MAGISTER MANAJEMEN-UNISSULA
SAMaJ
SULTAN AGUNG MANAGEMENT JOURNAL

Effectiveness of Managerial Ability and Financial Literacy on the Internal Management System and its Implications on Credit Quality at BNI Semarang Regional Office from 2021 To 2024

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Abstract. *This study examines the application of Managerial Ability, Financial Literacy, Internal Control Systems, and Credit Quality to determine the effectiveness of Managerial Ability and Financial Literacy on the Internal Control System and its implications for Credit Quality at the BNI Semarang Regional Office from 2021 to 2024. This study uses a quantitative approach by questionnaires using Google Form links, collecting data through archives, interviews (Questionnaire Link using Google Form), and observation. The research informants consisted of employees of Bank BNI Pati Branch and those involved in the finance department. The analysis was conducted using the SEM WarpPls application, which was processed into data that would answer various hypotheses in this study. The credit quality of Bank BNI Pati Branch is positively and significantly influenced by the management control system, financial literacy, and managerial capabilities, according to the findings of the study. Efforts to build a positive image on managerial capabilities, financial literacy, internal control systems that can improve the quality of credit, products and services at Bank BNI are by improving the company's managerial capabilities, the company's financial literacy, a good control system that will later affect the quality of credit that can increase profits and targets, especially for Bank BNI Pati Branch. With positive and significant results using the WarpPls application, it answers all expectations and hypotheses in this study.*

Keywords: *Finansial; Literacy; Managerial; Quality.*

1. Introduction

One definition of internal control is "the process by which an organization achieves its stated goals or objectives through the use of its human resources and information technology systems." This definition describes how well a company's internal control system is functioning. The term "internal control" refers to the systems that help a business manage its own resources. All the strategies, procedures, and evaluations a company uses to protect its assets, improve operational efficiency, and ensure its managers comply with applicable regulations are known as "internal control" (Shelly Azzahra Nurseptiani & Diana Wiyanti, 2024).

Efficient and successful achievement of business goals is impossible without internal control. The importance of internal control in a company increases with its growth. According to Baraldi (2008), the internal control structure can be used as a tool to evaluate risk management. An organization's internal control system is the foundation for assessing the effectiveness and efficiency of its accounting system (Olatunji, 2009) and for predicting potential outcomes of risk scenarios.

The impact of the control environment, accounting system, and control process on credit performance evaluation is insignificant, as shown by Kurniawati (2005). The control environment and accounting system are the only parts of the internal control structure that have a significant impact, according to Wahyuni (2006). Control techniques, on the other hand, do not. Management needs tools to help improve credit management security. An internal control system is a set of procedures designed to verify whether the results obtained by a business are in line with its objectives. (THE IMPACT OF INTERNAL CONTROL SYSTEMS (SPI), n.d.)

The managerial capabilities of a banking company include the skills to manage human, financial, and operational resources, as well as make effective strategic decisions to achieve company goals. This involves various aspects such as planning, organization, direction, and control. Aspects of a company's managerial capabilities include (Dwi Puspasari et al., 2020):

1) Human Resource Management: Includes the ability to recruit, train, motivate, and evaluate employee performance.

2) Financial Management: Includes the ability to manage budgets, identify risks, and make investment decisions.

3) Operational Management: Includes the ability to manage business processes, ensure efficiency, and improve service quality.

4) Leadership: Includes the ability to inspire, motivate, and direct a team towards achieving goals.

The importance of managerial skills in a company, especially a banking company, namely:

1) Performance Improvement: Managers who have good managerial skills can improve the overall performance of the company.

2) Effective Decision Making: The ability to make timely decisions based on accurate information is a hallmark of effective management.

3) Career Development: Managerial skills are an important factor in career development in banking companies (Rengkuan et al., nd).

Examples of managerial competencies in a company are:

1) Data Analysis: The ability to analyze financial data, markets, and economic trends to make informed decisions.

