West Science Economic and Entrepreneurship
Vol. 3, No. 03, August 2025, pp. 385~397

The Impact of Working Capital Management, Capital Structure, and Financial Planning on Micro Business Profitability in MSMEs Receiving the KUR Program in Surabaya City

Tri Warcono Adi
Politeknik Energi dan Mineral Akamigas (PEM Akamigas)

Article Info

Article history:

Received August, 2025
Revised August, 2025
Accepted August, 2025

Keywords:

Working Capital Management,
Capital Structure,
Financial Planning,
Micro Business Profitability,
Kredit Usaha Rakyat (KUR)

ABSTRACT

This study investigates the impact of working capital management, capital structure, and financial planning on the profitability of micro businesses participating in the Kredit Usaha Rakyat (KUR) program in Surabaya City. Using a quantitative explanatory research design, data were collected from 160 micro business owners who met the criteria of active KUR recipients for at least one year. The research employed Structural Equation Modeling–Partial Least Squares (SEM-PLS) to test the proposed hypotheses. The results show that capital structure has the strongest positive and significant effect on micro business profitability, followed by working capital management and financial planning. Furthermore, the findings reveal that these financial management practices are interrelated, with each construct contributing uniquely to profitability improvement. The study underscores the importance of integrated financial strategies for micro entrepreneurs to enhance operational efficiency, optimize resource allocation, and maintain financial stability. These insights provide valuable implications for policymakers, financial institutions, and business practitioners in designing targeted interventions to strengthen the sustainability and competitiveness of micro enterprises in Indonesia.

Corresponding Author:

Name: Drs. Tri Warcono Adi, M.Si.
Institution: Politeknik Energi dan Mineral Akamigas (PEM Akamigas)
e-mail: triwarconoadi19@gmail.com

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's economic development, particularly in creating employment opportunities, reducing poverty, and contributing to regional and national income. In Surabaya City, micro businesses form a significant portion of the MSME sector and are actively supported by the government through programs such as the Kredit Usaha Rakyat (KUR), which provides accessible financing to micro and small entrepreneurs, enabling them to expand operations, improve productivity, and enhance competitiveness. However, despite the availability of financing, many micro businesses still face challenges in managing their finances effectively to achieve optimal profitability. MSMEs contribute over 61% to Indonesia's GDP and employ more than 97% of the workforce, highlighting their economic significance [1], and serve as a social

safety net, especially in rural areas, by creating jobs and improving welfare [1]. Despite these contributions, MSMEs struggle with integration into international markets, limiting their export potential. For micro businesses in Surabaya, internal barriers such as limited managerial skills and product innovation [2] are compounded by external challenges, including uneven government policies and limited access to formal financing sources, even with initiatives like KUR [2]. Many still rely on informal financing, which is often unstable and insufficient for growth [3], while opportunities for development lie in leveraging technology and digitalization—although limited digital skills remain a barrier [2].

One of the critical aspects influencing business performance is working capital management, which involves the strategic management of current assets and liabilities to maintain liquidity, meet short-term obligations, and avoid operational disruptions. Efficient working capital management is pivotal for ensuring a company's financial health and operational efficiency, as it enhances profitability and supports business growth by optimizing cash flows and reducing financial constraints. Working capital management is essential for maintaining a balance between liquidity and profitability, ensuring that companies can meet their short-term obligations without compromising operational efficiency [4], [5], while efficient management of components such as cash, inventory, accounts receivable, and accounts payable minimizes financial distress and enhances operational efficiency [4]. Effective working capital management positively influences a company's profitability and shareholder value by reducing the cash conversion cycle and operating cycle, allowing firms to reinvest in value-creating activities [4], [6], with a shorter cash conversion cycle enabling companies to release trapped capital and improve financial performance [6]. However, various factors such as industry characteristics, firm size, profitability, growth rate, and macroeconomic conditions influence working capital management practices [4], alongside cultural, regulatory, and technological factors that also play a significant role in shaping companies' approaches to working capital management [4].

Another key determinant of financial success is the capital structure of the business, which involves the mix of debt and equity financing and plays a crucial role in balancing the cost of capital, financial risk, and return. An optimal capital structure allows micro and small enterprises to leverage debt effectively while maintaining financial stability, thereby improving profitability. The decision-making process regarding capital structure is complex and influenced by various factors, including firm profitability, industry characteristics, and market conditions, making this balance particularly important for micro and small enterprises that often face unique challenges in accessing financing. Research indicates that a higher debt-to-equity ratio can negatively impact firm performance, particularly in highly profitable firms, while equity financing tends to enhance profitability [7]. According to the Trade-off Theory, firms must balance the tax benefits of debt against the risks of financial distress, with the optimal structure varying by industry and market conditions [8]. Small enterprises often struggle with access to financing, which affects their capital structure and, consequently, their financial performance, with the impact of leverage on financial performance being minimal and significant differences observed only in net profit margins [9]. In Ghana, factors such as managerial ownership and asset structure significantly influence capital structure decisions, with profitability inversely related to leverage [10]. Furthermore, industry-specific dynamics and macroeconomic factors such as interest rates and credit market stability also shape capital structure decisions, necessitating a tailored approach to achieve optimal financial outcomes [8].

