



The Effect of Productive Assets Quality and Third Party Funds on Operational Performance of Urban and Rural LPD's Areas in Badung Regency

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Abstract

This study aims to obtain empirical evidence on the influence and test of average growth of productive assets and third party funds on the operational performance of urban and rural areas of LPD. Method of probability sampling with purposive sampling technique was used as research method, so the sample amounted to 53 LPD. The used data analysis technique is multiple linear regression analysis and t-test. The test results stated that each of the independent variables, namely credit growth, fund investments growth in other banks, deposit growth, and saving growth have a positive influence on LPD operational performance. As well as the results of different test showed that there are differences in average earning assets and significant third-party funds between urban and rural areas LPD.

Keywords: Asset; Third Party Funds; Operational Performance.

1. Introduction

One of the non-bank financial institutions which has a function to prosper the people is Village Credit Institution (LPD) in Bali. In Bali, Customary Village is a social organization with local wisdom from the ancestor heritage. Local Regulation of Bali Province No 8 of 2002 states that Customary Village in Bali has an autonomy rights which one of them is regulating people's socio-economy aspect related to the way of managing economy asset owned by the village.

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To manage and develop the economy of the village, Village Credit Institution (LPD) is built as a financial organization which runs business in the customary village and owned by the village itself. LPD is a simple business entity which prioritize going concern principle based on efficiency and productivity. In general, LPD is a saving and loan business which has an activity to collect people's funds (third party) in form of savings and deposit, and then the LPD redistributes the funds in form of credit [1]. In the aspect of LPD efficiency and productivity, there is dominant indicator, i.e. the effort of LPD to gain profit as an effort to maintain its business [2]. Any business entity, including LPD always aims at profit in running their business. However, besides aiming for profit, LPD is also expected able to manage LPD financial effectively and efficiently so the profit and performance of the LPD will be better than before. One of the ways to measure performance of LPD is by measuring the operational performance. Operational performance is a result or achievement of company in running their operational activity. LPD as one of financial institution is significantly needed to measure the performance aiming at supervising the development. Profitability ratio as a measurer level of LPD ability in gaining profit can be used as a tool to measure operational performance of LPD. One of the profitability ratio to measure LPD operational performance is BOPO ratio which is the comparison of operational cost and operational income. The lower BOPO ratio level, more efficient the operational cost used by the LPD, so the opportunity of the LPD in having problem is getting lower. BOPO ratio has a role on measuring efficiency or the operational activity conducted by the LPD. BOPO is closely related to funds raising activity and distribution/the use of the funds as the operational activity of the LPD. This ratio measurement is used to evaluate bank management capability in controlling operational cost and income. BOPO ratio could be influenced by productive asset and third party funds [1]. Productive asset is an available bank funds to produce income. In this study, the productive assets are credit growth and funds investment in other bank. Fund or asset owned by LPD is generally managed to produce income or which can cover the entire operational cost so the funds will be more productive; the step that can be done by LPD is distributing credit to the people. Credit growth is all of the funds given by the people with the purpose of gaining return in form of interest which is admitted as income. The greater credit distribution to the people, the higher the asset return. The improvement of credit growth gained by LPD does not always get high return, sometimes the credit is in problem and has indication of being bad credit. Bad credit as the problem in LPD is called as Non-Performing Loan (NPL). Besides credit distribution, the productive asset owned by LPD can be in form of funds investment in other bank. It can be in form of saving in Bank Indonesia, fund investment in other banks, and funds distribution in form of securities and financing. LPD collects funds by collecting from the people especially people of customary village, both individual and group which is usually called as third party funds. It is in form of saving and deposit. In this study, the third party funds mean the growth of saving and deposit. Some previous studies that reviewed the effect of productive asset quality and third party funds have been conducted by some experts such as Setyawan [3], Suwendra [4], Andhika [1], Ristiadi [2], and Wahyuni [5] who stated that productive asset quality and third party funds positively influence operational performance. The research findings of Atmaja and Cipta [7], Kusumayanti and Jati [6] proposed that productive asset quality has positive effect on operational performance. Besides that, the research finding of Suwendra [4] revealed that third party fund has positive influence on operational performance. Based on the previous description, this study is conducted to confirm those previous studies. This study is conducted in LPD, since this financial institution is a special financial institution. It is owned by Balinese customary community and a village wealth axis which runs its function to

