

3rd Global Conference on Business and Social Science-2015, GCBSS-2015, 16-17 December  
2015, Kuala Lumpur, Malaysia

## Performance of Microfinance Institution in Harmony Cultural Perspective in Bali

I PutuAstawa<sup>a\*</sup>, Tjokorda GdeRakaSukawati<sup>b</sup>, Ni NyomanTriyuni<sup>c</sup>, I NyomanAbdi<sup>d</sup>

<sup>a,c,d</sup>State Polytechnic of Bali, Jalan Kampus Bukit Jimbaran, Badung 80364, Indonesia.

<sup>b</sup>Udayana University, Jalan Kampus Bukit Jimbaran, Badung 80364, Indonesia

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### Abstract

This study aims to model the performance of Village Credit Institutions (LPD), which is one of the microfinance institutions in Bali, through cultural harmony. This culture aims to achieve happiness by maintaining a harmonious relationship with God, company with employees, and the company with the villagers. 120 managers of LPD is chosen as informant. Qualitative data are collected through in-depth interviews to managers and analyzed by the ethnomethodology method. The results show that the measurement of performance through CAMEL must be added the company's ability to support religious activities and culture that flourished in every village. Cultural harmony is applied in Bali and can be developed in other areas in accordance with the existing culture. Results of the study have implications for the performance of taking the measurements should pay attention to local culture and a new thing in microfinance institutions.

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Peer-review under responsibility of the Organizing Committee of the 3rd GCBSS-2015

**Keywords:** performance, micro finance institutions, cultural harmony

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### 1. Introduction

Microfinance institution aims to help poor people. This condition can be found in several countries such as Bangladesh, Indonesia, Kenya, Bosnia, Peru, Bolivia and so on. Muhammed Yusuf is the founder of Grameen Bank

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\* Corresponding author. Tel: +62 361701981, 08123600431., fax: +62361701128

E-mail address: [putuastawa1@pnb.ac.id](mailto:putuastawa1@pnb.ac.id)

in Bangladesh. The bank was established initially to help women who live in rural areas on their personal money (Courts, 2008). The bank has been developed and has given loan of \$8.7 billion since 1976 (Bruton et al. 2011). In addition, this type of micro finance has been developed in big cities in the world such as Los Angeles (Ahlin et al. 2011). The development in this type of bank is followed by the change in paradigm from social to commercial bank (Hamada, 2010). This condition is also found in Bali that was driven by Professor Ida Bagus Mantra, the Governor of Bali. He established microfinance institution in rural area similar to the one conducted by Mohammed Yusuf. The institution is Village Credit Institution (LPD) aiming to give loan and preserve culture at the village (Astawa, *et al.* 2013). In 2013, there was 1406 LPD in every *pakraman* village in Bali with total asset of 5.8 trillion (Regional Development Bank /BPD, 2013). Annual profit is determined as follow: 40% for capital, 20% for capital reserve, 20% for rural development, 10% production service, 5% for LPD building and 5% for social (Government of Bali Province, 2002).

LPD has specific characteristic in management where it uses customary rules, norms, social sanction and there is rural leader involvement in the selection process and agreement maintenance. This model tends to exploit comparative advantage in monitoring and capacity of sanction enforcement (Stiglitz, 1990). Customary rules conducted by LPD are based on harmony culture setting out harmonious relationship between company and God, company and employees and company and environment (Astawa, 2013). Harmony culture conducted well by LPD has impact on its performance (Astawa *et al.* 2012). At present, LPD's performance is measured by CAMEL (capital, asset, management, earning, and liquidity) approach (Ramantha, 2006). A healthy LPD can be achieved by applying integrated CAMEL based on company's ability (Ramantha, 2006). Another measure of health level is determined by customers' payment (Bhatt and Tang, 2002; Brehanu and Fufa, 2008).

The performance of microfinance institution is needed to solve various problems in rural levels that different from that of commercial banks. Microfinance institution in various countries is encouraged to improve their performance in order to give good services (Ashraf and Hassan, 2012). Achievement of performance through cooperation with general bank will lead both institutions to perform their function better and in fact they can be a substitute for each other (Ghate, 1988). Arsyad (2008) stated that good performance and sustainability of a microfinance institution depends on internal (credit mechanism and management) and external (social economy, environment, rules, information of imperfect market) factors. Other factors influencing the performance of microfinance institution are law, formal rules, customs, convention, social norm, and ethical code (Brinkerhoff, 1992). According to Khandker (1988), cost efficiency should be the main concern in achieving independency of microfinance institution. Yaron et al. (1977) explained that measurement of performance theoretically is conducted not only on independency factor but it will include range of services given to the society.

Various other performance measurements, such as *outreach, loan recovery and profitability, and financial performance* (Ashraf *et al.* 2014) are used to determine the success of microfinance institution. In addition, Fitzgerald *et al.* (1991) stated in a research on microfinance institution that performance can be measured by *financial performance competitiveness, resource utilization quality of service, and innovation flexibility*. Performance measurement of previous researches result was related to general banks and less from microfinance institution (Ashraf and Hassan, 2012, Mersland and Strom, 2009). Therefore, performance measurement of LPD in this research was conducted through different perspective, which is harmony culture. Harmony culture applied in LPD is based on religious faith, which is maintaining harmonious relationship with God (*parahyangan*), with others (*pawongan*) and with environment (*palemahan*). In Bali, those three harmonious relationships are called *Tri Hita Karana* (THK) means three reasons to happiness. In order to reach happiness, the three relationships should be in balance to improve LPD's improvement (Gunawan, 2009).

Harmony culture is a cultural concept growth and developed in the tradition of a society and has been determined as the basic of business philosophy, philosophy of tourism development, layout regulation and development strategic planning in Bali (Regional Regulation No. 16, 2002). Initially, harmony culture is used as guidance by *pakraman* village (traditional village) and farmers in irrigation system of *subak* (agriculture) in Bali. In its development, the concept has been used in tourism business started with the awarding of *THK Awards and Accreditation* for hospitality sectors. The program has received recognition from the *Pacific Area Travel Association* (PATA) and *World Tourism Organization* (WTO). Harmony culture is one of national cultures containing universal values. Its concepts and implementation do not recognize any differences in tribe, race and religion (Windia and Ratna, 2007).

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