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The Role of Financial Knowledge as a Mediator in the Influence of Good Corporate Governance and Risk Management on Financial Performance in Village Credit Institutions

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ABSTRACT

This research aims to determine the role of financial knowledge in mediating the influence of good corporate governance and risk management on financial performance. The inconsistency of previous research results motivated researchers to add mediating variables to the research model. The mediating variable in this research is the financial knowledge variable. This research was conducted on LPDs in Badung Regency which are registered with the Badung Regency Village Credit Institution Empowerment Institute (LPPLD). The sampling procedure carried out in the research was a purposive sampling technique, namely a technique for determining samples with certain considerations. The criteria used as the basis for selecting sample members in this study were LPDs in the healthy and quite healthy categories, namely 71 LPDs. Meanwhile, the research respondents in each LPD were the Head of the LPD. The data analysis technique in this research uses the structural equation modeling (SEM) method based on partial least squares (PLS).

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1. INTRODUCTION

The existence of village financial institutions in Bali or what are known as Village Credit Institutions is recognized as one of the funders for various community activities and helps develop businesses in traditional villages in Bali. The establishment of the LPD is expected to be able to encourage the development of the community economy in the Bali area through targeted savings and effective capital distribution. LPD as a Traditional Village financial institution orPakramanhas made many contributions to the village community.For financial institutions such as LPD, the level of soundness is an important indicator to be able to compete with other financial institutions. The health level of the LPD is very important, and can foster public trust, so that people feel safe saving their money in the LPD, both in the form of savings and deposits. Assessment of a company's achievement or performance is measured because it can be used as a basis for decision making for both internal and external parties.

Company performance is a description of the financial condition of a company which is analyzed using financial analysis tools, so that it can be known about the good and bad financial condition of a company which reflects work performance in a certain period. This is very important so that resources are used optimally in facing environmental changes. Financial performance needs to be researched because the progress and prosperity of the entire organization will greatly depend on the company's good financial performance to maintain the organization's sustainability.However, there are still several LPDs that experience problems in administration and governance. The main agency problem is reflected in the differences in the interests of each stakeholder in an organization or company (Khan, 2011). Separation of ownership and differences in interests between the principal (traditional village) and the agent (leader of the LPD) can give rise to agency problems (conflicts of interest). According to Agency Theory, this LPD conflict of interest can be overcome by applying principles*good corporate governance*to harmonize the interests of various parties and maintain public trust inLPD. Apart from that, another problem experienced by LPD, namely Liquidity Risk Management, is said to be good if withdrawals of funds or distribution of credit do not cause cash flow projections to be disrupted. Cash flow can be disrupted if there is excess liquidity. Over Liquidity indicates a large number of idle funds or a lack of distribution of DPK (Third Party Funds) to LPDs due to the LPD management being too conservative which results in a decrease in profitability. LPD's lack of liquidity results in LPD's incapacityfulfilobligation.

The success of an organization based on RBV is determined by the use of knowledge that competitors do not have. The knowledge element is a reflection of intellectual capital that can be utilized by companies to improve the company's financial performance. Financial knowledge is a form of intangible resource that can be utilized by creative industries to improve financial performance. Financial knowledge is a source of making appropriate financial decisions (Lusardi, 2012). Previous research has shown that financial knowledge influences financial performance based on the RBV (Riitsalu et al, 2019). Financial knowledge applied in LPD is an understanding of financial products that can be applied by someone to make informed decisions about how to handle finances to maximize profits. Financial knowledge can lead LPDs to a more efficient state and improve financial performance. Increasing sustainable financial performance by looking at the level of health is important for every LPD to win the competition. This can be achieved by utilizing financial knowledge as the company's internal strength.

2. RESEARCH METHOD

The population in this study were all LPDs in Badung Regency. The sampling procedure carried out in the research is by techniquepurposive sampling is a technique for determining samples with certain considerations (Sugiyono, 2016: 126). The criteria used as the basis for selecting sample members in this study were LPDs in the healthy and quite healthy categories, namely 71 LPDs. Meanwhile, the research respondents in each LPD were the Head of the LPD.

3. RESULTS AND DISCUSSIONS

Results of analysis of influenceGood Corporate Governance on financial performance, shows that Good Corporate Governance has a positive effect on financial performance. Good Corporate Governance, which is based on Agency Theory developed by Jensen & Meckling (1976), reveals that agency problems and agency costs arise as a result of the separation of ownership and control. Agency Theory describes the existence of an asymmetric relationship between owners and managers. To reduce this agency problem, a concept is needed, namely Corporate Governance which aims to make the company healthier (Welker, 1995). The research finding that better governance can ensure better LPD sustainability also supports the research findings of Crifo et al (2019), stating that governance is the key to financial performance. Bae et al (2018), stated that elements of corporate governance have a very strong influence on the sustainability of a company's business. Mahmood et al (2018) stated in their research results that they concluded that governance elements had a significant effect on financial performance.

Based onThe results of research data analysis show that risk management has a positive effect on financial performance. This means that the better the LPD's risk management, the better the LPD's financial performance. Risk management capability shows that where Risk Management has been implemented very well, it will support the improvement of the LPD's financial performance. This is in line with the application of Resources Base Theory (Barney, 1991) which statesCompanies can build competitive advantage through the use of heterogeneous resources, namely resources owned by one company which are the same as other companies' resources, in this research is risk management for financial performance.For LPDs, this is done by maximizing the resources owned by LPDs by implementing the best possible risk management to encourage better LPD financial performance.

Based on the test results, it was found that the financial knowledge variable was able to mediate the influence of good corporate governance and risk management on financial performance. The research results show support for the RBV theory in this research which makes the development of financial knowledge through GCG and risk management a factor that plays a role in improving the company's financial performance. Having knowledge about the management of financial institutions is knowledge that the LPD Chair uses to understand the usefulness of decision making in order to support company operations to achieve effectiveness and efficiency which then becomes the company's strategy for achieving good financial performance.

4. CONCLUSION

Based on the results of data analysis and discussion, the following research conclusions were obtained: Good Corporate Governance has a positive effect on financial performance. This means that better implementation of Good Corporate Governance can improve the financial performance of LPDs in Bali. Risk Management has a positive effect on financial performance. This means that better implementation of Risk Management can improve the financial performance of LPDs in Bali. Financial Knowledge is able to mediate the influence of Good Corporate Governance and risk management on financial performance. The results of this research provide the meaning that financial knowledge which includes good financial decision making is able to increase the influence of Good Corporate Governance and risk management on the financial performance of LPDs in Bali

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