



## INFLUENCE OF PRINCIPLES OF *GOOD CORPORATE GOVERNANCE* ON THE PERFORMANCE OF VILLAGE CREDIT INSTITUTIONS IN THE SERIRIT SUB-DISTRICT, BULELENG REGENCY

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### Abstract

Good Corporate Governance is a corporate governance system that serves as a control tool to regulate the structure and mechanism of the company in such that it can be efficient and perform. GCG practices can increase company value by increasing learning and growth. This study aims to determine the effect of the principles of Good Corporate Governance on the performance of Village Credit Institutions in Seririt District, Buleleng Regency. Proxies used to measure GCG are GCG principles consisting of transparency, accountability, responsibility, independence and fairness. The number of samples used in this study were 15 LPD with 45 respondents. Determination of the sample using Purposive Sampling with data collection methods using a questionnaire. Purposive sampling is a technique with certain considerations. The analysis technique used is multiple linear regression, and previously tested instruments and classic assumption tests, multiple linear regression and goodness of fit. Based on the results of hypothesis testing, it is known that the principles of Good Corporate Governance: responsibility and fairness have a positive effect, while transparency, accountability, and independence do not affect the performance of the LPD in Seririt District, Buleleng Regency.

Keywords: Transparency, Accountability, Responsibility, Independence, Fairness, LPD Performance

### INTRODUCTION

The progress of a country can be measured by the level of economic growth. A country that has a good level of economic growth cannot be separated from the role of financial institutions. In the Province of Bali there are microfinance institutions, which have an important role in regional development besides banking, one of which is the Village Credit Institution (LPD) located in each customary village that plays a role in regional economic development. LPD in Bali is an institution belonging to a customary village that functions as a container for the wealth of a customary village that carries out the function of empowering the economy of rural communities in Bali. The purpose of establishing LPD in Bali is to help people in the regions of Bali Province to develop their economic activities (Gunawan, 2011).

LPD is a village microfinance institution located in the village and for village manners. LPD is owned by the village manners, namely the village community within a certain village area that is bound by the customs and culture of the village. LPD are managed separately with village manners so as to enable agency conflict. To avoid the possibility of such conflicts which could trigger a decline in LPD performance such as financial scandals or fraud cases, embezzlement of funds and corruption perpetrated by LPD persons experienced by LPD Desa Adat Kapal who have committed funds misappropriation of up to 10 billion Rupiah, by the Former The Chairperson of the LPD, I Made Landra. Even though the loss will be fully reimbursed, the village manners still ask that the case be brought to justice (Balipost, 2016). The

existence of this case makes the village manners distrust the LPD manager so that it requires the application of a good system, effective supervision, and the right decision making in improving the quality of work of a company.

According to Shil (2008) agency conflict arises when people in different positions sacrifice the company's wide goals to realize personal interests. To minimize the appearance of agency conflict, good *corporate governance* is needed which is expected to be able to reduce the gap between agents and principals. *Corporate Governance* describes the structure of rights and responsibilities between parties who own shares in a company. LPD must apply the principles of *Good Corporate Governance* (GCG) because it can reduce conflicts of interest between LPD managers as agents and owners, namely village manners, and maintain good relations and guarantee the full rights of the parties concerned with LPD. According to Intan (2014), implementing GCG is an obligation of every company to achieve harmony between the interests of managers and *stakeholders* in achieving the company's main objectives. *Corporate governance* contains the concept of separation between ownership and corporate control. Company managers are given the authority to manage the running of the company and make decisions on behalf of the owner. With the information held, managers can act only to benefit themselves by sacrificing the interests of the owner, so the information conveyed to the owner is not in accordance with the actual condition of the company.

According to Meitradi (2013), with good management, financial performance is expected to be good. The application of GCG will prevent mistakes in decision making and self-benefit actions so that it will automatically increase the value of LPD which is reflected in financial performance. LPD financial development which tends to increase will certainly provide hope for all parties concerned, both the owner and the surrounding community.

