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# THE ROLE OF TRI HITA KARANA CULTURE IN MODERATING THE EFFECT OF GCG, RISK APPETITE AND WORK MOTIVATION ON FINANCIAL PERFORMANCE OF LPD IN THE DENPASAR CITY – BALI

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## ABSTRACT

*The purpose of this research are: To know the effect of GCG, risk appetite, work motivation on the financial performance; To know the role of THK in moderating the effect of GCG, risk appetite, work motivation on the LPD's financial performance. The analysis using moderated regression analysis (MRA). Results of analysis: appetite risk and work motivation have a positive significant effect on Financial performance of LPD, however GCG does not have a significant; The THK is able to act as a moderating variable which means that it can strengthen the influence of GCG, risk appetite, work motivation on LPD's financial performance.*

**Key words:** THK Culture, GCG, Risk Appetite, Work Motivation, Financial Performance, LPD.

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## 1. INTRODUCTION

The economy is growing and growing rapidly in the age of globalization and government efforts in an effort to expand public support in development, causing the function and role of the private sector engaged in services and trade to develop rapidly, so as to absorb labor and reduce unemployment. One form of economic development in the village is to establish rural financial institutions that aim to overcome the capital constraints of rural communities.

LPD has a very important role in lending capital to the community as an effort to develop businesses, so that the development of small businesses at the village level is able to exploit local potential in developing the Balinese economy, so that the builders of the Bali economy not only depend on tourism, but can manage all sectors especially in the village as an effort to promote development.

As a follow-up to the seminar, the provincial government of Bali realized in the form of a Decree of the Governor of Bali Level I Number 972 of 1984, November 1, 1984, regarding the establishment of LPDs in the Province of Bali. And to legitimize the existence of the LPD, the provincial government of Bali has issued Regional Regulation of Bali Province Number 2 of 1988, which was perfected in the Regional Regulation of Bali Province Number 8 of 2002, and finally the Bali Regional Government Regulation Number 4 of 2012 concerning Second Amendment to Regional Regulation Bali Province Number 8 of 2002 concerning Village Credit Institutions and updated with Bali Governor Regulation Number 11 of 2013.

The LPD has a function to encourage community economic development through targeted savings, as well as effective capital distribution. In addition, the LPD also functions to create equality and provide employment opportunities for rural residents, both those who can work directly in the LPD, and those that can be accommodated by productive community businesses that are funded by LPD.

Although in general LPDs can be said to be successful in carrying out their functions and objectives, this success is not felt by all existing LPDs. In practice, there are still many LPDs who experience problems both in technical matters such as the problem of bad credit and the inability of LPDs to fulfill their obligations to pay debts to existing creditors, even some LPDs go bankrupt.

Policies or decisions are always directed to produce good performance, one of which is financial performance in an Organization (Warmana and Widnyana, 2017). Organizational performance is the final achievement of an organization and contains several things such as the existence of certain targets achieved, has a period of time in achieving targets and achieving efficiency and effectiveness. The LPD's performance has been quite impressive lately, this can be seen from the increase in assets managed by the Denpasar City LPD in 2015, which increased by 21.35% to Rp 1.384 Trillion from 2011. In addition, LPD health also increased compared to the year 2011, in 2015 out of 35 existing LPDs, 33 LPDs were declared healthy, and two LPDs were declared less healthy (Sumerta, 2016).

Improvement of organizational performance which has an impact on achieving the goals of the organization must be supported by the existence of a good corporate governance. The application of the principles of Good Corporate Governance is very necessary in conducting business. The five principles include transparency, accountability, responsibility, independency and fairness which are principles that must always be held firmly by every organization that wants to realize good governance in them. Although the LPD can be said to be a business that has a business reach only in one traditional village, it must be remembered that good governance will provide more benefits for a business organization.

The application of the principles of good corporate governance is intended so that the LPD is more trusted and is seen as a professional organization based on tradition, especially Balinese tradition and has the power of an internal control system. In other words, if the trust of the customer and the traditional village community is owned by an LPD, then the performance of the LPD will certainly increase.

In addition to the application of good corporate governance, LPD as an organization under the traditional village must obey and obey the legal rules or umbrella owned by the traditional village, namely the "awig-awig" which will become the basis for gaining the trust of customers who are indigenous villagers.

There are several differences in the results of research obtained from the influence between good corporate governance and company performance. According to Rahmatika et al. (2015) that measures of transparency, independence, accountability, accountability and fairness have a significantly positive effect on financial performance. In line with Rahmatika et al. (2015), Atmadja et al. (2014) states that there is an influence between good corporate

governance on LPD. Similarly, Dewi and Putri (2014), Widnyana and Widyawati (2018) found that the principles of good corporate governance had a positive effect on the financial performance.

