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The Role of Good Corporate Governance in Enhancing the Performance of Village Credit Institutions

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ABSTRACT

Good corporate governance is corporate governance that explains the relationship between all interested parties in a regulated and organized business. The principles of good corporate governance should be also applied by village credit institutions to improve their performance. This research aims to examine and obtain empirical evidence of the influence of good corporate governance principles, including transparency, accountability, responsibility, independence, and fairness, on the performance of village credit institutions in Blahbatuh District. This study involved 36 samples of village credit institutions with 108 respondents, determined by saturated sample techniques. The data were analyzed by multiple linear regression after instruments and classical assumption testings. The results showed that the principles of good corporate governance have a positive effect on the performance of village credit institutions in Blahbatuh District.

Keywords: Accountability, Independence, Fairness, Performance, Responsibility, Transparency

INTRODUCTION

The progress of a country can be measured by its economic growth rate. A country with a good rate of economic growth can not be separated from the role of its financial institutions. According to the Decree of the Minister of Finance 280/KMK.01/1989, Indonesian public funds come from both bank and non-bank financial institutions. Bali Province has non-bank microfinance institutions playing a significant role in the regional development. They are Village Credit Institutions located in each customary village. The institutions were first established in 1985 as village-owned institutions providing local communities with financial credit services, used as business capital and other activities.

The village credit institutions serve as a container of indigenous village wealth that carries out the function of economic empowerment of rural communities in Bali. They aim to help the local people to develop their economic activities (Gunawan, 2011). Village Credit Institution is a village-owned financial institution located in the village and for village *karma*. Ownership of Village Credit Institutions by village *karma*. Village karma is a village community within a certain village area and bound by the customs and culture of the village. The village credit institution is a financial institution owned by village *pakraman* that has developed and provided social, economic, and cultural benefits to its members. The existence needs to be improved, strengthened, and preserved (Suartana, 2009, p.12). The institutions perform the intermediation function through the receipt of savings and its main credit distribution from the people, especially to the surrounding community. According to Suartana (2009), the institutions provide business opportunities for local villagers, to accommodate rural workers, while eliminating the existence of loan sharks and eradicating poverty.

Aspects of the performance of village credit institutions do not differ much from other formal and informal financial institutions (Putra, Saitri, & Gunadi, 2019). Performance is the achievement overview of realizing a company's objectives to maintain its sustainability, the company must evaluate and improve its performance periodically. This study measured the institutions' quality, quantity, timeliness, effectiveness, and independence. Their management rules are simple and in accordance with the surrounding environment. Even so, they were able to provide benefits for the villagers by providing easier services depending on situations and conditions of the community, larger services to reach various sectors of business, customary activities, and economic development support (Pertamawati, 2008).

Village credit institutions are managed separately by village *kerama*, thus allowing the occurrence of institution conflicts. According to Shil (2008), institution conflicts arise when people in different positions sacrifice the purpose of the company to realize their individual interests if the company does not apply good corporate governance well. The institutions obtain loans from the Regional Development Bank, hence, the principles of good corporate governance must be applied to reduce conflicts of interest – between the manager and the owner, namely village *karma*, and between the manager and the creditors, namely Bali Regional Development Bank – maintain a good relationship and ensure the fulfillment of the rights of interested parties to build customer trust.

Good corporate governance, which is a concept based on institutions theory, serves as a tool to give confidence to indigenous villagers and customers that they will receive a return on the funds they have invested. Good corporate governance relates to how the *karma* of traditional villages and customers. The managers will provide benefits for them by carefully invest the fund of customary villages in proper projects. As the customers control the managers, good corporate governance serves to reduce or lower the institution's costs.

The implementation of good corporate governance will prevent mistakes in decision-making and self-beneficial actions so that it will automatically increase the value of village credit institutions. Good corporate governance principles consist of transparency, accountability, responsibility, independence, and fairness (Yuliastuti, & Tandio, 2020). This research aims to examine and obtain empirical evidence of the influence of good corporate governance principles on the performance of village credit institutions in Blahbatuh District.

Transparency is a principle that guarantees access or freedom for everyone to obtain information about the business organization's accountability. Knowing all information correctly and openly in resource management is one of the rights of stakeholders. This means that transparency of all information must be applied by the village credit institutions to provide trust for stakeholders. Open and easy access information is expected to make the performance of the village credit institutions better. Sari (2017) stated that there is a positive influence of transparency on the performance of village credit institutions in Badung Regency. Setyawan and Putri (2013) found that transparency has a positive effect on the financial performance of village credit institutions in Mengwi District. This formulates our first hypothesis:
H1: Transparency positively affects the performance of village credit institutions.

Accountability is the clarity of functions, structures, systems, and elements of a company. One of the requirements to achieve sustainable performance is to account for its performance in proper, and measurable accountability by taking into account the interests of managers and stakeholders. According to Bulandari and Damayanthi (2015) stated that there is a positive effect of transparency on the financial performance of village credit institutions in Badung Regency. Similarly, Dewi and Putri (2014) stated that accountability has a positive effect on the financial performance of village credit institutions in Gianyar Regency. This suggests the second hypothesis:
H2: Accountability positively affects the performance of village credit institutions.

