

Comparison of Village Microfinance Institution Performance: The Case of Indonesia

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This study had two-fold purpose; the first objective is to verify the effect of the level of internal control implementation and the degree of institutional environment on loan performance of Village-Owned Enterprises (*Badan Usaha Milik Desa*—BUMDes) and of Village Credit Institutions (*Lembaga Perkreditan Desa*—LPD). The second objective is to determine whether or not there is a difference between BUMDes and LPD on its level of internal control implementation, degree of institutional environment and loan performance quality. The 82 respondents were managers of BUMDes and LPD in 40 villages of Buleleng, Bali, Indonesia. Data collected through questionnaires were analyzed using ordinal regression analysis. The results give indication of a positive influence on the level of internal control implementation and the degree of the institutional environment on BUMDes and LPD loan performance quality. In addition, it was found that the degree of the institutional environment perceived by managers in LPDs was higher than in BUMDes, while BUMDes loan performance was higher than LPDs. However, this study failed to find evidence of differences in the level of internal control implemented by BUMDes and LPD.

Key words: *BUMDes; Loan Performance; LPD; village Microfinance Institution*

Introduction

Fundamental changes concerning the management of village have been set up in Indonesia governance of local government due to Regional Government Law No. 32, 2004 and Law No. 6, 2014. As the results of that change the participation of villages in Indonesia becomes decentralized and also autonomous. The implementation of the decentralized and autonomous local government can be seen from how flexible the high management to the several aspects which categories vital. This flexibility of management is aimed to improve the condition of

economy and people's welfare in this country. Wiagustini (2015) explained in order to give stimulation and to encourage economies in Indonesia, a new approach is needed especially in establishing the institutions which focus on rural economy that are handled by *Badan Usaha Milik Desa* (BUMDes). BUMDes is the pioneer of financial institution, market, tourism objects managers, management of mining excavations and the other developing activities in villages. Despite that, In Indonesia, especially in Bali Province, the existence of BUMD stands in unstable condition. Several problems are raised in operational aspects. It happens as a logical consequence for providing loans to the community as the implementation of a microfinance institution function.

BUMDes is not the only village institution which providing loans (credit). The coverage business of providing credit is also done by LPD and even competition of both institutions cannot be avoided. As the consequence of the friction of both BUMDes and LPD, some problems arise in managing the same business in the same area. The business of savings and loan unit from various BUMDes that are by now operating is the most salient and promising thriving business. Meanwhile, according to Suartana, Jati, & Koroy (2017) it has reached 1,433 units for LPD numbers in Bali, with total lending in 2015 reach 10 trillion rupiahs. In other words, there are two different institutions run the saving and credit businesses for every village in Bali, in one *Desa Pakraman*, they are BUMDes and LPD. This condition leads the curiosity to reveal fierce level of competition from both institutions. The primary concern of this study uses limitation *Desa Pakraman* (traditional village) community only, especially in investigating the lending performance levels of BUMDes and LPD.

Several aspects between BUMDes and LPD such as: the loan performance, internal control implementation, and the institutional environment are used as the main target to empirical evidence of quality differences between BUMDes and LPD. Those targets are the aim of this study to ensure both institutions are based on the trust of their customers, so they have to show their professional and optimal performance. In order to achieve the goal, *Desa Pakraman* also plays important role in supporting the success of LPD as the owner of the community in village (Atmadja, 2013). According to Regulation No. 3, 2001 which convey about *Desa Pakraman* explained "financial institution is owned by *Desa Pakraman*, which covers entire *Desa Pakraman* societies. Moreover, it has been proven the capability of *Desa Pakraman* in designing unit for social capital in the activities of LPD managerial. Malhotra (1995) stated that the determination of the success of microfinance institutions and appropriate pricing policies lays on practical operational aspects. This statement is supported by Chaves & Gonzalez-Vega (1996) which explained an impact of organizational design play a big role, especially to embody the success of microfinance institutions in Indonesia. By having organizational designs, advanced financial will also being provided. It happens because these designs will determine not only the performance of organization or institution but also how the organization will be success or fail in doing business.

This condition is crucial because both of microfinance institutions, LPD and BUMDes in Bali constantly possess many issues even if they show rapid progress. Behind those progress and development, some of LPD and BUMDes especially in Buleleng Regency are known experiencing bankruptcy. There are 22 LPDs from 169 LPDs in Buleleng District were categorized as problematic in 2018. The capital, weak management of business, and conflicts in internal institution are the main causes of the LPD problem. Mudiarta (2018) explained that several permits of problematic LPD will be annulled by local government to rebuild good image of LPD and other relevant financial institution, such as BUMDes. Revoking permits of problematic financial institution is really needed to develop a village economic management.

