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Good Corporate Governance Principles and Performance of Local Finance Institutions

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ABSTRACT

The purpose of this research is to find empirical results on the influence of GCG principles on the performance of local finance institutions in Bali. The local finance institution in Bali is popular called *Lembaga Perkreditan Desa* (LPD). The GCG principles used in this study are transparency, accountability, responsibility, independence, and fairness. The population in this study was 557 employees. There are 102 respondents collected using the purposive sampling method which consists of the head of LPD, the head of the supervisory board, and the head of the accounting of each LPD in Denpasar. The data analysis technique used is multiple linear regression analysis. The research results show that independence positively influences the performance of LPD. In contrast, transparency, accountability, responsibility, and fairness do not affect LPD performance. The LPD's management has an important role in increasing the principle of independence because independence has the most dominant influence on the performance of LPD in Denpasar.

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

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INTRODUCTION

Bali is a province with strong local wisdom and customs that are inseparable from the existence of traditional villages. Traditional villages have scope in social, cultural, spiritual, and economic aspects. Therefore, in Bali, there are local finance institutions other than banks that help the regional economy. The institution is the *Lembaga Perkreditan Desa* which is found in several Balinese traditional villages. This study uses the term "LPD" as a local finance institution LPD was created in 1985 as a village-owned entity that aids the community in securing funding for company capital and other endeavours (Adiputra et al., 2014). LPD's working practices are similar to other financial institutions. The management rules used are simpler and adapted to the environmental conditions where it was established. Although with simple management LPD can provide benefits to the village community. In practice, certain LPDs continue to fail to report financial statements in compliance with relevant standards (Munidewi et al., 2019).

This research was performed at LPDs in Denpasar City. Denpasar City is one of the regions in Bali Province with 4 sub-districts, 16 villages, and 27 traditional villages. Denpasar City was chosen because of a total of 1,436 LPDs in Bali, in the 2020 financial year, most of them experienced a decline in performance and some recorded growth, which was originally 35 LPDs and until now 34 LPDs in Denpasar City (LPLPD Denpasar City) are active. Based on the expansion of LPDs in Denpasar City, it is still necessary to improve their financial performance to compete with other financial institutions in terms of finance and customer service. In 2019 to 2022 based on LPLPD data, the following is the development of LPDs based on total assets, profits, savings, deposits, capital, and loans in Table 1.

Table 1. Financial Advancement of LPDs in Denpasar City from 2019 to 2022

No.	Description	Year (Rupiah)			
		2019	2020	2021	2022
1.	Total Assets	2.579.771	2.539.622	2.568.793	2.743.197
2.	Profit	78.460	43.512	36.778	46.578
3.	Saving	1.069.396	1.001.207	997.190	1.110.709
4.	Deposit	426.681	436.231	477.081	570.685
5.	Loan	640	200	739	684
6.	Capital	7.267	7.207	7.208	7.334

Source: Village Credit Institution Empowerment Agency of Bali Province (LPLPD Bali, n.d.)

Table 1 illustrates that the development of LPD has fluctuated during the previous four years. This is a contradiction, because in 2020 and 2021 the total assets, deposits, and loans were higher than in 2019, but the profit earned was lower than the previous year.

Performance denotes the accomplishment of action in achieving organizational objectives. Good Corporate Governance (GCG) is a guideline or can be used as a formula for company managers in managing good company management concerning stakeholders (Dzingai & Fakoya, 2017). The stakeholders referred to in the LPD environment are villagers, government, managers, and the community. Institutional management based on GCG principles is an effort to make GCG a rule and guideline for institutional management in managing institutional management (Suwarmika, et al., 2019). By implementing GCG, LPDs will be more trusted and seen as professional organizations (Mulyawan et al., 2017).

