

## The Effect of Good Corporate Governance on the Performance of Village Crediting Institutions (LPD) Using Awig-Awig Village Protection as Moderation Variables (Empirical Study on LPD in Mengwi District, Badung Regency)

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**ABSTRACT** : This study aims to obtain empirical evidence of the effect of Good Corporate Governance on the performance of Village Credit Institutions (LPD) with village awig-awig protection as a moderating variable with a pure moderating model. The theory used in this research is agency theory. The population in this study amounted to 38 LPDs in Mengwi District which were registered in the LPLPD of Badung Regency. The research sample was determined using a non-probability sampling method with a saturated sampling technique that means all populations were used as samples. The results in this study concluded that Good Corporate Governance has a positive effect on LPD performance and village awig-awig protection strengthens the effect of GCG on LPD performance.

**KEYWORDS** –LPD Performance, GCG, Awig-Awig Protection

### I. INTRODUCTION

National development is a series of sustainable development of all aspects. In order to support national development, a healthy economy is needed starting from the most basic level, namely the village level. In Bali Province, there are microfinance institutions other than banks that play a major role in regional economic development. The microfinance institution is the Village Credit Institution (LPD) located in each customary village / pakraman village. LPD was first established in 1984 as a village-owned institution that helps village communities to obtain funds, whether used as business capital or other activities (Mahaendrayasa & Putri, 2017).

The formation of the LPD in Bali Province originated from the results of a rural credit seminar held in Semarang City on February 20 to 21, 1984. This seminar concluded that the presence of a rural credit institution was deemed very appropriate to reach the small or poor in rural areas so that efforts to improve the level the life of this group of people can be achieved (Mulyawan et al, 2017). The selection of traditional villages as the basis for the formation of the LPD in Bali Province is related to efforts to conserve and develop traditional villages in Bali.

In terms of management, Pakraman Village delegates LPD management tasks to LPD administrators who act as agents. The existence of an agency relationship between the Pakraman village krama and the LPD manager allows problems such as conflicts of interest to arise. The ability to achieve success and foster public trust in the LPD can be done by showing the LPD's performance and a good formula is needed in managing its resources.

The Village Credit Institution (LPD) as a financial institution that carries out activities to collect and distribute community funds operates in a traditional village administrative area on the basis of kinship between villagers and is subject to applicable awig-awig. Behind this important role, several problems can still be found in LPDs, one of which is the existence of cases of fraud. Fraud cases are a very frightening specter for an organization including the LPD. The problem that is often faced by the LPD in carrying out its business activities is the occurrence of bad credit. The occurrence of bad credit will certainly hinder the development of the LPD. Apart from bad credit, embezzlement of funds by the LPD management also often occurs. This of course will be detrimental to many parties, the party who is most disadvantaged in this matter is of course the LPD customers.

One of the cases of embezzlement of LPD funds in Badung District occurred in Mengwi District. The case of embezzlement of funds was carried out by the former head of the LPD Kapal Village, Mengwi District. Reporting from the website of Tribun Bali on October 24, 2018, the former head of the LPD Kapal Village embezzled funds amounting to 15 billion. Initially, the LPD in the village of Kapal was recorded as having healthy finances, but in 2016 irregularities began to appear in the LPD's financial statements. Based on this news, it proves that there are still several LPDs in Badung whose management systems are still poor. Therefore, to minimize the possibility of these problems occurring, the LPD is obliged to carry out periodic checks on its financial performance. By carrying out an examination of financial performance, it is hoped that it can minimize the occurrence of frauds committed by irresponsible parties. If the LPD is managed separately from the village manners it is possible for agency conflicts to occur. Because this separation gives rise to information asymmetry.

Conflict of interest arises in a theory which says that there is a relationship between the principal (shareholders) and the agent (management). This theory was put forward by Jensen & Meckling (1976) which is called agency theory. The main agency problem is reflected in the different interests of each stakeholder in an organization or company (Khan, 2011). In this study, the principal is a customary village community as the owner of the LPD who demands maximum performance from the agents, namely the head of the LPD and all employees who work in an LPD.

Conflicts of interest (between fund owners and managers) can be reduced by implementing Good Corporate Governance (GCG). Good Corporate Governance is a regulation that establishes and regulates the relationship between the government, employees, creditors, management stakeholders, other internal and external stakeholders or it can be concluded that Good Corporate Governance is a system that directs and controls the company (Jayantari & Gorda, 2020). GCG can reduce the occurrence of conflicts of interest because of the increasing trust of village manners, reducing information asymmetry, reducing decision-making errors and always defending stakeholder rights, thereby being able to improve LPD performance (Shanikat & Abbadi, 2011). There are important elements in GCG, namely GCG principles in the form of transparency, accountability, responsibility, independency, and fairness.

Several studies have been conducted on the relationship between GCG and company performance giving mixed results. According to Rahmatika et al. (2015) stated that size, transparency, independence, accountability, responsibility, and fairness have a positive effect on financial performance. Astini & Yadnyana's (2019) research results state that the implementation of good corporate governance has a positive and significant impact on LPD's financial performance. This is similar to the research of Hindisastru & Putri (2016) which found that GCG has an effect on the performance of companies and companies that have implemented good corporate governance properly and continuously will be able to improve company performance. Kautsar & Kusumaningrum (2015) present evidence that GCG has no influence on company performance.