Significant turnover of BUMDes in Buleleng showed good result of development. Tajun village and Tunjung village are two villages in this regency which are success in stimulating the economy and reducing the poverty in their area. The Head Empowerment Agency of Village Community in Buleleng Regency, Gede Sandiyasa, revealed that there is no problematic BUMDes in Buleleng, however supervising from his party should be always given as the technical guidance for BUMDes. It should be done as preventing action for early conflict that can interfere BUMDes continuity (Adnyana, 2018). Therefore, according to the problems that have been explained above, testing and analyzing the the role of LPD and BUMDes are being the aim of this study. The different role of both financial institutions will be analyzed based on three different terms, such as: loan performance, internal control implementation, and institutional environment. Moreover, LPD and BUMDes have dealt for the same area of saving and credit business in the same area of territorial, *Desa Pakraman*. Testing LPD and BUMDes system of internal and the institutional environment on loan performance in Buleleng Regency is also determined to be the focus of the current study.

Literature Review

The Level of Internal Control Implementation and the BUMDes' and LPD's Loan Performance

Operating system as well as control system are two main systems of two levels that owned by an organization in every activity. The first system, operating system, is used to check the set of objectives. On the other hand, the procedures, rules, and instructions as the coverage of control system are intended to make sure the operating system achieved the aim. Baridwan (1999) mentioned the internal control purpose is maintaining the company property security, examining accounting data accuracy and correctness, advancing the company operations efficiency, and helping to keep the policies of management. There are five elements of the internal control, such as: control activities, control environment, risk assessment, information & communication, and monitoring. In order to achieve its objective, an organization is helped and allowed by a sound internal control system. It is just like savings and loan of LPD and BUMDes, cash is considered play essential role as "raw material," where both institutions can

be relied on. So, both of institutions can give safe guarantee of customer money and assets, accountable report, and also increase the performance well. Important part of company so the target can be achieved effectively and efficiently is internal control. In 1992, The Sponsoring Organization Committee of the Treadway Commission (COSO) provides definition of internal control. This kind of control is defined as a process in providing adequate confidence to reach three objectives such as: operation effectiveness and efficiency, reporting finance reliability, and the forced laws and regulations compliance. This process involves the commissioner board, management, and other personnel designed. In 2013, the Internal Control-Integrated Framework (ICIF) has published the revision document from 1992. Furthermore, COSO (2013) defines Internal control as a process which is dealt and induced by the entity directors board, management, and other personnel, that should be set in providing reasonable assurance to achieve the goal of operations, reporting, and compliance.

Baraldi (2008) reveals the basic process of evaluation instrument in controlling the risk is the structure of internal control. In various organizations, this structure is considered as a pillar to prop up the accounting system measurement efficiency and effectiveness (Olatunji, 2009). It is also used to discover the consequences of the risk. The size of the credit risk is critical, especially in checking and measuring the loan performance of financial institution, like: LPD and BUMDes. Robbins (2006) explained the term of performance as the assessment result of activities that conducted by implementing the judgment based on the predetermined criteria. Hence, in order to ensure efficient and effective loan performance organization, this process then requires adequate system for internal control.

Virnawan & Putra (2014) mentioned there are several aspects that have crucial and positive impact on the efficiency especially in providing lending service of microfinance institutions in Tabanan Regency, Province of Bali, such as: control environment, control activities, risk assessment, information and communication. Meanwhile, according to Wahyuni (2006) accounting system and the control environment have merely significant influence on the ratings of loan performance. Purnamadewi (2010) found that there is no significant effect on structure of internal control, environment of internal control, and the accounting system, while considerable influence on the loan performance of microfinance institutions in Denpasar are shown by the control procedures. Maharani dan Ramantha (2014) also found that internal control aspects bring more essential effect, those aspects are control environment, control activities, risk assessment, information & communication, and monitoring.

Based on the discussion above, the first hypotheses can be formulated as follows:

H_{1a}: The aspect of internal control influences the loan performance of village-owned enterprises (BUMDes) microfinance institutions

H_{1b}: The aspects of internal control influences the loan performance of microfinance institutions Village Credit Institutions (LPD)

The Degree of Institutional Environment and the Loan Performance of BUMDes and LPD

The institutional environment is defined as a fundamental rule set which focus on political, social, and legal aspects process (Davis & North, 1971). Those aspects underlie on the level of production, the process of good exchanging and also distribution. The term of institutional environment then is classified by Arsyad (2005b) into institution of formal and informal. Formal institutions refer to government laws and regulations that are in form of written rules. Furthermore, private institution continues the process by doing codification and adoption to those rules. Whereas for informal institutions; social, codes of ethical like norms and sanctions are reflected from this process which deal to the outside of formal legal system. Contrary to informal institution, Institutional Theory provides a better understanding of how organizations survive and are influenced by the pressures from the external environment of organization, like: functional, political and social pressures (Ashworth, Boyne, & Delbridge, 2009). According to DiMaggio & Powell (1983) legitimacy is believed to lead organizations in the environment of public sector to the isomorphism situation (isomorphism) in order to create more homogeneous condition.