In contrast to some of the studies above, in the following research the results show that good corporate governance has no effect on company performance. Like research from Prajasa (2015), Kautsar and Kusumaningrum (2015) and Hartono and Nungrahanti (2014) obtained the same results that good corporate governance does not have a significant effect on company performance.

The difference between the results of the study was because the location of the study was also caused by several things, namely: (1) applied theoretical perspectives, (2) research methods, (3) performance measurement, and (4) differences in views on board involvement in decision making (Kakabadse et al., 2001).

Risk appetite is an element of good governance and is an integral part of Enterprise Risk Management (ERM). Risk appetite helps organizations align organizations, people, and processes in designing the infrastructure needed to respond and monitor risk effectively. The actions taken by management every day reflect the organization's risk appetite. Risk appetite directs the organization to consider whether to accept or reject the risks to be faced, so that risk appetite is a useful tool to evaluate the organization's strategic choices. The chosen strategic selected to be in line with the organization's risk appetite, as risk appetite is an integral part of the strategic decision-making process (Protiviti, 2012).

Each organization in achieving its goals, will develop a risk appetite that is different from one another (Rittenberg, and Martens, 2012). The manager's attitude towards risk will determine the series of actions that must be followed. Careful managers can avoid risky situations, but the consequences fail to take advantage of opportunities. Managers who have a high risk appetite do not care about the dangers that arise in a particular action program, the consequences will be to lose their profits (Bauer and Bushe, 2003).

Organizations with high-risk appetite may be willing to allocate the majority of its capital to high-risk business ventures and emerging markets. Organization with a low risk appetite may limit the allocation of capital by investing in a stable business. Organizational risk appetite reflects how much management wants to operate a afford to bear risk compared to total organizational capacity (Rittenberg and Martens, 2012 )

An organization in deciding its objectives and approach to achieving strategic goals, has an element of uncertainty, which means that decision makers are risk takers. The level of risk accepted by decision makers depends on individual attitudes (Bauer and Bushe, 2003). Organizations must understand risk appetite when defining and achieving goals, formulating strategies, and allocating resources.

The difference in manager's risk appetite or management reflects the difference in interest rate risk and credit risk that the bank is willing to face. This difference will result in different levels of profitability achieved by banks. The high interest rate and credit risk that will be borne by the bank reflects the high risk appetite of the bank manager. The greater the interest rate risk and credit risk that will be borne by the bank will certainly affect the size of profitability.

Organizational performance is also influenced by work motivation (Gibson, et al., 1996). The role of motivation in improving performance supported by the results of the Mangkunegara research (2000), Wagimin (2001) who all recommend the importance of increasing work motivation in order to improve organizational performance. The direct influence of the relationship between motivation on organizational performance is the topic studied in this study.

Motivation is a skill in directing employees and organizations to work successfully, so that the desires of employees and organizational goals are achieved at the same time Flippo in Hasibuan (2009: 143). Because with motivation, an employee will be willing to mobilize all his abilities to carry out work to meet his needs. The motivation of an employee can grow from within himself or because of the encouragement given by his superiors Susanto, Andi and Hastin Umi Anisah (2013). Motivation needs to get great attention for organizations in improving the performance of their employees and achieving company goals because low motivation can make high-quality individuals have poor performance and conversely high motivation can make mediocre individuals have amazing performance (Sumampow et al. , 2016).

Buhler, P. (2004) motivation as a series of forms of treatment provided by management to encourage employees to carry out activities to achieve goals, very vulnerable to influence leadership style. To maximize performance in an organization, an organization basically must also have the view that its performance is influenced by good values derived from self-strength, work environment, and relations between fellow employees (Adiputra, 2014). Therefore, the influence of local culture is very important, a culture that is already known and is always carried out by everyone in the area. A philosophy of Balinese culture Tri Hita Karana which emphasizes the balance theory states that Hindu society tends to understand themselves and their environment as a system that is controlled by the value of balance, and manifested in the form of behavior (Gunawan, 2009).

Tri Hita Karana (THK) is Bali's local wisdom that is used as a foundation for individuals and organizations in each of their activities, especially for indigenous village communities who are LPD owners. The concept of life that emphasizes the principles of togetherness, harmony and balance between economic goals, environmental and cultural, aesthetic and spiritual preservation (Tenaya, 2007). The business activities carried out by the LPD must be based on a cultural values that make this activity useful not only to the people involved in the organization, but also to the surrounding environment and the entire universe. THK gives the view that people tend to view themselves and their environment as a system controlled by balance.

