

## THE EFFECT OF WORKING CAPITAL ACTIVITIES ON COMPANY PROFITABILITY

(At PT. Telekomunikasi Indonesia, Tbk)

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**Abstract:** *PT. Telekomunikasi Indonesia, Tbk is an information and communication company as well as a service provider and operator of a complete telecommunications network in Indonesia. TELKOM claims to be the largest telecommunications company in Indonesia, with 12.4 million fixed telephone subscribers and 23.5 million cellular subscribers. The company was founded in 1884 and is headquartered in Bandung, Indonesia. With adequate working capital and good sources and use of working capital, it is very possible for the company to operate optimally with efficient use of working capital. Based on the results of this study, it is known that the calculation results for a period of five periods are known that the working capital turnover is in a minus condition every year and the company's profitability has decreased every year, namely for working capital turnover in 2007 which was -2.273, in 2008 it was -1.244, in 2007 2009 is -0.990, 2010 is -1.879, and 2011 is -8.203. For the level of profitability achieved by PT. Telekomunikasi Indonesia, Tbk during the period 2007-2011 has decreased every year. The highest condition was achieved in 2007 at 15.67% and the lowest condition occurred in 2011 at 10.64%. In testing the hypothesis that working capital has no significant effect on the profitability of own capital.*

**Keywords:** *working capital, Profitability*

### 1. Introduction

In addition to using working capital, the company uses fixed assets, such as land, buildings, factories, machinery, vehicles, and other equipment which have a useful life of more than one year. PT. Telekomunikasi Indonesia, Tbk is an information and communication company as well as a service provider and operator of a complete telecommunications network in Indonesia. TELKOM claims to be the largest telecommunications company in Indonesia, with 12.4 million fixed telephone subscribers and 23.5 million cellular subscribers. The company was founded in 1884 and is headquartered in Bandung, Indonesia.

Working capital at PT. Telekomunikasi Indonesia, Tbk sourced from several sectors including working capital obtained from the company's net (profit) and so on. As for the use of working capital at PT. Telekomunikasi Indonesia, Tbk is used for cash dividend payments, purchase of fixed assets and so on. Bastian, (2013) states that capital is part of the owner's rights in the form of concrete goods that are still in the company that are on the debit side of the balance sheet and the exchange rate of the goods listed on the credit side. Companies must meet working capital needs if the excess or deficiency affects the company's profitability (Supriyadi & Fazriani, 2015). The level of profit (profitability) at PT. Telekomunikasi Indonesia, Tbk during

the period concerned was in an unstable or fluctuating condition which caused the company's profit to decrease and increase in certain years. As shown in table 1.1 below:

Table 1.1  
Empirical Data on Average Working Capital for 2004-2006

Year	Total Current Assets	Total Current Liability	Working capital Average	Total Net Profit	Operating revenues
2004	9.203.934	11.677.042	(2.350.166)	6.129.209	33.947.766
2005	10.304.550	13.513.168	(2.840.813)	7.993.566	41.807.184
2006	13.920.792	20.674.629	(3.882.355)	11.005.577	51.294.008

Source: PT. Telekomunikasi Indonesia, Tbk Period 2004-2006

The average total working capital from the period 2004 to 2006 was always in a minus state and for the total net profit for the 2004 period it was Rp. 6,129,209,000,000 and increased in 2005 to Rp. 7,933,566,000,000, and in 2006 the total net profit increased to Rp. 11,005,577,000,000. Meanwhile, the level of operating income in 2004 was Rp. 33,947,766,000,000, in 2005 it increased to Rp. 41,807,184,000,000, in 2006 again experienced an increase in operating income to Rp. 51,294,008,000,000. Of all the working capital used to finance the company's operational activities. After the working capital is obtained, the full responsibility lies with the company itself, which the company must be able to use working capital properly and efficiently according to the company's needs.

