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Principles of Good Corporate Governance on LPD Performance in Klungkung Regency

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ABSTRACT

This study explains and describes the influence of relationship between Good Corporate Governance (GCG) and the performance of a financial institution in Bali Province, the Village Credit Institution (LPD). This study used random sampling techniques in determining the sample and obtained 162 respondents. The data source was obtained primarily through a questionnaire given to respondents from the LPD representing Klungkung Regency. The results showed that accountability in the principles of GCG had no effect on LPD performance in Klungkung Regency while transparency, responsibility, independence and fairness have a positive effect on LPD performance in Klungkung Regency.

Keywords: Banking, Financial Performance, Good Corporate Governance, LPD

INTRODUCTION

One of the financial institutions that plays a big role in regional economic development is banking. Apart from banking, in Bali Province there are microfinance institutions, namely LPD which is located in each village. The LPD also plays a role in regional economic development. LPD in Bali is a customary village-owned institution that functions as a forum for the wealth of traditional villages that carries out the function of economic empowerment for rural communities in Bali. The management principles used by LPD are simpler and are adjusted to the environmental conditions in which they built. LPD carries out an intermediary function or financial intermediary by receiving savings and channeling credit primarily from funds to the community, particularly in the traditional village where LPD is established. Basically, LPD work practices are not much different from other financial institutions, both formal and informal. In addition, according to Suartana (2009, p. 12) the function and purpose of the LPD is to provide business opportunities for local villagers, to accommodate rural workers, and to expedite payment traffic, as well as to eliminate the existence of moneylenders, Thus LPD is expected to be able to eradicate poverty.

LPD in Bali Province is an institution belonging to a customary village that functions as a container for the wealth of traditional villages that carries out the function of empowering the economy of rural communities in Bali. The purpose of establishing the LPD in Bali is to help people Bali Province to develop their economic activities (Gunawan, 2011). LPD is a financial institution belonging to the Pakraman village that has developed, providing social, economic and cultural benefits to its members. Thus, it needs to be fostered, improved the performance, strengthened and preserved the

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existence (Suartana, 2009, p. 12).

The importance of having an LPD in a customary village requires LPD to be able to maintain its performance the LPD can consider the factors which can affect their performance. One of the phenomena related to LPD occurred in Klungkung Regency have 119 LPDs and as many as 6 LPD are inactive, but the Governor's Decree on the LPD has not been revoked so it is still registered with the Klungkung Village Credit Institution Empowerment Institution (LPLPD). One of the LPDs in Klungkung Regency, precisely in Banjarangkan Subdistrict, the LPD at Pakraman Tusan Village is an LPD that was established in 1985 and is an institution engaged in savings and loans from the community and also as a wall to support the economy of Tusan village in better level. Along with the running of the LPD Desa Pakraman Tusan, it experienced management failure until bankruptcy occurred. The LPD of Pakraman Tusan village has not operated for 4 years. After 4 years of absence, local people began to feel lose, because initially, LPD helped traditional ceremonies and development of Pakraman Tusan village, this is where local people want tore-establish the LPD. As stipulated in Awig-Awig, the re-establishment of LPD of Pakraman Tusan village was approved and in 2016 LPD was re-established with the efforts from village management and management people.

Phenomenon above shows that LPDs are managed separately from villagers so allowing agency conflicts to occur. According to Shil (2008), agency conflict arises when people in different positions sacrifice company-wide goals to realize personal interests. In minimizing the emergence of agency conflicts, it is necessary good corporate governance which is expected to be able to reduce the gap between agents and principals. According to Sutedi in Fitriyah, Makaryanawati, and Fauzan (2020), the context of corporate governance is a process and structure used by corporate organs (shareholders, commissioners / supervisory boards and directors) to increase the success and accountability of the company. Good corporate governance functions to foster customer confidence in mistakes in decision making and actions that benefit themselves so that it will automatically increase the value of the LPD (Handayani, Suryandari, & Putra, 2020). According to the general guidelines for good corporate governance in Indonesia (2006), the principles of good corporate governance have five components, namely transparency, accountability, responsibility, independence and fairness.