The application of GCG principles can increase profitability and business sustainability (Todorovic, 2013). and suppress fraud (Suryandari et al., 2023b). The GCG framework is crucial in the administration of LPDs as it offers explicit guidance for responsible decision-making and enhances the overall management and performance of LPDs (Yahya & Shukeri, 2014). Aras and Crowther's (2008) research found that the effectiveness of GCG does not affect the success of the company. However, the results of other studies, namely Mahmood et al. (2018) and Riboldazzi (2016) found that GCG significantly affects the success of a company.

According to the Indonesian GCG General Guidelines established by the National Committee on Governance Policy in 2006, five principles underlie the company in carrying out its governance, including the first GCG Principle, namely transparency. The more transparent a company is in disclosing conditions and information will increase public confidence to save their funds or invest in these financial institutions, to improve the company's financial performance (Tri et al., 2020).

Accountability is a necessary condition to achieve sustainable performance. Accountability reflects a company's disposition towards assuming responsibility for its performance. The company must be well-managed, Responsibility reflects the company's commitment to adhering to rules and regulations and carrying out community responsibilities to support business in the long term. If the company adheres to the principle of accountability by comprehending and complying with all laws, regulations, and relevant LPD standards, its performance will improve (Tri et al., 2020).

Independence is the disposition of a firm that possesses no affiliations and does not dominate intervention by other parties. In carrying out management, companies need to focus on making decisions objectively (impartially) and avoid taking sides with any party (Handayani et al., 2020). Fairness can be implemented by considering stakeholder interests and implementing justice for all stakeholders. LPD must prioritize fairness in improving company performance towards the better. Astini and Yadnyana (2019) assert that the application of GCG components is essential; hence, the deployment of GCG in financial institutions, such as LPDs, is anticipated to guide LPDs towards improved outcomes. LPD whose performance is good will add public trust in the LPD concerned (Tri et al., 2020).

This research seeks to evaluate the impact of sound GCG principles on enhancing LPD performance. Many previous studies have used a financial perspective to measure LPD performance. The company's performance is evidenced by its capacity to generate profit. Profit serves as a key measure for evaluating corporate performance (Suryandari et al., 2023a). In fact, to find out the performance of LPD, it needs to be measured with a more comprehensive system and not just focus on the financial perspective. In this research, the performance measurement used is the Balance Scorecard method. A balanced scorecard maintains a balance of strategic measurements so that employees can act in the interests of the company (Kopecka, 2015). To achieve the success of a performance, it must have a good formula for managing its resources. This research is expected to contribute to LPLPD and each LPD to improve their performance.

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LITERATURE REVIEW

Understanding Agency Theory and Its Relevance to Corporate Governance

Agency theory is a foundational framework employed to comprehend and elucidate the concept of GCG. Jensen and Meckling (2019) define an agency relationship as a contract wherein one or more individuals choose another individual to render services on their behalf, hence conferring decision-making authority to the agent. This relationship often leads to information asymmetry, where agents are positioned to have more information about the company than the principals (Jantadej & Wattanatorn, 2020). Assuming individuals seek to optimize their self-interest, such information asymmetry may result in agents concealing information from principals. To mitigate potential conflicts and prevent losses, companies need to adopt the principles of GCG. These principles, collectively known as Corporate Governance, provide a framework for managing an organization effectively (Tri et al., 2020). Therefore, agency theory is defined as a relationship in which the owner (principal) delegates authority to another person (agent) to conduct activities such as reporting, recording, presenting, and disclosing events within an institution.

Good Corporate Governance (GCG) Principles

The principles of GCG are crucial in guiding companies toward improved performance. All of the principles of GCG positively impact the performance of LPDs, as demonstrated by several research studies.

