

INNOVATION AND PERFORMANCE ANTECEDENTS OF VILLAGE CREDIT INSTITUTIONS IN BALI PROVINCE

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ABSTRACT

The purpose this paper to examine the effect of entrepreneurial leadership on LPD (Lembaga Perkreditan Desa) innovation in Bali, the effect of entrepreneurial leadership on LPD performance in Bali, the effect of knowledge sharing on LPD innovation in Bali, the effect of knowledge sharing on LPD performance in Bali and the effect of innovation on LPD performance in Bali.

This research was conducted at LPDs in Bali Province. The target populations of this study were 956 LPDs classified as healthy in nine regencies/cities in Bali Province (LPLPD, 2016). Determination of LPD sample in each regency/city was done by proportional random sampling. Research sample determination of 151 LPDs classified as healthy was done by lottery. In each selected LPD, 3 people as the respondent were taken i.e. the chairman, administration and cashier.

In this research, it is found that ethical entrepreneurial leadership influences the innovation and performance of LPD, LPD serves the capital needs of most rural communities with no services access to commercial banks. The study on LPD is unique because LPD is operationally different from the banking institutions in general. This encourages the researchers to make LPDs in Bali as research objects. This study integrates entrepreneurial leadership containing ethical elements i.e. Satya laksana (loyalty, honesty and responsibility in deeds) and knowledge sharing culture to encourage innovation in order to improve organizational performance.

Keywords: Innovation, Performance, Village Credit Institution.

INTRODUCTION

According to Zulkarnain (2006), the people-oriented economy gives special attention to rural economic development efforts by fostering and protecting small businesses through information support and business financing. It is embodied by the Village Credit Institutions (Lembaga Perkreditan Desa/LPD) as microfinance institutions in villages in Bali.

The existence of LPD for more than 30 years since its establishment in 1984. At the beginning of the establishment in 1984/1985, there were only 8 LPD units. By early 2017, it became 1,433 LPD units spread all over the customary villages (Desa Pakraman). Total assets of LPD reached 15.5 trillion IDR, involving the management and employees of 7,882 people (LPLPD of Bali Province, 2017). The LPD Empowerment Institution (Lembaga Pemberdayaan Lembaga Perkreditan Desa, LPLDP) accountability report (2016) showed that the percentage of

loans classified as substandard increased by 4.10% in December 2013, 4.33% in December 2014 and 4.89% in December 2015. Loans classified as under-performing also increased by 1.41% in December 2013, 1.50% in December 2014 and 1.64% in December 2015. LPD's non-performing loans (NPLs) ratio was fluctuated and still relatively high. According to Bank Indonesia Regulation Number 13/3/PBI/2011, the safe limit of NPL ratio is 5%. This information provides an indication that the improvement of the villager's trust has not been matched by the achievement of good LPD performance. Furthermore, it can impact the existence and sustainability of LPD.

Copeland (2014) suggests that new management and leadership theories emphasize the importance of leader's ethics and morale. Based on the phenomenon, business issues and empirical research, this study refers to the entrepreneurial leadership concept to anticipate dynamic environmental changes. One of the main factors of achieving competitive advantage and long-term success in a competitive business environment is innovation ability (Petuskiene & Glinskiene, 2011).

LPD as a microfinance institution based on local wisdom continues to have competition with other financial institutions (LPLPD, 2016). Therefore, LPD should resolve their weaknesses such as limited competence and managerial human resources. The 2016 LPLPD data of Bali Province recorded 189 LPDs classified as less sound, 93 LPDs classified as fairly sound, 18 LPDs classified as unsound and 177 LPDs classified as non-performing. Microfinance institutions including LPD help residents to obtain financial services and prosper the villagers (Otero, 1999). This study integrates entrepreneurial leadership containing ethical elements i.e. Satya laksana (loyalty, honesty and responsibility in deeds) and knowledge sharing culture.

Based on the background description, the objectives of this study are to examine: (1) the effect of entrepreneurial leadership on LPD innovation in Bali, (2) the effect of entrepreneurial leadership on LPD performance in Bali, (3) the effect of knowledge sharing on LPD innovation in Bali, (4) the effect of knowledge sharing on LPD performance in Bali, (5) the effect of innovation on LPD performance in Bali.

CONCEPTUAL FRAMEWORK

Effect of Entrepreneurial Leadership on Organizational Innovation

Leadership is one of the most influential predictors of organizational innovation (Kao et al., 2015). Shin & Zhou (2007) found positive effects of leadership on organizational innovation. Conversely, the results of Chen's (2007) study show that entrepreneurial leadership has no effect on innovation because it is done on new companies. This research was conducted to provide a clear understanding of results that were not consistent in previous studies, so that the hypothesis can be formulated as follows.

