

# Application of Good Corporate Governance Principles in Lembaga Perkreditan Desa (Concept of Local Financial Institutions in Bali)

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**Abstract:** *The National Committee on Governance is called Komite Nasional Kebijakan Governance (KNKG) is that companies implement good governance practices, namely transparency, accountability, responsibility, independence, fairness. Lembaga Perkreditan Desa (LPD)'s management is rooted in the local wisdom and culture of the Balinese people, namely togetherness, kinship and mutual cooperation. With the separation of management and ownership, agency conflicts can occur. The purpose of this study is to determine the effect of Good Corporate Governance (GCG) principles on LPD performance in Denpasar City. The sample used was 35 LPD. The sample is determined by saturation sampling. The data analysis technique used is multiple linear regression. The results of hypothesis testing are known that transparency, accountability, independence and fairness do not affect the performance of the LPD while the responsibility has a positive effect on the performance of the LPD.*

**Keywords:** good corporate governance, LPD performance, local wisdom

## 1. Introduction

Good governance practices must be implemented by companies in accordance with general corporate governance guidelines by The National Committee on Governance. However, when examined, Good Corporate Governance is not only an obligation for companies based on rules, but also more to the needs of companies to help realize the company's goals. Based on the KNKG guidelines, the principles of Good Corporate Governance include transparency, accountability, responsibility, independence, fairness (KNKG Team, 2006; 5). One of the institutions that is very important in implementing the principles of Good Corporate Governance is a financial institution. This is because these financial institutions in their operations will collect funds from the community and then distribute the funds back to the community. Bali in particular, there are four financial institutions consisting of commercial banks, rural banks, cooperatives and LPD. Ramantha (2006) states that financial institutions which are currently quite attractive to the community as a source of funding are LPD in which the amount of funds collected and channeled by the LPD plays a huge role in the rural economy.

Lembaga Perkreditan Desa (LPD) is a financial institution owned by a Bali local community (with the proportion of ownership dominated by local *krama* / local community) and domiciled in each region and used for region manners. LPD management is rooted in the local wisdom and culture of the Balinese people, namely togetherness, kinship and mutual cooperation. The initial establishment of the LPD came from the Bali Regional Government, but this fact was essentially explored from the local wisdom of the community. That is, the idea of the LPD is actually rooted in the customs and culture of the Balinese people. Thus, the application of Good Corporate Governance in LPD has a very important role in building the trust of the *Pekraman* Village community in using its function as a financial institution.

The separation of management and ownership, agency conflicts can occur. LPD also uses funding from the Bank Pembangunan Daerah Bali (PT. Bank BPD Bali). Due to the possibility of agency conflict, of course the principle of Good Corporate Governance must be applied by the LPD so that between the LPD's manager (agent) with their society (principle) and between the LPD manager with the donor, namely the Bank Pembangunan Daerah Bali and maintaining good relations with the other stakeholders. Good Corporate Governance (GCG) functions to prevent information asymmetry so that the trust of village manners will increase towards LPD. The implementation of GCG will enable LPD managers to make good decisions and reduce decisions that only benefit one party. Good Corporate Governance (GCG) can also guarantee customers that the security of funds that have been invested in LPD will not be embezzled by LPD managers. Consistency in implementing Good Corporate Governance will strengthen LPD competitiveness, increase LPD value, manage resources more efficiently which will ultimately increase stakeholder confidence, so that LPD can operate sustainably. So that the implementation of GCG will improve the performance of LPD. Problems that arise and will be examined in this study is whether the application of Good Corporate Governance will have an influence on the performance of the LPD in Denpasar, Bali?

The agency conflict caused by the separation between the owner and the manager, both parties must be able to reduce the information asymmetry. By knowing all information correctly and openly in managing resources in LPD is one of the stakeholders' rights. This openness and ease of accessing information can increase stakeholders' trust so they are not afraid that their funds will be embezzled by LPD managers so as to make the company's performance better.