THK has the concept that harmonious relations are important in carrying out an activity or organization. Confidence in the balance of harmony has become the guiding principle of Balinese society to behave which gave birth to various concrete actions, namely (a) the harmony of relations between humans and Hyang Widhi (God Almighty) known as Parahyangan, (b) harmony of relations with fellow human beings known as the term Pawongan, and (c) the harmony of human relations with the universe known as Palemahan. The essence and essence of the THK teaching is good cooperation and harmony of all components related to an activity or organization.

Some studies that state that THK culture has an influence on the performance of a company include Riana (2010) and Surya et al. (2014) found that THK culture had a positive effect on business performance. While in terms of THK culture used as a moderating variable, there are differences in the results of research between Adiputra (2014) which states that THK culture moderates the effect of task complexity on internal auditor performance at the Bali Provincial Inspectorate Office while Mustikayani and Dwirandra (2016) find that THK culture is not can moderate the influence of task complexity on auditor performance.

This is what underlies THK's culture as a moderating variable on the effect of the relationship between GCG and LPD performance. In addition, it is also supported by the existence of the Bali Provincial Government program that organizes Tri Hita Karana Awards which increasingly fosters the ability to implement THK teachings in daily life, especially work (Mustikayani and Dwirandra, 2016).

Good performance indicates that the level of public trust as the source and destination of the flow of funds collected by the LPD is undergoing a good process. According to the Governor of Bali Regulation Number 11 of 2013 concerning instructions for implementing Bali Province Regional Regulation Number 8 of 2002 concerning Village Credit Institutions as amended several times the latest by Bali Province Regional Regulation Number 4 of 2012 concerning Second Amendment to Bali Province Regional Regulation Number 8 of 2002 About the Village Credit Institution in the sixth part of LPD health assessment article 22 paragraph 2 states that the health assessment factor as referred to in paragraph (1) is based on 5 (five) aspects, as follows: (a) Capital Adequacy (CAR); (b) Earning Assets Quality (KAP); (c) Management; (d) Profit (Earning); and (e) Liquidity. The five factors are used to assess the health of the LPD known as CAMEL analysis.

The Village Credit Institution functions as one of the villages' assets in the form of money or other securities, carrying out its functions in the form of efforts towards increasing the standard of living of traditional village manners and in its business activities supporting a lot of village development. Efforts were made with the aim of encouraging the economic development of traditional village communities through targeted savings as effective capital channeling, eradicating the practice of bondage, illegal pawn and other similarities in the countryside; creating equality and business opportunities for indigenous village communities and rural workers; increase purchasing power, expedite the payment and circulation of money in traditional villages.

According to data recorded at the LPLPD (Village Credit Institution Empowerment Institution) Denpasar City as of October 2016, in the city of Denpasar alone there have been 35 LPDs with good and positive developments. It was recorded that until October 2016, assets managed by LPDs throughout the city of Denpasar amounted to IDR 1,559,499 billion. The credit section itself has a positive development, where there are IDR 1,222,843 billion in loans as of October 2016 with a number of customers reaching 22,225 customers.

From the data above, it can be seen that the development of LPD in Denpasar is very positive. Judging from the amount of funds managed, the LPD does have to carry out several innovations without having to abandon local wisdom which has been inherited by the ancestors to achieve maximum performance, and make LPDs the host in their own territory, Bali, especially Denpasar.

Departing from various theoretical and empirical facts that have been described, a form of research is shown to examine: "The Role of Tri Hita Karana Culture as Moderating the Impact of the Principles of Good Corporate Governance, Risk Appetite and Work Motivation on the Performance of Village Credit Institutions" with study on LPD in Denpasar City.

The theory that forms the basis of this writing is agency theory (Agency Theory). Jensen and Meckling (1976) stated that agency theory is a situation where one or more people (principals) govern other people (agents) to carry out a service on behalf of the principal and give the agent authority to make the best decision for the principal. In this study, the principal is those who become customers of the LPD and the people of Pakraman village who demand maximum performance from the agents who are the LPD chairmen and all the staff working in the LPD.

According to Einsenhardt (1989) agency theory is based on several assumptions which include assumptions about human nature, organizational assumptions and information assumptions. The assumption of human nature emphasizes that humans have self-interest, have bounded rationality and risk aversion . Organizational assumptions are the existence of conflict between members of the organization, efficiency as a criterion of effectiveness and

