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THE ROLE OF SUPERVISORY AGENCY IN THE IMPLEMENTATION OF THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE AND ITS IMPLICATIONS ON LPD PERFORMANCE IN DENPASAR, INDONESIA

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Abstract

Lembaga Perkreditan Desa (LPD) is a microfinancial institution with a mission to encourage the economy of rural communities through the activities of collecting deposits and saving deposits from villagers and then channeled into loans to villagers in need. LPD performance can be seen from the level of LPD health. This level of health should be maintained by LPDs in order to continue to grow and provide benefits for the village community as a mediating body between those who need funds and the excess funds, and support village development. Performance is the concern of LPD leaders, LPD supervisory bodies, villagers, and the government as an institution for developing an LPD. Various efforts are made to maintain and improve the performance of the LPD. One important effort is to establish an LPD supervisory body. The LPD supervisory body is responsible for monitoring the operation of the LPD. The regulatory body is expected to improve the implementation of good corporate governance (GCG) practices by LPDs. The application of GCG principles is expected to improve LPD performance. The study sample was 35 LPDs in Denpasar City. Research respondents were LPD leaders. Data analysis was done using Partial Least Square. Based on the empirical findings, study found that effective supervisory bodies can improve good corporate governance practices. The better the

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implementation of the principles of good corporate governance, the better the performance of the LPD. Research does not prove the direct effect of the effectiveness of the regulatory body on LPD performance.

Keywords: Corporate governance, supervisory bodies, performance, microfinancial institution

INTRODUCTION

The Bali Provincial Government issued Regional Regulation No. 3 of 2007, is a change to Regional Regulation No. 5 of 2002 concerning Village Credit Institutions (LPD). LPDs are important institutions in traditional villages. This is because the LPD was established to encourage the economy of rural communities through activities to collect deposits and time deposits from villagers. Funds obtained from will be distributed in the form of loans to villagers who need it. The provision of loans to villagers aims to eradicate debt bondage and black pledges, creating equity and business opportunities for villagers, increasing purchasing power, increasing payment traffic and circulation of money in the village. This goal will be achieved if the LPD carries out technical and management functions appropriately and consequently (Novianti et al., 2014). LPDs must carry out business management rules appropriately in accordance with the scope of the field of work carried out. The proper and consistent implementation of functions and management is expected to improve LPD performance.

LPD performance can be seen from the level of LPD health. LPD health rate in Denpasar City can be seen from LPD Trustees, namely the Bali Regional Development Bank (BPD Bali). Based on LPD Head of BPD Bali Report, from 31 LPDs in Denpasar City, 25 LPD are healthy and 6 LPD are healthy enough. This level of health should be maintained by LPDs in order to continue to grow and provide benefits for the village community as a mediating body between those who need funds and the excess funds, and support village development. The soundness of LPDs is the concern of LPD leaders, LPD supervisory agencies, community members, and the government as an LPD guiding institution. The soundness of LPDs is the concern of LPD leaders, LPD supervisory agencies, community members, and the government as an LPD guiding institution.

Various efforts are made to maintain and improve the performance of the LPD. One important effort is to establish an LPD supervisory body. The LPD supervisory body is tasked with monitoring LPD operations and the progress of LPD progress (Giri et al., 2014). Supervision carried out by the supervisory body is carried out on operational management and responsibility of the LPD management or manager in providing excellent service to the village

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community, monitoring the achievement of targets agreed upon in the work plan. This shows the important role of the supervisory body in monitoring the role of LPD managers in carrying out their duties.

The role of the supervisory body in carrying out its tasks is to ensure that the manager manages the LPD in accordance with the interests of the community. This is in accordance with the agency theory expressed by Jensen and Meckling (1976). Managers as agents will try to maximize their interests. The interests of managers often conflict with the interests of villagers who act as LPD principals. Villagers expect the LPD to perform well. Good performance is expected to be obtained through an oversight mechanism by the LPD supervisory body. The role of supervision in efforts to improve performance is stated by Perwitasari and Badera (2015) and Wahyudi and Damayanthi (2015).

Increased regulatory bodies are expected to improve the application of the principles of good corporate governance (GCG) applied in LPDs. A competent, independent supervisory body that understands its role can increase the effectiveness of supervision in LPDs (Putra and Rasmini, 2014). Supervision is an effort to improve the implementation of GCG. GCG implementation can be seen from the four aspects of GCG assessment, namely transparency, accountability, responsibility, independence, fairness and equality.

Good GCG is expected to improve LPD performance. Five aspects of GCG, namely transparency, accountability, responsibility, independence, fairness and equity. GCG as a form of good organizational management practitioners is expected to improve LPD performance. Previous research has found that good GCG practices can improve organizational performance (Setyawan and Putri, 2013; Dewi and Putri, 2014; Pratiwi and Putri, 2016; Bulandari and Damayanthi, 2014; Sandraningsih and Putri, 2015; Pradnyaswari and Putri, 2016; Hindistari and Putri, 2016; Sidney and Sari, 2016).

This study aims to examine the role of the regulatory body in an effort to improve LPD performance. In an effort to improve LPD performance, the regulatory body will work to improve GCG practices. GCG practices will improve LPD performance.

The results of this study are beneficial for the traditional village and the Government in an effort to improve LPD performance. The important role of the LPD supervisory body in order to improve corporate governance practitioners and their impact on improving the performance of LPDs is expected to be the concern of indigenous communities and administrators in selecting members of the regulatory body. The government is expected as a coach to formulate policies that encourage the increased role of effective supervisory bodies and good corporate governance practices.

