

The Effect of Working Capital Management and Credit Management Policy on Financial Performance of Banking Companies Listed on the Indonesian Stock Exchange in 2019 - 2022

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Abstract

The high dividends paid by banking sector companies to capital market investors have led the OJK as a regulator to take action to regulate the portion of banking companies dividends which is considered excessive and could jeopardize bank stability. This study examines the role of Working Capital Management and Credit Management Policy as independent variables that influence bank Financial Performance. Using panel data from 34 Indonesian banks listed on the Indonesian Stock Exchange from 2019 to 2022, We investigate the effect of various WCM components (i.e., Bank Size (BS), Debt Ratio (DR), Current Ratio (CR), and CMP (i.e., Equity Ratio to Risky Assets (ERRA), Rate of A Bank's Ability to Return Deposits (RBARD), and Average Collection Period (ACP)) on the company's financial performance by looking Return on Assets (ROA). Multiple regression analysis was performed using Stata 14 software to evaluate the hypothesis. The findings revealed that WCM and CMP were only able to explain about 11.96% of changes in the dependent variable. The outcomes of this study suggest that banks should pay attention to capital resource allocation because excessive amounts of capital incur substantial costs. If equity is dominated by debt and shares, excess capital will have a detrimental impact on the company's profit growth. In addition, as determined by the ACP variable, longer receivable terms may result in increased credit risk and decreased bank profits.

Keywords: Working Capital Management, Credit Management Policy, Financial Performance, Average Collection Period, Bank Profitability.

1. Introduction

Okuyan (2014) interprets that banks are created as financial institutions that provide asymmetric information to lenders or people who have additional funds but lack information to determine the cost of borrowing, which represents the risk of the loan, meaning the possibility of default. As a result, banks can operate as lenders, bearing the costs of screening safe loan applicants from risky loans and monitoring loan activity. This function is known as the intermediation function. Therefore, banks require additional costs by transferring transaction costs to borrowers in the form of interest rates. These two (2) important functions show that banks have an impact on the country's economic development as well as creating risks for economic entities. Therefore, the government must intervene in the supervision process through regulations issued by Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI). According to an Ulfa (2023) article, OJK intends to regulate the dividend payment practices of banking sector

companies because it considers that the banking dividend payout ratio (DPR) is too high and could endanger bank operations.

In accordance to the credit supply demand survey released in February 2023, the distribution of banking credit in Indonesia is expected to increase (Haryono, 2023). The rise in credit demand is also confirmed by data from Badan Pusat Statistik (BPS), that illustrate the position of banking working capital credit by economic sector in 2023. This phenomenon demonstrates the importance of maintaining banking stability, because many stakeholders in the economy will be affected if a bank faces the possibility of bankruptcy. Credit Management Policy (CMP) is an important factor in bank credit regulation because it identifies and analyzes credit management practices, causes of credit shortages, and management of non-performing loans to reduce their occurrence (Sari, 2022). Mafumbo (2020) emphasized that the CMP consists of provisions that provide details regarding credit terms, procedures for granting credit, the longest repayment period, approaches to providing discounts or incentives to debtors who make credit payments early, and penalties for late payments. Tantra et al., (2021) propose that the financial performance of a company can be assessed through the utilization of profitability ratios, namely Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI). The influence of Working Capital Management (WCM) and Credit Management Policy (CMP) on Return on Investment (ROI) of Jordanian banks was investigated in a study by (AL-Zararee et al., 2021). The results of the research were statistically significant, indicating that ROI has a significant impact on bank financial performance as determined by WCM and CMP, which were the independent variables in the study. On the other hand, Shubita (2023) stated that ROI is more appropriate to use in evaluating the efficiency and effectiveness of certain projects or investments in a banking sector, such as office construction, product launches, or other specific projects. As one of the profitability ratios, ROA is considered a more accurate indicator of a bank's financial performance because it measures the bank's efficiency in converting its assets into profits. A bank's ability to generate profits from its assets is positively correlated with ROA (Punagi et al., 2022).

