Asia Pacific Journal of Management and Education (APJME)
Vol. 8 No. 2, pp. 257-271, July, 2025
E-ISSN: 2655-2035 P-ISSN: 2685-8835
https://www.ejournal.aibpm.org/index.php/APJME

Implementing Good Corporate Governance in Enhancing Village Credit Institutions' Performance

Ni Putu Natasya Padma Dewi[1], Sagung Oka Pradnyawati[1*], Putu Kepramareni[1]
[1]Universitas Mahasaraswati Denpasar, Jl. Kamboja No.11A Denpasar, 80233, Indonesia
*Corresponding Email: sagungoka@unmas.ac.id

ARTICLE INFORMATION

Publication information

Research articles

HOW TO QUOTE
Putri, N. K. D., Pradnyawati, S. O., & Kepramareni, P. (2025). Implementing good corporate governance in enhancing village credit institutions' performance. *Asia Pacific Journal of Management and Education, 8*(2), 257-271.

DOI:
https://doi.org/10.32535/apjme.v8i2.4061

Received: 16 May 2025
Accepted: 17 June 2025
Published: 19 July 2025

ABSTRACT

Village Credit Institutions (*Lembaga Perkreditan Desa* or LPD) are unique financial organizations found only in Bali, operating under local customary laws. While the number of LPDs continues to grow, their performance and governance quality have not shown similar progress. In 2024, several LPDs were classified as unhealthy, with a notable case in Serangan Village where corruption led to institutional closure. This study explores how Good Corporate Governance (GCG) impacts LPD performance. Using a quantitative approach, data were collected through questionnaires and informal interviews, then analyzed using multiple linear regression. The t-test results indicate that the significance values for each variable are below the 0.05 threshold, indicating that all five GCG principles—transparency, accountability, responsibility, independence, and fairness—significantly and positively influence LPD performance. The findings highlight that strong governance practices support ethical operations and performance improvements in local financial institutions. Practically, the study urges LPD management to consistently apply GCG principles to prevent mismanagement and maintain public trust. Local governments and regulators are encouraged to enhance oversight mechanisms rooted in cultural values and offer regular training for LPD leaders.

Keywords: Good Corporate Governance; Governance Ethics; Local Financial Institutions; LPD Performance; Village-Based Finance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are currently experiencing a positive growth trend, with their numbers increasing steadily each year. This encouraging development contributes significantly to the national economy. According to the Ministry of Cooperatives and MSMEs, these enterprises contribute approximately 60.5% to Indonesia's Gross Domestic Product (GDP), highlighting their vast potential to drive even greater economic impact in the future (BINUS Business School, 2024). As a state actor, the government can further support MSME growth through the provision of credit facilities via non-bank financial institutions.

Financial institutions play a critical role in enhancing national economic development. In this context, local governments are authorized to establish region-based financial bodies to operate within their jurisdictions (Financial Services Authority [OJK], 2019). In 1983, Bali's then-Governor, Prof. Dr. Ida Bagus Mantra, introduced the idea of forming a financial institution rooted in local traditions, inspired by community structures such as association (*sekaa*), community (*banjar*), and village communities (*desa adat*), which have long been part of Balinese social life (Tanaya, 2019).

The Village Credit Institution (*Lembaga Perkreditan Desa* or LPD) emerged as a rural financial entity with multiple roles—mobilizing funds, extending credit, and facilitating payments. LPDs also serve as funding sources for village infrastructure development (Kepramareni et al., 2022). Their presence has brought meaningful economic improvements to rural communities. LPDs support traditional village activities such as religious ceremonies (*odalan*), Hindu holy days, and help underprivileged villagers, offering emergency loans for education, business capital, health needs, or funeral expenses. Their success reflects the implementation of a financial model built upon local wisdom and cultural values rooted in kinship and mutual cooperation (Utari & Erawati, 2024).

According to data from the Village Credit Institution Supervisory Agency of Bali (LPLPD Bali, 2024) covering the period 2022–2024, all LPDs in Denpasar City were officially recorded as operational. However, in practice, some LPDs were found to be in an unhealthy financial state. Notably, in early 2023, one LPD ceased operations following a financial fraud case involving one of its internal managers. The LPD in Serangan Village was embroiled in legal proceedings due to the misappropriation of funds, including the creation of 17 fictitious credit accounts and the falsification of cashbook records. This led to its eventual closure, signaling a serious decline in performance and governance quality, particularly related to the manipulation of financial reporting.

This incident reveals that management had the opportunity to commit fraud for personal gain and made unilateral decisions without proper oversight. By concealing accurate information, they distorted the data needed for sound decision-making and abused their authority, ultimately causing harm to both the institution and the community it served. These circumstances highlight the necessity for strong governance systems within LPDs. Such governance cannot arise spontaneously; it must be built deliberately.

Good Corporate Governance (GCG) refers to the principles guiding organizational management based on legal frameworks and business ethics. It functions as a mechanism to control and steer company activities. GCG principles are vital for establishing transparent, efficient, and law-compliant markets. To help LPDs achieve their objectives, GCG plays a key role, especially in terms of transparency. Annual disclosures by LPDs generally fall into two categories: mandatory and voluntary. Mandatory disclosures are the minimum requirements defined by accounting standards

(Kepramareni et al., 2021), whereas voluntary disclosures go beyond these standards, offered at the management's initiative (Amrin, 2018). Several studies support transparency as a factor positively impacting firm performance, such as those by Andreana & Wirajaya (2018) and Dewi & Yadnyana (2021). However, contrasting findings also exist; for instance, Sumatriani et al. (2021) found no direct impact of transparency on a company's financial performance.

