

The Effect of Compensation on the Independence of Supervisory Board of Rural Credit Institution in Bali

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ABSTRACT: This study aims to prove the effect of professional expertise, and work experience on the level of independence of RCI supervisory bodies with contingent factors in the form of compensation received. A questionnaire survey was conducted in 8 regencies and 1 city in Bali. A total of 94 representatives of the RCI Supervisory Board (panureksan) were respondents. The data obtained were then analyzed by moderated regression analysis after passing the classical assumption test as a condition of the causality test as well as the validity and reliability test of the instruments used. The results of this study indicate the influence of compensation that strengthens the relationship of experience that can increase the independence of RCI supervisory bodies. Meanwhile, professional expertise does not depend on the compensation earned to influence the independence of the supervisory body. This is due to the capacity of the supervisory body which is dominated by the burdens and responsibilities of the bendesa/prajuru adat, and also due to the compensation system that has been standardized according to the ability of the RCI. In addition, there are indications that the *ewuh pakewuh* culture is an obstacle to the independence of the RCI supervisory body and dualism of responsibilities, both for the indigenous village community and the RCI. This empirical evidence can be used as a study material to develop a regulation to improve the quality as well as the role of RCI supervisory bodies in order to strengthen competitive and sustainable RCI governance.

KEYWORDS : *Independence, Professional expertise, Experience, Compensation*

I. INTRODUCTION

The characteristic of Rural Credit Institution (RCI) as a microfinance institution in Bali is that it is formed and managed based on customary law. RCI are supported by a Supervisory Board like an internal control division in a business entity, gaining primary attention in overseeing RCI governance (Suartana, 2009). The head of the supervisory body is held by the Bendesa adat (head of customary village) in order to create an effective and conducive atmosphere of governance control based on customary law established by each customary village. However, as development progresses, more and more RCI are in trouble, especially due to high non-performing loans. In addition, there are also many RCI with problems due to poor governance that have been brought into the legal realm, even involving the supervisory body of the RCI.

The Bali provincial government's efforts to strengthen RCI are supported by Regional Regulation Number 4 of 2019 concerning Desa Adat in Bali, Regional Regulation of Bali Province Number 3 of 2017 concerning Rural Credit Institution, as well as Governor Regulation Number 44 of 2017 which regulates the implementation of RCI. In particular, the existence of the RCI supervisory body (panureksan) is assigned and functions to monitor and evaluate the performance of RCI. The effectiveness of the supervisory body is an interesting issue, especially regarding the level of independence of the supervisory body in carrying out the duties and functions of monitoring and evaluating internal RCI, as well as the effect of compensation on the relationship between professional expertise, work experience and the level of independence of the Supervisory Board of Rural Credit Institution in Bali. The existence of a sense of reluctance (*ewuh pakewuh*) to reflect the brotherhood between Balinese krama (among the community) turned out to be a burden for the supervisory body while affecting the function of supervision and control of RCI management activities. Thus, this study was conducted with the aim of showing the effect of compensation on the relationship between professional expertise, experience, and independence of RCI supervisory bodies moderated by compensation.

II. LITERATURE REVIEW AND RESEARCH HYPOTHESIS

This study uses Agency Theory, which shows that there is a relationship between the agent (RCI board) and the principal / capital owner (indigenous village community), reflected in conflicts of interest (Agency

problem), even the possibility that agents do not always act in the best interests of the principal (Tatiana, Philip and Hoenen, 2016). To minimize Agency problems, a supervisory body (panureksan) is needed that has an independent attitude, tasked with bridging the interests of the RCI management and the customary village community as the principal in RCI in the region of traditional villages throughout Bali.

The main key to an auditor's independence is honesty, impartiality, and responsibility for the duties and obligations performed. With sufficient independence, auditors are able to make impartial decisions and report audit results in accordance with actual conditions. According to Arens et al (2012) there are 2 aspects of the independence of an auditor, namely: independence in fact, namely the auditor must have high honesty; independence in appearance, namely the view of other parties towards the auditor, where the auditor must maintain his position so that he can still be trusted to have an attitude of independence and objectivity; independence in competence which is closely related to the competence or ability of the auditor to carry out and complete his duties. In this case, an RCI internal supervisor must have an attitude of independence as the main foundation and be able to understand and apply the 3 aspects of independence both from honesty, appearance, and expertise, so that it will greatly affect the performance of the management of the RCI and public confidence in assessing the RCI.