Therefore the application of GCG is very influential for LPD managers so that it becomes better in improving. In addition, LPDs are also required to apply GCG principles consisting of *Transparency, Accountability, Responsibility, Independence and Fairness* because they can reduce conflicts of interest between LPD managers as agents and owners, namely village manners, and maintain good relations and guarantee the full rights of interested parties. with LPD.

The underlying reason that this research needs to be done is to find out the principles of *Corporate Governance* that affect the performance of the Village Credit Institutions (LPD). The existence of LPD follows the number of traditional villages in Bali. Seririt District is an area that has potential in agriculture, trade and small home industries. As a social and economic buffer zone, it will certainly have an impact on physical and socio-economic changes. To anticipate negative things as a result of the development process, it is necessary to have regional instruments and institutions that are able to help the local community and are expected to be the capital to deal with all changes that occur. Seririt District was chosen as the location of the study because profits at the LPD were very low. Most of the LPD in Seririt District have applied the principles of *Good Corporate Governance*. The application of the principles of *Good Corporate Governance* is very important to be applied by the LPD, but the implementation in Seririt District is still lacking due to the lack of good management. This results in problems in an LPD.

Seririt District is recorded as a District that routinely holds meetings of all LPD to continue to control LPD performance so that LPD managers are expected to be far from corrupt, collusion and nepotism practices. Based on the last meeting that discussed the latest LPD regulations and on the main problems of LPD in Seririt District which still existed were recorded as LPD that were less healthy, unhealthy, and even jammed. The LPD is unhappiness is caused by the lack of understanding of the work of LPD management in managing LPD, and there are still often some LPD members who commit fraud in it. By looking at the existing problems, this strongly proves that the LPD in humanity occurs because institutional management actions are still lacking and the way to overcome this is to apply good governance practices known as *Good Corporate Governance* by taking components in the GCG principles which include *Transparency, Accountability, Responsibility, Independence and Fairness*.

Seririt District has now created a system to control the performance of all its LPD, namely by holding regular meeting every year, there are still LPD that are still unhealthy. So that doubts begin to emerge with how governance is applied from the LPD it self. With a record of the LPD which is now a non-bank financial institution that has a very large role in supporting the needs of villages, the LPD should have set and applied GCG principles to improve and maintain the performance of the institution.

Research conducted by Setyawan and Putri (2013), Sandraningsih and Dwijaputri (2015) and Bulandari and Damayanthi (2014), on the effect of *Good Corporate Governance* (GCG) on company performance shows that GCG has a positive influence on company performance. The results of these

studies contradict previous research conducted by Purwani (2010) which states that GCG has no effect on company performance.

This study replicates the Kartikasari (2017) study with different research locations in the Kartikasari (2017) study taking place in North Badung Regency. Where as in this study took the location of research in the Village Credit Institute (LPD) in Seririt District, Buleleng Regency. Because based on the phenomenon described above, the writer is interested in further researching the effect of the principles of *Good Corporate Governance* on the performance of the Village Credit Institution (LPD) in Seririt District.

## LITERATURE REVIEW

### Agency Theory Agency

Theory is a concept that explains the contractual relationship between principals and agents. Principals are parties that give mandates to other parties, namely agents, to carry out all activities on behalf of principals in their capacity as decision makers (Jensen and Smith, 1984).

Jensen and Meckling (1976) explained that the agency relationship is a contract between the principal and the agent, in which the agent provides services and is responsible to the principal. According to Eisenhardt (1989), agency theory is an agency relationship, in which the principal gives the agent the task to carry out all activities on behalf of the principal.

According to agency theory, company owners can limit their differences of interest by establishing appropriate intensities for agents, and by incurring monitoring costs, designed to limit agent actions (Hill and Jones, 1992). Managers are given power by the owner, the shareholder to make decisions, which can create a potential conflict of interest known as *agency theory*. The main purpose of the agency theory is to explain how the parties to a contractual relationship can design a contract whose purpose is to minimize costs as a result of asymmetrical information and uncertain conditions.