**H1:** *Transparency has a positive effect on LPD performance.*

One of the requirements to achieve sustainable LPD

performance is to account for operational performance fairly (accountability). LPD management is reasonable and can be measured and still takes into account the interests of managers and stakeholders will be able to improve the performance of LPD. With the increase in internal control in LPD, it will reduce fraud (Munidewi, 2019).

**H2:** *Accountability has a positive effect on LPD performance.*

Public trust in the LPD can also be improved by always obeying the laws and regulations and policies that apply in the LPD. The attitude of the company in managing its business based on applicable laws and regulations can improve performance and maintain business in the long run.

**H3:** *Responsibility has a positive effect on LPD performance.*

Decisions taken by LPD managers must be independent is not prioritizing the interests of one group or harming other groups, in this case the manager's decision is not bound by any party without exception. Objectivity in decision making can improve LPD performance because managers are free from the interests of those who harm the company.

**H4:** *Independence has a positive effect on LPD performance.*

Fairness can also be interpreted as corporate justice in meeting the interests of stakeholders based on applicable laws. Paying attention to the interests of stakeholders based on the principle of fairness and equality is a priority in order to improve company performance towards a better direction.

**H5:** Fairness has a positive effect on LPD performance.

## 2. Research Methods

This research is located in all Lembaga Perkreditan Desa (LPD) in Denpasar, Bali with the object of research is the application of the principles of Good Corporate Governance (GCG) and LPD performance. The variable implementation of the principles of Good Corporate Governance is measured through the application of transparency, accountability, responsibility, independence and fairness using the Effendi (2009) indicator. While the LPD performance variable is measured by the non-financial balance scorecard performance including internal business process perspective, customer perspective, and learning and growth perspective. Data collection was carried out through questionnaires, and data related to the list of LPD names was obtained through the Supervisor of LPD is called Pembina Lembaga Perkreditan Desa Kabupaten (PLPDK)

The population in this study were 35 LPD chairmen or LPD managers. By using the saturation sampling technique, a sample of 35 people is obtained, which is all members of the population.

**Table 1:** List of names of Denpasar's LPD

No	List of South Denpasar's LPD	No	List of East Denpasar's LPD
1	LPD Kapaon	1	LPD Sumerta
2	LPD Pemogan	2	LPD Kesiman
3	LPD Sesetan	3	LPD Yang Batu

4	LPD Panjer	4	LPD Pagan
5	LPD Sidakarya	5	LPD Tanjung Bungkak
6	LPD Intaran	6	LPD Tembau
7	LPD Sanur	7	LPD Penatih Puri
8	LPD Renon	8	LPD Penatih
9	LPD Serangan	9	LPD Laplap
10	LPD Penyaringan	10	LPD Angabaya
11	LPD Pedungan	11	LPD Bekul
		12	LPD Pohmanis
No	List of North Denpasar's LPD	No	List of West Denpasar's LPD
1	LPD Tonja	1	LPD Denpasar
2	LPD OOnagan	2	LPD Padang Sambian
3	LPD Ubung		
4	LPD Poh Gading		
5	LPD Peguyangan		
6	LPD Peraupan		
7	LPD Peninjoan		
8	LPD Kedua		
9	LPD Jenah		
10	LPD Cengkiluk		

Source: LPLPD Kota Denpasar (2019)

**Table 2:** LPD Proportion In Each Region

Region	Total	Proportion
East Denpasar	12	34,29%
South Denpasar	11	31,43%
West Denpasar	2	5,71%
North Denpasar	10	28,57%
<b>Total</b>	<b>35</b>	<b>100%</b>

The initial stage is to test the research instrument, namely the validity test to determine the validity of the measuring instrument used and the reliability test to determine the reliability of the measuring instrument used. Sugiyono (2009: 178) states that an instrument is declared valid if the Pearson correlations value is above 0.30 and an instrument is declared reliable if the Cronbach's alpha value is above 0.70 (Ghozali, 2016).