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LITERATURE REVIEW

Agency Theory

Agency theory is a theory built on the working relationship between agents as management and principals as owners. This agency relationship is defined as an agreement between one or more principals who employ agents, agents are expected to be able to do work, such as managing and making decisions related to the company on behalf of the principal. The main points discussed in this agency theory are agency problems caused by conflicts of interest between agents and principals (Jensen and Meckling, 1976). The Principal expects the agent to carry out certain tasks related to the interests of the principal, such as maximizing the welfare of the principal so that the agent must be responsible according to the principal's wishes, while on the other hand, the agent generally acts based on the interests he has, namely maximizing the welfare of the agent and indirectly will ignore the interests of the company. Without the knowledge of the principal, the agent may know more about the actual condition of the company than the principal so that in the agency relationship there can be a conflict of interest (Adhi and Siti, 2012). The occurrence of conflicts of interest in the business organization causes the performance of managers and companies to be an important aspect to note (Moradi, et al, 2012). Conflicts of interest may occur in the business organization because the principal as the owner can not always supervise the management activities to ascertain whether the management has worked in accordance with the principal want. Sometimes the information submitted is not in accordance with the actual conditions of the company (Savitri, 2010). This condition is called information asymmetry (information asymmetric). Ujiantho and Pramuka (2007) state that the existence of such asymmetrical information may encourage management (agents) to hide some information that is not known by the owner (principal) that is done in order to maximize the profit of the agent. Agencies can be motivated to report non-actual information to the principal, especially if the information is related to agency performance measurement. Corporate governance is one of the most important internal control mechanisms of institutional problems in reducing one of the effects of the agency relationship, namely information asymmetry (Clemente and Labat, 2009).

The agency theory applied in this research is seen from the organizational structure in LPD, the LPD management as the agent and krama desa (villagers) as the principal. Desa pakraman (village) within the LPD is the owner of the LPD which commissioned the board to run the LPD in order to maintain the economic stability in the village where the LPD is located. Seen from the structure of the LPD management, the agency theory results from delegation of tasks or authority given by the LPD leadership (agent) to the head of the principal, as well as the delegation of duties or authority from the chief (agent) to the employees of the part (principal).

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Krama desa as the principal of Lembaga Perkreditan Desa (LPD) and LPD managers as agents is a union that must have good relationship to achieve the vision and mission of LPD itself. LPD managers should avoid conflict with village manners as principals. LPD managers must be responsible for the overall activities carried out in the LPD to the krama desa.

The Role of the LPD Supervisory Agency

The supervisory agency in the decision of the Governor of Bali Level I Number 491 of 1998 concerning the provisions for the establishment of a supervisory agency, stated that the duty to carry out the internal supervision function of the LPD is the regulatory body. Supervision is a coordinated activity and helps management to ensure that the results obtained are close to what is planned. Supervision carried out on LPD activities will affect the smooth operation and can prevent the occurrence of irregularities from errors that occur. Effectiveness is a term for the quality of the attitude of the members of one profession to their profession and the degree of knowledge and expertise they have. Based on the above explanation, it can be concluded that the supervisory agency can also take a role in influencing LPD performance. Considering the very importance of the existence of the supervisory agency, they are required to have an independent attitude, professional expertise and work experience and training to support their duties. In fact, most of the examiners on the supervisory agency still do not have the competence to conduct audits, this results in an ineffective and inefficient audit conducted by the supervisory agency (Iyos and Arifin, 2009: 2).

Good Corporate Governance

Good Corporarate Governance (GCG) is a process and structure used by organizations to improve business success and corporate accountability. The GCG principle involves the interests of shareholders (company owners), equal treatment of shareholders, the role of all interested parties (stakeholders) in GCG, transparency and explanation, as well as the board of commissioners and audit committee (Radjagukguk, 2014). GCG can also be interpreted as a mechanism for managing the company to ensure that management actions will always be directed for increasing the value of the company (Baridwan, 2003: 16). GCG is defined as a process and structure used by companies (shareholders / owners, commissaries / supervisory boards, and directors) to increase business success and corporate accountability to increase the value of shareholders (company owners) in the long term while paying attention to the interests of stakeholders. Others, based on legislation and ethical values. Based on the explanation above, it can be stated that GCG is a process and structure to ensure that company

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management acts in accordance with the interests of the owners and stakeholders around the company, so that the company's objectives are based on ethical rules and values.

The Forum for Corporate Governance in Indonesia (FCGI) defines Corporate governance as a set of rules governing the relationship between shareholders, stock managers, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations to regulate and controlling the company. GCG according to Tangkilisan (2003) is a system and structure for managing companies with the aim of increasing shareholder value and allocating various parties with an interest in companies such as creditors, suppliers, business associations, consumers, workers, government and the wider community. Mark (2000) states that corporate governance is about building creativity, ensuring transparency and accountability, and maintaining effective channels and information disclosure that will encourage good corporate performance. In Indonesia all companies must implement the principles of good corporate governance. Balinese people have four financial institutions that can be used as funding sources. The four financial institutions are commercial banks, rural banks, cooperatives and LPDs.

According to the 2006 National Committee on Governance Policy (KNKG), there are five GCG principles, namely transparency, accountability, responsibility, independence, fairness and equity. These five GCG principles are then abbreviated as TARIF. Transparency means that companies must provide material and relevant information in a way that is easily accessible and understandable to stakeholders. Companies should take the initiative to disclose, not only the issues implied by legislation, but also important for decision-making by shareholders, creditors, and other stakeholders. The implementation guidelines are (1) the company must provide timely, adequate, clear, accurate, and comparable information that is easily accessible to the stakeholders in accordance with its rights; (2) all information to be explained, including vision, mission, business goals and corporate strategy, financial condition, composition and compensation of management, controlling shareholder, share ownership by directors and board of commissioners and their families, risk management system, supervisory and control system internal, GCG systems and practices and their compliance level, and important events affecting the company's financial condition, (3) the principle of disclosure held by the company does not undermine the obligation to comply with the company's confidentiality requirements in accordance with laws and regulations, personal, and (4) company policies should be written and proportionally communicated to stakeholders.

