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## Vol. 18 No. 2 (2023): Tec Empresarial Journal

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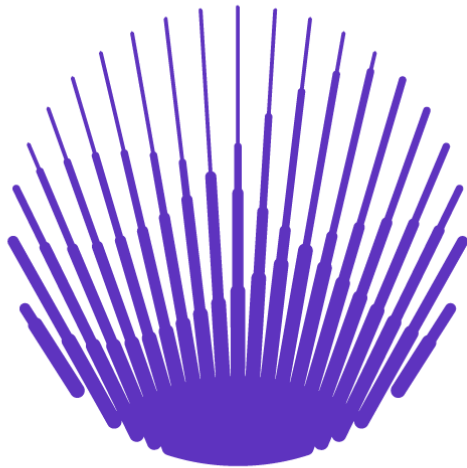
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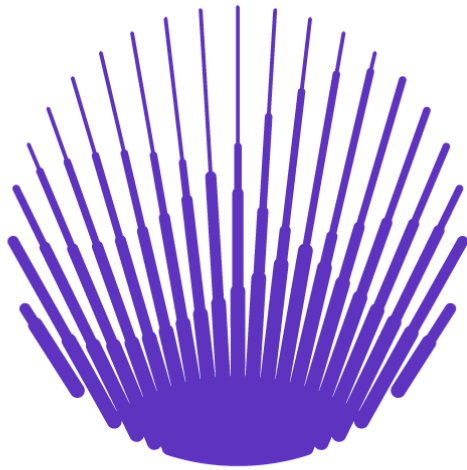
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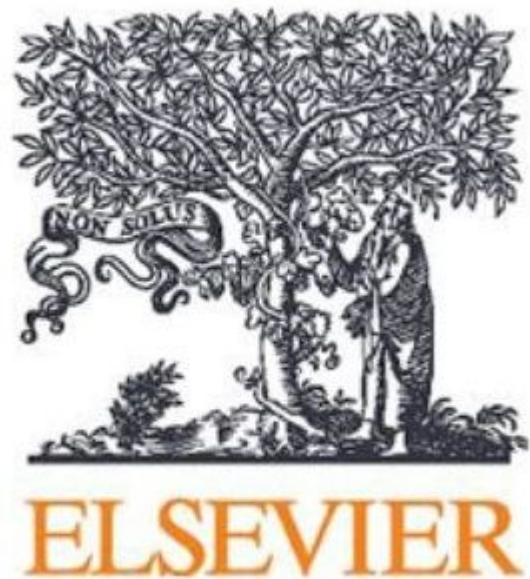
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## TRI HITA KARANA CULTURE MODERATES THE INFLUENCE OF GOOD CORPORATE GOVERNANCE AND COMPETENCE ON THE PERFORMANCE OF VILLAGE CREDIT INSTITUTIONS

Kadek Mitananda Pradnya Nugraha<sup>A</sup>, I Gusti Ngurah Agung Suaryana<sup>B</sup>, I Wayan Suartana<sup>C</sup>, Anak Agung Gde Putu Widanaputra<sup>D</sup>

### Abstract

Financial institutions have a significant role in boosting a nation's economy. The importance of the role of the LPD for krama desa requires the LPD to continue to improve its performance. The purpose of this research is to obtain empirical evidence regarding the effect of good corporate governance and competency on LPD performance with Tri Hita Karana culture as moderator. This study was carried out at 34 LPDs in Denpasar City which were still actively operating. Non-probability sampling methodology with saturated sampling method was used for the sampling. The respondent used in this research was an LPD chairman. LPD financial records and questionnaires were used to collect the data for this study. The method of data analysis used in this study is SEM-PLS. The finding of the research show that good corporate governance can have a positive influence on the performance of LPDs. Competence can have an positive impact on how well LPDs perform. Tri Hita Karana culture is not able to strengt influence of good corporate governance on the performance of LPDs, but the Tri Hita culture can strengthen the influence competence on the performance of LPD.