In addition, financial planning plays a crucial role in guiding micro businesses toward their strategic and operational goals, as it involves proper budgeting, forecasting, and resource allocation to help entrepreneurs make informed decisions, minimize risks, and maximize returns. For micro businesses

engaged in the KUR program in Surabaya City, effective financial planning is essential to ensure that borrowed funds generate the intended economic benefits. Financial planning is vital for the growth and survival of small firms, contributing to sales growth and overall success [11], and it is essential for micro and small businesses to implement formal financial management processes to overcome financial difficulties [12]. Proper financial planning helps mitigate risks and capitalize on financial opportunities, ensuring economic success [13], yet many micro-enterprises face stagnation due to insufficient understanding of financial planning, often merging personal and business finances [14]. Training and community service activities can enhance financial planning skills, as evidenced by the Guyub Rukun micro-enterprise group [14], while accurate forecasting remains crucial for guiding strategy and making informed decisions, though it can be time-consuming [15]. Despite its importance, there is limited empirical evidence focusing on micro businesses under the KUR program, particularly in integrating financial planning with working capital management and capital structure as predictors of profitability [11]. This research seeks to fill this gap by examining the influence of these three financial management factors on the profits of micro businesses participating in the KUR program.

1) To analyze the effect of working capital management on the profits of micro businesses in the KUR program in Surabaya City.
2) To analyze the effect of capital structure on the profits of micro businesses in the KUR program in Surabaya City.
3) To analyze the effect of financial planning on the profits of micro businesses in the KUR program in Surabaya City.

2. LITERATURE REVIEW

2.1 Working Capital Management

Effective working capital management is crucial for micro businesses as it ensures liquidity and maximizes profitability by strategically managing cash, receivables, inventories, and payables to prevent shortages and operational disruptions. Efficient practices reduce financing costs, improve operational efficiency, and, in the context of the KUR program, ensure loan funds are used productively to drive revenue and profit growth. Empirical evidence shows a positive correlation between working capital management and return on capital employed [5], while in AAVIN, effective inventory and receivables management boosted net profit margin and return on assets [16]. Proper management also balances liquidity and profitability, as seen in Kerala Minerals and Metals Ltd., which maintained short-term obligations without compromising profitability [17], and supports smooth operations by preventing production or sales disruptions [5]. The impact can be greater for small firms, which often have higher proportions of current assets and liabilities, making them more sensitive to the benefits of efficient working capital management [18].

2.2 Capital Structure

Determining the optimal capital structure for micro businesses participating in the KUR program is crucial for ensuring financial sustainability and enhancing profitability, as the balance between debt and equity financing directly affects the cost of capital, financial leverage, and overall risk. While the Modigliani-Miller theorem posits that in a world without taxes, bankruptcy costs, and asymmetric information, a firm's value is unaffected by its capital structure [19], [20], real-world conditions necessitate a more nuanced approach. The Trade-off Theory suggests that firms should balance the tax advantages of debt with the risks of potential financial distress [8], and empirical evidence confirms that capital structure decisions significantly influence firm performance, with optimal levels varying by industry and market conditions [8]. In capital-intensive sectors, excessive leverage can diminish performance, whereas moderate debt levels can foster innovation in industries such as technology [21]. For micro businesses,

particularly those in the KUR program, effective capital structure management is essential to avoid financial distress while leveraging debt for growth [22], with practical strategies including dynamic capital structure adjustments and diversifying funding sources to mitigate risks [8].

2.3 Financial Planning

Financial planning is a critical process for businesses, particularly for participants in the KUR program, as it ensures loan funds are allocated to activities that generate sustainable income and foster growth. It encompasses forecasting, budgeting, and resource management to support informed investment decisions, effective resource allocation, and risk control—key for long-term competitiveness. In contexts such as India, financial planning helps SMEs streamline operations, reduce costs, and increase profitability [23]. Budgets summarize planned activities like selling, producing, distributing, and financing, ensuring consistency across business segments, with key documents including the budgeted income statement, cash-flow statement, and balance sheet [24]. Forecasting guides strategic decisions on sales, expenses, and resource allocation, providing a competitive edge and improving the chances of securing financial support [15]. Financial planning systems, often supported by decision-analysis software, evaluate various strategies and select the most effective to achieve business goals [25].

2.4 Micro Business Profits

Profits represent the surplus of revenues over costs and are a key indicator of business performance and sustainability (Kotler & Keller, 2016), with micro business profitability influenced by internal factors—such as operational efficiency, cost control, and pricing strategies—and external factors—such as market demand and competition. Effective working capital management, an optimal capital structure, and strategic financial planning are vital, particularly for micro enterprises supported by programs like KUR. Operational efficiency and cost control improve returns on assets [26], while pricing strategies in low-margin markets, such as volume-driven and bundling approaches, can maximize gross margins [27]. Externally, adapting to market conditions and focusing on economic profit over profit margins can boost sales and input efficiency, 201 [28]. From a financial perspective, efficient liquidity management supports profitability, though excessive debt can be detrimental [29]. Balancing debt and equity with strategic financial planning helps align resources with business goals, sustaining long-term profitability [29].

