

# The Effect of Internal Banks and Internal Debtor against Problem Credits in Some Common Banks in Jayapura

**Rosiyati M.H Thamrin**

STIMIK SEPULUH NOPEMBER JAYAPURA

Address: Jln. Ardipura II No. 22B Polimak-Jayapura-Indonesia

Email: thamrin.rosiyati@gmail.com

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**Abstract:**

This study aims to obtain empirical evidence about the significance of the influence of bank internal factors and debtor internal factors on problem loans. To test the influence of internal factors and debtors' internal factors on problem loans, a quantitative descriptive analysis method is used with multiple linear regression statistical analysis tools. The results of multiple regression statistical tests show that internal bank factors that have a positive and significant effect on non-performing loans are because credit analysis variables do not refer to guidelines and levels of control after credit disbursement, whereas the interests of bank staff and debtors have a positive effect, and credit disbursements that are not in accordance with bank provisions have a negative effect, but not significantly to problem loans. Furthermore, debtor internal factors that have a positive and significant effect on problem loans are variable use of credit by the debtor and debtor management weaknesses, while debtor behavior variables that are not good have a positive effect, but are not significant.

**Keywords:** Internal Impacts, Banks, Debtors, Credit Problems.

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## 1. INTRODUCTION

The business entity that is given permission by the government to provide credit and services in the circulation of money and the flow of payments is the bank. But the Indonesian banking industry in its development so far has always experienced ups and downs. The ups and downs of the national banking industry due to various kinds of deregulation began to be carried out by the government, pushing the banking industry to develop rapidly in the period 1988-1996. Furthermore, in mid-1997 it finally collapsed as a result of the monetary crisis and economic crisis that hit the Indonesian economy.

Banks that act as suppliers of funds in the form of loans into the company always expect interest income. In addition, banks also receive income

from other services, such as from remittance services, collection of accounts receivable, profit on buying and selling foreign exchange and so on. Interest income is the main component of income from banks compared to income from other services. Meanwhile for the community or the business world, credit is a very important source of funds from every business activity (TeguhPudjoMuljono: 1993, p.2).

Although the provision of credit is the main source of income for banks, banks are also faced with the risk of loss due to non-performing or non-returning credit. According to Bank Indonesia Circular No.22 / 12 / BPPP, 28 February 1991, loans that cannot be accepted in more than 21 months after being classified as doubtful loans constitute bad loans. Bad credit not only harms banks, but also harms the

public because the credit provided by the bank comes from community savings and deposits. In addition, the loss of the opportunity for the public to obtain credit facilities, due to the retention of funds to be lent by the bank, is in bad debtors.

In providing credit, banks must pay attention to the principle of prudence or *frudentia* / banking, with proper management in credit management, so that credit repayments and interest payments can run smoothly and there is no traffic jam. For this reason, bank management must assess the creditworthiness to be given fairly as well as exercise control over the loans given. If a bank has given a large amount of credit, then if the credit is bad in return, it will be difficult for the bank because of the bad credit. As a result, bank income drops and the bank will suffer losses, and in turn will reduce the quality of the bank's productive assets. If this condition occurs for a long time, the bank will eventually face bankruptcy.

If a bank goes bankrupt, the parties directly interested in the bank (savers, depositors, creditors, shareholders and employees) will be harmed.

The problem of non-performing loans has been revealed in the last ten years in the national banking industry, including the banking industry in Papua Province, as seen by the large number of banks being liquidated and merged. To avoid the occurrence of problem loans early, in the credit decision making process many consider aspects of the debtor called the 5C principle, namely; character, capacity, capital, collateral and condition (Benton, Fraser and Kolari: 1989, p. 173). Bambang Riyanto (1993: p. 162) simplifies the principle to 3R, namely; return, repayment capacity, and risk-bearing ability.

Based on the results of the Economic and Financial Development Study of Papua Province in the fourth quarter of 2001 by BI Jayapura, it was explained that in general the development of credit quality showed improved conditions, because in 1999 most of the problem loans were transferred to the

Indonesian Bank Restructuring Agency (IBRA) and in 2001 an increase in Non-Performing Loans (NPL) compared to 2000, which means there are indications of problem loans.