Agency theory illustrates that a company is a meeting point between shareholders and managers. The company's goal is to maximize the prosperity of the share price which translates as maximizing the share price. In reality it is not uncommon for managers to have other goals that may conflict with these main objectives. Because managers are appointed by shareholders, ideally they act best for shareholders. However, in practice there are often conflicts between the two parties called the *agency problem*.

*Corporate governance* which is a concept based on agency theory, is expected to function as a tool to provide confidence to customary villagers and their customers that they will receive a return on the funds they have invested. *Corporate governance* relates to how customary village krama and customers are confident that LPD managers will benefit them, confident that LPD managers will not steal or embezzle or invest in projects that are not related to and or capital that has been invested by village manners adat and customers control LPD managers, in other words *corporate governance* is expected to function to reduce or reduce *agency costs*.

### Hypothesis

- Hypothesis 1 (H1) : Transparency has a positive effect on the performance of Village Credit Institutions in Seririt District.
- Hypothesis 2 (H2) : Accountability has a positive effect on the performance of Village Credit Institutions in Seririt District.
- Hypothesis 3 (H3) : Responsibility has a positive effect on the Performance of Village Credit Institutions in Seririt District
- Hypothesis 4 (H4) : Independence has a positive effect on the Performance of Village Credit Institutions in Seririt District.
- Hypothesis 5 (H5) : Fairness has a positive effect on the Performance of Village Credit Institutions in Seririt District

## METHOD

Location taken in this study is in the District of Seririt by distributing questionnaires to each Village Credit Institution that is sampled. The objects in this study are the principles of *good corporate governance* consisting of *transparency, accountability, responsibility, independence, and fairness* as well as the performance of the Village Credit Institutions (LPD) found in Seririt District. The study consists of two variables:

- 1) Independent variables (*independent variables*) are variables that affect or is the cause of the change or the emergence of the dependent variable (Sugiyono, 2017: 59). The independent variable (independent) in this study are the principles of *good corporate governance* that consists of five variables: the transparency of the ( $X_1$ ), accountability ( $X_2$ ), responsibility ( $X_3$ ), independence ( $X_4$ ) and fairness ( $X_5$ ).
- 2) Dependent variable (*dependent variable*) is a variable that is affected or becomes the result of an independent variable (Sugiyono, 2017: 59). The dependent variable in this study is the performance of the Village Credit Institutions (LPD).

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions (Sugiyono, 2017: 118). The population in this study were all LPD in Seririt District. There are 25 LPD in Seririt District that are still operating. The data was obtained from the Village Credit Empowerment Institute (LPLPD) of the Regency of Buleleng. The sample is part of the number of characteristics possessed by the population (Sugiyono, 2017: 116). The sample collection method used in this study uses *purposive sampling*. *Purposive Sampling* is a technique with certain considerations. Sample criteria in this study are

- 1) All LPD in Seririt District
- 2) LPD that are still actively operating
- 3) LPD that have used the principles of *Good Corporate Governance*

Based on the criteria considered in sampling are presented in Table 1.1

**Table 1.1**  
**Determination of Research Samples**

No	Criteria	Amount
1	Total number of LPDs in Seririt district	25
2	LPD that are still not actively operating	(5)
3	LPD that do not use the principles of <i>Good Corporate Governance</i>	(5)
	<b>LPD are sampled</b>	15
	Respondents (number of respondents distributed per LPD are 3 questionnaires)	45

Respondents given questionnaires include: Supervisory Agency, Chairperson of LPD, *Accounting*. The data analysis tool used is *statistical inference* which aims to test hypotheses using multiple linear regression through the SPSS computer program with the following formula.