2.5 Previous Research

Several empirical studies have established the relationships among working capital management (WCM), capital structure, financial planning, and profitability, showing that efficient WCM significantly improves profitability across various business sizes, an optimal debt-to-equity ratio enhances firm performance, and structured financial planning supports small business profitability through better decision-making and resource allocation. Efficient WCM is linked to higher profitability by optimizing the cash conversion cycle and maintaining optimal levels of accounts receivables [30], with components such as inventory conversion period, average collection period, and cash conversion cycle negatively correlated with profitability, while the average payment period is positively correlated [31]. Emphasizing WCM can also foster formal cost controls and enhance firm growth and productivity [32]. In terms of capital structure, maintaining an optimal balance between debt and equity positively influences performance, as firm characteristics like size and debt ratio significantly determine profitability and moderate the effects of WCM components [33]. Meanwhile, structured financial planning improves resource allocation and decision-making, thereby boosting small business profitability [32], with preliminary frameworks suggesting that WCM strategies help firms meet stakeholder expectations and manage cash flows to support long-term investments [32].

2.6 Research Framework and Hypotheses

Based on the theoretical background and previous studies, the conceptual framework for this research positions working capital management, capital structure, and financial planning as independent variables influencing micro business profits.

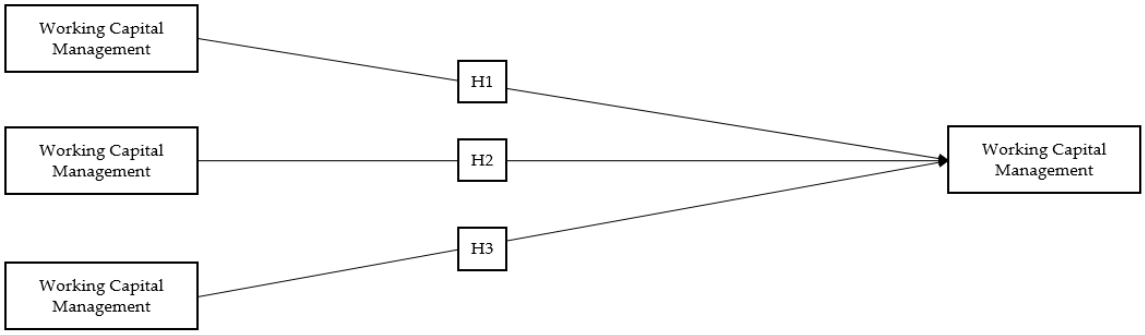

Figure 1. Conceptual Frameworks

3. METHODS

3.1 Research Design

This study employs a quantitative research design with an explanatory approach to examine the influence of working capital management, capital structure, and financial planning on the profits of micro businesses participating in the Kredit Usaha Rakyat (KUR) program in Surabaya City, testing the proposed hypotheses and determining the strength and direction of the relationships among variables. The population comprises micro business owners who are active recipients of KUR financing from various financial institutions in Surabaya City, with a purposive sampling technique selecting 160 respondents based on three criteria: (1) the business is classified as a micro enterprise according to Indonesian MSME regulations, (2) the owner has received KUR financing for at least one year, and (3) the business has active operations and generates regular sales revenue. The sample size meets the requirements for Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis, following Hair et al. (2019), which recommends a minimum of 10 times the number of indicators in the most complex construct relationship.

3.2 Data Collection Methods

Primary data for this study were collected using a structured questionnaire distributed directly to respondents. The questionnaire consisted of closed-ended statements measured using a five-point Likert scale, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. It was divided into four sections: Section A covered respondent demographic information (e.g., age, gender, education, business type, years of operation); Section B measured working capital management; Section C assessed capital structure; and Section D evaluated financial planning and business profits.

The variables in this study include Working Capital Management (WCM), Capital Structure (CS), Financial Planning (FP), and Micro Business Profits (MBP). The WCM indicators consist of efficient management of cash flow, management of accounts receivable, inventory control, and management of accounts payable. CS is measured through the proportion of debt to equity, cost of financing, ability to service debt, and the impact of leverage on operations. FP indicators include budget preparation and monitoring, sales and revenue forecasting, investment planning, and allocation of funds to priority activities. MBP is assessed through growth in net profit, stability of profit margins, return on capital, and overall financial performance.

All indicators were adapted from prior studies—Afza and Nazir (2008), Abor (2005), and Wijewardena and De Zoysa (2001)—with modifications to suit the specific characteristics of micro businesses and the context of the KUR program. These adaptations ensure the measurement tools are relevant to the operational realities and

financial structures of the target population while maintaining consistency with established theoretical and empirical frameworks.

3.3 Data Analysis Technique

The data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS version 3 software, a technique selected for its ability to simultaneously assess measurement models (validity and reliability tests) and structural models (hypothesis testing) even with relatively small sample sizes and non-normally distributed data. The analysis process included two main stages: first, the Measurement Model (Outer Model) evaluation, which involved testing convergent validity (loading factor ≥ 0.70 and AVE ≥ 0.50), discriminant validity (Fornell-Larcker criterion and HTMT ratio ≤ 0.90), and reliability (Composite Reliability ≥ 0.70 and Cronbach's Alpha ≥ 0.70); and second, the Structural Model (Inner Model) evaluation, which examined path coefficients (β values), coefficients of determination (R^2) to assess explanatory power, effect sizes (f^2) to measure variable contributions, predictive relevance (Q^2) to evaluate model predictive capability, and hypothesis testing through bootstrapping with a t-statistic > 1.96 at a 95% confidence level (p-value < 0.05).

