

Implementation of Pararem Moderate the Effect of Good Corporate Governance and Internal Control on the Performance of Village Credit Institutions

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Abstract

This study aims to analyze the implementation of *pararem* in moderating the influence of good corporate governance and internal control on Village Credit Institution performance. The population in this study were Village Credit Institution in Badung Regency, the sample of this study was 122 Village Credit Institution and consisted of 244 respondents, namely the Head and 1 Village Credit Institution Internal Supervisor. Data collection was done by distributing questionnaires. The data analysis technique used is Moderated Regression Analysis (MRA). This study is expected to confirm theoretically the role of the implementing *pararem* in moderating the effect of GCG and internal control on Village Credit Institution performance in Badung Regency. The results showed that GCG and internal control have a positive effect on Village Credit Institution performance, but the implementation of *pararem* has no effect or has not been able to moderate the effect of GCG and internal control on Village Credit Institution performance. The results of this study can be used as evaluation material for Village Credit Institution to always pay attention to the existence of *pararem* as a rule that regulates all Village Credit Institution operational activities. This research is also expected to be useful as a reference for other similar studies and further research can be better than this research.

Keywords: Village Credit Institution Performance, Good Corporate Governance, Internal Control, *Pararem* Implementation

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INTRODUCTION

Village Credit Institution as a financial institution that conducts activities to collect and distribute public funds operates in a traditional village administrative area on a family basis among villagers and is subject to the applicable *awig-awig* or *pararem*. Behind this important role, several problems can still be found in Village Credit Institution, one of which is the existence of fraud cases. The problem that is often faced by Village Credit Institution in carrying out their business activities is the occurrence of bad credit. The occurrence of bad credit will certainly hamper the development of the Village Credit Institution. In addition to bad credit, embezzlement of funds by Village Credit Institution administrators also often occurs. This will certainly harm many parties, the most disadvantaged party in this problem is of course the Village Credit Institution customers (Atmadja et al., 2015).

Village Credit Institution is managed separately from the village *krama* and this separation creates information asymmetry that allows agency conflicts to occur, agency conflicts arise when people in different positions sacrifice corporate goals to realize personal interests. Agency theory shows that agents know more about company information, so to avoid information asymmetry, information disclosure or transparency is needed. Referring to agency theory, complying with all existing regulations and carrying out responsibilities to principals can have an impact on growth and have an impact on increasing performance on Village Credit Institution. Agency theory assumes that the customary village community as the principal demands the Village Credit Institution manager as the agent to maximize its performance to align the objectives between the principal and the agent (Mulyawan et al., 2017).

According to the Forum for Corporate Governance in Indonesia (FCGI, 2001) Good corporate governance is a regulation that establishes and regulates the relationship between the government, employees, creditors, board stakeholders, and other internal and external stakeholders or it can be concluded that GCG is a system that directs and controls the company. GCG is said to reduce the occurrence of conflicts of interest due to the higher trust of the village *krama*, reduce information asymmetry, reduce decision-making errors and always maintain stakeholder rights, thus it will be able to improve Village Credit Institution performance (Shanikat & Abbadi, 2011). There are important elements in GCG, namely GCG principles in the form of transparency, accountability, responsibility, independence, and fairness. Applying GCG principles, especially to Village Credit Institution, is expected to provide benefits to Village Credit Institution management which will lead to better Village Credit Institution performance (Erawati & Sastra, 2017). In addition to implementing GCG to improve performance, Village Credit

Institution also need a good internal control system.

Good organizational performance must have a good internal control system as well (Wiguna, 2016). According to the Committee of Sponsoring Organization of The Treadway Commission (COSO), the internal control system is a system or process that is influenced in providing convincing assurance that organizational goals can be achieved through effectiveness and efficiency of operations, presentation of reliable financial reports, and compliance with applicable laws and regulations. This internal control system includes the control environment, management risk assessment, accounting information and communication systems, control activities and monitoring. With this internal control system, it will improve organizational performance, provide input to leaders in making corrections to problems in achieving performance and providing opinions on organizational performance (Adnyani et al., 2021).