H1: Entrepreneurial leadership has a positive significant effect on organizational performance.

Effect of Entrepreneurial Leadership on Organizational Performance

Chen (2014) stated that entrepreneurial leadership has a positive significant effect on company performance. Consequently, entrepreneurial leadership can improve organizational performance. Jagdale & Shankar's (2014) study found that entrepreneurial leadership has no significant effect on organizational performance in the small-scale machinery industry in India.

The results of this study will give a clear picture of the inconsistent results of previous research, so the hypothesis can be formulated as follows.

H2: Entrepreneurial leadership has a positive significant effect on organizational performance.

Effect of Knowledge Sharing on Organizational Innovation

Rofiaty (2011) and Wang & Wang (2012) revealed that knowledge sharing has a positive significant effect on organizational innovation. In contrast, Liao et al. (2007) research on a number of companies in Taiwan indicated that knowledge sharing has no effect on innovation ability. This research provides an illustration that the absorptive capacity of organization members plays an important role in the effect of knowledge sharing on organizational innovation. This research will provide a clear understanding of inconsistent results of previous research, so the hypothesis can be formulated as follows.

H3: Knowledge sharing has a positive significant effect on organizational innovation.

Effect of Knowledge Sharing on Organizational Performance

Knowledge sharing has a positive effect on production costs reducing, new product development projects completion, team performance, organizational innovation ability and company performance including sales growth and new revenue and services (Mesmer & DeChurch, 2009). On the other hand, Setyanti et al. (2013) found that knowledge sharing has no effect on business performance because needed for the creation of the resulting product, so knowledge sharing has no effect on business performance. The inconsistent results of prior research are the basis of the research. Based on the theoretical study and the support of a number of research results, the following hypothesis can be formulated.

H4: Knowledge sharing has a positive significant effect on organizational performance.

Effect of Organizational Innovation on Organizational Performance

The results of the study of Jimenez & Valle (2010) and Rofiaty (2011), confirm that organizational innovation has a positive effect on company performance. Different from Simpson et al. (2006) which states that innovation creates large risks and high costs, causing a decrease in organizational performance if it is not managed properly. This research was conducted to provide a clear understanding of the results that are inconsistent from previous research, so that the hypothesis can be formulated as follows.

H5: Organizational innovation has a significant positive effect on organizational performance.

RESEARCH METHODOLOGY

This research was conducted at LPDs in Bali Province divided into 9 regencies/cities i.e. Denpasar City, Badung Regency, Tabanan Regency, Jembrana Regency, Gianyar Regency, Bangli Regency, Klungkung Regency, Karangasem Regency and Buleleng Regency. This research was quantitative research with Partial Least Square (PLS) approach. The research variables used were: (1) Entrepreneurial leadership (X1) is the ability to move the organization

members to achieve the goal with entrepreneur approach and pay attention to the ethics to anticipate the negative impact of entrepreneur, (2) Knowledge sharing variable is the process of collecting and sharing, (3) Organizational Innovation variable is the ability of LPDs in new ideas creation, new methods application, creative operational systems, products marketing, leading service systems, innovation risk management and new products upgrading and (4) Organizational Performance Variable is the output and ability of LPD to achieve the indicated achievement with financial, non-financial and social indicators.

The population is a generalization area consisting of objects or subjects having certain qualities and characteristics set by researchers to be studied and concluded (Sugiyono, 2012). The target populations of this study were 956 LPDs classified as healthy in nine regencies/cities in Bali Province (LPLPD, 2016). In general, the number of LPDs in nine regencies/cities in Bali Province is 1,433 LPD, classified as healthy, fairly sound, less sound, unsound and non-performing. Determination of LPD sample in each regency/city was done by proportional random sampling. Research sample determination of 151 LPDs classified as healthy was done by lottery. In each selected LPD, 3 people as the respondent were taken i.e. the chairman, administration and cashier.

RESEARCH RESULTS

The goodness of fit based on Q2 showed a value of 0.7030, implying that 70.30% of organizational performance variables can be explained by entrepreneurial leadership, knowledge sharing and organizational innovation, while 29.7% was another factor outside the research model. According to Chin (1998), the value of Q-square approaching 1 indicated that the model had good predictive relevance. Each research hypothesis is evaluated in detail as shown in Table 1.