## RESEARCH RESULTS AND DISCUSSION

Respondents used in this study were the supervisory body, the chairperson of the LPD, *Accounting* for each LPD that was spread out in Seririt District, Buleleng Regency. Each LPD was sent three questionnaires, where the questionnaire was sent directly to each LPD. The details of sending and receiving questionnaires will be presented in Table 1.2

**Table 1.2**

**Details of Sending and Receiving Questionnaire**

Remarks	Number of Questionnaire (copies)
Questionnaire delivered directly	45
Questionnaire that is not returned / aborted	0
Questionnaire used	45
Rate of return ( <i>response rate</i> ) 45/45 x 100%	100%

Source: data processed 2019

Based on Table 5.1 the number of questionnaires that should have been distributed was 45 questionnaires. The number of questionnaires returned was 45 and there were no questionnaires that did not return.

**Multiple Linear Regression Analysis Test**

The analysis model used in this study is multiple linear analysis using the SPSS program. The multiple linear regression analysis model was used to determine the effect of independent variables namely transparency, accountability, responsibility, independence, and reasonableness to LPD performance. Regression results can be seen in Table 1.3 below:

**Table 1.3**  
**Results of Multiple Linear Regression Analysis**

		Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	20.187	6.880		2.934	.006		
	TRAN	.243	.424	.070	.573	.570	.798	1.254
	AKUN	-.027	.502	-.008	-.055	.957	.601	1.665
	RESP	.876	.339	.325	2.588	.014	.765	1.307
	IND	.398	.762	.077	.522	.604	.561	1.783
	FAIR	1.693	.554	.453	3.059	.004	.549	1.822

a. Dependent Variable: KLPD

Source: Appendix 7 (data processed, 2019)

The multiple linear regression equation that can be formed based on Table 1.3 namely:

$KLPD = 20.187 + 0.243 \text{ Tran} - 0.027 \text{ Account} + 0.876 \text{ resp.} + 0.398 \text{ Ind} + 1,693 \text{ The Fair}$   
Equation above can be explained as follows:

- 1) A constant value of 20,187 indicates that if the free variable of transparency, accountability, responsibility, independence, and reasonableness is zero then the LPD's performance is worth 20,187.
- 2) The coefficient of responsibility is 0.876 with a significance of 0.14. This can be interpreted if the responsibility variable increases by one-unit, then the performance of the LPD will increase by 0.876 assuming other variables are constant values.

- 3) The fairness coefficient value is 1.693 with a significance of 0.004. This can be interpreted if the reasonableness variable increases by one unit, the LPD performance will increase by 1.693 assuming other variables are constant values.

### Feasibility Model (*Goodness of Fit*)

#### 1) The coefficient of determination (*adjusted R2*)

The coefficient of determination was essentially measure how far the model's ability to explain the variation of the dependent variables. The results of the determination coefficient test are shown in Table 1.4 below:

**Table 1.4 Adjusted R<sup>2</sup>**

#### **Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.729 <sup>a</sup>	.531	.471	2.90897

a. Predictors: (Constant), FAIR, TRAN, RESP, AKUN, IND

b. Dependent Variable: KLPD

Source: Appendix 7 (data processed, 2019)

Based on Table 1.4 it can be seen that the coefficient of determination (*Adjusted R Square*) of 0.471 or 47.1 percent. This means that 47.1 percent of LPD performance variables are explained by transparency, accountability, responsibility, independence, and *fairness*, while the remaining 52.9 percent is explained by other factors not included in this regression model.

#### 2) F Test

Teststatistical test aims to determine the feasibility of a linear regression model as an analysis tool that tests the effect of the independent variable on the dependent variable. Table 1.5 shows the *p-value* that can explain the results of the F test.

**Table 1.5**

#### **ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	373.222	5	74.644	8.821	.000 <sup>a</sup>
	Residual	330.023	39	8.462		
	Total	703.244	44			

a. Predictors: (Constant), FAIR, TRAN, RESP, AKUN, IND

b. Dependent Variable: KLPD

Source: Appendix 7 (data processed, 2019)

Based on Table 1.5 shows a significance value of 0,000 which is smaller than the value of  $\alpha$  (0.05), then Multiple linear regression models are feasible as an analytical tool to test the effect of independent variables on the dependent variable.