Accountability means the company must account for its performance transparently and fairly. The company must be managed correctly, measured, and in accordance with the interests of the company while still taking into account the interests of shareholders (owners) and other stakeholders. Accountability is a prerequisite that is needed to achieve sustainable performance.

Responsibility means that a company must comply with the laws and regulations and carry out its responsibilities to the community and the environment, so as to obtain recognition as a good corporate citizen. The main guidelines for implementation include (1) company organs must adhere to prudent principles and ensure compliance with laws, company statutes and regulations, and (2) enterprises should carry out social responsibility in the form of community care and sustainability environment especially around the company.

Independence means companies must be managed independently, so that each company's organs do not dominate each other and are not intervened by other parties. The basic guideline for implementation is (1) each organ of the company must avoid the domination of any party, not affected by certain interests, free from conflicts of interest and pressure, so that decision making can be done objectively, (2) each organ carries out tasks and its function is in accordance with the basic rules and legislation, does not dominate each other and throws responsibility between one another, so that an effective internal control system is realized.

Fairness and equality means companies must always pay attention to the interests of the owner and other stakeholders based on the principle of fairness and equality. The basic guideline for implementation is (1) the company must provide opportunities for stakeholders to provide input and express opinions for the interests of the company and open access to information in accordance with the principles of transparency within the scope of their respective positions, (2) the company must provide equal and fair treatment to stakeholders in accordance with the benefits and contributions given to the company, and (3) the company must provide equal opportunities in employee recruitment, career and carry out their duties professionally, regardless of ethnicity, religion, race, gender, and physical condition.

Research Hypothesis

The Effect of the Effectiveness of the Supervisory Agency on LPD Performance

Agency theory explains the existence of a working relationship between principal and agent. The principal authorizes the agent to manage the company on behalf of the company. The problem that often arises in principal and agent relations is the difference between interests between principals and agents (Jensen and Meckling, 1976). The Principal hopes that agents act on behalf of principals to improve the welfare of principals, while on the other hand, agents often act on the interests that they have, namely maximizing the welfare of agents and indirectly ignoring the interests of the company. The Principal hopes that the agent will manage the company to maximize the performance of the company because high performance will be

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related to the prosperity of the principal as the owner of the company. But often the agent as the party given the authority to manage the company, seeks to maximize its interests. This creates an effort to maximize the interests of agents who can harm the principal. Without the knowledge of the principal, the agent may know more about the actual condition of the company than the principal so that in the agency relationship there can be a conflict of interest (Adhi and Siti, 2012). The occurrence of conflicts of interest in the business organization causes the performance of managers and companies to be an important aspect to note (Moradi, et al, 2012). Conflicts of interest may occur in the business organization because the principal as the owner can not always supervise the management activities to ascertain whether the management has worked in accordance with the principal want.

Agency theory explains the importance of monitoring activities to help principals in order to oversee agent activities in managing the company. Monitoring aims to ensure the agent acts on behalf of the principal, which is working in accordance with the interests of the principal. Monitoring activities are carried out by parties who have adequate, independent and experience competencies so that the Monitoring function can run well.

In the principal and agency relations, the LPD management acts as an agent, the villager as the principal. The village in the LPD is the owner of the LPD that authorizes the board to run the LPD to achieve the LPD goal of maximizing LPD performance. The conflict of interest between the village and the LPD management was reduced by establishing a regulatory body. The regulatory body is tasked with carrying out the internal supervision function of the LPD. Supervision is a coordinated activity and assists management in ensuring that the results are close to what is planned, so that the regulatory body plays an important role in improving the performance of the LPD (Wahyudi and Damayanthi, 2015). The more effective the LPD supervisory body is, the meal will be compared to the higher LPD performance.

Based on the explanation above, the research hypothesis can be formulated as follows.

H1 **:** The effectiveness of LPD supervisory bodies has a positive effect on LPD performance

Effect of Supervisory Agency Effectiveness on Good Corporate Governance Practices

An effective supervisory agency is proven to be able to improve LPD performance (Wahyudi and Damayanthi, 2015). This is because the LPD supervisory agency is able to supervise the LPD management, so that the LPD board is able to apply the principles of GCG well. The principles of GCG, such as transparency, accountability, responsibility, independence, and fairness and equality are able to be applied by LPD administrators with guidance by a supervisory body that has competence, independence, and adequate experience in carrying out their duties.

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Based on the explanation above, the research hypothesis can be formulated as follows.

H2 :The effectiveness of the regulatory body has a positive effect on GCG practitioners in the LPD

Effect of Good Corporate Governance Practices on LPD Performance

Mark (2000) states that corporate governance is building creativity, ensuring transparency and accountability, and maintaining effective channels and information disclosure that will encourage good corporate performance. Good corporate governance will improve the company's performance. Implementation of good corporate governance has a relationship with internal control of the company. The concept of good corporate governance can lead to good performance for a company (Gozali, 2012). The application of good corporate governance can drive performance, because it provides good direction in managing the company and ensuring management actions, so that the effectiveness and efficiency of company management can be achieved and create protection for all stakeholders' interests. Setyawan (2013) finds good corporate governance able to influence financial performance positively and significantly. The better implementation of good corporate governance in the same direction with the increase of performance. Tjondro and Wilopo (2011) research proves that good corporate governance has a significant positive influence on profitability indicators in banking sector companies. This indicates that good corporate governance practices are accompanied by an increase in the company's performance. LPD as a financial institution runs a good corporate governance practitioner. Good corporate governance practices, such as transparency, accountability, responsibility, independence, and fairness and equity will encourage the management of LPDs to suit the best practitioners. This will improve LPD performance.