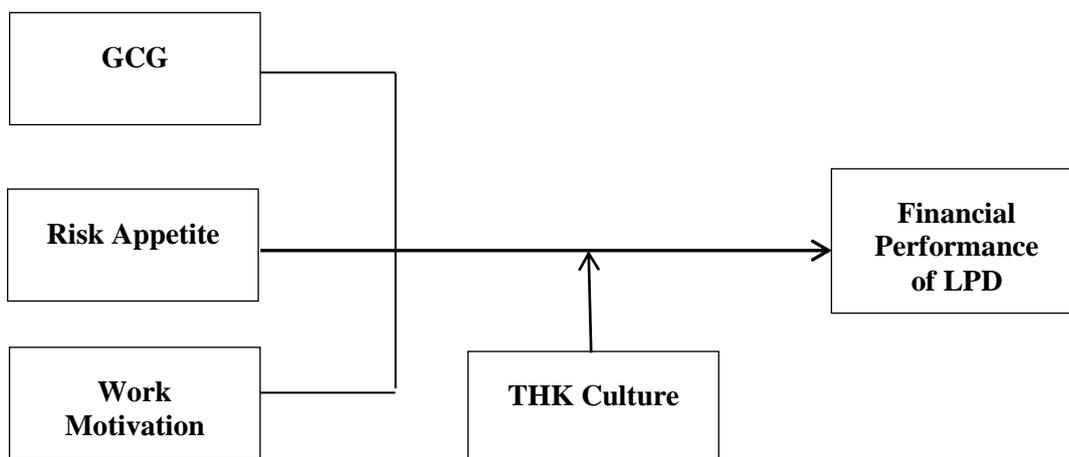
the existence of information asymmetry between the principal and the agent. Information assumption is that information as a commodity that can be traded.

Problems that occur between agents and principals are very often encountered, and result in poor performance for an organization. With regard to agency problems, GCG is a concept that is based on agency theory, which is expected to function as a tool to give confidence to principals that they will receive returns on the funds they have invested. GCG is also related to how principals believe that agents will benefit them, believe that agents will not steal or embezzle or invest their funds into unprofitable projects related to funds that have been invested by the principal and related to how investors control the agent (Shliefer and Vishny, 1997)

This study examines how GCG can affect the performance of an LPD with THK culture as its moderating variable. Agency theory assumes that LPD customers and Pakraman villagers as principals demand the chairman and all LPD staff as agents to maximize their performance in order to harmonize objectives between the principal and the agent. GCG in this case acts as a tool used by the principal to minimize the occurrence of agency conflicts that can harm the organization later.

## 2. RESEARCH METHODS

### Research Framework



## 3. HYPOTHESIS

### **The principles of good corporate governance affect the financial performance of LPD in the Denpasar city**

Good corporate governance is an important factor in determining the value of a company and influencing the performance of a company such as the LPD. Although the LPD can be regarded as a business that has reach only in one traditional village, it must be remembered that good governance or good corporate governance will be able to provide more benefits for a business organization. The application of the principles of good corporate governance is intended so that the LPD is more trusted and is seen as a professional organization based on tradition, especially Balinese tradition and has the power of an internal control system. Rahmatika et al. (2015) stated that the principles of good corporate governance have a positive effect on the financial performance of PT. Angkasa Pura II (Persero). Likewise, Pradnyaswari and Putri (2016) stated that the principles of good corporate governance have a

positive effect on the financial performance of cooperatives in Klungkung Regency. From the various results of the above research, researchers can formulate the following hypothesis:

H<sub>1</sub> : The principles of good corporate governance have a positive effect on the financial performance of LPD in the Denpasar city.

### **Risk Appetite affects the performance of LPD in the Denpasar City**

Business grows through risk taking. Risk is an integral part of opportunities and threats that affect the expected actions or results (Uzoamaka et al., 2013). Opportunities and risks are two sides of one currency (Sheehan, 2009). The manager's risk attitude will determine the action program that must be followed. Careful managers can avoid risky situations and consequently fail to capture opportunities. Managers who are extreme risk seekers do not care about the dangers posed by certain programs. Consequences of extreme risk takers usually disappear from the scene (Bauer and Bushe, 2003).

Risk appetite describes the level of maximum risk that is ready to be borne by the organization to achieve a certain profit (or an alternative minimum rate of return that is ready to be obtained for a certain number of risks (Epetimehin, 2013).

Furthermore Epetimehin (2013) says that, risk appetite has an important role to play in supporting the design of an organizational strategy and achieving the expected goals. Determining the risk appetite of an organization will help in determining the limits of risk that can be accepted or taken, which ultimately affects the company's profitability in a positive manner. The company's ability to determine risk appetite, also determine risk management that can be adopted in reducing risk will affect the value of the company.

Regarding the effect of risk appetite on profitability, it can be stated that the higher the risk appetite of a company management, the higher profitability will be expected. This is because managers generally have a risk characteristic, in which managers expect higher profitability by taking higher risk limits, and vice versa, the lower the risk appetite of the company management, the lower the expected profitability.

H<sub>2</sub> : Risk appetite has a positive effect on financial performance of LPD in Denpasar city.