**Keyword:** performance, good corporate governance, competence, Tri Hita Karana culture.

### INTRODUCTION

Individuals, groups and organizations need an assessment that is used to determine the achievement of a predetermined goal. This relates to the concept of performance. Performance refers to the degree to which tasks are carried out in an organization in order to realize its goals, objectives, vision, and mission (Bastian, 2001: 329). Organizational performance includes strategic performance, administrative performance and operational effectiveness. Operational performance is connected to the effectiveness of using the assets owned by the organization and is largely determined by the human resources involved in it. The financial performance of an organization can be used to analyze its operational performance (Fahmi, 2015).

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Financial performance can be used to show the fundamental performance of an organization (Paniagua et al., 2018). Assessment of the financial performance of an organization is necessary for the survival of the organization so that it is well maintained (Anggayana & Wirajaya, 2019). This is because financial performance reflects the level of organizational soundness and can be used to assess the contribution of an organization in accomplishing organizational objectives (Ozkan et al., 2017).

Economy of a country can be enhanced by the important role of financial institutions (Sadiartha, 2017). The Village Credit Institution (Lembaga Perkreditan Desa/LPD) is a financial institution that is a part of Pakraman Village and does all of its business there (Mulyawan et al., 2017). So that the LPD has an important role for traditional village communities in Bali, because the LPD exists as a solution to overcome problems related to programs aimed at reducing poverty and give small firms access to business financing (Bumi & Suartana, 2019). So the importance of the role and function of LPD in the welfare Pakraman village communities, requires the LPD to continue to improve its performance.

LPD performance is largely determined by the LPD manager. This is because LPD operational activities are carried out by the LPD manager. LPD managers are members of traditional villages who are entrusted with managing LPDs in their area. So that the LPD manager is the manager and owner of the LPD. In this case, the concept of LPD management is in harmony with the concept of organizational management in the perspective of stewardship theory. Stewardship theory is a view of organizational management (Davis et al., 1997).

In managing LPD, the management of LPD as a steward will act in accordance with the interests of village residents. This is because the LPD managers feel that this is a rational consideration. In this case, the LPD manager sees this action as an attempt to achieve that LPD's goals, namely to improve LPD performance. So that LPD managers will make the best efforts to achieve LPD goals, namely through the execution of good corporate governance. Good corporate governance is aimed at organizational management mechanisms, especially for managers whose decisions will be considered for organizational goals (Larcker et al., 2007). Even though the LPD is a financial institution whose operational activities only reach the scope of customary villages, the applications of Good Corporate Governance principles in managing the LPD is believed to provide benefits to the LPD (Mulyawan et al., 2017). Research by Mulyawan et al., (2017) Darmayanti et al., (2020); Widiastuti et al., (2021); Julianti et al., (2021); Larasati & Ramantha (2022) demonstrates the beneficial impact of excellent corporate governance on organizational performance. The findings of this study conflict with previous studies by Salsabila (2019) this demonstrates that the application of effective corporate governance has no impact on business performance.

Along with practicing good corporate governance, LPD performance is also influenced by the competency of the LPD management in carrying out their duties and functions. Competence is a quality that makes a person easy to relate to a standard of superior and effective performance criteria (Spencer & Spencer, 1993). Competence is a willingness and ability possessed by a person to carry out the responsibilities and tasks delegated to those who are supported by adequate



experience, skills, training, and education (Paramitha & Dharmadiaksa, 2019). Penelitian yang dilakukan oleh Dewi & Wirasedana (2018); Zidan & Padnyawari (2022); Dewi et al., (2022); Yanti & Suarmanayasa (2022); Hayati & Purwanto (2020) show that competence has a positive and significant effect on performance. The findings of this study conflict with research done by Solaiman (2019); Hidayat (2021); Yulianty et al., (2021) it demonstrates that performance is unaffected by payload.

According to Govindarajan (1986), to overcome the inconsistent results from previous studies, a contingency approach is needed. This is in line with what was expressed by Murray (1990) who indicated that a contingency strategy is required to find additional variables that serve as moderators in order to reconcile discordant results. Contingency theory states that organizational effectiveness depends on the organization's ability to adapt to its environment (Langfield-Smith, 1997). According to Sapta et al., (2021), in custom-based organizations, local culture is still the main driver of organizational activities. Based on the Regional Regulation of the Province of Bali No. 4 of 2019 states that a traditional village's financial institution is called LPD whose existence is recognized, formed, regulated and managed based on customary law. Thus, LPD operational activities are closely related to the local culture that is developing in Bali, namely Tri Hita Karana. So, in this study using culture of the Tri Hita Karana as a moderating factor.

