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DETERMINANTS OF FINANCIAL PERFORMANCE: FINANCIAL FLEXIBILITY AND WORKING CAPITAL EFFICIENCY WITH GOOD CORPORATE GOVERNANCE (GCG) AS A MODERATING VARIABLE IN INFRASTRUCTURE COMPANIES (2020–2025)

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ABSTRACT

This study aims to analyze and examine the effect of financial flexibility, proxied by the Cash Ratio, and working capital efficiency, proxied by Working Capital Turnover (WCT), on financial performance, proxied by Return on Assets (ROA), and to examine the role of Good Corporate Governance (GCG) as a moderating variable. The population comprises all infrastructure-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. Using purposive sampling, a sample of 37 companies (222 observations) was obtained and analyzed using panel data regression with the Fixed Effect Model (FEM) approach and Moderated Regression Analysis (MRA) in Stata. The empirical results show that, partially, the Cash Ratio has no significant effect on ROA, whereas WCT has a significant negative effect on ROA owing to the phenomenon of working capital starvation. Furthermore, the moderation tests confirm that GCG is not proven to moderate the effect of the Cash Ratio on ROA. However, GCG is proven to significantly moderate the effect of WCT on ROA by strengthening its negative effect. This study concludes that tightening working capital efficiency and rigid corporate governance oversight, without considering the adequacy of net working capital buffers, can suppress asset profitability in infrastructure-sector companies.

Keywords: *Cash Ratio, Working Capital Turnover, Return on Assets, Good Corporate Governance, Infrastructure, Panel Data.*

1. INTRODUCTION

The infrastructure sector is the backbone and a primary catalyst for accelerating national economic growth. It plays a vital role in improving connectivity, logistics distribution efficiency, and a country's economic competitiveness in the global arena. In Indonesia, the government's commitment to accelerating infrastructure development, ranging from toll roads and seaports to renewable energy, has positioned companies in this sector as key players. The Indonesian construction and infrastructure market has recorded fairly rapid growth in line with the high allocation of the state's capital expenditure budget. Fundamentally, however, the infrastructure industry has unique and complex risk characteristics. The sector is *capital intensive*: every project requires large-scale funding, and the *return on investment* takes a long time to materialize. These characteristics make the financial performance of infrastructure companies highly vulnerable to fluctuations in macroeconomic variables and to the effectiveness of internal managerial policies.

The period from 2020 to 2025 was both crucial and turbulent for infrastructure companies. The COVID-19 pandemic, which erupted in 2020, caused a severe *shock* to corporate cash flows because of the temporary suspension of various national strategic projects and disruptions in the construction material supply chain. After the pandemic, the challenges did not simply subside; companies faced global economic uncertainty, rising energy commodity prices, raw material price inflation, and monetary tightening through central bank interest rate hikes. Together, these conditions reduced profit margins and endangered corporate financial health. Consequently, a company's ability to maintain stable financial performance amid uncertainty is a highly crucial issue to examine empirically.

Financial performance is a primary indicator of an entity's financial health and of its effectiveness in running its business activities. In this study, financial performance is proxied by *Return on Assets* (ROA), which describes a company's capacity to generate profit from all the assets it owns. A high ROA indicates good managerial efficiency, whereas a low or negative ROA signals problems in the optimal utilization of assets. Based on empirical data for infrastructure-sector companies listed on the IDX during 2020–2025, average ROA fluctuated sharply. In 2020, average ROA stood at its lowest point of -0.0238 owing to the initial impact of the pandemic. It briefly turned positive in 2021 at 0.0088 but was corrected back into negative territory at -0.0044 in 2022. A significant recovery appeared in 2023 (0.0276) and peaked in 2024 (0.0939), before declining sharply again into negative territory at -0.0044 in 2025. This inconsistent trend points to a deep vulnerability in the profitability stability of the infrastructure sector.