Responsibility is conformity in the management of the company to the prevailing laws, regulations, and principles of a healthy company. Companies comply with applicable laws and regulations, including the fulfillment of stakeholders' rights, occupational safety and health, and avoidance of unhealthy business practices. This attitude can improve the company's performance and maintain the business in the long term. Setyawan and Putri (2013) underlined a positive effect of responsibilities on the financial performance of village credit institutions in Mengwi District, Badung Regency. Pradnyaswari and Putri (2016) argued that responsibility has a positive effect on the financial performance of cooperatives in Klungkung Regency. This put forwards our third hypothesis:
H3: Responsibilities have a positive effect on the performance of village credit institutions.

Independency is a situation in which the company is professionally managed without conflict of interest and pressure from parties that is not in accordance with the prevailing laws, regulations, and principles of healthy cooperatives (Suci, 2013). The decisions taken by management must be independent and not tied by any party. Objectivity in decision-making can improve the performance of village credit institutions because management is free from the interests of adverse parties.

Dewi and Dwijayanti (2014) stated that independence has a positive effect on the financial performance of village credit institutions in Gianyar Regency. Bulandari and Damayanti (2015) found that fairness has a positive effect on the financial performance of village credit institutions in Badung Regency. This formulates the fourth hypothesis:
H4: Independence positively affects the performance of village credit institutions.

Bukhori (2012) stated that the company always pays attention to the interests of stakeholders based on equal treatment and the principle of reasonable benefits. Fairness refers to the equality in meeting the stakeholders' interests based on applicable agreements, laws, and regulations. The company must always pay attention to the stakeholders' rights based on the principle of fairness and equality to improve the company's performance in a better direction. Sari (2017) proposed that fairness has a positive effect on the performance of village credit institutions in North Badung Regency. Pradnyaswari and Putri (2016) stated that fairness has a positive effect on the financial performance of cooperatives in Klungkung Regency. This makes the fifth hypothesis:
H5: Fairness positively affects the performance of village credit institutions.

RESEARCH METHOD

This research was conducted in Blahbatuh District. This study involved 36 samples of village credit institutions with 108 respondents, determined by saturated sample techniques. The data were analyzed by multiple linear regression after instruments and classical assumption testings. The operational definitions of variables in this study are:

1) Transparency (TKS)

The openness of the management of village credit institutions in carrying out the operational activities of the institution. This aspect was measured by the number of members of the supervisory body, the ability to provide financial statements and meetings between the management, supervisory bodies, and village manners.

2) Accountability (AKT)

Managers of village credit institutions must be able to account for public trust fairly and transparently about the investment or community assets on the institutions. The accountability was measured by the understanding of the chairpersons and managers to the vision, mission, and objectives of the institutions, their roles and responsibilities, financial statements, and evidence of good transactions.

3) Responsibility (RES)

The management of village credit institutions must comply with the laws and regulations and carry out responsibilities in accordance with the applicable. The responsibility was measured by the compliance of the chairman and managers of village credit institutions to the laws and regulations, the concern of village credit institutions to the environment, and decision-making.

4) Independence (IND)

Managers in taking decisions must be free from intimidation from others. The independence was measured from the managers' independent decision upon certain matters, which is free from the interests of various parties harming the institutions.

5) Fairness (KWR)

Fair and equal treatment should be given to all circles (village *karma*, government, and management) in accordance with applicable agreements, laws, and regulations. The fairness was measured by the opportunity of village *karma*/members of village credit institutions, and the acceptance of employees for village *karma*.

6) Performance of Village Credit Institutions (KLPD)

It was measured by quality, quantity, timeliness, effectiveness, and independence.

Dependent and independent variables in this study were measured by the Likert scale outlined in the questionnaire. The respondents were asked to refer to each of the statements provided with score 1 (Strongly Disagree (STS)), score 2 (Disagree (TS)), score 3 (Doubtful/Neutral (RR/N)), score 4 (Agree (S)), and score 5 (Strongly Agree (SS)).

The populations comprised chairpersons, employees, and customers. The data were collected by field research techniques, interviews, and questionnaires with 108 respondents. The data were then analyzed by multiple linear regression and validity, reliability, and classic assumption tests.

RESULTS AND DISCUSSION

According to Sugiyono (2017:03), the validity test is used to measure whether a questionnaire is valid and show the degree of accuracy between the data that occur in the object and the data reported by the researchers. The basis of the validity is that if the total value of Pearson correlation for each question item is above 0.30 then the data are declared valid (Ghozali, 2016, p. 53). Research instruments are declared valid if the significance level is below 0.05. The results of the instrument validity test are presented in Table 1.