The second principle of GCG is accountability, which refers to an organization's capacity to take full responsibility for its actions and outcomes. It involves the establishment of robust internal control systems that ensure a balance of power within the organization (Kurniawati et al., 2023). Previous studies by Yanti and Wirajaya (2020) have found that accountability positively influences company performance. However, a contrasting result was reported by Wahyuni (2020), who found no significant effect of accountability on performance.

The next principle is responsibility, which reflects how a company manages its operations in accordance with prevailing laws and regulations. Organizations are expected to comply with legal requirements and uphold their duties toward society and the environment, ensuring long-term sustainability and gaining recognition as responsible entities (Putra et al., 2021). Supporting evidence is provided by Handayani et al. (2020) and Putri et al. (2023), who found a positive correlation between responsibility and performance. In contrast, Ariani et al. (2020) reported no significant impact.

Independence is another essential factor, defined as the ability of an organization—specifically LPDs—to operate professionally, free from conflicts of interest or external influence, particularly from dominant shareholders, in line with legal and ethical business practices. Putri et al. (2023) and Ramadhani & Agustin (2021) found that independence contributes positively to performance. However, Rashid & Afzalur (2018) found no impact at all.

The final principle is fairness, which emphasizes the importance of justice and equality in addressing stakeholders' rights as defined by agreements and applicable regulations (Suryandari et al., 2023). Organizations must ensure fairness and equal treatment in all stakeholder relations to enhance organizational performance. Suryadi et al. (2025) confirmed a positive relationship between fairness and performance, whereas Susanti and Raharja (2023) found no significant influence.

The objective of this research is to investigate and evaluate the extent to which the application of GCG principles influences the organizational performance of LPDs, with a particular emphasis on institutions located in Denpasar City. The relevance of this research stems from the ongoing challenges faced by LPDs, particularly in Denpasar, where governance failures and fraud cases have emerged in recent years. This study aims to fill a gap by providing empirical evidence on how the five pillars of GCG—transparency, accountability, responsibility, independence, and fairness—relate to the overall performance of these institutions. Its contribution lies in offering context-specific insights within a system rooted in local customary structures, which are rarely explored in prior literature. The originality of this study is reflected in its approach that blends quantitative analysis with the institutional realities of Balinese village governance. The outcomes are intended to assist regulators, community leaders, and LPD managers in improving governance frameworks to ensure institutional resilience and public trust.

Asia Pacific Journal of Management and Education (APJME)
Vol. 8 No. 2, pp. 257-271, July, 2025
E-ISSN: 2655-2035 P-ISSN: 2685-8835
https://www.ejournal.aibpm.org/index.php/APJME

LITERATURE REVIEW

Agency Theory

Agency theory serves as the foundational framework that underpins modern corporate practices. This theory is built upon the integration of various disciplines, including economics, decision theory, sociology, and organizational theory. Agency theory provides a key perspective for understanding the structure of corporate governance. According to Jensen and Meckling (2019), an agency relationship refers to a formal agreement in which one or more parties, known as principals, appoint another party—referred to as the agent—to carry out specific tasks on their behalf, which includes granting the agent the authority to make decisions in the interest of the principal. The theory conceptualizes a firm as a nexus between shareholders (principals) and managers (agents). Managers, acting as agents, are entrusted with full responsibility over operational decisions, including capital structure choices, allowing them to determine the level of debt used to finance the firm's activities.

In the context of LPDs in Bali, traditional village communities (*desa adat*) act as the principal owners who assign LPD managers to oversee financial operations and maintain economic stability within their village. The villagers, as principals, and the LPD administrators, as agents, must foster a collaborative and trust-based relationship to achieve the shared goals and vision of the institution. It is essential that LPD managers avoid personal interests that could lead to conflicts with the traditional village authority, ensuring alignment with the collective interest (Sari & Mahayuni, 2020).

Hypotheses Development

GCG and LPD Performance

GCG refers to a structured set of rules and practices that define the rights and responsibilities of various stakeholders within an organization. These stakeholders include shareholders, internal and external parties with vested interests, creditors, regulatory bodies, employees, and, in the case of LPDs, community-based managers. The governance structure outlines how these parties interact, ensuring that each stakeholder's rights and duties are upheld, while also delivering added value to all involved (Forum for Corporate Governance in Indonesia [FCGI], 2001).

According to Pramesti et al. (2024), the implementation of GCG is crucial for optimizing the value and effective utilization of a company's resources. It enables targeted, timely, and proportionate actions while minimizing inefficiency and irregularities, thereby enhancing organizational effectiveness and efficiency. GCG, in essence, is a system designed to regulate and guide the company's activities in a way that generates added value for all stakeholders. When properly implemented, these principles foster trust, promote collaboration, and help establish a shared vision, ultimately mitigating agency problems.