According to Aldubhani et al., (2022), Working Capital Management (WCM) is concerned with current assets and liabilities, which are an important aspect of the company's finances. (Hamilton (2007) defines banks as sector that have the characteristic of "borrowing short and lending long" and will always face the possibility of losing money on its long-term investments if interest rates increase, economic conditions weaken, and credit defaults occur. The objective of WCM is to guarantee that an organization possesses sufficient funds or liquidity to perform its regular operations without interruption (AL-Zararee et al., 2021). This study expands understanding and adds to the current financial literature by investigating the determinants of capital structure and credit control, which are important aspects of financial institutions, especially in the banking sector. It is hoped that the variables used in this research can contribute as a repository of knowledge because research on Working Capital Management (WCM) and Credit Management Policy (CMP) is rarely used in research with corporate objects in the Indonesian banking sector, which is influenced by macroeconomic dynamics and difficult-to-predict external factors.

2. Literature Review

The phenomenon of high dividend payments, followed by the process of publishing annual reports by banking companies, correlates with Spence's (1973) **Theory of Information Asymmetry And Signalling**, which states that asymmetric information occurs when there is an imbalance in the information accessed by the company's internal and external parties. External parties include investors and stockholders. In Taleb's (2019) research, investors utilize financial reports as a source of information to evaluate firm performance in order to control asymmetric information in the market. Dividend policies can also be adopted by corporate managers in order to inform investors about changes in the company's financial performance during a specific time period. This theory supports the assumption that a company's dividend policy has a significant impact on investor or shareholder decisions. On the other hand, sending a good signal of increased profitability to shareholders in order to overcome information asymmetry causes companies to face pressure from supervisors and regulators to be prudent in maintaining profits (Belloni et al., 2022). These conflicts of interest and information gaps emphasize the importance of controlling working capital and company risks that could have an impact on company profits through Working Capital Management (WCM) and Credit Management Policy (CMP) (Sany et al., 2023).

Working Capital Management (WCM). Working capital management (WCM) is the process of managing a company's short-term investments by controlling assets and liabilities to guarantee that the bank has enough funds to run its daily operations (Yao et al., 2020). Increased working capital from good capital management will improve the company's operational efficiency. According to Godswill et al. (2018), finance is based on two fundamental principles: First, because profitability and liquidity are inversely associated, increasing profitability will ultimately result in a decrease in liquidity. Second, there is a correlation between profitability and risk. This means that a higher profit margin requires higher levels of risk, although a lower profit margin reduces the risk. This is in line with Modigliani and Miller (1963)) **trade-off theory**, which states that financial decisions need sacrifices or concessions between several opposing factors. In capital structure management, determining the percentage of funding derived from retained earnings or debt assesses the pros and cons of each decision made in accordance with the desired objectives and risk tolerance (Ai et al., (2020). Mazreku et al. (2020) measured Working Capital Management (WCM) using a variety of variables, including bank size (BS), debt ratio (DR), and current ratio (CR).

Gupta and Mahakud (2020) define bank's size (BS) as an indicator of a financial institution's scale; a larger bank's size represents greater loan amounts, economies of scale advantages, and diversification opportunities, all of which contribute to the financing process generating higher revenue. The financial characteristics of a company can be gathered from its size; for instance, larger companies are perceived to have more favorable access to funding, which grants them greater flexibility in formulating future value-adding development strategies (Barry et al., 2022). Sukma et al. (2022) define the Debt Ratio as a ratio that assesses a company's use of debt in comparison to equity and demonstrates the company's capacity to fulfill long-term obligations such as loan payments, interest payments, and lease charges. Prioritize the use of

internal funds, such as owner's capital or retained earnings, over external funding through debt, as suggested by the **Pecking Order theory** Myers and Majluf (1984), for the purpose of financing company development initiatives. Mazreku et al. (2020) explain the establishment of a negative link between profitability and debt ratios. When debt increases, profitability decreases. This indicates that if commercial banks depend on debt financing to service their loans, they will lose profitability. High levels of debt can reduce potential revenues (Hasanuddin et al., 2021). Current ratio, as defined by Hasanuddin et al. (2021), is a liquidity ratio utilized to assess a firm's capacity to settle its immediate debts using current assets that are anticipated to be converted into cash in a short time. A study that investigated the effect of working capital on the performance of a company showed that the current ratio and profitability are positively correlated (Mazreku et al., 2020). When the current ratio is high, managing current assets is crucial to preventing signs of inefficient cash and other short-term investments (Herawati dan Fauzia, 2018). A good current ratio shows that the bank is capable of managing its assets to cover short-term debt without accumulating unproductive assets.