Transparency

Transparency ensures access for all to information concerning the accountability of corporate entities to stakeholders (Tri et al., 2020). Greater transparency in delivering information accurately and promptly can increase stakeholders' trust in the organization's performance. Transparency can prevent corruption, as well as identify the strengths of company policies and weaknesses in internal control (Anggraini et al., 2021). The findings of Praningsih et al. (2019) and Sawitri & Ramantha (2018) substantiate the positive correlation between GCG and corporate performance, both of which concluded that transparency positively impacts company performance. When stakeholders understand the management of resources and other stakeholder rights, their trust in the organization grows, resulting in improved performance.

H1: Transparency positively influences the performance of LPD.

Accountability

Accountability pertains to the transparency of roles, frameworks, processes, and responsibilities within an organization. It is a critical prerequisite for achieving sustainable performance, ensuring that a company remains accountable in a true, measurable manner while taking into account the interests of managers and stakeholders. This accountability adds value and helps improve company performance (Tri et al., 2020). This is supported by Handayani et al. (2020), who found that accountability positively affects company performance. The more stakeholders understand the company’s vision, mission, roles, duties, responsibilities, goals, and operational targets, the more focused the organization becomes, leading to improved performance. Junaidi et al. (2020) also found that accountability positively affects performance.

H2: Accountability positively influences the performance of LPD.

Responsibility
Responsibility pertains to the adherence of corporate management to relevant laws, regulations, and ethical business practices (Bagiana, 2022). Studies by Mahadewi & Asri (2019) and Sukardika et al. (2020) confirm that responsibility has a positive effect on company performance. Higher responsibility levels indicate better company performance. Within the framework of agency theory, accountability enhances performance by guaranteeing that organizations comprehend and adhere to norms and obligations to stakeholders. This compliance helps maintain business continuity in the long term, ultimately enhancing performance.

H3: Responsibility positively influences the performance of LPD.

Independence
Independence is another essential principle in GCG, where a company must have effective governance that operates without undue influence, dominance, or intervention from other parties (Tri et al., 2020). An objective attitude, free from conflicting interests, is necessary to avoid harm to the company. Research by Handayani et al. (2020) and Praningsih et al. (2019) support the idea that independence positively affects LPD performance. When management makes objective decisions free from outside influence, it prevents domination by any party, leading to improved company performance.

H4: Independence positively influences the performance of LPD.

Fairness
Equity in corporate governance entails justice and parity in honoring stakeholders' rights in accordance with agreements and relevant laws and regulations (Tri et al., 2020). Maintaining fairness and equality is crucial for the stability of a company or organization. Sari and Putra's (2021) research indicated that fairness favorably influences the performance of LPDs. Similarly, Wati and Setiawan (2023) concluded that managing a company by providing fair, equal, and reasonable treatment for stakeholders leads to enhanced company performance.

H5: Fairness positively influences the performance of LPD.

The principles of GCG are essential components that collectively enhance the performance of LPDs. Research consistently supports the positive impact of these principles on company performance, reinforcing the importance of adhering to good governance practices in achieving organizational success.

RESEARCH METHOD

This study was executed at LPD in Denpasar City, totaling 34 LPDs. Denpasar City is also known as the city with the highest number of workers in Bali Province and the economic potential is also large but not followed by the existing economic growth. This research aims to examine the perceptions of employees at the LPD in Denpasar City. The independent variables in this study are Transparency (TRA), Accountability (ACC), Responsibility (RES), Independence (IND), and Fairness (FAIR). Meanwhile, what acts as the dependent variable is the performance of the LPD (LPDP).

The study's population comprised 557 personnel of the LPD in Denpasar City. This sample employs a purposive sampling strategy. The criteria for the sample in this study are employees of the LPD, holding positions as chairman of the LPD, head of the supervisory board of the LPD, and chief accounting officer of the LPD. So, the sample in this study was 102 people. LPD performance is the result of LPD work in carrying out its functions to achieve goals and can be measured by standards that have been set during a certain period. Transparency is a commitment by LPD managers to guarantee the accessibility and disclosure of significant information for stakeholders concerning the financial status, management, and ownership of LPDs in a clear, exact, and correct manner. Indicators of transparency are the number of members of the supervisory board, the ability of the LPD management to provide financial reports, and meetings of the management, supervisory board, and village community to discuss LPD development.