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Table 1. Independent Variable validity test results and Dependent Variable

	Parson Correlation	Sig	Description
sparency			
	0,969	0,000	Valid
	0,927	0,000	Valid
	0,821	0,000	Valid
ountability			
	0,832	0,000	Valid
	0,804	0,000	Valid
	0,895	0,000	Valid
onsibilities			
.1	0,860	0,000	Valid
.2	0,867	0,000	Valid
.3	0,831	0,000	Valid
pendence			
1	0,852	0,000	Valid
2	0,719	0,000	Valid
ness			
1	0,832	0,000	Valid
2	0,904	0,000	Valid
3	0,837	0,000	Valid
ormance			
D1	0,504	0,000	Valid
D2	0,833	0,000	Valid
D3	0,661	0,000	Valid
D4	0,720	0,000	Valid
D5	0,812	0,000	Valid

Source: Data processed (2020)

Table 1 shows that all indicators used to measure the variables in the study had a correlation value greater than 0.3 and a significance value less than 0.5. This implies all indicators are declared valid.

The reliability test is a tool to measure the questionnaires and the variable indicators or construction. To measure the reliability, a statistical test of Cronbach Alpha (α) was used. A construct or a variable is reliable if the Cronbach Alpha value is above 0.70. The reliability test results are presented in Table 2.

Table 2. Reliability Test Results of Research Instruments

Variable	Cronbach's Alpha	Description
TR	0,880	Reliable
AK	0,825	Reliable
RES	0,798	Reliable
IND	0,704	Reliable
KW	0,820	Reliable
KLPD	0,741	Reliable

Source: Data processed (2020)

Table 2 indicates that all variables have Cronbach Alpha Value greater than 0.7. These results show that all the data used in the questionnaires are reliable.

The analysis model used in this study is multiple linear analysis aided with SPSS software. Multiple regression analysis was used to measure the influence between more than one independent variable and dependent variables (Ghozali, 2016, p. 96). The independent variables are transparency, accountability, responsibility, independence, and fairness. The dependent variables are the performance of village credit institutions. Table 3 below presents the regression results.

Table 3. Multiple Linear Regression Analysis Test Results

Variable	Regression Coefficient	t-value	Sig
stant	3,525	2,738	0,008
	0,788	7,240	0,000
	0,526	6,647	0,000
	0,100	1,997	0,049
	0,757	7,333	0,000
	0,505	4,216	0,000
R^2	0,752		
lue	54,413		
	0,000		

Source: Data processed (2020)

Adjusted R Square value of 0. 752 or 75. 2%. This shows that the variants of independent variables including transparency, accountability, responsibility, independence, and fairness were able to explain the dependent variable, the performance of village credit institutions. The remaining value (24.8%) is explained by other factors outside the research model. The F-count of 54.413 with a significance of 0.000 smaller than 0.05. These results show that the model fits with the observation data. The T-test results show that transparency, accountability, responsibility, independence, and fairness have a significance value above 0.05. This signifies that all independent variables examined in this study have a significant effect on the performance of village credit institutions.

Transparency is the disclosure of information related to companies' attitudes in maintaining their business objectivity. They must provide relevant information in a way that is easily accessible and understood by stakeholders. Village credit institutions in Blahbatuh District have been able to express not only the problems but also to make decisions. This is what encourages villagers' trust to invest their funds in the village credit institutions.

Accountability is the clarity of functions, structures, systems, and accountability elements of the company. The analysis results showed that the managers of village credit institutions in Blahbatuh District have accounted for its performance by proper and measurable accountability, and taken into account the interests of managers and stakeholders who added value in improving the company's performance. The positive effect on the performance of village credit institutions was accepted.

Responsibility is conformity in the management of the company to the prevailing laws, regulations, and the principles of a healthy company. The analysis results showed that responsibility has a positive effect on the performance of village credit institutions in Blahbatuh District. Village credit institutions managers are able to comply with all existing regulations and build a conducive business environment for the surrounding community and have concern for the environment.

Independency is a situation where a company is professionally managed without conflict of interest and pressure from other parties or in accordance with applicable laws, regulations, and corporate principles. The results showed that independence has a positive effect on the performance of village credit institutions in Blahbatuh District. This indicates that the managers of village credit institutions always give recognition to the rights of all village communities as stakeholders of the village credit institutions.

Fairness is equality in fulfilling the rights of stakeholders arising under applicable agreements, laws, and regulations. The findings of the study showed that fairness has a positive relationship to the performance of village credit institutions. The management properly and carefully manage the company's assets, so that the protection of the public interest appears honestly and fairly.

CONCLUSIONS

Based on the analysis results, it concludes that transparency, accountability, responsibility, independence, and fairness have a positive effect on the performance of village credit institutions in Blahbatuh District. Since this research was carried out in the scope of a district, further research is recommended to expand the research object to improve and complement the research such as the entire performance of village credit institutions in the District or Province of Bali. This study has not taken into account other factors beyond transparency, accountability, responsibility, independence, and fairness. Thus, it is recommended to expand the scope of research factors or other proxies.

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