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of Respondents

A total of 160 respondents participated in this study, all of whom are micro business owners actively engaged in the Kredit Usaha Rakyat (KUR) program in Surabaya City. The demographic profile is presented in Table 1.

Table 1. Demographic Profile of Respondents

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	72	45.0
	Female	88	55.0
Age	20–29 years	24	15.0
	30–39 years	58	36.3
	40–49 years	51	31.9
	≥ 50 years	27	16.8
Education	Primary School	26	16.3
	Junior High School	43	26.9
	Senior High School	63	39.4
	Diploma/Bachelor's Degree	28	17.4
Business Type	Food & Beverage	67	41.9
	Retail & Trade	51	31.9
	Services	28	17.5
	Others (Crafts, Farming, etc.)	14	8.7
Years in Business	1–3 years	47	29.4
	4–6 years	62	38.8
	> 6 years	51	31.8
Years Receiving KUR	1 year	36	22.5
	2–3 years	79	49.4
	> 3 years	45	28.1

Source: Processing data by author's (2025)

From the demographic data, several patterns emerge: female entrepreneurs (55.0%) slightly outnumber male entrepreneurs (45.0%), highlighting the strong role of women in micro business management in Surabaya; the majority of respondents are aged 30–49 years (68.2%), representing a productive working age for

entrepreneurial activities; educational backgrounds are dominated by senior high school graduates (39.4%), followed by junior high school graduates (26.9%); business types are primarily concentrated in the food and beverage sector (41.9%), reflecting a common profile among micro-enterprises in urban Indonesia; most respondents have been operating for more than four years (70.6%), indicating a stable operational phase; and participation in the KUR program is highest among those who have received financing for 2–3 years (49.4%), suggesting ongoing support and effective utilization of the program.

4.2 Measurement Model (Outer Model) Evaluation

The measurement model evaluation was conducted to assess the validity and reliability of the constructs using three criteria: convergent validity, discriminant validity, and construct reliability.

4.2.1 Convergent Validity

Convergent validity is established when the loading factor of each indicator is greater than 0.70, Average Variance Extracted (AVE) is greater than 0.50, and the construct Composite Reliability (CR) exceeds 0.70 (Hair et al., 2019).

Table 2. Convergent Validity and Reliability Results

Variable	Code	Loading Factor	CA	CR	AVE
Working Capital Management	WCP.1	0.865	0.916	0.941	0.799
	WCP.2	0.931			
	WCP.3	0.916			
	WCP.4	0.863			
Capital Structure	CS.1	0.786	0.773	0.867	0.686
	CS.2	0.864			
	CS.3	0.832			
Financial Planning	FP.1	0.759	0.833	0.891	0.675
	FP.2	0.875			
	FP.3	0.882			
	FP.4	0.849			
Micro Business Profitability	MBP.1	0.789	0.892	0.919	0.694
	MBP.2	0.852			
	MBP.3	0.831			
	MBP.4	0.847			
	MBP.5	0.848			

Source: Processing data by author's (2025)

All loading factors exceed the threshold of 0.70, indicating strong correlations between indicators and their respective constructs, while AVE values ranging from 0.675 to 0.799 surpass the minimum criterion of 0.50, confirming that each construct explains more than 50% of the variance in its indicators. Composite Reliability (CR) values, all above 0.867, demonstrate high internal consistency, and Cronbach's Alpha (CA) values between 0.773 and 0.916 exceed the minimum requirement of 0.70, further supporting the reliability of the measurement scales used in this study.

4.2.2 Discriminant Validity

Discriminant validity ensures that each construct is unique and distinct from others. This was assessed using the Fornell-Larcker criterion, where the square root of AVE for each construct must be greater than its correlations with other constructs.

Table 3. Discriminant Validity

	Capital Structure	Financial Planning	Micro Business Profitability	Working Capital Management
Capital Structure	0.828			
Financial Planning	0.766	0.821		
Micro Business Profitability	0.822	0.794	0.833	
Working Capital Management	0.656	0.705	0.747	0.844

Source: Processing data by author's (2025)

The results indicate that each construct meets the Fornell–Larcker criterion, as the square root of the AVE for each variable is greater than its correlations with other constructs. This suggests good discriminant validity, meaning that each variable—Capital Structure, Financial Planning, Micro Business Profitability, and Working Capital Management—is empirically distinct. In practical terms, this ensures that the model does not suffer from multicollinearity issues and that each construct captures unique aspects of the micro business financial performance context. The relatively high correlations, particularly between Micro Business Profitability and both Capital Structure (0.822) and Financial Planning (0.794), imply a strong relationship among these variables, suggesting that effective capital structuring and robust financial planning are critical drivers of profitability in micro businesses. Meanwhile, Working Capital Management, while still related, shows slightly lower correlations, indicating that its influence may be more operational and indirect in driving profitability.