2) Decision Making: Competence in making mature decisions under limited time conditions.

3) Communication: Having good communication skills is essential for interacting with stakeholders, including workers and consumers.

4) Team Development: The ability to build and develop effective, high-performing teams. (Dwi Puspasari et al., 2020)

Credit quality in banking companies, also known as collectibility, is an important indicator of a bank's health and the borrower's ability to repay loans. Credit quality is categorized into five categories, with category 1 (current) being the best and category 5 (non-performing) being the worst. Business potential, borrower efficiency, and repayment capacity are the three main factors that determine creditworthiness. Credit quality classifications include:

1) Category 1 (Smooth): Loans that are paid on time and there are no signs of problems.

2) Category 2 (Special Mention): Loans that are still current, but there are signs of potential problems in the future.

3) Category 3 (Substandard): Loans that are in arrears.

4) Category 4 (Doubtful): Loans that are significantly delinquent and likely to be non-repayable.

5) Category 5 (Bad): Loans that are no longer possible to be repaid.

Credit Quality Assessment Factors, namely:

a. Business Prospects: Potential and growth of the debtor's business.

b. Debtor Performance: Profit, capital structure, and cash flow of the debtor.

c. Ability to Pay: Promptness of payments, availability of financial information, and compliance with credit agreements.

There are several important indicators that can be used to measure credit quality. At the top of the list is "Non-Performing Loans" (NPL), which is the percentage of total loans issued that fall into the non-performing loan category (i.e., categories 3–5). The second indicator is LaR, short for "Loan at Risk," which compares the overall loan portfolio with the proportion of loans at risk of becoming unproductive (categories 2–5). These two indicators are crucial for assessing the extent to which a bank manages its loan portfolio effectively.

Banks maintain reserves to anticipate non-performing loans, not only based on payment arrears but also on potential future problems. One measure of bank health is CAR, which indicates how well a bank can withstand various types of risks, including credit risk. A good bank credit ratio indicates the bank is healthy and solvent, but a poor one can cause problems for the economy and the banks themselves (Sari Imelda Sari, 2019).

According to "Banking Law Number 10 of 1998 (amendment of Banking Law Number 7 of 1992), a bank is defined as a financial institution that accepts deposits from the general public and then lends or finances these deposits to other members of the general public in an effort to improve the standard of living for all people." There are two main types of conventional banks: conventional commercial banks and rural banks. The former uses traditional methods in operating. The bank's ability to channel credit is a key component of its primary mission. A loan agreement or other legal document between a lending institution and another party that requires the borrower to repay the loan on a certain date with an agreed interest rate is a form of credit (Umiyatun, 2024).

Indonesian banks operate based on the principles of economic democracy and prudence, as stipulated in "Article 2 of Banking Law Number 7 of 1992, which regulates the principles, functions, and objectives of the law. This article is also confirmed in Banking Law (Amendment) Number 10 of 1998, Article 29, which states that banks must maintain their health in various ways, including by ensuring the quality of their assets, especially credit, and conducting their business in accordance with prudential principles (Principles of Prudence, n.d.)". The prudential principle states that in carrying out their main task of providing credit, banks must comply with regulatory rules, SOPs, and all applicable laws and regulations (Sitorus, n.d.).

Improving credit analysis by considering the 5Cs is a way of applying the concept of prudence in credit distribution. The 5Cs concept in credit is a method of financing borrowers that involves monitoring them and reorganizing their financial situation to determine how much financing they qualify for. The goal is to reduce the risk of bad credit (Hamonangan, 2020). According to Sustainability (nd), these five principles provide comprehensive guidance on how to reduce the likelihood of bad credit and a decrease in the borrower's or debtor's ability to repay debts.

