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The Influence of Loans Extended to Profitability and Non-Performing Loans as a Moderating Variable

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Abstract— *The Village Credit Institution (LPD) is a financial institution owned by Pakraman Village which has special characteristics. This specificity is mainly related to the obligations of the LPD towards Desa Pakraman which are physical/scale as well as non-physical/niskala. Regarding the LPD in the Gianyar sub-district, there are 40 LPD spread across the Gianyar sub-district. The sampling technique used was purposive sampling of 165 samples obtained from 33 LPD populations throughout the Gianyar District with 5 years of observation, namely from 2017-2021 and data collection was carried out with documentation. The data analysis technique used is Partial Last Square (PLS). The results of the study show that loans have a positive effect on profitability in LPDs throughout the Gianyar District, non-performing loans have a negative effect on profitability in LPDs throughout the District of Gianyar and non-performing loans are not able to strengthen the relationship between loans extended to profitability in LPDs throughout the District Gianyar.*

Keywords— *Non Performing Loans, LPD Loans, Profitability.*

I. INTRODUCTION

The Village Credit Institution (LPD) is a financial business entity owned by a traditional village and carries out business activities in a traditional village environment. LPD is one of the assets and sources of income for traditional villages so that it requires good management by management and supervisory bodies (Wirajaya, 2017). Based on Bali Provincial Regulation No. 2 of 1988 and renewed by regulation no. 8 of 2002, the Village Credit Institution (LPD) plays a role in supporting rural economic development through increasing the saving habits of rural communities, providing credit for small-scale businesses, eliminating forms of exploitation in credit relations, and creating equal opportunities for business activities in village level, increasing the level of monetization in rural areas (Mustanda, 2019).

This research has a relationship with issues and phenomena related to the health conditions of LPD. Fluctuations in the condition of LPDs indicate that LPDs are in ill condition, on average including difficulties in recovering LPD finances due to decreased turnover cash from bad credit. Another factor causing the unhealthy condition of the LPD stems from the large number of male administrators in the local village who are reluctant to take care of their LPD when there are problems. According to Riyanto (2019: 12) credit given or referred to as lending is one of the main activities in banking. This credit distribution activity is carried out by collecting funds from the community and channeling them back in the form of savings and others. The head of the Gianyar Regency LP LPD office stated that the majority of customers experienced bad credit in paying principal and interest on obligations from funds that had been borrowed previously, due to bad credit that occurred raises the NPL rate or high risk. NPL if defined theoretically, according to Suyatna (2018:75) Non-Performing Loans are a risk that is often experienced by banks, this risk occurs due to the existence of problem loans when the creditor is unable to pay the principal credit installments along with the interest that has been agreed by both parties in the agreement credit. Non Performing Loan (NPL) is a ratio that is proxied to measure the ability of bank management to manage bad loans provided by banks (Rachmawati, 2019:98).

Calculating the ratio of non-performing loans to all loans will reveal the NPL. The NPL will have a greater impact on the bank's profits the lower it is. In contrast, if the bank's NPL is large, it would suffer losses as a result of the low interest income on loans, which will have an effect on the bank's declining profitability. Bank Indonesia will set the criteria for an NPL ratio below 5%, because it is based on the bank's value to the value of the NPL ratio (Kasmir, 2019:99). The results of this study, when associated with previous empirical studies conducted by Utami (2018), Dewi and Ratnadi (2018) and Lestari (2019), state that non-performing loans have a negative effect on profitability. In contrast to Udayani and Wirajaya (2019) which state that non-performing loans have a positive effect on profitability.

II. GRAND THEORY

Contingency Theory

Contingency theory, when defined basically as a theory that explains that something happens because of the dependence of factors on one another. These factors can be antecedents & consequent. Contingency theory as a potentially powerful tool for increasing corporate value added with the ultimate goal of sustainable corporate relationships is often much simpler and easier to understand and more elegant than other theories. Simplicity and scope make contingency theory have greater potential, the potential for developing simple decision rules that have large-scale impacts on sustainable companies (Betts, 2018:98).

Signalling Theory

According to Hartono (2017: 211) The signal theory states that the company

Good quality companies will deliberately give a signal to the market, thus the market is expected to be able to distinguish between good and bad quality companies. Signal theory explains why companies have the urge to provide financial report information to external parties such as investors or creditors. And there are also those who say that a signal is a company that will give a signal to financial statements, including investors who aim to increase shareholder value. Any information about management's attempts to understand what investors need, or other information that can demonstrate their company is superior to other companies, can serve as a signal. Internal parties will have a better understanding of the state of the company thanks to the reduction in information asymmetry caused by the signal. In this study, the moderating variable on the dependent variable—namely, the relationship of non-performing loans in moderating loans to profitability—is utilized to draw a relationship between the influence of each independent variable.

