CULTURAL CAPITAL BASED ON AGENCY THEORY (STUDY AT VILLAGE CREDIT INSTITUTIONS IN BALI)

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ABSTRACT

This study aims to review 13 litertures to obtain an overview of the organizational structure and cultural capital which is the development of the theory of intellectual capital (intellectual capital) in relation to credit risk, efficiency and financial performance. The novelty of this researchis where cultural capital which is the development of intellectual capital is measured by the collective culture and organizational culture typical of VCI based on agency theory. Like other financial institutions, VCI operations cannot be separated from risks, including credit risk, which can affect the efficiency and financial performance of the VCI. The results show that for VCI management, this theory does not necessarily apply. Supervisor, VCI administrators and employees come from local customary villages who are generally very attached to their interests as citizens based on collective cultural thinking. Besides that, with its unique organizational structure, wherethe customary Bendesa directly acts as chairman of the supervisory board, it will color the VCI organizational culture which complements the spirit of the collective culture to achieve the VCI goals.

Keyword: Cultural Capital, Agency Theory

INTRODUCTION

Since its inception the Village Credit Institution (VCI) in Bali Province has never been separated from its connection with culture. The initiator was a humanist named Ida Bagus Mantra who in 1984 was serving as the Governor of Bali. The general objective of establishing the VCI is also inseparable from the desire of the initiator, so that the community can continue to maintain Balinese customs and culture, in the midst of challenges to the increasingly tighter agrarian culture due to the development of the tourism sector. The so-called household budget (ART) Pararem The 2014 VCI emphasizes the general goal of the VCI is to strengthen the resilience of traditional villages in preserving and developing the noble values of Balinese customs and culture that are imbued with Hinduism (Suarmanayasa, 2016).

Mantra (1984) directly in his book entitled The Potential of Bali in Building a Village, explains that the purpose of establishing the VCI as a community financial institution is to assist the pekraman village (now called the traditional village) in carrying out its cultural functions. Thus, it becomes very clear in its activities, both institutionally and operationally, the VCI is closely related to economy, social and culture (Ramantha, 2008; Ramantha, 2018).

De facto and de jure, Bali does have two forms of village, namely the Traditional Village which was once called the Pekraman Village and the Dinas Village (Putra, 2011). Both types of villages have their respective functions and duties. The official village carries out administrative duties and functions which are an extension of the higher government, namely the sub-district, regency/city, provincial and central government; while traditional villages carry out religious social duties and functions. Currently, there are 716 official villages in Bali and 1493 custom villages, which by Law No.6 of 2014 concerning Villages in Article 6 paragraph (1) acknowledge theexistence of two villages, namely official villages and traditional villages.

As an extension of the existing hand of government over it, official villages have always received budget allocations from the central and regional governments, while traditional villages with such broad functions did not receive budget allocations from the central or regional governments. Even if they receive donations from the provincial and district/city governments, the amount is usually insufficient. Therefore, until the 1980s the budget for customary villages in Bali came mainly from community contributions and non-binding contributions, which also came predominantly from the community.

When linked with (Ellis & Biggs' 2001) explanation of rural development in developing countries, including Indonesia, the 1980s to 1990s were considered as the fourth phase of rural development aimed at strengthening process approaches, participation, empowerment and actors. In the first phase, the objectives of rural development were directed from community development to the growth of small farms (1950s). In the second phase, the growth of small farmers was continued to integrated rural development efforts.

Seibel (2008) explained that the existence of VCIs in Bali has been able to contribute to the progress of traditional villages, especially those related to infrastructure development, cultural preservation, and the implementation of ceremonies. Other uniqueness related to culture can also be seen in the VCI management governance that uses customary regulations including norms, social sanctions and the involvement of customary bendesa starting from the process of selecting prospective customers. A unique culture-based management model as mentioned above, by (Stiglitz, 1990), is said to be a comparative advantage, especially in the field of monitoring and enforcement inVCI operations. It can be seen, through the existence of traditional village pararem and the involvement of customary bendesa as a form of VCI's comparative advantage, the VCI's performance has proven to be able to improve the economy of the village community.

