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The role of cultural capital in improving the financial performance of village credit institutions

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The Village Credit Institution (LPD) is an organization of micro finance which is in the scope of Balinese traditional villages. More specifically, LPDs whose members are indigenous people are very strong with a culture that grows and develops in society, so that activities in achieving organizational goals can be achieved through collaboration of cultural capital. The desired achievement describes organizational structure, cultural capital, and credit risk in improving financial performance which places cultural capital as a moderating variable in LPD in Bali. Quantitative methods are used in this study, namely selecting specific cases on the structure of the role of cultural capital for the organization. Quantitative data processing using SEM-PLS, the number of samples includes 100 respondents obtained through a questionnaire. The results of this study indicate that cultural capital plays an important role in LPD activities, especially related to organizational structure, credit risk, efficiency, and financial performance. Even though in a pandemic condition, the LPD spends to provide massive assistance, this proves that the LPD is a hybrid organization which also emphasizes a social perspective with an emphasis on wisdom. Novelty raised in this research is the emergence of collaboration patterns between LPDs and customers in the framework of common interests. This research has implications for LPD as a reference for positive perspectives on the role of cultural capital on organizational dynamics. Furthermore, this research can provide input to local governments that local regulations are needed that can assess social activities carried out by LPDs.

1. Introduction

An exceptional administration model in view of culture can be a story advantage, particularly in the field of observing and requirement of LPD tasks (Sara and Saputra, 2021). Seen, through the town constructions and contribution of Bendesa Adat (town Pioneer) as a type of LPD's similar benefit, LPD's presentation has demonstrated to have the option to work on the economy of provincial networks. Culture-based management capital with all its uniqueness in the midst of a very strong collective culture in indigenous communities in Bali is cultural capital that can be identified as intellectual capital is a beginning for the development of LPD in Bali. There is uniqueness in the organizational structure of the LPD, which is formed based on elements of cultural capital within the organization. Bourdieu (1986) states that cultural capital is knowledge, manners, values that are able to bind and move a social group. More specifically, the LPD is a formal institution; the concept of the founding LPD was initiated by using very simple language, namely, the marriage between traditional values and modern management values. Bourdieu (1986) Institutionalized cultural capital consists of, one of which is the recognition of formal institutions facilitating the exchange of cultural capital with economic capital, by providing practical solutions where sellers can describe their cultural capital to buyers. In line with this description, the LPD is a formal institution, using very simple language, namely, the marriage between traditional values and modern management values (Suarmayasa et al., 2020).

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Based on this description it is identified that cultural capital is an intangible resource, according to Barney (1991) Resource Based View (RBV) is a concept within the framework of the managerial scope in formulating strategic resources which have a role in achieving sustainable competitive advantage. In terms of cultural capital is part of the understanding of intellectual capital (Throsby, 2020) is defined as a combination of resources intangible and activities that enable an organization to transform a bundle of material, financial and human resources into a system capability to create stakeholder value. This is very much in accordance with the views of the concept of LPD establishment in Bali. Existing cultural capital can be reflected in the organizational structure formed in an organization (DiMaggio, 2019). The organizational structure is a systematic governance system that consists of various functions and is one of the variables that influence employee performance (Amri & Majid, 2014). This means that the organizational structure that is formed is not limited to using conventional structures but takes into account the culture that is inherent in the organizational environment.

The LPD's significant performance in reinforcing the economy of rustic networks is indivisible from the authoritative design of the LPD which includes all standard town establishments, village officers in monitoring the governance of the LPD. It is this superstructure relationship that is not owned by other financial institutions, which makes the authoritative construction of LPDs remarkably contrasted with other (micro) monetary foundations. Explicitly with regards to loaning, where the personal evaluation of planned indebted individuals is likewise helped out through friendly components, it emphatically affects LPDs because they are considered very effective (Gangi et al., 2019). An organizational structure based on cultural capital encourages dynamic organizations to adapt to their environment (Emery et al., 2020). Looking at the institutional perspective, the process of organizational dynamics can be seen from the mission of the institution which balances financial functions and social functions as organizational goals (Carroll, 2015). Although LPD organizations serve a financial function, their roles are very different from formal financial institutions in the way they develop new products, interact with clients to identify and meet their needs while remaining financially independent. More specifically, this cycle is a lot of as per the states of the LPD which focuses on friendly improvement objectives over monetary benefit, and one of the models that the LPD does is that benefits are gotten back to customary towns with a rate that is acclimated to the material guidelines and helps a ton in completing functions in conventional town climate.

