

## **EFFECT OF PRODUCTIVE ASSETS EARNINGS AND THIRD PARTY FUNDS ON OPERATIONAL PERFORMANCE LEMBAGA PERKREDITAN DESA (LPD) IN BADUNG DISTRICT**

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### **Abstract**

Stengthening Rural Economy (11)

LPD's ability to generate maximum profit can not be separated from the assets, wealth, capital and investment owned by LPD is to conduct operational activities so that later can generate added value for LPD that is profit with its own fund called rentability, one of its component is the ratio of BOPO is the ratio of the ratio between operational costs and operating income. The purpose of this study is to determine the effect of growth of productive assets (credit given) and third party funds (growth of savings and deposits) on operational performance (ratio BOPO) in LPD in Badung regency. Population in this research is all of LPD which exist in Badung regency in period 2014 - 2016. The results showed that productive assets (credit given) have a positive and significant effect on operational performance (BOPO ratio), third party funds in the form of saving growth has negative and insignificant effect on operational performance (BOPO ratio), while third party deposits have negative influence and insignificant to operational performance (BOPO ratio). All independent variables consisting of loans (savings and deposits), savings and deposits (third party funds) have significant and significant effect on operational performance (BOPO ratio).

### **Keywords**

Loans; Savings growth; Deposit growth; BOPO

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## 1. Introduction

The contribution of LPD in the rural people's economy is an indicator of LPD success. The greater the role of the LPD to society indicates that the market opportunity for LPD will be higher. To get a high profit there are at least four areas need to get management's attention, that is management healthy assets, effective fund management, creative fee base income management, and efficient business cost management (Rahyuda, 2003).

LPD is a special financial institution that is a financial institution owned by indigenous villagers of Bali and is a container of village wealth that performs its functions in the form of efforts towards improving the living standard of the community and supporting the development of the village.

Research conducted by Nila (2009) shows that only variable of credit growth given by partial have influence and significant on operational performance (ratio BOPO) LPD in Badung regency period 2003-2007, while result of research conducted Setyawan (2010) stated that growth credit has a negative effect on BOPO ratio, saving growth has no effect on BOPO ratio and deposit growth have significant effect on BOPO ratio.

BOPO ratio is ratio between operational cost (BO) and operating income (PO), lower BOPO ratio means better management performance, because it is more efficient in using the existing resources in the company (Riyadi, 2006: 159).

Productive assets are all investments in rupiah and foreign currency intended to generate income in accordance with its function (Siamat, 2004: 134).

Fund management in the form of productive assets (loans given) is a source of income used to finance the overall operational costs including interest costs, labor costs and other operational costs, so the higher earning assets (credit given) will increase the income of LPD, and will directly affect the performance operational LPD capable reducing the burden of LPD operational costs, so that operational performance in this case measured through BOPO ratios will be more efficient.

Funds from these communities are often referred to as third party funds that are usually tangible with savings and deposits. Third party funds are funds that come from ordinary people. Savings are deposits whose withdrawals may only be made under certain conditions agreed upon, but can not be withdrawn by check, bilyet giro, or other equivalent means.

Based on the description thus the direction of this study is to analyze the effect of growth of productive assets and third party funds on operational performance (ratio BOPO)

at Lembaga Perkreditan Desa in Badung regency. It is important to examine because in embedded credit funds that are a source of funds in the LPD business for earn income like interest income from credit given. In contrast, third party funds represent public funds in the form of savings and deposits that are a source of cost for LPDs.

Based on the above description, then the problem formulation in this research are:

- 1) Does the growth of productive assets affect the operational performance of LPDs in Badung Regency?
- 2) What is the growth of savings have an effect on performance operational at LPD in Badung regency?
- 3) What is the growth of deposits have an effect on performance operational at LPD in Badung regency?

## **2. Literature Review**

Lembaga Perkreditan Desa is rural economic institutions used for research and money exchange in rural areas, so that LPD basically serves as a fundraiser, lender, and intermediary in the payment traffic in general and is a source of development financing in the traditional village area in Bali.

Productive assets are all investments in rupiah and currency foreign intended to earn income in accordance with its function (Siamat, 2004: 134). In this research productive assets in question is the credit growth given the higher the credit given the higher the income earned in order to finance all operational costs LPD, so the higher the income earned from the credit given the lower the level of BOPO ratio of the LPD.

According to Law no. 10 Year 1998 on banking, Savings is a deposit withdrawal can only be done subject to certain conditions agreed upon, but can not be withdrawn by check, bilyet giro, and or other equivalent means. Savings are also funds raised by financial institutions in this case is the LPD to help finance the whole operational costs with provision that the LPD must return the savings supplied with a certain interest, thus the greater the savings collected the LPD's obligation to return the interest that is part of the operational cost of the savings is also greater. So the higher the obligation that must be spent on the savings collected by the LPD, the higher the level of BOPO ratio of the LPD.

According to Law no. 10 Year 1998 concerning banking, deposits represent deposits withdrawal can only be done at certain time based on customer deposit agreement with bank. In this case deposits are funds collected by Lembaga Perkreditan Desa (LPD) where the LPD is obliged to return the deposit within a period of time certain to include paying the obligation of a certain interest, as well the greater the deposit collected then the LPD's obligation to return the both is part of the operational costs of these deposits is increasingly large. So the more high liabilities that must be issued on deposits collected by the LPD, the higher the level of BOPO ratio of LPD.