Besides having quite encouraging developments, both due to cultural factors and unique organizational structures, overall there are also challenges faced by the VCI in its operations. In the 2017-2019 periods the number of VCIs that were not operating and were less healthy experienced an increase. One of the causes of this condition is the existence of bad credit which exceeds the tolerance limit (5%). As is well known, bad credit which is commonly referred to as Non PerformingLoan (NPL) is one of the indicators that determines the health of the banking industry, including the VCI.

The VCI's health condition deteriorated even more and bad credit increased even more when Bali faced the Covid-19 pandemic or Coronavirus Disease 19. The pandemic was felt not only in Indonesia, but in almost all parts of the world. Not only in the aspect of human health, but in many aspects, including economic aspects. There is no single economic indicator that can be separated from the Covid-19 disruption. Not one financial institution can escape the influence of Covid -19, including the Bali VCI.

An interesting phenomenon occurred because from 1998-2001 Indonesia experienced a financial crisis, which Sri Mulyani said was the main cause of an imbalanced balance of payments, but on the other hand, the development of VCIs experienced a quite extraordinary increase, especially from 1995 to 2001 where the asset growth was Rp. 97 billion became Rp. 696 billion, and continued asset growth increased from 2005-2011 by Rp. 1,743 billion to Rp. 6,584 billion, even though in 2008 there was a financial crisis. From 1995 - 2015, almost all financial indicatorsexperienced a fantastic increase, averaging nearly 200%. This is especially remarkable for microfinance institutions because in a state of national crisis, VCIs are able to survive and even improve their performance well. However, if seen from the trend and the impact of the crisis, it does not seem like it has affected the VCI, it turns out that in its development there are other things that have led to a decline in VCI performance, and this is proven by starting from 2017 to 2019 thatmany VCIs that are not healthy and even not operating have increased, and especially in 2020 with the Covid-19 Pandemic greatly impacting the health of the VCI. This is where it becomes achallenge for the reliability of the organizational structure to bring an increase in financial performance, and the collective culture and organizational culture that only microfinance institutions have, namely VCIs that have received tests or challenges to be able to reduce the higher credit risk which ultimately affects financial performance.

Although starting from the formation stage, development to VCI operations, it is influenced by local culture, in the course of VCI management and governance also adopts a global culture. The VCI performance measurement tool adopts international banking performance measurement called the Uniform Financial Institution Reporting Standard (UFIRS) issued by the Bank for International Settlements (BIS). The formulation of the performance measurement tool is called CAMEL (Capital, Assets, Management, Earning and Liquidity) (Abdulazeez, 2017). Regarding the use of CAMEL, VCI has Think Globally, Act Locally.

This study seeks to analyze the concept of organizational structure and cultural capital which is the development of the theory of intellectual capital (intellectual capital) in relation to credit risk, efficiency and financial performance. The novelty of this research is where cultural capital, which is the development of intellectual capital, is measured by the collective culture and organizational culture typical of the VCI based on agency theory. The research focuses on non-financial assets inthe form of a typical VCI organizational structure by conducting an analysis of Agency Theorywhich assumes that humans are more concerned with monetary rewards rather than mutual interests, which does not necessarily apply to VCI management.

LITERATURE REVIEW

Agency theory discusses the relationship between employers, in this case the owner of the company and the recipient to carry out work, in this case the manager of the company. Employers who are called principals will give rights to other people who are called agents to exercise their rights. Both parties are bound by a contract that states their respective rights and obligations. At this stage, many so-called signaling theories will emerge which are based on the company's obligation to provide a signal to employers or other parties with an interest in what it has done. Self-interested behavior is one of the basic human characteristics. This basic nature triggers the agency problem. This agency problem arises when an individual company characterized by self-management starts to grow bigger and it is no longer possible for the owner to directly manage his business. On the other hand, there is also a condition that the company is owned by many people or the government, which ultimately makes it impossible to manage the company directly. These changes and conditions require separation of ownership and management. This separation is what triggers agency problems between owners and management as managers. This agency problem arises when an individual company characterized by self-management starts to grow bigger and it is no longer possible for the owner to directly manage his business. On the other hand, there is also a condition that the company is owned by many people or the government, which ultimately makes it impossible to manage the company directly. These changes and conditions require separation of ownership and management. This separation is what triggers agency problems between owners and management as managers. This agency problem arises when an individual company characterized by self-management starts to grow bigger and it is no longer possible for the owner to directly manage his business. On the other hand, there is also a condition that the company is owned by many people or the government, which in the end is impossible to manage the company directly. These changes and conditions require separation of ownership and management. This separation is what triggers agency problems betweenowners and management as managers.