Bank loans can be classified as PL or NPL depending on their creditworthiness status, in accordance with "POJK 40/POJK.03/2019 which regulates the Asset Quality Assessment of Commercial Banks. Performing Loans (PL) include the level of creditworthiness of loans (DPK) both currently and those requiring special attention. Non-Performing Loans (NPL) are a subset of loans that fall into one of three categories: substandard (creditworthiness 3), dubious (creditworthiness 4), or loss (creditworthiness 5). Non-Performing Loans (NPL) are defined by the Basel Committee on Risk Management as loans that cannot be collected back within 90 days of the due date, although there is no universally accepted definition of bad credit (Amila Žunić et al., 2021)".

Indonesian banks play a key role in the People's Business Credit (KUR) program, a government-prioritized program. Officially launched on November 5, 2007, during the administration of President Susilo Bambang Yudhoyono, the KUR program continues under the current administration. MSMEs, cooperatives, and other productive businesses that are directed through financial institutions and qualify for financing but lack additional collateral or are not yet bankable can apply for financing through the KUR program, a government initiative. The KUR program aims to support business capital to empower MSMEs, increase financial inclusion, and accelerate the development of the real sector (Sitorus, n.d.).

Bad credit is a risk in any credit distribution, but in Indonesia's People's Business Credit (KUR) program, state-owned insurance institutions PT Askrindo and PT Jamkrindo subsidize 70% of the risk through credit guarantees; the banks distributing/implementing the program are responsible for the remaining 30%. Maintaining credit quality is crucial for banks to avoid potential revenue losses and increased loan loss reserves, which impact bank profits (Chosyali & Sartono, n.d.), even though the government subsidizes the 70% credit guarantee. BNI stands for "Bank Negara Indonesia Persero," the name of an Indonesian state-owned bank serving individual customers. Through Danantara, the Indonesian government owns a majority stake in this business. As of the end of 2022, the bank's commercial operations were supported by 16,125 ATMs and 195 branches across Indonesia. The bank has offices in New York, London, Seoul, Tokyo, Hong Kong, Singapore, Osaka, and Amsterdam (Dwi Puspasari et al., 2020).

BNI's KUR in Pati offers low-interest loans with relatively easy requirements, as well as various loan limits. For more details, such as limits, interest rates, terms, and requirements, you can visit the nearest BNI branch in Pati or access information on the official BNI website or websites such as the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. Here are some key points regarding BNI's KUR loan ceiling. Super Micro KUR has a limit of 10 million rupiah, Micro KUR 50 million rupiah, and other KUR loans can reach up to 500 million rupiah. BNI offers various types of KUR with varying limits. The interest rate offered by BNI KUR is subsidized and kept low, typically around 6% per year. Working capital loans from BNI KUR have a three-year term, while investment loans have a five-year term. BNI KUR application requirements generally include an ID card (KTP), Family Card (Kartu Keluarga), business license, and other relevant documents. For business entities, additional requirements may be required, such as a Taxpayer Identification Number (NPWP) and collateral documents. BNI's KUR is intended for financing productive businesses in various sectors such as agriculture, fisheries, processing industry, trade, and services. (Dwi Puspasari et al., 2020)

2. Research Methods

This study employs descriptive research and quantitative research strategies. The purpose of quantitative research is to evaluate social phenomena, test hypotheses, and draw general conclusions through the use of numerical and statistical data. Organized statistical analysis and quantitative measurement are the foundations of this research approach. Analyzing a population or sample, collecting data using research methods, and analyzing quantitative or statistical data to test hypotheses are at the heart of quantitative research, which is rooted in positivism (Sugiyono, 2020; Fadilla et al., n.d.) Experts such as Sugiyono and Arikunto define descriptive research as a study that aims to describe actual phenomena, circumstances, or conditions. This research focuses on providing a detailed and factual picture, without making comparisons or generalizations. Experts agree that primary data consists of information collected by researchers directly from sources or people who are the objects of research. This means that researchers obtain information directly from the source, either through interviews, observations, or other means. Research questions are answered using primary data, which is authentic and current. Primary data for this study will be obtained from (Interviews) direct conversations between researchers and people who are the objects of research, (Observations) (Observations) direct reports from people who work with the objects of research in the field, (Questionnaires) data collected from people who fill out surveys, and (Documents) primary sources provided voluntarily by people in the study. (CHAPTER 3, nd). According to experts such as Sugiyono and Kuncoro, quantitative data sources are data in the form of numbers or can be converted into numbers, and can be analyzed using statistical techniques. These data sources can be obtained through primary data (collected directly from respondents) and secondary data (from documents or other sources). Quantitative data is generally collected through questionnaires, surveys, and other measurement methods. Quantitative data, according to Sugiyono, is data in the form of numbers or data that can be quantified or scored. Kuncoro added that quantitative data is data that can be measured and calculated directly in the form of numbers or statistics. (Fadilla et al., nd)