According to Mahardini (2018), to improve Village Credit Institution performance, a reliable control system is needed. The purpose of implementing internal control at Village Credit Institution is to avoid deviations from procedures, the financial statements produced by the company can be trusted and the company's activities run with applicable laws and regulations.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Based on agency theory, each party has different interests and they aim to maximize their interests which creates a conflict of interest (Merchant & Wim, 2017). Agency theory assumes that the customary village community as the principal demands the chairman and all Village Credit Institution employees as agents to maximize their performance in order to align the goals between the principal and the agent (Mulyawan, 2017). GCG in this case acts as a tool used by the principal to minimize agency conflicts that can harm the organization later. The implementation of GCG in Village Credit Institution is intended to make Village Credit Institution more trusted and seen as professional organizations based on customs and have the strength of a good internal control system. Thus, this can increase the trust of the village krama in the Village Credit Institution and lead to better Village Credit Institution performance.

The results of research by Astini & Yadnyana (2019), Jayantari & Gorda (2020) and Putra et al. (2020) revealed that the implementation of good corporate governance has a positive and significant effect on performance at Tampaksiring Village Credit Institution, Gianyar. Yuliantari et al. (2021), Sanjaya et al. (2022) and Latrini & Budiasih (2023) also revealed that GCG has a positive effect on Village Credit Institution financial performance.

This is similar to the research of Sari & Dewi (2019), Anik et al. (2021), Wendry et al. (2022), Nasrallah & Khoury (2022) and Saraswati & Damayanthi (2023) who found that GCG affects company performance and companies that have implemented good corporate governance properly and continuously will be able to improve company performance.

The implementation of good corporate governance is very necessary in running an organization. The principles that must be upheld by every organization include transparency, accountability, responsibility, independence, and fairness and equality. GCG is also one of the key factors in determining the health of the system and the ability to withstand economic shocks. The better the implementation of GCG in an organization, especially Village Credit Institution, the better the performance generated by the Village Credit Institution.

H1: Good corporate governance has a positive effect on Village Credit Institution performance.

Agency theory assumes that the customary village community as the principal demands the chairman and all Village Credit Institution employees as agents to maximize their performance in order to align the goals between the principal and the agent (Mulyawan, 2017). Not only implementing GCG, to ensure Village Credit Institution performance is running well, it is necessary to implement good internal control as well. COSO (2013) defines internal control as a process that is influenced by the internal management of the organization, and internal control is in the basic management process, namely planning, implementation, and monitoring. This internal control system will provide its own restrictions on what should be done and what should not be done. The internal control structure consists of control environment, risk assessment, information & communication control activities, and monitoring. An effective internal control system not only facilitates the evaluation of company performance but can also limit the level of risk. (Suárez, 2017)

The results of research by Ibrahim et al. (2017), Olufunmilayo & Hannah (2018), Handayani (2019), Yang et al. (2020), Alawaqleh (2021), Tetteh et al. (2022), Oppong et al. (2023), Pinontoan & Katohe (2023) and Nurdiansyah et al. (2023) stated that the internal control system has a positive effect on employee performance. In line with this research, Maharani & Damayanthi's research (2020) at Village Credit Institution Mengwi District shows the results that the Internal control system has a positive effect on Village Credit Institution Performance at Village Credit Institution Mengwi District. Adnyadi et al. (2021) conducted research at Village Credit Institution Mendoyo District, Jembrana Regency with the result that the internal control system has a positive and significant effect on organizational performance at Village Credit Institution in Mendoyo District.

If the internal control of a company has been implemented properly, managers can make better decisions to increase the efficiency and effectiveness of the company. An organization needs to improve internal control so

that internal control in the organization can be carried out effectively and efficiently in achieving performance levels. The higher the implementation of good internal control, the better the performance of the Village Credit Institution organization.

H2 : Internal control has a positive effect on Village Credit Institution performance.

Contingency theory has a postulate that the effectiveness of an organization in overcoming environmental uncertainty is an element of various subsystems designed to meet interconnected environmental demands as a tool to explain various variations in organizational structure (Latrini & Budiasih, 2023). The contingency factor used in this study is the implementation of *pararem* as one of the factors that support the successful implementation of GCG in an organization which has an impact on improving performance. The use of *pararem* is very effective in controlling Village Credit Institution management to avoid fraud that may be committed by internal Village Credit Institution parties (Pratama & Musmini, 2020).

Pararem is a rule that regulates the way of life in Balinese society. Like the law, the existence of Customary Law in the form of *Pararem* regulates the rules or ways of carrying out something and contains sanctions for violating the rules so that the customary village community makes guidelines for social behavior patterns. The *Pararem* itself is decided through a village paruman and has been approved by the entire village Krama. The sanctions stipulated in the village *pararem* are used as strength to bind the community (Sujana, 2020). The use of the *pararem* is very effective in controlling Village Credit Institution management to avoid fraud that may be committed by internal Village Credit Institution parties (Pratama & Musmini, 2020).