Jensen & Meckling (1976) define agency relationships as follows.

Agency relationship is a contract under which one or more persons (the principal (s)) angage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal.

From the definition above, it can be explained that an agency relationship is a contract in which one or more (principal) company owners hire other people (agents) to perform some services for their interests by delegating some decision-making authority to the agent related to the company's operational management. Problems often arise in the agency theory where there are differences in the interests of the owner and the agent. The owner has a strong interest in increasing the value of the company, while the agent has a strong interest in bonuses or other financial rewards from the company.

On In the context of VCI in Bali, the application of agency theory is very clear because VCI is a community financial institution that belongs to all residents of customary villages. Normatively what is meant by an agent in the VCI consists of managers and supervisors. Agency problems are very likely to occur in VCI governance, but this problem has been anticipated by regulations that allow managers, supervisors and employees (agents) to receive bonuses as stated in Chapter XIII of the Bali Provincial Regulation No. 3 of 2017 concerning Village Credit Institutions Article 23 regulates the distribution of VCI net profits at the end of the year which provides production servicesof 10 percent to supervisors, administrators and employees.

METHOD

This study is a literature review study to obtain an overview of cultural capital in the VCI. This review is based on (Jensen & Mackling's, 1976) theory of agency. Some of the literature reviewed is as follows:

1) Chui, et al., (2003)
2) Dittmar, et al., (2003)
3) Bontis, et al., (2007)
4) Justin Yiqiang Jin (2017)
5) Lincolin Arsyad (2005)
6) Cabrita, et al., (2008)
7) Jameelah (2016)
8) Osman, et al., (2016)
9) Iwan & Affandi (2016)
10) Bartikowski, et al., (2011)
11) Astawa, Putu (2012)
12) Aktas, et al., (2011)
13) Oswari (2011)

RESULTS

Author and year	Organizational Structure (SO)	Credit Risk (RK)	Efficiency (EF)	Cultural Capital (MB)	Financial Performance (KK)	Research result
Chui, et al., (2003)		√		√		Positive influence between culture and financial risk
Dittmar, et al., (2003)	√			√		The organizational structure does not consider cultural capital
Bontis, et al., (2007)	√	√				Organizational structure has a positive effect on risk management
Justin Yiqiang Jin (2017)	√	√				There is a positive relationship between organizational structure and credit risk
Lincolin Arsyad (2005)				√	√	Organizational Culture has an effect on performance
Cabrita, et al., (2008)	√				√	Intellectual Capital has an effect on performance
Jameelah (2016)	√				√	Intellectual capital affects performance
Osman, et al., (2016)	√				√	Intellectual capital affects performance
Iwan & Affandi (2016)	√		√		√	Intellectual capital affects the efficiency and performance of the bank

Bartikowski, et al., (2011)				√	√	Cultural Capital Moderate the relationship between the company's reputation and consumer loyalty
Astawa, Putu (2012)		√	√	√	√	Cultural values of harmony and credit risk affect financial performance
Aktas, et al., (2011)				√	√	organizational culture has a significant effect on company efficiency
Oswari (2011)	√	√			√	Organizational Structure, Company Culture and Risk have an effect on company performance

DISCUSSION

Organizational structure is one of the factors that affect employee performance and also how an organization is managed, including its finances. Research conducted by (Sedzro, 2015), they examined the impact of organizational structure on the performance of microfinance institutions in various countries, including the African Region, Southeast Asia and Latin America. Their research compared non-governmental organizations engaged in microfinance, or non-bank financial institutions such as cooperatives and banks. And as explained in this study, in terms of the influence of organizational structure on financial performance, it shows that non-governmental organizations are showing the best performance, this is related to VCI in terms of organizational structure and ownership there are similarities.