3. Results and Discussion

The BNI Pati Branch is part of the Bank Negara Indonesia (BNI) network, one of the largest banks in Indonesia. Employee performance evaluations at BNI, including at the Pati branch, are generally conducted periodically to assess performance and provide feedback. This evaluation process typically involves various aspects, such as target achievement, work quality, attendance, and work behavior and attitude. The results of these evaluations are then used to make decisions regarding promotions, career development, or corrective actions, if necessary.

Here are some important points regarding employee work evaluation at BNI:

1) Performance assessment:

a. Target Achievement: BNI employee performance evaluation includes the achievement of established targets, both individual targets and work unit targets.

b. Quality of Work: The assessment also includes the quality of the employee's work output, such as thoroughness, accuracy, and efficiency in completing tasks.

c. Attendance: Employee presence at work is also one of the factors that is evaluated.

2) Work Behavior and Attitude Aspects:

a. Professionalism: BNI emphasizes the importance of professionalism in work, including good work attitude, responsibility, and integrity.

b. Customer Orientation: BNI also evaluates how employees interact with customers and provide good service.

c. Continuous Improvement: BNI's work culture encourages employees to continuously improve their work (continuous improvement).

3) Evaluation Process:

a. Assessment: Employees will be assessed by their immediate superior or a designated assessment team.

b. Feedback: The results of the evaluation will be conveyed to the employee in the form of feedback, which contains notes regarding strengths and areas that need improvement.

c. Follow-up: Performance evaluation also forms the basis for decisions regarding career development, promotions, or other corrective actions.

4) BNI Work Culture:

BNI has a work culture known as the 46 Principles, which comprise four core values: Professionalism, Integrity, Customer Orientation, and Continuous Improvement. This work culture serves as a guideline for BNI's operations and performance improvement.

5) Employee Rights and Obligations:

BNI also guarantees employee rights and obligations in accordance with applicable laws and regulations.

BNI also provides equal opportunities for all employees to develop and advance their careers in an inclusive work environment. With structured and ongoing performance evaluations, it is hoped that BNI employees, including those at the Pati branch, can continuously improve their performance and contribute positively to the bank's progress.

Location and Coverage, BNI Pati Branch is located at Jl. Jenderal Sudirman No. 55, Puri, Pati District, Pati Regency, Central Java 59112 Pati, Central Java, and serves the banking needs of the community in the city and surrounding areas. Role in the Economy, As part of BNI, BNI Pati plays an important role in supporting the regional economy by providing financial access for the community and business actors, as well as contributing to regional development programs.

Improving employee performance is crucial because it can increase overall organizational productivity, efficiency, and effectiveness. By improving performance, organizations can better achieve their goals, create a positive work environment, and enhance employee job satisfaction, particularly among Bank BNI Pati employees.

Descriptive quantitative respondent analysis is a type of respondent analysis in quantitative research that involves processing data obtained from questionnaires or other research instruments for statistical analysis. The goal is to identify patterns, relationships, and differences in respondent data that can provide meaningful insights into the phenomenon being studied. The objectives of descriptive respondent analysis are:

1) Understanding respondent characteristics:

Descriptive analysis helps researchers to understand the demographic, social, and economic characteristics of respondents, such as age, gender, education, occupation, and so on.