Accountability is the responsibility of LPD managers to perform transparently and reasonably. Indicators of accountability are the understanding of the chairman and manager of the LPD about the vision, mission, and objectives of the LPD, the roles and responsibilities of the chairman and manager of the LPD, documentation of financial statements along evidence of transactions done properly. The LPD manager is obligated to adhere to rules and regulations while fulfilling commitments to the village community. Indicators of responsibility are the obedience of the LPD chairman and manager to laws and LPD regulations, the LPD's concern for the surrounding environment as social responsibility, and decision-making. Independence is where LPD management decisions are not bound by any party without exception so that each part of the LPD cannot be intervened by other parties. Indicators of independence include the chairman's decisions that are objective and devoid of negative interests from numerous parties, ensuring the chairman can evade any form of domination.

Fairness means that stakeholder interests must be the focus of LPD management. LPD management must be based on the principles of fairness and justice. Indicators of fairness are the opportunity for villagers or LPD members to have an opinion, fairness of managers towards members, and providing equal opportunities in recruiting employees for villagers. The questionnaire in this study was adopted from Suwarmika et al. (2019). The multiple regression model can be articulated in the equation:

$$PERF = \alpha + \beta 1TRA + \beta 2ACC + \beta 3RES + \beta 4IDN + \beta 5FAIR + e$$

RESULTS

Instrument Test

Table2. Validity Test

Variable	Indicator	Pearson Correlation	Validity
Transparency (TRA)	TRA.1	0.794	Valid
	TRA.2	0.890	
	TRA.3	0.878	
Accountability (ACC)	ACC.1	0.85	
	ACC.2	0.896	
	ACC.3	0.844	
Responsibility (RES)	RES.1	0.771	
	RES.2	0.865	
	RES.3	0.826	
Independence (IND)	IND.1	0.919	

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	IND.2	0.919	
Fairness (FAIR)	FAIR.1	0.867	
	FAIR.2	0.909	
	FAIR.3	0.831	
LPD Performance (LPDP)	LPDP.1	0.745	
	LPDP.2	0.749	
	LPDP.3	0.714	
	LPDP.4	0.718	
	LPDP.5	0.842	
	LPDP.6	0.726	
	LPDP.7	0.715	
	LPDP.8	0.784	
	LPDP.9	0.785	
	LPDP.10	0.754	
	LPDP.11	0.699	
	LPDP.12	0.750	

The validity test in Table 2 indicates that the instrument employed to elucidate the research variables is legitimate, as the Pearson Correlation value is above 0.3.

Table 3. Reliability Test

No.	Variable	Cronbach Alpha	Description
1.	Transparency	0.815	Reliable
2.	Accountability	0.828	
3.	Responsibility	0.758	
4.	Independence	0.815	
5.	Fairness	0.839	
6.	Performance	0.926	

Table 3 displays the outcomes of the reliability assessment for all variables. The Cronbach Alpha values for these variables range from 0.758 to 0.926, indicating that all variables are reliable. Specifically, Accountability has a Cronbach Alpha of 0.828, Fairness has 0.839, Independence has 0.815, Performance shows the highest reliability with a value of 0.926, Responsibility has 0.758, and Transparency has 0.815. All Cronbach Alpha values exceed the acceptable level of 0.7, indicating that the data for these variables is internally consistent and credible for subsequent analysis.