### **Motivation affects the financial performance of LPD in Denpasar city**

Some definitions Motivation is expressed by experts, such as Aries and Ghazali (2006: 126) defines Motivation as giving individual impulses to act that cause the person to behave in a certain way that leads on purpose. The research results of Marjani (2005), suggest that there is a positive relationship between motivation and employee performance. In his research found results that the high condition of employee motivation is associated with a tendency to achieve a high level of employee performance.

H<sub>3</sub> : Motivation has a positive effect on LPD performance throughout Denpasar City.

### **Tri Hita Karana's culture moderates the effect of the principle of Good Corporate Governance on Financial Performance of LPD**

Tri Hita Karana states that people tend to view themselves and their environment as a system that is controlled by the value of balance, and manifested in the form of behavior such as always wanting to adapt themselves and their environment, resulting in the impression that they are strong and able to maintain patterns, but also easy to adapt and always wants to create peace within him and balance with his environment (Gunawan, 2011). In Mustikayani and Dwirandra (2016) THK culture is not able to moderate the influence of task complexity on auditor performance, but THK culture is able to moderate the influence of time pressure on auditor performance.

The results of the study stating that THK culture can moderate are Adiputra (2014) which states that THK culture can moderate the influence of task complexity on the auditor's internal performance at the Inspectorate Office in the Province of Bali. When associated with the relationship between GCG and the performance of an LPD, THK culture can be regarded as a variable that can weaken the relationship between the two variables. This is due to the existence of THK culture that existed long before the principle of GCG was practiced. In other words, if the application of the THK culture to an LPD is going well, then the application of the GCG principle will not affect the performance of an LPD. Vice versa, if the THK culture is not carried out properly on an LPD, then the application of the GCG principle can greatly affect the performance of the LPD. From the various research results stated above, the following hypotheses can be formulated:

H<sub>4</sub> : THK culture weakens the influence of the principles of good corporate governance on LPD performance throughout the city of Denpasar.

### **Tri Hita Karana's culture moderates the effect of Risk Appetite on Financial Performance of LPD**

Risk appetite, also known as risk preference, is defined as the maximum amount of risk that a company is willing to accept in achieving its mission, goals and plans (Shang and Chen, 2012). Risk appetite is the boundary between unacceptable risks and acceptable risks. Risk appetite must be applied at the board and senior management level and then communicated throughout the organization (Higgins, 2010). Tri Hita Karana culture as a concept of life in Bali that prioritizes the principle of togetherness, harmony, and balance between the objectives of the LPD, environmental and cultural, esthetic and spiritual preservation will influence LPD employees in determining and accepting the risks faced by LPDs in achieving performance (Tenaya, 2007).

H<sub>5</sub> : THK culture strengthens the influence of risk appetite on financial performance of LPD in the Denpasar city.

### **Tri Hita Karana's culture moderates the effect of Work Motivation on Financial Performance of LPD**

The Tri Hita Karana culture is a philosophy which also becomes a concept of life and cultural systems of society in Bali. The concept of life that emphasizes the principles of togetherness, harmony, and balance between economic principles, environmental and cultural, aesthetic and spiritual preservation (Tenaya, 2007). The concept of the tri hita karana culture is the concept of harmonizing relationships that are always guarded by the Balinese Hindu community including: parahyangan (human relations with God), pawongan (human relations), and palemahan (human relations with the environment) originating from the Baghavad Gita Hindu holy book . Therefore, the concept of tri hita karana which developed in Bali, is a cultural concept rooted in religious teachings (Riana, 2010). With the aim of being able to minimize deviant behavior from all people, in order to be able to achieve a higher level of performance so that it can affect the quality of employees. This is used as a basis for conducting research using a local culture such as tri hita karana. Tri hitana is used as a moderating variable between motivation and LPD performance. In this study LPD employees are assumed to be able to implement the tri hita karana teachings as the main modalities of their life principles as individuals who always view their environment as a system controlled by equilibrium values, and manifested in the form of behavior.

A strong grip on tri hita karana's cultural values for each auditor can provide support for their mindset to always carry out their tasks that are so complex as a process that they are individuals who continue to learn and motivate themselves in gaining knowledge and

experience in carrying out audit assignments. They have strong self-confidence that the successful implementation of audit tasks comes from self-control so that it will help the auditor to improve his performance regardless of the complexity of his duties.

Motivation is basically a process to influence someone to do something we want. In other words motivation is an encouragement from the outside of someone to want to implement something. With this encouragement, the natural urge to satisfy life's needs and is the tendency and survival. So the most important key in this case, that the manager or leader of the organization must understand the deep understanding of humans.

Motivation questions how to direct the culture of potential subordinates to be willing to cooperate productively, and succeed in achieving predetermined goals. Motivation is an aspect that is very important in determining one's behavior, including work behavior to be able to motivate someone who needs an understanding of how the process of motivation formation in employees. Basically humans work to meet their needs, both physical and non-physical needs.