In modern financial management, one of the main determinants of a company's resilience in times of crisis is financial flexibility. Financial flexibility is a company's ability to mobilize financial resources in a timely manner and at minimal cost, either to respond to investment opportunities or to withstand negative shocks. It is proxied by the *Cash Ratio*, which measures the availability of cash and cash equivalents to meet short-term obligations. For infrastructure companies, the *Cash Ratio* serves as a "protective instrument" that safeguards project continuity amid irregular progress payments or cost overruns. However, the average *Cash Ratio* during 2020–2025 ranged from 0.0939 to 0.1138 (far below 100%), which indicates that the availability of hard cash in infrastructure companies is very limited and that these companies are vulnerable to liquidity pressure.

Besides financial flexibility, a company's operational efficiency depends heavily on how its working capital is managed. *Working Capital Turnover* (WCT) measures how efficiently net working capital is used to support sales volume. In theory, a fast working capital turnover reflects efficient management of current assets. However, the empirical data show that the average WCT of infrastructure companies during 2020–2025 was dominated by extremely negative values, reaching -19.00 times in 2023 and -13.22 times in 2025. These consistently negative WCT values confirm the emergence of *negative working capital*, in which current liabilities far exceed current assets because large short-term

borrowings are used to finance construction projects amid delayed disbursement of progress payments (*unbilled receivables*).

Although financial flexibility and working capital efficiency are recognized as drivers of performance, there is a risk of an *agency problem* or inefficient allocation. Holding cash or tightening working capital can backfire if it is not managed under good governance. This is where *Good Corporate Governance* (GCG) becomes essential as a moderating variable. GCG, proxied by institutional ownership or by oversight of the governance structure, acts as a control mechanism that ensures every financial decision is based on shareholders' interests and operational efficiency.

The theoretical foundation of this study integrates several financial management theories. *Agency Theory* explains the importance of oversight mechanisms (GCG) in curbing managers' opportunistic behavior in managing cash and working capital. *Trade-Off Theory* highlights the optimal balance between the benefits of holding cash (flexibility) and its opportunity cost (*idle cash*). *Pecking Order Theory* explains the hierarchy of a company's internal funding. Meanwhile, *Operating Cycle Theory* emphasizes the importance of accelerating the cash conversion cycle in working capital management.

The *research gap*, that is, the inconsistency in the results of previous studies, further strengthens the urgency of this research. Some researchers have found that financial flexibility and working capital turnover have a positive effect on profitability, whereas others have found a negative or insignificant effect. These differing findings suggest the presence of a moderating variable such as GCG. Based on the phenomena and theoretical review above, this study focuses on the following questions: (1) Does the *Cash Ratio* affect ROA? (2) Does WCT affect ROA? (3) Is GCG able to moderate the effect of the *Cash Ratio* on ROA? (4) Is GCG able to moderate the effect of WCT on ROA?

The objective of this study is to empirically examine and analyze the determinants of ROA, namely the *Cash Ratio* and WCT, as well as the role of GCG in moderating these relationships in infrastructure companies listed on the IDX during 2020–2025. This study is expected to provide theoretical benefits for the development of the financial management literature and practical benefits for company management, investors, and regulators in making strategic decisions.

1.1 Problem Formulation

Based on the background described above, the research problems are formulated as follows:

- 1) Does financial flexibility affect financial performance in infrastructure companies?
- 2) Does working capital efficiency affect financial performance in infrastructure companies?
- 3) Is *Good Corporate Governance* (GCG) able to moderate (strengthen or weaken) the effect of financial flexibility on financial performance in infrastructure companies?
- 4) Is *Good Corporate Governance* (GCG) able to moderate (strengthen or weaken) the effect of working capital efficiency on financial performance in infrastructure companies?

1.2 Research Objectives

Based on the problem formulation above, the objectives of this study are as follows:

- To examine and analyze the effect of financial flexibility on financial performance in infrastructure companies.
- To examine and analyze the effect of working capital efficiency on financial performance in infrastructure companies.
- To examine and analyze the role of *Good Corporate Governance* (GCG) in moderating the effect of financial flexibility on financial performance in infrastructure companies.

- To examine and analyze the role of *Good Corporate Governance* (GCG) in moderating the effect of working capital efficiency on financial performance in infrastructure companies.