Transparency is providing information openly and honestly to stakeholders based on the consideration that stakeholders have the right to know openly and thoroughly the responsibility of the company in managing the resources entrusted to them. The research conducted by Sari (2017) stated that there was a positive influence among transparency on the performance of the Village Credit Institution (LPD) in Badung Regency. Research conducted by Sandraningsih and putri (2015) also found that transparency has a positive effect on the financial performance of the Village Credit Institution (LPD) in Abiansemal sub-district, while research conducted by Dewi (2014) states that transparency has a positive effect on the performance of Village Credit Institutions (LPD) in Mengwi District, Regency Badung. Based on the description above, the hypothesis is:
H1: Transparency has a positive effect on LPD performance in Klungkung Regency

The next component is accountability, which is the clarity of company's functions, structures, systems and accountability. One of the prerequisites for achieving

sustainable performance is must be responsible for its performance correctly, measurably, and still paying attention to the interest of managers and stakeholders. This will be an added value to improve company performance. Previous research conducted by Dewi (2014), Bulandari and Damayanthi (2014), Pradnyaswari and Putri (2016), Sandraningsih and putri (2015) stated that accountability has a positive effect on the financial performance of Village Credit Institutions (LPD). Based on the description above, the hypothesis developed in this study as follows:
H2: Accountability has a positive effect on LPD performance in Klungkung Regency

In addition to accountability, there is also responsibility, which is the attitude of a company in managing the business based on the prevailing laws and regulations to improve performance, The company must understand and comply with the regulations and carry out responsibilities to stakeholders so it can maintain long-term business sustainability. Previous research conducted by Setyawan and Putri (2013), Pradnyaswari and Putri (2016), Suryani (2018) stated that responsibility has a positive effect on the performance of the Village Credit Institution (LPD). Based on the description above, the hypothesis developed in this study is:
H3: Responsibility has a positive effect on LPD performance in Klungkung Regency

Furthermore, independence is a condition in which a company is managed professionally without conflict of interest and influence or pressure from parties or that is not in accordance with applicable laws and regulations and sound corporate principles. According to research conducted by Dewi (2014), Bulandari and Damayanthi (2014) stated that independence has a positive effect on the financial performance of the Village Credit Institution (LPD). Based on the description above, the hypothesis developed in this study is:
H4: Independence has a positive effect on LPD performance in Klungkung Regency

The last principle is fairness, the company always pays attention to the interests of stakeholders based on the principle of equal treatment (equal treatment) and the principle of fair benefits. Fairness can be interpreted as fairness and equality of the company in meeting the interests of stakeholders arising from agreements and laws in force. Based on the description above, the hypotheses developed in this study is:
H5: Fairness has a positive effect on LPD performance in Klungkung Regency

RESEARCH METHOD

This research was conducted at the Village Credit Institution (LPD) in Klungkung Regency with independent variables (free) consisting of transparency (TR), accountability (AK), responsibility (RP), independence (IN), fairness (KW) and dependent (bound) variables, the performance of the LPD (KL). The population in this study were all Village Credit Institutions (LPD) in Klungkung district, with total of 119 Village Credit Institutions (LPD). The sampling technique in this study used a probability sampling technique, namely proportionate stratified random sampling by using the Slovin formula into 54 samples and 162 respondents in each LPD. The research model in this study is as follows:

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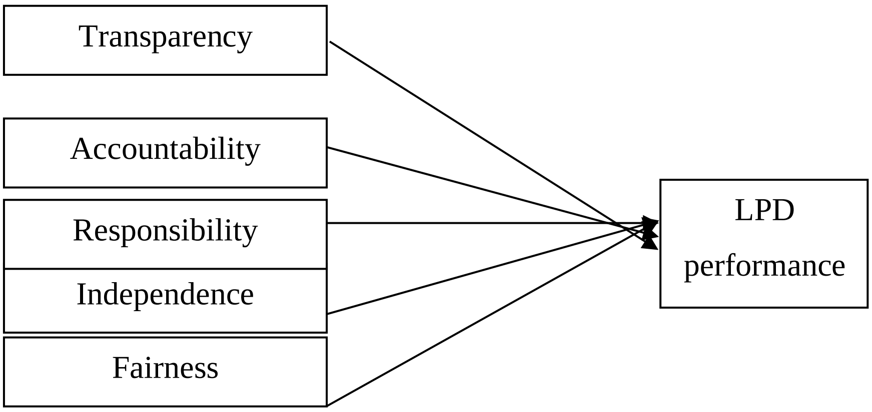