From an institutional perspective, mission drift occurs when financial goals take precedence over social development goals (Xu et al., 2019). Although they serve a financial function, their role differs greatly from formal financial institutions in the way they develop new products, interact with clients to identify and meet their needs while remaining financially independent. The source of these mission deviations can result from variations in the management style inherent in the organizational structure. In an effort to be financially sustainable, MFIs have introduced innovative financialservices that result in lower costs and greater efficiency (Rhyne & Otero, 2006). This is very consistent with the Village Credit Institution where social development goals are prioritized over financial gain, and one example of what the VCI does is that the profit is returned to the traditional village, of course the percentage is adjusted according to the agreement and helps a lot with ceremonies in the Traditional Village environment. It is cost efficient because there are not many costs incurred such as cash offices, promotional costs or other costs, because the VCI coverage area only includes local Traditional Villages and because almost all residents are familiar with VCIs, so that promotional costs can be kept to a minimum.

The significant performance of the VCI in strengthening the economy of rural communities cannot be separated from the organizational structure of the VCI which involves all traditional village institutions, from pararem to the involvement of traditional village officers in monitoringVCI governance. It is this superstructure relationship that other financial institutions do not have, which makes the VCI's organizational structure unique compared to other (micro) financial institutions. This is in line with the essence of contingency theory which states that the effectiveness of a company comes from aligning or adjusting the characteristics of the company with the possibilities that reflect the company's situation (Donalson, 2001). This condition is also consistent with the results of research by (Goh, 2005) which concluded that structural capital has a positive effect on the performance of commercial banks in Malaysia.

Particularly in the case of lending, in which the character assessment of potential debtors is also carried out through social mechanisms, it has had a positive impact on the VCI which (Chaves & Gonzales, 1995) consider very effective. Based on their research, it was found that social pressure

from local traditions is one of the important factors affecting customer compliance with microfinance institutions in rural areas of Indonesia. The relevance of this research is that the social pressure from local traditions in which the VCI with all its relations with customary villages can carry out wider monitoring of people interacting with one another and this will reduce information asymmetry.

VCI is a community-owned financial institution collectively through customary villages. The collective culture of the Balinese indigenous peoples has a very big influence on the success of the VCI. The philosophy of salunglung sabayantaka, namely the feeling of the same fate, kinship and mutual cooperation that characterizes the collective culture of the Balinese people, is truly implemented in VCI operations. Collective culture that represents the value in which the group comes from each person through their relationships with others and the results are expected to be beneficial to family, friends, and the wider community, naturally has taken root in the VCI.

There have been many researches related to cultural relations with companies, investments and financial institutions. There are two types of culture that are commonly studied in relation to business entities, namely collective culture and organizational culture. Chong (2003) in his research entitled Why culture matters for the formation of consumer trust? A conceptual study of the barrier for realizing real global exchange in Hong Kong explains the initial expectations that e-commerce technology will enable people to transact globally have not been fully realized. Lack of trust due to not meeting in person, is a reason people do not transact on line. This research is an initial justification that one of the critical success factors in improving VCI performance lies in theunderstanding of the role of the VCI and the trust between members (indigenous village communities) and the manager. The collective culture is one of the determining factors for the success of the VCI in Bali Province. Research on collective culture has also been carried out, one of which is by (Dewi et al., 2019) who concluded that collective culture affects motivation, social networking and investment.

In the implementation of the VCI collective culture, all transactions in VCI operations are only carried out by the customary village community, where they already know each other and meet directly. In addition to research conducted by (Chong, 2003), analyzing the influence of Hostede culture dimensions on investment decisions, he found that culture influences investment decisions of investors on the Taheran stock exchange. If the credit extended by the VCI is a form of investment from member savings funds that it manages, then the research results of (Cozma, 2011; Maheswaran & Shavit, 2000; Burtch et al., 2013) also supports the influence of a collective culture on credit disbursement by VCIs.

The importance of understanding socio-cultural values in assessing human behavior is justified through a number of studies. (Jensen & Meckling, 1976; Ekanayake, 2004; Jonson & Droege, 2004) examined the behavior of leaders in organizational management, using agency theory,showing that behavior is influenced by normative values in the socio-cultural dimensions they believe. The behavior of organizational leaders as agents of change and/or organizational direction is the dominant source in relation to the formation of organizational culture (David, 1992). Whenlinked with research on the VCI, it can be seen that VCI administrators who come from the local customary village community believe in the same cultural values and customs as their members believe, which influence the behavior of the management in managing the VCI.