Professional expertise according to Yendrawati (2008) is reflected in attitudes and behaviors as a form of meaning to the profession, which is needed by internal auditors in assessing the effectiveness of the company's internal control. The elements of professional expertise are adherence to the professional code of ethics, knowledge, skills, disciplines, human relations and communication, and continuing education (Grefita, 2011). To measure the level of professional expertise, not only looking at an indicator that people are said to be professional, but it is also necessary to look at external factors, such as one's behavior in carrying out tasks (Rismada, 2017). By applying a good professional expertise attitude, of course, it will trigger the independence of an auditor because of the attitude of obeying and being guided by the professional code of ethics of auditor independence itself.

Work experience is something that shows how long a supervisory body has worked and the types of work it has done. The more experienced a supervisory body is, the more sensitive it will be in detecting errors, completing tasks on time, being able to classify errors, and minimizing errors in performing supervisory tasks. Dianawati and Ramantha (2013) state that there are indicators of internal auditor experience that can be adopted by RCI internal supervisors, namely: professional training where the participation of RCI internal supervisors in participating in various technical training, courses, seminars, and those related to improving performance as a supervisory body. Research on work experience has been conducted by Novianti et al. (2014) which states that work experience has a positive effect on the effectiveness of the internal control system.

Compensation policy also plays an important and strategic role in increasing the morale, performance and motivation of human resources in a company. If the formulation of compensation policy is appropriate, both in terms of fairness and appropriateness, employees will feel satisfied and motivated to carry out various activities related to the company's achievements. Conversely, if the sense of fairness and appropriateness is not fulfilled, it will cause employees to complain, the emergence of job dissatisfaction which then has an impact on the decline in employee morale which in turn causes employee performance to decline as well (Dharmawan, 2011). Compensation provided by the company for the performance of employees who are given fairly and properly will lead to a sense of job satisfaction which will later affect the level of employee discipline.

This can be seen from the application of guidelines from Peraturan Daerah Provinsi Bali Tahun 2017 Chapter IX concerning guidance and supervision of Rural Credit Institution, so that the long work experience of internal supervisors tends to affect the independence of internal supervisors. This is because as a person gets used to doing what he does, he will be more sensitive and able to detect errors, classify errors and minimize errors in carrying out supervisory tasks, so that the independence of supervisors will be better in carrying out supervisory functions. The hypothesis that can be formulated in this study can be formulated as follows:

H₁: Compensation strengthens the influence of professional expertise on the level of independence of RCI internal supervisors

H₂: Compensation strengthens the influence of work experience on the level of independence of RCI internal supervisors

III. METHOD

This research uses a quantitative associative approach. The population in this study was the chairman and/or members of the RCI supervisory board in all regions of Bali Province. The sampling technique used is purposive sampling with the criteria that the chairman and/or members of the RCI internal supervisory body have a minimum service period of 1 year so that the respondents obtained have work experience, understanding of the work environment, and are able to provide comprehensive consideration of supervisory functions, and RCI governance. This research was conducted in all RCI in Bali so that the number of respondents was based on the number of existing RCI, then clustered by district/city.

This study used primary data, collected through questionnaires. Measurement of variables in the questionnaire uses a Likert scale of 1 to 4, to obtain a clearer and more assertive view of respondents regarding the statements and questions presented. Before the hypothesis test, it is necessary to test the instrument in the form of Validity Test and Instrument Reliability Test. Furthermore, the Classical Assumption Test and Moderated Regression Analysis will be carried out with the help of the SPSS for Windows Released 19.0 Program application.

IV. RESULT

Instrument test in this study includes 2 tests, namely the validity test to show that all statements have a level of validity from each statement item score to the total score of each statement item and the reliability test to measure the consistency of answers to statements for a variable in the study. The validity test of the instrument using Pearson correlation (Ghozali, 2012) which shows correlation results above 0.3. This means that the research instrument is valid. Reliability test uses the Cronbach's Alpha value > 0.60 to show that the research variables are reliable. The results of the Cronbach's Alpha value reliability test on the instrument are greater than 0.6. This shows that all instruments for each variable can be concluded to be reliable, so they can be used to conduct research.