The right motivation behind the LPD is to assist conventional towns with completing their social worth capabilities. This is in accordance with research from (Ebrahim et al., 2014) who says that hybrid organizations are often referred to as social enterprises, combining aspects of charity and business as their core. This finding further explains that the LPD is a hybrid organization with its cultural spirit. Research findings of (Litvaj et al., 2022) discovered the interesting fact that more than fifty years ago a "cult of efficiency in administrative theory and practice" was a modern culture. In discussing the risks for organizations that lose sight of their purpose and values in pursuit of efficiency, caution is a hybrid organization that neglects purpose. Ullah et al., (2022) emphasizes that the commercial activities of the organization can be used as a means towards social ends. Jayanbalan et al. (2022) suggests that innovation resulting from an organizational structure with cultural capital is low cost and higher efficiency. Efficiency can happen on the grounds that there are very few expenses caused like money workplaces, special expenses or different expenses, in light of the fact that the inclusion region of the LPD just incorporates the neighborhood Conventional Town and in light of the fact that practically all occupants know the LPD, so limited time expenses can be kept to a base. This efficient condition is also indirectly influenced by the collective culture that underlies the existence of the LPD. More specifically, there are two types of culture found in companies, namely collective culture (Hofstede, 1950) and organizational culture (Ouchi, & Wilkins, 1985). Researchers suspect that this examination is the starting defense that one of the deciding variables for progress in further developing LPD execution is in understanding the role of the LPD which can be examined through trust between members and managers (Yuliantari & Saputra (2022). (Hosmer, 1995) emphasizes that the individuals involved in an organization are more concerned with the interests of the group than with their personal interests. Furthermore, a collective culture for LPDs to mitigate credit risk which tends to increase during the COVID-19 pandemic (Dewi, 2019).

Battilana and Lee (2014) characterize association crossover as a bunch of exercises, designs, cycles, and implications that associations embrace when they blend different hierarchical structures and rationales. Subsequently, the half breed nature of an association is reflected in the great aspects: The center exercises of the association are the degree to which the association's business exercises are coordinated with its social exercises. The social venture is an exemplary illustration of a cross breed association that consolidates two structures and ideal models ordinarily tracked down in discrete associations: a business association, and a social association (Doherty et al., 2014). At the hierarchical level, dealing with the design hybrid is difficult. Iyer et al. (2021) contends that associations normally foster designs that are reliable with their essential objectives and essential directions. So it takes the requirement for similarity between various subsystems in the association to accomplish long haul dependability (Kantabutra & Ketprapakorn, 2021).

The financial phenomenon in LPDs during the Coronavirus flare-up broke out in Bali which turned into a test for the unwavering quality of the LPD hierarchical design. Distinctive collective and organizational culture of LPDs are challenged for their ability to reduce credit risk in the form of bad loans (Non-Performing Loan/NPL) which increased and affected the financial performance. Likewise, its relation to efficiency is in the form of a comparison of operational costs with operating income and performance finance (Astawa, 2012).This phenomenon then becomes one of the driving forces for selecting the cultural capital variable in this study because it argues that culture is important because it can influence the perception of cost management and financial risks related to debt and agency problems in each country (Huu Nguyen et al., 2020). Khairi et al. (2021) Inspect and analyze the connection between non-performing advances and bank effectiveness. The outcomes show that non-performing credits as estimated by NPL lead to a diminishing in cost productivity. What's more, they likewise made sense that a decrease in bank capital could prompt an expansion in non-performing credits. By and large, it very well may be reasoned that there is a requirement for control to deal with and diminish the quantity of terrible credits. How much awful obligations will bring about the expense of discounting terrible obligations which, as indicated by organization hypothesis (Ekanayake, 2004), is essential for the organization costs. How much awful credit as per (Huang et al., 2016) can likewise be brought about by the absence of energy of the chief (specialist) at work, in light of the fact that the representative advantages acquired are excessively low. This assessment depends on the possibility that people are deft, rationalistic and egotistical, so every activity is estimated by the size of the cash received.

The critical lessening in proficiency in many LPDs was likewise brought about by the LPD's perseverance in completing its vision, in particular to help customary towns in keeping up with their social capabilities (Mantra, 1984). As an indigenous community financial institution that has economic and social goals, social *enterprise* or hybrid *organization,* LPD during the COVID-19 pandemic continued to incur costs/burdens that support the needs of the community and traditional villages (Ebrahim et al., 2014). The types or forms of these fees vary, and some differ between LPDs, but whatever the form, these costs can be identified as LPD's effort to increase its cultural capital. Researchers suggest that the relationship between organizational structure and cultural capital can influence several organizational factors. This study acknowledges that the elements of the goals of the LPD organization are relative, but researchers believe that the importance of a more in-depth study related to the institutional functions of the LPD with a combination of cultural capital on several organizational factors (Amri & Majid, 2014). Furthermore, cultural capital that grows because of the environment becomes a crucial point in the formation of an organizational culture that influences the direction of view of organizational goals. Therefore, this dissertation investigates the role of cultural capital which collaborates organizational structure in the process of achieving sustainable organizational goals.

