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RISK MANAGEMENT AS A MODERATOR OF THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON CORPORATE SUSTAINABILITY IN VILLAGE CREDIT INSTITUTIONS

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Abstract:
Village Credit Institutions (from now on referred to as LPD) in Bali were established based on Bali Regional Regulation Number 2 of 2002 and have been amended several times. The existence of LPD is needed to ensure the realization of the welfare of the traditional village community. LPD must continue to strive to maintain its Sustainability properly. Several LPDs in Bali have developed well, and the village community feels their benefits. However, there are also LPDs in several villages that have not been able to develop well, and some are not even operating. Based on these conditions, this study analyzed several factors that can affect the Sustainability of LPDs in Bali. This study focuses on those most likely to affect the Sustainability of LPDs. It also focuses on good corporate governance and credit risk management in LPDs in Gianyar Regency. Good corporate governance includes six dimensions: participation, responsibility, independence, fairness, accountability, and transparency. Corporate Sustainability is assessed through economic, social, and environmental performance. The research used purposive sampling to sample 84 healthy LPDs registered with the Village Credit Institution Empowerment Institution (LPLPD). The LPD chairpersons served as respondents, and data analysis was conducted using the structural equation modeling (SEM) method based on partial least squares (PLS).

Keywords: Good Corporate Governance, Risk Management, Corporate Sustainability

INTRODUCTION

LPD, as a traditional village or Pakraman financial institution, has contributed significantly to the village community. However, some LPDs still experience problems in their administration and governance. The Principal of the LPD is the Traditional Village, which is the party that gives the mandate to the agent, namely the LPD manager, in this case, the LPD Leader, to act on behalf of the Traditional Village Community as the owner of the LPD. In contrast, the agent is the party given the mandate by the principal to run the company. The principal appoints an agent or LPD administrator. Likewise, the agent is part of the principal of the traditional village itself; the uniqueness of the position of the agent and principal in the LPD requires each party to be able to play their position according to their position. Conflicts of interest arise in a theory that says a relationship exists between the principal (owner) and the agent (management). This theory was put forward by Jensen and Meckling (1976) and is called the Agency Theory. The Principal and Agent, as LPD managers, must be able to position themselves according to the roles and tasks they highlight.

The central agency problem is reflected in the differences in the interests of each stakeholder in an organization or company (Khan, 2011). The LPD leader is obliged to be accountable for what has been entrusted to him by the Traditional Village and carry out management functions as an agent or implementing representative. Agents as LPD management implementers are those selected

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through the traditional village assembly, which is smaller than the number of village councils. They are considered to have greater access to various LPD information and can act in their interests (asymmetric information). Separation of ownership and differences in interests between the principal (traditional village) and agent (LPD leader) can cause agency problems (conflicts of interest). According to Agency Theory, this LPD conflict of interest can be overcome by applying the principles of good corporate governance to align the interests of various parties and maintain public trust in the LPD. The ability to achieve success and foster public trust in the LPD can be achieved through the ability to manage the resources owned by the LPD Institution in its activities. LPD, as a financial institution that carries out activities to collect and distribute community funds, operates in the administrative area of the traditional village based on the kinship between village residents and is subject to the results of the applicable traditional village Saruman. These conditions affect LPD activities, both financial and non-financial, as indicated by the level of health of the LPD.

Corporate Sustainability or corporate Sustainability is interpreted as an activity that adopts business strategies and activities that meet the company's and stakeholders' needs while protecting, maintaining, and improving human and natural resources that will be needed in the future (Searcy, 2011). Sustainability refers to society's environmental, social, and economic goals (Meutia, 2019). Sustainability in the context of a corporation or company is a company that can create profits, protect the environment, and improve people's lives (Savitz & Weber, 2006). By Bank Indonesia Regulation Number 8/4/PBI/2006 concerning implementing Financial Institution Governance based on applying TARIF principles, namely, Transparency, Accountability, Responsibility, Independence, and Fairness. Good corporate governance, according to the Regulation of the Minister of State-Owned Enterprises Number: PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises, from now on Good Corporate Governance, is the principles underlying a process and mechanism for managing a company based on laws and regulations and business ethics.

Bank Indonesia Regulation No. 5/8/PBI/2003 concerning the Implementation of Risk Management for Commercial Banks states that the principles of Risk Management to be adopted and implemented in Indonesian banking are directed by recommendations issued by the Bank for International Settlements through the Basel Committee on Banking Supervision. These principles are standards for the banking world to operate more carefully in the scope of the rapid development of banking business activities and operations today. Based on Bank Indonesia Regulation Number 5/8/PBI/2003 article 2, concerning the Implementation of Risk Management for Commercial Banks, it is stipulated that every bank is required to implement effective risk management, including active supervision of the Board of Commissioners and Directors; adequacy of policies, procedures and limits; adequacy of risk identification, measurement, monitoring and control processes and Risk Management information systems; and a comprehensive internal control system.

