Reflection on Values of Financial Governance of Village Credit Institutions in Bali

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Abstract

The banking sector is the main pillar in the economy, especially in Bali. Banks with cultural backgrounds and local wisdom have always been the top choice for customers in investing their income funds. The study aimed to examine the role of Local Wisdom, namely Tri Kaya Parisudha, financial governance with principles on the ethics of human behavior related to the Theory of Planned Behavior. The study adopted phenomenological research design, a qualitative method, and was conducted at a regional bank in Bali, namely BPD Bali. The data were collected via Triangulation technique using in-depth interviews, participation observation, and documentation. The results showed that the behavior with the concept of local wisdom, namely Tri Kaya Pari Sudha, became a foothold for bank managers, both from employees and managers because with the concept of thinking, speaking and doing good, customers gave a high sense of trust and the bank's financial structure became more stable.

Keywords: Local bank, local wisdom, governance, GCG, credit institution

1. Introduction

In Balinese society, there are Traditional villages (villages Pakraman) and Dinas villages. In accordance with the Regional Regulation of the Province of Bali No. 4 of 2019 concerning Traditional Villages in Bali. Traditional Villages (Villages Pakraman) are customary law community units that have territory, position, original structure, traditional rights, own assets, traditions, manners of community life from generation to generation which are bound in kahyangan Tiga and kahyangan desa as sacred places, duties and authorities to regulate and manage their own household. In the government system, the Traditional Village has customary law that is packaged in awig-awig, and has autonomy in managing the customary village household. Traditional village management is carried out by the Traditional Prajuru Village, which is chaired by a Bendesa Customary or Kubayan.

Tri Hita Karana has the concept that harmonious relationships are important in carrying out organizational activities (Mulyawan et al., 2017). Tri Hita Karana is a local wisdom (local genius) that has become a cultural personality because it is able to accommodate and integrate elements of foreign culture into the original culture. Universally, nature is seen as a system that involves God as the soul, humans as actors, and the environment as a container (Gunawan, 2011). The teachings of Tri Hita Karana imply that humans should always balance themselves with Hyang Widhi (God Almighty) or what is called Parahyangan, (b) maintain harmonious relations

with others or called pawongan and (c) maintain harmonious relations with the natural surroundings which is called as Pawongan.

The LPD business is growing in the midst of its competitors, namely similar financial institutions operating in Bali, Savings and Loan Cooperatives, Rural Banks (BPR), as well as commercial banks operating to rural areas. The number of competitors does not make LPD recede in its existence. In general, LPD is still able to survive. Judging from the business conditions, the total assets of LPDs throughout Bali as of the end of 2019 were Rp. 24,326,262,046 thousand. The profit value that was achieved in the 2019 period was Rp. 635,814,014 thousand. The success or failure of an organization as well as an LPD in carrying out its role is highly dependent on governance. Aspects of governance become very important in running the organization. Good organizational governance is needed to regulate and control the relationship between the organization's management and interested parties in the organization. It aims to create added value for all interested parties and effectively achieve organizational goals and work programs (Tiron-Tudor et al., 2021).

One example of a country is Korea, many companies in Korea have just realized that the threat of war is not a determining factor in the price of the company's shares there, but it turns out that it happened due to low investor confidence in the implementation of GCG by conglomerates who own companies that are controlled by companies on average family. The low GCG directly affects the company's economy in Korea;

about 80 percent of income South Korea Generated by these conglomerates ultimately has a low portfolio investment value (Kiroyan, 2015).

Corporate governance is how a company convinces stakeholders to get adequate returns for whatever they bring to the company, in the form of capital for investors, managerial expertise for executives, labor from workers, product inputs from outside suppliers, security from local government, or relationships with customers (Bhumik et al., 2019). Good organizational governance is one way to help achieve the goals and performance targets expected in the organization (Sulistiyowati et al., 2010). Good governance in organizations profit will increase firm value, financial performance, reduce risk and increase investor confidence (Newell & Wilson,

2002). Fu, Lin and Molyneux (2016) state that a successful corporate governance structure will increase public accountability, create value, minimize risk exposure and promote efficiency. Klapper and Love (2002) stated that good corporate governance will correlate to higher operating performance.