The results of research by Dewanti & Mulyadi (2019), Anik et al. (2021), Wendry et al. (2022), Nasrallah & Khoury (2022), Nugraha et al. (2023), Saraswati & Damayanthi (2023), Sinaga & Wirawati (2023), and Nurjanah & Handayani (2023) revealed that the implementation of good corporate governance has a positive and significant effect on performance. This is similar to the research of Sanjaya et al. (2022), Latrini & Budiasih (2023), Jayantari & Gorda (2020) and Yuliantari et al. (2021) which found that GCG has an effect on Village Credit Institution performance. This is inversely proportional to the research of Tahu et al. (2019), Rahmat & Istaningsih (2019), Situmorang & Simanjuntak (2019), Honi et al. (2020) and Rizki & Saad (2021) present evidence that GCG implementation has no effect on performance. Ariani et al. (2020), Dewi & Yadnyana (2021) and Yastini et al. (2022) also present evidence that GCG implementation has no effect on Village Credit Institution performance.

In this case, it is expected that the better the implementation of GCG, the more the performance of the Village Credit Institution will improve when the Village Credit Institution implements the *pararem* properly and correctly. So, it is hoped that the *pararem* variable will be able to overcome the inconsistency between several previous studies. Based on the description above, the following hypothesis can be formulated:

H3: *Pararem* implementation strengthens the effect of good corporate governance on Village Credit Institution performance

Contingency theory has a postulate that the effectiveness of an organization in overcoming environmental uncertainty is an element of various subsystems designed to meet interconnected environmental demands as a tool to explain various variations in organizational structure (Latrini & Budiasih, 2023). The contingency factor used in this study is the implementation of *pararem* as one of the factors that support the successful implementation of GCG in an organization which has an impact on improving performance.

The use of *pararems* is very effective in controlling Village Credit Institution management to avoid fraud that may be committed by internal Village Credit Institution parties. The effectiveness of the *pararem* is because the *pararem* has regulated the Village Credit Institution starting from determining the management to the distribution of Village Credit Institution profits, besides that there are also customary sanctions that make management feel afraid to violate it. (Pratama & Musmini, 2020). In this case, it is expected that the better the internal control of an Village Credit Institution, the more the performance of the Village Credit Institution will improve when the Village Credit Institution implements the *pararem* properly and correctly.

The results of research by Ibrahim et al. (2017), Nguji & Lestari (2019), Yang et al. (2020), Maharani & Damayanthi (2020), Putri & Endiana (2020), Jatmiko (2020), Alawaqleh (2021), Adnyani et al. (2021), Aminah et al. (2021), Tetteh et al. (2022), Mulyatini et al. (2022), Wijaya & Priono (2022), Oppong et al. (2023), Weli et al. (2023) and Saputra & Novita (2023) state that SPI has a positive effect on performance. The more reliable the internal control system, the better the performance of an organization. Conversely, a weak internal control system will reduce Village Credit Institution performance. This is inversely proportional to the research of Budiati et al. (2019), Sopian & Suwartika (2019), Adegboyegun et al. (2020), Napitupulu (2020), Jelantik et al. (2021) and Sukmawati & Susilo (2023) and which in their research found that internal control has a negative effect on performance.

In this case, it is expected that the better the internal control of an Village Credit Institution, the more the performance of the Village Credit Institution will increase when the Village Credit Institution implements the *pararem* properly and correctly. So, it is hoped that the *pararem* variable will be able to moderate and overcome the inconsistencies between several previous studies. Based on the description above, the following hypothesis can be formulated:

H4 : *Pararem* implementation strengthens the effect of internal control on Village Credit Institution performance

METHODS

This research was conducted at Village Credit Institutions in Badung Regency, Bali Province. The research time was carried out in 2023, which included the process of submitting a research title, preparing a proposal, collecting questionnaire data, analyzing and processing data, and preparing to complete a research report. The population in this study were all Village Credit Institutions in Badung Regency, totaling 122 Village Credit Institution. The sample method used is saturation sampling, which is a sampling technique from population members where the entire population is used as a sample (Sugiyono, 2019: 120). Then the number of samples used was 122 Village Credit Institution. Respondents in this study were 244 respondents consisting of the Head of the Village Credit Institution and 1 Internal Supervisor in each Village Credit Institution. The data collection method used a questionnaire with a Likert scale of 1-5. The analysis technique used in this research is the Moderated Regression Analysis (MRA) analysis technique which aims to calculate the effect of the independent variables Good corporate governance (X1) and Internal Control (X2) on the dependent variable Village Credit Institution Performance (Y) with the Implementation of *Pararem* as a moderating variable (Z).