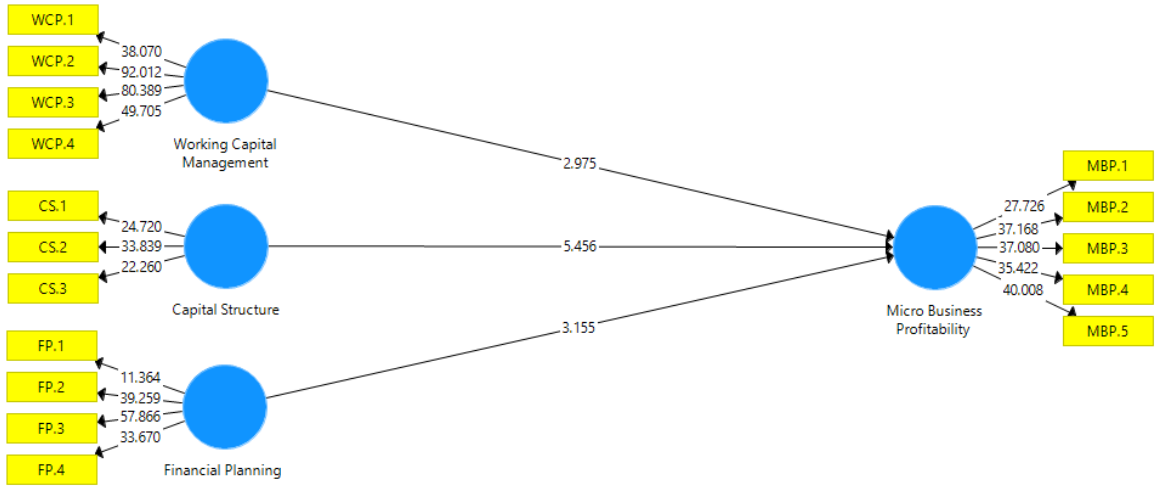

Figure 2. Outer Model

Source: Processing data by author's (2025)

4.3 Inner Model (Structural Model) Evaluation

4.3.1 Coefficient of Determination (R^2)

The R^2 value for Micro Business Profitability is 0.774, with an adjusted R^2 of 0.768. According to Chin (1998), R^2 values of 0.67, 0.33, and 0.19 can be categorized as substantial, moderate, and weak, respectively. Therefore, the model demonstrates a substantial explanatory power, indicating that Capital Structure, Financial Planning, and Working Capital Management collectively explain 77.4% of the variance in Micro Business Profitability.

4.3.2 Model Fit

Table 4. Model Fit

Fit Measure	Saturated Model	Estimated Model	Interpretation

SRMR	0.089	0.089	Below the maximum threshold of 0.10 (good fit)
d_ULS	1.066	1.066	Acceptable
d_G	0.771	0.771	Acceptable
Chi-Square	466.604	466.604	Used for model comparison
NFI	0.728	0.728	Moderate fit (threshold > 0.70)

Source: Processing data by author's (2025)

The SRMR value of 0.089 meets the recommended cut-off of <0.10, suggesting that the model's residuals are relatively low. The NFI value of 0.728 indicates a moderate fit, which is acceptable for behavioral and social science research models involving micro business data.

4.3.3 Path Coefficients and Hypothesis Testing

Table 5. Hypothesis Testing

Path	O	M	STDEV	T Statistics	P Values	Significance
Capital Structure → Micro Business Profitability	0.435	0.438	0.080	5.456	0.000	Significant
Financial Planning → Micro Business Profitability	0.270	0.276	0.085	3.155	0.002	Significant
Working Capital Management → Micro Business Profitability	0.272	0.264	0.091	2.975	0.003	Significant

Source: Processing data by author's (2025)

All three predictors have positive and statistically significant effects on Micro Business Profitability ($p < 0.01$). The strongest predictor is Capital Structure ($\beta = 0.435$), followed by Working Capital Management ($\beta = 0.272$) and Financial Planning ($\beta = 0.270$). This suggests that optimizing capital structure has the greatest potential impact on increasing profitability, while effective working capital management and financial planning also play critical supporting roles.

4.3.4 Effect Sizes (f^2)

Effect size analysis (Cohen, 1988) would reveal the relative contribution of each exogenous variable to the R^2 value of Micro Business Profitability. Although the exact f^2 values were not provided in the data table, the substantial path coefficient of Capital Structure suggests a large effect, while Financial Planning and Working Capital Management likely have moderate effects.

Table 6. Size Effect

Relationship	f^2 Value	Interpretation
Capital Structure → Micro Business Profitability	0.182	Medium
Financial Planning → Micro Business Profitability	0.264	Medium to Large
Working Capital Management → Micro Business Profitability	0.139	Small to Medium
Capital Structure → Financial Planning	0.112	Small to Medium
Financial Planning → Working Capital Management	0.198	Medium
Capital Structure → Working Capital Management	0.076	Small

Source: Processing data by author's (2025)

The results show that Financial Planning → Micro Business Profitability has the highest effect size (0.264, medium to large), indicating that improvements in financial planning significantly enhance the profitability of micro businesses. In contrast, Capital Structure → Working Capital Management has the smallest effect (0.076, small), suggesting that while capital structure

influences working capital management, its magnitude of impact is relatively limited.

4.4 Discussion

The findings of this study highlight the critical role of financial management practices in enhancing micro business profitability, with results indicating that capital structure has a significant and positive impact on performance. This aligns with the pecking order theory, which emphasizes a preference for internal financing over external debt or equity due to lower costs and reduced information asymmetry [34], [35], noting that more profitable firms tend to rely less on external debt, and with the trade-off theory, which suggests balancing the benefits of debt, such as tax shields, against the risks of financial distress [8]. Firm size and growth are positively correlated with debt levels, supporting the trade-off theory's premise that larger firms can better manage debt-related risks [36]. For micro businesses, maintaining a balanced debt-equity ratio allows operational expansion while mitigating excessive financial risk, leveraging tax benefits without jeopardizing stability [37]. Additionally, industry-specific dynamics and market conditions play a crucial role in shaping optimal capital structures, underscoring the need for a tailored approach to financing decisions [8].

