Research Article

Does the Ability to Manage Assets Affect Non-Performing Asset Purchase Decisions?

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Abstract: This study aims to investigate the relationship between the ability to manage assets to the decision to purchase non-performing assets. The method used in this study uses Partial Least Square (PLS). The unit of analysis used in this research is the executive decision makers in purchasing problem assets during period 2016-2019. The sampling method of this unit of analysis is based on the purposive sampling method. Respondents taken in this study include executives who buy troubled assets in Indonesia with a wide variety of information, which are expected to be more varied and detailed, so that in the end the research results will be obtained as expected. Executives at the level of company owners and top management of the company. The results showed that the decision to purchase non-performing assets is affected by the ability to manage the asset primarily by the post-purchase cost of restructuring the asset and the timing of the asset sale. This study is useful for asset buyers from non-performing loans and non-performing asset management companies. In addition, the network to banks is also an important asset for this business, which relies heavily on a goodwill, which is an intangible asset that banks are specifically familiar with.
Keywords: non-performing asset, purchase decisions, asset management

1. Introduction

Many studies have been carried out on the management of real and financial assets related to the financial intermediation industry. One of the derivations of this issue is the management of assets of business entities that experience default. The decision to take over assets from entities affected by the internal financial crisis is influenced by many factors that were reviewed by several previous researchers.

Research on the impact of the stability of macroeconomic indicators on the decision-making process was carried out by Jeon and Nishirhara (2014) and Hasset and Sullivan (2015). Other researchers such as Virlc (2013), and Junkes, Tereso, Afonso (2015) focus on reference factors and investor behavior in managing risk. Some academics believe more in the implications of the effect of transaction costs on asset takeover decisions, such as Lyons (1995), Uller and Schmitz (2016), Croisier (1998), and Halonen (2002) and Grossman and Hart (2017).

There are also researchers who consider the ability to manage assets (Sacui and Dumitru, 2014) and the projected asset value of Pivoriene (2015; Mateos, 2019) as determinants of asset purchase decisions. This asset value projection factor is closely related to the hypothesis of a number of researchers who believe that the projected cash flow of the targeted asset has an impact on the decision-making process. These researchers include Aoun and Hwang (2007), Almeida, Campelo and Weisbach (2004), Kakati and Dhar (1991), Slater, Reddy and Zwirlein (1998), Jokipii and Vahama (2006). However, the studies above have not revealed the relationship between the ability to manage assets and the takeover decision from the perspective of the buyer or investor. Therefore, this study examines the relationship between the ability to manage assets to the decision to purchase non-performing assets after bad debts or the decision making model for non-performing assets.

2. Literature Review

2.1 The relationship between the Asset Purchase Decision Variable with the Ability to Manage Assets

Asset management will have an effect on increasing the value of assets, besides that asset management also depends on how the buyers of these assets can utilize the assets through maximum utilization so that it will increase the production capacity of the company. Apart from the utilization of assets, it is also necessary to observe the sustainability of the company. The ability to manage assets can also be explained by the addition of market value of assets (Sacui and Dumitru, 2014). An increase in market value will encourage shareholder value to be higher.

According to Resource Based Theory, the company needs to develop a differential advantage to maintain a return on the cost of capital. Valuable, scarce, inimitable and irreplaceable resources allow businesses to develop

and maintain competitive advantage (Barney, 1991). According to this theory, investors who can optimize their resources, especially in utilizing assets sold by banking, will have a competitive advantage in increasing business sustainability through the desired rate of profit. In this condition, the resources allocated to the marketing strategy should be seen as an investment that creates assets. These assets can be utilized to improve future performance, to provide growth potential or reduce risk (Srivastava *et.al*., 1998).

Table 1. Definition of The Ability to Manage Asset

No	Authors	Definition
1	Sacui and Dumitru (2014)	The ability to manage assets can also be explained by the addition of market value of assets. In addition, asset utilization is necessary for the sustainability of the company.
2	Barney (1991)	The ability to manage assets is the ability to develop and maintain a competitive advantage from a resource that is valuable, rare, inimitable and cannot be substituted.
3	Srivastava *et. al.* (1998)	The ability to manage assets can be viewed from future performance in providing potential or reducing risk.
4	Srivastava et. al. 1998, Doyle (2000)	The ability to manage assets is seen from how to create and manage market-based assets to obtain shareholder value.
5	Napitupulu (2020)	The ability to manage assets is a leader's ability to develop and maintain a competitive advantage from a valuable, rare, inimitable and non-substitutable resource that aims to obtain a higher asset value than when the asset value was purchased.