For the inhabitants of Bali, Tri Hita Karana culture is a philosophy that also serves as a way of life and a cultural system. Tri Hita Karana culture is used as a set of values or habits that become a manual for organizational members on fulfilling duties and acting in a professional manner (Suardikha, 2013). The Tri Hita Karana culture requires positive management actions and behaviors (Suartana & Jati, 2015). Thus, through Tri Hita Karana culture's application, it is hoped that LPD managers will not take actions that cause harm to the LPD and also to village residents as owners of the LPD. Research related to Tri Hita Karana culture's effect on organizational performance has been carried out by several previous researchers. Research carried out by Dewi & Sujana (2021); Wati et al., (2020); Sapta et al., (2016) showed that the culture that is owned by Tri Hita Karana is able to have a positive impact on the performance of the organization.

## LITERATURE REVIEW

### Effect of Good Corporate Governance on the Performance of LPD

Based on the stewardship theory, the LPD manager as a steward will act in the best interests of the krama desa as the owner of the LPD. This is because the LPD management considered the action to be rational. The LPD manager views this action as an effort to achieve the goals of the LPD. So that LPD managers apply a good corporate governance system as an effort to achieve LPD goals, namely to improve LPD performance.

Good Corporate Governance (GCG) is a framework that manages and controls an organization. GCG is increasingly understood by policy makers as a value to enhance competitive strategy (Akinkoye & Olasanmi, 2014). The goal is to apply GCG concepts to LPDs so that LPDs are more regarded as reputable businesses with an effective internal control structure and a foundation in tradition. As a result, the people may be more inclined to believe in the LPD.



Research by Mulyawan et al., (2017); Darmayanti et al., (2020); Widiastuti et al., (2021); Julianti et al., (2021); Larasati & Ramantha (2022) which shows that good corporate governance positively impacts the effectiveness of organizations.

H1: Good corporate governance has a positive impact on the performance of LPD.

### **Effect of Competence on the Performance of LPD**

Based upon stewardship theory, the LPD manager as a steward is responsible for protecting and maximizing the welfare of village residents as LPD owners through LPD performance. So that to carry out these responsibilities, the LPD manager will mobilize all the capabilities and expertise they have to produce quality performance. So to be able to improve LPD performance, LPD managers must have adequate competence. This is because the competencies possessed by LPD managers will be very useful to assist LPDs in improving LPD performance. So that the higher the competency of the LPD manager, the LPD performance will further improve.

Competence is a fundamental characteristic of an individual related to a standard of superior and effective performance criteria (Spencer & Spencer, 1993). Knowledge or competence is a willingness and ability possessed by a person to carry out the responsibilities and tasks delegated to those who are supported by adequate experience, skills, training, and education (Paramitha & Dharmadiaksa, 2019). Research by Dewi & Wirasedana (2018); Zidan & Padnyawari (2022); Dewi et al., (2022); Yanti & Suarmanayasa (2022); Hayati & Purwanto (2020) show that competence has a positive and significant effect on performance.

H2: Competence has a positive impact on the performance of LPD.

### **Tri Hita Karana Culture Moderates the Influence of Good Corporate Governance and Competence on the Performance of LPD**

Contingency Theory states that the effectiveness of an organization comes from aligning or adjusting the characteristics of the organization with the possibilities that reflect the organizational situation (Donaldson, 2001). According to Sapta et al., (2021), in custom-based organizations, local culture is still the main driver of organizational activities. The Tri Hita Karana culture requires positive management actions and behaviors (Suartana & Jati, 2015). So that through Tri Hita Karana culture's application, it is hoped that LPD managers will not take actions that cause harm to the LPD and also to village residents as owners of the LPD.