The restoration of this examination on; 1) the social capital variable is an improvement of scholarly capital, as estimated by the aggregate culture and hierarchical culture normal of the LPD. Beforeh and Khalique et al. (2020) make sense of parts of scholarly capital comprising just human resources, client capital, underlying capital, social capital, innovative capital and profound capital. 2) Spotlight on non-monetary resources as a normal LPD hierarchical construction by including town official as executive of the administrative load up in LPD tasks which is a similar benefit of LPDs and simultaneously makes sense of the distinctions between LPD bosses and company chiefs in completing administration capabilities; 3) Analyzing the influence of collective culture variables and typical organizational culture of the LPD is intended to conduct empirical tests on Agency Theory which accepts people are more worried about money related compensations than normal interests. This condition doesn't be guaranteed to apply to LPD management; 4) when Bali's economy is disrupted by Covid-19, it hopes to make it clear that the LPD is an economic organization that has a social, cultural and religious character. 5) This research can add indicators of the cultural economic dimension developed in Indonesia in measuring the Progress Index Culture in accordance with Law no. 5 of 2017 concerning the Advancement of Culture. The purpose of this research is how the role of the organizational structure moderated by collective culture and organizational culture according to credit hazard, productivity and monetary execution at LPDs in the Area of Bali and how LPDs do their social capabilities and use social cash-flow to alleviate credit risk during the Coronavirus pandemic.

2. Literature Review

2.1 Theory (Resource Based View, Agency, and Contingency)

Resource Based View (RBV) is a managerial framework used to define strategic resources that companies can leverage to achieve a sustainable competitive advantage. According to Barney (1991), “Firm Assets and Supported Upper hand is broadly referred to as a significant work in the rise of the asset-based view”. The idea of RBV was first coined by Werner in 1984. The resource-based view theory or resource-based view has been widely used in strategic management and marketing management. RBV focuses on internal-level analysis of a company's strengths and weaknesses. The RBV approach to competitive advantage which states that internal resources are more important than external factors in achieving and maintaining competitive advantage is rejected by other studies. (Napitupulu et al., 2020) examined the influence of the internal and external environment on the banking industry in Indonesia. The result is precisely the external environment that has more influence on banking performance. Barney (1991) stated that the financial performance organization is still up in the air by interior assets. Firm-explicit elements are a higher priority than ecological or modern design qualities for producing superior performance. Moreover, the RBV hypothesis is presently an extremely supportive hypothesis in technique detailing and has gotten a lot of consideration in the essential administration writing. Agency theory (Mitnick, 2015) talks about the connection between the business, for this situation the proprietor of the organization and the beneficiary to do the work which for this situation is the administrator of the organization. This organization issue emerges when a singular organization which is described by self-administration of its business starts to develop and expand and it is as of now not feasible for the proprietor to deal with his business straightforwardly. Then again, there is likewise the condition that the organization is possessed by many individuals or the public authority, which in the end it is difficult to straightforwardly deal with the organization. These progressions and conditions require detachment of proprietorship and the executives. This detachment triggers an organization issue among proprietors and the board as directors. Contingency theory was first introduced by Lawrence and Lorsch (1967) and then used by Luthans (1973) who expressed that there is no most effective way to accomplish a match among hierarchical and ecological elements to get great execution for an association. Possibility hypothesis is a hierarchical hypothesis that guarantees that there is no best occasion for overseeing an enterprise, driving an organization, or deciding.

2.2 Relationship between Research Variables and Hypotheses

2.2.1 Effect of Organizational Structure on Financial Performance

Theory Resources Based View (RBV) suggests that structural capital is an element of intellectual capital owned by a company to be able to create a competitive advantage which relatively improves the company's performance (Barney, 2001). That is, that the entire system is formed through a combination of management, resources, and culture that is able to create a positive habitus in achieving accelerated corporate goals (Gamayuni, 2015). Structural capital affects the improvement of Institutional performance non-profit (Rohman et al., 2023). This means that structural capital influences the performance of various types of institutions that have financial management. Based on this, it shows that structural capital is an important component in organizations, including in LPD organizations. Utilizing internal resources which are a qualified organizational structure, LPD can increase cost efficiency and encourage increased institutional profitability (Dwi Widyani et al., 2020). Based on these arguments, the hypothesis in this study is as follows:

Hypothesis 1: *Organizational structure matters positive on financial performance.*

2.2.2 Effect of Organizational Structure on Credit Risk

Credit risk is the gamble related with an enormous number of resources that produce pay and is a determinant of the presentation of LPDs or banks. Gizaw et al. (2015) explained that the monetary proportion that can be utilized to quantify credit risk is the NPL (Non-Performing Advance) proportion. Structural capital is one intangible asset related to corporate risk management (Widnyana et al., 2021). The unique organizational structure of the LPD, through representative supervisors from the Indigenous Village community, encourages the creation of guarantees for the regularity of the savings and loan process, as well as tightens the selection process for lending which leads to reducing the risk of bad credit occurring. The RBV theory, in principle, explains the relationship between the organizational structures of LPDs as a unique resource that has a central role in policies to reduce credit risk. Based on these arguments, it can be described the hypothesis in this study is:

Hypothesis 2: *The organizational structure of the LPD has a negative effect on credit risk.*

2.2.3 Effect of Organizational Structure on Operational Efficiency

The role of the supervisory board is very strategic because it can provide oversight for organizational processes so as to encourage the realization of organizational goals (Ramantha, 2018; Mahaputra et al., 2021). The structure with the LPD supervisor is representative of the indigenous village community. This shows that these representatives are expected to increase the oversight function and trust from the public to the LPD. The oversight function through the supervisory board can provide meaningful direction for the organization so that it can focus on organizational goals (Wang et al., 2016). Thus, the better the organizational structure, the lower the BOPO ratio, indicating the more efficient the LPD. Based on these arguments, the hypothesis in this study is as follows:

Hypothesis 3: *The organizational structure of the LPD has a positive effect on the operational efficiency of the LPD.*

2.2.4 The Role of Cultural Capital in Moderating the Effect of Organizational Structure on Credit Risk

Structure is an inseparable part of the existence of an organization. With an organizational structure, an organization can accelerate in achieving its goals (Fu et al., 2022; Mumi et al., 2020). Ahmady et al. (2016) revealed that the structure that is built must be able to match the goals of the organization. This refers to the needs of the structure that can support and adapt to the organizational cycle. Furthermore, Mumi et al. (2020) in addition to adjusting to organizational conditions, the structure that is built must contain competent resources in accordance with the fields in the structure. So, the organizational structure can collaborate to achieve organizational goals. Bernhardt (2013) revealed that cultural capital formed can support the creation of a good organizational structure. Pathiranage (2019) explains the importance of organizational culture for organizational members because it involves symbols, rituals, myths, stories and legends about the interpretation of events, ideas and experiences that are influenced and shaped by groups of people where members of the organization interact with each other. Based on these arguments, the hypothesis in this study is as follows:

Hypothesis 4: *Cultural capital can strengthen the influence of LPD organizational structure in reducing credit risk.*

2.2.5 Effect of Credit Risk on Efficiency

Financing carried out by the LPD can reduce the level of efficiency and financial performance (Tan & Wang, 2010). This means that credit risk has a parallel effect on the organization. First, when credit risk requires the organization to make financing which leads to a decrease in company efficiency. Second, decreased efficiency has an impact on declining company performance Alshebmi et al. (2020) analyzed the connection between non-performing advances and bank effectiveness. The outcomes show that non-performing credits lead to a reduction in cost effectiveness. In light of these contentions, the speculation in this study is as per the following:

Hypothesis 5: *Credit risk has a negative effect on the operational efficiency of LPDs.*

2.2.6 Effect of Credit Risk on Financial Performance

Moradi and Mokhatab Rafiei (2019) suggests that credit risk is defined as the risk associated with the possibility of client failure to pay its obligations or the risk that the debtor cannot repay the loan. Credit risk and agency fees are two things that also affect the financial performance of a financial institution (Gadzo et al., 2019). Singh and Davidson (2003) found that costs incurred in small companies and classified as agency costs can have an impact on decreasing company performance. Haneef et al. (2012) explained that poor risk management can increase non-performing loans so that it has an impact on bank profitability. Based on these arguments, the hypothesis in this study is as follows:

Hypothesis 6: *Credit risk has a negative effect on the financial performance of LPDs.*

2.2.7 Effect of Operational Efficiency on Financial Performance

Changes in company revenues and expenses will affect the company's profitability. Xie et al. (2019) tested the relationship between efficiency and company performance and found that efficiency increases performance. The conditions of the COVID-19 pandemic put pressure on LPDs by increasing the community's bad loans. But the LPD has constructed what is different is the strong organizational control of the organizational structure through the customary chief who doubles as LPD supervisor, has the potential to maintain efficiency amid the impact of the Covid-19 pandemic. So, when efficiency can be maintained and tends to improve, it will affect the increase in performance finance Nadeem et al., 2017). Based on these arguments, the hypothesis in this study is as follows:

Hypothesis 7: *Operational efficiency has a positive effect on the financial performance of LPDs.*

From several previous studies, the following conceptual framework was finally formed.

