

Effect of Third-Party Funds on Profitability with Credit Distribution as Moderating Variable

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Abstract

The economic stability experienced by the banking sector was caused by the Covid-19 pandemic, one of which is in conventional commercial banks. This is inseparable from the sentiment of investors who think that the government has not seriously handled Covid-19, resulting in investors preferring to withdraw their funds rather than depositing their funds in banks which then impact on decreasing bank profitability. The research objectives to be achieved in the form of empirical evidence include the effect of third party funds on profitability with lending as a moderating variable. The study focused on conventional banks listed on the Indonesia Stock Exchange during the period of 2019-2022. Purposive sampling method was used in determining the research sample namely 24 companies with 96 observations. The collection used non-participant observation method by accessing the Indonesia Stock Exchange website. Signaling theory is used to support the results of this study. Data analysis was carried out with Moderated Regression Analysis (MRA) and using the SPSS application. The results of the research show that third party funds have a positive and significant effect on profitability and credit distribution was able to strengthen the effect of third party funds on profitability. The implication of this research is that it is able to support and add knowledge related to the application of signal theory and provide benefits to interested parties, especially companies and investors related to third party funds and credit distribution that can increase profitability.

Keyword: *Third Party Fund, Profitability, Credit Distribution*

1. Introduction

Efforts to obtain maximum profit are the main objectives of the bank. Profit is defined as the event of an increase in the company's income from the capital that has previously been spent (Hery, 2019). When the bank's profit position is good, the bank can have the potential to improve operational performance, increase capital capacity, and sustain asset increases. Each bank strives optimally to achieve good profit growth and create a superior reputation for the company's performance as an effort to attract investor interest in allocating company capital to increase the desire of investors to invest (D. Kusumawati & Anhar, 2019).

An investor evaluates financial performance as a benchmark in paying attention to a company in managing company funds. An accountability report is needed by a company, especially a bank, as a measure of corporate financial performance. The basic financial statement component that needs attention is the profit aspect (Dietrich & Wanzenried, 2014). Net income reflects the profitability of a company. Profitability is defined as a parameter in seeing the successful performance of a bank (Achسانی, 2021). The covid-19 pandemic virus that happened in 2020 caused the banking sector to experience economic stability problems, one of which was a conventional commercial bank. Issues related to Covid-19 began to emerge and spread, resulting in a drastic decrease in company profits. On the other hand, investors think that the government has not seriously handled Covid-19, causing investors to prefer to withdraw their funds rather than keep their funds in the bank, resulting in a decrease in bank profits (Sinaga et al., 2020).

Table 1.1 shows the number of Indonesian conventional banks fluctuated between 2019 and 2022. The net profit of commercial banks in 2020 decreased compared to the previous year, in the Covid-19 pandemic that hit Indonesia. The Covid-19 outbreak pushed the asset growth of conventional commercial banks to 8.07% (yoy), a decline compared to the previous 9.94%. In 2021 and 2022, conventional banks began to recover from profit losses. This profit growth produces meaningful information in assessing future profit growth that can affect the profitability of a bank (Aiki, 2016).

Tabel 1 Net Income of Conventional Commercial Banks for the 2019-2022 Period

Year	2019	2020	2021	2022
Net Profit (Billion Rupiah)	156.487	104.718	140.206	201.817

Source: Indonesian Banking Statistics, 2022

This study evaluates profitability with the Earnings Per Share (EPS) ratio. The level of EPS determines the level of the company in generating profitability from all sources. High EPS will encourage investors to become shareholders in a particular company or increase the amount of money invested in the company (Yuliza, 2018). Otherwise, Fauza & Mustanda (2016) states that the poor value of the company's EPS affects the decrease in capital contributed by investors.

Third Party Funds are defined as funds originating from the general public that are useful for operating banks (Yenni et al., 2023). This study was researched by (Parenrengi & Hendratni, 2018), Zatnika et al (2022), Anggraini et al (2022), and Anggari & Dana (2020), the results of third party funds show a positive and significant effect on profitability, an increase in third party funds will result in better profitability, and instead if third party funds

are low, it will further reduce profitability. Meanwhile, research conducted by Sehany & Nurhidayati (2022), Ainiyah (2021) and Sondakh et al (2021) show different results, that is Profitability is not affected by third party funds. This implies that an increase in a bank's deposits does not always result in higher profitability.