Previous research examining the phenomenon in Bali LPD has been carried out by several researchers by focusing on the governance component. Bulandari and Damayanthi (2014) researched openness, accountability, responsibility, independence, fairness of LPD financial performance. Other research from Atmadja et al. (2016) examined the internal control structure model, social capital and local wisdom Tri Hita Karana. Sadiartha (2017) examines village credit unions, economic culture and local wisdom Tri Hita Karana. Suartana and Jati (2017) explore a risk-based internal audit based on Tri Hita Karana and Catur Purusha Artha in the LPD of the Pecatu traditional village. Research on governance in Bali LPDs was also investigated by Sastra and Erawati (2017) with a focus on governance principles, local wisdom and LPD financial performance. Bhagawati and Adiyadnya (2018) examined personal factors, customers, interest rates, services, procedures and customer decisions. Anggayana and Wirajaya (2019) examined organizational culture, good governance and financial performance.

Based on the phenomenon of the existence of the LPD, this study wants to reveal the meaning behind the actions of the prajuru (managers) in the implementation of LPD finances. The phenomenon of financial governance is revealed by using a phenomenological approach as an analytical knife. Phenomenology is one of the approaches used in qualitative research with individual research subjects. Extracting information in this study lies in the experience of the stakeholders, namely from the aspect of Prajuru and Panureksa managers.

2. Literature Review

2.1 Governance

The theoretical impetus for governance research varies depending on which sector is being investigated. Within the scope of governance theory, the dominant paradigm is the stewardship model of governance Muth and Donaldson (1998) which emphasizes the capacity and willingness of managers to balance various interests in the professional search for corporate strategy (Clarke, 2005). Clarke (2005) notes that this is a failure to enforce oversight and fiduciary duties due to irresponsible Enron executives. Higgs (2002) advocated a greater role for non-executive directors in government as a mechanism to reduce the threat of what he termed "deviance." This contrasts with the stewardship model because it opens the prospect that organizations can be judged not only from above (by shareholders) but also from below by stakeholders in

general (Abzug & Galaskiewicz, 2001). Bhaumik et al. (2019) examined corporate governance in multinational companies in developing countries. Putra (2016) examines village governance, village governance, good governance, principles of good governance. Sari (2013); Gunadi et al. (2020) examined the governance of good governance, the quality of local government financial reports, the government's internal control system, government accounting standards, completion of audit findings.

2.2. Financial Governance

Financial Management in general is a form of administrative activity carried out in the form of several stages which include planning, storage, use, recording and supervision which then ends with accountability or reporting on the cycle of funds within an agency, both organizations and individuals at a certain period of time (Suyono et al., 2019). LPD financial management is an attempt to utilize LPD funds effectively and efficiently. Bali Governor Regulation No. 34 of 2019 concerning Financial Management of Traditional Villages in Bali requires that the financial management of traditional villages is all activities that include planning, budgeting, implementation, reporting and financial accountability of traditional villages. Anggayana and Wirajaya (2019) found that the principles of good governance have a positive effect on financial performance. The results of the research by Suparsabawa and Kustina (2018) show that the implementation of GCG will improve managerial performance and LPDs that apply GCG principles appropriately and continuously will be able to improve LPD performance and create a structured and transparent work environment. Sastra and Erawati (2017) found that the principles of transparency, accountability and culture of THK have a significant positive effect on LPD financial performance. This is in line with the results of research by Bulandari and Damayanthi (2014) and Mulyawan et al. (2017) which states that GCG principles can improve performance.