Research related to Tri Hita Karana culture's impact on organizational performance or ability has been carried out by several previous researchers. Research by Dewi & Sujana (2021); Wati et al., (2020); Sapta et al., (2016) showed that Tri Hita Karana can have a positive and significant effect on organizational performance. So that when the application of good corporate governance and the competence of LPD managers is adjusted to the native way of life is developing in Bali, namely Tri Hita Karana, it will improve LPD performance.

H3: The Tri Hita Karana culture strengthens the influence of good corporate governance on the performance of LPD.

H4: The Tri Hita Karana culture strengthens the influence of competence on the performance of LPD.

## METHOD

The design of this study mentions the structure and plans that provide direction on the results and processes of rises so that they become efficient, effective, objective, and valid (Jogiyanto, 2007). This research will be conducted in 2023. This study's focus is only on how the influence of good corporate governance (X1) and competence (X2) on LPD performance (Y) with Tri Hita Karana culture (Z) as moderator.

All of Denpasar City's population are LPDs that are currently in operation. Based data from Denpasar City LPLPD, the number of LPDs in DenpasarCity that are still actively operating in 2023 will be 34 LPDs, with a total sample of 34 LPDs throughout Denpasar City which are still actively operating. The chiefs of each LPD in Denpasar City served as the respondents for this study.

LPD financial records and questionnaires were used to collect the data for this study. The Partial Least Square (PLS) approach is used in this investigation to estimate path models that use latent variables with several indicators (Utama, 2016). The reason for using PLS is because PLS can be used to analyze formative and reflective model constructs, even constructs with a single indicator. In this study, both Tri Hita Karana culture and good corporate governance are formative corporate construct models, while competence is a reflective construct model. LPD performance is a construct with one indicator.

## RESULTS AND DISCUSSION

### Descriptive Statistical Analysis

Based on the results of an analysis of 34 LPDs throughout Denpasar City which are still actively operating, the following descriptive statistical results are obtained:

**Table 1. Descriptive Statistical Test Results**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
<i>Good Corporate Governance</i>	34	36.00	76.00	53.3824	10.71112
Competence	34	26.00	52.00	36.4118	8.46067
LPD performance	34	-28.88	5.07	1.1727	5.52353
Tri Hita Karana Culture	34	19.00	52.00	34.1471	7.29937

**Source:** Proce data, 2023

Based on the table above, 34 different data sets were investigated in this investigatio. The descriptive statistic test's findings for each variable can be described as follows.

- 1) The lowest score for the good corporate governance variable is 36.00. The highest is 76.00. The average value (mean) is 53.3824. The std. deviation value is 10.71112.
- 2) The competence variable's minimal (baseline) value is 26.00. Amount highest (maximum) is 52.00. The average value (mean) is 36.4118. The standard deviation value is 8.46067.

- 3) The LPD performance variable's value is -28.88, which is the lowest (minimum) value. The highest value (maximum) is 5.07. The average value (mean) is 1.1727. The standard deviation value is 5.52353.
- 4) The cultural variable Tri Hita Karana has the least (lowest) value of 19.00. 52.00 is the highest value (maximum). The average value (mean) is 34.1471. The standard deviation value is 7.29937.

### Outer Model Testing

**Table 2. AVE Calculation Results**

	<b>AVE</b>	<b>Keterangan</b>
X1 (Good Corporate Governance)	0,721	Valid
X1*Z	1,000	Valid
X1.1(Transparency)	0,827	Valid
X1.2(Accountability)	0,801	Valid
X1.3(Responsibility)	0,827	Valid
X1.4(Independence)	0,830	Valid
X1.5(Reasonability)	0,851	Valid
X2 (Competency)	0,762	Valid
X2*Z	1,000	Valid
X2.1 (Knowledge)	0,837	Valid
X2.2 (Skill)	0,909	Valid
X2.3 (Attitude)	0,921	Valid
Y (LPD Performance)	1,000	Valid
Z (Tri Hita Karana Culture)	0,713	Valid
Z1 (Parahyangan)	0,954	Valid
Z2 (Pawongan)	0,783	Valid
Z3 (Palemahan)	0,922	Valid

**Source:** Proses data, 2023

Based on the table above, it shows AVE value in this study is greater than 0.50. Thus the value of AVE has met the specified criteria. The results of all validity tests in the outer model which were carried out through convergent validity and discriminant validity tests showed that all indicators in this study were stated to be valid.