#### 3) t Test

t test statistic basically shows how far the influence of an independent variable individually explaining the variation of the dependent variable. This rule is done by comparing the significant value of y indicated by sig. from t in table 1.5 with a significance level taken of 0.05. If sig. from t < 0.05, the independent variable influences the dependent variable.

##### a) Effect of transparency on LPD performance

Based on Table 5.5 obtained a positive regression coefficient of 0.243 with a significance level of transparency variable 0.570 greater than 0.05. This means that the variable transparency does not affect the performance of the LPD, so that  $H_1$  is rejected.

##### b) Effect of accountability on LPD performance

Based on Table 1.5 obtained regression coefficient of -0.027 with a significance level of accountability variable of 0.957 greater than 0.05 and a negative coefficient sign so that the hypothesis is accepted. This means that the accountability variable has no effect on LPD performance, so that  $H_{2is}$  rejected.

- c) Effect of responsibility on LPD performance  
Based on Table 1.5 obtained a positive regression coefficient of 0.876 with a significance level of responsibility variable of 0.014 smaller than 0.05. This means that the responsibility variable positive effect on the performance of the LPD, so that  $H_3$  accepted.
- d) The effect of independence on LPD performance  
Based on Table 1.5 obtained a positive regression coefficient of 0.398 with a significance level of independence of 0.604 greater than 0.05. This means that the independent variable does not affect the performance of the LPD, so that  $H_4$  is rejected.
- e) The effect of reasonableness on LPD Performance  
Based on Table 1.5 obtained a positive regression of 1.693 with a significance level of reasonableness variable of 0.004 smaller than 0.05. This means that the variable reasonableness positive effect on the performance of the LPD, so  $H_5$  accepted.

## Discussion

### 1) Effect of Transparency on LPD Performance in Village Credit Institutions in Seririt District of Buleleng Regency

The first hypothesis in this study is that transparency has a positive effect on the performance of Village Credit Institutions (LPD). This test showed that the variables of transparency does not affect the performance of Village Credit Institutions (LPD), so that  $H_1$  is rejected. This shows that transparency does not affect the performance of LPD because the LPD formed by Pakraman villages and company management also come from local adat villages that have done accountability to the community. Even though the regulatory body is not transparent to the community, the LPD performance can still develop and can improve because this has been continuously monitored by the community in the village regarding information from the company. The results of this study are in line with the research of Mahaendrayasa and Putri (2017) which states that transparency does not affect the financial performance of LPDs in Denpasar City and this study contradicts that conducted by Sandraningsih (2015) and Kartikasari (2017) which states transparency has a positive effect on financial performance Village Credit Institutions.

### 2) The Effect of Accountability on Performance in Village Credit Institutions in Seririt District of Buleleng Regency

The second hypothesis in this study is that accountability has a positive effect on the performance of Village Credit Institutions. This test shows that the accountability variable does not affect the performance of the LPD so that the hypothesis Hformulation is<sub>2</sub> rejected. It is concluded that LPD members have not effectively understood the principle of accountability. This happens because the company's management has not been able to properly monitor the activities of its employees so that the understanding of the LPD's vision, mission, and goals and operational targets, understanding their respective roles, duties and responsibilities in accordance with their abilities cannot run well. The results of this study are in line with the research of Dian and Bukhori (2012) which states that accountability does not have a significant effect partially on LPD performance and this research is contrary to research conducted by Pradnyaswari (2016) and Dwijaputri (2014) stating that accountability has a positive effect on financial performance LPD.

### 3) Effect of Responsibility on the Performance of Village Credit Institutions in Seririt District of Buleleng Regency

The third hypothesis proposed in this study is that responsibility has a positive effect on the performance of Village Credit Institutions (LPD). This means that responsibilitis positive effect on the performance of the LPD, so that  $H_3$  accepted. This is because the application of the principle of responsibility to the LPD is related to understanding and obeying all applicable laws and regulations of the LPD. From these results on company employees by carrying out obligations and authorities in accordance with company organizations, employees will be able to work well. If the company complies with regulations and carries out responsibilities to *stakeholders*, it will improve the company's performance. The results of this study are in line with research by Bulandari (2014) and Irmala (2010) which state that responsibility has a positive effect on company performance.

