ABSTRACT

This study aims to analyze how working capital financing affects firm performance and to investigate how financial flexibility moderates this relationship. Return on Assets (ROA) is used as a proxy for firm performance, while Working Capital Financing (WCF) and its squared term (WCF^2) are used to measure working capital financing. In addition, leverage and cash holdings are used as indicators of financial flexibility.

The study employs secondary data obtained from Bloomberg and annual financial reports of consumer cyclicals companies listed on the Indonesia Stock Exchange during the period of 2020–2024. The sample consists of 53 companies with a total of 265 firm-year observations selected through purposive sampling. Data were analyzed using a dynamic panel regression model estimated by the two-step Generalized Method of Moments (GMM).

The results reveal that working capital financing has an inverted U-shaped relationship with firm performance. WCF has a positive and significant effect on ROA, whereas WCF^2 has a negative and significant effect on ROA. These findings indicate that the use of short-term debt to finance working capital can enhance firm performance up to an optimal level; however, excessive reliance on short-term debt may reduce firm performance. The optimal level of short-term debt financing is estimated at 2.593. Furthermore, financial flexibility, measured by leverage and cash holding, is not found to moderate the relationship between working capital financing and firm performance. In addition, asset tangibility, used as a control variable, has a significant negative effect on ROA.

Keywords: working capital financing, financial flexibility, firm performance, return on assets, GMM.