This study uses Return On Investment (ROI) as a tool to measure the company's profitability. The following will show a table of empirical data for the years 2004-2006 and a table of reports on the level of company profitability for comparison.

Table 1  
Company Empirical Data

Year	Profitability
2004	10,90%
2005	12,85%
2005	14,64%

Source: PT. Telekomunikasi Indonesia Tbk

Based on empirical data from 2004-2006 the table above is seen from the profitability report of the percentage of PT. Telekomunikasi Indonesia, Tbk in a period of 3 years has increased and decreased.

## **2. Literature Review**

Kasmir, (2017), in analyzing working capital as a measuring tool for company management in achieving company profitability. In the company's operations, then we first analyze the financial statements. Therefore, regular and continuous financial reports can be seen whether the company's financial position is good or not and the ability to achieve good profits or not, so it can be seen how much influence the use of working capital has on the level of profit.

For parties with an interest in the company, information about the financial position is very much needed to determine attitudes towards the company and interested parties can obtain information in a company's financial statements.

According to Ashari (2018), financial statements are company reports presented in the form of a balance sheet, income statement, and cash flow.

In practice, we recognize several types of financial statements, such as: balance sheet and income statement.

Working capital is defined as the capital used to finance the daily operations of the company, especially those that have a short period of time. Working capital is also defined as all current assets owned by a company or after current assets are reduced by current liabilities (Kasmir, 2014). In working capital management there are several concepts of working capital that are often used. The concept of working capital describes the funds invested in certain posts (in current assets) which are rotated continuously so that the company's main operations can continue to run in accordance with the policies set by the company's management. In general, the concept of working capital is divided into 3 (three) types, namely: Quantitative Concepts, Qualitative Concepts and Functional Concepts (Kasmir, 2017).

According to Kasmir, (2014) Basically, working capital consists of two main parts, namely:

- 1). Fixed part or permanent part is the minimum amount that must be available so that the company can run smoothly without financial difficulties.
- 2). Variable amount of working capital whose amount depends on seasonal activities and needs outside the usual activities.

The use of funds for working capital can be obtained from the increase in assets and decrease in liabilities. In general it is said that the use of working capital is usually carried out by companies for the following purposes:

- 1) Payment of cash dividends.
- 2) Expenditure on salaries, wages, and other company operating costs.
- 3) Expenditures to purchase raw materials or merchandise.
- 4) To cover losses due to the sale of securities.
- 5) Fund formation.
- 6) Purchase of fixed assets (land, buildings, vehicles, machinery, etc.).
- 7) Payment of long-term debt (bonds, mortgages, long-term bank loans).
- 8) Purchase or recall of outstanding shares.
- 9) Taking money or goods for personal use.

10) Other usage funds.

Profitability is the ability to generate profit (profit) during a certain period by using productive assets or capital, both overall capital and own capital (Van Horne & Wachowicz Jr, 2012). According to Rahardjo, (2007), Profitability is the ability of management to obtain profits (profit). Profit consists of gross profit, operating profit, and net profit. To obtain above-average profits, management must be able to increase revenue (revenue) and reduce all expenses (expenses) on revenue. That means management must expand market share at a favorable price level and eliminate non-value added activities. Here are some profitability analyzes consisting of:

- 1) Gross profit margin (GPM), which is gross profit divided by sales.
- 2) Operating profit margin (OPM), namely operating profit divided by sales.
- 3) Net profit margin (NPM), which is net profit divided by sales.
- 4) Return on Assets (ROA), namely net income divided by total assets.
- 5) Return on Equity (ROE), namely net profit divided by equity (own capital).

In maximizing profit there is always a trade-off with risk. The greater the risk faced, the greater the expected profit. The pattern developed to overcome the problem of profit and risk is to maximize profit (maximize profit) in addition to minimizing risk (minimizing risk). In dealing with this balance of benefits and risks, companies must develop control over the flow of funds with the flexibility to respond to changes in the operating environment. This study uses Return On Investment (ROI) as a measure of company profitability. This research is strengthened by Saharuddin et al., (2020); UI & Nasr, MohamedRaheman, (2007) show that working capital turnover has a positive effect on profitability (ROI). In contrast to Awopetu, (2012) working capital has a negative effect on company profitability.