This study aims to obtain empirical evidence about the significance of the influence of internal bank factors (credit analysis is not in accordance with guidelines, the level of post-credit control, the interests of bank staff with debtors, and credit disbursement is not in accordance with the provisions) on problem loans. Second, to get empirical evidence about the significant influence of the debtor's internal factors (misuse of credit by debtors, debtor management weaknesses, and bad debtor behavior) on problem loans.

## 2. LITERATURE REVIEW AND HYPOTHESIS DESIGN

Research on the influence of accounting information on credit decisions taken by banks has been widely done, but the factors that influence credit problems as far as the researchers' knowledge has never been done.

Research conducted by Syahril Ali (1994) is intended to obtain empirical evidence regarding the influence of accounting information not being considered in making credit decisions on bad loans in commercial banks. This research emphasizes the consideration of accounting information, while bank internal factors, debtor internal factors and economic factors are only used as additions to the analysis.

This research emphasizes the influence of debtor internal factors and bank internal factors on non-performing loans and limits the research location to several commercial banks operating in Jayapura, Papua Province.

It has been explained previously that there are three factors causing non-performing loans, namely; (1) debtor internal factors, (2) bank internal factors, and (3) macroeconomic factors. Specifically macroeconomic factors are not included in this

analysis, but are grouped in other factors not considered in the research model.

The two factors that cause credit problems (internal factors of the debtor and internal bank will be tested using statistical tools to determine the level of significance of the effect on problem loans. Bank internal factors (XI) tested are; credit analysis does not refer to the guidelines (XII), the level of post-control credit disbursement (X12), the interests of bank staff with debtors (X13), and credit disbursements not in accordance with bank regulations (X14) The internal factors of the debtor (X2) tested are: the use of credit by the debtor (X21), debtor management weaknesses (X22), and bad debtor behavior 0 <23).

Based on the identification of the factors causing the problem loans above, the formulation of the research hypothesis tested empirically in this study is:

Bank internal factors:

Ha 11. Credit analysis does not refer to established guidelines that have a significant effect on problem loans.

Ha 12. The level of control after credit disbursement has a significant effect on problem loans.

Ha 13. The interests of bank staff and debtors have a significant effect on problem loans.

Ha 14. Credit disbursement is not in accordance with the provisions of the bank significantly influence non-performing loans.

Debtor internal factors:

Ha 21. Incorrect use of credit by debtors has a significant effect on problem loans.

Ha 22. Weaknesses of debtor management in managing their business have a significant effect on problem loans.

Ha 23. Bad debtor behavior has a significant effect on problem loans.

The study was conducted in Jayapura City and the banks selected as samples were banks operating in Jayapura, Papua Province. The banks that are used as the object of research are banks with a high level of credit distribution, have high potential non-performing loans and the ease of researchers in obtaining data with high levels of reliability.

Respondents in this study were the head of credit at the selected bank, staff in the credit analysis section, and staff in the credit control section. Researchers do not know for sure the number of credit-receiving companies with problem loans and the amount of problem loans at the lending bank. Because non-performing loans faced by banks are bank-specific problems and the possibility of bank secrecy itself, the sample is chosen based on the following criteria:

- Banks selected as samples are banks operating in Jayapura, Papua Province.
- Banks selected as samples are banks that provide the biggest loans with high potential non-performing loans.
- Ease of getting data that has a high level of reliability.

Based on the above criteria, it can be said that the sample was selected from the population based on stratified random sampling. The use of stratified random sampling because of the 8 (eight) commercial banks operating in Jayapura, Papua Province, 5 (five) banks were deemed to have the highest lending rating. Of the five banks selected, debtor companies were randomly selected to be classified as problem loans according to Bank Indonesia criteria, namely; substandard, doubtful, and bad criteria.

This study describes the scope of research in the form of surveys, where the source of data collection comes from primary and secondary data. Primary data is data collected through answers to questionnaires filled out by respondents. The

questions designed in the questionnaire were 51 questions and grouped into 4 groups, namely (1) general information about respondents and debtor coding, (2) information about debtors including business entities and types of business, sales development and total assets, categories and the percentage of non-performing loans to the debtor concerned, as well as a number of questions about the three main internal factors of the debtor causing the non-performing loans), (3) information about the decision process for credit granting by the bank, and (4) information about the post-disbursement control activities.

To ensure accuracy of the respondents' answers, a data collection technique was also used through interview techniques to complete the results of the questionnaire as well as being a media for data confirmation contained in the questionnaire answers.