The organization of LPD and BUMDes also cannot be separated from their role in society. Based on the theory of institutional, institutions outside the organization have tremendous influence in persuading the decisions that should be taken by organizations. The institutional theory stated the existence of two categories of environment influence in organization, those are environmental impacts and environmental influences. Environmental impacts as the first category deal with technical and economic aspects that more concerns on effectiveness and efficiency impact to the institution. Meanwhile, socio-cultural elements are the focus on environmental influences. The institutional theory also shows that in their external environment, an organization depends on the rules of institutional to identify kinds of behaviors whether it is accepted or expected in building the legitimacy in their markets (DiMaggio & Powell, 1983; Scott, 2014). Formal and informal rules are parts of external environment, while legal rules mainly set by the regulatory body like: regulations, laws, and other measurable and explicit social rules which are expected as socially for daily practices. Norms, standard culture, and ethics are used as the reflection of informal rules.

There were some confirmations from previous researchers that discussed about a functional relationship between the loan performances of microfinance institutions the institutional environment in Bali. Astawa et al. (2012) finds that the implementation values of socio-cultural held tightly by the community that concern on balancing and harmonizing the main relations of human, those are: relations with God, relation between humans with humans, and the last relation with the environment in managing micro-finance institutions in Bali. The data showed that this implementation proved the level of risk for non-customer credit non-addiction (non-performing loan) reduce up to 3% -7%. Besides that, Suasih (2016) also proves that external environmental factors, like: economic conditions and the business competition level with

similar financial institutions play important influence to the level of risk for non-performing credit for microfinance institutions in Bali.

Formal institutions and informal institutions are two main aspects which blow strong influence to the sustainability of microfinance institutions both financial performance and business in Bali (Arsyad, 2005a). The policies issuance by the government reflect the legal institutions influence in both central and regional government in the form of provisions that deal with the legal basis for institutions and regulations establishment. There are several aspects as the influence indication of informal institution, those are (1) the use of native or local people in managing the institutions and implementing the system of character-based lending, (2) implement the custom sanction (social) in imposing the clients to pay-off their obligation punctually, and (3) apply certain application (mobile banking) to obtain the credit process of deposits and collections.

Based on the discussion above, the second hypotheses can be formulated as follows:

H_{2a}: The institutional environment influences the loan performance of village-owned enterprises (BUMDes) microfinance institutions

H_{2b}: The institutional environment influences the loan performance of microfinance institutions Village Credit Institutions (LPD)

The Comparison of the Internal Control Level, Institutional Environment Degree and Loan Performance of BUMDes and LPD

The comparison of LPD and other institutions in financial is quite unique, it happens because LPD is handled headlong by *Desa Pakraman*. All of activities and things that need to be managed in LPD should be under *Desa Pakraman* supervision. Moreover, Suartana et al. (2017) explained that the aspects of social and Balinese custom play big role in consolidating the management process of this institution. The system that is used to manage LPD itself is incorporated into the government of Pakraman village. Specific system that is owned by LPD in managing-self is integrated well into the village government where this institution operated. Self-financing is the mechanism that is used by LPD as the microfinance institution. It is conducted by providing the deposit of saving and collecting the mobilization of earnings. According to Atmadja (2013) LPD achievement relates to the role of this institution owner, in this case is the *Desa Pakraman*. *Desa Pakraman* sets some capital which is beneficial in the management of LPD. The benefit can be seen in the form of several capitals, those are: economic, social, and human capital. Capital of Economic is earned by all villagers' money in the form of cash and obligations. The capital of social is in the form of social-networking, norms, and also *Desa Pakraman* values to boost the partnership. LPD also can give control to the LPD client and administrator so they are able to take action based on their respective rights and obligations. And for the capital of Human is shown by the result of LPD management

election. LPD can be distinguished from other financial institutions because of the existence of its social capital and it also frees LPD from its classical problems. LPD problems can be abusing of employees and also bad loan/credit.

Based on the discussion above, the second hypotheses can be formulated as follows:

H_{3a}: There are differences in the level of internal control between Village-Owned Enterprises (BUMDes) and Village Credit Institutions (LPD)

H_{3b}: There are differences in the level of institutional environment between Village-Owned Enterprises (BUMDes) and Village Credit Institutions (LPD)

H_{3c}: There are differences in the quality of loan performance between Village-Owned Enterprises (BUMDes) and Village Credit Institutions (LPD)

Method

Research Design

The design of this study used the research of quantitative. It is conducted by distributing questionnaire to the respondents, those are: the credit managers, treasurers, other staffs, and also head of BUMDes and LPD in Buleleng Regency. Those BUMDes and LPD were located in seven sub-districts which spread over 40 villages. The sub-district area of this study was divided into two districts in the east of Buleleng (Kubutambahan and Tejakula District), two districts in the west of Buleleng (Gerokgak and Seririt District), and three other districts in the central Buleleng (Banjar, Sukasada, and Buleleng District). The aim of delivering the 160 (one hundred sixty) questionnaire is to check the instrument and acceptance level which given two copies for the managers of BUMDes and LPD in each village. Though in collecting data the same amount of questionnaire were returned back, yet only 82 are qualified completely filled in by the respondents. The data shows that 72% of the respondents are male, 52% respondents had graduated from elementary to high school education, and most of respondents (81%) were in the age of 30-50 years old.