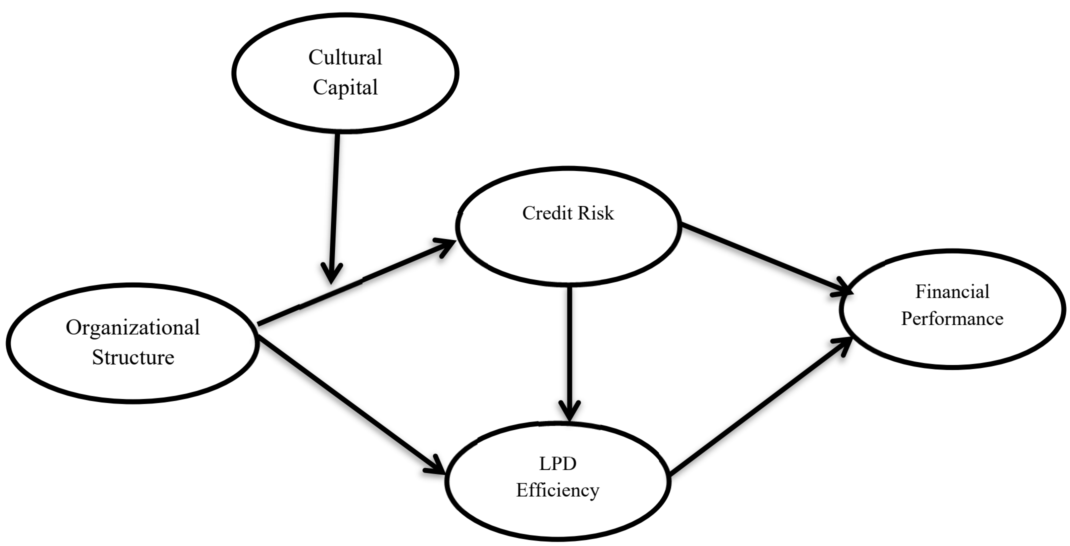

Fig. 1. Research Conceptual Framework

3. Method

This research uses a descriptive qualitative research type, where this research was conducted at LPDs throughout Bali. The populace in this study is LPDs which report their operations in 2021 in all Regencies/Cities in Bali, which totals 1,318 business units. The sample in this study was determined by a two-stage sampling technique (*two stage sampling*). First, determining the sample using judgment *sampling* which is adjusted to the research objectives & research problems, namely to determine the role of cultural capital in the organizational structure that influences performance. Determination of the sample size is carried out using the Slovin formula to determine the number of samples provided that the population size is relatively large, namely the minimum sample is determined by the following formula:

$$n = \frac{N}{1 + Ne^2} = \frac{1.318}{1 + 1.318\,(0{,}10)^2} = 93. \tag{1}$$

So, the minimum sample that must be taken is 93 LPD, but in this study 100 LPD will be taken. The number of samples is 100, referring to opinions Hair (2010), which reveals that a sample of 100-200 can represent the population. Respondents in this case were LPD officials, where the sampling was done randomly by using probability sampling (Olken et al., 1995). The analysis of this research is inferential statistics using analytical tools structural equation modeling (SEM) with approach partial least square (PLS) using smartPLS.

4. Discussion and Results

4.1 Validity and Reliability

Validity test is used to measure whether a questionnaire is valid. This arrangement was carried out to test whether the research instruments used in this study were appropriate. An instrument is said to be valid if the correlation between the factor scores and the total score is positive and the value is more than 0.30 ($r > 0.3$). After testing the validity, the next step is to test the reliability of the data by looking at the value of Cronbach's Alpha. An instrument is supposed to be solid, if the instrument has a value of Cronbach's Alpha more than 0.70. Test the research instrument in this study using validity and reliability tests. Correlation coefficient computational results Corrected Item Total Correlation and coefficient Cronbach Alpha for this research instrument are presented in Table 1.

Table 1

Results of Testing the Validity and Reliability of Research

No.	Indicator	Item	Validity		Reliability	
			Pearson Correlation	Description	*Cronbach's Alpha*	Description
1	Organizational structure	X3.1	0.941	Valid	0.897	Reliable
		X3.2	0.89	Valid		
		X3.3	0.915	Valid		
2	Collective culture	X2.1	0.941	Valid	0.954	Reliable
		X2.2	0.909	Valid		
		X2.3	0.929	Valid		
		X2.4	0.940	Valid		
		X2.5	0.778	Valid		
		X2.6	0.936	Valid		
		X2.7	0.747	Valid		
		X2.8	0.815	Valid		
3	Organizational culture	X1.1	0.976	Valid	0.948	Reliable
		X1.2	0.919	Valid		
		X1.3	0.960	Valid		

Source: Results of Primary Data Analysis

The results of the validity test in Table 1 above show that all factors have a connection coefficient esteem with an all-out score of all assertion things more prominent than 0.30. This shows that the assertion in the examination instrument is legitimate. Then, the results of the reliability test in Table 5.1 show that all research instruments have a coefficient Cronbach Alpha more than 0.70. It can be said that all instruments are reliable so they can be used to conduct research (Gozali, 2012).

4.2 Discriminant Validity

Indicator based measurement cross stacking with the inert variable. On the off chance that the relationship of the variable with the estimation thing is more noteworthy than the size of different factors, then the dormant variable can foresee the size of the block better compared to the size of different blocks (Fornell & Larcker, 1981: 46). One more strategy by looking at values square base of normal change extricated (AVE) each built with a relationship between different developments in the model. The suggested estimation worth ought to be more noteworthy than 0.50. The estimation results Discriminant Legitimacy in this study are as per the following:

Table 2

The calculation results Discriminant Validity

Variable	*AVE*	√AVE
Organizational Culture (X1)	0.817	0.904
Culture Capital (X2)	0.699	0.836
Collective Culture (X2.1)	0.882	0.939
Organizational Culture (X2.2)	0.709	0.842
Credit risk(X3)	1.000	1.000
Efficiency (X4)	1.000	1.000
Financial performance (Y)	1.000	1.000

Source: Results of Primary Data Analysis

Based on the calculation results *Discriminant Validity* as in Table 2 all reflective variables have a value *square root of average variance extracted* AVE is greater than 0.50.

4.3 Evaluation of the Structural Model (R-square)

Indicates the strength and weakness of the influence caused by variations of endogenous variables on exogenous variables. *R-Square* (R^2) greater than 0.50 is categorized as a strong model. Mark *R-Square* (R^2) of each endogenous variable is presented in Table 3.