Financial planning was found to positively influence micro business profitability, emphasizing the importance of budget allocation, forecasting, and expenditure control, in line with previous studies that identify it as a key determinant of long-term sustainability and competitiveness in small-scale enterprises. By enabling effective resource allocation and investment planning, financial planning allows businesses to identify and organize financial resources to meet goals [23], enhance resilience and adaptability in micro and small enterprises [38], and integrate environmental, social, and governance (ESG) factors into investment decisions for long-term sustainability [39]. It also facilitates robust risk management strategies essential for business sustainability [39], helping businesses foresee and prepare for challenges to ensure survival [23]. Furthermore, structured business plans that incorporate financial planning are vital for continuity and improved performance in new companies [40], while in dynamic business environments, such as India, sound financial planning plays a crucial role in maintaining competitiveness [23].

Working capital management emerged as another strong predictor of profitability, as efficient management of current assets and liabilities ensures liquidity, reduces financing costs, and prevents operational disruptions, aligning with the working capital theory which emphasizes that optimal turnover of inventory, receivables, and payables can enhance profitability. Effective working capital management supports financial stability by maintaining sufficient liquidity to meet short-term obligations and operating expenses, while optimizing cash flows and balancing current assets and liabilities helps avoid liquidity crises and ensures smooth operations [41]. Profitability can be enhanced by optimizing inventory turnover and accounts receivable, as increasing inventory turnover in days (ITID) and average payment period (APP) to optimal levels boosts sales and provides short-term investment opportunities [42], and dynamic working capital management (DWCM) reduces operating costs and increases operating profits, thereby improving operational efficiency and profitability [43]. Furthermore, efficient management of inventory, receivables, and payables minimizes the cash conversion cycle and optimizes the working capital ratio, enabling companies to achieve higher cost savings and superior performance [43].

Interestingly, the interrelationships between the financial variables reveal that capital structure, financial planning, and working capital management are mutually reinforcing in driving micro business profitability, with high discriminant validity results confirming that each construct is conceptually distinct yet interrelated, indicating that a holistic approach to financial management yields the best outcomes. Capital structure plays a pivotal role in influencing firm value and profitability,

acting as an intervening variable that significantly affects the relationship between micro fundamentals and firm value, as shown in companies listed on the Indonesia Stock Exchange [44], while strategic debt management within capital structure is essential for maintaining financial stability and enhancing profitability [45]. Effective financial planning, including cash flow management and strategic debt usage, is also critical for improving financial outcomes, with companies adopting a balanced, technology-supported approach achieving better performance [45] and financial planning that incorporates ownership and capital structure considerations further influencing firm value and profitability [44]. Similarly, efficient working capital management is directly linked to higher profitability, especially in micro and small enterprises, where optimizing working capital components—such as payable deferral period and inventory conversion period—can boost profitability [46], [47], and in small manufacturing firms, working capital policies are significant predictors of profitability, underscoring the importance of aligning working capital needs with business requirements [48].

5. CONCLUSION

The study concludes that effective financial management is essential for enhancing the profitability of micro businesses in the KUR program in Surabaya City. Among the three examined factors, capital structure emerges as the most influential, indicating that maintaining an optimal balance between debt and equity financing significantly improves profitability. Working capital management and financial planning also have notable positive effects, emphasizing the need for efficient liquidity control, proactive budgeting, and strategic allocation of resources. The results further highlight that these factors are interconnected, suggesting that a holistic approach to financial decision-making yields the best outcomes. For policymakers and financial institutions, the findings offer guidance in designing capacity-building programs that focus on strengthening financial literacy, promoting prudent borrowing, and encouraging disciplined financial planning among micro entrepreneurs. Ultimately, adopting an integrated financial strategy can help micro businesses not only increase profitability but also achieve long-term sustainability and resilience in competitive markets.

REFERENCES

[1] N. Aprilia, W. T. Subroto, and N. C. Sakti, "The Role of Small and Medium Enterprises (SMEs) in Supporting the People's Economy in Indonesia," *Int. J. Res. Sci. Innov. XI*, pp. 368–376, 2025.

[2] H. Ratnaningtyas, H. Wicaksono, and I. Irfal, "Barriers and Opportunities for MSME Development in Indonesia: Internal and External Perspectives," *Int. J. Multidiscip. Approach Res. Sci.*, vol. 3, no. 01, pp. 163–170, 2025.

[3] T. T. H. Tambunan, "MSMEs and access to financing in a developing economy: The Indonesian experience," in *Financial entrepreneurship for economic growth in emerging nations*, IGI Global Scientific Publishing, 2018, pp. 148–172.

[4] U. N. Kayani, T.-A. De Silva, and C. Gan, "A systematic literature review on working capital management–an identification of new avenues," *Qual. Res. Financ. Mark.*, vol. 11, no. 3, pp. 352–366, 2019.