2.3 Theory of Planned Behavior

Theory of Behavior Planned Ajzen (2005) explains that a person's behavior is influenced by the intention to do while the intention is influenced by attitudes, subjective norms and perceptions of behavioral control. This theory assumes that a person's behavior is not only controlled by himself (full control of the individual) but also requires control such as the availability of resources and opportunities and even certain skills, so it is necessary to add behavioral control that is perceived to affect intentions and behavior Shane et al. (2003); Wibowo and Nulhaqim (2015) explain that there are three important related terms, namely social entrepreneurship, social entrepreneur (social entrepreneurs or those who do), and social enterprise social (organizations or companies that oversee social entrepreneurial activities or activities).

2.4 The Village Credit Institution (LPD)

Bhagawati and Adiyadnya (2018) explained that the LPD was formed on the basis of a cultural heritage in the form of Village Pakraman which is a form or container for a village level government system consisting of kinship ties. Thus, LPD can be defined as a non-bank financial institution created by Village Pakraman and functions as an economic empowerment of the manners of Village Pakraman (Sastra & Erawati, 2017). The Bali Provincial Regulation Number 3 of 2007 explains that the existence of LPD is needed to ensure the realization of the welfare of the indigenous peoples who are the Krama Desa Pakraman. In addition, LPD has role a very strategic for the community because so far it has served Micro, Small and Medium Enterprises (UMK) and also rural

communities through financial services with simple procedures and located close to rural customers (Yudana, Cipta & Suwendra, 2015).

2.5 Tri Hita Karana

Tri Hita Karana suggests that humans always maintain harmony in their relationship with God Almighty (parahyangan), maintain harmonious relations with others (pawongan) and maintain harmonious relations with the natural surroundings (palemahan). Tri Hita Karana has a concept that harmonious relations are essential in running an organization's activities (Mulyawan et al., 2017). It was universally, nature is seen as a system that involves God as soul, man as the perpetrator, and the environment as a container (Gunawan, 2011). The principle

of pawongan is associated with business activities, so business people are essentially human figures as creatures of God who are no different from other human beings. Business actors must maintain harmonization with others internally within the company and externally with the environment so that there is no conflict with stakeholders (Riana, 2011).

Schutz's phenomenology explains that in everyday life, humans are more of a practical reality for the "because" and "in order to motives" motives. Furthermore, from the phenomena and noumena that was successfully revealed from the informants, a process of meaning was carried out by describing, analyzing and interpreting various expressions, practices and behaviors of officers LPD managers. The framework of thinking is presented in Figure 1.

Figure 1: Framework

3. Method

3.1. Research design

In the study phenomenological research design, a qualitative method was utilized in order to describe and understand, in depth, the meaning of financial governance in LPD. Qualitative research involves a naturalistic interpretive approach to the world. Phenomenology explains phenomena and meanings for individuals by conducting interviews with a number of individuals and then their findings are connected with principles and ends with the essence of meaning (Creswell, 2007).

3.2. Informants

In this research, the settings were 2 (two) LPDs in Denpasar City, namely LPD Kesiman, and LPD Cangkilung. The reason for choosing Denpasar city was because LPD Kesiman and LPD Cangkilung were healthy LPDs. LPD Kesiman had a very rapid growth, while LPD Cangkilung had a relatively slow growth. Informants in this study, who were selected via criterion sampling method, a purposive method, were Panureksa and Prajuru (Chairman, Secretary and Treasurer), the supervisors and leaders in charge of leading human resources in LPD management. The informants were selected based on the

following criteria:

- 1) able to describe the phenomena they experienced, especially in their nature and meaning related to the management of the LPD,
- 2) someone with no experience conditioning or engineering in the process of providing information,
- 3) willing to be involved and to spare time for questions.

The informants in this study consisted of 6 (six) people consisting of Panureksa 1 (one) LPD (supervisor), LPD Prajuru (three people) consisting of Pamucuk (Leader), Screening (secretary), and Petengen (treasurer), and 2 (two) division heads, namely the Head of the Funds Section and the Head of the Credit Section.

3.3. Data collection and analysis

The data were collected via in-depth interviews, participation observation, and documentation. The research activities of observation stemmed from qualitative research on daily activities prajuru and Panureksa LPD in Denpasar. Daily symptoms of Prajuru and Panureksa LPD were not recorded but researchers recorded words or sentences and attempted to uncover all that was behind the symptoms displayed by prajuru and Panureksa LPD manager LPD. Referring to the opinion of Creswell (2007), the researchers made a complex picture,

examines words, detailed reports and views of informants and conducts studies on the situations experienced.