Respondents in the study were 1 head of the LPD, 1 employee who served in the bookkeeping department, and 1 supervisory board. Sources of data used in this study are primary data and secondary data. The data collection technique used in this study was a questionnaire. The data analysis technique used is multiple linear regression analysis techniques. The multiple linear equations in this study are as follows:

$$PLPD = \alpha + \beta 1TR + \beta 2AC + \beta 3RS + \beta 4IP + \beta 5FS\ e \ldots\ldots\ldots\ldots (1)$$

Where:

PLPD	= LPD performance
α	= Constant
TR	= Transparency
AC	= Accountability
RS	= Responsibility
IP	= Independence
FS	= Fairness
$\beta 1\ \beta 2\ \beta 3$	= Regression Coefficient e = Error

RESULTS AND DISCUSSION

Respondents used in this study were the head of the Village Credit Institution (LPD), LPD staff associated with bookkeeping, and supervisory boards in each Village Credit Institution (LPD) scattered in Klungkung Regency. Each Village Credit Institution (LPD) was given 3 questionnaires, which were sent directly to each LPD. The number of questionnaires distributed was 162 questionnaires. The number of returned questionnaires was 162 questionnaires, the gender of the respondents was dominated by men as many as 112 respondents, then women as many as 50 respondents. The most recent education taken by respondents was dominated by high school graduates, as many as 112 respondents, and diploma graduates by 10 respondents, then undergraduate graduates were 37 respondents and postgraduate graduates were 3 respondents. The age of the respondents was predominantly over 30 years old as many as 139 respondents and under the same 30 years as many as 23 respondents.

Validity testing is conducted by Pearson correlation. An instrument is valid if the r Pearson correlation with the total score is above 0.30. As for the reliability test by

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Cronbach Alpha value, it is reliable if the Cronbach Alpha value is greater than 0.7. The results of the validity and reliability tests in this study are presented in Table 1 below:

Table 1. Results of Validity and Reliability Test

Variable	Indicators	r count	r table	Cronbach's Alpha	Information
Transparency (TR)	TR.1	0.678	0.00	0.758	Valid and Reliable
	TR.2	0.783	0.00		
	TR.3	0.623	0.00		
	TR. 4	0.711	0.00		
	TR.5	0.781	0.00		
Accountability (AC)	AC. 1	0.739	0.00	0.808	Valid and Reliable
	AC. 2	0.753	0.00		
	AC. 3	0.722	0.00		
	AC. 4	0.798	0.00		
nsibility (RS)	RS. 1	0.796	0.00	0.712	Valid and Reliable
	RS. 2	0.754	0.00		
	RS. 3	0.772	0.00		

Independence (IP)	IP.1	0.797	0.00	0.707	Valid and Reliable
	IP. 2	0.691	0.00		
	IP. 3	0.766	0.00		
	IP. 4	0.483	0.00		
	IP. 5	0.587	0.00		
Fairness (FS)	FS.1	0.791	0.00	0.761	Valid and Reliable
	FS.2	0.826	0.00		
	FS.3	0.790	0.00		
LPD Performance (PLPD)	PLPD. 1	0.676	0.00	0848	Valid and Reliable
	PLPD. 2	0.773	0.00		
	PLPD. 3	0.444	0.00		
	PLPD. 4	0.588	0.00		
	PLPD. 5	0.568	0.00		
	PLPD. 6	0.604	0.00		
	PLPD. 7	0.669	0.00		
	PLPD. 8	0.614	0.00		
	PLPD. 9	0.671	0.00		
	PLPD. 10	0.567	0.00		
	PLPD. 11	0.623	0.00		

Source: Processed Data, 2020

It can be seen that the results of the validity test of each statement item contained in the questionnaire obtained the calculation results of each variable, namely the correlation value of the factor score with the total score (Pearson Correlation) is positive and the amount is above 0.3, it can be concluded that the instrument in this study has a good construction validity and is declared valid. For the reliability test results, the Cronbach'sAlpha value is greater than 0.7. Thus it can be concluded that all statements in the questionnaire are reliable for use in this study.