Table 1. Descriptive Statistic Test Results

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Professional expertise	94	33	43	39.78	2.795
Experience	94	30	36	31.94	2.119
Compensation	94	20	32	29.77	1.623
Independence	94	24	31	28.71	1.434
Valid N (listwise)	94				

Source: Primary Data, 2025

Table 1 shows the minimum value of the independence variable of the RCI supervisory body of 24 and the maximum value of 31. The average value of the independence variable of the RCI supervisory body of 28.71 is quite high, both in impartiality, maintaining views, and trust in their service. The standard deviation value of 1.434 is lower than the average value of the variable, which indicates that the data distribution is quite low, so that most respondents have a relatively uniform level of independence and are not much different from the average.

The minimum value of the professional expertise of the supervisory body is 33 and the maximum value is 43. The average value of the professional expertise of the supervisory body is 39.78 categorized as high, which means that there is a perception of high expertise, and good behavior perceived by respondents. The standard deviation value of the supervisory body professional expertise variable is 2.795, which is lower than the average value, indicating that in general the level of professional expertise of the supervisory body is quite evenly distributed, although there are a number of supervisory bodies that have a level of expertise that is much lower or higher than the average value.

The minimum value of supervisory body experience is 30 and the maximum value is 36. The average value of supervisory body experience is also high at 31.94, which means that respondents believe they are experienced in RCI governance supervision activities. The variable standard deviation value is 2.119, which is lower than the mean value, indicating that respondents generally feel experienced despite differences in experience levels.

The minimum value of the RCI supervisory body compensation variable is 20 and the maximum value is 32. The average value of the compensation variable is 29.77, indicating that respondents perceive that the compensation received is quite high. The standard deviation value of the compensation variable is 1.623, lower than the average value of the variable. This shows that the distribution of data is relatively low, so that respondents' perceptions of the level of compensation tend to be homogeneous and not much different from each other.

This study has met the classical assumptions through two types of tests, namely normality test and heteroscedasticity test. The normality test using the Kolmogorov-Smirnov test obtained the Kolmogorov-Smirnov significance value in the regression model is 0.890, which is greater than 0.05 so it can be concluded that the normality assumption in the research model has been met. The heteroscedasticity test uses the Glejser model by regressing the independent variables on the absolute value of the residuals. The test results show that the significance value between the independent variable and the absolute residual of 0.288 is more than 0.05, indicating that there is no heteroscedasticity problem.

Table 2. Hasil Analisis Regresi Moderasian

R-square	0,509
Adjusted R-square	0,452
F _{hitung}	7,372
F _{sig}	0,004

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0,078	0,388		0,203	0,766
Professional expertise	0,186	0,078	0,134	1,342	0,061**
Experience	0,128	0,102	0,118	1,245	0,113
Compensation	-0,008	0,047	0,026	0,217	0,714
Expertise*Compensation	0,013	0,004	0,187	2,032	0,678
Experience*Compensation	0,006	0,048	0,024	0,146	0,047*

Source: Primary Data, 2025

Table 6 produces the following causality equation: $Y = 0.078 + 0.186 KP + 0.128 Pe - 0.008 Ko + 0.013 KP \cdot Ko + 0.006 Pe \cdot Ko + e$. The constant of 0.078 indicates that if the variables of professional expertise and experience that interact with compensation are considered constant (zero), then the independence value of 0.078 indicates the independence of the supervisory body is positive, which means that the supervisory body has the perception to be independent in supervising RCI. The coefficient β of the professional expertise variable is 0.186. This implies that if there is an increase in the professional expertise variable, it will increase the independence of the supervisory body, assuming other independent variables are considered constant. The β coefficient of the supervisory body experience variable is 0.128. This means that an increase in the experience of the supervisory body will result in an increase in the independence of the supervisory body, assuming that the other independent variables are considered constant. The β coefficient of the compensation variable is -0.008. This reflects that an increase in the compensation factor can reduce the level of independence of the supervisory body, assuming other independent variables are considered constant. The coefficient β of the interaction variable between expertise and compensation is 0.013. This means that there is no effect of compensation on the relationship between professional expertise and the independence of the supervisory body, where other independent variables are considered constant. The coefficient β_5 of the interaction variable between the experience of the supervisory body and compensation is 0.006. This means that the effect of experience on the independence of the supervisory body is strengthened by compensation so that it can increase the independence of the RCI supervisory body, where other independent variables are considered constant.

Based on Table 6, the Adjusted R-Square coefficient of determination is 0.452, which means that the variability of professional expertise and experience, along with compensation is able to explain the variability of the independence of the supervisory body by 45.2%, while 54.8% is explained by other factors not included in this test model.