As noted by the FCGI (2001), adopting GCG in LPDs leads to improved operational efficiency and enhances service delivery to stakeholders. Better governance contributes to stronger decision-making processes, ultimately supporting the institution's performance. This is achieved through adherence to the core principles of transparency, accountability, responsibility, independence, fairness, and equality (National Committee on Governance Policy [KNKG], 2006).

The practical application of GCG in LPDs serves as a mechanism to ensure that the institution is managed effectively, particularly in managing stakeholder relationships and achieving organizational goals. One of the core principles is transparency, which refers to the open and honest disclosure of information to stakeholders. It is based on the premise that stakeholders are entitled to comprehensive and accessible information regarding how entrusted resources are managed. Transparent communication within LPDs enhances stakeholder trust, which is expected to positively impact institutional performance (Dewi & Yadnyana, 2021).

H1: Transparency as a principle of GCG has a positive influence on the performance of LPDs.

The second principle is accountability, which refers to the clarity of roles, organizational structure, systems, and responsibilities within a company. One of the key requirements for achieving sustainable performance is the ability to provide accurate, measurable, and transparent accountability, while also considering the interests of both management and stakeholders. This creates added value that contributes to improving the performance of LPDs (Mirab et al., 2024).

Aligned with agency theory, this principle highlights that the clearer the authority, execution functions, and accountability mechanisms within an LPD's organizational structure, the more effective the management process will be. Such clarity builds trust from the principal—namely, the community—since essential information is communicated clearly, based on the defined responsibilities and roles within the LPD. As a result, transparency in governance leads to enhanced financial performance.

H2: Accountability as a principle of GCG has a positive influence on the performance of LPDs.

The third principle is responsibility, which reflects the attitude of an LPD in managing its operations in accordance with prevailing laws and regulations. To achieve improved performance, LPDs must demonstrate a solid understanding of applicable legal frameworks and fulfill their obligations to stakeholders. This ensures long-term business sustainability and supports institutional credibility (Sukardika, 2020).

Responsibility is considered one of the key pillars of GCG that potentially influences the performance of LPDs. In line with agency theory, when an institution operates without conflicts of interest, it builds stronger trust from the principal, in this case, the traditional village community. This trust enhances performance and confirms that the LPD is managing its operations objectively and in alignment with stakeholder expectations.

H3: Responsibility as a principle of GCG has a positive influence on the performance of LPDs.

The fourth principle is independence, which refers to a condition in which an LPD is managed professionally, free from conflicts of interest and undue influence or pressure from any party that may contradict existing laws and sound corporate governance practices (Suci, 2013). Managerial decisions must be made independently, meaning that management acts without being bound or influenced by any external entity. This level of objectivity in decision-making helps improve LPD performance, as it limits the risk of actions driven by self-serving interests that could harm the institution.

Independence is also recognized as a fundamental element of GCG, which is believed to have a significant effect on LPD performance. According to agency theory, the more independent the governance of an LPD, the greater the trust it earns from its principal—in this case, the traditional village community. This trust, in turn, enhances institutional performance and affirms that decisions are made objectively and in alignment with the organization’s goals.

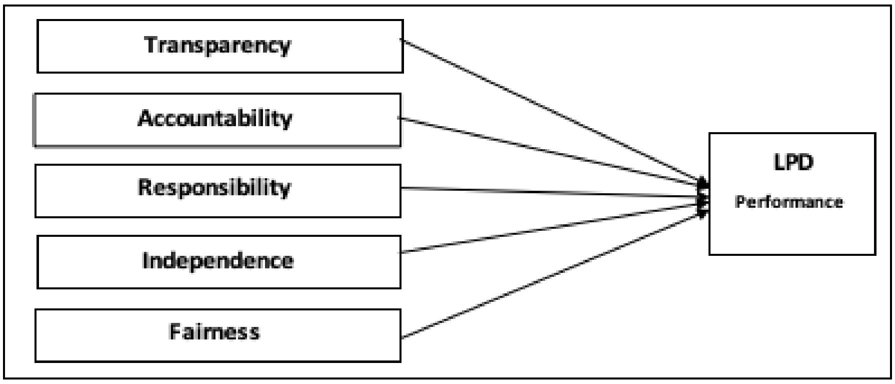
H4: Independence as a principle of GCG has a positive influence on the performance of LPDs.

The final principle is fairness, which refers to the equitable and just treatment of all stakeholders by the LPD, in accordance with relevant agreements and applicable legal provisions (KNKG, 2006). LPDs must consistently uphold the rights of all stakeholders, ensuring that fairness and equality remain a central priority in their governance practices to enhance institutional performance. Aligned with agency theory, this principle suggests that when LPD management respects the rights of principals—namely, the village community—and treats them equitably, it leads to greater trust and ultimately contributes to improved organizational performance. Fair governance reinforces stakeholder confidence and supports the long-term success of the institution.

H5: Fairness as a principle of GCG has a positive influence on the performance of LPDs.

Conceptual Framework
The study framework model is depicted in Figure 1.

Figure 1. Research Framework



RESEARCH METHOD

This research explores the influence of GCG on the performance of LPDs in Denpasar, Bali, by treating its five fundamental principles—transparency, accountability, responsibility, independence, and fairness—as the key independent variables in the analysis. Denpasar was selected as the research location due to a notable case involving the LPD in Serangan Village, which was implicated in fraudulent credit practices and corruption by its management.