Credit distribution is used as a moderating variable. The bank's ability to extend credit distribution, the greater the interest income that the bank can collect, along with increasing profitability (Udayani & Wirajaya, 2019). The increase in interest income will automatically affect shareholder profits (Agus & Suraya, 2017).

2. Literature Review

2.1 Theory

Signaling theory by Spence and Michael (1973), which states that this theory explains the actions taken by the company by providing instructions to interested parties (stakeholders) regarding management's views on the company's past, present and future conditions. Signaling to investors is carried out with the aim of minimizing information asymmetry or inequality of information receipt with investors (Ghozali, 2020). Profitability reflected by a high Earning Per Share (EPS) value results in high company prospects, so investors will respond positively to these signals (Dietrich & Wanzenried, 2014). EPS measurement can be useful for investors in making good investment decisions. Positive signals received by investors can have an impact on increasing trust in banks. Trust is important to always be maintained and improved by banking sector companies, this is because trust is the main capital of banks in carrying out their operational activities as companies that offer financial services to the public.

2.2 Hypothesis

The Effect of Third-Party Funds on Profitability

The effect of third party funds on profitability can be explained through signal theory (Pramudyani & Hartono, 2018). Banks, as stewards of public funds, are mandated by signaling theory to present accurate financial statements that faithfully represent their overall financial standing and performance, thereby generating high-quality and comprehensive information for all stakeholders (Parenrengi & Hendratni, 2018). This information is expected to be able to provide positive signals that will be responded positively by investors. Signal theory is proven by research conducted by Zatnika et al (2022), Anggari & Dana (2020), and Anggraini et al (2022). This is because as third party funds increase, profitability will be improved, assuming that bank credit distribution is smooth and able to increase bank income in the form of loan interest.

H₁: Third-party funds has a positive effect on profitability

Credit Distribution Moderates the Effect of Third-Party Funds on Profitability

Success in disbursing credit will have an impact on increasing the interest income that will be received by the bank will increase so that the company's profits will also increase. An increase in corporate profits positively affects bank profitability, as reflected in the Earnings Per Share (EPS) ratio. A bank's lending capacity may exceed or fall short of the amount of third party funds that can be deployed. This can be a positive signal indicating that the bank is able to manage deposit funds effectively (Ganggarani & Budiasih, 2014). Research conducted by Anggari & Dana (2020), Dewi & Ratnadi (2018), and Septiarini & Ramantha (2014) proves

that credit distribution has a positive effect on profitability. The greater the level of credit distribution, the more effective a bank is in managing funds from the public which affects profitability.

H₂: Credit distribution strengthens the effect of third-party funds on profitability

3. Material and Method

This study used an associative quantitative design. Researchers collected data through non-participant observation by accessing the Indonesia Stock Exchange website and the official websites of conventional commercial banks, collecting information from 24 companies with a total of 96 observations.

This study examines three variables, the dependent variable (Y), namely profitability, the independent variable (X), namely third-party funds, and the moderating variable (Z), namely credit distribution.

Measurement of profitability variables aims to assess the performance of a bank in obtaining profits which can be measured using EPS. According to Tjiptono Darmadji and Hendy M Fakhruddin (2018: 196), EPS can be calculated with the following equation

$$EPS = \frac{\text{Laba bersih}}{\text{Jumlah saham yang beredar}} \dots\dots\dots(1)$$

Customer deposit products in the amount of third party funds include current accounts, deposits, savings, deposits, and other forms that can be equated with it based on a deposit agreement. According to R. Kusumawati et al (2021), the Third Party Fund (DPK) variable can be calculated as follows:

$$DPK = \text{Ln (Tabungan + Giro + Deposito)} \dots\dots\dots(2)$$

The assessment of credit distribution can be seen in the credit position in the banking financial statements that are published on the official website of each bank. According to R. Kusumawati et al (2021), the amount of credit distribution can be calculated using the following formula:

$$\text{Penyaluran Kredit} = \text{Ln (total kredit yang disalurkan)} \dots\dots\dots(3)$$

3.1 Design Study

In this study, a non-probability sampling was employed, specially using the purposive sampling method. samples were chosen based on specific criteria, which include conventional commercial bank listed on the Indonesia Stock Exchange that had published annual report or integrated report during 2019-2022.