The results of the regression model test through the F-test show that this model is feasible (fit), by assessing the significance level $\alpha = 0.05$ shows the Sig. F value of 0.004 < 0.05 and the calculated F value of 7.372 so this means that the regression model is suitable for use in this study.

The coefficient of interaction of professional expertise and compensation shows a value of 0.013, positive and insignificant at the sig level. 0.678 which is greater than $\alpha 0.05$. This means that there is no effect of compensation on the relationship between professional expertise and the independence of the RCI supervisory body. The amount of compensation has no impact on the level of independence of the supervisory body based on the expertise of the supervisory body, where other independent variables are held constant. Thus, the first hypothesis cannot be accepted, which examines the effect of compensation on the relationship between professional expertise and the independence of RCI supervisory bodies. In accordance with regulations that stipulate compensation schemes that are expected to have an impact on the level of independence of the supervisory body, it turns out that according to this study, compensation does not prove in an effort to increase the influence of professional expertise on the independence of the supervisory body. Research by Fitria et al. (2017) revealed that professional expertise does not affect audit judgment even though there is a compensation system in the inspectorate of Gorontalo province. This is because standardized operational procedures are consistently applied even though incentives are provided for internal auditors. Similar results were also obtained by Saputra and Susanto (2016), that the compensation set for internal auditors did not affect the independence and quality of audits at the General Inspectorate of the Ministry of Manpower. Meanwhile, Takashi (2020) found that the independence of commissioners in Japan is more influenced by the background of the commissioner than professional expertise or compensation. A commissioner will be more independent if he comes from outside the large shareholder environment and not the family environment. This is in line with the results of the researcher's interviews, which show that RCI supervisors who also serve as customary bendesa

often experience the *ewuh-pakewuh* cultural dilemma when dealing with governance issues, especially in handling non-performing loans in the village community.

The interaction coefficient of experience and compensation shows a value of 0.006, positive and significant at the sig level. 0.447, which is smaller than α 0.05. This means that there is an effect of compensation that strengthens the relationship between the experience variable and the independence of the RCI supervisory body, where other independent variables are considered constant. Thus, the second hypothesis can be accepted that compensation can strengthen the effect of experience on the independence of the RCI supervisory body. The tendency for the experience of the supervisory body to further affect its independence due to the compensation received. Along with research by Meliana and Yuniarto (2014) revealed that the experience of internal auditors affects the quality of auditors depending on the compensation system implemented. The same thing is also proven by Kuswara (2020) that the experience of internal auditors affects the audit quality of national private banks. The existence of a compensation system that is felt to be sufficient to satisfy internal auditors can improve audit quality. The more experienced the members of the supervisory body are, the more consistent they are in dealing with RCI problems, supported by compensation that is felt to be quite satisfying. The experience of the supervisory body is not only related to its responsibility as an examiner or supervisor of RCI governance, but also related to experience in the field of customs and community habits in the village. The longer the supervisory body is involved in customary affairs, the more it understands the characteristics of the community in its area, making it easier to direct and assist the management to overcome problems faced by RCI independently.

V. CONCLUSION AND SUGGESTION

Based on the results of the analysis, the determination of compensation is not proven to affect the relationship between professional expertise and the independence of RCI supervisory bodies. Meanwhile, compensation is proven to strengthen the relationship between work experience and the independence of RCI supervisory bodies.

This research has various limitations, including the tendency for respondents to be dominated by traditional prajuru who are also members of the supervisory body. Future research could conduct a more in-depth study by differentiating between supervisory bodies with customary experience and supervisory experience, especially in RCI financial governance. Another issue for future research is the *ewuh-pakewuh culture* that tends to affect the independence of the supervisory body, especially by using a qualitative research approach.

The next suggestion that can be considered is the implementation of a compensation scheme for RCI supervisory bodies in accordance with Bali Province Regional Regulation Number 3 of 2017 concerning RCI, accompanied by implementation rules in Bali Province Governor Regulation Number 44 of 2017 reflecting standardization for each RCI. In a transparent and accountable manner, each RCI implements it according to its ability and proportionally with the RCI management and supervisory board. Professional expertise based on the background and capability of the board including the supervisory body is a prioritized requirement. However, the independence of the supervisory body will be better if it includes a member who is not indicated to have a special relationship, and it would also be better if it comes from outside the customary village area.

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