According to the Indonesian Bankers Association (2014), the quality of risk management implementation consists of four interrelated aspects: risk governance, Risk Management Framework, Risk Management processes, including the adequacy of human resources and management information systems, and risk control systems.

Agency theory. Agency theory developed by Jensen and Meckling (1976) found that agency problems and agency costs arise due to the separation of ownership and control. Agency problems are conflicts of interest between managers or agents and company owners. Factors causing agency problems are goal differences, access to information and risk. Jensen and Meckling (1976) emphasized the importance of a socially responsible attitude to overcome conflicts of interest between company managers as agents and shareholders as principals. Jensen and Meckling (1976)

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explained that an agency relationship is a contract between a principal and an agent, where the agent provides services and is responsible to the principal. According to Eisenhardt (1989), agency theory is an agency relationship where the principal gives the agent a task to carry out all activities on behalf of the principal. According to agency theory, company owners can limit their differences in interests by setting appropriate intensity for agents and incurring monitoring costs designed to limit agent actions (Hill & Jones, 1992). Agency Theory uses three assumptions of human nature (Eisenhardt, 1989): that humans are generally self-interested, that humans have limited thinking power regarding future perceptions (bounded rationality), and that humans avoid risk (risk averse). This basic human nature assumption triggers agency conflict between managers and owners. Managers in managing companies tend to prioritize personal interests rather than interests to increase the company's value.

Hypothesis. Good corporate governance discusses creating sustainable value, achieving corporate goals, and balancing economic and social benefits. Good corporate governance offers several long-term benefits for companies, such as reducing risk, attracting new investors and shareholders, and more equity. However, good corporate governance cannot consistently achieve Sustainability (Aras & Crowther, 2008). Mahmood et al. (2018) concluded that the Corporate Sustainability of Microfinance Institutions increased, which was marked by an increase in company value with Good Corporate Governance practices. Various studies from time to time have investigated the relationship between the characteristics of companies that implement Good Corporate Governance and their disclosures (Burke & Logsdon, 1996; Cowen et al., 1987; Gray et al., 2001), showing the benefits of the relationship between Good Corporate Governance and Sustainability. The benefits of Good Corporate Governance are directly related to Corporate Sustainability and the company's success. Based on the description, the hypothesis that can be developed is:

H1: Good Corporate Governance has a positive effect on Corporate Sustainability. Good Corporate Governance increases Risk Management and improves financial performance. The results of this study state that Risk Management contributes to the relationship between Good Corporate Governance in the banking sector and corporate Sustainability. Theoretically, the selection of moderating variables in a relationship model is based on the idea that moderating variables are not influenced by independent variables, but moderating variables affect dependent variables. Based on this description, the hypothesis that can be developed is:

H2: Risk Management can moderate the influence of Good Corporate Governance on Corporate Sustainability

METHODS

This research was conducted at LPD in Gianyar Regency, registered with the Village Credit Institution Empowerment Institution (LPLPD) of Gianyar Regency. The population in this study were all LPDs in Gianyar Regency. The sampling procedure was carried out in the study using the purposive sampling technique, namely the technique of determining samples with specific considerations (Sugiyono, 2016, p. 126). The criteria used as the basis for selecting sample members in this study were LPDs with healthy and pretty healthy categories, totaling 84 LPDs. Meanwhile, the study respondents in each LPD were the Head of LPD 84 research respondents. The data collection method used in this study was through distributing questionnaires. The data analysis technique in this study uses the structural equation modeling (SEM) method based on partial least squares (PLS).

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Table 1. List of LPDs in Gianyar Regency Healthy and Fairly Healthy Category