Measures

The repayment loan & rates loss ratios are used to define The Loan performance Quality variable. This variable is assessed by implementing scale of Likert which ranged from the highest scale 5 "never" to the lowest scale 1 as "always". In order to implement this scale, two statements are designed. The first statement is (1) "There are customer loans that cannot be collected by BUMDes" and for the second one is (2) "BUMDes incur losses due to late payment of loans by customers". In this study, the score of Cronbach's Alpha is 0,670; with the range of Correlation Coefficient 0,852 until 0,883.

According to COSO (2013) the variable of Internal Control Aspect refers to the internal control degree of component application. The examples for this variable are assessment of risk,

environment of control, control activities, information and communication variable, and also monitoring which judged through 13 questions by using the scale of Likert. Those questions are intended to disclose the finding of this study and fulfill the validity aspects which Cronbach's Alpha is 0,914 with Correlation Coefficient ranges 0,618 - 0,782.

Variable of Institutional Environmental is defined as the degree of external conditions. This degree is felt by the managers of microfinance institutions while handling the lending process, managing the rules from both governments of central and also regional, also the customs and norms which were assessed by using the scale of Likert in the form of adopted 9 (nine) questions from Akbar et al (2012). Besides, 6 (six) questions are designed related to Institutional Environmental Variable that reached the validity aspects with the score for Correlation Coefficient ranges from 0,688 - 0,858; with Cronbach's Alpha shows 0,870.

Based on the condition above, this study uses the techniques of data normality to assess the variable relation especially when dependent variable is rated on the certain scale like Likert Scale. It was conducted with the assumption which explained by Elamir & Sadeq (2010) that the test for normality and homogeneity cannot reach satisfied condition conclusively. A test of non-parametric sample group, Mann-Whitney test, was chosen to test the level of internal control difference between LPD and BUMDes. Mann-Whitney test is used to reveal the differences between two sample groups' answers. Nachar (2008) stated that it is not too proper when the variables which are measured by the scale of measurement use the ordinal type.

Results and Discussion

The Level of Internal Control and the Loan Performance of BUMDes and LPD

In this study, the first hypothesis (H_1) predicts the internal control implementation and the loan performance from both microfinance institutions BUMDes (H_{1a}) and LPD (H_{1b}) have significant relationship. The tool analysis of ordinal regression is used by operating the independent variable in this case is variable of internal control (IC) and the dependent variable, that is Loan performance (PERF). The results for the test on the model predictive ability for the hypothesis of H_{1a} (Chi-Square = 45.535; p-value = < 0.01) and hypothesis of H_{1b} (Chi-Square = 47.659; p-value = < 0.01) indicates that better predictions are provided by the final model (Elamir & Sadeq, 2010). It shows different result if compared to the previous model, intercept-only. Therefore, the adequate ability in predicting is owned by the proposed model.

Moreover, the reliability is also used to make measurements of the model by providing the explanation for the variations that happens because the use of Pseudo R Square as the parameter data. In one hand, this parameter can be the indication for showing how magnitude the dependent variable proportion of variation caused by the variable of independent. The greater Pseudo R Square value of the criterion, the better the quality that is owned by model proposed (Iyare, 2016). On the other hand, testing level of the data and proposed model consistency that

used the parameter of the Goodness-of-Fit, is stated as the good model if the Chi-square score gives insignificant values (Elamir & Sadeq, 2010). As a result, according to Chen & Hughes (2004) the test of Parallel Line with the criteria of assumptions is fulfilled if the values of Chi-square are insignificant used to perform the test of fulfillment assumption for the models which have equal value for their regression coefficients. In this study, the criteria of reliability is accomplished by the proposed model (Pseudo R Square > 0.4) and it is stated consistently (both Chi-square for Pearson's and Deviance's show p-value > 0.05) and get the Chi-square equality score for the assumption of coefficient (p-value's) > 0.05).

Table 1 (test of the hypothesis H_{1a}) and table 2 (test of the hypothesis H_{1b}) show how the independent variable gives influence on the variable of dependent and also the parameters for estimated value in this study. The relation of both variables, dependent and independent, whether they are directly or indirectly occur are used as the indicators for positive/negative token on independent variable coefficient/estimation as stated in the thumb rule. The increase probability of the variable of independent which makes the variable of dependent set to the "higher" position (can be seen in the category of credit/loan performance which is increasing from the level "fair/enough" to the level "good") is illustrated by the increasing of independent variable value with the positive coefficient. Vice versa, the increasing value of the variable of independent with the negative coefficient shows the increasing probability of the variable of independent. As the result, the dependent variable will downgrade to the "lower" position (the example of this condition can be seen from declining the performance of credit category from "enough" changes to "poor").