III. Research Design

According to (Sugiyono, 2018: 213), the population is made up of things or subjects with particular features and characteristics that the researcher has chosen to study and then make conclusions from. The population in this study were 40 LPDs obtained from a total of all Village Credit Institutions registered with the LPLPD of Gianyar Regency.

According to Sugiyono (2019:217), the sample reflects the size and features of the population. The sampling technique used in this study was purposive sampling, namely a sampling technique based on certain criteria or considerations. Profitability in this study is measured or proxied by measuring instruments

Return on Assets (ROA) ratio, because it can show how the company's performance is seen from the use of all the assets owned by the company in generating profits. According to Kasmir (2019: 78) the ROA formula is formulated as follows:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

This study uses proxies or measuring instruments in the form of applying ratios Loan to Deposit Ratio. LDR is the ratio used to find out the entire amount of credit extended to third party funds or what is known as DPK. According to Kasmir (2019: 90) the formula used to measure LDR is as follows:

$$\text{Loan to deposit ratio} = \frac{\text{Total Loan}}{\text{Total Deposit to Equity}} \times 100\%$$

The risk that is often experienced by banks is the risk of having a loan problem is when the creditor is unable to pay the principal of the credit that has been repaid along with the interest agreed upon by both parties in the credit agreement (Suyatna, 2018: 75). The non-performing loan (NPL) ratio is used as a proxy to assess a bank's management team's capacity to handle subprime loans issued by banks (Rachmawati, 2019:98). According to Kasmir (2019:99) Non Performing Loans (NPL) can be formulated as follows:

$$\text{NPL Ratio} = \frac{\text{Nonperforming Loans}}{\text{Total Loans}}$$

The data collection method in this study is quantitative data. Quantitative data is financial data such as profitability, kredit given and non-performing loans obtained from the Annual Financial Report of the Gianyar Regency LP LPD.

The data in this study used the Partial Last Square (PLS) data analysis technique, the reason for using this data analysis technique was because the study population consisted of 33 LPDs which allowed it to be processed in PLS 3.0 Software Version. Hypothesis testing with PLS Version 3.0 was carried out in two stages, namely calculate directly the effect of the independent latent variable on the dependent latent variable, and calculate the effect of the independent latent variable on the dependent latent variable with moderating variables (Ghozali, 2018: 139)

IV. Result

Hypothesis testing with PLS Version 3.0 was carried out in two stages, namely calculating directly the effect of the independent latent variable on the dependent latent variable, and calculating the effect of the independent latent variable on the dependent latent variable with the moderating variable (Ghozali, 2018: 139). The output results of PLS Bootstrapping results to test the hypothesis.

TABLE 1

Interaksi Variabel	*Original Sample (O)*	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
X->Y	0,5348	0,5157	0,1515	3,5297	0,0005
M ->Y	-1,1545	-1,1109	0,3858	2,9927	0,0029
M*X->Y	-0,009	0,022	4,032	0,002	0,998

The goal of bootstrapping testing is to reduce the issue of aberrant research data. The results of testing with bootstrapping from the PLS analysis can be seen as follows:

a) The Effect of Credit Provided by LPD on Profitability

The first hypothesis examines the effect of credit on profitability. The results of hypothesis testing show that the original sample value is 0.5348 in a positive direction and the t-statistic value of 3.5297 is greater than the t-table value of 1.96 and the p-value is 0.0005 or less than 0.05, then the first hypothesis in this study is accepted. These results can be interpreted that the independent latent variable sample data (credit granted) has succeeded in proving the influence of the dependent latent variable (profitability) with a positive relationship direction.

Based on the results of hypothesis testing, it shows that the credit given has a positive effect on profitability in LPDs throughout the Gianyar District. Indicated by a positive original sample direction of 0.5348 and a significance level of p-values of 0.0005 or less than α (0.05). This means that the increase in credit given is able to influence increasing profitability in LPDs throughout the Gianyar District.