Meanwhile, the indicators of assets management ability according to Srivastava *et al.*(1998) includes i)growth potential, ii)ability to reduce value-added risk for shareholders. The comparison of the indicators of the ability to manage assets based on the literature is as in Table 2.

Table 2. Comparison of Asset Management Ability Indicators

No	Author	Indicators
1	Sacui and Dumitru (2014)	Addition of market value and utilization of assets
2	Barney (1991)	Competitive advantage from owned resources
3	Srivastava *et al.* (1998)	Growth potential, the ability to reduce value-added risk for shareholders
4	Srivastava *et al.* 1998, Doyle (2000)	Increase in shareholder value
5	Puspitasari *et al.* (2020)	Increase in asset value, Reduce asset risk, Potential asset growth, post purchase asset restructuring costs, time of sales

2.2 Asset Purchase Decision

In the world of finance, there are several strategies in making investment decisions, Alkaraaan and Nortcott (2006) state that there are many methods and methods including tools that can be used for consideration of investment decision making, methods can be financial strategies and non-financial strategies. Financial strategy considerations are based on financial analysis including capital, cash flow and future profit projections, while non-financial strategy is an analysis that discusses the benefits and projections of investment. Carr and Tomkins (1996) combine investment decision making between value chains, cost drivers and competitive advantages, they state that companies that are successful in making investment decisions are generally dominant focus on competitive advantage (competitive advantage) on 44 British companies and German. Based on the results of the two studies above, it can be concluded that investment decision-making strategies do not only depend on the side of financial analysis, but it seems that non-financial analysis is something that is crucial and should be considered.

In practice, Carr, Kolehmainen and Mitchell (2010) also provide an explanation that investment decision-making strategies must also adapt to dynamic economic and business conditions, meaning that there must be adjustments when carrying out financial and non-financial analyzes. In the real world, adjustment factors are

absolutely necessary given the changing business cycle conditions due to changes in macroeconomic conditions and government policies that also have a role in driving changes in investment decision-making strategies.

Techniques in investment decision-making strategies change over time, Adler (2000) states that there has been a shift in the techniques used in determining investment decisions in terms of structural characteristics that are determined by the scale and geographic side of the value of an investment. Adler explains how many criticisms underlie traditional investment decision making such as payback, accounting rate of return, return on investment (ROI), residual income and discount cash flow, where the traditional approach is more to assess the level of company productivity but does not assess and analyze how productivity is. produced by similar industries. Another weakness of the traditional approach is that it does not analyze the benefits from the non-financial side so that it does not take into account the added value that should be included in the calculation. The next weakness is that the investment decision-making method only takes into account the short term (short term), in such a calculation condition only takes into account the monthly period and if in the annual only medium term only. If calculations and analyzes are only short-term, then changes and projections for the long-term are not informed. The new investment decision-making strategy analysis approach shows a broader and more in-depth financial analysis, including the addition of non-financial analysis, including taking into account long-term benefits and extending the life of the investment so that a longer cash flow can be projected. In addition, the new investment decision-making analysis method also takes into account the cost management of adding analyst attributes including qualitative analysis of government policies, ratings, product research development and so on (Setiadi and Puspitasari, 2015). The results of the same research also showed that there is a need for qualitative and quantitative analysis in determining investment decision-making strategies (Droj and Droj, 2015). We can figure out the definition of non-performing asset purchase decisions in Table 3.

Table 3. Definition of The Non-Performing Asset Purchase Decisions

No	Authors	Definition
1	Alkaraaan and Nortcott (2006)	Asset purchasing decisions are part of the strategy, more specifically the methods and tools which can be both financial and non-financial strategies.
2	Carr and Tomkins (1996)	Making investment decisions between value chains and cost drivers that focus on competitive advantage
3	Carr, Kolehmainen and Mitchell (2010)	The investment decision-making strategy must adapt to dynamic economic and business conditions, meaning that there must be adjustments when conducting financial and non-financial analyzes.
4	Adler (2000)	In decision making, there has been a shift in the techniques used in determining investment decisions in terms of structural characteristics that are determined by the scale and geographic side of the value of an investment.
5	Droj and Droj (2015)	The analysis method of investment decision making that takes into account the cost management of adding analyst attributes including qualitative analysis of both government policies, ratings, product research development and others.
6	Kemas (2019)	Asset purchase decision is an investment decision process that involves selecting methods and tools by considering multi factors, both financial and non-financial.