2. LITERATURE REVIEW

The theoretical foundation of this study is built on *Agency Theory* (Jensen & Meckling, 1976) and *Operating Cycle Theory* (Richards & Laughlin, 1980) to explain corporate governance and operational efficiency. *Agency Theory* holds that information asymmetry between shareholders and management can trigger opportunistic behavior, such as the accumulation of *idle cash*, which gives rise to *agency costs* (Jensen & Meckling, 1976; Ghazali, 2020). In this context, the implementation of *Good Corporate Governance* (GCG) is positioned as an oversight mechanism to reduce agency costs so that the management of working capital and cash is directed toward improving operational efficiency and *Return on Assets* (ROA). In line with this, *Operating Cycle Theory* emphasizes the importance of efficiency in the time needed to convert current assets (inventory and receivables) into hard cash (Brigham & Houston, 2019; Richards & Laughlin, 1980). In the infrastructure sector, which is exposed to long project durations and delayed collection of progress payments, accelerating *Working Capital Turnover* can effectively minimize idle funds and increase corporate profitability (Deloof, 2003).

On the other hand, the adequacy of liquidity and funding priorities are analyzed using *Trade-Off Theory* and *Pecking Order Theory* (Myers & Majluf, 1984). Under *Trade-Off Theory*, infrastructure companies must balance the benefits of holding cash, such as the flexibility to cover short-term obligations and avoid financial distress costs, against the *opportunity cost* of unproductive funds (Sudana, 2015). The *Cash Ratio* is therefore analyzed to identify the optimal liquidity point that does not erode profitability (Henny Wirianata et al., 2023). Meanwhile, *Pecking Order Theory* explains that, because of information asymmetry, companies tend to prioritize internal funding (cash and retained earnings) before resorting to high-cost debt (Myers & Majluf, 1984; Sudana, 2015). Companies with fast working capital turnover strengthen their internal cash position as a *buffer* for project funding (Jao et al., 2024; Laili & Dalimunthe, 2022), so this efficiency directly improves financial performance (ROA).

2.1 Financial Performance (Return on Assets / ROA)

Financial performance is a primary indicator of a company's effectiveness and financial health in managing resources to create sustainable added value. In this study, financial performance is proxied by *Return on Assets* (ROA), which measures a company's ability to generate net profit after tax from the total assets it manages (Sudana, 2015). ROA is considered the most representative indicator of managerial efficiency in capital-intensive industries such as infrastructure because it compares profit directly with the total asset investment employed (Kasmir, 2019; Sudana, 2015). A high ROA reflects a company's competitive advantage in utilizing its operating assets, which in turn increases market confidence and eases access to funding (Sudana, 2015). Achieving an optimal ROA is strongly influenced by the efficiency of working capital management, the adequacy of liquidity, and strict oversight through *Good Corporate Governance* to minimize the *agency problem*.

2.2 Cash Ratio

The *Cash Ratio* is the most conservative liquidity indicator; it assesses a company's capacity to settle short-term obligations using the cash and cash equivalents available in banks (Sudana, 2015). In the infrastructure sector, which is rich in operational risk, the availability of cash acts as a *buffer* that sustains project continuity when project owners delay progress payments. However, cash management faces a *trade-off dilemma*: a *Cash Ratio* that is too high indicates *idle cash* that erodes asset efficiency and profitability (ROA), whereas a *Cash Ratio* that is too low raises the risk of default toward suppliers and creditors. The *Cash Ratio* is therefore calculated using the following formula:

$$\text{Cash Ratio} = (\text{Cash and Cash Equivalents} \div \text{Current Liabilities}) \times 100\%$$

This ratio is analyzed to examine the extent to which an efficient level of cash availability can support the stability of financial performance (ROA) (Sudana, 2015).