### **Hypothesis**

Based on previous research conducted by Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006) and Wahyundari (2008), the higher credit growth hence the greater credit disbursed to the public, with credit growth being high then the LPD's operating income will increase so it can depress the ratio of BOPO. Credit growth is given as part of productive assets has a negative (counterclockwise) relationship with BOPO ratio. Hence can be formulated hypothesis as follows:

H1: The growth of credit that given a negative effect on Operational Performance.

Based on previous research conducted by Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006) and Wahyundari (2008), the higher the growth of savings, the greater the savings are collected. When viewed from relationship, between the growth of savings with BOPO ratio has a relationship positive (unidirectional). The statement indicates that the higher the growth of the savings, the higher the operational cost incurred by LPD so that it can cause the BOPO ratio to increase as well. Hence can be formulated hypothesis as follows:

H2: Savings Growth have a positive effect on Performance Operational.

Based on previous research conducted by Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006) and Wahyundari (2008), the higher the growth of deposits the greater the deposits are collected. When viewed from the relationship, or growth of deposits with BOPO ratio has a positive relationship (unidirectional). The statement indicates that the higher the growth of deposit, the higher the operational cost incurred by LPD, thus increasing the ratio of BOPO and LPD. Hence can be formulated hypothesis as follows:

H3: Deposit growth has a positive effect on Operational Performance.

### 3. Research Methods

Population in this study is the entire LPD that is on Badung District. Determination of sample used in this research is Probability Sampling method which means every element of population has the same possibility to be chosen through systematic calculation. Determination of the number of samples can be done by means of statistical calculations that is with Slovin Formulas. The Slovin formula is used to determine the sample size of a known population of 122 LPDs.

Based on the results of the calculation, the samples obtained amounted to 55 LPD. The number of samples that have been obtained is then divided into 6 districts according to the stratum in order to determine the number of samples in each districts have the same proposition. Random sample or random sample simple is the return of a sample done in such a way that each individual is in it has the same opportunity to be sampled (probability sampling).

Table 1  
 Research Variables

No	Variables	Definition
1	Productive assets (Prod_Assets)	This measurement of credit growth is derived from the difference between the credits given for the comparative period with the credits granted in the previous period compared to the credits granted in the previous period.
2	Savings (Sav)	Measurement of the growth of this savings is obtained from the difference in savings comparison period with previous period saving compared to previous period saving.
3	Deposits (Dep)	Measurement of deposit growth is obtained from the difference in deposits period with comparison deposits of previous periods compared to previous period deposits.
4	BOPO	Operational performance uses BOPO ratio calculation for measuring the amount of

operational costs incurred in generating LPD  
operational revenue.

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Data analysis used in this research is multiple regression analysis. The multiple linear regression equation in this research:

$$BOPO = \alpha + \beta_1 \text{Prod\_assets} + \beta_2 \text{Sav} + \beta_3 \text{Dep} + e$$

#### 4. Result and Discussion

The result of regression analysis as follows:

Tabel 2  
Regression analysis

Variables	Unstandardized beta	Sig.
Prod_assets	0,203	0,036
Sav	-0,088	0,359
Dep	-0,170	0,011
F = 3,681		
Sig.F = 0, 013		
R <sup>2</sup> = 0,064		

The influence of credit growth given to operational performance (BOPO ratio), based on the level of significance of variable credit growth given amounted to 0.036 smaller than 0.05 with the direction of positive coefficient, Beta value 0.174. This means that credit growth given positively and significantly influences to operational performance (BOPO ratio). Based on the description stated credit growth given has a positive relationship and significant effect on operational performance (BOPO ratio). The results of this study are not in accordance with the results of previous research conducted by Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006), and Wahyundari (2008). It states that credit growth has a significant and negative impact on operational performance.

Influence of saving growth on operational performance (BOPO ratio). The significance level of the growth variable of savings in the amount of 0.359 is greater than 0.05 with the

direction of negative coefficient, the value of Beta  $-0.076$ . This means that savings growth has a negative and insignificant effect on operational performance (BOPO ratio). Based on the results of previous studies stated the higher the growth of savings, the greater the savings are collected. In this study the growth of savings as one part of third party funds has a negative relationship (opposite direction). The results of this study are not in accordance with the results of previous research conducted by Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006) and Wahyundari (2008). That states that the growth of savings have a significant and positive impact on operational performance.

The Influence of deposit growth on operational performance (BOPO ratio). Based on the results of data processing significance variable growth of deposits of  $0.011$  smaller than  $0.05$  with the direction of negative coefficient, value Beta  $-0.197$ . This means that deposit growth has a negative and significant effect on operational performance (BOPO ratio). Based on the description can be stated that deposit growth variable has a negative and significant influence on operational performance (BOPO ratio) in LPD in Badung regency. The results of this study are not in accordance with the results of research Dewi and Suartana (2007), Rahyuda and Prawita (2003), Yuliani (2006) and Wahyundari (2008). The stating that deposit growth has a significant and positive effect on operational performance.

## 5. Conclusion

To increase operational revenue LPD have to increase their loan, with increased operating income it can help the company to finance operational costs incurred, so that the ratio of BOPO to LPD can increase. The professionalism of LPD management should be enhanced by extending credit by sticking to reasonable analysis and prudential principles. Credit management should also be done optimally so that the quality of credit can be maintained healthy and reduce non-performing loans to reduce operating costs in order to maintain stability BOPO ratio.

The result shows that the higher growth of saving and deposit growth have negative effect on BOPO ratio. To improve LPD operational performance as measured by BOPO ratio, LPDs should manage healthy assets and manage debt effectively. Based on this the LPD should increase the source of LPD's operational income, especially the credit provided and maintain the balance between the growth of third-party funds and credit so that BOPO ratio is stable.

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