There are 35 registered and active LPDs in Denpasar, each of which was selected as a unit of analysis. Questionnaires were distributed to both employees and supervisory board members, resulting in a total of 70 respondents. In addition to the survey, unstructured interviews were conducted with informants from each LPD to enrich the data and provide contextual insights.

The collected data were analyzed using multiple linear regression to assess causal relationships between variables. The analytical process included instrument testing, classical assumption testing, model testing, regression analysis, and t-tests. Each GCG principle was measured through specific indicators. Transparency indicators were adapted from Amrin (2018) and KNKG (2006), including timely financial reporting, maintaining openness in financial statements, clear goal setting, and regular communication of LPD programs. Accountability indicators, as recommended by Putri et al. (2023), included responsibility for financial reports and proper documentation of transactions. Responsibility outlined by KNKG (2006) was assessed through adherence to operational procedures, compliance with government regulations, and prudent business practices. Independence, consistent with the definitions provided by Ramadhani & Agustin (2021) and Suci (2013), was measured by objective decision-making, freedom from external influence, and professional governance. Finally, fairness in line with the framework proposed by Naggita and Aguma (2023) was evaluated through equitable policies, equal procedures, and fair treatment of community members in accordance with local customary regulations.

RESULTS

Descriptive statistical analysis was first performed to summarize and present an overall picture of the dataset used in this research, offering insights into the distribution and characteristics of each variable prior to further testing.

Statistical Results

Descriptive Statistics

Table 1. Descriptive Statistics Example (N =70)

Construct	Min.	Max.	M	SD
Transparency	10.00	20.00	15.3286	2.75955
Accountability	6.00	15.00	10.5000	2.36980
Responsibility	6.00	15.00	10.8000	2.33809
Independence	7.00	15.00	11.0571	2.12566
Fairness	6.00	15.00	10.8857	2.31281
LPD Performance	18.00	37.00	27.8000	4.36588

Note. M = Mean, SD = Standard Deviation.
Source: Processed Data (2025)

Table 1 presents the numerical summary for each variable included in the study. The sample size (N) consists of 70 observations, derived from 35 registered and active LPDs in Denpasar City. The minimum value represents the lowest recorded score for each variable, while the maximum value indicates the highest. In addition, the table includes the mean and standard deviation for each variable, providing a statistical overview of the data distribution used in this research.

Multiple Linear Regression Analysis

Table 2. Regression Results Between x and y

Construct	B	t	sig	Conclusion
Transparency	0.259	2.006	0.049	H1 accepted
Accountability	0.386	2.491	0.015	H2 accepted
Responsibility	0.794	4.346	0.000	H3 accepted
Independence	0.643	3.518	0.001	H4 accepted
Fairness	0.357	2.123	0.038	H5 accepted

Source: Processed Data (2025)

Table 2 presents the output of the multiple linear regression analysis, which evaluates how each of the five core elements of GCG influences the performance of LPDs. The t-values listed in the table represent both the strength and direction of the association between the independent variables and the dependent variable. Meanwhile, the significance (sig.) values are used to assess whether these relationships are statistically meaningful. In line with standard statistical thresholds, a variable is deemed to have a significant effect if its p-value is below 0.05. The findings from this analysis indicate that all components of GCG—namely, transparency, accountability, responsibility, independence, and fairness—demonstrate a consistently positive and significant impact on the institutional performance of LPDs. These outcomes highlight the critical role that strong governance practices play in enhancing organizational effectiveness, suggesting that improvements in the application of GCG principles are closely tied to better institutional performance and operational outcomes within the local financial ecosystem.

Instrument Test Results

Table 3. Validity and Reliability

Variable	Validity	Reliability
Transparency	Valid	0.715 (Reliable)
Accountability	Valid	0.749 (Reliable)
Responsibility	Valid	0.756 (Reliable)
Independence	Valid	0.768 (Reliable)
Fairness	Valid	0.777 (Reliable)
LPD Performance	Valid	0.756 (Reliable)

Source: Processed Data (2025)

Table 3 summarizes the outcomes of the instrument evaluation, which includes tests for both validity and reliability. The results indicate that every questionnaire item meets the validity criteria, confirming that the items effectively measure what they are intended to assess. Regarding reliability, each variable yields a Cronbach's alpha value greater than 0.70, which surpasses the commonly accepted minimum benchmark for internal consistency. These findings suggest that the measurement tools employed in this study are statistically sound. Consequently, it can be inferred that the variables used in this research possess adequate measurement quality, allowing for dependable use in subsequent data analysis procedures.

DISCUSSION

Transparency and Its Impact on LPD Performance

The findings of this study indicate that transparency has a positive impact on the performance of LPDs in Denpasar, so H1 is confirmed. The results suggest that higher levels of transparency contribute to improved organizational outcomes. From the perspective of agency theory, transparency plays a critical role in clarifying the relationship between the principal—in this case, the customary village community—and the agent, which refers to LPD management responsible for daily operations. Agency theory highlights that transparency helps reduce information asymmetry between principals and agents. When transparency is high, stakeholders have greater access to relevant financial and operational information, which in turn minimizes the risk of moral hazard or misuse of authority by management. With clearer information flows, the ability of stakeholders to monitor management performance increases, ultimately leading to enhanced institutional performance.