### 4) Influence of Independence on the Performance of Village Credit Institutions in Seririt District of Buleleng Regency

The fourth hypothesis proposed in this study is that independence has a positive effect on the performance of Village Credit Institutions (LPD). This test shows that the independence of the variables do not affect the performance of the LPD so that the formulation of the hypothesis  $H_4$  rejected. This shows that the independence or independence of the LPD will not affect the performance of the LPD. That is because the LPD is formed by the adat village of pakraman where the supervisory body, the head of the LPD and its employees are from the local area so that they will continue to maintain the development of the LPD's performance, even though the LPD chair has not been able to make decisions objectively or free from the interests of various other parties then they can still improve their performance.

The results of this study are in line with the research of Bukhori (2012) and Kartikasari (2017) which states that independence has no effect on LPD performance and this study contradicts research conducted by Irmala (2010) and Sandraningsih (2015) which states independence has a positive effect on company performance.

#### 5) **Effect of Fairness on Performance of Village Credit Institutions in Seririt District of Buleleng Regency**

The fifth hypothesis proposed in this study is that fairness has a positive effect on the performance of Village Credit Institutions (LPD). This test supports hypothesis  $H_5$  which states that reasonableness has a positive effect on LPD performance in Seririt District, Buleleng Regency.

This shows that in managing the company's business always based on fairness and equality, the company's performance will also increase. By giving equal opportunities to the village manners / LPD members to provide input and opinions on the LPD, provide fair treatment to all members and provide equal opportunities in the recruitment of LPD employees to the village manners. So that the principle of fairness will lead to an increase in the resulting performance. This research is in accordance with the research of Sandraningsih and Dwijaputri (2015) which states that reasonableness has a positive effect on LPD's financial performance. And Kartikasari's research (2017) also states that reasonableness has a positive effect on LPD performance.

## **CONCLUSIONS AND RECOMMENDATION**

### **Conclusions**

Based on the research objectives plus the method of analysis results and the descriptions in the previous chapters on the influence of the principles of *Good Corporate Governance* on the performance of the Village Credit Institutions (LPD) in Seririt District of Buleleng Regency, it can be concluded as follows:

- 1) Transparency has no significant effect on the performance of the Village Credit Institutions (LPD) in Seririt District, Buleleng Regency. This indicates that transparency has not been implemented properly so it shows the opposite relationship.
- 2) Accountability does not significantly influence the performance of the Village Credit Institutions (LPD) in Seririt District, Buleleng Regency. This indicates that accountability in the LPD is said to be quite good, but it still cannot encourage an increase in LPD performance so that  $H_{2is}$  is rejected.
- 3) Responsibility has a positive effect on the performance of the Village Credit Institutions (LPD) in Seririt District, Buleleng Regency.
- 4) Independence has no significant effect on the performance of the Village Credit Institutions (LPD) in Seririt District, Buleleng Regency.
- 5) Fairness has a positive effect on the performance of the Village Credit Institutions (LPD) in Seririt District, Buleleng Regency.

### **Recommendations**

This research is inseparable from a number of limitations which can later be refined by further research. The limitations and research suggestions are

- 1) By considering the effect of *Good Corporate Governance* that can improve the performance of Village Credit Institutions (LPD) in Seririt District of Buleleng Regency, it is hoped that other LPDs in Bali will also implement *Good Corporate Governance* as a culture within the company regarding the components of *Good Corporate Governance* also needs to be improved because *Good Corporate Governance* can be the basis of control in LPD activities. The regulatory body needs to carry out regular performance evaluations to reduce the likelihood that LPD are at a low health level.

- 2) Suggestions for further researchers to add variables and be able to conduct research in Buleleng Regency in order to get higher scores *Adjusted R* and broader results.

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