Table 3
Calculation of *R-Square*

N	Variable Laten	*R- Square*	*R- Square Adjusted*
1	Credit risk (X3)	0.161	0.133
2	Efficiency (X4)	0.156	0.137
3	Financial performance (Y)	0.618	0.606

Source: Results of Analysis of Primary and Secondary Data

Based on Table 3 the value of R^2 of 0.533 and 0.598 indicating that the model formed by the two *t* variables is classified as strong.

$$= 1 – (0.867) - (0.863) (0.394) (1-0.606)$$
$$= 1 – 0.7052$$
$$= 77.52\%$$

The all out assurance coefficient of 7752 means that 77.52 percent of the variety in Financial Performance can be made sense of by the model framed (latent variables of Organizational Culture, Credit Risk, Efficiency and Financial Performance) while the remaining 29.48 percent is explained by other variables outside the model.

4.4 Characteristics of Respondents

Respondents in this study were the LPD Chairpersons from each LPD that became the research sample. The number of respondents in this study was 100 LPDs which had been divided by the proportion of the sample in each district. Districts that have a sample size of more than 10 LPDs will be taken from 2 LPDs that are quite healthy and 1 LPD that is less healthy, and the rest are healthy LPDs. Districts with a sample size below 10 will all be healthy LPD samples. Respondents in this study were 92 male and 8 female. Based on age, most of the respondents in this study were aged 41-50 and 51-60 years. According to the level of education, 40% were dominated by respondents with a bachelor's or bachelor's degree and the rest were high school and diploma. Based on their health, LPDs in the healthy category dominated the respondents with 40 LPDs, 27 moderately healthy, 22 unhealthy and 11 unhealthy.

4.5 Statistical Testing of Relations between Variables (Path)

Statistical testing in this study was carried out on the relationship between organizational structures, cultural capital, credit risk, efficiency and financial performance. The following are the results of statistical testing between variables *(path)* presented in Table 4.

Table 4
Statistical Test Results between Variables

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Description
X1 → Y	0.180	0.185	0.046	2.094	0.037	Accepted
X1 → X3	-0.323	-0.315	0.118	2.730	0.007	Accepted
X1 → X4	-0.181	-0.193	0.081	2.227	0.026	Accepted
X1→X2 → X3	0.482	0.467	0.116	2.132	0.034	Accepted
X3 → X4	0.188	0.176	0.174	2.233	0.026	Accepted
X3 → Y	-0.302	-0.283	0.140	2.156	0.032	Accepted
X4 → Y	-0.772	-0.793	0.094	8.251	0.000	Accepted

Source: Results of Primary Data Analysis

Based on Table 4, it can be explained that the organizational structure variable has a significant positive effect on financial performance with coefficient 0.180, p value 0.037 is less than 5 percent, this means that Hypothesis 1 is accepted. Variable Organizational structure has a significant negative effect on credit risk with coefficient -0.323, p value 0.007 is less than 5 percent, and this means that Hypothesis 2 is accepted. Variable Organizational structure has a significant positive effect on operational efficiency with coefficient -0.181; p value 0.026 is less than 5 percent. A negative coefficient indicates a better structure organization then operational efficiency increases, because operational efficiency is measured by Operating Costs compared to Operating Income means decreased Operational Efficiency and vice versa. This means that Hypothesis 3 is accepted. Cultural capital is able to strengthen the effect of organizational structure on credit risk with a significant positive with a coefficient value of 0.034 and a probability of 0.034 less than 5 percent. Based on this, it shows that Hypothesis 4 is accepted.

The credit risk variable has a significant negative effect on operational efficiency with coefficient 0.188; p value 0.026 is less than 5 percent. A positive coefficient indicates an increase in credit risk, a decrease in operational efficiency, because operational efficiency is measured by Operational Costs compared to Operating Income, meaning a decrease in Operational Efficiency and vice versa. This means that Hypothesis 5 is accepted. The credit risk variable has a significant negative effect on financial performance with coefficient -0.302; p value 0.032 is less than 5 percent. A negative coefficient indicates an increase in operational efficiency, a decrease in financial performance, because operational efficiency is measured by Operational Costs compared to Income operational, means a decrease in Operational Efficiency and vice versa. This shows that Hypothesis 6 is accepted.

Operational efficiency variable has a significant negative effect on financial performance with coefficient -0.772; p value 0.000 is less than 5 percent. A negative coefficient indicates an increase in operational efficiency, a decrease in financial performance. Because Operational efficiency is measured by Operational Costs compared to Operational Costs compared to Operating Income, meaning a decrease in Operational Efficiency and vice versa. This shows that Hypothesis 7 is accepted.

4.2 Discussion

The Effect of Organizational Structure on Financial Performance (H1)

This study found that the organizational structure of the LPD influenced positively on financial performance. This means that the unique organizational structure used by LPDs will go hand in hand with improvements *Return on Assets* (ROA) which indicates the increasing financial performance of the organization and vice versa. Thus, the uniqueness of the LPD organizational structure can encourage increased financial performance. LPD's unique organizational structure shown with a role of village officer as the supervisory board. Explicitly, the existence of a village officer becomes a representative of the principal who functions as an internal supervisor in the management function. This can be interpreted as narrowing organizational problems in agency theory (Eisenhardt, 1989). More specifically, agency problems can arise when an organization begins to grow larger, and it is not possible to manage assets.