In addition to implementing Good Corporate Governance, the LPD as a village-owned financial institution also needs to apply the awig-awig of the pekraman village as the legal basis for the LPD in their respective customary villages. Awig-awig is a legal product of a traditional organization in Bali, which is made deliberately by consensus by all its members and acts as a code of conduct for the members of the organization concerned. Thus, awig-awig is a benchmark in behavior made by the community based on a sense of justice and a sense of appropriateness that lives in the community concerned (Astuti, 2015 in Jayantari & Gorda, 2020).

The application of Awig-awig in traditional villages to villagers in terms of imposing sanctions on violations, is based on the principles of justice and kinship, both criminal and non-criminal, resolved through traditional institutions through village meetings by always taking peace efforts to reflect a sense of justice. There are sanctions to be received in the form of fines, both physical or labor fines and property fines in the form of money payments. Aryawan (2006) in Atmadja, et al. (2015) revealed that the application of violations committed by village krama is carried out through a village meeting, where all village communities and village officials are present to hold a deliberation to determine the sanctions that will be given to village courtesies who violate awig-awig the village. Such a thing is good enough as a first step to improve the performance of an institution that is overseen by awig-awig, namely the Village Credit Institution.

**Table 1. Health Level of LPD in Mengwi District, Badung Regency in 2019**

Category				Total (unit)
Good	Moderate	Low	Very Low	
22	13	3	.	38

Source: LPLPD Badung Regency (2019)

Based on the table above, Mengwi Subdistrict was chosen because the most LPDs in Badung Regency are in this sub-district, but with a large number of LPDs there are still LPDs that fall into the low category, namely 3 LPDs.

## II. CONCEPTUAL MODEL AND HYPOTHESIS

Good Corporate Governance (GCG) is a concept of corporate governance that describes the relationship between the parties with an interest in the company in an effort to improve company performance. Good corporate governance is an important factor in determining firm value and influencing company performance such as the LPD (Setyawan & Putri, 2013). The research results of Astini & Yadnyana (2019) reveal that the implementation of good corporate governance has a positive and significant impact on the LPD's financial performance. This is similar to the research of Hindisastri & Putri (2016) which found that GCG has an effect on the performance of companies and companies that have implemented good corporate governance properly and sustainably will be able to improve company performance. Based on that description, the first hypothesis is:

**H<sub>1</sub>: The implementation of Good Corporate Governance has a positive effect on the performance of Village Credit Institutions (LPD).**

Awig-awig are the rules of living together for village krama in their customary village, to create a safe, peaceful, orderly and prosperous life in a traditional village. Aryawan (2006) in Atmadja, et al. (2015) revealed that the application of violations committed by village krama is carried out through a village meeting, where all village communities and village officials are present to hold a deliberation to determine the sanctions that will be given to village courtesies who violate awig-awig the village. In this case, it is hoped that awig-awig will be able to influence and strengthen the implementation of Good Corporate Governance by LPD managers in order to create common goals and improve the quality of LPDs in Pakraman villages so that village courtesy of the LPD does not decrease. Based on the description above, the second hypothesis is:

**H<sub>2</sub>: Village Awig-Awig Protection Strengthens The Influence Of Good Corporate Governance**

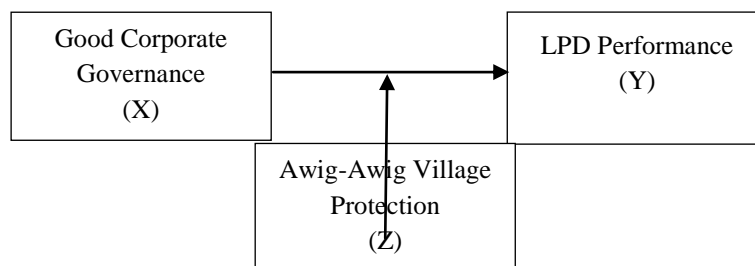


Figure 1. Conceptual Framework

## III. RESEARCH METHODS

This research was conducted with an associative quantitative approach, namely research using indicators of influence or the relationship between two or more variables (Sugiyono, 2017: 64). This research was conducted in all Village Credit Institutions (LPD) in Mengwi District, Badung Regency. The population in this study were all LPDs in Mengwi District which were recorded in the LPLPD of Badung Regency, namely 38 LPDs. The sample in this study was taken using a non-probability sampling technique with a saturated sampling method. Respondents selected in this study were persons in charge of LPD management and supervisory agency functions in assessing GCG on LPD performance. Respondents from each LPD taken were 2 respondents consisting of the head of the LPD and one supervisor. The number of LPDs was 38 so that the total number of respondents was 76 people. The data in this study were obtained using a questionnaire method and non-participant observation. The analysis technique used in this study is a simple linear regression analysis technique and Moderated Regression Analysis (MRA).

## IV. RESULTS AND DISCUSSION

This research was conducted at the LPDs in Mengwi District, Badung Regency with a total of 38 LPDs and using 76 respondents. Details of the respondents' profiles are presented in Table 2.