This study uses multiple linear regression analysis techniques to determine the effect of the implementation of Good Corporate Governance on LPD performance. Before the regression model is used, a classic assumption test must be performed, namely the normality test, the autocorrelation test and the heteroscedasticity test in advance so that the results of the analysis are more accurate and free from the symptoms of classical assumptions. Utama (2012: 99) states the regression model is said to be normally distributed if Sig (2-tailed) is greater than the significant 0.05 used in this study. The autocorrelation-free regression model can be seen in the Durbin-Watson (DW) value. The regression model was stated to not contain symptoms of heteroscedasticity if the absolute residual value was greater than 0.05.

## 3. Results and Discussion

This study distributed 35 questionnaires and the questionnaires returned and could be analyzed were a total of 35 questionnaires. The test results of the research instrument are presented in table 3 and table 4.

**Table 3:** Validity Testing

Variable	Instrument	Pearson correlation
Transparency	X1.1	0,834
	X1.2	0,717
	X1.3	0,728
	X1.4	0,735
Accountability	X2.1	0,590
	X2.2	0,532
	X2.3	0,678
	X2.4	0,859
	X2.5	0,735
Responsibility	X3.1	0,665
	X3.2	0,669
	X3.3	0,859
	X3.4	0,941
	X3.5	0,941
Independence	X4.1	0,625
	X4.2	0,783
	X4.3	0,790
	X4.4	0,741
Fairness	X5.1	0,779
	X5.2	0,765
	X5.3	0,761
	X5.4	0,700
LPD Performance	Y1.1	0,601
	Y1.2	0,791
	Y1.3	0,490
	Y1.4	0,634
	Y1.5	0,703
	Y1.6	0,769
	Y1.7	0,804
	Y1.8	0,691
	Y1.9	0,761
	Y1.10	0,593
	Y1.11	0,633
	Y1.12	0,627

Based on Table 3, the results obtained indicate that the Pearson correlations value of the Good Corporate Governance variable is 0.532 - 0.941 (> 0.30) which means that the measuring instruments in this research are valid.

**Table 4:** Reliability Testing

Variable	Cronbachs Alpha
Transparency	0,748
Accountability	0,709
Responsibility	0,833
Independence	0,701
Fairness	0,735
LPD Performance	0,869

Based on Table 4, the results obtained indicate that the measuring instrument used is reliable when used as a measuring instrument again. Cronbach's Alpha value of the Good Corporate Governance variable is above 0.70.

**Table 5:** Classical Assumption Testing

Variable	Normality test	Classical Assumption Testing		
		Multicollinearity Test		Heteroscedasticity Test
		Tolerance	VIF	Sig
Transparency	0,504	0,352	2,840	0,600
Accountability		0,337	2,965	0,090
Responsibility		0,275	3,637	0,738
Independence		0,551	1,813	0,634
Fairness		0,522	1,916	0,291

Based on Table 5, it can be seen that the results of normality testing show the value of sig. 2 tailed 0.504 > 0.05 this means that the regression model in this study is normally distributed. The multicollinearity test results showed that none of the independent variables had a tolerance value < 0.10 and a VIF value > 10 so that there was no multicollinearity. Heteroscedasticity test results showed a significance value greater than 0.05, this means that the regression model is free from heteroscedasticity symptoms.

**3.1 Characteristics of Respondents**

Characteristics of respondents can be seen from gender, education level and age are as follows:

**Table 6:** Characteristics of Respondents by Gender

No	Gender	Total	Percentage
1	Male	29	82,86%
2	Female	6	17,14%
Total		35	100%

Based on the data above, it can be seen that the majority (82.86%) of respondents are male.

**Table 7:** Characteristics of Respondents Based on Level of Education

No	Level of education	Total	Percentage
1	High school	5	14,29%
2	Diploma	9	25,71%
3	Bachelor	17	48,57%
4	Postgraduate	4	11,43%
Total		35	100%

Based on the data above, it can be seen that the majority (48.57%) of respondents have an education level of S1.