### **3. Research Methods**

Metode penelitian merupakan serangkaian langkah yang harus ditempuh oleh peneliti untuk mencari pemecahan masalah yang telah dirumuskan dan mendapatkan data yang diperlukan. Dalam penelitian ini peneliti menggunakan metode penelitian deskriptif dan verifikatif. Menurut Moh. Nazir (2003:54), metode deskriptif adalah “Suatu metode dalam meneliti status, sekelompok manusia, suatu objek, suatu kondisi, suatu sistem pemikiran, ataupun suatu kelas peristiwa pada masa sekarang.” Sedangkan menurut Eti Rochaety (2007:13) menjelaskan definisi mengenai metode penelitian verifikatif adalah “Penelitian yang bertujuan untuk menguji hubungan dua variabel dari hipotesis-hipotesis yang diajukan disertai data empiris.” Analisis data merupakan bagian yang amat penting dalam penelitian ilmiah, karena dengan analisislah data tersebut dapat diberi arti dan makna yang berguna dalam memecahkan masalah penelitian.

Teknik analisis yang digunakan untuk menjawab tujuan penelitian adalah Analisis deskriptif untuk memperoleh Laporan Keuangan adalah analisis yang didasarkan perbandingan terhadap teori dari literatur dan praktek pada kenyataannya, sesuai dengan variabel yang diteliti yaitu aktivitas modal kerja terhadap profitabilitas perusahaan pada PT. Telekomunikasi Indonesia, Tbk. Analisis Statistik untuk mengetahui pengaruh aktivitas modal kerja terhadap profitabilitas perusahaan maka data-data yang telah tersedia akan dianalisis melalui metode analisis statistik sebagai berikut. Analisis Koefisien regresi digunakan untuk mengetahui bagaimana variabel dependen dapat diprediksi melalui variabel independen secara individual.

Koefisien korelasi yaitu ukuran-ukuran yang dipakai untuk menentukan hubungan antara variable-variabel sehingga dengan analisis korelasi ini akan dapat diketahui bahwa antara aktivitas modal kerja dengan profitabilitas mempunyai hubungan yang erat atau dengan profitabilitas modal kerja mempunyai hubungan yang erat atau tidak.

#### **4. Results and Discussion**

##### **Result**

Working capital activities are needed to finance the company's daily operations. Working capital activity consists of two elements, namely net sales and average working capital. Changes in net sales and average working capital will have a direct impact on the company's own working capital activity. Therefore, it is necessary to have good working capital management so that the use of working capital can be used efficiently.

For more details and to help smooth the research, the following amounts of net sales and average working capital that make up working capital activities are taken from the balance sheet report of PT. Telekomunikasi Indonesia, Tbk.

Table 2  
 Net Sales Volume, Average Working Capital and Working Capital Activities  
 PT. Telekomunikasi Indonesia, Tbk  
 2007-2012 period

Year	Net Sales	Working capital	Working Capital Turnover
2007	12.857.018	(5.655.863)	-2.273
2008	10.619.470	(8.536.187)	-1.244
2009	11.332.140	(11.435.615)	-0.990
2010	11.536.999	(6.136.805)	-1.879
2011	10.965.000	(1.336.645)	-8.203
2012	18.388.000	1.467.500	12.530

(Source: Balance Sheet of PT. Telekomunikasi Indonesia, Tbk, which has been processed)

Based on the data obtained above, it can be seen changes in net sales, working capital as well as working capital turnover for the period December 31, 2007 to December 31, 2012.

Based on the results of these calculations over a period of five periods it is known that net sales have increased as well as decreased and working capital and working capital turnover are in a minus state except in 2012, this is because the number of current assets is smaller than current liabilities. The data that the researcher mentioned above can be seen in the appendix.