Understanding motivation according to Kanfer in Solihin (2009: 152) is a psychological force that will determine the direction of a person's behavior (direction of a person's behavior), level of effort (level of effort) of a person and level of persistence (level of persistence) when the person faced with various obstacles.

H<sub>6</sub> : THK culture strengthens the influence of motivation on financial performance of LPD in the Denpasar city.

#### 4. DATA ANALYSIS TECHNIQUE

After the data is tabulated the next step is to do data analysis. Processing data in accordance with the approach. In this section the data is processed using the SPSS program to calculate the average. In explaining the influence between independent variables and dependent, the model used is multiple linear regression models and moderated regression analysis (MRA), which can be stated as follows.

a. Multiple linear regression model for hypothesis 1:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

b. The MRA equation model for hypothesis 2:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_1 * X_4 + \beta_6 X_2 * X_4 + \beta_7 X_3 * X_4 + e$$

Where:

Y<sub>1</sub> = LPD performance

a = constants

β<sub>1-3</sub> = regression coefficient

X<sub>1</sub> = Principles of good corporate governance

X<sub>2</sub> = Risk Appite

X<sub>3</sub> = Motivation

X<sub>4</sub> = Tri Hita Karana Culture

e = error

The t test in multiple linear regression is intended to test whether the parameters (regression coefficients and constants) that are thought to estimate the equation / multiple linear regression model are already the right parameters or not. The exact purpose here is that the parameter is able to explain the behavior of independent variables in influencing the dependent variable. The t test is used to test the regression coefficient individually or to test

whether there is an effect of the independent variable (X) on the non-independent variable (Y). So the t test in question is a regression coefficient test. The results of the t test can be seen in the table coefficients in the sig column (significance) Testing is done by comparing the level of significance smaller than the error rate of 5%. If the significance level of each hypothesis is smaller or equal to 5%, the hypothesis is accepted, whereas if the significance level of each hypothesis is greater than 5%, the hypothesis is rejected.

## 5. RESEARCH RESULTS AND DISCUSSION

Based on the overall results of the hypothetical test described above, a summary of the test results for all hypotheses in this study is presented. The purpose of this presentation is to make it easier to give conclusions on the results of this study. Furthermore, a summary of the results of testing for all hypotheses in this study is presented in Table 1:

**Table 1** Summary of Hypothesis Testing Results

No.	Variable Relationships	t test	Sig.	Hypothesis	Information
1	GCG →Financial Performance	2.548	0.017	Accepted	Significant
2	Risk Appetite →Financial Performance	1.314	0.200	Rejected	Not significant
3	Work Motivation →Financial Performance	2.405	0.023	Accepted	Significant
4	THK Culture →Financial Performance	2.544	0.017	Accepted	Significant
5	THK Culture →GCG →Financial Performance	2.608	0.015	Accepted	Strengthen
6	THK Culture →Risk appetite →Financial Performance	2.221	0.035	Accepted	Strengthen
7	THK Culture →Work motivation →Financial performance	2.237	0.034	Accepted	Strengthen

## 6. DISCUSSION

This study aims to determine the effect of GCG, risk appetite, work motivation on Financial performance of LPD with THK culture as a moderating variable in the LPD. Discussion of the test results as follows:

### Effect of GCG on financial performance of LPD

The results showed that there was a significant effect of GCG on the financial performance of LPD ( $0,017 < 0.05$ ). This means that the higher implementation of GCG can influence the increase in Financial performance of LPD in the city of Denpasar. Significant influence illustrates that the implementation of GCG in a company, provides a significant influence in improving financial performance. This is a reasonable condition because it is influenced by behavioral factors of investors or providers of funds for LPDs, macroeconomics in Bali, the global economy, investment trends in society and politics influence the LPD in implementing GCG as an effort to improve financial performance. There are several things that can affect the implementation of GCG, namely the existence of good socialization by company management because it has a good understanding of the benefits of GCG so that it is socialized clearly and openly. Another factor also influencing is that companies use GCG as a basis for making decisions in conducting company analysis, so that LPDs view GCG as an important element in its implementation.

According to the Financial Services Authority (2014) attempts supervision of the companies in the financial sector can be realized with the implementation of corporate governance practices or Good Corporate Governance (GCG). With the supervision of GCG applied to the company, it is expected that the implementation of GCG will be improved and improved so that it can improve the company's work both financially and operationally.

The implementation of GCG is a significant opportunity for the company to achieve various benefits including investor trust in the company. A positive CGPI coefficient value indicates that the higher CGPI will be followed by higher company performance (ROE). The better the implementation of GCG is shown by how the higher CGPI will improve the company's financial performance. Therefore, company management must be aware of the long-term benefits of implementing Good Corporate Governance, namely the direct financial impact such as increasing the company's net income and will make the company attractive to investors (Wati, 2012).