Table 1 Respondent Characteristic

	Respondent Characteristic	Frequency	Total Percentage (%)
1	<b>Based on Gender</b>		
	Male	59	77,63
	Female	17	22,37
	Total	76	100
2	<b>Based on Age</b>		
	20-30 years old	1	1,3

	31-40 years old	1	1,3
	41-50 years old	25	32,9
	> 50 years old	49	64,5
	Total	76	100
3	<b>Based on Latest Education</b>		
	Senior High School	33	43,4
	DIPLOMA	1	1,3
	S1	38	50
	S2	4	5,3
	Total	76	100

Source: Primary data processed, 2021

Based on gender, the respondents were dominated by male which is 59 people. Based on age, the highest number of respondents was more than 50 years old, namely 64.5 percent. Based on the level of education, respondents were dominated by bachelor which is 38 people.

**Table 3. Simple Regression Test**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7,638	4,444		1,719	,090
	X	,477	,048	,753	9,859	,000

a. Dependent Variable: Y

Source: Attachment 8

Based on table 3, the regression equation is obtained as follows:

$$\hat{Y} = 7,638 + 0,477X$$

Information:

$\hat{Y}$  = LPD Performance

X = Good Corporate Governance

Moderated regression analysis (MRA) is a regression model by testing the interaction between variables (Utama, 2016: 149). MRA was chosen in this study to explain the effect of the moderating variable in strengthening or weakening the relationship between the independent variable and the dependent variable. The following table 4 shows the MRA test:

Table 4. MRA Test					
		Constanta	X	Z	X.Z
<b>B</b>	=	<b>80,851</b>	<b>0,405</b>	<b>0,043</b>	<b>0,656</b>
<b>T Sig.</b>	=	<b>0,020</b>	<b>0,006</b>	<b>0,139</b>	<b>0,017</b>
<b>R square</b>	=	<b>0,688</b>			
<b>F Sig.</b>	=	<b>0,000</b>			

Source: Attachment 9

Based on table 4, the pure moderating regression model equation is obtained as follows:

$$Y = 80.851 + 0.405X + 0.043Z + 0.656X.Z + e$$

Information:

Y = LPD Financial Performance

X = Good Corporate Governance

Z = Village Awig-awig Protection

e = Error

### **H<sub>1</sub> : The Implementation Of Good Corporate Governance Has A Positive Effect On The Performance Of Village Credit Institutions (LPD).**

In the results of the MRA analysis the effect of X on Y, the sig t value.  $0.006 \leq 0.05$  indicates that the implementation of Good Corporate Governance has an effect on the performance of Village Credit Institutions (LPD). The beta coefficient value of 0.405 indicates a positive direction, it can be concluded that H<sub>0</sub> is rejected and H<sub>1</sub> is accepted. Good corporate governance is an important factor in determining firm value and influencing company performance such as the LPD (Setyawan & Putri, 2013). Astini & Yadnyana's (2019) research results

reveal that the implementation of good corporate governance has a positive and significant impact on LPD's financial performance. This is similar to the research of Hindisastrri & Putri (2016) which found that GCG has an effect on the performance of companies and companies that have implemented good corporate governance properly and sustainably will be able to improve company performance.

### **H<sub>2</sub>: Village Awig-Awig Protection Strengthens The Influence Of Good Corporate Governance**

In the results of the MRA analysis the effect of X on Y variable Z as a moderator, the sig t value. variable Z to Y 0.139 > 0.05 sig t variable value X.Z against Y 0.017 < 0.05 indicates that village Awig-awig protection strengthens the effect of Good Corporate Governance on the performance of Village Credit Institutions (LPD). It can be concluded that H<sub>0</sub> is rejected and H<sub>2</sub> is accepted. There are sanctions to be received in the form of fines, both physical or labor fines and property fines in the form of money payments. Aryawan (2006) in Atmadja, et al (2015) states that the application of violations committed by village krama is carried out through a sangkep or village meeting, where all village communities and village officers (village officials) are present to hold a deliberation to determine the sanctions that will be given to village manners who violate the village's awig-awig.

## **V. CONCLUSION**

Based on the results of research conducted by the Village Credit Institution (LPD) in Mengwi District, Badung Regency, several things can be concluded are as follows:

1. The implementation of good corporate governance has a positive effect on the performance of Village Credit Institutions (LPD).
2. Village awig-awig protection moderates the effect of GCG on the performance of Village Credit Institutions (LPD).

Based on the research results and conclusions, the suggestions that can be given for this research are as follows:

1. Users of financial services can pay attention to how the implementation of good corporate governance is to predict how the performance of Village Credit Institutions (LPD). Performance will be good if the executives of the organization run the organization well without committing fraud.
2. To improve good performance, companies (LPDs) are expected to pay attention to various things such as: using qualified and independent external auditors, obeying local village regulations and awig-awig, and protecting customers properly and fairly.
3. For future researchers, it is expected that the sample of respondents not only from the LPD Pamucuk but also from representatives of LPD employees who are credible and appropriate as respondents in order to develop further studies.

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