aim at improving people's standard of living and as a supporting village development. LPD location of this research was in Badung Regency because the improvement of LPD number is not balanced by the improvement of LPD operational performance. It is known by the case of funds misappropriation by the LPD officer. One of the cases occurred in one of LPD in Badung Regency which lose IDR 10 Billion. It was caused by funds misappropriation conducted by the head of LPD Desa Adat Kapal named "I Made Ladra". This LPD is threatened to be collapse and the customer savings could not be drawn. This case will affect all aspects related to this LPD operational performance. LPD Kapal which suffered losses and threatened to be collapse could not operate effectively by distributing credit to the people so it will affect the credit growth. Besides that, funds investment in other banks which is owned by LPD Kapal will be used as assurance to return the customer funds. Saving and deposit growth will be in trouble as well since the customer will have problem in drawing their savings and it will decrease their willingness to save their money in LPD. Other difference of this research with other research is that the unique demography characteristic in Badung Regency. Badung Regency consists of six districts which are classified into North Badung area and South Badung area. Development of LPD in Bali, especially Badung Regency is differentiated based on its location, i.e. urban and rural area. Based on Regulation of the Head of Central Bureau of Statistics No 37 of 2010 stated that urban area is an administrative area of village which fulfill certain requirements in term of total population, agricultural household percentage, and some urban facilities, formal education facilities, public health facilities, and so on, while rural area is an administrative area of village which does not fulfill certain requirements as an urban area (www.bps.go.id).

2. Research Hypothesis

Based on the framework, the hypothesis proposed in this study as follows:

H₁: The higher the credit growth so the higher the operational performance.

H₂: The higher the growth of fund investment in other bank so the higher the operational performance.

H₃: The higher the growth of deposit, the higher the operational performance

H₄: The higher the growth of saving, the higher the operational performance

H_{5a}: There is average difference of given credit growth between urban and rural area LPD in Badung Regency.

H_{5b}: There is average difference of fund investment growth in other bank between urban and rural area LPD in Badung Regency.

H_{5c}: There is average difference of saving growth between urban and rural area LPD in Badung Regency

H_{5d}: There is average difference of deposit growth between urban and rural area LPD in Badung Regency.

H_{5e} : There is difference of operational performance (BOPO) between urban and rural area LPD in Badung Regency.

3. Research Method

There are two variables in this study, namely dependent and independent variables. Dependent variable is a variable which is influenced or predicted by other variable in the model, i.e. Operational Performance (Y). Independent variable is a variable which is not influenced or predicted by other variable in the model, i.e. the growth of credit (X1), the growth of fund investment in other bank (X2), the growth of saving (X3), and the growth of deposit (X4). Definition of operational variable more focus on things that can be used as measurement or indicator from one variable and the measurement or indicator is not abstract or easily measured.

4. Result and discussions

Population of this study is all of the registered LPD in Badung Regency in total 122 units. The sample was chosen by using probability approach with purposive sampling method. Therefore, the samples of this research were all of the healthy LPD in Badung Regency with total 53 LPD consisting of 28 units LPD in urban area and 25 units in rural area.

Table 1: Determination of Research Samples

Description	Urban	Rural
Total LPD in Badung Regency	68	54
Not healthy LPD	(30)	(39)
Research Samples	28	25

Hypothesis testing was conducted by using multiple linear regression method. The regression equation produced by this testing model is as follows: $Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + e$. Besides that, some tests were conducted such as descriptive statistical analysis test, classic assumption test and T-test of difference test. The following is the concept of this research:

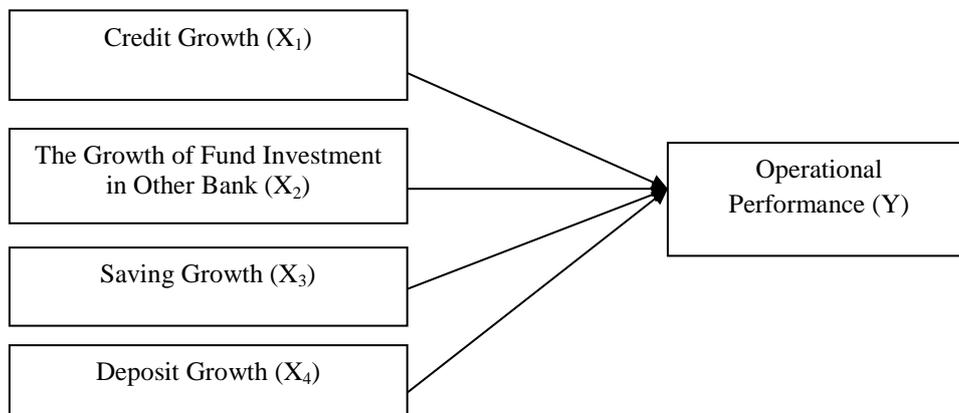


Figure 1: Research Concept of Multiple Linier Regression

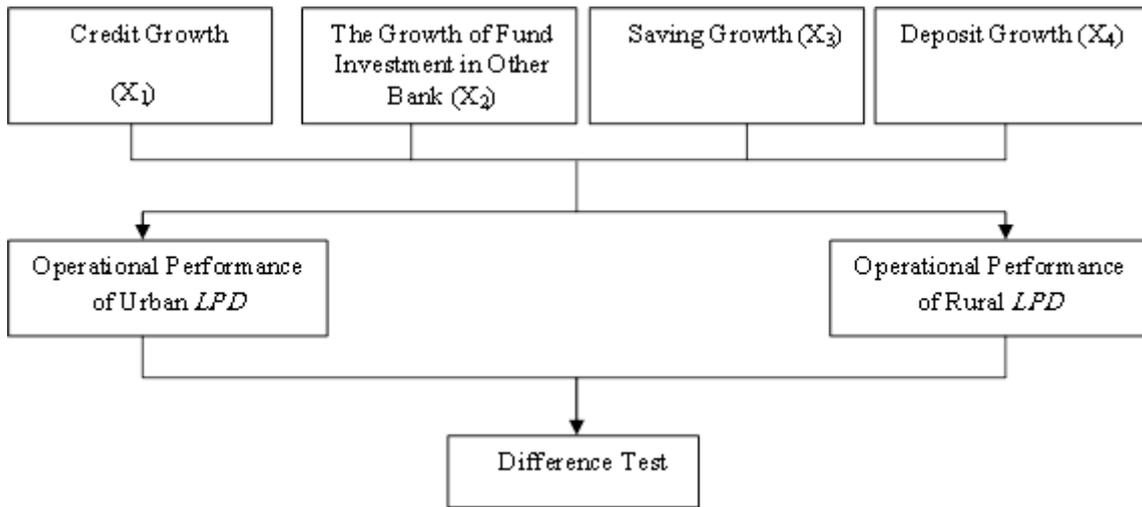


Figure 2: Concept of Difference Test Research

5. Multiple Linier Regression Analysis

Before conducting multiple linier regression analysis test, both research models were treated by classic assumption test and it passed the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test.

Based on the result of multiple linier regression analysis test in urban and rural area, it was found that the coefficient score of F-test was 10.276 and 7.707 with significant level of 0.000 less than 0.05 which means that this research model was worthy of further analysis.

The determination coefficient showed the score of adjusted R square was 0.023 which means 23% of the up and down variation of the operational performance is influenced by productive asset variable and third party funds, while the other 77% is influenced by other variable which cannot be explained by this model.

For the determination coefficient showing the score of adjusted R square 0.162 means 16.20% of the up and down variation of the operational performance change is influenced by productive asset variable and third party funds, while the other 83.80% is influenced by other variable which cannot be explained by this model.

Dependent Variable: BOPO

$$\text{Adjusted } R^2 = 0.230 \quad F = 10.276 \quad \text{Sig} = 0.000$$

Multiple linier equation from the result of regression analysis is as follows:

$$Y = 66.280 + 6.901X_1 + 1.213X_2 + 3.213X_3 + 5.252X_4 + e$$

Table 2: The Result of Regression Analysis in Rural Area

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
	B	Std. Error	Beta	t		Tolerance	VIF
(Constant)	66.280	1.018		65.108	0.000		
Credit Growth	6.901	3.286	0.182	2.100	0.038	0.825	1.212
The Growth of Fund Investment in Other Bank	1.213	0.000	0.205	2.464	0.015	0.896	1.116
Deposit Growth	3.213	1.236	0.211	2.600	0.011	0.938	1.066
Saving Growth	5.252	1.968	0.218	2.669	0.009	0.931	1.074

Table 3: The Result of Regression Analysis in Urban Area

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
	B	Std. Error	Beta	T		Tolerance	VIF
(Constant)	69.775	1.183		58.984	0.000		
Credit Growth	10.918	4.316	0.219	2.530	0.013	0.808	1.238
The Growth of Fund Investment in Other Bank	7.604	0.000	0.159	2.042	0.043	0.992	1.008
Deposit Growth	4.643	2.241	0.181	2.072	0.040	0.790	1.266
Saving Growth	1.582	0.744	0.167	2.127	0.035	0.976	1.024

Dependent Variable: BOPO

Adjusted R² = 0.162 F = 7.707 Sig = 0.000

The multiple linier equation from the result of regression analysis is as follows:

$$Y = 69.775 + 10.918X_1 + 7.604X_2 + 4.643X_3 + 1.582X_4 + e$$

6. Conclusion

Based on the result of analysis and discussion of this research, it can be concluded that credit growth has positive effect on operational performance of LPD in Badung Regency. The higher the credit growth, the better the operational performance of the LPD. The growth of fund investment in other bank has positive effect on operational performance of LPD in Badung Regency. The higher the growth of fund investment in other bank, the better the operational performance of the LPD. Deposit growth has positive effect on operational performance of LPD in Badung Regency. The higher the deposit growth, the better the operational performance of the LPD. Saving growth has positive effect on operational performance of LPD in Badung Regency. The higher the saving growth, the better the operational performance of the LPD and there is average difference of productive asset and third party fund on operational performance which has significant effect between urban and rural LPD in Badung Regency.

Based on the above conclusion, some suggestion can be proposed related to the research finding. For the LPD management, they should improve their operational performance by focusing on efficiency of productive asset management and third party funds. One of the ways is by improving capability in credit analysis so it will decrease the opportunity of bad credit. Other suggestion is intended for other research, which is expected to add more research variables related to the bad credit analysis such as NPL (Non-Performing Loan).

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