3.2 Data Analysis

Moderation regression analysis technique through SPSS were carried out to prove the effect of third party funds on profitability with credit distribution as a moderating variable. The equation is:

$$Y = \alpha + \beta_1 X + \beta_2 Z + \beta_3 XZ + \varepsilon \dots\dots\dots(4)$$

Information:

Y = profitability
X = third party funds
 β = coefficient
Z = credit distribution
 α = constant

X_1Z = Interaction between third party funds and credit distribution
 ε = error term

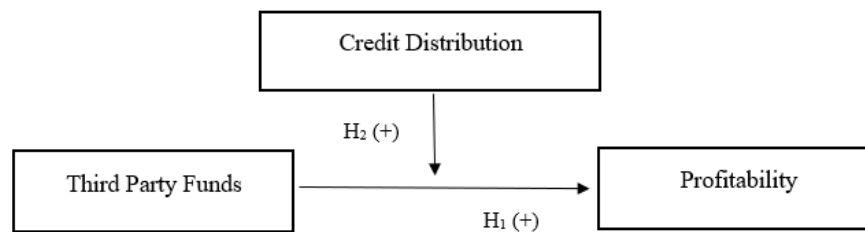


Figure 1. Research Model

4. Result

The results showed descriptive statistical data that presented an overview of the research sample.

Table 1. Descriptive Statistic

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Third Party Funds	96	27,10064	31,03184	29,6711023	0,87903438
Earning Per Share	96	-4,60517	4,89709	2,0213977	1,90167140
Credit Distribution	96	26,36704	31,46100	29,5811956	0,91621865
Valid N (listwise)	96				

Source: Research Data, 2024

Referring to Table 1, the minimum value of the third party fund variable is 27.10064. obtained by the company with the ARTO stock code in 2019. Meanwhile, the highest (maximum) value of the DPK variable is 31.03184 set by the listed company BSIM in 2021. The DPK variable has a mean of 29.6711023 and a standard deviation of 0.87903438. The credit distribution variable (Z) has a minimum value of 26.36704 obtained by ARTO in 2019. Furthermore, the highest (maximum) amount of credit of 31.46100 was held by BJTM in 2022. The credit distribution variable has a mean of 29.5811956 and a standard deviation of 0.91621865. Profitability (Y) as measured by Earnings per Share (EPS) has a minimum value of -4.60517. This shows that AGRO has the lowest total profitability, namely -4.60517. The largest (maximum) EPS is 4.89709. This illustrates that in 2019, BBMD corporation has a higher profitability, which is 4.89709. The EPS variable has a mean of 2.0213977 and a standard deviation of 1.90167140.

Normality test was conducted using the Kolmogorov Smirnov normality test. The value of Asymp. Sig (2-tailed) value is greater than 0.05. the data conforms to a normal distribution, as shown by this value. Based on the heteroscedasticity test, the significant value of the third party funds variable has a significance value of 0.197, then credit distribution has a significance value of 0.227, and the interaction variable between third party funds and credit distribution (X.Z) has a significance value of 0.218. The value for all independent variables exceed 0.05, which indicates there is no statistically significant impact on the absolute residuals. Therefore, the developed model is free from heteroscedasticity problems. Then the autocorrelation test is carried out with the run test. Based on the results of the autocorrelation test, obtained Asymp. Sig. (2-tailed) of 0.884 which is more than 0.05, an analysis of the residual values reveals no indication of autocorrelation.

Table 2. Moderated Regression Analysis

		<i>Unstandardized</i>		<i>Standardized</i>		
		<i>Coefficients</i>		<i>Coefficients</i>		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1878,360	742,396		2,530	0,013
	DPK	13,046	5,393	6,030	2,419	0,018
	Penyaluran Kredit	13,977	5,278	6,734	2,648	0,010
	X.Z	395,030	156,137	11,692	2,530	0,013