Good corporate governance is a concept that is proposed to improve the performance of the company through supervision or performance monitoring management and ensuring management accountability to stakeholders by basing it on the regulatory framework. Corporate governance concept proposed the achievement of more transparent corporate management for all users of financial statements. If this concept is implemented well, it is expected that economic growth will continue to rise along with the transparency of the company's management that is getting better and later benefiting many parties. Management that has certain interests will tend to compile the report in accordance with its objectives and not for the sake of principals. In such conditions a control mechanism is needed which can align the differences of interests between the two parties. Good corporate governance mechanism (institutional ownership, managerial ownership, the proportion of board of commissioners and audit committee) have capabilities in relation to producing a financial report that has information on earnings. By implementing good corporate governance, it is expected to reduce the urge to carry out manipulation actions by managers, so that the reported performance reflects the actual economic conditions of the company concerned (Jensen, 1993).

The results of this study are in line with the research conducted by Suparsabawa (2018), Wati (2012) found that GCG has a positive and significant effect on Financial performance of LPD.

### **Effect of risk appetite on financial performance of LPD**

The results showed that there was no significant effect of risk appetite on financial performance of LPD ( $0.200 > 0.05$ ). This means that the higher the risk of appetite owned by the company has not been able to improve the financial performance of LPD in Denpasar City, because different tastes of risk taking in an LPD enable different performance to achieve goals in improving performance.

Research on the influence of risk appetite on the profitability of a company, especially financial institutions, is still limited. LPD management's risk appetite in Bali has a positive but not significant effect on LPD profitability as measured by ROA indicators. Thus, the development and determination of risk appetite (risk appetite ) different by management LLPD not been able to affect the efforts to improve profitability.

This is in accordance with what was stated by Rittenberg and Martens (2012), who said that each organization will develop a risk appetite that is different from one another in achieving its objectives and the manager's attitude towards risk will determine the set of actions to be followed (Rittenberg, and Martens, 2012).

### **Effects of Work Motivation on Financial Performance of LPD**

The results of the study show that there is a significant effect of firm size on Financial performance of LPD ( $0.023 < 0.05$ ). This result explains that high motivation in employees contributes to the company's ability to generate income. If the capital used by a company such as labor that has optimal performance can maximize the increase in profits. Human resources such as employees are the main drivers in implementing LPD operations, so HR needs to get attention from company management such as seeks to increase employee motivation both internally and externally. Increasing employee motivation can be done by fulfilling the needs of employees such as the appropriate wage level and improving employee welfare, so that the motivation possessed by employees can increase and have an impact on improving Financial performance of LPD.

Motivation is the result of a number of processes that are internal or external to an individual who causes an arousal of enthusiasm in carrying out an activity. Motivation is a situation in the person that encourages the desire of individuals to do certain desires to achieve goals (Handoko, 2010: 225).

Fachreza et al. (2018) in his research found that work motivation had an effect on the performance of Aceh Syariah banks in Banda Aceh City.

### **Effect of THK Culture on Financial Performance of LPD**

The results showed that there was a significant effect of THK culture on financial performance of LPD ( $0.017 < 0.05$ ). This means that the THK culture in companies is able to improve financial performance of LPD. Understanding of human resources on THK values that work on LPDs can improve bank performance because employees have confidence in the values that are serious elements because they contain the value of integrity so that they fear God, have dedication and an honest attitude to the Creator. The Pawongan element has elements of work ethic, namely creativity, work, respect for time, harmony with work colleagues, being able to keep promises, working efficiently and full of initiative. The palemahan element is that it contains the value of environmental sustainability by planting trees, maintaining and protecting them.

Gunawan (2012), states that the philosophy of Tri Hita Karana is believed to contain the following values, namely the element parahyangan, this element contains the value of integrity consisting of caution, full of dedication and honesty to the creator. Elements of Pawongan, this element contains a work ethic value, which consists of creativity, working hard at work, respecting time, working together harmoniously, being faithful to promises, acting efficiently, and full of initiative. Palemahan element, this principle contains the value of environmental sustainability which consists of building, maintaining, and securing

Astawa (2016) explains that the application of THK's harmony values well in the LPD encourages customers to make credit payments well because in practice the value of harmony has elements related to God which are believed to provide positive vibration about success done in this world.

Surya et al. (2017) explained that the culture of Tri Hita Karana has a positive effect on organizational performance in the Badung Village Credit Institution. The good implementation of Tri Hita Karana culture can improve LPD performance. Implementation of good parahyangan, pawongan and palemahan has an important role in supporting the achievement of Tri Hita karana culture, so that it can make a real contribution to the company's performance.