In addition to the primary data collected, there are also secondary data obtained from the study of various literature and other relevant information, as well as a review of the results of previous studies.

## 4. RESULTS

Before processing and analyzing the data obtained, the researcher emphasizes that the data needed in this study was collected randomly (random sampling) and did not rule out the possibility of errors. To minimize the possibility of these errors, researchers need to test various instruments of each research variable. The measuring instrument is said to be valid and reliable, if the results of the test of the validity and reliability of the measuring instrument are positive and close to 1 (one). Thus, before the data is processed and analyzed, data testing is first performed using the validity testing technique (test of validity) and reliability testing (test of reliability).

### 4.1. Validity test

The instrument used to measure the independent variable (X) that influences the dependent variable

(Y or non-performing loans), is the bank's internal factor (XO which consists of: credit analysis not referring to guidelines (XII), the level of control after credit disbursement (X12), the interests of bank staff with debtors (X13), as well as credit disbursements not in accordance with bank regulations (X14), as well as debtor internal factors (variables consisting of; misuse of credit by debtors (X21), debtor management weaknesses (22), and debtor behavior which is not good (X23).

Testing the validity of each research instrument is done by calculating the product moment correlation coefficient. The results of the validity test of the instruments used in this study were positive for each item, meaning all items in question were declared valid and worthy of use. The value of item validity ( $R_{xy}$ ) based on Pearson correlation analysis (pearson correlation) are each positive, namely Y and XII variables of 0.9186, Y variables and 0.9052, Y and X13 variables of 0.8650, Y variables and of 0.0243, the Y variable and 0.8055, the Y variable and 0.9281, and the Y variable and 0.8835.

### 4. 2. Reliability Test

The results of the data tabulation based on the instruments used to measure each of the variables of this study before being analyzed, need to be done and reliability testing using Cronbach's Alpha technique. Based on the results of testing the reliability of this research instrument obtained an alpha value of 0.9272, so it can be said that the instrument used is reliable.

The results of the regression analysis of the full method (enter) block of internal bank factors (XI) and debtor internal factors (X2) to problem loans (Y) show that: Bank internal factors have a significant and strong influence on the emergence of problem loans assuming the debtor's internal factors and other factors are constant. This is indicated by the multiple regression coefficient (multiple R) obtained of 0.953 or 95.3%, and F ratio of 97.473 at a significance level of  $p < 0.05$ , indicating the influence of all the independent

variables of the bank's internal factors namely credit analysis not referring to the guidelines stipulated (X11), the level of control after credit disbursement (X12), the interests of bank staff with debtors (X13), as well as credit disbursements not in accordance with bank regulations (X14) are significant and quite strong. Furthermore, the coefficient of determination (R<sup>2</sup>) obtained by 0.909 or 90.9%, indicates that the influence of the independent variables on the dependent variable that has not been included in the research model after adjusting it to 10%.

Debtor internal factors have a significant and significant influence on the emergence of problem loans with the assumption that internal bank factors and other factors are constant. This is indicated by the multiple regression coefficient (multiple R) obtained by 0.953 or 95.3%, and F ratio of 131.748 at a significance level of  $p < 0.05$ , indicating the influence of all the independent variables of the debtor's internal factors namely; incorrect use of credit by the debtor (X21), debtor management weakness (X22), and bad debtor behavior (X23) are significant and quite strong. Furthermore, the coefficient of determination (R<sup>2</sup>) obtained at 0.908 or 90.8% indicates the level of accuracy (goodness of fit) of the regression line formed from observational data of 90.8% or the dependent variable (Y; non-performing loans) explained by internal independent variables debtor namely; incorrect use of credit by debtors, debtor management weakness (X22), and bad debtor behavior (X23) by 90.8% while not explained by 9.2%. Adjustment to the coefficient of determination (adjusted R Square) obtained by 0.901 or 90.1%, shows that the influence of independent variables on the dependent variable that has not been included in the research model after adjusting to 9.9%.

#### 4.2.1. Testing the Effect of Bank Internal Factors on Non-Performing Loans

1) The first research hypothesis (Ha11) is "credit analysis that does not refer to the established guidelines has a significant effect on problem loans". The analysis showed that the statistical t value = 3.448 and the probability value (p) = 0.001 at  $\alpha = 0.05$ . This means that this research succeeded in proving the research hypothesis (Ha11), because the statistical t value > t table value and p value <  $\alpha$ . Thus, it can be concluded that credit analysis does not refer to the guidelines set a significant and positive effect on problem loans. The positive regression coefficient X11 of 0.058 indicates that the higher the credit analysis does not refer to the established guidelines, the greater the potential for problem loans. That means every Rp. 1 credit disbursement by the bank does not refer to the guidelines for credit analysis, it will make possible the problem loans to be 5.8%. On this basis, the bank as a creditor must use credit analysis standards consistently in the determination of credit approval decisions for each debtor.