As a culture-based community financial institution, the role of the VCI in the nationaleconomy is becoming increasingly strategic. Since Indonesia has Law No. 5 of 2017 concerning the Advancement of Culture, it is realized that culture has an important role in realizing sustainable development. In addition, cultural values and mental attitudes such as work ethic, achievement motivation, resilience and fighting power can drive the nation's productivity and progress. VCI productivity is actually an important indicator for the cultural economy which is one of the dimensions of the cultural development index in Indonesia.

Apart from being related to collective culture, many other studies regarding the role of organizational culture in improving performance have been carried out. (Kotter & Hasket, 1997); (Robbins, 2005) found a positive relationship between organizational culture and company performance. Likewise research (Devidson, 2000; Carl & Denison, 2000) conclude the same result.

Organizational culture is one of the important factors in realizing company performance (Lee & Yu, 2004). Organizational culture is not only important for large companies, but also for small

companies. The organizational culture for VCIs is very diverse. The understanding of the management and employees of the VCI's vision, mission and objectives is a very important organizational culture factor along with the high commitment of the management and employees to the typical VCI organizational practices.

Apart from being supported by a collective culture and organizational culture, the success of the VCI is also greatly supported by a unique organizational structure. The involvement of the customary leader ex officio as Chair of the Supervisory Board makes the VCI's operational and financial performance better. The customary village leadership, commonly known as bendesa adat, is elected by all customary village residents to run the wheels of the customary village organization, including in terms of overseeing the property of customary villages such as the VCI. In his capacity as Chairman of the Supervisory Board, bendesa adat is a supervisory board that represents all VCI owners because VCI belongs to customary villages. On the other hand, VCI customers or customers also consist of indigenous villagers who are also VCI owners.

Bontis, et al., (2000); Kumakama (2010) state that organizational structure is structural capital which is part of intellectual capital. Organizationally, structural capital is closely related to organizational performance. If an organization can combine its structural capital well, it will have a competitive advantage and further improve its operational performance, including in the financial sector.

As explained by Bontis, et al., (2000) a good organizational structure will support the implementation of all management functions, which in turn can improve business performance. In the context of the VCI in Bali, the involvement of customary bendesa as chairman of the supervisoryboard is very unique. If it is in the form of other business entities, such as a company for example, it is customary to have representatives of the shareholders (majority) as the board of commissioners. However, the function of commissioners in the company is only to act as supervisors and is not involved in the company's routine operations.

It is different from the function of customary bendesa in VCI operations. In addition to acting as a management function in the field of supervision, customary bendesa also performs operational functions, particularly providing initial recommendations to communities seeking credit or borrowing from the VCI. This function aims at least to convince VCI management and employees that prospective borrowers are indeed local customary villagers. This governance of lending is intended to improve the operational and financial performance of the VCI.

The VCI's organizational structure is not just a typical supervisory board function. The function of VCI administrators and employees in carrying out VCI operations can also be said to be unique. In the banking sector, in channeling credit, it uses a formal analysis in the form of 5 Cs to evaluate prospective credit customers by taking into account the elements of character, capacity, capital, collateral and conditions, VCI administrators and employees generally already know these five pieces of information through their daily social interactions in traditional villages. This condition will automatically maintain the efficiency of the VCI's time and costs in extending credit to its customers.

There have been many empirical studies on structural capital and its effect on organizational performance. Cabrita, et al., (2008) in their research on the banking industry in Portugal found that structural capital has a significant effect on financial performance. The functioning of all components of the organizational structure will greatly help the company to become more efficient and further improve its financial performance. On the other hand, different research findings were obtained by (Asiaei & Jusoh, 2015; Hariyanto & Hermawan, 2015) which stated that structural capital had no effect on company performance. This empirical fact shows that organizational structure can havevery different effects between cases on performance.