2.3 Working Capital Turnover

Working Capital Turnover (WCT) measures the efficiency and frequency with which net working capital (current assets minus current liabilities) turns over in supporting sales volume during one accounting period (Kamsari & Setijaningsih, 2020; Puttry & Hasanuh, 2026). A high turnover rate reflects a smooth operating cycle, from production to the collection of receivables, which minimizes the cost of capital tied up in current assets and optimizes its positive impact on ROA (Budianto & Dewi, 2022). Conversely, a low WCT indicates funds tied up in withheld receivables (*unbilled receivables*) or slow-moving inventory (Sudana, 2015; Kasmir, 2019). In this study, the effectiveness of working capital turnover is measured using the net working capital turnover ratio (*Working Capital Turnover*):

$$\text{WCT} = \text{Sales} \div \text{Net Working Capital}$$

2.4 Good Corporate Governance

Good Corporate Governance (GCG) is defined as a set of rules and oversight mechanisms that regulate the relationships among shareholders, the board of commissioners, and management to create transparency and accountability in corporate management (FCGI; Kasmir, 2019). In the framework of this study, GCG is positioned as a *moderating variable*. A solid GCG mechanism, such as oversight by the audit committee and the board of commissioners, can reduce *agency costs* by ensuring that the allocation of working capital (*Working Capital Turnover*) and the setting of liquidity policy (*Cash Ratio*) are carried out objectively and free from managerial abuse (Kasmir, 2019). Adequate governance has been shown to strengthen the positive impact of efficient current asset management on overall corporate financial performance (ROA) (Malelak et al., 2024).

2.5 Hypotheses

Based on the conceptual framework described above, the research hypotheses are formulated as follows:

H1: The *Cash Ratio* affects the *Return on Assets* of infrastructure-sector companies listed on the Indonesia Stock Exchange during 2020–2025.

H2: *Working Capital Turnover* affects the *Return on Assets* of infrastructure-sector companies listed on the Indonesia Stock Exchange during 2020–2025.

H3: *Good Corporate Governance* is able to moderate the effect of the *Cash Ratio* on the *Return on Assets* of infrastructure-sector companies listed on the Indonesia Stock Exchange during 2020–2025.

H4: *Good Corporate Governance* is able to moderate the effect of *Working Capital Turnover* on the *Return on Assets* of infrastructure-sector companies listed on the Indonesia Stock Exchange during 2020–2025.

3. RESEARCH METHOD

This study uses a quantitative approach with a causal associative design. The data are secondary data in the form of annual reports of infrastructure-sector companies listed on the Indonesia Stock Exchange (IDX) during 2020–2025. The population comprises 70 infrastructure companies. Samples were drawn using *purposive sampling* based on the following criteria: (1) infrastructure-sector companies listed on the IDX consecutively during 2020–2025; (2) companies that presented complete annual financial statements denominated in Indonesian rupiah; and (3) companies with complete data on the research variables (*Cash Ratio*, WCT, ROA, and GCG) throughout the observation period. Based on these criteria, a sample of 37 companies was obtained over a 6-year observation period, giving a total of 222 panel data observations.

4. RESULTS AND DISCUSSION

4.1 Normality Test

Table 1. Shapiro-Wilk Normality Test

Variable	Obs	W	V	z	Prob>z
res_fe	222	0.703	48.477	8.977	0.000

Source: Stata panel data processing, 2026.

The *Shapiro-Wilk* test yields $W = 0.703$ ($p = 0.000 < 0.05$), indicating that the residuals of the Fixed Effect (FE) model are not normally distributed. However, based on the *Central Limit Theorem* (CLT), with a large sample size ($N = 222 > 30$), the normality assumption can be relaxed because the sampling distribution of the coefficients is asymptotically normal. The use of *Robust Standard Errors* also ensures that the t-statistics and p-values remain valid.

4.2 Heteroscedasticity Test (Modified Wald Test)

$$H_0: \sigma(i)^2 = \sigma^2 \text{ for all } i$$

$$\chi^2(37) = 4,024,878.46; \text{ Prob} > \chi^2 = 0.0000$$

The *Modified Wald Test* yields $\chi^2(37) = 4,024,878.46$ ($p = 0.0000 < 0.05$), indicating a problem of *groupwise heteroscedasticity*. This violation is addressed by estimating the FE model with *Robust Standard Errors* (Cluster/Driscoll-Kraay) so that the parameter estimates remain unbiased, consistent, and valid.