2) The second research hypothesis (Ha12) is "the level of control after credit disbursement has a significant effect on problem loans". The analysis showed that the value of t statistic = 2.576 and the probability value (p) = 0.014 at  $\alpha = 0.05$ . This means that this research succeeded in proving the research hypothesis (Ha12), because the value of t statistic > t table value and p value <  $\alpha$ . Thus, it can be concluded that the level of control after credit disbursement has a significant and positive effect on problem loans.

A positive regression coefficient of 0.046 indicates that the higher the credit analysis does not refer to the established guidelines, the greater the potential for problem loans. That means that every Rp.1 of credit disbursed by the bank is not followed by control after the disbursement of credit by the bank to the debtor, it will allow the problem credit to be 4.6%. On this basis, the bank as a creditor must routinely monitor and control the debtor on the credit obtained.

3) The third research hypothesis (Ha13) is "the interests of bank staff and debtors have a significant effect on problem loans". The results of the analysis show that the statistical  $t$  value = 0.201 and the probability value ( $p$ ) = 0.842 at  $\alpha = 0.05$ . This means the study did not succeed in proving the research hypothesis (Ha13) because the value of  $t$  < table and the value of  $p > \alpha$ . Thus, it can be concluded that the interests of bank staff and debtors have a positive but not significant effect on non-performing loans.

The positive value of the regression coefficient of 0.003 shows that the higher the interests of bank staff and debtors, the greater the potential for problem loans. That means every Rp. 1 credit disbursement by the bank related to the interests of the bank staff and the debtor, it will be possible for the credit to be problematic by 0.3%. On this basis, the bank as a creditor must be free from the various interests of individual bank staff with the debtor on the credit provided by the bank.

4) The fourth research hypothesis (Ha14) is "credit disbursement is not in accordance with the bank's provisions which has a significant effect on problem loans". The results of the analysis show that the value of  $t$  statistic = - 0.979 and the probability value ( $p$ ) = 0.334 at  $\alpha = 0.05$ . This means that this study did not succeed in proving the research hypothesis (Hau), because the statistical  $t$  value < table value and  $p$  value >  $\alpha$ . Thus, it can be concluded that credit disbursements that are not in accordance with bank regulations have a negative and not significant effect on problem loans.

The failure of researchers to prove this hypothesis is largely determined by the design of questions that are able to reach the level of actual answers or maybe even questions not understood by respondents so that the data information related to this variable is filled in incorrectly. Another possibility of rejecting this hypothesis is because of the researcher's error in formulating the measuring indicators.

5) The fifth research hypothesis (Ha21) is "misuse of credit by debtors has a significant effect on problem loans", the results of the analysis show that the statistical  $t$  value = 3.593 and the probability value ( $p$ ) = 0.001 at  $\alpha = 0.05$ . This means that this research succeeded in proving the research hypothesis (Ha21), because the  $t$  statistic value > table value and  $p$  value <  $\alpha$ . Thus, it can be concluded that the wrong use of credit by debtors has a significant and positive effect on problem loans. The regression coefficient X21 is positive at 0.043 indicating that the higher the misuse of credit by the debtor, the greater the potential for problem loans. That means that every Rp.1 of credit disbursed by the bank is not used according to the debtor's plan to use the bank's credit facilities, it will be possible for the credit to be problematic by 4.3%: On this basis, the bank as a creditor must monitor the debtor on the allocation of credit obtained according to the plan credit request.

6) The sixth research hypothesis (Ha22) is "debtor management weaknesses in managing their business have a significant effect on problem loans". The results of the analysis show that the statistical  $t$  value = 2.815 and the probability value ( $p$ ) = 0.008 at  $\alpha = 0.05$ . This means that this research succeeded in proving the research hypothesis (Ha21), because the value of statistical  $t$  > table  $t$  value and  $p$  value <  $\alpha$ . Thus, it can be concluded that debtor management weaknesses in managing their business have a significant and positive effect on problem loans.