Based on the explanation above, the research hypothesis can be formulated as follows.

H3 : Good corporate governance practices have a positive effect on LPD performance.

RESEARCH METHOD

Location and Time of Research

The research location is a place or region where researchers conduct research. The location in this study is LPD that located in the Denpasar, Indonesia.

Research Object

The object of research is to know character of the object determined by the researcher to be studied and obtained from the conclusion (Sugiyono, 2013: 13). The object of research in this study is the performance of the LPD.

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Data Source

Based on the source, the data used in this study is primary data is data that directly provide data to the data collector (Sugiyono, 2007: 129). The primary data in this study are the answers given by respondents to the questions in the questionnaire related to this study. Secondary data is usually obtained in the form of finished, already collected and processed by other parties (Sugiyono, 2007: 193). Secondary data in this research is general description of LPD, history of LPD establishment, organizational structure, number of LPD and LPD financial report contained in LPLPD Denpasar.

Data Type

The type of data used in this study is quantitative and qualitative data. Quantitative data such as LPD performance. Qualitative data, such as the effectiveness of the regulatory body and good corporate governance practices.

Sample Determination Method

The population in this study is the head of Lembaga Perkreditan Desa (LPD) in Denpasar. Based on data from LPLPD recorded 35 LPD residing in Denpasar City. The samples used in this study were selected by the saturated sampling method, that is the entire study population.

Research Variables

Research variable is an attribute of the nature or value of a person or activity that has a variation that is determined to be studied and drawn conclusions (Sugiyono, 2013: 59):

a. Dependent variable is a variable that is affected or that becomes a result, because of the independent variables (Sugiyono, 2013: 59). Dependent variable (Y) in this research is performance of Lembaga Perkreditan Desa (LPD).
b. Independent variables are variables that influence or become the cause of changes or the emergence of dependent variables (Sugiyono, 2013: 59). The independent variable (X1) in this study is the effectiveness of the LPD supervisory body
c. Intervening variables are intermediate variables that are between independent and dependent variables. Intervening variables in this study are practitioners of good corporate governance.

Operational definition

Operational definition is a definition expressed in terms of terms that are specifically tested with certain measurements (Arfan, 2008: 62).

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a. The dependent / dependent variable in this study is the performance of rural credit institutions. The performance of rural credit institutions is proxied by the level of soundness of the soundness of the LPD basically assessed by a quantitative approach to five factors that influence the condition and development of LPD as a financial institution, namely: (1) capital (2) quality of earning assets (assets), (3) profitability (earnings), and (4) liquidity (liquidity). Use of soundness as a performance measure is considered more comprehensive compared to one indicator of financial performance measures, such as return on total assets used by Pradnyaswari and Putri (2016). The level of health is more objective than the measurement of performance as measured by the answers to statements used in Pradnyaswari and Putri (2016), Sidney and Sari (2016), and Renitha and Putri (2016).

b. The independent variable of the study is the effectiveness of the supervisory body measured by 9 statements that have been used by Wahyudi and Damayanthi (2015).

c. Intervening research variables are the application of good corporate governance principles, namely transparency, accountability, responsibility, independence, and fairness and equality. Measurement of the application of good corporate governance principles refers to a questionnaire that has been used by Sidney and Sari (2016) and Pradnyaswari and Putri (2016).

Data Analyses

Analysis data used in this research is Partial Least Square (PLS).

RESULTS AND DISCUSSION

General Description of Respondents

The population that became the object in this study were all Heads of Village Credit Institutions in Denpasar City. Based on data from LPLPD recorded 35 LPD residing in Denpasar City. The samples used in this study were selected by the saturated sampling method, that is the entire study population. List of LPD names in Denpasar City is presented in Table 1.

Table 1. The names of LPDs recorded in Denpasar City

LPD Tonja	LPD Serangan
LPD Pagan	LPD Peninjoan
LPD Panjer	LPD Anggabaya
LPD Oongan	LPD Penyaringan
LPD Tanjung Bungkak	LPD Kedua
LPD Sidakarya	LPD Bekul
LPD Ubung	LPD Kepaon
LPD Tembawu	LPD Jenuh

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Table 1...

LPD Intaran	LPD Pohmanis
LPD Pohgading	LPD Pedungan
LPD Penatih Puri	LPD Cengkilung
LPD Sanur	LPD Kesiman
LPD Peguyangan	LPD Padang Sambian
LPD Penatih	LPD Sumerta
LPD Renon	LPD Pemogan
LPD Peraupan	LPD Denpasar
LPD Laplap	LPD Yangbatu
	LPD Sesetan

Source: http://www.bankdata.denpasarkota.go.id/

The questionnaire is returned entirely. All questionnaires returned are filled in completely and meet the requirements so that no questionnaires are dropped. Here is a summary of the shipment and return of the questionnaire.

Table 2. Summary of Shipping and Returning Questionnaires

Questionnaires	Numbers
Questionnaire Spread	35
Questionnaire Used	35

Demographic characteristics of respondents in this study is a profile of 35 respondents who fill out this questionnaire. Characteristics of this respondent include gender, age, and level of education (Table 3).