During the study, an interview with Informant Anm was conducted on October 8, 2021 at LPD Kesiman. Anm as the Head of the Fund Division, who is then given the Informant Code A. Informant A provides information about his role and experience as the Head of the Fund Division and the preparation of a work plan. On October 12, 2021, the researcher conducted an interview with Informant Rat which was held at LPD Kesiman. Rat was given the Informant Code B. Informant B provided a lot of information regarding the preparation of work plans, credit distribution procedures, non-performing loans settlement as well as his experience and role as Head of the Credit Division. Interview with Informant Mr. Tny was held on October 14, 2021, which was then given the Informant Code C. Informant C served as LPD Screening (Secretary). Interviews were conducted at LPD Kesiman. On October 15, 2021, the researcher also visited the Ars Informant to conduct an interview. Ars informant is Petengen (Treasurer) LPD and subsequently given informant Code D.

4. Results

In the study, on October 20, 2021 researchers conducted interviews with informants Ryn which is Pamucuk (Head) LPD hereafter called E. Informant Code D a lot to give its image regarding the role and ordinances LPD financial management. The last informant I interviewed was Sst, one of the Panureksa (Supervisors) at LPD Kesiman. The interview was held on October 24, 2021.

The results of the study are presented under each sub-title as in the following:

4.1. Village Credit Institutions (LPDs)

LPDs are classified as Microfinance Institutions (LKM) is non-bank financial institutions because the existence of LPDs is not included as a bank in the bank definition according to with the Indonesian Banking Law. LPD was established based on the Decree of the Governor of the Head of the Bali Level I Region No. 972 of 1984. The existence of LPD is needed to ensure the realization of the welfare of the indigenous peoples who are the Krama Desa Pakraman. The LPD owned by Desa Pakraman functions as a financial institution that aims to improve the standard of living of Krama Pakraman Village through managing the village's financial potential.

Bhegawati and Adiyadnya (2018) explained that the LPD was formed on the basis of a cultural heritage in the form of Village Pakraman which is a form or container for a village-level government system consisting of kinship ties. Thus, LPD can be defined as a non-bank financial institution created by Village Pakraman and functions as an economic empowerment of the manners of Village Pakraman (Sastra & Erawati, 2017). The role of stakeholders both internally such as employees and external such as the government, suppliers, creditors, and the wider community and so on with various backgrounds of interests will determine the survival of the company in the long term. LPD in running its business cannot be separated from the role of the government in this case the local government, creditor customers, customers and employees. The local government acted as a coach for and as a donor when the LPD was initially established. Provincial governments as well as district or city governments are routinely involved in developing LPDs. Most of the LPD customers, both depositors (creditors) and borrowers (debtors) are the people of Village Pakraman where the LPD is located. The government, employees and indigenous peoples where the LPD is located are stakeholders for the LPD.

4.2. LPD Soundness Level

Capital adequacy is a very important element for LPDs in the context of business development, maintaining possible risk of loss, protection of public funds stored in LPDs and risk of non-performing loans. The assessment of this capital aspect is based on the Capital Adequacy Ratio (CAR), which is a comparison between Capital and Risk Weighted Assets (RWA).

LPD assessment in the field of management, focused on the assessment of management in the areas of capital, assets, profitability and liquidity. Assessment in this field is more directed to qualitative criteria such as credit distribution systems and procedures in the form of credit requirements and credit analysis, protection of public funds, setting the percentage of reserves for losses on receivables on time for submission of reports, setting the Minimum Lending Limit (BMPK) and management requirements. Earning or the ability of the LPD to make a profit is very important, because with the profit earned, the LPD will be able to develop its business and expand the range of its services to the community. LPD's social function can also be carried out through the acquisition of profits. Earning or LPD's ability to generate profits is assessed by several aspects, including: First, the fairness of the ratio between profit and total wealth used to obtain the profit (ROA). Second, a reasonable ratio between operating income and operating expenses (BOPO).