Source: Research Data, 2024

The Moderated Regression Analysis in Table 3 yields the following regression equation:

$$Y = 1878.36 + 13.046X + 13.977Z + 395.030 XZ + \varepsilon$$

The constant value (α) of 1878.360 shows that if the third party fund variable (X), credit distribution (Z), and the interaction between third party funds and credit distribution (XZ) are equal to zero, then the profitability variable is worth 1878.360. The third party fund regression coefficient (β_1) of 13.046 shows an increase of 13.046 units if the third party fund variable increases by 1 unit, then the profitability value (Y) will also increase by 13.046 units with the assumption that other variables are constant. The regression value of credit distribution (β_2) of 13.977 indicates that if the credit distribution variable is increased by 1 unit, the value of profitability (Y) will increase by 13.977 units with the assumption that other variables are constant. The regression coefficient of the interaction of third party funds and lending (β_3) of 395.030 indicates that if the interaction between third party funds and lending has increased by 1 unit, the value of profitability (Y) will increase by 395.030 units, assuming other variables are constant.

Table 3. R Square

R	R Square	Adjusted R Square
0,3391 ^a	0,115	0,086

Source: Research Data, 2024

Based on Table 3, the effect of the independent variables on the dependent variable shown by the total determination value (Adjusted R Square) of 0.086 means that 8.6% of

variation in profitability (Y) is explained by variation in third party funds (X), credit distribution (Z) and interaction variables between third party funds and credit distribution (XZ) while the rest of 91.4% is described by other variables not included in the model.

		ANOVA				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39,468	3	13,156	3,980	0,010 ^b

According on Table 4, the statistical F value is 3.980 and the significance value of F is 0.010 smaller the significant level of 0.05, indicating that the regression model is appropriate to use.

Table 2 further presents the t-test results for each variable. The analysis of the impact of third-party funds on profitability yielded a regression coefficient of 13.046, a positive t-value of 2.419, and a Significance Value of 0.018, which is less than 0.050. This indicates that the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. Consequently, third-party funds have a positive and significant influence on profitability.

The moderated regression analysis reveals that both the third-party funds variable and its interaction with the credit channeling variable have significant positive coefficients, indicating a consistent positive relationship. This implies that credit channeling acts as a moderating variable, amplifying the positive influence of third-party funds on profitability.

The Effect of Third Party Funds on Profitability

The result of this study is in line with Parenrengi & Hendratni (2018), that banks try to manage third party funds as a bank's operational activity, which is distributed in the form of loans that will contribute interest to banks will have an impact on profitability. In addition, the results of this study are in line with research by Zatnika et al (2022), Anggraini et al (2022), and Anggari & Dana (2020) which shows that the effect of third party funds is positive and significant on profitability. This finding supports the signaling theory.

The second hypothesis (H2) posits that credit channeling moderates the relationship between third-party funds and profitability. As a company's profitability rises, it becomes more attractive to investors, leading to higher investor returns. Investors' interests in the company are manifested in the form of Earning Per Share (EPS) in the form of information on the company's ability to generate net profit from each share (Shinta & Laksito, 2014). Earning Per Share (EPS) can be generated through good financial performance such as the efficiency and effectiveness of the company in managing sources of funds through credit distribution.

The findings of this study are in line with previous research by Anggari & Dana (2020), Dewi & Ratnadi (2018), and Septiarini & Ramantha (2014), which showed a positive relationship between lending and profitability. The bank's effectiveness in managing customer deposits is reflected in its ability to channel credit effectively, which then has an impact on profitability. This positive effect comes from the increased interest income generated from successful lending activities.

6. Conclusion, Implication, and Recommendation

Third-party funds exert a positive and significant impact on profitability. This implies that the more third-party funds a conventional bank can mobilize, the more capital it has at its disposal to engage in business activities that enhance profitability. Furthermore, credit channeling strengthens the influence of third-party funds on profitability. This suggests that companies with high-quality and high-volume credit channeling practices tend to demonstrate effective management of customer deposits, thereby increasing the bank's chances of earning interest income from loans and ultimately boosting profitability.

The results of this study provide implications for users of financial statements to be taken into consideration in making decisions to use certain bank services both in saving or borrowing funds based on the level of bank performance.

This study has limitations, namely the adjusted R² value, it is known that as much as 8.6% of profitability in conventional commercial banks is influenced by third party funds and credit distribution, while the remaining 91.4% is influenced by other variables so that further studies can include other variables that are predicted to have an impact on profitability.

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