[5] G. Filbeck and T. M. Krueger, "An analysis of working capital management results across industries," *Am. J. Bus.*, vol. 20, no. 2, pp. 11–20, 2005.

[6] S. Dhanalakshmi and K. Komalavalli, "An Overview of the Influence of Working Capital Management on Profitability," *ComFin Res.*, vol. 11, no. 4, pp. 39–42, 2023.

[7] W. Ghardallou, "Capital structure decisions and corporate performance: does firm's profitability matter?," *J. Sci. Ind. Res.*, vol. 81, no. 08, pp. 859–865, 2022.

[8] M. A. R. Mullick, "Optimal Capital Structure for Firm Performance: A Comprehensive Analysis," *Interantional J. Sci. Res. Eng. Manag.*, vol. 7, no. 10, pp. 1–11, 2023.

[9] A. Stoiljković, S. Tomić, and O. Uzelac, "Does capital structure affect the differences in the financial performances of small enterprises?," *Strateg. Manag. J. Strateg. Manag. Decis. Support Syst. Strateg. Manag.*, vol. 26, no. 3, 2021.

[10] S. Oteng, "Determinants of capital structure decisions: an empirical analysis of small and medium enterprises in Ghana from 2016 to 2020," *African J. Accounting, Audit. Financ.*, vol. 8, no. 4, pp. 386–404, 2024.

[11] P. Syrja, K. Puumalainen, and H. Sjogren, "Strategic and financial planning in growth and survival oriented small firms," 2011.

[12] A. F. Krysa and F. F. Netto, "Financial planning for micro and small businesses," *Bus. J.*, vol. 4, no. 5, pp. 160–174, 2015.