When analyzing investment decision-making strategies, it is necessary to calculate the value of assets both tangible and intangible assets, calculating the value of intangible assets is more difficult than tangible assets. The intangible asset calculation approach requires a higher level of accuracy and accuracy, basically the calculation of intangible assets is an analysis that transfers qualitative data into quantitative calculations. It requires more carefulness and assumptions so the estimated values obtained are closer to accuracy (Puspitasari *et al*., 2020).

Meanwhile, the problematics asset purchase decisions indicators according to Carr *et al.*(2010) includes i)business economic conditions, 2)financial analysis, 3)non-financial analysis. The comparison of the indicators of non-performing asset purchase decisions based on the literature is as shown in Table 4.

Table 4. Comparison of Non-Performing Asset Purchase Decisions Indicators

No	Authors	Indicators
1	Alkaraaan and Nortcott (2006)	Methods, tools, financial aspects, non-financial aspects

No	Authors	Indicators
2	Carr and Tomkins (1996)	Value chain, cost driver, competitive advantage
3	Carr *et al.*(2010)	Business economic conditions, Financial analysis, Non-financial analysis
4	Adler (2000)	Characteristics of scale structure and geographic side
5	Droj and Droj (2015)	Qualitative analysis of government policies, rating, product research development
6	Kemas (2019)	Selection of methods, consideration of financial aspects, consideration of non-financial aspects

3. Methodology

This study is a quantitative study, in which the hypothesis testing was done through the empirical data testing. The hypothesis was based on the literature review explained in the previous section. The analytical method used was the Partial Least Square (PLS). Selection of methods, consideration of financial aspects, consideration of non-financial aspects. Figure 1 depicts PLS framework used in this study. Circles in Figure 1 containing latent variable, namely the ability to manage assets and asset purchase decisions. the ability to manage assets (increase in asset value, reduce asset risk, potential asset growth, competitive advantage from scarce resources owned by investors) and asset purchase decisions (selection of methods, consideration of financial aspects, consideration of non-financial aspects).

Figure 1. Framework

Picture 1. Framework

The unit of analysis used in this research is the executive decision makers in purchasing problem assets. The sampling method of this unit of analysis is based on the purposive sampling method, meaning that the sample is taken based on certain conditions determined by the researcher. Respondents taken in this study include executives who buy troubled assets in Indonesia with a wide variety of information, which are expected to be more varied and detailed, so that in the end the research results will be obtained as expected. Executives at the level of company owners and top management of the company. In addition, the target respondents in this study are buyers of non-performing assets in government banks in Indonesia. There hypotheses tested is that the ability to manage assets affects the decision to purchase non-performing assets at the bank. Hypothesis testing was done through the empirical data

3. Result and Discussion

The description of the results of the Ability to Manage Assets Model (Table 5) explains that the ability to manage assets has a direct effect on asset purchasing decisions. The ability to manage assets is analysed through an indicator of the amount of restructuring costs that has the largest contribution compared to other indicators (Komariah and Puspitasari, 2020). Indicator The amount of restructuring costs is more directed at the management ability in the short term related to how much restructuring costs must be spent in order to have the selling value as desired. The amount of restructuring costs varies greatly depending on the condition of the assets purchased, therefore the ability to manage post-non-performing assets starts from the ability to appraise assets before they are purchased, especially those related to costs that will arise in the future after purchase. Meanwhile, income often only has an impact after assets are restructured and sold. So that the ability to minimize costs as efficiently as possible is an early indicator that affects the variable ability to manage assets.

Table 5. Loading Factor Variable Ability to Manage Assets

No	Code	Ability to Manage Asset Variable Indicator	Loading Factor
16	X51	Post-purchase asset restructuring costs	0.936
17	X52	Time of sale of assets	0.851

Table 5 shows that the asset management ability variable which consists of 2 indicators used has a loading factor between 0.851 to 0.936, where the indicator for the amount of income is the lowest and the indicator for the cost of restructuring assets after purchase is the highest. From these results it can be explained that in the observed sample, in the asset management ability variable, the post-purchase asset restructuring cost indicator is the most important element contributing to the asset management ability variable. Overall, the Loading Factor is above 0.7 (Table 6.), so it can be concluded that the variable model of the ability to manage asset is valid and reliable, or in other words all the indicators that form the asset management ability variable are valid.