4.3. Transparency

The principle of transparency requires that the LPD must be able to provide timely, adequate, clear, accurate and easily accessible information if stakeholders need it at any time. This theme describes the mechanism for delivering information about the financial condition of the LPD to stakeholders (stakeholders). Information on LPD finances consists of Monthly Reports, Quarterly Reports and Annual Reports. Monthly reports are submitted by the LPD to stakeholders through the Bendesa to be submitted to the banjars. Every quarter an evaluation of carried out the LPD's financial condition is. The first quarter of the evaluation is carried out by Panureksa, where Panureksa this is a representative of the community as the owner of the LPD. The second quarter of the evaluation involved Klian Banjar, Prajuru LPD and Prajuru Desa. The third quarter of the evaluation is carried out between employees, Prajuru LPD and Panureksa. The fourth quarter, which is the Year-End Report, was evaluated by involving the Klian Banjar, Prajuru Desa, Kerta Desa Saba Desa and leaders of Puri.

Every month we also submit a report to Jro Bendesa to be submitted to each banjar (ME31). Financial reports are open to be submitted, every month submitted to the Bendesa. Submission of information regarding the LPD according to the route, through the jro bendesa (MF14). The first quarter is evaluated by Panureksa which is the representative of the LPD owner, the second quarter is evaluated by Banjar clients, including LPD Prajuru, Village Prajuru. The third quarter of evaluation between employees, LPD Prajuru and Panureksa, fourth quarter accountability involving all villages Prajuru, Banjar Klian-klian, Kerta Desa, Saba Desa including Puri figures. We convey our responsibilities, our performance, and the soundness of the LPD, the level of risk, the growth of savings, and the growth of credit (ME30).

That information regarding the financial condition of the LPD is conveyed to the public openly and periodically through Banjar and Paruman Desa. This shows that the public can obtain information about the financial condition of the LPD through their respective Banjars. LPD's efforts to provide accurate and timely information are carried out with the help of information technology.

4.4. Accountability

Accountability is the ability of LPD managers to account for their performance in a transparent and fair manner. Through interviews with informants, several sub-themes were obtained that describe the principles of accountability in LPD, namely: (1) Clarity of Functions in the Organization; (2) Conformity of Competence with Responsibilities; (3) Role Selection Process; (4) Mechanism of

Reward and Punishment; and (5) Internal Control. Clarity of Functions within the Organization in the management of LPD is reflected in the job description that is owned by each employee.

There is... every head of department (section head) and employee has a job description (MA5). The task of tyang (me) is to coordinate the 10 collectors, supervise and be responsible for smooth operations (MA4). The main task of tyang (me) is to distribute funds/credit to customers. According to the job description, my job is to coordinate all parts related to credit: administration, analysis, billing and also to prepare a work plan (MB3). Responsible to the head of the LPD. Monitor daily cash balances, prepare funds for the next day. Approved all existing transactions (MD7).

Based on the statements of informants MA5, MA4, MB3 and MB7 above, it is explained that LPD has a job description job description that contains a clearing each organizational unit for each employee. The job description is used as a guideline in carrying out their duties, so that employees can understand how they must carry out their work and can establish relationships and communication with various parties related to their work.

4.5. Responsibility

This theme describes the LPD's social responsibility to the community. As a traditional village-owned financial institution, LPD plays its role in advancing the rural economy and distributing a portion of the profits earned for the welfare of the village community and strengthening adat. This is revealed from the following interview results:

In this belief, there are lots of moneylenders with high interest rates, the existence of LPDs to provide loans to the community at low interest rates. Improve people's lives. 20% of our profits go to the village. Every time there is an activity in the village, the residents no longer have to spend money. For example ceremonies, construction of infrastructure. This includes providing assistance to the banjars, for example, banjars need help to buy gongs, buy Clothes for PKK women, including a mourning fund for our residents. The amount of the mourning fund is 750 thousand per person, whoever our wed citizen who died (MD5)

LPD plays its role as a profit-oriented and social-oriented organization. As a profit-oriented institution, LPD must continue to maintain its business continuity, one of which is by strengthening capital, namely by using 60% of the profits obtained to increase capital every year. As a socially oriented institution, it carries out its social responsibilities by setting aside a profit of 20% annually to be distributed to traditional villages in order to strengthen the existence of customs and culture through the maintenance of temples and religious ceremonies. LPD also set aside 5% of the profits earned for mourning funds for indigenous peoples and other donations needed by the community.