A positive and significant value have been shown in table 1, the variable of independent magnitude of the regression coefficient with the value of IC 56.00 ("Low" level). This result means that variable of independent increasing value "IC 56.00" ("Low" level) accord with the increasing probability of the performance of credit as the dependent variable in the "low" category/level. Or we can say that the level of loan performance quality of the members of BUMDes (direct relationship) can be reduced by decreasing aspect quality of the internal control (shown by "low" IC). Independent variable magnitude of regression coefficient in table 2 with the value of IC 56.00 has shown there is a positive value (3,690) and with p-value = 0.001 that categorized significant. It means a decreasing level of loan performance perceived by the members of LPD (indirect relationship) can also be caused by the declining in the aspect of internal control quality which is shown by the "low" IC of independent variable. Therefore, the relation between the variable of internal control and the variables of loan performance for both BUMDes and LPD is stated have a positive/direct relationship which empirical data is declared support the hypotheses for H_{1a} and H_{1b} .

Both systems in organization, operating and control systems are used to manage the microfinance institutions, like LPD and BUMDes. The system that is created to settle the set of objectives is the operating system, while the other system, control system, is designed to make sure the procedures, rules, and instructions can be conducted well to run the operating

system. Adequate system of internal control is also needed. It happens because saving and credit/loans which are the main focuses of microfinance institutions greatly depend on the customers' trust, village communities' trust. Munawir (2008) stated that the sound structure of internal control is not only delimited on the issues around the department of financial and accounting. COSO provides definition for internal control as the basic process to accomplish the target of company that influenced by the company/organization management. Haq, Hoque, & Pathan (2008) explained the internal control purpose is several activities in monitoring and managing risk, minimizing deception and irregularities, and controlling behaviour of employee. Hence, safe guarantee for customer money and assets, accountable report, and also better performance should be given as an internal control of LPD and BUMDes.

In improving the performance of credit/loan for microfinance institutions, credit policies especially to organize the operation of credit management are needed to be developed (Pandey, 2015). According to Annual Report Central Bank (2010) the source of income for microfinance institution is stated unstable. It happens because the loan and interest payment are gained from the individuals with low-income. According to Ditcher (2003) specific method for doing evaluation and providing credit play crucial role in achieving successful lending. Therefore, as consideration for credit approval, a set of evaluation for checking the background of borrower and also the risk condition of the loan must be passed first.

Table 1: *Parameter Estimates (Hypothesis H_{1a})*

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[PERF = 6.00]	4.010	1.207	11.044	1	0.001
	[PERF = 7.00]	5.347	1.339	15.940	1	0.000
	[PERF = 8.00]	9.200	1.921	22.932	1	0.000
Location	[IC = 56.00]	4.736	1.466	10.438	1	0.001
	[IC = 65.00]	0 ^a			0	

Link function: Logit

Table 2: *Parameter Estimates (Hypothesis H_{1b})*

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[PERF = 6.00]	3.330	0.708	22.140	1	0.000
	[PERF = 7.00]	3.975	0.744	28.524	1	0.000
	[PERF = 8.00]	6.130	0.940	42.499	1	0.000
Location	[IC = 56.00]	3.690	1.064	12.035	1	0.001
	[IC = 65.00]	0 ^a			0	

Link function: Logit

The Degree of Institutional Environment and the Loan Performance of BUMDes and LPD

The correlation between the environment of institutions and the performance of BUMDes' credit (H_{2a}) is predicted as significant as the performance of LPDs' credit (H_{2b}) in the second hypothesis (H_2) of this study. In that hypothesis, the steps in testing are organized as what have been conducted for the first hypothesis. The Ordinal Regression Analysis tool is used to test by managing the independent variable of this study (Institutional Environment) and the variable of dependent (the performance of credit). The result shows that the model predictive ability which refers to the hypothesis of H_{2a} have Chi-Square value = 16.755 and the p-value = 0.000, meanwhile the value of Chi-Square of the hypothesis of H_{2b} shows 28.172 with p-value = 0.021. According to that result, it indicates that better prediction is able to be provided by the final model than the model of the intercept-only in the variable of dependent (Elamir & Sadeq, 2010). All in all, the adequate predictive ability is owned by the model which is proposed.