Table 6. Loading Factor Indicator Variable Asset Purchase Decision

No	Code	Asset Purchase Decision Variable Indicator	Loading Factor
27	Y12	Short term gain	0.704
28	Y13	Long term gain	0.755
29	Y14	Purchase technical costs	0.672
30	Y15	Non-technical cost of purchase	0.754
31	Y16	Benefit to cost comparison	0.751

The AVE value indicates the validity and reliability of the variable. Based on statistical criteria, all variables must have a value above 0.5, thus because all variables have an AVE value above 0.5, these variables can be said to be reliable.

The results of the Composite Reliability Test show that all values are above 0.7 which means that all research variables are reliable. It can be seen in Table 7 that the Cronbach's Alpha value of all variables is above 0.7, which means that all the elements forming the variable are reliable or have met the reliability test.

Table 7. Analysis *Average Variance Extracted* (AVE), *Composite Reliability* and *Cronbach's Alpha*

Variable	AVE	*Composite Reliability*	*Cronbach's Alpha*
Ability to Manage Asset	0.800	0.889	0.760

The ability to manage assets has a positive and significant effect on asset purchase decisions through asset value projections. The competence of the prospective acquirer in the management of the acquired assets is very crucial. Many cases of Mergers and Acquisitions fail to prove this hypothesis. In fact, the acquirer's management must demonstrate a better ability than the old asset owner so that the asset's value does not decline further.

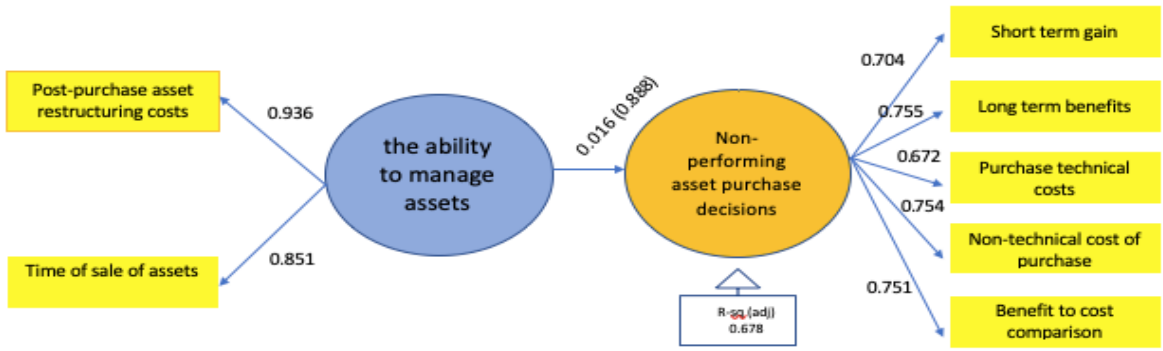

Figure 2. The Relationship between The Ability to Manage Assets on Non-performing Asset Purchase Decisions

The ability to manage assets against the projected value of the asset value is a coefficient of 0.243 and is significant at the 5 percent level (95%). The amount of R-square adjusted of 0.678 (Figure 2.) means that the factor of the ability to manage assets can explain 67.8% of the decision to purchase problem assets, while the rest is explained by other factors.

The results of the model are in accordance with several studies including the relationship between the ability to manage assets on and GCG which is strengthened by research conducted by Sacui and Dumitru (2014) which concluded that there is a significant influence between the ability to manage assets non-performing asset purchase decisions. Barney (1991) provides empirical justification that the competitive advantage of assets will influence asset purchasing decisions. The findings by Kemas (2019) concluded that the cost of asset restructuring affects the implementation of non-performing asset purchase decisions. Leaders who have integrity will manage the company with prudent principles (Napitupulu *et al*., 2020).

4. Conclusion

This research shows that the decision to purchase problematic assets from banks is realized through the ability to project the value of assets and the timing of asset sales which is a Managerial Value Based Business that can re-create the value of assets that were previously perceived as less valuable. This business departs from the ability to value intangible assets and the environment around the assets to accelerate the decision to purchase problem assets from banks and what is no less important is the decision to purchase problematic assets whose risk is mitigated to ensure the sustainability of the property business which is relatively high risk. This study is useful for observers and researchers, and they can develop this study using different methodologies, variables, data, or proxies.

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