Descriptive Statistics

Table 4. Descriptive Statistics

Construct	Min.	Max.	Mean	Std. Deviation
TRA	12.00	15.00	13.4902	1.28005
ACC	12.00	15.00	13.8039	1.26678
RES	12.00	15.00	13.6471	1.26371
IND	8.00	10.00	9.0392	0.92192
FAIR	12.00	15.00	13.5882	1.30006
LPDP	46.00	60.00	53.8333	4.80322

Table 4 presents the descriptive statistics for six constructs. The mean value describes the center of the value of a set of research data. While the standard deviation describes the distribution of values around the mean value. The higher the standard deviation value, the more spread out the values in a sample. Based on the table, the standard deviation values of all variables are below the mean value so that the distribution of sample data is classified as good. The outcomes are presented by multiple linear regression analysis in Table 5.

Table 5. Multiple Linear Regression

Construct	B	t	Sig	Tolerance	VIF
Constant	5.859	3.037	0.003		
TRA	0.041	0.490	0.625	0.609	1.643
ACC	0.069	0.747	0.457	0.552	1.813
RES	0.095	0.911	0.365	0.475	2.105
IND	0.391	3.449	<0.001	0.478	2.091
FAIR	0.161	1.654	0.101	0.552	1.811

From the regression results, the following regression equation can be compiled:

$$LPDP = 5.859 + 0.041TRA + 0.069ACC + 0.095RES + 0.391IND + 0.161FAIR.$$

The regression analysis in Table 5 indicates that Transparency (TRA) has a t-value of 0.490 and a significance level of 0.625, which exceeds 0.05. Consequently, Transparency does not influence LPD Performance, leading to the rejection of H1. The influence of Accountability (ACC) on LPD Performance yields a t count of 0.747 and a significance value of 0.457, which is above 0.05, indicating that accountability does not impact LPD Performance, leading to the rejection of H2. The influence of Responsibility (RES) on LPD Performance yields a t count of 0.911 with a significance value of 0.365, which is above 0.05, indicating that responsibility does not impact LPD Performance, hence H3 is rejected. The influence of Independence (IND) on LPD Performance yields a t count of 3.449 with a significance value of <0.001, which is less than 0.05, indicating that independence positively affects LPD Performance, hence validating H4. The impact of Fairness (FAIR) on LPD Performance has a t count of 1.654 and a significance value of 0.101, which is greater than 0.05, indicating that fairness does not affect LPD Performance, leading to the rejection of H5.

Classical Assumption Test

Normality Test

Table 6. Normality Test

N		102
Normal Parameters	Mean	0.0000000
	Std. Deviation	1.68778867
Test Statistic		0.081
Asymp. Sig (2-tailed)		0.095

The employed test is the Kolmogorov-Smirnov Statistic. The normality test results in Table 6 indicate that the Asymp. Sig. (2-tailed) coefficient exceeds the significance threshold of 0.05. Consequently, it can be inferred that the data follows a normal distribution and is suitable for further study.

Multicollinearity Test

Table 7. Multicollinearity Test

Model				t	Sig.	Statistic

	Unstandardized B	Coef. Std. Error	Std. Coef. Beta			Tolerance	VIF
1 (Constant)	5.859	1.929		3.037	0.003		
TRA	0.041	0.085	0.048	0.490	0.625	0.609	1.643
ACC	0.069	0.092	0.077	0.747	0.457	0.552	1.813
RES	0.095	0.105	0.102	0.911	0.365	0.475	2.105
IND	0.391	0.113	0.384	3.449	<0.001	0.478	2.091
FAIR	0.161	0.097	0.171	1.654	0.101	0.552	1.811

The multicollinearity test results presented in Table 7 indicate that the tolerance values for all independent variables are 0.609, 0.552, 0.475, 0.478, and 0.552, all exceeding 0.10. Additionally, the VIF values are 1.643, 1.813, 2.105, 2.091, and 1.811, all below 10. Consequently, it may be inferred that multicollinearity among the variables in the regression model is absent, rendering the model appropriate for application.

