

Implementation of Good Corporate Governance and Regulation of the Performance of Micro Financial Institutions in Village

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Abstract--- This study aims to examine the effect of implementing Good Corporate Governance and regulation on the performance of rural credit institutions. This study used a survey method with a questionnaire, the number of samples used was 63 institutions in Buleleng Regency. Data analysis uses multiple linear regression. The results showed that the implementation of Good Corporate Governance and regulations affected the performance of rural credit institutions as a microfinance institution in the village. The importance of implementing Good Corporate Governance as a manifestation of improving the management of microfinance institutions in villages. Whereas regulation aims to provide legal protection, protect fraud, and irregularities by the management of the institution as well as customers or other parties.

Keywords--- Good Corporate Governance, Rural Credit Institutions, Microfinance Institutions, Accountability, Transparency.

I. Introduction

The Provincial Government of Bali issued a Governor Decree concerning the Establishment of Village Credit Institutions in the Province of Bali. The Governor's decision was later strengthened by regional regulations on Village Credit Institutions (LPD) as microfinance institutions in the village (Saputra, Trisnadewi, Anggiriawan, & Kawisana, 2019). In this regional regulation, it is underlined that LPD is a Savings and Loan Business Entity owned by Pakraman village. The purpose of establishing an LPD is to encourage the economic development of rural communities through savings and equity participation, eradicate bondage and illicit mortgages, create equity and business opportunities for villagers and increase purchasing power and expedite payments and circulation of money in the village (Atmadja & Saputra, 2018). To achieve this goal, the LPD carries out various businesses, such as accepting deposits from community members, providing loans for productive activities, other businesses that are mobilizing village funds, capital participation, and receiving loans from financial institutions (Saputra et al., 2019).

Although in general, LPDs can be said to be so amazingly successful that various parties praise them, but it cannot be denied that some LPDs are in problematic conditions, even experiencing bankruptcy (Saputra et al., 2019). From the data raised in the coordination meeting that discussed LPDs, there were 173 LPDs out of a total of 1,405 (around 12%) LPDs in Bali that went bankrupt. Related to these problems, it is necessary to apply the principles of good corporate governance (Afiah & Azwari, 2015) and the imposition of strict sanctions that refer to regulations in the village called awig-awig (Adiputra, Atmadja, & Saputra, 2014). The goal is that the LPD is more trusted as a custom-based microfinance institution and has a strong internal control system that is demonstrated by the application of GCG principles, and is subject to rules or awig-awig that form the legal basis of the LPD (Denisova-Schmidt & Prytula, 2018) to regain public trust (Saputra, Sara, Jayawarsa, & Pratama, 2019).

In implementing GCG to achieve good performance, the concept of local wisdom is needed, especially in Bali, which is thick with *Menyama Braya* culture (Atmadja & Saputra, 2018a). Bali Governor Made Mangku Pastika in Metrobali.com on November 13, 2014, stated in his address at the Asia Pacific consultant forum that to be able to implement good governance (Good Corporate Governance) then the concept of equalizing in social life is needed (Budiasih, 2014) because it is the basis for the establishment of peace in the world (Saputra et al., 2019). Besides,

social conflict in Balinese society caused by differences in social status, economy, profession, education, behavior (Goddess, 2019) as well as the ability to understand regulations (awig-awig) which are not the same can be minimized by the existence of the same understanding of a concept of wisdom local like *Menyama Braya* who assume all communities are brothers (Gaughan & Javalgi, 2018). That is the basis of the culture of matching braya as a moderating variable in this study because it is considered capable of supporting the implementation of GCG and the application of awig-awig in improving performance.

The importance of implementing good corporate governance and regulations on the performance of microfinance institutions in the village, as a foundation and protection for rural communities towards business entity institutions as a public fund savings institution. So that there is no fraud and embezzlement of funds so that village development can be equitable. The interest of researchers to conduct research is due to various problems with the rural enterprise sector.

II. Literature Review

Relationship of GCG to the Performance of Village Credit Institutions

The National Committee for Good Corporate Governance in Indonesia defines good corporate governance as a pattern of relationships, systems, and processes used by corporate organs (directors, commissioners) to provide added value to shareholders on a long-term basis, based on laws and regulations and prevailing norms, with due regard to the interests of other stakeholders (Indriyani, Putri, Suardikha, & Wirajaya, 2018). There are five principles of good corporate governance: Transparency, Accountability, Responsibility, Fairness, Independence.