Credit Maagement Policy (CMP). Credit Management Policy refers to a set of guidelines, procedures and practices implemented by a company to manage its credit activities effectively to mitigate credit risk (Mensah, 2019). According to Mbu-Ogar et al. (2017) CMP is a framework that guides a company's decision-making process related to the credit distribution process, credit requirements, credit limits, credit monitoring, and credit collection. Indirectly, the Credit Management Policy (CMP) aims to reduce sales credit costs while optimizing its function. Al-Zararee et al. (2021) measured the implementation of the Credit Management Policy (CMP) using several variables that are considered to represent the company's CMP performance, including the Equity Ratio to Risky Assets (ERRA), *Rate Of A Bank's Ability to Return Deposits* (RBARD), *Average Collection Period* (ACP).

Equity Ratio to Risky Assets is a measure that represents the proportion of risky assets covered by corporate capital (Fernando, 2023). This ratio calculates how much equity the bank has placed aside for protecting high-risk assets. Although high capital attempts to cover the bank's risk of loss, a high ERRA ratio positively impacts bank profitability (Pian and Evina, 2022). Rate Of A Bank's Ability to Return Deposits (RBARD) is a ratio that explains the bank's capacity and ability to return customer deposits when customers withdraw their funds. Equity is defined as the assets owned by a company after paying all expenses and debts (Phaneuf, 2023). Meanwhile, deposits are the entire amount of money saved by customers in the form of savings, current accounts and time deposits which can be used as collateral for the delivery of goods or services (Kagan, 2023). A high RBARD ratio is obtained if the proportion of equity is higher than customer deposits. This has a good impact on increasing ROA where sufficient equity indicates that the bank is able to pay deposit interest on the profit sharing from interest income obtained through customer deposits which are channeled in the form of credit financing. Average Collection Period is a variable that can help banks evaluate the effectiveness of a company's receivables turnover and the bank's capacity to convert receivables into liquid cash flow. Calculating receivable turnover can help determine the position of receivables and the projected period of collection (Rorlen et al., 2023). High ACPs are evidence that a company

has challenges converting its receivables into cash; therefore, banks take longer to turn their receivables into assets that can boost earnings (Eforis and Pioleta, 2020). The previous three variables were used to measure Credit Management Policy (CMP) in alignment with Starkey's (2008) **Credit Creation theory**. This theory posits that banks have the ability to create new funds or credit through the giving a loan process. According to Bett and Nasieku, (2022) through the credit creation process, banks are considered as businesses that produce credit, this is due to the fact that the majority of bank savings are released in the form of loans, with only a small percentage kept aside for customer withdrawals.

Financial Performance. A study by Darmawan (2020), the company's financial performance represents the company's situation, which can be determined by analysing the financial ratios. Good supervision of financial performance aids in the early detection of potential risks, ensures financial system stability is maintained, and ensures that banks can optimize their functions effectively. Several indicators are commonly used to measure banks financial performance (Parathon et al., 2014), including liquidity ratios, solvency ratios, and profitability/profitability ratios. A literature review by AL-Zararee et al. (2021) regarding the influence of Working Capital Management (WCM) and Credit Management Policy (CMP) on financial performance as represented by Return on Investment (ROI) shows significant results. However, research conducted by (Shubita, 2023) revealed that ROI is more suitable for measuring the profits of an investment made in a development project over a certain period of time, such as a new factory construction project, branch office construction and other investments. The financial ratio that is often tested by researchers to measure the financial performance of banking companies is Return on Assets (ROA), such as research conducted by Rashid et al. (2020) which tested the effect of customer loyalty on Return on Assets (ROA). ROA is defined as a financial ratio that measures how effectively the company's assets are used to gain profits (Kusuma, 2021). ROA provides a comparison between the profits generated in a certain period and the assets owned by the company to generate profits. A high rate of return on assets indicates a higher net profit resulting from each investment in total assets.

The following hypothesis was formulated based on panel data analysis using Stata 14 software:

H1: Bank's Size (BS) has a positive effect on Return on Assets (ROA) of companies in the banking sector.

H2: Debt Ratio (DR) has a negative effect on Return on Assets (ROA) of companies in the banking sector.

H3: Current Ratio (CR) has a positive effect on Return on Assets (ROA) of companies in the banking sector.

