilization and to encourage profitability through cost management, increased profit margins, and revenue optimization to support more optimal financial performance.

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