After knowing the comparison of the company's working capital activities, then to find out the development of the company's profitability level, an analysis of the Profit and Loss Statement is carried out, namely the amount of net income compared to total assets. The formula used to determine the level of company profitability is net profit after tax compared to total assets.

The following is a clearer description of the level of company profitability which will be described in tabular form.

Table 3  
Profitability Rate  
PT. Telekomunikasi Indonesia, Tbk  
2007-2012 period

Year	Net profit	Total Assets	Profitability
2007	Rp. 12.857.018	Rp. 82.058.760	15,67%
2008	Rp. 10.619.470	Rp. 91.156.250	11,64%
2009	Rp. 11.332.140	Rp. 97.559.606	11,61%
2010	Rp. 11.536.999	Rp. 99.758.447	11,56%
2011	Rp. 10.965.000	Rp. 103.054.000	10,64%
2012	Rp. 18.388.000	Rp. 111.369.000	16,51%

(Source: Income Statement and Balance Sheet of PT. Telekomunikasi Indonesia, Tbk)

The results of the calculations on the data above show the net profit obtained by PT. Telekomunikasi Indonesia, Tbk during the period December 31, 2007 to December 31, 2012 has increased and decreased. The highest net profit was achieved in 2012 amounting to Rp. 18,388,000 and the lowest net profit occurred in 2008 of Rp. 10,619,470. For the level of profitability achieved by PT. Telekomunikasi Indonesia, Tbk during the period 2007-2011 has decreased every year. The highest condition was achieved in 2012 at 16.51% and the lowest condition occurred in 2011 at 10.64%.

After knowing the amount of working capital activity and the level of profitability of the company each year, the next step is to find out how the effect of working capital activity on the company's profitability is used statistical test analysis. The data used in this statistical analysis is working capital activity as an independent variable (X) and company profitability as the dependent variable (Y) during the period 2007-2011.

Table 4  
Analysis Variable Values

Tahun	X	Y (%)	XY	X <sup>2</sup>	Y <sup>2</sup>
2007	-2.273	15.67	-35.6179	5.166529	245.5489
2008	-1.244	11.64	-14.4802	1.547536	135.4896
2009	-0.990	11.61	-11.4939	0.9801	134.7921
2010	-1.879	11.56	-21.7212	3.530641	133.6336
2011	-8.203	10.64	-87.2799	67.28921	113.2096
2012	12.530	16.51	206.8703	157.0009	272.5801
Σ	-2.059	77.63	36.2772	235.5149	1035.2539

(Source: PT. Telekomunikasi Indonesia, Tbk which has been reprocessed)



Statistical analysis was carried out by using regression coefficients, correlation coefficients, coefficients of determination ( ), and t distribution to test the hypothesis.

Table 5  
Simple Linear Regression Analysis Results  
Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	13.030	.765		17.040	.000
X	.268	.122	.739	2.195	.093

a. Dependent Variable: Y

Source: SPSS 19.0 output attachment

Based on table 4.4, it can be seen that the regression equation formed is:

$$Y = 13.030 - 0.268X$$

The working capital activity variable has a coefficient direction which is negative towards the company's profitability. If working capital activity increases by 1, then profitability will decrease by 0.268. And vice versa, if it is greater than then the independent variable is significant to the dependent variable.