These findings align with agency theory, emphasizing that transparency acts as a governance mechanism to reduce agency conflicts and strengthen both accountability and performance. The result also supports the study by Andreana and Wirajaya (2018), which demonstrated that openness in information disclosure fosters trust among stakeholders and contributes to improved performance of LPDs. Transparency, therefore, is regarded as a key factor influencing the financial outcomes and institutional credibility of LPDs.

Accountability and Its Impact on LPD Performance

This study finds that accountability has a positive influence on the performance of LPDs in Denpasar. Hence, H2 is accepted. The results suggest that when accountability is well implemented, the performance of LPDs improves accordingly. In this context, the customary village community serves as the capital owner (principal), while LPD management functions as the agent responsible for managing operational and financial activities. Agents may sometimes prioritize their own interests over those of the principal. To address this issue, robust accountability mechanisms are essential, ensuring both transparency and responsibility in the management of resources and institutional performance. High levels of accountability enable better access to financial and operational information for stakeholders, thereby narrowing the information gap between the principal (the community) and the agent (LPD managers). When accountability systems are well-established, public trust in the institution increases, resulting in greater participation and loyalty in using the financial services provided by LPDs. Strong accountability also encourages management to apply sound governance practices, which in turn improve efficiency and effectiveness in credit distribution, investment decisions, and service delivery.

Through the implementation of GCG, LPDs can enhance governance systems by improving transparency in financial reporting, engaging independent audits, and involving the community in oversight functions. To ensure compliance, incentive systems can be introduced for high-performing managers, along with sanctions for those violating accountability principles. Local governments or financial authorities may strengthen regulations by requiring regular reporting and the involvement of external auditors. In conclusion, the relationship between agency theory and accountability in the context of LPDs in Denpasar indicates that stronger accountability helps reduce agency conflicts, improves transparency, builds community trust, and ultimately contributes to the sustainable growth of LPDs in supporting local village economies.

Responsibility and Its Impact on LPD Performance

The findings indicate that responsibility has a positive effect on the performance of LPDs in Denpasar, supporting H3. The results suggest that as the level of responsibility improves, the performance of LPDs also increases. Responsibility reflects the extent to which agents fulfill their duties and obligations in accordance with the expectations of the principal. Within the LPD framework, management is accountable for handling community funds in a transparent, accountable, and regulation-compliant manner. A high level of responsibility signifies strong adherence to GCG principles, which helps minimize agency-related risks. From the perspective of agency theory, increasing responsibility strengthens both transparency and accountability, reducing the likelihood of conflict between principals and agents. When LPD managers demonstrate responsible behavior in fulfilling their roles, community trust and stakeholder confidence rise, leading to better financial performance and long-term institutional sustainability. To reinforce this, principals may implement performance-based reward and sanction systems, encouraging managers to act more responsibly and enhancing overall governance quality.

This study supports prior research suggesting that LPDs must understand and comply with regulations, while also carrying out their responsibilities to stakeholders to maintain sustainable operations (Sukardika, 2020). Responsibility is thus considered one of the key GCG principles that influence LPD performance. In line with agency theory, the absence of conflicting interests within LPD management strengthens public trust and ensures that institutional governance remains objective and performance-oriented.

Independence and Its Impact on LPD Performance

The findings show that independence has a positive influence on the performance of LPDs in Denpasar, confirming H4. The results indicate that greater independence is associated with improved institutional performance. Independence refers to the ability of individuals involved in governance to act in the best interest of the institution without being subject to external pressure or influence that could jeopardize the long-term goals of the LPD.

In relation to agency theory, independent oversight is essential to minimizing potential conflicts of interest between principals and agents. When LPD managers are granted greater autonomy in decision-making, they are more likely to act in alignment with stakeholder interests, rather than making decisions that serve their own benefit. This reduces the risk of biased or self-serving choices and promotes decisions that support the long-term sustainability of the institution. Independent managers are generally more accountable and transparent in reporting performance outcomes. Agency theory suggests that agents, in the absence of adequate oversight or incentives, may act in their own interests. Therefore, higher levels of independence reduce the likelihood of agency problems and lead to more efficient and effective governance. These improvements ultimately translate into enhanced organizational performance and a reduction in agency costs—those arising from misaligned objectives and ineffective supervision.

The findings reinforce agency theory by confirming that managerial independence contributes significantly to improved institutional performance. Ensuring that LPD managers in Denpasar operate with a high degree of independence—both in decision-making and in operational oversight—is therefore essential. This study is consistent with previous research by Handayani et al. (2020) and Putri et al. (2023), which also found a positive relationship between independence and the financial performance of LPDs.

Fairness and Its Impact on LPD Performance

The findings of this study indicate that fairness has a positive influence on the performance of LPDs in Denpasar, so H5 is supported. The results suggest that improvements in fairness are associated with better institutional performance. The relationship between fairness and LPD performance can be understood through the lens of the principal-agent framework, where the principal represents the community or fund owner, and the agent refers to the LPD managers responsible for operational decisions. In this context, fairness encompasses various elements, including transparency, accountability, and ethical management of funds. When agents operate fairly—by managing resources efficiently and in alignment with the expectations of the principal—they demonstrate responsible behavior and reduce the risk of moral hazard and adverse selection, which are common issues in agency relationships when agents act against the interests of the principal. Agency theory also emphasizes that providing appropriate incentives to agents can enhance performance. Fairness, in this sense, functions as a governance mechanism that encourages agents to act in ways that benefit the principal. A clear understanding of responsibilities, equitable treatment, and transparent supervision contribute to more optimal and sustainable performance outcomes. Thus, the study concludes that fairness plays a significant role in improving LPD performance. Effective implementation of fairness principles helps strengthen trust between the principal and the agent and fosters a mutually beneficial relationship. This trust, in turn, contributes to higher organizational efficiency and long-term institutional success.