**Table 3. Composite Reliability Calculation Results and Cronbach's Alpha**

	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>Keterangan</b>
X1 (Good Corporate Governance)	0,978	0,980	Reliabel
X1*Z	1,000	1,000	Reliabel
X1.1 (Transparency)	0,930	0,950	Reliabel
X1.2 (Accountability)	0,916	0,941	Reliabel
X1.3 (Responsibility)	0,930	0,950	Reliabel
X1.4 (Independence)	0,932	0,951	Reliabel
X1.5 (Reasonability)	0,912	0,945	Reliabel
X2 (Competency)	0,974	0,976	Reliabel
X2*Z	1,000	1,000	Reliabel
X2.1 (Knowledge)	0,934	0,953	Reliabel
X2.2 (Skill)	0,975	0,980	Reliabel

X2.3 (Attitude)	0,971	0,979	Reliabel
Y (LPD Performance)	1,000	1,000	Reliabel
Z (Tri Hita Karana Culture)	0,966	0,970	Reliabel
Z1 (Parahyangan)	0,976	0,984	Reliabel
Z2 (Pawongan)	0,954	0,962	Reliabel
Z3 (Palemahan)	0,958	0,973	Reliabel

Source: Proses data, 2023

The composite reliability and cronbach's alpha values are displayed in Table 3, of Good Corporate Governance (X1), Competence (X2), Tri HitaKarana Culture (Z), LPD Performance (Y) are greater than 0.70, so that the reliability of all the variables is high.

### Inner Model Testing

Table 4. Results of the R-Square test

	R Square	R Square Adjusted
Y (LPD Performance)	0,675	0,617

Source: Proses data, 2023

Table 4 shows that LPD performance variables can be accounted for by the variability of good corporate governance variables (X1), competence (X2), Tri Hita Karana culture (Z), relationship between Tri Hita Karana culture and good corporate governance (X1\*Z), and competency interactions with Tri Hita Karana culture (X2\*Z) of 67.5 percent, whereas the other 32.5 percent is explained by factors not included in the research.

### Hypothesis Testing

Based on findings from a review of 34 LPDs throughout Denpasar City which are still actively operating as follows:

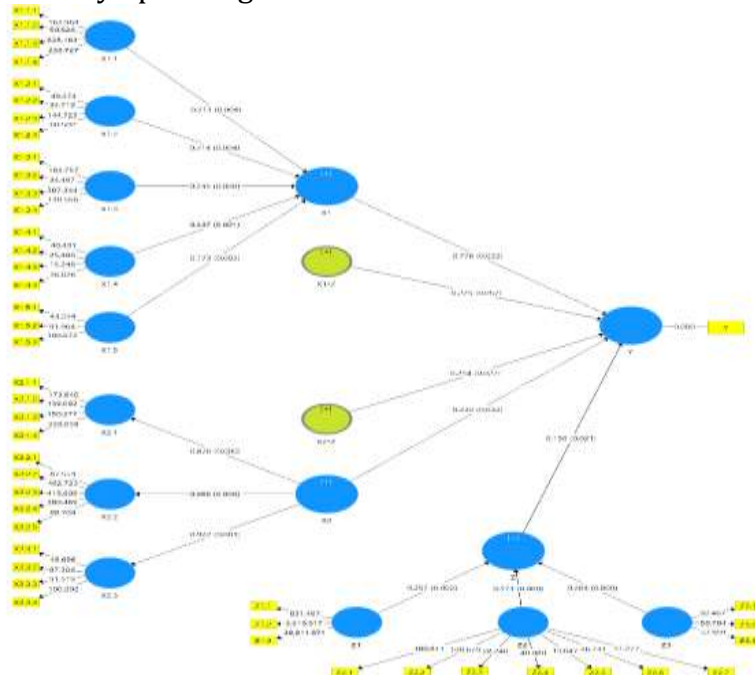


Figure 1. Empirical Research Model

**Table 5. Path Coefficients**

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics ( O/STDEV )</i>	<i>P Values</i>
X1 -> Y (Good Corporate Governance -> LPD performance)	0,776	0,690	0,118	6,562	0,022
X2 -> Y (Competence -> LPD performance)	0,232	0,549	0,042	5,472	0,032
X1*Z -> Y (Interaction of Good Corporate Governance with Tri Hita Karana Culture -> LPD performance)	-0,225	-0,509	0,056	3,994	0,057
X2*Z -> Y (Interaction of Competence with Tri Hita Karana Culture -> LPD performance)	0,234	0,313	0,039	5,935	0,027
Z -> Y (Tri Hita Karana Culture -> LPD performance)	0,150	0,184	0,022	6,824	0,021

**Source:** Proses data, 2023

Based on testing hypothesis 1 (H1) a correlation coefficient of 0.776 is obtained. The t-statistics value is 6.562 (> 1.96) with a p-value of 0.022 < 0.05 which claims that the performance of LPD is significantly impacted favorably by good corporate governance. Based on testing hypothesis 2 (H2) a correlation coefficient of 0.232 is obtained. The t-statistics value is 5.472 (> 1.96) with a p-value of 0.032 < 0.05 which claims that performance on the LPD is significantly improved by competence.

### Moderation Effect Testing

**Table 6. Criteria for Determining the Moderation Type**

No	Coefficient Regresi $\beta_2$	Coefficient Regresi $\beta_3$	Moderation Type
1	Non-Significant	Significant	Pure Moderation
2	Significant	Significant	Quasi Moderation
3	Non-Significant	Non-Significant	Homologizer Moderation
4	Significant	Non-Significant	Moderation Predictors

**Source:** Solimun & Fernandes (2014)

Based on testing hypothesis 3 (H3), a correlation coefficient of -0.225 is obtained. The t-statistic value is 3.994 (> 1.96) with a p-value of 0.057 > 0.05 which states that the Tri Hita Karana culture is not able to strengthen the influence

of good corporate governance on LPD performance. Based on testing hypothesis 4 (H4) a correlation coefficient of 0.234 is obtained. The t-statistic value is 5.935 ( $> 1.96$ ) with a p-value of  $0.027 < 0.05$  which states that the culture of Tri Hita Karana is able to strengthen the impact of competence on LPD performance.

## Discussion of Research Results

### Effect of Good Corporate Governance on the Performance of LPD

These findings suggest that the more effectively sound corporate governance is implemented, the more LPD performance will improve. This is in line with stewardship theory. In accordance with the stewardship principle, the LPD manager as a steward will acting in the best interests of the krama desa as the owner of the LPD. This is because the LPD manager feels that this action is a rational action. The LPD manager views this action as an effort to achieve the goals of the LPD. So that LPD managers implement good corporate governance as an effort to achieve LPD goals, namely to improve LPD performance.

Policymakers are becoming more aware of good corporate governance (GCG) as a virtue for boosting competitive strategies (Akinkoye & Olasanmi, 2014). The goal of adopting GCG concepts to LPDs is to increase LPDs' credibility and perception as professional, tradition-based organizations with robust internal control systems. Thus, Villagers may be more inclined to believe that the LPD exists as a result. Even though the LPD is a financial institution whose operational activities only reach the scope of customary villages, the application of GCG principles in managing the LPD is believed in order to benefit the LPD (Mulyawan et al., 2017). The results of Mulyawan et al., (2017) Darmayanti et al., (2020); Widiastuti et al., (2021); Julianti et al., (2021); Larasati & Ramantha (2022) which demonstrates the beneficial impact of excellent corporate governance on organizational performance.

### Effect of Competence on the Performance of LPD

These results indicate implies the greater the skill possessed by LPD managers, the more LPD performance will improve. This is in line with stewardship theory. Based on stewardship theory, the LPD manager as a steward is responsible for protecting and maximizing the welfare of village residents as LPD owners through LPD performance. So that to carry out these responsibilities, the LPD manager will mobilize all the capabilities and expertise they have for produce effective performance. So to be able to improve LPD performance, LPD managers must have adequate competence. This is because the competencies possessed by LPD managers will be very useful to assist LPDs in improving LPD performance. So that the higher the competency of the LPD manager, the LPD performance will further improve.