**Table 8:** Characteristics of respondents based on age

No	Age (Years)	Total	Percentage
1	23-30	2	5,71%
2	31-38	7	20,00%
3	39-46	14	40,00%
4	> 46	12	34,29%
		35	100%

Based on the data above, it can be seen that the majority (40.00%) of respondents have an age range of 39-46 years.

**Table 9:** Descriptive statistics

	N	Min	Max	Mean	SD
Transparency	35	9,00	16,00	12,71	2,023
Accountability	35	10,00	20,00	16,49	2,964
Responsibility	35	17,00	20,00	19,11	0,867
Independence	35	6,00	16,00	11,89	2,336
Fairness	35	8,00	16,00	13,14	2,475
LPD Performance	35	45,00	60,00	51,43	4,852

**Table 10:** Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		t	Sig
	B			
Constant	2,066		0,434	0,668
Transparency	0,256		0,532	0,599
Accountability	0,189		0,524	0,604
Responsibility	1,513		3,158	0,004

Independence	0,521	1,422	0,166
Fairness	0,606	1,713	0,097
Adj R <sup>2</sup>	0,759		
Sig F	0,000		

The significance of F of 0,000 means that the fit model and adjusted R<sup>2</sup> value of 0.759 means that the principle of Good Corporate Governance is able to influence the performance of LPD by 75.9%. From table 10 can be made multiple regression equations:

$$LPD = 2,066 + 0,256 \text{ Trans} + 0,189 \text{ Ak} + 1,513 \text{ Res} + 0,521 \text{ Ind} + 0,606 \text{ Kew}$$

### 1) Influence of Transparency on LPD Performance

Transparency variable has no effect on LPD performance evidenced by a significance value of 0.599, so that the first hypothesis was not successfully accepted. Transparency in LPD tends to be more towards the internal LPD and is useful for LPD supervisors to assess the condition of the LPD so that the customer does not pay too much attention to transparency in investing their funds.

### 2) Effect of Accountability on LPD Performance

The accountability variable does not affect the performance of LPD as evidenced by the significance value of 0.604, so the second hypothesis is not accepted. Customers do not pay too much attention to aspects of the internal control system contained in the LPD in detail, they might invest in LPDs that have no problems that have surfaced.

### 3) Effect of Responsibility on LPD Performance

Responsibility variable has a positive effect on LPD performance evidenced by a significance value of 0.004 and a coefficient of 1.513, so the third hypothesis is accepted. Public trust in the LPD can also be improved by always obeying the laws and regulations and policies that apply in the LPD. The attitude of the company in managing its business based on applicable laws and regulations can improve performance and maintain business in the long run.

### 4) Effect of Independence on LPD Performance

The independence variable does not affect the LPD's performance as evidenced by the significance value of 0.166, so that the fourth hypothesis cannot be accepted. Although in operation the decisions taken are influenced by LPD supervisors / management but this is done to provide good direction for the interests of the LPD, not to fulfill the personal goals of the management / supervisor.

### 5) Effect of Fairness on LPD Performance

The reasonableness variable has no effect on LPD performance is evidenced by the significance value of 0.097, so the fifth hypothesis was not successfully accepted. Although many LPD employees are recruited themselves by managers who come from families and with salaries that are not the same as the salaries of other employees who are not family administrators, but with performance monitoring seen from the many evaluation meetings, this will still maintain LPD performance.

## 4. Conclusions and Recommendations

Based on multiple linear regression analysis, it can be concluded that transparency, accountability, independence and reasonableness do not affect LPD performance while responsibility has a positive effect on LPD performance. LPDs in Denpasar are expected to apply the principles of Good Corporate Governance, especially responsibility, so that performance is better. LPDs should also train employees regarding the components of Good Corporate Governance that are the basis of control in LPD. The next researcher is expected to be able to identify other factors that can contribute to LPD performance, and this research can be used as a reference related to LPD performance.

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