2) Provides an overview

This analysis provides an overview of the distribution of respondent data, including measures of central tendency (mean, median, mode) and measures of dispersion (range, standard deviation).

3) Facilitates data interpretation

By summarizing data, descriptive analysis makes it easier for researchers to understand patterns and trends in respondent data, thus facilitating the interpretation of research results.

4) As a basis for further analysis:

The results of descriptive analysis are often used as a basis for further inferential statistical analysis, such as hypothesis testing or regression analysis.

Steps in Respondent Descriptive Analysis:

1) Data collection

Respondent data is collected through questionnaires or other research instruments.

2) Data Compilation

The collected data is arranged and organized in the form of tables or other appropriate formats.

3) Descriptive Statistics Calculation

Descriptive statistical calculations such as mean, standard deviation, percentage, and frequency were performed for each relevant variable.

4) Data Presentation

The processed data is presented in the form of tables, graphs, or descriptive narratives to facilitate understanding.

5) Data Interpretation:

The results of the descriptive analysis are interpreted to provide a general overview of respondent characteristics and data patterns.

Variables	Composite Reliability
X1 (Managerial Ability)	0.954
X2 (Financial literacy)	0.929
M (Internal Control System)	0.957
Y (Credit Quality)	0.910

Source: Questionnaire data processed 2025

The variables Managerial Ability, Financial Literacy, Internal Control System, and Credit Quality all have composite reliability values of 0.7 or higher, as shown in Table 4.4. This demonstrates the reliability of the latent variables from these indicators. Therefore, Bank BNI Pati's credit quality is influenced by factors such as management competence, financial literacy, and the effectiveness of internal control mechanisms. The data also demonstrate the reliability of this research instrument, allowing us to proceed to the internal model suitability testing stage.

During the Internal Model Fit Testing stage, researchers tested hypotheses by examining the direct effects of the structural model. Each partial direct effect route was tested using a t-test (T-statistic). As shown in Table 4.7, the internal model hypothesis testing yielded the following findings.

In addition, the external loading findings of the online shopping usability indicator for the Perceived Benefits variable, which was tested by one reflective indicator, showed a value of 1.000 with a p-value of less than 0.0001. This variable is considered significant at the 5% level if the p-value is less than 0.001. Therefore, the perceived benefits variable is significantly reflected by the online shopping usability indicator.

The indicators that encourage reflection form the Perceived Ease of Use variable. Table 4.5 shows the external loading results for each indicator.

Table p-value of Hypothesis Test on Inner Model

No	Variables Predictor	Variables Response	Path Coefficient	p-value	Information
1	Managerial Skills	Credit Quality	0.329	0.001	Significant
2	Financial Literacy	Credit quality	0.248	0.011	Significant
3	Internal Control System	Credit Quality	0.398	0.001	Significant

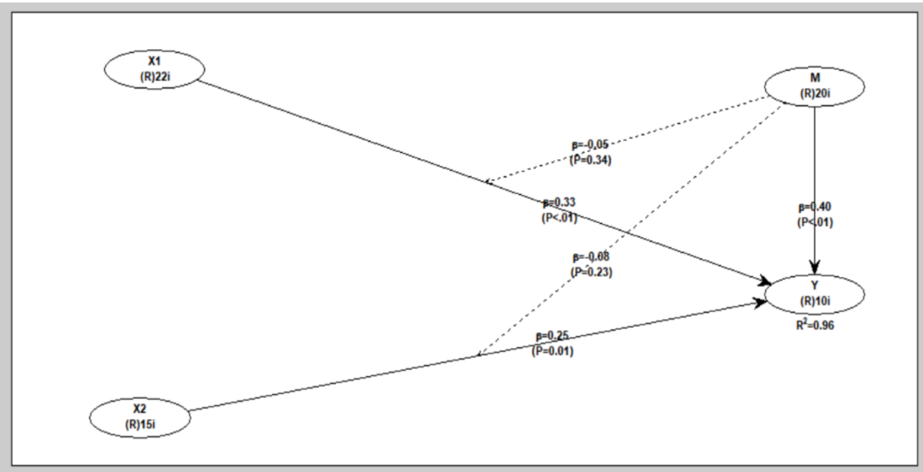
Source: Questionnaire data processed 2025