CONCLUSION

This study examines the influence of GCG on the performance of LPDs. The findings of this study reveal that each of the five GCG principles—namely, transparency, accountability, responsibility, independence, and fairness—exerts a significant and favorable influence on the performance of LPDs within the Denpasar area. These findings reinforce the notion that consistent and comprehensive implementation of GCG principles enhances public trust, strengthens institutional governance, and promotes optimal organizational performance. Therefore, sound governance practices form a critical foundation for the long-term sustainability of LPDs, especially in the face of challenges such as corruption and declining management quality.

The practical implication of this research is that LPD management must prioritize the application of GCG principles in their daily operations. Doing so not only improves internal control systems but also elevates the institution's credibility among traditional village communities—its primary stakeholders. Enhanced trust from the public contributes directly to the resilience and continuity of LPD operations over time.

It is recommended that local governments and supervisory bodies enhance their regulatory and mentoring capacities by integrating culturally rooted frameworks that support transparency and accountability. LPD managers should receive regular training on GCG implementation and risk management to ensure professional and ethical operations. Additionally, traditional village authorities, as the institutional owners, should foster stronger collaboration with LPD management in supervisory roles to minimize potential conflicts of interest and abuse of authority.

LIMITATION

This study has several limitations that must be acknowledged in the interpretation of the study's outcomes and implications. First, the scope of the research is limited to LPDs located in Denpasar City. As such, caution must be exercised in generalizing the results to other LPDs across Bali or in regions with different socio-cultural and institutional characteristics. LPDs in other areas may operate under distinct organizational structures, levels of community involvement, and traditional authority systems, all of which may influence the effectiveness of GCG implementation.

Second, although this research employs a quantitative approach using valid and reliable questionnaire instruments, such a method may not fully capture the qualitative or contextual aspects of GCG implementation within each LPD. In particular, it may not adequately explore the dynamics of the relationship between customary village authorities (as principals) and LPD management (as agents). The unstructured interviews conducted were limited in scope and depth, offering little insight into cultural nuances, local values, or internal resistance to GCG practices.

Third, the study relies on respondent perceptions—specifically from LPD managers and supervisory board members—to assess both GCG implementation and institutional performance. This introduces the potential for subjectivity bias or social desirability bias, where respondents may provide answers that reflect socially acceptable views rather than the actual conditions, potentially affecting the accuracy of the measured variables.
Fourth, the research does not account for external factors that may influence LPD performance, such as macroeconomic conditions, technological adoption, or the extent of support from local government. These variables may play a significant role in shaping the outcomes of local financial institutions. Therefore, future studies are encouraged to adopt mixed methods approaches and expand the geographic scope of the research to gain a more comprehensive and contextual understanding of GCG practices in various LPD settings.

ACKNOWLEDGEMENT

The authors would like to express their sincere appreciation and gratitude to all parties who have provided valuable support, guidance, and contributions throughout the preparation of this article. First and foremost, we extend our thanks to all management and supervisory board members of the LPDs in Denpasar City for their willingness to participate as respondents and for providing essential data and insights during the research process. Their commitment and active involvement played a vital role in the successful collection of field data.

Our deepest appreciation also goes to the LPLPD of Bali Province for their administrative assistance and access to secondary data, which greatly supported and enriched the analysis in this study. We are also grateful to the academics and practitioners who shared their perspectives and offered constructive feedback during academic discussions on the implementation of GCG in local financial institutions.

Special thanks are due to Universitas Mahasaraswati Denpasar, which served as the main institutional supporter of this research. The university's provision of research facilities, academic mentorship, and a conducive scholarly environment has been instrumental in the completion of this article. Its ongoing commitment to promoting research that supports local community development has provided a strong foundation for this scholarly work.

Lastly, we would like to acknowledge all individuals and institutions not mentioned by name but whose direct or indirect contributions have been invaluable. We hope this article will serve as a useful reference in improving the governance of LPDs and will contribute meaningfully to the academic, professional, and policymaking communities.

DECLARATION OF CONFLICTING INTERESTS

The authors state that there are no financial, personal, or institutional relationships that may have inappropriately affected the integrity of this research. This includes, but is not limited to, financial interests, personal relationships, affiliations, or intellectual property considerations that could have influenced the research outcomes, analysis, or interpretation of data presented in this article. Throughout the research process—from the formulation of the problem, data collection, statistical analysis, to the preparation of the manuscript—the authors maintained full academic independence and objectivity. This study was conducted without any external sponsorship or funding that could potentially bias the findings. All conclusions are derived solely from the empirical evidence obtained and analyzed during the research.

The authors also confirm that there is no involvement of any party, institution, or stakeholder that may have had a vested interest in the results of this study. Each author has contributed equally and ethically to the development of this paper, in accordance with the principles of responsible research conduct. Should any potential conflict arise in the future, the authors are committed to disclosing it transparently in accordance with publication ethics and the policies of the journal.