H4: The Equity Ratio to Risky Assets (ERRA) ratio has a positive effect on Return on Assets (ROA) of companies in the banking sector.

H5: The Rate Of A Bank's Ability to Return Deposits (RBARD) ratio has a positive effect on the Return on Assets (ROA) of companies in the banking sector.

H6: The Average collection period (ACP) ratio has a negative effect on Return on Assets (ROA) of companies in the banking sector.

3. Research Method

This research uses secondary data derived from financial ratios from the financial reports of 34 Indonesian banks listed on the IDX from 2019 to 2022. This research uses panel data analysis. Multiple regression is used to test the hypothesis with the help of Stata 14 software. The financial ratio chosen to measure financial performance is the ROA ratio, and the independent variables determined to measure Working Capital Management (WCM) use the bank's size, debt ratio, current ratio. Meanwhile, the independent variables used to measure Credit Management Policy (CMP) are measured using the Equity Ratio to Risky Assets (ERRA), Rate of A Bank's Ability to Return Deposits (RBARD) and Average collection period (ACP).

The panel data regression model equation is as follows:

$$ROA_{it} = \alpha + \beta^1 (BS)_{it} + \beta^2 (DR)_{it} + \beta^3 (CR)_{it} + \beta^4 (ERRA)_{it} + \beta^5 (RBARD)_{it} + \beta^6 (ACP)_{it} + \varepsilon$$

The regression equation is presented to explain the impact of Bank's Size (BS), Debt Ratio (DR), Current Ratio (CR), Equity Ratio to Risky Assets (ERRA), Rate Of A Bank's Ability to Return Deposits (RBARD) and Average Collection Period (ACP) on Financial Performance to complete the research objectives. This research has one dependent variable, namely Financial Performance; it is measured by the ROA ratio.

The data analysis stages used in this research include:

1. Descriptive statistical analysis were performed to view the data collected as part of data preparation before analyzing inferential statistics (Sholihin and Anggraini, 2020).
2. Panel Data Regression Model Selection Method, Panel data is combined data from cross section data (using several research objects in one period) and time series data (using one research object in more than one period) (Maulid, 2021). This method will select the most suitable model for testing from the 3 models that will be selected, including the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).
3. The chow test aims to determine a suitable regression model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) using the Stata 14 application.
4. The Lagrange multiplier test is used to select a suitable regression model between the Common Effect Model (CEM) and the Random Effect Model (REM) using the Stata software.
5. After the results obtained from the chow test, the Fixed Effect Model (FEM) was selected and the Lagrange multiplier test, the Random Effect Model (REM) was selected.
6. The classical assumption test is tested to see whether the data to be analyzed is feasible, because in analyzing using regression not all data can be used (Ainiyah et al., 2016). (Abbas et al., 2020) If the test results indicate that the random effect (GLS) model is the most appropriate estimation method for the regression equation, then it is not necessary to test the classical assumptions. However, if common effects (OLS) or fixed effects (FEM) are more appropriate for the regression equation, it is imperative to examine the classical assumptions.
7. Multiple Linear Regression Test, this analysis aims to explain the correlation between several independent variables and the dependent variable.

8. The F test aims to see whether the data used in the test is feasible (goodness of fit).
9. T test, to test the significant level of partial influence of the independent variable on the dependent variable (Lestari et al., 2020).
10. The coefficient of determination test aims to measure how far the model's ability is to explain variations in the dependent variable explained by the independent variable (Muhamad, 2019).

4. Finding and Discussion

The population in this study was 47 companies. This research uses a purposive sampling technique so that there are 34 sample results selected based on predetermined criteria. Measurement of research variables is presented in **Table 1**.

Table 1. Method of measuring the variables

Indications	Search Variables	Calculations	Sign
Financial Performance	Return on Assets (ROA)	$ROA = \text{Net profit} / \text{Total Assets}$	ROA
Working Capital Management (WCM)	Bank's Size	$\text{Bank's Size} = \ln(\text{total assets})$	BS
	Debt ratio	$\text{Debt ratio} = \text{Total Liabilities} / \text{Total Assets}$	DR
	Current ratio	$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$	CR
Credit Management Policy (CMP)	Equity Ratio to Risky Assets (ERRA)	$ERRA = \text{Equity} / \text{Assets at Risk, \%}$	ERRA
	Rate Of A Bank's Ability to Return Deposits (RBARD)	$RBARD = \text{Customer Equity} / \text{Deposits, 100\%}$	RBARD
	Average Collection Period (ACP)	$ACP = \text{Accounts Receivable} / \text{Revenue} \times 365$	ACP

The process of transforming data into information with the results that can serve as a guide for decision-making is known as data analysis (Taherdoost, 2020). In this process, financial report data from the primary source will be transformed into ratio data, which is going to be processed with software's support. Data from 2019 to 2022 are shown in **Table 2**.