Table 3. Demographics of Respondents

1	Sex		
	- Male	31 Respondents	89%
	- Female	4 Respondents	11%
2	Age		
	- <30 Year		11%
	- > 30 Year	4 Respondents	89%
		31 Respondents	
3	Level of Education		
	- Elementary School	1 Respondents	3%
	- Senior High School	10 Respondents	29%
	- College I	1 Respondents	3%
	- College II	1 Respondents	3%
	- College III	2 Respondents	6%
	- Bachelor Degree	18 Respondents	51%
	- Master Degree	2 Respondents	6%

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In this study of 35 study respondents, there are 31 people or 89% of male respondents, while there are 4 people or 11% of female respondents. The proportion of age of LPD chairman in Denpasar biggest is age group more than 30 years, that is equal to 89%. The highest education level of LPD leaders is S1 for 18 people or 51%. Education level of LPD leaders of SMA or equivalent amounted to 10 people (29%). Two LPD leaders are S2-educated, but there is still one LPD leader with an elementary school education.

Descriptive statistics

This section discusses the average, median, highest score, and the lowest value of LPD performance, the frequency distribution of respondents' answers to the research variable indicators consisting of corporate governance and the effectiveness of the supervisory body.

LPD Performance (Y)

System quality is measured by the level of LPD health. The average is presented in the table below.

Table 4. LPD Performance Descriptive Statistics

Information	**Value**
Mean	77,26
Median	78,00
Smallest value	66,00
Biggest value	84,00

LPD performance in Denpasar City averaged 77.26, median was 78, the highest value was 84, and the smallest was 66. The average value was 77.26, describing the performance of LPD in Denpasar City which was quite healthy.

Effectiveness of the Supervisory Agency

Based on the respondent's answer to the statement submitted showing the respondent's answer to the statement submitted was concentrated on the answer to agree and strongly agree, whereas only a small proportion of respondents answered neutral. This indicates that respondents rated the LPD as having an effective supervisory agency. However, some respondents answered neutral on the four statements given. Efforts to increase the effectiveness of the regulatory body need to be improved. The indicator that needs to be considered by the regulatory body is the evaluation of employee performance on a regular basis, because 26% of respondents answered neutral on the statement.

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Table 5. Respondent's Answer Distribution for the Effectiveness of the Supervisory Agency variable

No.	Statement	STS	TS	N	S	SS
1	You know the clarity of the goals that lpd wants to achieve	0%	0%	3%	71%	23%
2	You have a strategy in achieving goals	0%	0%	0%	51%	46%
3	You provide guidance to managers in achieving goals	0%	0%	0%	66%	31%
4	You routinely supervise	0%	0%	3%	60%	34%
5	All credits that are disbursed by your permission	0%	0%	3%	54%	40%
6	You give advice in solving problems that's experienced by employees	0%	0%	9%	46%	43%
7	LPD facilities and infrastructure have supported employee work productivity	0%	0%	11%	57%	29%
8	Employees follow the procedure when doing task	0%	0%	6%	69%	23%
9	You evaluate employee performance regularly	0%	0%	26%	46%	26%

Annotation: STS = Strongly disagree, S = Agree, TS = Disagree, SS = Strongly agree, N = Neutral

Corporate Governance Principal

The principles of corporate governance are measured by five elements, namely transparency, accountability, accountability, independence and fairness. Respondents' answers to the implementation of the principles of corporate governance in the LPD were concentrated on agreeing and strongly agreeing answers. This illustrates the implementation of the principles of good corporate governance that are already good in LPDs. However, there are still respondents' answers that are neutral, disagree, and strongly disagree. This needs to get the attention of the Head of the LPD to improve the implementation of the principles of corporate governance, for example leaders must pay attention to the delivery of information on products and services, implement management of customer complaints effectively and maintain adequate data and personal information of customers.

Table 6. Respondents' Answer Distribution for Corporate Governance variables

No.	Question	STS	TS	N	S	SS
	A. Transparency					
1	LPD discloses financial and non-financial information through the LPD and media homepages in a timely, adequate, clear, accurate, and comparable manner and easily accessible to interested parties according to their rights	0%	3%	9%	71%	17%
2	The principle of transparency adopted by LPD does not reduce the obligation to fulfill bank secrecy provisions in accordance with applicable regulations, position secrets and personal rights.	0%	0%	11%	77%	11%
3	LPD policy has been written and communicated to interested parties and who has the right to obtain information about the policy	0%	0%	14%	69%	17%

Table 6....

4	GCG implementation reports have been presented in full, accurate, up-to-date, and have been delivered on time to shareholders and stakeholders in accordance with applicable regulations	0%	0%	6%	77%	17%
5	LPD provides information on products and services, implements effective complaint management and maintains the customer's personal data and information adequately	3%	6%	20%	57%	14%
b. Accountability						
1	LPD has set clear responsibilities from each level with the vision, mission, business objectives and strategies	0%	6%	17%	66%	11%
2	All positions at LPD have competencies in accordance with their responsibilities and understand their role in implementing GCG	6%	0%	23%	63%	9%
3	LPD has performance measures from all levels of LPD based on agreed size measures in accordance with the value of the company, LPD's business objectives and strategies and has a system of reward and punishment	0%	3%	6%	77%	14%
4	all position in LPD implement the principles of GCG in every business activity in LPD	0%	0%	9%	66%	26%
c. Responsibility						
1	To maintain its business continuity, LPD adheres to prudential banking practices and guarantees the implementation of regulations	0%	3%	0%	74%	23%
2	LPD has guidelines, systems and work procedures for all positions and is available in full, up to date, and in accordance with the provisions	0%	3%	14%	66%	17%
3	LPD has acted as a good corporate citizen, including caring for the environment and carrying out social responsibility	6%	0%	29%	54%	11%
D. Independency						
1	LPD has policies, systems and procedures for settlement of conflicts of interest that bind all positions in LPD	0%	0%	34%	51%	14%
2	all levels positions in LPD can make decisions objectively and be free from any pressure from any party	0%	0%	17%	54%	29%
3	LPD reveals a conflict of interest in every decision, supplemented by a meeting record, has been administered and documented properly	0%	0%	20%	54%	26%
E. Fairness						
1	LPD always pays attention to the interests of all stakeholder based on the principle of equal treatment	0%	6%	9%	57%	29%
2	LPD provides an opportunity for all stakeholders to provide advice and express opinions for the goodness of LPD and have access to information in accordance with the principles of transparency.	0%	0%	6%	51%	43%
3	work / business ethics has been made and disseminated and an evaluation of its application is carried out to maintain relationships with other parties, both with shareholders, creditors, customers and other stakeholder	0%	0%	11%	66%	23%