The results of the hypothesis testing are as follows, according to Table:

Testing the direct effect of managerial ability on credit quality yielded an internal weight coefficient of 0.329 and a p-value of 0.001. Perceptions of managerial ability have a direct and statistically significant effect on credit quality (p-value > 0.05). A positive internal weight coefficient indicates a beneficial relationship between the two variables. Credit quality at Bank BNI Pati is directly proportional to the extent to which its management is perceived as competent.

A p-value of 0.011 and an internal weight coefficient of 0.248 resulted from testing the direct effect between financial literacy and credit quality. Perceived financial literacy has a direct and significant effect on credit quality, as the p-value is less than 0.05. There is a positive correlation between the two variables, as the internal weight coefficient is positive. This indicates that the perceived level of financial literacy has a direct correlation with customer credit quality at Bank BNI Pati.

The results show a significant relationship between the internal control system and credit quality (internal weight coefficient = 0.398, p = 0.001). Perception of the internal control system has a direct and significant influence on credit quality, as the p-value is less than 0.05. There is a positive correlation between the two variables, as the internal weight coefficient is positive. Credit quality at Bank BNI Pati is directly proportional to how well its internal control system is perceived.



Source: Processed Data 2025

From the image above, it can be explained in table as follows:
Table Results of Moderation between Variable Relationships

No	**Track**	**Path Coefficient**	**P-Value**	**Coefficient Indirect**	**Mediation Statement**
1	X1 → M → Y	X1 → M = 0.33	< 0.01	0.33 X 0.40 = 0.132	**Moderating**

		M→ Y = 0.40			
2	X2 → M → Y	X2 → M = 0.25 M → Y = 0.40	< 0.01	0.25 X 0.40 = 0.1	**Moderating**
3	X1,X2→M→Y	X1,X2 → Z = 0.58 **Z → Y = 0.40**	< 0.01	0.58 X 0.40 = 0.232	**Moderating**

Source: Questionnaire data processed 2025

Based on the results of the test analysis above, the following things were found.

a. Relationship X1 → M → Y

The path coefficient from X1 to M is 0.33 and from to Y is 0.40, with a P-Value <0.01. This indicates that the indirect effect of X1 on Y through M is significant. The indirect effect coefficient is (0.33 X 0.40) 0.132 Thus, the variable M can moderate the relationship between X1 and Y, which means that the role of M provides additional influence on the variable X1 on Y in this study.

b. Relationship X2 → M → Y

The path coefficient from X2 to M is 0.25 and from M to Y is 0.40, with a P-Value <0.01. This indicates that the indirect effect of X1 on Y through M is significant. The indirect effect coefficient is (0.25 X 0.40) 0.1. Thus, the variable M can moderate the relationship between X2 and Y, which means that the role of M provides an additional influence on the variable X2 on Y in this study.

c. Relationship X1,X2 → M → Y

The path coefficient from X1,X2 to M is 0.58 and from M to Y is 0.40, with a P-Value <0.01. This indicates that the indirect effect of X1,X2 on Y through M is significant. The indirect effect coefficient is (0.58 X 0.40) 0.232. Thus, the variable M can mediate the relationship between X1,X2 and Y, which means that the role of M provides additional influence on the variables X1,X2 on Y in this study.