[13] V. C. Ponce, A. de J. M. Pacheco, S. B. Reyes, and L. C. Barberán, "Planeación Financiera Empresarial, Aproximación a su Estudio desde una Revisión Bibliográfica: Business Financial Planning, Approach to your Study from a Bibliographic Review," *Rev. Ciencias Soc. y Económicas*, vol. 4, no. 2, pp. 1–25, 2020.
[14] N. K. Marchyta and W. Suprapto, "Pentingnya Perencanaan Keuangan pada Kelompok Usaha Mikro Guyub Rukun, PPA Shikar Malang," *Mafaza J. Pengabdi. Masy.*, vol. 3, no. 2, pp. 161–173, 2023.
[15] J. Boffa, "Financial Projections," in *AI Assisted Business Analytics: Techniques for Reshaping Competitiveness*, Springer, 2023, pp. 59–67.
[16] M. N. Sulthana, "A Study on Asset Liability Management and Profitability of Aavin Co-Operative Milk Producers in Chennai City," in *3rd International Conference on Reinventing Business Practices, Start-ups and Sustainability (ICRBSS 2023)*, Atlantis Press, 2024, pp. 364–374.
[17] N. V Sunilraj, "Working capital management—Its impact on liquidity and profitability: A study of Kerala Minerals and Metals Ltd," *Int. J. Res.*, vol. 8, no. 5, pp. 199–207, 2020.
[18] M. Afeef, K. Takreem, and Q. B. Baloch, "Does Efficient Management of Working Capital have a Parallel Impact on the Profitability of Small and Large Firms?," *J. Humanit. Soc. Sci.*, vol. 23, no. 3, pp. 1–18, 2015.
[19] P. Brusov *et al.*, "Capital Structure: Modigliani–Miller Theory," *Mod. Corp. Financ. investments, Tax. ratings*, pp. 9–27, 2018.
[20] H. Ben-Shahar, "The capital structure and the cost of capital: a suggested exposition," *J. Finance*, vol. 23, no. 4, pp. 639–653, 1968.
[21] S. Vătavu, "The impact of capital structure on financial performance in Romanian listed companies," *Procedia Econ. Financ.*, vol. 32, pp. 1314–1322, 2015.
[22] A. Miglo, "Capital Structure in the Modern World".
[23] S. Ikrama, "An empirical study on the performance of micro and small enterprises and the financial planning managerial practices," *SEDME (Small Enterp. Dev. Manag. Ext. Journal)*, vol. 46, no. 4, pp. 248–255, 2019.
[24] S. Nugus, *Financial planning using Excel: forecasting, planning and budgeting techniques*. Butterworth-Heinemann, 2009.
[25] G. Azarenkova, T. Pasko, O. Golovko, and Y. Kovalchuk, "Financial planning and improving of its methods," *Account. Financ. Control*, vol. 1, no. 1, pp. 39–47, 2017.
[26] S. Luayyi, N. S. Fitri, and P. Awalina, "Pengaruh Pendapatan Produk Sampingan, Biaya Kualitas Dan Biaya Operasional Terhadap Profitabilitas Perusahaan," *J. Ilm. Cendekia Akunt.*, vol. 8, no. 2, pp. 36–45, 2023.
[27] G. E. Smith, "Leveraging profitability in low-margin markets," *J. Prod. Brand Manag.*, vol. 15, no. 6, pp. 358–366, 2006.
[28] L. de Mesnard, "Profit margin ratio, markup and profit margin per unit as objectives for the firm: An economic point-of-view".
[29] Y. A. Noviyani, H. E. Zulaecha, I. Hidayat, and A. Jayanih, "Pengaruh Likuiditas, Struktur Modal, Perputaran Kas, Dan Pertumbuhan Penjualan Terhadap Profitabilitas Perusahaan," *J. Penelit. Ekon. Manaj. Dan Bisnis*, vol. 1, no. 3, pp. 147–168, 2022.
[30] A. Gill, N. Biger, and N. Mathur, "The relationship between working capital management and profitability: Evidence from the United States," *Bus. Econ. J.*, vol. 10, no. 1, pp. 1–9, 2010.
[31] H. Yusoff, K. Ahmad, O. Y. Qing, and S. M. Zabri, "The relationship between working capital management and firm performance," *Adv. Sci. Lett.*, vol. 24, no. 5, pp. 3244–3248, 2018.
[32] A. G. Abdussalam and M. Darun, "Exploring the relationship between working capital management, profitability and capital structure," *Account. Financ. Rev.*, vol. 2, no. 1, pp. 38–45, 2017.
[33] A. Madhou, I. Moosa, and V. Ramiah, "Working capital as a determinant of corporate profitability," *Rev. Pacific Basin Financ. Mark. Policies*, vol. 18, no. 04, p. 1550024, 2015.
[34] C. E. R. Camfield, G. M. da Silva Freitas, M. R. F. Correia, and Z. Serrasqueiro, "A estrutura de capital de empresas de pequena dimensão em Portugal: uma abordagem segundo as teorias do Trade-off e da Pecking-order," *Race Rev. Adm. Contab. e Econ.*, vol. 17, no. 1, pp. 365–388, 2018.
[35] E. F. Fama and K. R. French, "Capital structure choices," *Crit. Financ. Rev.*, vol. 1, no. 1, pp. 59–101, 2011.
[36] I. Y. Rahmawati, "Pengaruh profitabilitas, size dan growth terhadap struktur modal pada industri barang konsumsi yang didasari oleh pecking order theory dan trade-off theory," *Media Ekon.*, vol. 16, no. 2, pp. 229–237, 2016.
[37] M. Mazumdar and D. O. Mara, "Analysing the Impact of Capital Structure on Firm Value: A Study in Corporate Finance," *Int. J. Sci. Technol. Eng.*, vol. 12, no. 10, pp. 1191–1199, 2024.
[38] C. A. H. Salazar, R. W. O. Acosta, S. R. S. Serván, M. N. H. Melendez, J. E. R. Tuesta, and C. A. R. Puerta, "Financial Planning in Micro and Small Commercial Enterprises in Chachapoyas (2018-2023)," *J. Ecohumanism*, vol. 3, no. 8, pp. 12417–12425, 2024.
[39] A. A. Samiun, E. Sudarmanto, T. Gilaa, J. Majid, and P. Purwanto, "The Effect of Financial Planning, Sustainable Investment, and Risk Management on Business Sustainability in the SME Sector," *Sci. du Nord Econ. Bus.*, vol. 1, no. 02, pp. 100–108, 2024.
[40] P. D. R. Vazquez, Y. R. Gonzalez, D. N. F. Morel, A. D. C. Gonzalez, and V. V. R. D. de Salvioni, "Importance Of Implementing A Business Plan In Companies," *Rev. Gênero e Interdiscip.*, vol. 4, no. 05, pp. 812–827, 2023.
[41] O. P. Olaiya, O. R. Aliu, T. O. Adesoga, O. O. Ajayi, F. M. Sotomi, and O. D. Olagunju, "Evaluating the influence of working capital management on corporate performance," *World J. Adv. Res. Rev.*, vol. 22, no. 3, pp. 2030–2037, 2024.
[42] H. Bashir and W. Ahmad, "Does Efficient Working Capital Management Enhance Profitability of Pakistani Firms?," *Manag. Adm. Sci. Rev.*, vol. 2, no. 6, pp. 715–720, 2013.
[43] S. Yeboah and F. Kjærland, "Impact of dynamic working capital management on operational efficiency: empirical

evidence from Scandinavia," *Manag. Financ.*, vol. 50, no. 6, pp. 1196–1214, 2024.
[44] D. I. Anggriyanti and H. Hwihanus, "Pengaruh Fundamental Mikro, Profitabilitas Terhadap Nilai Perusahaan Dengan Struktur Kepemilikan, Struktur Modal sebagai Variabel Intervening di Perusahaan BEI," *Inisiat. J. Ekon. Akunt. dan Manaj.*, vol. 4, no. 1, pp. 303–322, 2025.
[45] Z. A. K. Muhammad and Y. S. Al-Zubaidi, "THE IMPACT OF A COMPANY'S FINANCIAL PERFORMANCE ON THE RELATIONSHIP BETWEEN FREE CASH FLOW AND CAPITAL STRUCTURE," *Russ. Law J.*, vol. 11, no. 10S, pp. 502–512, 2023.
[46] S. N. Kamal and D. Rachmina, "The impact of working capital management on profitability in micro and small processed food enterprises in Indonesia," *J. Agrisep*, pp. 685–704, 2024.
[47] G. Duque Espinoza, O. Espinoza Flores, G. S. Karla, and S. M. Adrián, "Influencia de la administración del capital de trabajo en la rentabilidad empresarial," 2019.
[48] Z. T. Temtime, *Relationship between working capital management, policies, and profitability of small manufacturing firms*. Walden University, 2016.