Annotation: STS = Strongly disagree, S = Agree, TS = Disagree, SS = Strongly agree, N = Neutral

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PLS Analysis Results

This study applies PLS as an analytical tool. PLS analysis includes analysis of measurement models and structural model analysis. Analysis of measurement models, including analysis of the validity and reliability of each research variable. Structural model analysis includes analysis of model validity and path coefficients.

Measurement Model Analysis

Measurement model analysis consists of testing the validity and reliability of instruments (Hartono, 2011). Validity test assesses the ability of research instruments in measuring what should be measured (Cooper et al., 2006). Reliability test measures the consistency of measuring instruments or research instruments (Hartono, 2011). Validity test includes construct validity test, which assesses the level of conformity of one measurement with the theories used to define the construct (Hartono, 2011). Testing construct validity includes convergent validity and discrimination validity.

Convergent validity measures the correlation between gauges from boarding. Convergent validity is measured by loading factors (correlation between component scores and contract scores). PLS measures convergent validity with the outer loading and average variance extracted (AVE) scores.

The measuring item is declared valid if the outer loading score must be greater than 0.7 and average variance extracted (AVE) greater than 0.5 (Chin, 1995). The test results for convergent validity are as follows. Three constructs are tested, namely corporate governance (CG), effectiveness of the supervisory body (EDP), and LPD performance (PERFORMANCE). The outer loading score for corporate governance items (CG1 equals CG18) has the value of outer loading greater than 0.7 in the CG contract. Score the outer loading measuring instrument effectiveness of the regulatory body (EDP1 to EDP9) has the value of outer loading greater than 0.7 in the EDP construct. Score the outer loading performance measurement item LPD (PERFORMANCE) has the outer loading value greater than 0.7 in the PERFORMANCE contract.

Table 7. Convergent Validity Testing Results with Outer Loading

Construct	CG	EDP	PERFORMANCE
CG1	0,718		
CG2	0,795		
CG3	0,760		
CG4	0,774		
CG5	0,911		

Table 7...

CG6	0,741		
CG7	0,829		
CG8	0,718		
CG9	0,763		
CG10	0,847		
CG11	0,721		
CG12	0,780		
CG13	0,823		
CG14	0,730		
CG15	0,758		
CG16	0,745		
CG17	0,826		
CG18	0,703		
EDP1		0,718	
EDP2		0,736	
EDP3		0,814	
EDP4		0,724	
EDP5		0,752	
EDP6		0,743	
EDP7		0,833	
EDP8		0,746	
EDP9		0,785	
PERFORMANCE			1,000

The average variance extracted (AVE) analysis results in a value greater than 0.5 in the PERFORMANCE, CG, and EDP variables. Convergent validity test results show valid measuring items.

Table 8. Convergent Validity Testing Results with AVE

Variabel	AVE	Information
PERFORMANCE	1,000	Valid
CG	0,603	Valid
EDP	0,581	Valid

PLS tests the validity of discrimination with Cross loading. The rule of thumb used is a cross loading score in one variable greater than 0.7 (Chin, 1995). The test results of the discriminant validity are as follows. The results of the discrimination versatility analysis in Table 9 show that measurement items have a cross loading value that is greater than 0.7 in the corresponding construct.

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Table 9. Discriminant Validity Testing Results with Cross Loading

Construct	CG	EDP	PERFORMANCE
CG1	0,718	0,580	0,234
CG2	0,795	0,562	0,058
CG3	0,760	0,570	0,277
CG4	0,774	0,696	0,274
CG5	0,911	0,659	0,225
CG6	0,741	0,565	0,312
CG7	0,829	0,598	0,290
CG8	0,718	0,524	0,150
CG9	0,763	0,578	0,146
CG10	0,847	0,589	0,255
CG11	0,721	0,605	0,480
CG12	0,780	0,629	0,270
CG13	0,823	0,651	0,167
CG14	0,730	0,644	0,433
CG15	0,758	0,581	0,274
CG16	0,745	0,618	0,264
CG17	0,826	0,646	0,275
CG18	0,703	0,558	0,086
EDP1	0,476	0,718	0,465
EDP2	0,451	0,736	0,408
EDP3	0,463	0,814	0,564
EDP4	0,566	0,724	0,489
EDP5	0,597	0,752	0,424
EDP6	0,655	0,743	0,401
EDP7	0,653	0,833	0,505
EDP8	0,671	0,746	0,287
EDP9	0,665	0,785	0,497
PERFORMANCE	0,331	0,588	1,000

Reliability testing in PLS uses two methods, namely Cronbach's alpha and composite reliability. Cronbach's alpha measures the lower limit of the reliability value of a construct, while composite reliability measures the true value of the reliability of a rent (Chin, 1995). Cronbach's alpha values and minimal composite reliability are 0.7 (Hair et al., 2008). The results of the reliability testing in Table 10 show the variables Performance, CG, and EDP have Cronbach's alpha values and composite reliability greater than 0.7 so that the variable is reliable.