4.6. Independence

Independence is a condition in which the company is managed professionally without conflicts of interest and pressure from other parties that are not in accordance with the principles of a healthy organization. Independence is very important in the decision-making process. The loss of

independence in the decision-making process will eliminate objectivity in the decision-making. The actions of Soldiers LPD in making decisions are explained by the following informants:

The challenges in credit are many, there are many of our people who will be executed by commercial banks, so that they are not executed, come here (LPD) asking for help. We can't help because we know the problem. He came to the bendesa... the bendesa handed it over to us, but because we know the conditions and we will not bring the LPD to the brink (ME33)

Statements by informants ME33 and MF20 explained that one of the challenges faced by the LPD Management was dealing with people who have various characters. People who feel they belong to the LPD have a desire to be served and assisted in overcoming the problems they face. When a resident comes to ask for help to take over credit, where the person's condition is no longer possible to be helped, the LPD Soldier can say no. Under these conditions the LPD leadership/management is able to act independently in making decisions by always being guided by the existing rules.

4.7. LPD Financial Governance in Balinese Local Wisdom

The position as the LPD manager is a mandate to carry the trust of the community. The position as the manager of the LPD is obtained through an election process through the Paruman Adat. This process implies that the LPD manager is selected on the basis of public trust in the individual concerned. The LPD manager has a major role and responsibility for the survival of the (going concern) LPD. This responsibility is not only based on the position obtained but is also based on the motivation of ngayah as a form of devotion both vertically in the future Sesuhunan (God Almighty) and horizontally to the LPD and the community or traditional village. This can be seen in the following statement:

The motivation for working in LPD is dedication (MA2). My first motivation is to serve the Kesiman Traditional Village, the second is to advance the LPD so that it remains healthy and advanced (MB2). His motivation is his nature of ngayah (serving) to advance the community (MC1). I want to contribute to the institution. Hopefully the skills I have can be passed on to the staff so that our LPD will be strong later (ME4). The meaning of the statements of informants MA2, MB2, MC1, ME4 and MF2 is that their motivation to work is based on the desire to sleep. Or serve the Traditional Village through the LPD. The concept Ngayah is one of the local wisdoms in Bali, namely as the application of the teachings of Karma Marga. The essence of the teachings of Karma Marga is "to serve". Karma Marga is jalantoward God by working or doing service.

5. Conclusions

The position as the manager of the LPD is a mandate to carry the trust of the community. The position as the manager of the LPD is obtained through an election process through the Paruman Adat. The results of the selection process mean that the LPD managers are chosen on the basis of public trust. The LPD manager has a major role and responsibility for the survival of the (going concern) LPD. This responsibility is not only based on the position obtained but is also based on the motivation of ngayah as a form of devotion to both the Sesuhunan (God Almighty) and to the LPD and the community or the Traditional Village.

The actors of governance in carrying out their responsibilities are always based on the philosophy, Tri Hita Karana, namely by maintaining a harmonious relationship between humans and humans, harmonious relationships between humans and their environment and a harmonious relationship between humans

and God Almighty. Maintaining harmonious relations between humans and humans is carried out through good cooperation between LPD managers and Traditional Villages in carrying out their responsibilities, providing condolence funds to community members who experience grief and maintaining relationships between LPD extended families. Maintaining a harmonious relationship between humans and God and a harmonious relationship between humans and the environment is carried out by participating in the construction of temples and the implementation of religious ceremonies.

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