Competence is a fundamental characteristic of an individual related to a standard of superior and effective performance criteria (Spencer & Spencer, 1993). Competence is a willingness and ability possessed by a person to carry out the responsibilities and tasks delegated to those who are supported by adequate experience, skills, training, and education (Paramitha & Dharmadiaksa, 2019). The results by Dewi & Wirasedana (2018); Zidan & Padnyawari (2022); Dewi et al.,



(2022); Yanti & Suarmanayasa (2022); Hayati & Purwanto (2020) show that competence has a positive and significant effect on performance.

### **Tri Hita Karana Culture Moderates the Effect of Good Corporate Governance on the Performance of LPD**

According to the findings, the Tri Hita Karana culture was unable to increase the impact of good corporate governance on LPD performance. Based on the results of the tabulation of respondents' answers related to the LPD's adoption of the Tri Hita Karana way of life, it shows that there are several statement items with low scores. LPD managers do not think that working with dedication is the way to happiness, but LPD managers work with dedication because of their duties and responsibilities. LPD managers do not always act proactively in dealing with various problems and challenges in managing LPDs, which may be due to the limitations possessed by LPD managers. LPD managers do not yet have full awareness of maintaining the LPD environment.

These three things are thought to have caused the culture of Tri Hita Karana to be unable to increase the impact of good corporate governance on performance of the LPD. The findings of this study are consistent with studies done by Sujana et al., (2022) It demonstrates that in Badung Regency, the Tri Hita Karana culture is unable to mitigate the positive effects of effective corporate governance on LPD performance.

### **Tri Hita Karana Culture Moderates the Effect of Competence on the Performance of LPD**

These findings suggest that Tri Hita Karana culture has been shown to be a moderating factor that can enhance the impact of competency on LPD performance. Strengthening means that there is adequate competence from LPD managers followed the Tri Hita Karana culture's application, which together will improve LPD performance. According to the contingency theory, this supports the effectiveness of an organization comes from aligning or adjusting the characteristics of the organization with possibilities that reflect the organizational situation. LPD operational activities are closely related to the emerging native culture in Bali, specifically Tri Hita Karana.

Positive management is required for the Tri Hita Karana culture actions and behaviors (Suartana & Jati, 2017). Using the Tri Hita Karana culture as a role model, the LPD manager will not take actions that cause harm to the LPD and also to village residents as the owner of the LPD. A firm grasp of Tri Hita Karana's cultural values in LPD operational activities turns out to be able to provide support for the mindset of LPD managers to always carry out their duties in keeping with the operational standards of each LPD. The culture of Tri Hita Karana provides the view that every business process and decision-making must be based on three basic concepts, include parahyangan, pawongan and palemahan. LPDs that implement the principles of Tri Hita Karana culture will support the creation of an ethical operating style (Suartana, 2009). Adequate competence on the part of LPD managers when performing LPD operating tasks and supported by the application of the culture of Tri Hita Karana as a guideline for LPD managers in behavior, will be able to improve LPD performance.

## CONCLUSION

This study's conclusion is that LPD performance can have a positive impact from good corporate governance. The performance of LPDs can have a positive impact from competence. Tri Hita Karana culture unable to increase the influence of good corporate governance on the performance of LPDs, nonetheless, the Tri Hita culture can enhance the effect of competence on LPD performance. This means that the higher the competency possessed by LPD managers followed by utilizing Tri Hita Karana cultural principles, the LPD performance will jointly improve.

Based on the conclusions above, there are several suggestions that can be given as follows: LPD managers should maximize applying the rules of good corporate governance, add competencies needed in managing LPDs, and make the Tri Hita Karana culture a guiding principle for LPD managers in behaving so that can improve LPD performance. This research was only conducted over a period of time. So that in the future, it is still necessary to continue research studies that are more longitudinal in nature. Thus, it can be observed and can follow its development more dynamically. This will be able to prove whether the conditions obtained in 2023 are still the same or will experience changes in the future and what the impact of these changes will be on the object under study.

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