Previous research supports that there is a positive influence between organizational structure which is intellectual capital and the company's financial performance Dwi Widyani et al. (2020) results of this study also support the results of research (Gamayuni, 2015); (Robiyanto et al., 2021); (Rohman et al., 2023). This study also re-explains that the RBV theory put forward by Barney (1991) which explains that the company has strategic resources heterogeneous and difficult to imitate by other companies will be able to improve the company's performance.

Influence of Organizational Structure on Credit Risk (H2)

This study found that the organizational structure of the LPD has a negative effect on credit risk. More specifically, the better organizational structure will encourage lower levels *Performing Loan* LPD which indicates a decrease in credit risk and vice versa. Thus, the higher the quality of the organizational structure, the lower the credit risks. The two main indicators of the organizational structure that are typical of LPDs are existence of Village Officer as the chairman of the supervisory board and the habit of efficiency of management and employees in the service process to customers, it is very likely to have consequences of increasing credit risk which is proxied by bad loans (*Non-Performing Loan/ /* NPL). As A Village Officer as the head of an indigenous community, sometimes they act unprofessionally as a supervisor because they want to help their citizens from financial difficulties. As an economic organization with a social character (hybrid organization) LPD is sometimes used to help people who don't *bankable* to be given a loan, including in the form of consumer credit, especially for the implementation of traditional ceremonies. This condition has the potential to increase non-performing loans to LPDs.

Likewise, efficiency efforts in servicing credit customers have the potential to increase bad loans. One of the characteristics of LPD services is being able to decide on a quick credit grant with a light procedure. In evaluating or taxing the customer's collateral, it is very rare that LPD uses services *appraisal* and tends to regard physical collateral as additional collateral only. This habit is very likely to have the potential to increase bad credit. The existence of policies to ease credit requirements for social purposes indicates weak risk management in lending at LPDs. This condition is in line with the results of research by Widnyana et al. (2021); Gizaw et al. (2015) which explain that poor risk management can increase non-performing loans for financial institutions.

Effect of Structure on Operational Efficiency (H3)

This study finds that the organizational structure of the LPD is influential positively to efficiency. More specifically, the lower the BOPO, the better the efficiency. Thus, the higher the quality of the organizational structure can increase operational efficiency which can be seen from the low percentage of BOPO. As previously explained, involvement of village officers as a supervisor of bad loans and the actions of LPD management and employees in carrying out customer service efficiency will be able to increase the company's operational efficiency. A flexible organizational structure coupled with very close social relations between supervisors, management and LPD employees and customers, both depositors and debtors, greatly supports the financial efficiency of LPDs. Good relations between fellow members of the Traditional Village mean that the LPD does not need to incur excessive advertising or promotion costs so that its efficiency is very much maintained. This finding is in line with the results of research (Ramantha, 2018; Mahaputra et al., 2021) which examined the effect of structural capital (which includes organizational structure) on the efficiency and performance of commercial banks in Malaysia, and the same as the results of research (Wang et al., 2016) which obtained similar results.

Cultural Capital in Moderating the Effect of Organizational Structure on Credit Risk (H4)

This research found that cultural capital was able to strengthen the influence of the organizational structure of the LPD in reducing and credit risk. Collective cultural capital that prioritizes the welfare of the wider community accompanied by an LPD organizational culture which is characterized by the existence of a distinctive LPD vision and mission can encourage high credit risk. Prioritizing the interests of the people can sometimes sacrifice the interests of the organization.

For example, the community needs funds for treatment but does not have the funds, so they apply for a loan at the LPD. This type of loan at certain times has the potential to become bad credit. The results of this study are in line with research (Fu et al., 2022; Mumi et al., 2020) which concluded that intellectual capital in which there is cultural capital is *intangible asset* relating to risk management. The findings of this study are also consistent with research (Ahmady et al., 2016; Mumi et al., 2020; Bernhardt, 2013; Pathiranage, 2019) which argues that "culture is important because it influences the perception of management costs and financial risks associated with debt and agency issues in each country.

Effect of Credit Risk on Operational Efficiency (H5)

This study found that credit risk has an effect negatively on operational efficiency. More specifically, level reduction *Net Performing Loan* LPDs that indicate a decrease in credit risk will go hand in hand with a decrease in Operating Expenses and Operating Income (BOPO) which indicates more efficient LPD operations and vice versa. Thus, the lower level of credit risk experienced by LPDs can encourage organizational operational efficiency.

The increase in bad debts during the current period required LPDs to establish reserves for bad debts. The formation of these accounts can incur periodic costs when reserves are formed, this is in accordance with the mandate of regional regulations stipulated in Regional Regulation 4 of 2017 (Astawa, 2012). The consequence of the emergence of increased costs for the formation of reserves for write-offs of receivables can increase the ratio of operating costs compared to operating income. This study argues that credit risk that is managed properly by the LPD can increase the efficiency of operational activities, because it reduces the incurrence of costs for establishing reserves for bad debts. More specifically, with low credit risk, the organization's operational activities can run efficiently because it does not require additional financing (Azeem & Amara, 2014; Tan & Wang, 2010). The findings of this study are in line with the results of the study Astawa (2012). Previous research which also yielded conclusions consistent with this study was conducted by Alshebmi et al. (2020), in their paper examining the connection between non-performing credits and bank effectiveness.