RESULT AND DISCUSSION

Moderated Regression Analysis (MRA)

Table 1. Moderated Regression Analysis (MRA)

Model		<i>Coefficients^a</i>				t	Sig.
		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>			
		B	<i>Std. Error</i>	Beta			
1	(Constant)	87,931	35,415			2,483	0,040
	X1	0,133	0,036	0,233		3,734	0,000
	X2	0,134	0,042	0,224		3,223	0,001
	INTX1.M	0,004	0,014	0,413		0,293	0,770
	INTX2.M	0,025	0,016	2,452		1,575	0,117

Primary Data, 2023

Based on the results obtained from the Moderated Regression Analysis (MRA) in table 5.8, the following equation is obtained:

$$Y = 87.391 + 0.133X1 + 0.134X2 + 0.719M + 0.004X1 * M + 0.025X2 * M + e$$

- The significance value of the t test is $0.000 < 0.05$ so that the good corporate governance variable has an effect on Village Credit Institution performance, then H1 is accepted.
- The significance value of the t test is $0.001 < 0.05$ so that the internal control variable has an effect on Village Credit Institution performance, then H2 is accepted.
- The significance value of the t test is $0.770 > 0.05$ so that the good corporate governance variable moderated by the implementation of *pararem* has no effect on Village Credit Institution performance, then H3 is rejected.
- The significance value of the t test is $0.117 > 0.05$ so that the internal control variable moderated by the implementation of *pararem* has no effect on Village Credit Institution performance, then H4 is rejected.

Determination Coefficient (R²)

Table 2. Determination Coefficient (R²)

Model	Model Summary		
	R	R Square	<i>Adjusted R Square</i>
1	0,772 ^a	0,596	0,591

Primary Data, 2023

Based on Table 2, the value of the coefficient of determination obtained from the Adjusted R Square value is 0.591. This means that 59.1% of the variation in Village Credit Institution performance can be explained by the two independent variables of good corporate governance and internal control, while the remaining 40.9% (100% - 59.1%) is explained by other causes outside the model. This value indicates that the ability of the independent variables used in explaining the dependent variable can be said to be sufficient, although there are still 40.9% that can be explained by other variables outside the model.

Model Feasibility Test (F Test)

Table 3. F-Test

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2260,23	3	753,41	107,389	0,000b
	Residual	1529,43	218	7,016		
	Total	3789,66	221			

Primary Data, 2023

The results of the F test show that the calculated F value is 107.389 with a significance P value of 0.000 which is smaller than $\alpha = 0.05$, this means that the model used in this study is feasible. These results mean that all independent variables, namely Good corporate governance (X1), Internal Control (X2), the interaction variable X1.M and the interaction variable X2.M are able to predict or explain the phenomenon of the Performance of Village Credit Institutions in Badung Regency. This means that the model can be used for further analysis or in other words the model can be used to project because the goodness of fit results are good with a significance value of P value 0.000.

CONCLUSION

Agency theory assumes that the customary village community as the principal demands the chairman and all Village Credit Institution employees as agents to maximize their performance in order to align the goals between the principal and the agent, this has been reflected in the results of the study which found that the implementation of GCG and good internal control by the Village Credit Institution manager as the agent will improve Village Credit Institution performance and create goals that are aligned between the agent and the principal.

The contingency theory approach can be used as a breaking tool for differences in previous studies. The addition of moderation variables is expected to provide opportunities for other variables to solve problems related to differences in previous studies. The results found that the application of *pararem* has not been able to moderate the influence of GCG and internal control on Village Credit Institution performance, and the existence of *pararem* does not affect Village Credit Institution managers in implementing GCG and carrying out internal control activities to improve Village Credit Institution performance. The results of this study can provide input to all Village Credit Institution managers in Badung Regency so that it is hoped that Village Credit Institution in Badung Regency can maintain the effectiveness of the implementation of good corporate governance and internal control in an effort to improve Village Credit Institution performance and maintain a harmonious relationship between managers as agents and village krama as principals, but while still paying attention to the existence of their respective traditional village *pararems* in behaving and carrying out their performance.

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