Relationship between Variables	Direct effect	p-value	t-statistics	Note
$X_1 \rightarrow Y_1$	0.342	0.003	2.959	Significant
$X_1 \rightarrow Y_2$	0.419	0.000	4.745	Significant
$X_2 \rightarrow Y_1$	0.296	0.009	2.639	Significant
$X_2 \rightarrow Y_2$	0.043	0.663	0.436	Not significant
$Y_1 \rightarrow Y_2$	0.404	0.000	3.959	Significant

DISCUSSION

The data analysis in Table 1 shows that the exogenous variable X1 (entrepreneurial leadership) has a positive significant effect on Y1 (organizational innovation). It is shown by the path value from X1 to Y1 of 0.342 with t-statistics of 2.959 (>1.96) and p-values of 0.003 (<0.05). The first hypothesis (*H1*) which stated that entrepreneurial leadership has a positive significant effect on organizational innovation is thus accepted. There is an indication that the stronger the entrepreneurial leadership of LPD management is, the higher the organizational innovation will be.

The exogenous variable X1 (entrepreneurial leadership) has a positive significant effect on Y2 (organizational performance). It is shown by the path value from X1 to Y2 of 0.419 with t-statistics of 4.745 >1.96 and p-values of 0.000 <0.05 . The second hypothesis (*H2*) which stated that entrepreneurial leadership has a positive significant effect on organizational performance is

thus accepted. It means that the stronger the entrepreneurial leadership of the LPD management is, the higher the organizational performance will be.

The exogenous variable X2 (knowledge sharing) has a positive significant effect on Y1 (organizational innovation). It is shown by path value from X2 to Y1 of 0.296 with t-statistics of $2.639 > 1.96$ and p-values of $0.009 < 0.05$. The third hypothesis (H3) which stated that knowledge sharing has a positive significant effect on organizational innovation in LPD in Bali is thus accepted. It means that the more often the intensity of knowledge sharing by the LPD management is, the higher the organizational innovation will be.

The exogenous variable X2 (knowledge sharing) has no effect on Y2 (organizational performance). It is shown by path value from X2 to Y1 of 0.296 with t-statistics of 0.663 (< 1.96) and p-values of 0.436 (> 0.05). The fourth hypothesis (H4) which stated that knowledge sharing has a positive significant effect on organizational performance on LPD in Bali is thus rejected. It means that the intensity of knowledge sharing conducted by the LPD management does not provide variation to organizational performance.

The variable Y1 (organizational innovation) has a positive significant effect on Y2 (organizational performance). It is shown by path value from Y1 to Y2 of 0.404 with t-statistics of $3.959 > 1.96$ and p-values of $0.000 < 0.005$. The fifth hypothesis (H5) which stated that organizational innovation has a positive significant effect on organizational performance is thus accepted. This means that the higher the organizational innovation in the LPD is, the higher the organizational performance will be.

CONCLUSION

In this research, it is found that ethical entrepreneurial leadership influences the innovation and performance of LPD, a traditional financial institution in desa pakraman in Bali. The difference of this study with the previous proposition is the acquisition of regulatory compliance indicators from the results of the exploration process. The ethics dimensions such as the local wisdom values of Hinduism have been confirmed as valid and reliable from the process of qualitative and quantitative analysis. Satya laksana ethics in the study are reflected by indicators of: (1) honesty, (2) care to stakeholders, (3) responsibility, (4) loyalty and (5) regulatory compliance. LPD has a common bond of desa pakraman in the form of awig-awig and pararem that can support the LPD performance, in addition to the formal law in the form of Local Regulation and Governor Regulation. The success of LPD as a financial institution in desa pakraman will be achieved if the LPD management and community members obey the applicable awig-awig or perarem.

RESEARCH IMPLICATIONS AND RESEARCH LIMITATIONS

The findings in this study are expected to be beneficial for LPD management in Bali in an effort to improve organizational innovation and performance. Values from Satya laksana ethics believed in society are the foundation to improve organizational performance. The following theoretical implications can be proposed: (1) This research is able to develop a new research model that integrates a number of important variables consisting of entrepreneurial leadership and knowledge sharing that contribute to organizational innovation and performance at Village Credit Institution. (2) The supporting reference of this research is not sufficient. Therefore, there is still a need for further research to strengthen or criticize the results of this study.

This research identifies that satya laksana ethical dimension valid and reliably to reflect entrepreneurial leadership: (1) For LPDs, the results of this study indicate that the ability of entrepreneurial leadership based on ethics and self-assured behavior is needed on LPD to improve the innovation and performance of LPD. (2) Improving knowledge sharing culture can also.

Research Limitations

The limitations of this study expected to be a reference for future research, i.e.: (1) One of the variables of this study is ethical entrepreneurial leadership. Generally, there are other ethics reflecting the local wisdom of Hinduism can be tested or developed on models by future researchers, such as the concept of Catur paramita (four noble minds) and Catur Prawerthi (four noble behaviors advocated in Hindu ethical teachings). (2) The future research could apply the integration of this model to other types of companies other than financial institutions.

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