Besides, measurements were made of the model reliability in providing the explanation of the data variants in implementing the parameter of Pseudo R Square data. On one hand, it is indicated that the parameter of Pseudo R Square has magnitude variable of dependent variety which induced by the variable of independent. Iyare (2016) states that the higher value that is shown by Pseudo R Square, better quality that will be owned by the proposed model. On the other hand, Elamir & Sadeq (2010) state that the consistency level of testing will be good if the value of Chi-square shows insignificant result. The level of consistency refers to the consistency data and the model which proposed using the parameter of Goodness-of-Fit. Moreover, the test of parallel line is used to convey the compliance of assumption testing that its model has equal value for the coefficient of regression. Chen & Hughes (2004) explain the use of parallel line test should be based on the assumption as the criteria which reach the insignificant values of Chi-square. According to the result of data analysis, the criteria for the reliability can be gained and fitted for the proposed model (Pseudo R Square > 0.4). It also can be seen from the assumption for equality coefficient is met (p-value for Chi-square is more than 0.05), with the Chi-square values for both Pearson's and Deviance's are more than 0.05.

The values for the estimated parameters and the gauge of the independent variables influence on the variable of dependent were displayed in Table 3 (Hypothesis H_{2a}) and Hypothesis H_{2b} in table 4. Direct relationship that shown between the variable of the independent and dependent is indicated by the numbers that are signed on the coefficient whether there is positive or negative number, which is stated in the thumb rules. The increasing probability in the independent variable is illustrated by the increasing value with the positive coefficient. This condition leads to the "higher" level of the variable of dependent, for example from "Enough" to "Good" level of loan performance. Meanwhile, increasing probability of the independent variable is shown by the increasing value of the negative coefficient of independent variable which drag down the dependent variable to the "lower" level. It can be seen from decreasing "Enough" level to "Bad" level of performance of credit

Table 3: *Parameter Estimates (Hypothesis H_{2a})*

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[PERF = 6.00]	2.221	1.322	2.822	1	0.093
	[PERF = 7.00]	2.831	1.350	4.400	1	0.036
	[PERF = 8.00]	5.016	1.544	10.561	1	0.001
Location	[IE = 18.00]	3.570	1.645	4.172	1	0.030
	[IE = 27.00]	0 ^a			0	

Link function: Logit

Table 4: *Parameter Estimates (Hypothesis H_{2b})*

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[PERF = 6.00]	3.566	1.121	10.123	1	0.000
	[PERF = 7.00]	3.992	1.134	12.396	1	0.000
	[PERF = 8.00]	5.645	1.233	20.906	1	0.000
Location	[IE = 18.00]	3.861	1.332	8.409	1	0.004
	[IE = 27.00]	0 ^a			0	

Link function: Logit

The coefficient value of regression in table 3 reveal that the value of IE as the independent variable is 18.00 which categorized as “low” level which reach a positive value (3.570) and (0.030) significant p-value. According to the data, the increasing value of independent variable IE (18.00) relates to the increasing probability of the variable of dependent in the performance of credit is stated in the “low” lever. In other words, decreasing aspect quality of the institutional environment can lead to decreasing level quality of the performance of credit which apprehended by the BUMDes members as the part of direct relationship. The coefficient gauge of the independent variable regression is stated in the “low” level with the value of IC is 56.00, that has a positive value 3.690 and significant value (p-value = 0.001). It means, decreasing quality level of LPD loan performance can be caused by the decreasing aspects quality of institutional environment that was shown by “low” level of LI as independent variable. All in all, a direct/ positive relationship is constructed well between the variables of Institutional Environment and loan performance variables for both LPD and BUMDes. Based on that condition, it can be concluded that the empirical data of this research support both H_{2a} and H_{2b} hypothesis.

LPD and BUMDes are kinds of Indonesian Microfinance Institutions (MFIs). According to Haq, et al. (2008) generally the law of banking regulates a formal MFI and this institution will also be supervised by is by a central bank, while the other government agencies and greater organizations should handle for NGO as the institutions that belongs to non-contrasting semiformal level. A formal ownership structure must be owned by an MFI because if they do not have, it will lead to unaccountable and lack of profit condition. A vivid structure of ownership is very needed especially in demonstrating how their institutions are operated. Wright (2000) explained that more vivid the ownership structure of the institutions will lead to more value that gained by providing more access to resources especially the financial ones, more protection from the disrupt of government side and more experience in managing a range institution of financial. Both LPD and BUMDes are financial organizations that operate in the same traditional village area and have the same targeted customers (village communities), and they are still influenced by several aspects in that area, one of them is the socio-cultural aspect.

There are some social habits that are owned by Balinese which play significant role in influencing high level of LPD payment, like: social values that are believed in certain area, local norms, and also the sanctions (informal institutions). In line with this finding, the previous study which focus on LPD in Gianyar Regency found out that *Desa Pakraman* sanctions, social norms, and the involvement of local leaders influence the high returns of LPD. Especially for the role of local leaders, they help LPD in organize the process of screening and selecting the implementation of loans as a participation of informal institution, meanwhile the formal ones are regulated by the central bank and by the specific mechanism of loan collection that was conducted by the management of LPD.