REFERENCES

Amrin, A. (2018). Karakteristik perusahaan dalam praktik pengungkapan wajib pada laporan keuangan perbankan Syariah di Indonesia. *Jurnal Bisnis dan Kewirausahaan*, *7*(4). https://doi.org/10.37476/jbk.v7i4.335

Andreana, M. O. C., & Wirajaya, I. G. A. (2018). Pengaruh Transparancy, Accountability, Responsibility, Independency, dan Fairness Pada Kinerja Keuangan Lembaga Perkreditan Desa. *E-Jurnal Akuntansi*, *23*(2), 1305-1331. https://doi.org/10.24843/EJA.2018.v23.i02.p19

Ariani, P. R., Suhartono, T., & Wijaya, M. F. (2020). Corporate governance and financial performance: Evidence from LPD in North Bali. *Journal of Rural Finance Studies, 8*(2), 121–135. https://doi.org/10.31004/jrfs.2020.8.2.07

BINUS Business School. (2024, April 30). *Alternative MSME funding scheme*. BINUS Business School. https://bbs.binus.ac.id/2024/04/alternative-msme-funding-scheme/

Dewi, M. Y. C., & Yadnyana, I. K. (2021). Penerapan prinsip Good Corporate Governance pada kinerja berbasis balanced scorecard di LPD Kabupaten Badung. *E-Jurnal Akuntansi, 31*(5). https://doi.org/10.24843/EJA.2021.v31.i05.p14

Financial Services Authority (OJK). (2019, August 5). *Peraturan Otoritas Jasa Keuangan Nomor 18/POJK.04/2019 tentang Perusahaan Efek Daerah*. Otoritas Jasa Keuangan (OJK). https://peraturan.go.id/id/peraturan-ojk-no-18-pojk-04-2019-tahun-2019/

Forum for Corporate Governance in Indonesia (FCGI). (2001). *Peran Dewan Komisaris dan Komite Audit dalam Pelaksanaan Corporate Governance*. FCGI.

Handayani, I. G. A., Wulandari, L. A., & Yuniartha, N. K. (2020). Good governance practices and LPD performance: The role of responsibility in financial institutions. *International Journal of Balinese Economics, 3*(1), 26–40. https://doi.org/10.24843/IJBE.2020.v03.i01.p02

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate Governance* (pp. 77-132). Gower. https://doi.org/10.1016/0304-405X(76)90026-X

Kepramareni, P., Pradnyawati, S. O., & Dewi, N. W. R. P. (2021). Principles of Good Corporate Governance on LPD Performance in Klungkung Regency. *Advances in Global Economics and Business Journal, 2*(1), 57-66. https://doi.org/10.51748/agebj.v2i1.22

Kepramareni, P., Pradnyawati, S. O., & Mahendra, I. K. T. (2022). Analysis of factors affecting the profitability of village credit institutions in Banjarangkan Klungkung. *International Journal of Accounting and Finance in Asia Pasific, 5*(2), 48-58. https://doi.org/10.32535/ijafap.v5i2.1593

Kurniawati, N., Dewi, M. W., & Rukmini, R. (2023). The influence of the implementation of good corporate governance, accountability accounting and budgeting participation on company performance in PDAM Surakarta. *International Journal of Economics, Business and Accounting Research,* 7(2). https://doi.org/10.29040/ijebar.v7i2.9738

Mirab, D. P., Yulianti, N. M., & Hartini, L. K. (2024). The influence of good corporate governance on financial performance in Village Credit Institutions in Bali. *Journal of Rural Financial Management, 12*(1), 45–62. https://doi.org/10.1234/jrfm.v12i1.5678

Naggita, K., & Aguma, J. C. (2023). The equity framework: Fairness beyond equalized predictive outcomes. In *HHAI 2023: Augmenting Human Intellect* (pp. 182-200). IOS Press. https://doi.org/10.3233/FAIA230083

National Committee on Governance Policy (KNKG). (2006). *Pedoman Umum Good Corporate Governance Indonesia*. Komite Nasional Kebijakan Governance (KNKG).

Pramesti, I. G. A. A., Rachmawati, S., & Murwaningsari, E. (2024). Does ethical leadership moderate internal control and the levers of control on performance?: A study of Village Credit Institutions (LPD) in Denpasar City. *International Journal of Accounting and Finance in Asia Pacific, 7*(2), 194-212. https://doi.org/10.32535/ijafap.v7i2.3148

Putra, I. G. C., Sunarwijaya, I. K., & Gunadi, I. G. B. (2021). The role of good corporate governance in enhancing the performance of village credit institutions. *International Journal of Accounting and Finance in Asia Pacific, 4*(1), 96-103. https://doi.org/10.32535/ijafap.v4i1.1036

Putri, N. K. D., Pradnyawati, S. O., & Kepramareni, P. (2023). Responsibility and organizational performance: An empirical study of Village Credit Institutions in

Bali. *Indonesian Journal of Financial Governance, 5*(2), 85–102. https://doi.org/10.21009/ijfgovernance.2023.5.2.03