Table 10. Reliability Test Result

Variable	Cronbach's Alpha	Composite Reliability	Information
PERFORMANCE	0,961	0,965	Reliable
CG	0,910	0,926	Reliable
EDP	1,000	1,000	Reliable

Structural Model Analysis

Structural models in PLS are evaluated using the coefficient of determination (R^2) for the dependent construct, path coefficient value (path) or statistical t value for path setup. R^2 values measure the degree of variation in variable changes to the dependent variable. The higher the R^2 value, the better the predictive model from the proposed research model. Model validity is measured using the total determination coefficient (R^2m). The total determination coefficient (R^2 total) is the coefficient of determination of the overall endogenous variables with the following formula: $R^2_{total} = 1 - (1-R^2_1).(1-R^2_2)$

Pe_1 = 0,611 dan Pe_2 = 0,389 consecutively is the value of the effect of the endogenous variable error LPD Performance (PERFORMANCE) and Effectiveness of the Supervisory Agency (EDP).

R^2_{total} = 1 – (1-0,311).(1-0,389)= 0,762

Value of the total determination coefficient (R^2 total) of 0.762 means that the information contained in the 76.2% data can be explained by the analysis model of the relationship between variables as illustrated in Figure 2, while the remaining 23.8% by other factors not included in this study.

Path Coefficient Analysis

The path coefficient or inner model value shows the level of significance in testing hypotheses. The results of the path coefficient analysis are presented in Figure 1, Figure 2 and Table 11.

Table 11. Path Coefficient Testing Results

Path	Path Coefficient	*t* Statistics	*P Value*	Information
EDP→CG	0,782	11,427	0,000	Significant
EDP→PERFORMANCE	0,848	7,044	0,000	Significant
CG→PERFORMANCE	-0,332	1,632	0,103	Not significant

Table 11 shows the results of testing the hypothesis proposed in Chapter II. The first hypothesis of the study (H1) was accepted. The effectiveness of the supervisory board proved to have a positive effect on good corporate governance practices at a significance of 0.05. The test results show that the path coefficient is 0.782, the statistical value of t is 11.427 and the p value is 0.000.

The influence of the effectiveness of the supervisory board on LPD performance is shown by the path coefficient of 0.848, the statistical value t for the application of accrual based accounting is 0.16, the reluctance of the t statistic value is 7.044, and the p value is 0.000. The effectiveness of the supervisory board has proven to have a positive effect on LPD performance.

The effect of implementing good corporate governance practices on LPD performance is -0.332, reluctant t statistic value is -1.632 and p value is 0.103. P value of 0.103 is greater than α = 0.05, so that good corporate governance practices have no statistical effect on LPD performance. The research hypothesis (H3) which states that the application of technology has a positive effect on the application of accrual-based accounting is rejected.