Discussion:

1) First Hypothesis (H1)

The first hypothesis in this study was to investigate the relationship between management competence and loan quality provided by the BNI Bank Semarang Regional Office, Pati Branch. This study showed a path coefficient value of 0.33, indicating that credit quality at the BNI Bank Pati Branch has a positive correlation with management competence. The fact that the p-value is less than 0.05 (<0.001) further strengthens this finding. This leads the researcher to accept H1.

In line with other research on management skills, this study found that management skills have a positive influence on profitability at the Makassar branch of PT. Bank Sulselbar (Khalik et al., n.d.). This study found that the profitability of Bank Sulselbar Makassar Branch is positively and significantly influenced by the management skills of branch managers.

2) Second Hypothesis (H2)

The relationship between customer financial literacy and their loan quality at the Pati Branch Office, Semarang Regional Office of Bank BNI, is the focus of testing the second hypothesis in this study. This study shows a path coefficient value of 0.25, indicating that a higher level of financial literacy is associated with better credit quality for the bank, in this case the Pati Branch of Bank BNI. The p-value of less than 0.001, which is smaller than 0.05, further strengthens this. Therefore, the researcher accepts H2.

The results of this study align with previous research on how BPR Kota Batam customers are influenced by factors such as financial literacy, service quality, and credit procedures when deciding whether to grant credit (Sartika & Christian L Tobing, n.d.). Customer credit choices at BPR Kota Batam were not influenced by financial literacy. The first hypothesis, that people need financial literacy, was correct.

3) Third Hypothesis (H3)

Third, this study aims to investigate how BNI Pati Branch Credit Quality is influenced by Managerial Ability, Financial Literacy, and Internal Control Systems. The study shows a positive correlation between Managerial Ability, Financial Literacy, and Internal Control Systems with Credit Quality at the bank. This is supported by a path coefficient value of 0.58. A p-value of less than 0.001, which is smaller than 0.05, further strengthens this finding. Therefore, the researcher accepts H3.

Previous research has shown that credit quality and bank services are positively influenced by management capabilities, financial literacy, and internal control systems. The results of this study align with these findings. To address problem loans, optimizing credit quality improvements is necessary (Chosyali & Sartono, n.d.).

4. Conclusion

After completing this paper, readers should understand the significance of this research thanks to the conclusions presented. Rather than simply restating the research topic or summarizing ideas, these conclusions synthesize key points. Findings from the data analysis, answers to the research questions, and implications are all included in the final section of the research report, the conclusions. The research's contribution to the advancement of science is also emphasized in the conclusions. The findings of this study allow the researcher to draw the following conclusions: Application of Structural Equation Model (SEM) with WarpPLS approach in modeling the effectiveness of managerial capabilities and financial literacy on the internal control system and its implications for credit quality at the BNI Semarang Regional Office from 2021 to 2024. The results of the analysis using WarpPLS and SPSS on the Moderation Variable (Internal Control System) obtained factors that influence Managerial Ability, Financial Literacy, Credit Quality, Ability to motivate others, Managing resources, Achieving organizational goals through the activities of others, Basic Financial Knowledge, Financial Management, Financial Product Knowledge, Financial Decision Making, control environment (office environment), risk assessment (job risks in the office (Credit Analyst), information and communication of monitoring activities of existing control activities. Credit application stage, credit examination or analysis stage, credit decision granting stage, credit disbursement/credit agreement stage. significantly influence Credit Quality at Bank BNI. The value of the Managerial Ability perception variable is obtained at 0.33 for the Financial Literacy variable is obtained at 0.25. From this value it can be seen that the Managerial Ability variable is the variable that has the most influence on Financial Literacy, Internal control systems and credit quality at Bank BNI Pati branch. The results of the SEM analysis using the WarpPLS approach applied in the study show that the Managerial Ability variable is the variable that has the most influence on Financial Literacy towards the Internal Control System because the value of this variable is the largest among other variables, namely 0.33.

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