Heteroscedasticity Test

Table 8. Heteroscedasticity Test

Model	Unstandardized B	Coef. Std. Error	Std. Coef. Beta	t	Sig.
1 (Constant)	0.736	0.810		0.908	0.366
TRA	-0.010	0.035	-0.038	-0.294	0.769
ACC	-0.053	0.039	-0.184	-1.365	0.175
RES	0.021	0.044	0.068	0.467	0.642
IND	0.063	0.048	0.193	1.332	0.186
FAIR	0.007	0.041	0.022	0.166	0.868

The heteroscedasticity test results in Table 8 indicate that the significance values for all the variables are 0.769, 0.175, 0.642, 0.186, and 0.868, respectively, all exceeding the 0.05 significance threshold. This indicates that the research variables are free from heteroscedasticity.

F Test

Table 9. F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	342.621	5	68.524	14.571	<0.001
Residual	451.458	96	4.703		
Total	794.078	101			

The F Test in Table 9 yielded F value of 14.571 with a significance level of <0.001, which is less than 0.05. The significance value of F is less than 0.05, indicating that all independent factors in the model collectively impact LPD performance. This research paradigm is viable for application.

Determination Coefficient Test

Table 10. Determination Coefficient Test

Model	R	R^2	Adj. R^2	Std. Error of the Estimate

1	0.657	0.431	0.402	2.16857

The Adjusted R Square value in Table 10 is 0.402, indicating that 40.2% of the variability in the dependent variable can be elucidated by the independent variable. The remaining 59.8% is attributed to variables not included in the research model.

DISCUSSION

The Influence of Transparency on the Performance of LPD

Transparency of all information must be implemented by LPD to provide trust for stakeholders The initial hypothesis posits that transparency positively influences the performance of LPD. The test findings indicate that transparency does not influence the performance level of LPD, hence refuting the first hypothesis (H1). These results indicate that even though LPD applies the principle of high transparency, it still does not affect the increase or decrease in the achievement of LPD performance. This happens because the management of LPDs carried out by village communities is only based on trust values. Whether or not there is a principle of transparency in LPDs, village communities do not have a problem because of this attitude of trust. In addition, because there is a supervisory body that assesses the development of the financial performance of LPD, it has presented financial reports in a timely, adequate, and accurate manner to increase the trust of stakeholders (Tri et al., 2020). This makes LPD more likely to pay attention to supervision from the supervisory body. The findings of this research align with those of Handayani et al. (2020), which indicate that transparency does not influence the performance level of LPD.

The Influence of Accountability on the Performance of LPD

The second hypothesis posits that accountability positively influences the performance of LPD. The test results indicate that accountability does not influence the performance of LPD, hence rendering the second hypothesis (H2) unsupported. This means that in its management, although LPD has clear accountability according to the LPD structure, it still does not affect the increase or decrease in LPD performance. This happens because, with employee loyalty, where employees already have knowledge, experience, and commitment in their fields, employees no longer need to understand the structure and clarity of accountability of LPD. With loyalty that is owned by the ability, understanding, and responsibility of self-awareness, they try to obey and explain their duties with a full sense of responsibility. The findings of this study align with the research conducted by Sastrawan et al. (2021) and Suwarmika et al. (2019), which indicates that accountability does not influence the performance of LPD.

The Influence of Responsibility on the Performance of LPD

The third hypothesis posits that accountability positively influences the performance of LPD. The test results indicate that accountability does not influence LPD performance, hence rendering the third hypothesis (H3) unsupported. This means that high or low responsibility will not affect LPD performance because LPD supervision is implemented very well and stably by the LPD supervisory body. Good supervision will also produce good output to avoid deviations from the budget and its processes and authorities. This shows that the influence or absence of responsibility in carrying out its activities does not affect LPD performance. This is due to the optimal performance of LPD. The findings of this study align with the research conducted by Jannah and Hermanto (2020), which indicated that accountability does not influence the performance levels of LPD.