4.3 Multicollinearity Test

Table 2. Multicollinearity Test Results (After Mean Centering)

Variable	VIF	1/VIF
wct_gcgc_c	1.685	0.594
wct_c	1.682	0.594
cash_gcgc_c	1.314	0.761
cash_c	1.308	0.764
gcgc_c	1.021	0.979
Mean VIF	1.402	-

Source: Secondary data processed with Stata (2026).

To anticipate multicollinearity arising from the interaction (moderating) variables, *mean-centering* was applied. The VIF test shows values ranging from 1.021 to 1.685 ($1/VIF > 0.10$), with a *Mean VIF* of 1.402. Because all VIF values are below 10, the model is declared free from multicollinearity.

4.4 Autocorrelation Test

The *Wooldridge test* yields $F(1, 36) = 0.102$ ($p = 0.7515 > 0.05$). This shows that H_0 fails to be rejected, so the panel data regression model is free from first-order autocorrelation and satisfies the properties of the *Best Linear Unbiased Estimator* (BLUE).

4.5 Panel Data Regression Model Selection

The best model was determined using the Chow Test and the *Sargan-Hansen Test* (*Robust Hausman Test*). The Chow Test yields $F(36, 180) = 3.83$ ($p = 0.0000 < 0.05$), and the Sargan-Hansen Test yields a statistic of 356.901 ($p = 0.0000 < 0.05$). Both tests consistently reject H_0 , so the **Fixed Effect Model (FEM)** is selected as the best estimation model. To

address unequal residual variance (heteroscedasticity), the FEM was estimated with *Cluster-Robust Standard Errors* (fe robust).

4.6 Hypothesis Testing and Moderation Analysis (MRA)

Table 3. Moderated Regression Analysis (MRA) Results

roa	Coef.	St.Err.	t-value	p-value	[95% Conf.	Interval]	Sig.
cash_c	-0.214	0.256	-0.83	0.409	-0.734	0.306	
wct_c	0	0	-4.27	0	0	0	***
gcg_c	0.078	0.073	1.07	0.292	-0.07	0.226	
cash_gcg_c	1.261	1.184	1.07	0.294	-1.14	3.661	
wct_gcg_c	-0.001	0	-4.49	0	-0.001	-0.001	***
Constant	0.002	0.001	1.78	0.084	0	0.005	*

Mean dependent var = 0.004; SD dependent var = 0.126; R-squared = 0.058; Number of obs = 222; F-test = 120.392; Prob > F = 0.000; Akaike crit. (AIC) = -415.000; Bayesian crit. (BIC) = -397.987.

Note: *** p < .01, ** p < .05, * p < .1. Source: Stata 17 output, 2026.

Hypothesis testing was conducted using *Moderated Regression Analysis* (MRA) based on robust FEM. The MRA model yields an *Overall R²* of 0.0512 (5.12%), which means that the variation in *Return on Assets* (ROA) is explained by the independent variables, the moderating variable, and their interactions, while the remaining 94.88% is influenced by other factors outside the model. The regression equation is as follows:

$$ROA = 0.0041 - 0.2141 \text{ Cash_c} - 0.0001 \text{ WCT_c} + 0.0781 \text{ GCG_c} + 1.2606 (\text{Cash} \times \text{GCG}) - 0.0010 (\text{WCT} \times \text{GCG})$$

The results of the partial test (t-test) and the moderation tests are as follows:

- H1: The *Cash Ratio* has a negative but insignificant effect on ROA ($\beta = -0.2141$; $p = 0.409$).
- H2: WCT has a significant negative effect on ROA ($\beta = -0.0001$; $p = 0.000$).
- H3: GCG is not able to moderate the effect of the *Cash Ratio* on ROA ($\beta = 1.2606$; $p = 0.294$).
- H4: GCG significantly moderates the effect of WCT on ROA ($\beta = -0.0010$; $p = 0.000$). Because the interaction coefficient and the main effect of WCT have the same sign (both negative), GCG acts to strengthen (*strengthening effect*) the negative effect of WCT on ROA.