Data were analyzed using descriptive statistics to determine measures of central tendency and dispersion.

Table 2. Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
ROA (Y)	136	0.5627206	3,576,459	-15.89	13.6
BS (X ₁)	136	0.8683408	7,471,716	-3,743,458	30.76746
DR (X ₂)	136	0.7994597	0.1420312	0.0742254	1,303,747

CR (X ₃)	136	266.5127	703.6361	4,806,167	6017.765
ERRA (X ₄)	136	416.8769	2273,982	0.2692211	14967.85
RBARD (X ₅)	136	0.9378679	3,067,224	0.0171699	27.55468
ACP (X ₆)	136	271.3076	317.0592	49.72831	3841.524

Table 3. Chow-test

ROA	Coef.	Std. Errr.	t	P>t	[95% Conf.	Intervals]
BS	.157052	.4736605	0.33	0.741	-.7831566	1,097,261
DR	-1,297,462	2,500,366	-0.52	0.605	-6,260,649	3,665,726
CR	-.0003786	.00046	-0.82	0.413	-.0012918	.0005346
ERRA	.0002747	.0007329	0.37	0.709	-.0011801	.0017294
RBARD	-.283072	.1324066	-2.14	0.035	-.545897	-.020247
ACP	-.0021364	.0008144	-2.62	0.010	-.0037531	-.0005198
cons	2,295,124	2,166,385	1.06	0.292	-2,005,118	6,595,365
sigma u 3.0267691						
sigma e 2.4794091						
rho .5984356 (fraction of variance due to u _i)						
F test that all u _i = 0: F(33, 96) = 4.25					Prob > F = 0.0000	

Table 4. Lagrange Multiplier (LM) Test

		Var sd =	sqrt(Var)
	VAR_Y	1,279,106	3,576,459
	E	6,147,469	2,479,409
	U	6,160,458	2,482,027
Tests:	Var(u) =	0	
		chibar2(01) =	40.69
		Prob > chibar2 =	0.0000

Table 5. Hausman test

	Coefficients			
	(b)	(B)	(bB)	sqrt(diag(Vb V_B))
	fe	re	Difference	S.E
BS	.157052	-.0392261	.1962781	.4690223
DR	-1,297,462	-172,217	.4247084	1,304,657
CR	-.0003786	-2818	-.0000968	.0001874

ERRA	.0002747	.0000487	.0002259	.0007047
RBARD	-.283072	-.3046615	.0215895	.0846648
ACP	-.0021364	-.2241	.0001045	.0002445
		b = consistent under Ho and Ha; obtained from xtreg		
	B =	inconsistent under Ha, efficient under Ho; obtained from xtreg		
Tests:	Ho:	difference in coefficients not systematic		
		$\chi^2(6) = (bB)'[(V \ b - V \ B)^{-1}](bB)$		
		= 1.37		
		Prob>chi2 = 0.9679		

Based on the data processing in **Table 3** which shows the results of the Fixed Effect Model (FEM) test, where in the chow test the model selection aims to see a prob>F value of $0.0000 < 0.05$ (less than the significance value). In accordance with the consideration criteria, the model chosen in this research is the Fixed Effect Model (FEM). By doing a Lagrange Multiplier test in **Table 4** we find that the prob>chi2 value is $0.0000 < 0.05$. In accordance with the consideration criteria, the selected model is the Random Effect Model (REM). Based on data processing in **Table 5** which shows the results of the Hausman test, the prob>chi2 value is $0.9679 > 0.05$. In accordance with the consideration criteria, the selected model is the Random Effect Model (REM).