Ramadhani, A., & Agustin, H. (2021). Pengaruh intellectual capital dan corporate governance terhadap kinerja keuangan (studi empiris pada perusahaan BUMN yang terdaftar di Bursa Efek Indonesia tahun 2015–2019). *Jurnal Eksplorasi Akuntansi, 3*(1), 67–81. http://jea.ppj.unp.ac.id/index.php/jea

Rashid, A., & Afzalur, R. (2018). Board independence and firm performance: Evidence from Bangladesh. *Future Business Journal, 4*(1), 34–49. https://doi.org/10.1016/j.fbj.2017.11.003

Sari, N. M. L., & Mahyuni, L. P. (2020). Pencegahan fraud pada LPD: Eksplorasi implementasi good corporate governance dan nilai-nilai kearifan lokal. *Jurnal Akuntansi Berkelanjutan Indonesia, 3*(3), 233–252. https://doi.org/10.32493/jabi.v3i3.y2020.p233-252

Suci, P. N. M. (2013). Analisis independensi manajemen dalam Good Corporate Governance pada lembaga keuangan desa di Bali. *Jurnal Manajemen Pemerintahan Desa, 2*(1), 25–38. https://doi.org/10.24843/JMPD.2013.v02.i01.p03

Sukardika, I. G. W. (2020). Corporate governance and long-term sustainability: A study of Village Credit Institutions in Bali. *Journal of Good Governance and Sustainability, 5*(2), 110–125. https://doi.org/10.22219/jggs.v5i2.312

Sumatriani, S., Pagulung, G., Said, D., Pontoh, G. T., & Jamaluddin, J. (2021). The effects of shareholders' rights, disclosures, and transparency on firm value. *The Journal of Asian Finance, Economics and Business, 8*(3), 383–390. https://doi.org/10.13106/jafeb.2021.vol8.no3.0383

Suryadi, A., Rahmat, N., Purbojati, N., Mais, R. G., & Sunarsih, U. (2025). Enhancing organizational performance through ethical leadership and the implementation of GCG. *Research of Accounting and Governance*, *3*(1), 33-41. https://doi.org/10.58777/rag.v3i1.394

Suryandari, N. N. A., Wangi, N. L. A. S., Oktaviani, N. K., & Trisnayuni, K. A. S. (2023). Good corporate governance principles and performance of local finance institutions. *Journal of International Conference Proceedings, 7*(2), 362-376. https://doi.org/10.32535/jicp.v2023i0.3427

Susanti, T. Y. T., & Raharja, S. (2023). Good corporate governance on performance: The moderating role of COVID-19. *Jurnal Fokus Manajemen Bisnis, 14*(1). https://doi.org/10.12928/fokus.v14i1.9420

Tanaya, P. E. (2019). Konstruksi pengaturan prinsip mengenal nasabah dalam Lembaga Perkreditan Desa di Bali. *Kertha Wicaksana, 13*(2), 102–108. https://doi.org/10.22225/kw.13.2.2019.102-108

Utari, N. K., & Erawati, N. M. A. (2024). Analisis tingkat kesehatan Lembaga Perkreditan Desa (LPD) ditinjau dengan metode CAMEL. *Innovative: Journal Of Social Science Research, 4*(1), 5399–5412. https://doi.org/10.31004/innovative.v4i1.7916

Village Credit Institution Supervisory Agency of Bali (LPLPD Bali). (2024). *Laporan tahunan LPLPD Provinsi Bali 2022–2024*. embaga Pengawasan Lembaga Perkreditan Desa Provinsi Bali (LPLPD Bali).

Wahyuni, P. D. (2020, September 24). Corporate governance and profitability on the timeliness of financial reporting: An empirical study of the mining sector. *Dinasti International Journal of Economics, Finance & Accounting, 1*(4), 669–681. https://doi.org/10.38035/dijefa.v1i4.544

Yanti, L. A. K., & Wirajaya, I. G. A. (2020). Pengaruh Prinsip-Prinsip Good Governance pada Kinerja Keuangan LPD di Kabupaten Karangasem. *E-Jurnal Akuntansi, 30*(3), 2673–2691. https://doi.org/10.24843/EJA.2020.v30.i03.p13

Asia Pacific Journal of Management and Education (APJME)
Vol. 8 No. 2, pp. 257-271, July, 2025
E-ISSN: 2655-2035 P-ISSN: 2685-8835
https://www.ejournal.aibpm.org/index.php/APJME

ABOUT THE AUTHOR

1st Author
Ni Putu Natasya Padma Dewi is a student at the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar. She is an active and engaged student with a strong interest in research related to financial institutions, particularly in the context of local economic development.

2rd Author
Sagung Oka Pradnyawati is a permanent lecturer at the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar. She earned her Bachelor's degree in Accounting from Universitas Mahasaraswati Denpasar and completed her Master's degree at Universitas Udayana. Her research and academic publications span a range of topics, including finance—particularly banking and non-bank financial institutions—as well as sustainability studies involving MSMEs and various other areas of economic research.
Email: sagungoka@unmas.id
ORCID ID: https://orcid.org/0000-0002-4800-0814

3nd Author
Putu Kepramareni is a senior lecturer at the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar. She is also a certified assessor and has previously served as the Dean of the Faculty of Economics and Business at Universitas Mahasaraswati Denpasar.
Email: pkepramareni@unmas.ac.id