Classical Assumption Test Results

The normality test conducted in this study used the One-Sample Kolmogorov Smirnov Test by looking for the p-value. The Kolmogorov Smirnov (KS) value is 1.243 and the Asymp Sig (2-tailed) value is 0.091, which means that the regression equation model is normally distributed since the Asymp Sig (2-tailed) value is greater than the alpha value of 0.05 (0.091> 0, 05).

The presence of multicollinearity can be detected with Pearson Correlation as seen from the magnitude of the Tolerance Value and Variance Inflation Factor (VIF). The variable of transparency has a value tolerance of 0.645> 0.1 and a VIF of 1.550 <10, the variable of accountability has a value tolerance of 0.574> 0.1 and a VIF of 1.743 <10. Variable responsibility has a tolerance value of 0.435> 0.1 and VIF of 2.299 <10. The independence of the variable has a tolerance value of 0.554> 0.1 and VIF of 1.804 <10 and the variable fairness has a tolerance value of 0.609> 0.1 and VIF of 1.643 <10..Thus, there is no multicollinearity.

The presence of heteroscedasticity can be detected by Glejser test. If the significance value is greater than α = 0.05, then there is no symptoms of heteroscedasticity. The significance value of the variable transparency is 0.110, the accountability variable is 0.365, and the significance value of responsibility is 0.287, the independence significance is 0.087 and the fairness is 0.844. These values are greater than 0.05, which means that there is no influences of the independent variables on absolute residuals so that the model shows no symptoms of heteroscedasticity.

Results of Multiple Linear Regression Analysis
Linear regression analysis will be used if the number of independent variables is two for minimum (Sugiyono, 2019, p. 275). Based on the results of data processing, the results of multiple linear regression analysis are illustrated in Table 2 below.

Table 2. Multiple Linear Regression Analysis Results

Variable	Coefficient	t-statistic	Significance	Conclusion
Constant	11,936	4,424	0.000	
Transparency (TR)	0.385	3,227	0.002	H1 is accepted
Accountability (AC)	-0.011	-0.067	0.946	H2 is rejected
Responsibility (RS)	0.725	2,797	0.006	H3 is accepted
Independence (IP)	0.302	2,359	0.020	H4 is accepted
Fairness (FS)	0894	4,733	0.000	H5 is accepted

Source: Processed Data, 2020

Based on the results above, the regression equation produces: PLPD = 11,936 + 0.385 TR - 0.011 AC + 0.725 RS + 0.302 IP + 0.894 FS
The coefficient of determination (Adjusted R Square) is 0.532 or 53.2%. This shows that 53.2% of LPD performance variables are influenced by transparency, accountability, responsibility, independence, and fairness variables. While the remaining 46.8% is influenced by other factors that are not explained in this regression model.

The regression coefficient of transparency (TR) is 0.385 and the significant value is 0.002 which is smaller than 0.05, which means that transparency has a positive effect on LPD (KL) performance. This shows that if transparency increases by one unit, then LPD performance will increase by 0.385, assuming other variables are constant.

The regression coefficient of responsibility (RP) is 0.725 and a significant value of 0.006 which is smaller than 0.05 means that responsibility has a positive effect on LPD (KL) performance. This shows that if the responsibility increases by one unit, then LPD performance will increase by 0.725 assuming the other variables are constant.

The regression coefficient of independence (IN) is 0.302 and a significant value of 0.020 which is smaller than 0.05 means that independence has a positive effect on LPD (KL) performance. This shows that if the independence increases by one unit, then the LPD performance will increase by 0.302 assuming the other variables are constant.