The lending policy as an oversight mechanism for agency problems in the LPD to increase the value of the company/institution will have stronger results when companies implement good corporate governance. This is reflected in the decision making on lending or the distribution of credit interest and other policies, and the manager will try to align with the principal goal of the prosperity of shareholders and the value of the company/institution (Saputra et al., 2019).

The opportunistic behavior of agents can be minimized by good corporate governance. By reducing opportunities for LPD managers/managers to deviate and enrich themselves, it is hoped that the value of the company/institution will increase (Engelland, 2014), which is marked by an increase in assets from the LPD and an increase in the value of savings from the community (Fung & Au, 2014).

Good corporate governance provides a structure that facilitates the determination of the vision and mission of the LPD and is a means for selecting performance monitoring techniques (Lee & Cheng, 2018). Good corporate governance also guarantees the benefits and security of funds invested in LPDs that will not be embezzled by LPD managers (Saputra et al., 2019).

Good corporate governance is an important factor in determining company value and influencing company performance as in the LPD (Saputra et al., 2019). The implementation of good corporate governance has a positive and significant impact on LPD's financial performance. Microfinance institutions that have implemented good corporate governance well and sustainably will be able to improve company performance (Atmadja & Saputra, 2018b). From the previous research statement above, then the hypothesis can be formulated as follows:

H1: Implementation of Good Corporate Governance affects the performance of Village Credit Institutions

The Relationship of Regulation to the Performance of Village Credit Institutions

Society in Bali as a social society, in its civilization, also has a norm concept that regulates its life in its civilization since the time of the introduction of a culture that is well known for the concept of cosmology Tri Hita Karana (Atmadja, Saputra, & Manurung, 2019) and is a philosophy of life that has survived to the present even though is in the concepts of social change that is always dynamic as one of the characteristics or character of civilization (Kamayanti, 2015). Cultivating Tri Hita Karana will dispel views that encourage consumerism, dissension, and turmoil (Artana, 2016). The Tri Hita Karana concept, by the Balinese people, was formulated and implemented in the form of awig-awig (Saputra, Anggiriawan, & Sutapa, 2018).

Awig-awig traditional villages are all laws that regulate the procedures of life for indigenous villagers, along with sanctions and implementing rules (Wijayanti & Hanafi, 2018). This conception is then poured into written and unwritten rules that give rise to an understanding, that awig-awig are rules of living together for manners of the village in their traditional villages, to create a safe, peaceful, orderly, and prosperous life in a traditional village

(Dewi, Saputra, & Prayudi, 2017). Awig-awig contains basic rules regarding customary territories, customary village manners, religion, and sanctions. The awig-awig traditional village is a customary law that has the function:

- 1) To regulate and control the behavior of citizens in their relationships in order to achieve public order and order.
- 2) Functioning to integrate community members in unity and unity that lives together and in arms

The application of traditional village Awig-awig to village manners (villagers) in terms of imposing sanctions against violations, based on the principles of justice and kinship both criminal and non-criminal, is resolved through traditional institutions (Village Peace Judges) through village sangkepan (meetings) villages (Atmadja et al., 2019) by always making peace efforts to reflect a sense of justice. There will be sanctions in the form of fines, be they physical or labor fines and property fines in the form of payment of money.

The application of violations committed by the village manners is carried out through a sangkep or village meeting (Atmadja & Saputra, 2018a), where all village communities and village officers (village officers) are present to hold a meeting to determine the sanctions that will be imposed on village krama that violate the village manners awig-awig of the village (Saputra, Pradnyanitasari, Priliandani, & Putra, 2019). Things like that are good enough as a first step to improve performance in an institution (Nabiha, 2009), which is shaded by awig-awig, namely the Village Credit Institution. So from the previous research above, the second hypothesis can be formulated, namely:

H2: Regulation influences the performance of Village Credit Institutions

Methodology

The research design used in this study is a survey method. Survey research design is a research design to conduct careful and thorough testing of an object (Sunani, Subroto, & Prihatiningtias, 2015) research based on a particular situation or condition by looking at its suitability with certain statements or values that are followed and observed and meticulous (Iqbal & Sholihin, 2019; Jayawarsa, 2019; Velte, 2019). The population in this study were LPD managers in each village in Buleleng Regency, which numbered 169 Village Credit Institutions. Data collection methods use questionnaires to answer questions and minimize bias responses (Atmadja & Saputra, 2018; Groen, Wouters, & Wilderom, 2017; Saputra et al., 2019; Lau & Moser, 2008; Sara et al., 2019). The total number of questionnaires sent and returned by respondents was 50 questionnaires. The study uses multiple linear regression to determine the relationship between research variables.