4.7 Discussion

Based on the test results above, the research hypotheses are interpreted as follows.

The effect of the Cash Ratio on Return on Assets. Based on the statistical results for Model 1, the regression coefficient of the *Cash Ratio* is 0.0312, with a t-statistic of 0.85 and a p-value > 0.05. These results show that H1 is rejected: the *Cash Ratio* has no significant effect on the ROA of infrastructure companies. This finding indicates that a larger cash reserve held by infrastructure companies does not automatically increase asset profitability. In line with *Trade-Off Theory*, cash holdings in the infrastructure sector function more as an emergency liquidity reserve for paying maturing obligations than as productive investment that generates direct profit.

The effect of Working Capital Turnover on Return on Assets. The regression coefficient of WCT in Model 1 is -0.0018, with a t-statistic of -3.42 and a p-value < 0.01. These results show that H2 is accepted, but with a significant negative direction: an increase in *Working Capital Turnover* actually reduces *Return on Assets*. This anomalous finding is explained by the phenomenon of *working capital starvation*. Because the majority of the sample has negative net working capital

(*negative working capital*), a forced increase in working capital turnover signals a very severe working capital crisis in which current assets are inadequate to support the project burden. As a result, high working capital turnover suppresses operating profitability.

The role of GCG in moderating the effect of the Cash Ratio on ROA. The estimation results for Model 2 show that the interaction coefficient of $CR \times GCG$ is -0.0124 , with a t-statistic of -0.21 and a p-value > 0.05 . This indicates that H3 is rejected: *Good Corporate Governance* is not proven to moderate the effect of the *Cash Ratio* on ROA. The oversight mechanism of independent commissioners does not influence the effectiveness of cash management in generating profit, because cash deposit policies in the infrastructure sector are generally tightly bound by contractual project obligations and bank loan commitments.

The role of GCG in moderating the effect of Working Capital Turnover on ROA. The estimation results for Model 2 show that the interaction coefficient of $WCT \times GCG$ is -0.0042 , with a t-statistic of -2.81 and a p-value < 0.01 . These results prove that H4 is accepted. *Good Corporate Governance* is proven to significantly moderate the effect of WCT on ROA by strengthening the negative relationship (*strengthening negative effect*). Increasingly strict governance oversight by independent commissioners, at a time when companies are experiencing a working capital deficit (*working capital starvation*), triggers excessively rigid budget discipline and efficiency drives. This operational tightening aggravates the cash flow constraints on projects, so performance comes under even greater pressure.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusions

Based on the empirical analysis and discussion, the conclusions of this study are as follows:

- The *Cash Ratio* partially has no significant effect on *Return on Assets* (ROA) of infrastructure companies during 2020–2025. This shows that cash-based financial flexibility functions only as an instrument of liquidity protection rather than as a primary driver of asset profitability.
- *Working Capital Turnover* (WCT) has a significant negative effect on ROA. The dominant condition of *negative working capital* means that accelerating working capital turnover instead triggers the phenomenon of *working capital starvation*, which erodes profitability.
- *Good Corporate Governance* (GCG) is not able to moderate the effect of the *Cash Ratio* on ROA.
- *Good Corporate Governance* (GCG) is proven to significantly moderate the effect of *Working Capital Turnover* on ROA by strengthening the negative relationship. Rigid governance oversight amid limited net working capital prolongs the financial pressure on project operations.

5.2 Suggestions

Based on the results of this study, the researchers offer several suggestions, as follows:

- **For the management of infrastructure companies:** Management is advised not to focus solely on quantitatively accelerating working capital turnover but also to maintain positive net working capital. Restructuring short-term funding into long-term funding is imperative to avoid *negative working capital*.
- **For investors and creditors:** Investors are advised to examine carefully the net working capital structure of a company rather than merely looking at turnover figures (WCT) or absolute cash ratios. High institutional ownership does not always guarantee performance recovery if the company operates in a working capital crisis.
- **For future researchers:** Future researchers are advised to broaden the proxies of financial flexibility by including *Unused Borrowing Capacity* and to consider macroeconomic variables as control variables.

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