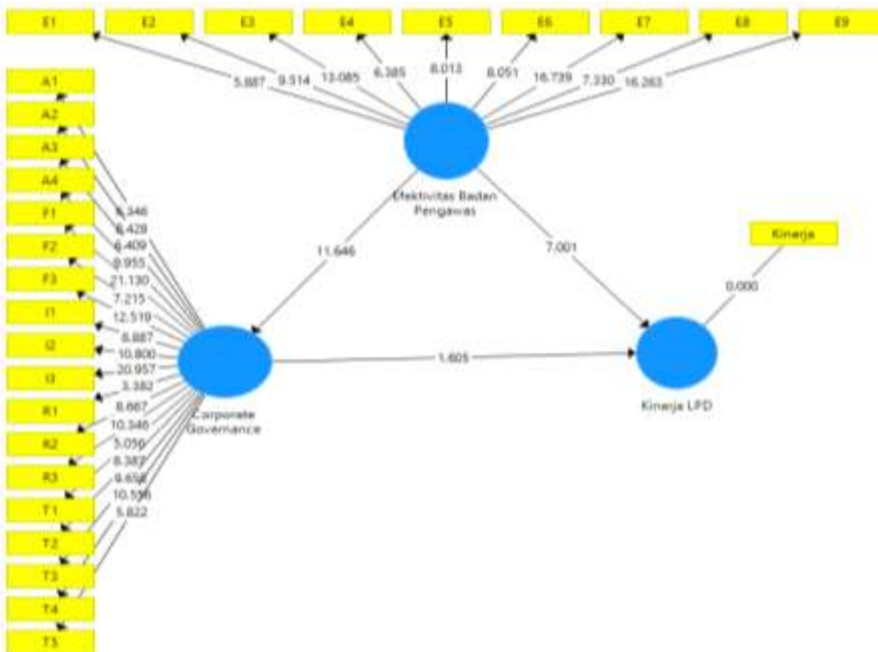

Figure 1 PLS Algorithm Model

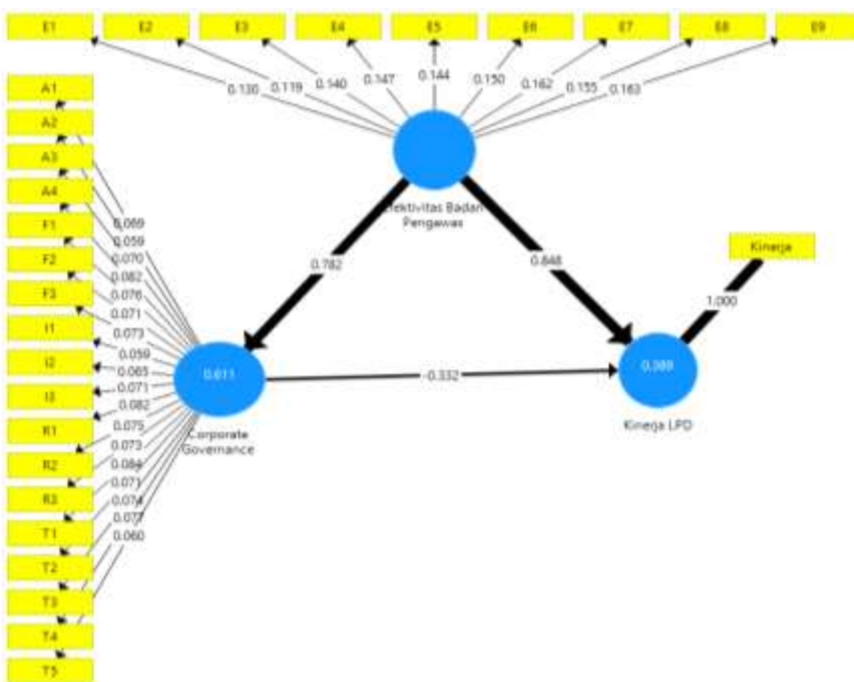

Figure 2 PLS analysis results with Bootstrapping

DISCUSSION

This section discusses the results of the path coefficient test which shows the results of the research hypothesis testing. The discussion of the results of testing the hypothesis is as follows.

Effect of the Effectiveness of the Supervisory Agency on LPD Performance

The test results support the research hypothesis which states the effectiveness of the regulatory agency in influencing LPD performance. The research results support the agency theory explaining the existence of a working relationship between the principal and the agent. LPD administrators act as agents, villager as principal. The village in the LPD is the owner of the LPD that authorizes the board to run the LPD to achieve the LPD goal of maximizing LPD performance. Conflict of interests between the village and the LPD management is reduced by forming a supervisory body. The regulatory body is tasked with carrying out the internal supervision function of the LPD. Supervision is a coordinated activity and assists management in ensuring that the results are close to what is planned, so that the regulatory agency plays an important role in improving the performance of the LPD (Wahyudi and Damayanthi, 2015). The more effective the LPD supervisory agency is, the more it will respond to the higher LPD performance. The effectiveness of the supervisory agency can be seen from the knowledge and monitoring activities carried out by the LPD supervisory board to ensure that the LPD management acts in accordance with the interests of village.

Effect of the Effectiveness of the Supervisory Agency on Good Corporate Governance Practices

The results of the study prove the influence of the supervisory board on LPD good corporate governance practices. An effective supervisory agency is proven to be able to improve LPD performance. The results of this study are in accordance with previous studies, namely Wahyudi and Damayanthi (2015). This is because the LPD supervisory agency is able to supervise the LPD management, so that the LPD board is able to apply the principles of GCG well. The principles of GCG, such as transparency, accountability, responsibility, independence, and fairness and equality are able to be applied by LPD administrators with guidance by a supervisory agency that has competence, independence, and adequate experience in carrying out their duties.

Effect of Good Corporate Governance Practices on LPD Performance

The results of the study did not support the influence of corporate governance practices on LPD performance. The results of the study do not support Mark (2000) stating that corporate governance is building creativity, ensuring transparency and accountability, and maintaining

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effective channels and information disclosure that will encourage good corporate performance, and Ghozali (2012) which states that the concept of good corporate governance can lead to performance good for a company The results of this study indicate that the implementation of good corporate governance cannot encourage LPD performance.

CONCLUSIONS

This study aims to analyze the direct and indirect effects of the effectiveness of the supervisory board on LPD performance. Effectiveness The good supervisory board is expected to improve LPD performance. The effectiveness of a good supervisory board indirectly improves performance through the implementation of corporate governance practices. The supervisory board is expected to encourage the implementation of corporate governance practices in LPDs, then the application of corporate governance practices improves the performance of LPDs.

The results of the testing found that the increase in the effectiveness of the LPD supervisory board could improve LPD performance. Research finds a direct influence on the effectiveness of the regulatory agency on performance. The results of the study found that the effectiveness of the LPD supervisory board improved the implementation of good corporate governance practices. The supervisory agency has proven to encourage the implementation of good corporate governance practices in LPDs. However, this study failed to find the influence of LPD good corporate governance performance.

SUGGESTIONS

Research results provide important value in order to improve LPD performance. The results of the study found an important role of supervisory effectiveness bodies in order to improve LPD performance and encourage the application of good corporate governance principles. Based on the results of this study it can be suggested that adat villages should pay attention to the effectiveness of the LPD supervisory board. The effectiveness of the data supervisory body is enhanced by the selection of competent supervisory board members, implementing training programs for the supervisory board, and willing to carry out supervisory activities on LPD management in LPD managers. The selection of members of a competent supervisory board will increase the effectiveness of supervision of LPD management. The competence of the supervisory board can be increased by following a training program designed by LPDs and LPD Trustees. The competence of the supervisory board must be supported by the willingness of members of the supervisory board to carry out evaluations of LPD performance and provide advice to LPD management to improve LPD performance. A routine evaluation program will increase the effectiveness of the regulatory body.

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The important role of the effectiveness of the supervisory board in order to improve the performance of the LPD needs to get the attention of the local government and the LPD coach. Local governments need to formulate policies related to the existence of the supervisory board and the competence of the supervisory board so that monitoring is effective.

As for future studies we could expand our studies more on different types of financial institution, since this LPD is a more specific form of financial institution. The supervisory board might have different behavior than the ones in smaller institutions, so it would be interesting to test the model.

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