The regression coefficient X22 is positive at 0.060, indicating that the weaker the debtor management in managing its business, the greater the potential for non-performing loans. That means every Rp. 1 loan disbursement by the bank is not well managed by the debtor, so the loan will be problematic by 6%. On this basis, the bank as a creditor must consider the ability of debtor management and debtor experience in managing the business to be financed with the requested bank credit.

7) The seventh research hypothesis (Ha23) is "bad debtor behavior has a significant effect on problem loans". The results of the analysis show that the value of t statistic = 1.127 and the probability value (p) = 0.267 at  $\alpha = 0.05$ . This means that this study did not succeed in proving the research hypothesis (Ha23), because the statistical t value <t table value and p value>  $\alpha$ . Thus, it can be concluded that the debtor's bad behavior has a significant effect on non-performing loans which has a positive but not significant effect on problem loans.

The regression coefficient X23 has a positive value of 0.017 indicating that the less good the debtor's behavior, the greater the potential for problem loans. That means every RP. 1 credit disbursement to debtors whose behavior is not good, it will likely cause the credit problem by 1.7%. On this basis, the bank as a creditor must consider the behavior of the debtor in deciding the loan approval requested by the debtor.

## 5. DISCUSSION AND CONCLUSIONS

This study aims to examine the influence of bank internal factors (X1) consisting of: Credit analysis does not refer to the guideline (X11), the level of control after credit disbursement (X12), the interests of the bank staff with the debtor (X13), nor the disbursement of credit in accordance with bank regulations (X14), as well as the debtor's internal factors (variable X2) consisting of: incorrect use of credit by debtors (X21), debtor management weaknesses (X22), and bad debtor behavior (X23) towards the emergence of problem loans in 5 (five) banks operating in Jayapura, Papua Province.

The conclusions that can be given based on the results of this study are:

### 1. Effect of Bank Internal Factors on Non-Performing Loans

- Credit analysis does not refer to the guidelines set a significant and positive effect on problem loans.
- The level of control after credit disbursement has a significant and positive effect on problem loans.
- The interests of bank staff and debtors have a positive but not significant effect on problem loans.
- Loans that are not in accordance with bank regulations have a negative and not significant effect on problem loans.

### 2. Effect of Debtor Internal Factors on Problem Credit

- Incorrect use of credit by debtors has a significant and positive effect on problem loans.
- Debtor management weaknesses in managing their business have a significant and positive effect on problem loans.
- Bad debtor behavior has a significant effect on non-performing loans having a positive but not significant effect on problem loans.

3. Although the national banking evaluation program also affects the level of prudence of each bank in lending, it does not rule out the possibility of a deviant policy from management staff, as well as credit analyst staff and credit supervision staff so that non-performing loans continue to the present.

## 6. LIMITATIONS AND DIRECTIONS FOR FUTURE STUDIES

By considering various findings in data collection and analysis results on several research variables that have a positive and significant effect on the emergence of credit, the suggestions that need to be raised in this study are:

To overcome the influence of bank internal factors on the emergence of problem loans, the bank (both management staff, credit analyst staff and credit supervisory staff) need to comply with various loan approval and disbursement provisions to debtors, particularly those related to credit analysis must

refer to the guidelines determined, the level of control of the bank to the debtor after credit disbursement and avoid the interests of individuals (personal) bank staff with the debtor, so as to minimize the existence of problem loans.

To overcome the influence of the debtor's internal factors on the emergence of problem loans, the bank (both management staff, credit analyst staff and credit supervision staff) needs to comply with various loan approval and disbursement provisions to debtors, especially those related to the debtor's compliance in using credit according to the plan in loan applications, and the ability of debtor management to minimize the possibility of problem loans as much as possible.

Although the variables of bank staff and debtor interests, credit disbursements that are not in accordance with the provisions of credit distribution, and bad debtor behavior do not support the research hypothesis, but this variable still shows an influence on problem loans, it is hoped that further research can add to the question items of these variables in order to further enhance their  $t$  statistics and their significance. It was said so, because these variables were tested in the enter-block regression method, the significance was  $(p) < \alpha (0.05)$ .

Because the credit disbursement variable (X14) has a negative effect (it should be positive), further research needs to formulate its measurement indicators properly and the question items in the questionnaire should be designed more simply so that respondents' answers to these indicators will be better.

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