Research conducted by Gunawan (2009), Riana (2010), Astawa et al. (2012), Surya et al. (2014), and Suryanti, et al (2018) produced a study in line with this study, the culture of Tri

Hita Karana has a significant positive effect on organizational performance. This condition implies that in the Badung Regency LPD to improve company performance it is necessary to apply cultural values that promote harmony between people, the environment and God.

**THK culture as a moderating variable and strengthens the influence of GCG, risk appetite, work motivation on Financial performance of LPD**

Based on the results of hypothesis testing, THK culture is able to act as a moderating variable which means strengthening the influence of GCG, risk appetite and motivation on financial performance of LPD. The full test results can be shown in Table 2 below:

**Table 2** Effect of GCG, appetite risk and work motivation on financial performance of LPD with THK Culture as Moderating Variables

Variable	Moderating THK Culture	
	B	Sig
GCG	0.311	0.015
Risk appetite	0.277	0.035
Job motivation	0.327	0.034

Based on the results of the moderation analysis in Table 2, after this hypothesis was tested, the results showed that:

**1) The THK Culture variable is proven to be a variable that moderates the effect of GCG on Financial performance of LPD**

THK culture is able to moderate the influence of GCG on Financial performance of LPD. The effect of GCG on Financial performance of LPD is able to improve financial performance with the THK Cultural interaction. This statement is supported by the results of an analysis that illustrates a positive beta coefficient with a significance value of 0.015 whose value is lower than the significant level set (The direct effect of the GCG variable on Financial performance of LPD shows a significant effect and the direct influence of THK Culture on Financial performance of LPD shows a non-significant effect, whereas the interaction between GCG and THK Culture on Financial performance of LPD shows a significant effect so that the moderation is quasi moderator.

Cultural Ability of Tri Hita Karana in mediating the relationship of GCG to Financial performance of LPD illustrates that the LPD as an improvement institution understands the GCG function in supporting the company's financial performance, so that the implementation of GCG is maximized and followed by the application of Tri Hita Karana culture by employees able to contribute to improved performance LPD. The concept of GCG and Tri Hita Karana is a concept that is in line especially in the application of honesty and guarding of the natural environment so that the development of both concepts can increase public confidence in using LPD as a trusted institution for storing and borrowing funds related to the needs of Balinese people.

**2) The THK Culture variable proved as a moderating variable the effect of Risk appraisal on financial performance of LPD**

THK culture can moderate the effect of risk appraisal on Financial performance of LPD. The effect of Risk appraisals on Financial performance of LPD has increased after being interacted with THK Culture. This statement is supported by the results of an analysis that illustrates a positive beta coefficient with a significance value of 0.035 whose value is smaller than the significant level set (The direct effect of the Risk variable apparatus on Financial performance

of LPD shows a significant effect and the direct effect of THK Culture on Financial performance of LPD shows no significant effect, while the interaction between Risk appraisal and THK Culture on Financial performance of LPD shows a significant effect so that moderation is pure moderation.

THK Culture variable is able to moderate the influence of risk epithet on Financial performance of LPD, this explains that the risk exposure applied by bank management, especially leaders in minimizing risk and accompanied by THK culture in implementing honest attitude, high performance, always keeping promises will create performance higher financials. Because employers who apply the THK culture will try to minimize the risk of loss as a way to improve financial performance.

**3) *The THK Culture variable is proven as a moderating variable that strengthens the influence of work motivation on financial performance of LPD***

THK culture is able to moderate the effect of work motivation on financial performance of LPD. The effect of work motivation on Financial performance of LPD has increased after being interacted with THK Culture. This statement is supported by the results of an analysis that illustrates a positive beta coefficient with a significance value of 0.034 whose value is smaller than the significant level set (The direct influence of work motivation variables on Financial performance of LPD shows a significant effect and the direct effect of THK culture on Financial performance of LPD shows a non-significant effect, while the interaction between company size and THK culture on Financial performance of LPD shows a significant effect so that the moderation is quasi moderator (moderation pseudo).

The ability of the THK culture variable in moderating the effect of work motivation on financial performance can illustrate that the human resources employed by LPDs who have high motivation are due to the fulfillment of needs and welfare by the management as well as employees being able to apply THK culture, so that with motivation high and followed by the implementation of THK culture in work will contribute to improving LPD performance.

## **7. CONCLUSIONS**

Based on the results of the analysis and discussion previously presented, conclusions can be drawn from this study:

- Appetite risk and work motivation have a positive and significant effect on Financial performance of LPD, however GCG does not have a significant effect on the financial performance of LPD in the Denpasar City.
- The THK culture is able to act as a moderating variable which means that it can strengthen the influence of GCG, risk appetite and work motivation on financial performance of LPD in the Denpasar City.

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