Effect of Credit Risk on Financial Performance (H6)

Credit risk has a negative effect on the financial performance of LPDs. More specifically, level increase Net Performing Loan LPD as a measure of credit risk indicates an increase in credit risk will encourage a decrease Return on Assets (ROA) which indicates a decline in financial performance organization and vice versa. Thus, the higher level of credit risk experienced by LPDs can drive down organizational performance. The COVID-19 pandemic has triggered an increase in the size of the credit risk of LPD organizations. This is inseparable from the decreased ability of customers to pay their obligations due to job loss or business not running normal (Astawa, 2012).The impact felt by the LPD was the establishment of a higher reserve for write-off of doubtful accounts and the correction of operating income from the accrual method to the cash method which had an impact on decreasing Return on Assets (ROAs). The findings of this study are consistent with the results of research (a) as well Azeem and Amara (2014) which states that NPL has a negative effect on profitability, and NPL can reduce profitability. The results of this study are different from findings Moradi and Mokhatab Rafiei (2019); Gadzo et al. (2019); Singh and Davidson (2003); Haneef et al. (2012) which state that NPL has no significant effect on ROA.

Effect of Operational Efficiency on LPD Financial Performance (H7)

This study found that operational efficiency has a positive effect on the financial performance of LPDs. More specifically, if the percentage of BOPO is low, it will be more efficient. However, if the percentage of BOPO is high, it will be increasingly inefficient which will drive a decline *Return on Assets* (ROA) which indicates a decline in financial performance. Thus, the lower the efficiency level of LPD operations can drive down organizational performance. Researchers suspect that the COVID-19 pandemic can increase the BOPO ratio. This is due to the large number of bad loans experienced by LPDs and in the end requires LPDs to. The formation of LPD reserve costs increases the accumulation of LPD costs (burden) so that it is possible to be higher than LPD income. In addition, researchers suspect that the type of organization used by LPD is more inclined to a social approach (social enterprise), which contributes a lot to the community, both in the form of staple goods and in the form of medical devices Xie et al. (2019). Simultaneously with the addition of expenses *(*expenditure*)*, LPDs experience a decrease in revenue so that it is possible for a decline in financial performance to occur organization by significant. The findings of this study are consistent with the results of (Nadeem et al., 2017) which states that the level of efficiency (BOPO) has a negative effect on profitability (ROA), also research findings Trisnayanti et al. (2015).

5. Conclusions and Suggestions

5.1 Conclusion

This study found that cultural capital is part of *intellectual capital* which encourages collaboration to reduce agency conflicts. *Intellectual capital* it has the spirit of improving company performance with intangible assets in the form of sources of information and wealth from knowledge, technology, social and others. These novelty findings support the development of the research Khalique et al. (2020). Previous research describes the components of intellectual capital consisting of social capital, reputation capital (consumers), structural capital, human resource capital, technological capital and spiritual capital. This research adds cultural capital as part of intellectual capital. In practice, cultural capital has a significant impact on the organizational structure so that the integration of all aspects will eventually create collaboration with various parties. This spirit of collaboration reduces the impact of agency conflict, this is also because the philosophy of the LPD is sticked with a collective culture that impacts the organization, on the other hand, the LPD is a hybrid organization, and one side sees profit but on the other hand pays attention to social aspects.

The collective culture found in society is interpreted through *Yadnya (ceremonial)*, Tri *Hit Karana (life harmonious relationship)*, *Sradha (beliefs)* form an organizational culture based on togetherness, unity and shared ownership. The organizational culture ultimately encourages harmonization and collaboration in the organizational structure which is manifested through village officers, managerial supervisors who have an orientation to the welfare of society. Furthermore, based on this harmonization and collaboration, standard operating procedures are produced which can reduce credit risk through the 6C system and increase organizational efficiency. The findings of this study indicate that all the patterns, dynamics and activities within the LPD that shape collaboration and policy are string logic, defined as a process of forming organizational identity *hybrid* social based.

5.2 Suggestion

The LPD's philosophical spirit is full of wisdom that can create social values. This social value can be an indicator in measuring social performance. This is because, to the best of the researcher's knowledge, there is no established measuring tool related to social performance compared to financial performance. Thus, further research can examine relevant social performance measurement tools as well as conceptual. All LPDs can maintain cultural capital as one of the foundations in building an organization. This is important, because the cultural capital that has been built from existing potential, namely from the spirit of togetherness, cooperation, unity, and shared ownership or can be called collaboration to encourage LPDs to perform well. Researchers suggest that this pattern of collaboration must be maintained, especially that the LPD is a social organization. Thus, the better the performance, the LPD will be encouraged to be able to maximize its social functions with fellow LPDs and customers with the main goal of improving the welfare of the village community.

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