An organization including the VCI in it certainly requires good management carried out by the leader or leadership, in this case the VCI Chair with Bendesa's involvement is operationally involved in VCI management. Contingency theory (Fiedler, 1967) is often called a situational theorywhere the leadership style depends on the situation, and it is stated in this theory that there is no best way that is considered perfect to organize a company or organization or make decisions, and all depends on the choice of action in the situation. Internal or external. The contingent leader is free to choose the actions taken in relation to the organization he leads in choosing and adapting to a concise

strategy according to the conditions at hand at this time, and important transformations or changes made in the current situation. Will it be related to the emphasis on cultural capital that has been owned or also a collective culture that is considered to be starting to be abandoned or other variables that are considered to bring changes for the better so that financial performance can be maximized?

Economic phenomena, especially the VCI financial phenomenon when the Covid-19 outbreak broke out in Bali, posed a real challenge to the reliability of the VCI's organizational structure. The collective culture and organizational culture that are unique to the VCI are tested for their ability to reduce credit risk which is higher and will subsequently also affect financial performance. Likewise, the relationship with efficiency and financial performance.

In 2020 there was an increase in unhealthy VCIs from 125 in 2019 to 142 at the end of March 2020. Likewise, unhealthy VCIs, originally 48 in 2019, increased sharply in the last three months to 70 at the end of March 2020.

The large number of non-performing loans predominantly affects the poor health of theVCIs. A total of 444 (34.4%) VCIs throughout Bali experienced inadequate quality of their earning assets. Furthermore, 729 units (56.4%) showed weaknesses in bearing credit risk and as many as 846 units (65.5%) had non-performing loans that exceeded the threshold (5%), especially in Badung Regency as many as 44 VCIs experiencing inadequate asset quality. Most of the VCIs spread across all districts/cities in Bali still face challenges in terms of the quality of credit extended. Credit arrears, both principal and interest, exceed the security threshold.

In VCI and banking studies, the percentage of bad credit is often used as a proxy to measure credit risk. Credit risk is the risk associated with a large number of income-generating assets and is a determinant of VCI or bank performance. (Gizaw et al., 2015) explain that the financial ratio that can be used to measure credit risk is the NPL (Non-Performing Loan) ratio. Meanwhile, (Haneef et al., 2012) explained that inadequate risk management can increase non-performing loans, thus impacting bank profitability. The results of the research by (Noman et al., 2015; Azeem & Amara, 2014) which state that NPL has a significant negative effect on profitability, and NPL can reduce profitability.

Berger & De Young (1997) examined and examined the relationship between non-performing loans and bank efficiency. There are four hypotheses tested that involve the relationship between credit quality, cost efficiency, and bank capital. Their results showed that non-performing loans as measured by NPL led to a decrease in cost efficiency. In addition, they also explained that a reduction in capital in banks can lead to an increase in non-performing loans. In general, it is concluded that there is a need for controls to handle and reduce the number of bad debts. The amountof bad credit will cause the cost of eliminating bad debts, which according to agency theory (Jensen & Meckling, 1976) is part of the agency costs. The amount of bad credit according to (Jensen & Meckling, 1976) can also be caused by the lack of enthusiasm for the manager (agent) at work. Because the employee benefits earned are too low. This opinion is based on the idea that humans are opportunistic, rationalistic and selfish, so that every action is measured by the size of the money received.

In the VCI, credit risk at a certain level may have a negative and significant effect on financial performance and may also be insignificant. The decrease in the number of non-performing loans causes the VCI to reduce the cost of writing off bad debts which results in increased profits. Conversely, if the amount of risky credit which is proxied by bad credit (NPL) exceeds the threshold,it will cause the VCI to form a higher reserve for bad debts, which in turn can reduce the VCI'sprofit or financial performance.

Competition between financial institutions has been very tight in the last three years, causing the efficiency of VCI to decline even more, especially when economic conditions have been disrupted due to the Covid-19 pandemic. The large number of similar financial institutions currently operating in Bali such as Savings and Loans Cooperatives and People's Credit Banks (BPRs), as well as commercial banks that distribute People's Business Credit (KUR) at the rural level; have become tough competitors for VCIs which have led to public interest in borrowing credit at the village level. VCI is decreasing. This empirical fact requires the VCI to take a policy to reduce the interest rate onloans which in turn will have an impact on lowering income. In addition, competition betweensimilar financial institutions has also forced VCIs to raise interest rates on deposits, both savings and

time deposits in order to maintain their liquidity.