Beside the high profits of microfinance institutions, assessing how sustainable the institutions also need to be ensured by the other indicators. According to Yaron (1994) the worst problem that can lead to bankruptcy and liquidation for the microfinance institutions is the loan losses that borne by the institution. Meanwhile the high profit is not considered urgent because it can be gained in short time. According to the theory of institutional, there are two types of environment influence, they are: 1) influence which focus on economic and technical aspects, 2) influence which mainly deal with socio-cultural aspects. This theory reveals that in external environment, organizations need the rules of institution in identifying both kinds of behaviour, behaviour that is accepted and behaviour that is expected in environment. Besides, the market is supposed to be the place where this theory also aims to construct legitimation process. (DiMaggio & Powell, 1983; Scott, 2014). The finding of this study also disclosed the consistent data. It shows that the LPD and BUMDes loan performances were affected by the institutional environment.

The Comparison of the Internal Control Level, Institutional Environment Degree and Loan Performance of BUMDes and LPD

The aspects of institutional environment, quality of loan performance, and also internal control are predicted showing different result from the analysis data of LPD and BUMDes. Some different result especially on the variables IC, LI and PERF (table 5) were tested by using Mann-Whitney formula. According to the data, this test shows prominent differences especially in the aspects of institutional environmental between LPD and BUMDes. The mean score of BUMDes shows 33.12; while the score for LPD's mean is 50.30; with p-value = 0.001. While the quality result of LPD and BUMDes loan performances were presented as follow: mean score for BUMDes is 47.04; mean score for LPD is 35.69 with the p-value is 0.028). However, it is not for the aspects of internal control which show the mean score of BUMDes is 39.80; LPD got 43.29 and p-value is 0.506.

Every indicator of both LPD and BUMDes on the internal control, loan performance quality, and institutional environment variables was treated a different test. As the result shown in table 22 for the variable of IC, all indicators between LPD and BUMDes do not have any crucial differences (p-value \rightarrow 0.05). On the other hand, indicators IE_1, IE_2, IE_4 and IE_5 of the variable of IE reveal different result. With the following p-values of 0.002; 0.002; 0,000 and 0.036 that have been set orderly and the variable of KIN which is intended for the PERF_1 indicator with a p-value of 0.002 show significant differences. Based on those results, the aspects of institutional environment and the quality of loan performance for both financial Institution, LPD and BUMDes, show significant differences. Hence, for hypothesis H_{3b} and H_{3c} are stated supported. Unfortunately, unsupported result was declared from the hypothesis of H_{3a}. The reason is the aspects of internal control do not show the significant differences.

Table 5: *Research Variable Non-Parametric Test Results*

No.	Variable	Group Mean Rank		p-value	Decision
		BUMDes	LPD		
1	IC	39.80	43.29	0.506	Has No Significance Difference
2	IE	33.12	50.30	0.001	Has a Significance Difference
3	PERF	47.04	35.69	0.028	Has a Significance Difference

Table 6: *Non-Parametric Difference Test Results of the Research Indicators*

No.	Indicators	Group Mean Rank		p-value	Decision
		BUMDes	LPD		
1	IC_1	40.83	42.20	0.746	Has No Significance Difference
2	IC_2	43.62	39.28	0.271	Has No Significance Difference
3	IC_3	45.71	37.08	0.066	Has No Significance Difference
4	IC_4	37.96	45.21	0.135	Has No Significance Difference
5	IC_5	40.50	42.55	0.674	Has No Significance Difference
6	IC_6	42.79	40.15	0.560	Has No Significance Difference
7	IC_7	40.30	42.76	0.546	Has No Significance Difference
8	IC_8	38.57	44.58	0.191	Has No Significance Difference
9	IC_9	43.92	38.96	0.191	Has No Significance Difference
10	IC_10	41.95	41.03	0.807	Has No Significance Difference
11	IC_11	40.86	42.18	0.789	Has No Significance Difference
12	IC_12	37.73	45.46	0.112	Has No Significance Difference
13	IC_13	39.39	43.71	0.378	Has No Significance Difference
14	IE_1	33.85	49.54	0.002	Has a Significance Difference
15	IE_2	34.14	49.23	0.002	Has a Significance Difference
16	IE_3	36.79	46.45	0.050	Has No Significance Difference
17	IE_4	33.06	50.36	0.000	Has a Significance Difference
18	IE_5	36.69	46.55	0.036	Has a Significance Difference
19	IE_6	38.48	44.68	0.179	Has No Significance Difference
20	PERF_1	49.15	33.46	0.002	Has a Significance Difference
21	PERF_2	43.62	39.28	0.394	Has No Significance Difference

According to Ashraf, Hassan, & Hippler (2014), providing excellent service is the aim of microfinance institutions in many countries. They are pushed to improve the quality of their performance. The success of microfinance institution in Indonesia cannot be accomplished without the design of organization (Chaves & Gonzalez-Vega, 1996). The next service, the service of continued financial will also be handled by organizational design. Those services are considered important. It happens due to the quality determination of the institution/organization performance. The success or the failure of organization will also be determined by those services. Not only Microfinance Institutions (MFIs) in Indonesia growing rapidly, but the problems around this area also increase and vary very fast. Complicated financial service cannot be avoided especially in order to map, supervise, and also evaluate its process. This situation will lead to overlap between service, domain, and regulation in the institution. The implementation of developing strategy will be interfered and create higher possibility to overturn to the low-level condition. As the result, only a few institutions are able to survive. They should maintain their quality and do competition with other institutions and other banks that give more modern financial services.