Table 6. Multiple Linear Regression Test Results

ROA	Coef.	Std. Errr.	z	P>z	[95% Conf.	Intervals]
BS	-.0392261	.0661234	0.59	0.553	-.1688255	.0903733
DR	-172,217	2,133,003	0.81	0.419	-5,902,779	2,458,439
CR	-.0002818	.0004202	0.67	0.502	-.0011053	.0005418
ERRA	.0000487	.0002012	0.24	0.809	-.0003456	.0004431
RBARD	-.3046615	.1018007	2.99	0.003	-.5041872	-.1051358
ACP	-.002241	.0007769	2.88	0.004	-.0037636	-.0007183
_cons	292,209	1,795,681	1.63	0.104	-.5973788	644,156
sigma_u	24,820,271					
sigma_e	24,794,091					
rho	.50052767		(fraction of variance due to u_i)			

Based on **Table 6** which shows the results of the multiple linear regression test, the following is the equation:

$$Y = 292.209 - 0.0392261X_1 - 172.217X_2 - 0.0002818X_3 + 0.0000487X_4 - 0.3046615X_5 - 0.002241X_6 + e$$

Table 7. F Test Results

. xtreg VAR Y VAR X1 VAR X2 VAR X3 VAR X4 VAR X5 VAR X6, re				
Random-effects GLS regression		Number of obs	=	136
Group variable: ID		Number of groups	=	34
R-sq:		Obs per group:		
within = 0.1114		min	=	4
between = 0.1954		avg	=	4.0
overall = 0.1563		max	=	4
		Wald chi2(6)	=	18.78
corr(u_i, X) = 0 (assumed)		Prob > chi2	=	0.0046

Table 8. T Test Results

ROA	Coef.	Std. Errr.	z	P>z	[95% Conf.	Intervals]
BS	-.0392261	.0661234	0.59	0.553	-.1688255	.0903733
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CR	-.0002818	.0004202	0.67	0.502	-.0011053	.0005418
ERRA	.0000487	.0002012	0.24	0.809	-.0003456	.0004431
RBARD	-.3046615	.1018007	2.99	0.003	-.5041872	-.1051358
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sigma_u	24,820,271					
sigma_e	24,794,091					
rho	.50052767					(fraction of variance due to u_i)

Table 9. Coefficient of Determination Test Results

Source	SS	df	M.S	Number of obs	=	136
				F(6, 129)	=	4.06
Model	274,097,358	6	456,828,929	Prob > F	=	0.0009

<i>Residual</i>	145,269,514	129	112,612,026	<i>R-squared</i>	=	0.1587
				<i>Adj R-squared</i>	=	0.1196
<i>Total</i>	172,679,249	135	127,910,555	<i>MSE Root</i>	=	33,558

Results on **Table 7** indicate that the Prob>chi2 value is 0.0046, this value is smaller than the significance value, namely 0.05 (5%), so it can be concluded that the model built meets the goodness of fit criteria. Referring to **Table 8** which shows the results of the t test, the variables BS, DR, CR, and ERRA have no effect on ROA. Meanwhile, the RBARD variable (X5) has a negative influence on ROA and the ACP variable (X6) also has a negative influence on ROA.

By running the coefficient of determination test, the results show that the R² obtained from Adj R-squared is 0.1196 or 11.96%, then the independent variables (Bank's Size, Debt Ratio, Current Ratio, Equity Ratio to Risky Assets, Rate Of A Bank's Ability to Return Deposits, and Average Collection Period) affect the dependent variable (Return on Assets) by 11.96%. which means the remaining 88.04% is influenced by other variables not included in this study.

The results of the test shows that bank's size variable (BS) has no effect on the Return on Assets (ROA) of banking companies. This indicates that the size of the bank has no impact on Return on Assets (ROA). Previous research conducted by (Kurniawan et al., 2023) revealed that bank size has no influence on financial performance because there is an influence on the performance of corporate governance (GCG) which affects decisions that will contribute to the financial performance of banks. Research conducted by Setiawan and Ekadjaja (2023) also examines other factors that can affect changes in financial performance, including: company age, cash flow and financial leverage.

Based on the results of testing the debt ratio (DR) variable has no effect on Return on Assets (ROA). Lending is one of the main activities of banks that have an intermediary function, therefore debt for banks is often an integral part of their operations where high and low debt cannot describe the bank's financial condition. In accordance with the credit creation theory expressed by Starkey (2008) that banks have the ability to create new money or credit through the lending process. This means that banks have the main activity of collecting and distributing loans. Therefore, it is reasonable if the high and low debt position does not affect the movement of ROA. There needs to be a manager's role in managing other factors besides the debt ratio that influence the increase and decrease in ROA such as the LDR (Loan to Deposits Ratio) and BOPO (Operating Expenses for Operating Income) ratios which describe the position of lending, customer deposits and operational expenses borne by the company (Liniarti, 2021).