Signaling theory has a relationship with the credit given by LPD on profitability, where through signal theory the LPD is able to find out how much a good signal or good impact arises from the credit given to creditors. The credit given will give a good signal if the creditor is able to fulfill its obligations in

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repaying the debt it has previously borrowed, so that cash turnover is stable and has an impact on increasing profitability. A bad signal will also arise, if the credit that has been given before is unable to be paid by the creditor causing bad credit, this will have an impact on decreasing profitability due to unstable cash circulation.

The results of this study are in accordance with previous empirical studies, where empirical studies were conducted by Utami (2018), Dewi and Ratnadi (2018), Farida (2018), Lestari (2019), Udayani and Wirajaya (2019), Jayanti (2021) and Jayanti (2022) which states that credit extended by LPDs has a positive effect on profitability.

b) The Effect of Non-Performing Loans on Profitability

The second hypothesis examines the effect of non-performing loans on profitability. The results of hypothesis testing show that the original sample value is -1.1545 in a negative direction and the t-statistic value of 2.9927 is greater than the t-table value of 1.96 and the p-value is 0.0029 or less than 0. 05, then the second hypothesis in this study is accepted. These results can be interpreted that the sample data of moderating latent variables (non-performing loans) succeeded in proving the effect on the dependent latent variable (profitability) with a negative relationship.

Based on the results of hypothesis testing shows that non-performing loans have a negative effect on profitability in LPDs throughout the Gianyar District. Indicated by the original sample negative direction of -1.1545 and a significance level of p-values of 0.0029 or less than α (0.05). This means that the reduction in non-performing loans can affect the increase in profitability in LPDs throughout the Gianyar District. The contingency theory is related to NPL or credit risk, where this theory explains that NPL is a factor that is often considered by LPDs in extending credit. Basically credit risk occurs due to the dependence of factors on one another. These factors can be antecedents & consequences that have strong potential to reduce LPD profitability when creditors are unable to fulfill their obligations in paying loan installments. The results of this study are in accordance with previous empirical studies, where empirical studies conducted by Utami (2018), Dewi and Ratnadi (2018) and Lestari (2019) state that non-performing loans have a negative effect on profitability.

c) Non-Performing Loans Moderate the Effect of Credit Provided by the LPD on Profitability

The third hypothesis examines the effect of loans on profitability with non-performing loans as a moderating variable. The results of hypothesis testing show that the original sample value is -0.009 in a negative direction and the t-statistic value is 0.002 which is smaller than the t-table value of 1.96 and a p value of 0.998 or greater than 0.05, the third hypothesis in this study was rejected. These results can be interpreted that the sample data of moderating latent variables (non-performing loans) are not able to strengthen the relationship between the independent latent variable (credit extended) to the dependent latent variable (profitability).

Based on the results of hypothesis testing shows that non-performingloans are not able to strengthen the relationship between loans extended to profitability in LPDs throughout the Gianyar District. Indicated by the original sample negative direction of -0.009 and a significance level of p-values of 0.998 or less than α (0.05). This means that the reduction in non-performing loans is not able to strengthen the relationship between loans extended to profitability in LPDs throughout the Gianyar District.

Signal theory relates to the relationship between credit extended by LPDs to profitability and NPL as a moderator, where signal theory provides both good and bad directions faced by LPDs. High credit risk gives a bad direction for LPDs because the cash turnover that occurs does not go well or the occurrence of bad loans causes a decrease in profitability, conversely if the credit risk is low the cash turnover at the LPD becomes stable and profitability also increases.

The results of this study are inconsistent with previous empirical studies, where empirical studies conducted by Utami (2018), Dewi and Ratnadi (2018) and Lestari (2019) state that non-performing loans weaken the relationship between credit provided by LPDs and profitability.

V. Conclusion

Based on the results of the analysis and discussion of the research, it can be concluded as follows:

1) The credit provided has a positive effect on profitability in LPDs throughout the Gianyar District.
2) Non-performing loans have a negative effect on profitability in LPDs throughout Gianyar District.
3) Non-performing loans are not able to strengthen the relationship between loans extended to profitability in LPDs throughout the Gianyar District.

For future researchers, it is hoped that they will be able to expand the scope of the research area, not only to the scope of LPDs in the Gianyar District, but to include a wider range of LPDs such as LPDs in Klungkung Regency, LPD Units in Bangli Regency, LPS throughout Denpasar City and others. So that it can represent a population with a larger number and the results of the study can be generalized. Further research is also recommended to add independent variables to support the complexity of the research, for example adding business capital, solvency, liquidity or other variables. As well as using other moderating variables such as financial performance variables, because in this study the moderating variable has no influence on the relationship between the independent variables and the dependent variable.

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