Many empirical researches on the efficiency of financial institutions have been conducted. (Astawa, 2012) in his research entitled Institutional Ownership and Harmonious Values in Improving VCI Financial Performance in Bali using the ratio of Operating Costs to Operating Income (BOPO) to measure the level of VCI efficiency found that there is a negative and significant effect between credit risk and efficiency. In the end, it can reduce the VCI's financial performance. The findings are in line with the results of research by (Tan & Wang, 2010) which examined the relationship between efficiency and company performance. The results of his research show that increasing efficiency positively affects overall performance. In addition, his research also reveals that there are differences in the level of efficiency in a company. The efficiency of the company occurs when the results obtained by the company are greater than the resources used as input. Other research was also conducted by (Berger & De Young, 1997). His research examines the relationship between non- performing loans and bank efficiency. The results of his research indicate that non-performing loans as measured by NPL cause a decrease in cost efficiency.

In the RBV approach or Resources Based View (Barney, 1991) is a view that uses an internal resource base which is considered more important than external resources. Barney (1991) states that organizational performance is basically determined by internal resources. Firm-specific factors are more important than environmental or industrial structural characteristics to produce superior performance. Barney (1991) explains that companies have heterogeneous strategic resources and are difficult to imitate. “The RBV identifies four key resource attributes needed for potential sustainable competitive advantage: value, rarity, imperfect imitability, and non-substituability. Barney explains that the RBV theory is currently a very helpful theory in strategy formulation and has received a significant amount of attention in the strategic management literature. So it is very clear that the organizational structure is very specific from internal, especially the VCI and this is not owned by other micro financial institutions, this is an advantage of the VCI, and besides the VCI organizational culture will have an impact on financial performance and credit risk.

In agency theory by (Jensen & Meckling, 1976) defines an agency relationship as follows. Agency relationship is a contract under which one or more persons (the principal (s)) angage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. Whereas in this case, if it is related to the existence of the VCI, there will be a kind of contract between the VCI owner in the case that all residents of the Traditional Village and the management and supervisors will later affect the performance of the VCI itself.

CONCLUSIONS AND SUGGESTIONS

Mantra (1984) in his book entitled The Potential of Bali in Building a Village, explains that the purpose of establishing the VCI is to assist the pekraman village (now called the traditional village) in carrying out its cultural functions. The ownership of this microfinance institution is a traditional village in Bali, which means that the VCI belongs to the customary community. VCI customers consist of local indigenous people, both as depositors and borrowers. The Governor's Decree Number 972 of 1984, dated November 1, 1984 concerning the Establishment of Village Credit Institutions in Bali Province is the first legal basis for the VCI. Now the VCI is regulated by Regional Regulation (Perda) Number 3 of 2017 which is the last Perda after several changes since itsformation.

As a traditional village-owned financial institution, in its operation the VCI is assisted by a supervisory board, a chairman, secretary and treasurer who can be equipped with a number of section heads and employees according to the needs of the local VCI. The uniqueness of the VCI's organizational structure compared to other business entities is the presence of a customary chairman called Bendesa Adat who ex officio acts as chairman of the supervisory board. The chairman of the supervisory board is involved in VCI operations from providing recommendations to prospective credit customers to supervising.

Like other financial institutions, VCI operations cannot be separated from risks, including credit risk, which can affect the efficiency and financial performance of the VCI. Many factors can affect efficiency, as suggested by (Jensen & Meckling, 1976) with the theory of the firm. The theory has three aspects that play a role in the company, namely manager behavior and agency cost. The behavior of the manager is influenced by the contents of the contract given by the owner to run the company. However, deviations often occur because basically humans have the nature of cultivating their own wealth if they are given full rights and authority to manage (Jensen & Meckling, 1976). For VCI management, this theory does not necessarily apply. Supervisor, VCI administrators and employees come from local customary villages that are generally very attached to their interests as citizens based on collective cultural thinking. Besides that, with its unique organizational structure, where the customary Bendesa directly acts as chairman of the supervisory board, it will color the VCI organizational culture which complements the spirit of the collective culture to achieve the VCI goals.

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