The regression coefficient of fairness (KW) is 0.894 and a significant value of 0.000, which is smaller than 0.05, means that fairness has a positive effect on LPD (KL) performance. This shows that if the reasonableness increases by one unit, the LPD performance will increase by 0.894 with the assumption that other variables are constant.

The Effect of Transparency on LPD Performance in LPD in Klungkung Regency
The results of testing the first hypothesis showed that transparency has a positive effect on LPD performance in Klungkung Regency, which means that hypothesis one is accepted. This shows the increasingly transparency of companies in disclosing information in a timely, adequate, clear and accurate manner and can be accessed by stakeholders. LPD supervisory boards, members and administrators periodically to discuss LPD development clearly without any cover-up on LPD operational activities will increase stakeholder confidence in the company, so that indirectly the company will try to improve its performance to increase the company value.This research is in accordance with the research of Kartikasari (2017) and Sandraningsih and putri (2015) which state that transparency has a positive effect on LPD performance.H_1)

Effect of Accountability on LPD Performance in LPD in Klungkung Regency
The results of testing the second hypothesis show that accountability has no effect on LPD performance in Klungkung Regency, which means that the second hypothesis is rejected. Accountability is a company that can be accountable for its performance in a transparent and fair manner. The results of this study identified that accountability has no effect on LPD performance in Klungkung Regency. The non-impact of accountability can be caused by the absence of consistently accountable governance at each Village Credit Institution (LPD).

The Effect of Responsibility on LPD Performance in LPDs in Klungkung Regency
The results of testing the third hypothesis showed that responsibility has a positive effect on LPD performance in Klungkung Regency, which means that the third hypothesis is accepted. This showeds that if the LPD management applies the principle of responsibility related to understanding and obeying all applicable LPD laws and regulations, the performance of the Village Credit Institution will increase. In addition, carrying out responsibilities to stakeholders and caring for the community and environmental sustainability will also improve the performance of the Village Credit Institution. The results of this study are in line with research by Setyawan and Putri (2013), Bulandari and Damayanthi (2014), Sandraningsih and putri (2015),H_3

Effect of Independence on LPD Performance in LPD in Klungkung Regency
The results of testing the fourth hypothesis showed that independence has a positive effect on LPD performance in Klungkung Regency, which means that hypothesis four is accepted. This shows that the application of the principle of independence in LPDs has been going well. This shows that if in managing the LPD the LPD administrators make objective decisions (free from the interests of various parties) and can avoid domination by any party, this attitude can improve the performance of the Village Credit Institution. The results of this study are in line with research by Setyawan and Putri (2013), Dewi (2014), Bulandari and Damayanthi (2014), Sandraningsih and Dwijaputri (2015), Pradnyaswari and Putri (2016) and Suryani (2018) which state that independence has positive effect on the performance of the Village Credit Institution (LPD).H_4

The Effect of Fairness on LPD Performance in LPD in Klungkung Regency

The results of testing the fifth hypothesis showed that fairness has a positive effect on LPD performance in Klungkung Regency, which means that hypothesis five is accepted. This shows that the application of the principle of fairness in the LPD has been going well. This shows that if in managing the LPD the LPD administrators provide fair, equal and fair treatment for all members and provide equal opportunities in hiring employees for village krama, the performance of the Village Credit Institution will increase. In addition, the manager provides opportunities for village krama / LPD members to provide input and convey opinions for the LPD and will also improve the performance of the Village Credit Institution. The results of this study are in line with the research of Bulandari and Damayanthi (2014), Sandraningsih and putri (2015),H_5

CONCLUSIONS

The analysis and test results show that the accountability variable has no effect on LPD performance in Klungkung Regency, while the transparency, responsibility, independence and fairness variables have a positive effect on LPD performance in Klungkung Regency. The positive influence has a good impact on LPD performance so that the LPD can pay attention to the principles of Good Corporate Governance which can have a good influence on LPD performance. This study has several limitations, such as variables that are limited to the principles of Good Corporate Governance only so that further researchers can consider other variables as well as influence LPD performance. This research can be used as a reference especially for research related to Good Corporate Governance and its relationship with financial institutions or other non-financial institutions.

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