No	Name LPD	No	Name LPD
1	Banda	43	Penyabangan
2	Bangunliman	44	Ponggang
3	Belega	45	Puhu
4	Blahbatuh	46	Selat Payangan
5	Bona	47	Semaon
6	Buruan	48	Singaperang
7	Cucukan	49	Yeh Tengah
8	Darmatiaga	50	Batuaji
9	Getas Kawan	51	Belaluan
10	Griya Ketandan	52	Celuk
11	Keramas	53	Griya Kutri
12	Margasengkala	54	Guwang
13	Satria	55	Jerokuta
14	Sema	56	Ketewel
15	Taman	57	Kutri, Singapadu
16	Tojan	58	Lantangidung
17	Wanayu-Mas	59	Lembeng
18	Bandung	60	Negari
19	Batursari	61	Silakarang
20	Benawah	62	Singapadu
21	Bon Nyuh	63	Sukawati
22	Bukit Jangkrik	64	Tangsub
23	Gianyar	65	Tegal Tamu
24	Gitgit	66	Tengkulak Kelod
25	Griya Sakti	67	Tengkulak Tengah
26	Kabetan	68	Melayang
27	Madangan Kaja	69	Panglan
28	Padpadan	70	Patemon
29	Petak	71	Pejeng Kawan
30	Petak Jeruk	72	Sawe Gunung
31	Sawan	73	Abangan
32	Selat	74	Apuh
33	Siangan	75	Manuaba
34	Sidan	76	Pakudui
35	Suwat	77	Sebali
36	Amo	78	Tangkup
37	Gata	79	Gelogor

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38	Keliki Kawan	80	Junjungan
39	Kelusa	81	Kutuh
40	Pausan	82	Mas
41	Pengaji	83	Tebongkang
42	Penginyahan	84	Teges Kanginan

RESULT AND DISCUSSION

The Influence of Good Corporate Governance on Corporate Sustainability in Village Credit Institutions (LPD) in Gianyar Regency. The results of the analysis of the influence of Good Corporate Governance on Corporate Sustainability show that Good Corporate Governance has a positive effect on Corporate Sustainability. The findings of this study reinforce that Good Corporate Governance helps create a conducive environment so that efficient and sustainable growth is created in the company (Corporate Sustainability) (Indrayani & Nurkholis, 2001). Bueva et al. (2017) also stated that implementing Good Corporate Governance is one of the supporting factors for realizing long-term corporate Sustainability. The research findings that better governance can guarantee better LPD sustainability also support the research findings of Crifo et al. (2019), stating that governance is the key to business sustainability; Naciti (2019) found that Corporate Governance through diversity and independence shows business sustainability, especially in social and environmental matters. Bae et al. (2018) stated that elements of corporate governance have a powerful influence on the Sustainability of the company's business. In their research results, Mahmood et al. (2018) stated that governance elements significantly affect business sustainability. George (2021), in his research, recommends that it is essential to create integrated governance policies and environmental regulations to ensure business sustainability. Olayinka (2022), in his research results on several financial companies in Nigeria, found that corporate governance has a significant positive relationship with corporate Sustainability in the country.

Risk management can moderate the influence of internal Good Corporate Governance on Corporate Sustainability at Village Credit Institutions (LPD) in Gianyar Regency. Based on the results of data analysis, it was found that Risk Management was able to mediate the influence of Good Corporate Governance on Corporate Sustainability. In Agency Theory, ownership is entirely in the principal's position, and the manager (agent) is obliged to maximize profitability. Good Corporate Governance helps managers maximize return on investment through the implementation of risk management (Hamdani, 2016, pp. 28-31). Company management by agents is carried out by maximizing resources through risk management, according to the Resource Theory (Barney, 1991), to reduce costs due to the possibility of risk and maximize principal profits. The results of this study strengthen the opinion of Bastoni et al. (2017) that Corporate Governance affects the management of Credit Risk Management, Liquidity Risk Management, and Operational Risk Management on company performance.

Furthermore, Gustaf et al. (2018) found a significant effect of Risk Management on business performance and Sustainability. Based on this, Risk Management can be viewed as a mediator of the influence of Good Corporate Governance on Corporate Sustainability. Implementing reasonable corporate governance regulations issued by the local government, LPLPD, and pararem for the traditional village will guarantee greater Sustainability if followed by better risk management. Suartana (2017) stated that implementing Good Corporate Governance in LPD is also necessary for better risk management. This shows the role of strengthening Good Corporate Governance towards

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Corporate Sustainability if the LPD leadership can manage the risks of Liquidity, Credit Risk, and Operational Risk of Village Credit Institutions.

CONCLUSION

Based on the results of the analysis and discussion that have been carried out, it can be concluded that:

1. Good Corporate Governance has a positive effect on Corporate Sustainability. This means that the increasingly exemplary implementation of Good Corporate Governance can improve the Corporate Sustainability of LPD in Bali.
2. Risk Management can moderate the effect of Good Corporate Governance on Corporate Sustainability. The results of this study provide the meaning that implementing Risk Management, which includes Liquidity Risk, Credit Risk Management, and Operational Risk Management, can increase the effect of Good Corporate Governance on the Corporate Sustainability of LPD in Bali.

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