The results of testing the impact of current ratio (CR) on financial performance explain that there is no there is no influence of CR on the dependent variabel (ROA). Previous research by Ratnaningtyas and Nurbaeti (2023) conducted to examine the effect of current ratio (CR) and total assets turnover (TAT) on stock prices and Return on Assets (ROA) explained that the performance of the current ratio on Return on Assets (ROA) has a relationship with the level of total asset turnover where current assets do not necessarily affect profitability depending on the rate of return on assets sacrificed to obtain profits.

Based on the test results, the ERRA variable has no effect on the bank's financial performance

as measured by the profitability ratio, namely Return on Assets (ROA). There are several financial proportion requirements that must be met by companies before being listed on the Indonesian stock exchange such as cumulative cash flow, accumulated EBITDA, including the minimum capital proportion (Bank of International Settlements, 2013). Because this study takes the object of banking companies listed on the IDX, all samples are declared to have met the financial criteria set by the regulator, therefore after the company is able to meet several financial criteria including minimum capital, some samples may carry out portfolio management by preferring to allocate most of their assets to current assets to increase company value by utilizing cash flow as a source of increasing bank growth rather than just increasing equity inventory (Oecd, 2013).

Based on the test results, the RBARD variable has a negative effect on the bank's financial performance as measured by the profitability ratio, namely Return on Assets (ROA). The results of this test are different from the hypothesis in the study where based on previous research the RBARD ratio has a positive influence on Return on Assets (ROA) (Al-Zararee et al., 2021). **Pecking Order theory** by Myers and Majluf (1984) states that companies have a priority order in choosing capital structure funding sources. Corporate capital can come from internal funds, third-party debt or share issuance. It does not rule out the possibility of banks choosing debt or stock equity as the main source in the capital structure as in Bank Rakyat Indonesia Agro Niaga Tbk and Bank Pembangunan Daerah Banten Tbk which have a higher proportion of debt than capital. High debt can burden the company with credit interest expense, while funding in the form of shares is also burdened by dividends that need to be paid to investors on the stock exchange. Both types of funding can affect the decline in company profitability. Research conducted by Ngo et al. (2021) shows the results that equity has a negative effect on profitability due to the financial crisis which causes interest rates to increase and restrictions on lending as the main activity of banking companies to decrease and be hampered.

Based on the test results, the ACP variable has a negative effect on bank financial performance as measured by the profitability ratio, Return on Assets (ROA). The ACP variable is presented in the form of day information which defines the length of time it takes for a company to convert its receivables into cash so that cash flow can be immediately converted into productive assets that can contribute to increased profits (Eforis and Pioleta, 2020). Average collection period can also reflect the quality of a bank's loan portfolio. If receivables are uncollectible for a long time, it may indicate credit risk (Fidelis et al., 2020). Banks therefore need to ensure that their receivables are well managed to reduce credit risk and losses that may occur. The length of time to collect receivables can have a negative impact on bank profitability. If banks can manage their receivables well and collect revenue quickly, this can increase revenue and profitability.

5. Conclusion

Average Collection Period (ACP) effect demonstrates that the extent of the credit period increases the probability that borrowers won't be able to return their loans. The negative influence of the RBARD ratio shows that high equity creates the risk of unstable financing and raises dividend costs that must be paid to investors on the IDX if the equity comes in the form

of shares. Despite equity being an important component of finance, RBARD ratio formed from the ratio of equity to customer deposits does not always have a positive impact on bank profitability. While equity can be used to support investment and growth, its inefficient or inappropriate use in profitability-generating projects/investments can reduce the return on investment. Working Capital Management (WCM) cannot be analyzed for its influence if only considering debt ratio, current assets and total banking assets. Productive banking activities require capital and asset management related to bank operational activities such as in previous studies involving GCG, BOPO, LDR and TAT variables in measuring financial performance. The authors conclude that the effect of the RBARD and ACP ratios is in line with the Credit Management Policy (CMP) that the period of granting credit to debtors needs to be considered so that credit risk can be controlled.

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