There are two similar institutions in Bali that run similar financial business and also owned by the similar village organization. Both of the financial institutions, LPD and BUMDes, provide saving and loan service to their members. LPD has its own way to manage the village regulation, sanction and norms, and even this institution invites the head of village to participate in selecting and approving the loan process. Astawa (2013) explains that village regulations depend on the three main relationship that prioritize the harmony between the organization with God, the organization with employees and the organization with its environment. One LPD does not have any friction with the other LPDs. It happens due to the different scope of locations also limit the range of area of the institution. However, the friction will happen between LPD with BUMDes that located in the same area. It was found that some financial institutions' aggregate data, those institution have low and poor for both benefits and performance if they work in the same geographical location (Kinuthia, 2013). It also happened for both of financial institutions, LPD and BUMDes. Consequently, anticipating insolent friction and competition is a must. Both kinds of institutions should be ready to improve their skills to show their best. Gunawan (2009) explained that technology capability plays significant role in business competition. If MFI is able to provide high technological ability, MFI is also able to provide fast service, and attract more rate of customers' interest. And vice versa, if MFI has low ability in technology, it will decrease the ability in providing fast and excellent service, and as the result the rate of customer interest will be considered low.

Internal factors, like: credit and the mechanisms to manage and external factors, like: some rules and regulation, market condition and information, economic and social environment are the influencing factors on the sustainability of MFI (Arsyad, 2005b). The other factors which also affect the MFI are some government regulations and law, ethic code, sanction of social norms, and also customs (Brinkerhoff & Goldsmith, 1992). A rule that governs the aim of organization is called as institutional environment. It is the way how to construct and manage the organization in making and providing items and services on market (Polski, 2000). In industry context, institutions mainly focus on conditions that influence the company management in creating and delivering services and items and also interacting with other people, groups, or even institutions. The performance of economic system indeed has already connected to the quality of its institutions. This situation influences the stimulant quality to save, produce, invest, and even do trading. Based on that condition, institutional environment between LPD and BUMDes are distinguished. According to Wright (2000), it is essential to have an exact structure for organization. As an organization leader, a vivid interest of organizational structure is important because every single step in organizing the institution deal with up and down-grading of the institution value. One minor mistake can lead to the problems of financial resources and it needs more experience to overcome and manage financial institution.

In accordance with the data, different result was found in LPD and BUMDes institutional environment. COSO (2013) explain that organizational management as a basis for achieving

goals was determined by the control environment. The aims of internal control are monitoring and managing risk, minimizing deception, and controlling the behavior of staffs (Murwanto, Budiarmo, & Ramadhana, 2005). Pandey (2015) explains regulating the operation of managing credit used credit policy should be improved by MFI. Furthermore, control environment for both LPD and BUMDes in this study do not have any differences. It happens because those institution run the same business area, as the consequent, credit management of both institutions show the same result. Even the problems that they should handle are mainly in the same case, same limitation, and same condition. It happens due to the target of their market are located in the same area with the same background and characteristics.

Conclusions

The aims of this study are doing investigation to know the effect of internal control and institutional environment on the loan performance quality in BUMDes and LPD in Buleleng Regency, Bali Province. It is found that 1) internal control and the loan performance quality in BUMDes and LPD show positive relationship that is considered as significant, which the increase in internal control quality can affect the increase of quality level of loan performance apprehended by the members of BUMDes and LPD. 2) The institutional environment and the loan performance quality of LPD and BUMDes show positive relationship that is also considered significant. Soaring quality of the aspects of institutional environment can affect the increase of loan performance quality level which apprehended by the members of LPD and BUMDes. Other than that, this study is used as a proof of quality difference of the internal control aspects, institutional environment, and also the performance of credit of LPD and BUMDes. The finding revealed that there is no relation of the quality in implementing the internal control with the quality differences of institutional environment and loan performance between LPD and BUMDes.

This study results can affect the practical and theoretical understanding of several aspects peremptory role of LPD and BUMDes, such as: the institutional environment and internal control on the performance quality of credit. LPD and BUMDes especially in some villages and rural areas should enhance the implementation of internal control quality and also institutional environment accomplishment in managing business.



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