III. Results and Discussion

The profile of respondents in this study was grouped according to age, education, and years of service. Characteristics of respondents by age showed at the age of 30-39 years as much as 23%, respondents were at the age of 40-49 years as much as 40.75%, and at the age of 50-59 years as much as 36.25%. Most respondents have a high school education background of 62.30%, S1 (37.70%). Based on the length of service of respondents, 80.15% of respondents had 1-10 years of service, and 19.85% had > 10 years of service. The results of testing the validity and reliability of the instrument indicate that the instrument used in this study is valid and reliable, as indicated by the value of the item-total correlation coefficient of variables greater than 0.3 and the significance of less than 0.05. The reliability test results showed that the Cronbach alpha value for all variables used in this study was more significant than 0.70.

Table 1: Descriptive Statistic

	N	Mean	Std. Deviation
GCG	50	89.9600	5.53269
AW	50	17.3800	2.06911
Perf	50	81.0000	5.14286
Valid N (listwise)	50		

Description: GCG: Good Corporate Governance; AW=Regulation, Perf = Performance

The results of descriptive analysis (Table 1), of the variable good corporate governance, has a maximum value of 99 and a minimum value of 77 with an average value indicating a score of 89, thus most of the respondents' answers require good corporate governance to be implemented as indicated by high value. This states the importance of implementing good corporate governance in rural credit institutions as a form of transparency in financial management. Regulatory variables have a maximum value of 20 and a minimum value of 12 with an average value of 17. This shows that the regulation was responded positively by respondents. The performance variable has a

minimum value of 67 and a maximum value of 89 with an average of 81 that the performance of respondents in this study is included in the high category, because of the 18 questions, the average total response of respondents was 81, so most of the respondents' answers were strongly agreed. This states that the regulation on the performance of village credit institutions is very influential due to avoiding irregularities and other impacts.

Table 2: Multiple Linear Regression

Model	Unstandardized Coefficients		standardized Coefficients	t	Sig	Collinearity Statistic	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.044	4.618		-.170	.992		
GCG	.905	.033	.973	27.215	.000	.919	1.088
AW	.341	.088	.426	2.007	.014	.948	1.055

Statistical test results (Table 2) on hypothesis 1 states that the hypothesis is accepted which gets the result that GCG influences LPD performance, this means that the implementation of GCG concepts in LPD in Bali is necessary to improve organizational performance (Allam, 2019; Aminudin, 2019; Atmadja et al., 2019; Devaney, 2016; Mollick, Rahman, Khan, & Sadath, 2018; Wang, 2006), which has been questioned by various parties in the community where the LPD stands. LPD, as a research sample, requires GCG implementation to improve its performance (Dewi et al., 2017; Vel & Bedner, 2015; Yen & Zampelli, 2014). While the results of hypothesis 2 testing are accepted, which results in regulatory variables influencing LPD performance. This shows that the rules that have been used by the LPD as a guide namely awig-awig have been quite firm in protecting the LPD (Saputra, & Jayawarsa, 2019; Adiputra, Atmadja, & Saputra, 2014; Atmadja & Saputra, 2018; Saputra et al., 2019), although there are still some cheating that happened but apparently, it can be overcome by various rules contained in awig-awig pakraman village (Atmadja & Saputra, 2018a, 2018b; Atmadja et al., 2019; Saputra et al., 2019). This is also because all this time, the Balinese are subject to awig-awig of their respective pakraman villages.

IV. Conclusion

Based on the results of tests that have been done, then the entire hypothesis formulated in this study was successfully accepted. Good Corporate Governance influences the performance of Village Credit Institutions. This is because respondents are in a condition that is in dire need of renewal and improvement of governance in the Village Credit Institutions they lead. Regulation influences the performance of Village Credit Institutions. Village Credit Institution Managers as respondents have agreed to return to legal protection listed in pakraman village awig-awig because the Village Credit Institutions and their clients are now haunted by various modes of fraud both from internal and external institutions so that strict and binding regulation is needed in achieving good performance at the Village Credit Institution. The results of cultural moderation *Menyama Braya* the influence of Good Corporate Governance and regulations on the performance of the Village Credit Institutions, giving positive, positive results. The community and managers believe values in the culture of *Menyama Braya* of Village Credit Institutions as the main guideline in their life principles both as individuals or in organizations that always view themselves and their environment as a system that is controlled by the values of togetherness, tolerance, family, and the application of values moral values that are manifested in the form of behavior. This is evident from the culture of *Menyama Braya* that can provide support for Good Corporate Governance and regulations that can improve the performance of the Village Credit Institutions in Buleleng Regency.

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