The t-distribution can be formulated as follows:

$$t\text{-count} = \frac{r\sqrt{\beta - 2}}{\sqrt{(sb.r^2)}}$$

Testing the hypothesis is as follows:

- The initial hypothesis ( $H_0: = 0$ ), the hypothesis is rejected, meaning that working capital activities have no significant effect on company profitability.
- The alternative hypothesis ( $H_a: 0$ ), the hypothesis is accepted, meaning that working capital activities have an influence on company profitability.
- If  $t\text{-count} > t\text{table}$ , then  $H_0$  is rejected,  $H_a$  is accepted
- If  $t\text{-count} < t\text{table}$ , then  $H_0$  is accepted,  $H_a$  is rejected

To find the  $t\text{table}$ , it is necessary to know:

$\alpha$  = The real test rate used is 5% or 0.05

n = Number of samples, which is 5

n-2 = Degrees of freedom, i.e. 5-2=3

because the test is 2 parties, then = 0.05, if  $t\text{table} = (0.05:3) = 3.182$ . For  $t\text{-count} 0.268/0.122 = 2.95$

The results of hypothesis testing are 2,195 where these results mean that  $t\text{-count} > t\text{table}$  ie  $2.195 < 3.182$  then based on the test results  $H_0$  is accepted and  $H_a$  is rejected, meaning that working capital activities do not have a significant effect on company profitability.

Table 6  
 Correlation Coefficient Analysis Results

**Model Summary**

R	R Square	Adjusted R Square
.739 <sup>a</sup>	.546	.433

a. Predictors: (Constant), X

The value of the correlation coefficient (r) produced is 0.739 which means that there is a strong influence between working capital activities and company profitability because it is located between 0.60-0.799. The resulting coefficient of determination of 0.546 means that working capital activities affect the company's profitability by 54.6%.

While the rest is non-determination coefficient of 89.3%, meaning that this value is influenced by other factors that are not proposed in this study.

## 5. Conclusion

The results of primary data obtained by researchers, then tested. Statistical analysis was carried out by using regression coefficients, correlation coefficients, coefficients of determination ( ), and *t distribution to test hypotheses. After the researcher describes the discussion on "The Effect of Working Capital Activities on Company Profitability", the researchers draw the following conclusions:*

1. Development of working capital activities at PT. Telekomunikasi Indonesia, Tbk.  
 The results of calculations for a period of six periods are known that current liabilities have increased as well as decreased and current assets have increased every year even though the amount of increase in each period is different. Likewise, the average working capital experiences a minus every year. The average working capital experienced the biggest minus in 2009 amounting to Rp. -11,435,615. This decrease was due to the smaller current assets than current liabilities. Current assets in the year increased by Rp. 16,186,024 while current liabilities are Rp. 26,717,414.
2. The level of profitability at PT. Telekomunikasi Indonesia, Tbk.  
 To find out the development of the company's profitability level, an analysis of the Profit and Loss Statement is carried out, namely the amount of net income compared to total assets. The formula used to determine the level of own capital profitability is net income compared to total assets multiplied by 100%.  
 The highest net profit was achieved in 2011 amounting to Rp. 103,054,000 and the lowest net profit occurred in 2007 amounting to Rp. 82,058,760. However, for the level of company profitability achieved by PT. Telekomunikasi Indonesia, Tbk 2007-2012 has increased and decreased every year.
3. The effect of working capital activity on the level of company profitability at PT. Telekomunikasi Indonesia, Tbk.  
 The data used in this statistical analysis is working capital activity as the independent variable (X) and company profitability as the dependent variable (Y) during the period



2007-2012. Based on calculations using the SPSS 19.0 program and the results of the regression equation formed are  $Y = 13,030 - 0,268X$ . From this equation, it can be explained that: (a) The working capital activity variable has a negative direction coefficient on the company's profitability, (b) If the working capital activity is higher, the profitability will increase by 0.268. The value of the correlation coefficient (r) generated is 0.328, which means that there is a strong relationship between working capital activity and company profitability because it is located between 0.60-0.799. The coefficient of determination produced is 0.107 which means that working capital activity does not affect the company's profitability by 10.7%. While the rest is non-determination coefficient of 89.3%, meaning that this value is influenced by other factors that are not proposed in this study. The results of hypothesis testing are 2.195 where these results mean that  $-2,195 < 3.182$ , then based on the test results  $H_0$  is accepted and  $H_a$  is rejected, meaning that working capital does not have a significant effect on the profitability of its own capital.

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