The Influence of Independence on the Performance of LPD
The fourth hypothesis posits that independence positively influences the performance of LPD. The test findings indicate that independence positively influences the performance of LPDs, hence validating the fourth hypothesis (H4). This study's results demonstrate that increased independence correlates with enhanced performance of LPDs, and conversely. Management must possess the capability to render decisions that are autonomous and impartial. Management must maintain an absence of affiliations and conflicts of interest with any entity. This can undoubtedly assist management in the strategic decision-making process to enhance LPD performance. The findings of this research are corroborated by the study conducted by Handayani et al. (2020), Junaidi et al. (2020), and Praningsih et al. (2019), which indicates that independence positively influences the performance of LPD.

The Influence of Fairness on the Performance of LPD
The fifth hypothesis posits that fairness positively influences the performance of LPD. The test results indicate that fairness does not influence the performance of LPDs, hence rendering the fifth hypothesis (H5) unsupported. These results indicate that even though LPD applies a high principle of fairness, it still does not affect the increase or decrease in the achievement of LPD performance. The primary determinant in enhancing LPD performance is not the equality of opportunities afforded to each component of the LPD for contribution, this is thought to be because the decision-making process in LPDs is based on an agreement where decisions are made with the approval of the traditional village (Sastrawan et al., 2021). This shows that the principle of fairness does not affect LPD performance. This is proven by research conducted by Jannah & Hermanto (2020), Sastrawan et al. (2021), and Suwarmika et al. (2019) which state that fairness does not determine the high or low performance of LPD.

CONCLUSION

LPD is a local financial institution in Bali Province with simpler management compared to other banking institutions. This research seeks to ascertain the impact of effective GCG principles on enhancing LPD performance. Based on the results of the regression analysis, it can be concluded that out of the five hypothesized factors, only Independence (H4) significantly influences the performance of LPD. Transparency (H1), Accountability (H2), Responsibility (H3), and Fairness (H5) do not exhibit a significant effect on LPD performance, as their t-values and significance levels exceed the 0.05 threshold. Therefore, H4 is accepted, while H1, H2, H3, and H5 are rejected.

This outcome highlights the critical role of independence in enhancing LPD performance. Independence, characterized by decision-making autonomy and operational self-sufficiency, appears to be the primary driver in achieving optimal performance for LPD. On the other hand, factors like transparency, accountability, responsibility, and fairness, while essential components of good governance, do not significantly contribute to LPD performance in the current context.

Suggestion
Given that Independence has a strong and positive influence on LPD performance, it is recommended that LPDs focus on strategies that enhance their independence. This could involve empowering leaders and managers to make more autonomous decisions, reducing bureaucratic barriers, and minimizing external interference in daily operations.

LPDs should also explore ways to strengthen internal governance structures that encourage independent thinking and self-reliant financial management.

Additionally, although transparency, accountability, responsibility, and fairness did not have a statistically significant effect on performance in this study, these factors remain important to the overall governance of LPDs. Therefore, it is advisable to continue promoting these principles as part of a holistic approach to good governance, even if their direct impact on performance may not be immediately evident.

Implication

The findings of this study have several implications for the management and governance of LPDs. The significant positive influence of Independence suggests that policy-makers and LPD leaders should prioritize frameworks and practices that safeguard the institution's operational autonomy. Independence could serve as a crucial factor in navigating financial challenges and ensuring long-term sustainability.

Furthermore, the lack of significant impact from transparency, accountability, responsibility, and fairness suggests that these factors may not directly translate into improved performance, at least in the short term. However, their importance in building trust, ensuring ethical conduct, and maintaining good governance should not be underestimated. Future research could further investigate how these elements contribute to the overall resilience and ethical standards of LPDs, potentially exploring their long-term impact on performance beyond immediate financial results.

LIMITATION

This study has not been able to prove that the five principles of GCG can improve LPD performance. This may be due to the characteristics of LPD which are different from other institutions.

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DECLARATION OF CONFLICTING INTERESTS

This research is devoid of any conflicts of interest.

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