

"HARMONI" as a Performance Appraisal of Village Credit Institutions on Bali, Indonesia

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Abstract- Village Credit Institutions (LPDs) in Bali are non-bank financial institutions which performance appraisal is unsuitable for the spirit of its formation and activities that are based on Tri Hita Karana (THK) culture. This research is aimed to reconstruct the LPD performance appraisal with the cultural perspective of THK for community aspect (*pawongan*) dimension. To achieve this objective, the researchers employed critical theory methodology by means of Habermas' Theory of Communicative Action (HTCA). A case study was employed as the research strategy, and the data were obtained by interviews, documentary studies, and observations. HTCA was employed to analyze the occurrence of appraisal dominance of LPD performance and to find out the desire of the informants on the performance appraisal of LPD today. In addition, the integration of HTCA and THK culture are employed to make changes on LPD performance appraisal. This study finds that LPD performance appraisal is more comprehensive and suitable for its identities. The performance appraisal takes the form of the concepts implied in the acronym "HARMONI", namely: liquidity, assets' quality, profitability, capital, welfare distribution (give out), and *niskama-karma*. This concept is expected to provide a better LPD performance appraisal and is capable to provide an increase in the enlightenment and emancipation towards the interested parties in LPD.

Keywords—Performance appraisal, reconstruction, Tri Hita Karana culture, LPD

I. INTRODUCTION

Business environment continues to grow as the business climate becomes increasingly competitive, thus it is necessary to comprehend "the key success determinant" for organizations or companies. This can be a determinant of the companies' survival and becomes a fundamental foundation for the sustainable development, not only for the companies, but also for the stakeholders in general sense. The companies require comprehensive efforts to find out how well their achievements are by adopting performance appraisals. The performance appraisal solely in term of economic dimension is inadequate, performance appraisal in terms of social and environmental dimensions, including the spirits within the company is also required (Sukoharsono, 2010:28). The companies must harmonize the economical work achievement, which is not only intended to fellow human beings, but should also consider the performance towards the natural environment and the performance towards God (spiritual). The HARMONI performance is believed capable to realize the welfare and

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happiness, as well as to achieve the life's purpose, which is outwardly and inwardly prosperous lives. In addition, qualitative appraisal is also essential to be performed, either by the government and the companies to find out the extent of the effect their institutions' activities (Harahap, 2008: 391).

The companies' performance appraisal with the proper method is an essential activity. Particularly the performance appraisal serves more as a decision making aid rather than as a measuring tool (Rival, et al., 2011). Therefore, the result of the performance appraisal may present the companies' measure of success in certain periods appropriately. Furthermore, the appraisal result can be used as a guide for the improvement efforts and the companies' performance improvement, as well as other important decision-making.

One of the important performance appraisal utilized by the companies' managements is the responsibility to the proprietors (the principals). The principals would like to have their agents possessing good performance, thus the principals assets increases. It is supported by one of the assumptions of agency theory, i.e. all market participants are rational assets maximizers (Morris, 1987). Furthermore, the company theories are actually theories on markets or economies, in which the companies serve as important actors, and assume that profit maximization is the companies' objective (Jensen & Meckling, 1976). For this competitive market condition, thus a method considered possible to maximize the profit is by using the efficiency. It will result in profit accumulation in certain handful of people (Gors, 2003). To achieve the principal objectives, it is possible for them to act exploitatively on the resources existing in the companies, the community, and consumers, and ignore social and environmental responsibilities, as well as pay less attention to the stakeholders' interests.

Furthermore, stakeholder theory states that the stakeholders have equal right as the shareholders, i.e. permitted to put requests and desires on the companies (Goukasian & Whitney, 2007). Accordingly, the companies must improve their responsibility, which is not putting sole accountability to shareholders. It means the managements need to manage the companies for the sake of all stakeholders' interests (Deegan, 2004:268). Therefore, it is not enough for the companies to conduct their performance appraisal indicators by material indicators, non-material indicators are also required, including in financial institutions of which activities are based on the culture.

Generally, in Indonesia, financial institutions are grouped into two, i.e. bank financial institutions and non-bank financial institutions. Similarly, the LPD in Bali is a business entity possessed by customary village (*desa pakraman*). LPD is a non-bank financial institution. Operationally and functionally, LPD is actually the same as Rural Banks or society credit bank (BPR in Indonesia) (Ramantha, 2008), and (Artha, 1999: 1).

The first legal basis of the existence or legitimacy of LPD in Bali is the Governor's Decree No. 972 of 1984, November 1, 1984, which is confirmed by Provincial Government Regulation No. 2 of 1988 (Mantra and Raka, 1988), and has been undergoing several changes ever since. LPD is one of village institution which is an operational unit and serves as an umbrella of the village's wealth. However, LPD is not only simply an economic institution, but it is also a cultural institution. Sukandia (2011:62) revealed that LPD was initiated by Prof. Dr. Ida Bagus Mantra in the 1980s with the objective

to assist *pakraman* villages in their cultural functions. In addition, the group of Bali Provincial Government Law Experts explained that one of LPD functions was to maintain the customary villages' socio-culture and religiousness.

With this spirit, the operating LPDs in Bali are not merely socio-economical, i.e. it does not seek maximum profit, but it also has the character of cultural-religious, which is closely related to the compliance and responsibilities implementation to the real world (*sekala*), and the responsibilities to the immaterial nature (*niskala*). LPD also possess a mission to maintain cultural lives, the dimension of human relationship with God, or the teachings of *Tri Hita Karana* (Nurjaya et al., 2011:11, 26). The THK culture underlying the activities of LPDs in Bali is revealed in the LPD blueprint (Regional Secretariat Bureau of Economics and Development, Bali Province, 2009).

Besides its vision which is based on THK culture, LPDs in Bali have uniqueness in terms of geographic and social systems, LPD stands in two forms of villages, i.e. official villages and customary villages. The LPD takes shelter under customary villages with its overriding *awig-awig*. The society or *karma* of *pakraman* villages are bounded by the villages' *awig-awig* (customary law). As believed by the rural society, the holding capacity of *awig-awig* is highly strong, thus there is a saying that the rural society fear the customary sanctions much more than prison sanctions. Another uniqueness which is not less important is the administrative aspects technically managed or supervised by the Regional Development Bank (BPD) of Bali, and hereinafter is referred as BPD. The LPD fully adopts banking management, which is oriented to the economic dimension, i.e. the achievement of maximum profit.

Fully profit-oriented in LPD activities is a quasi element due to highly different character from profit element in banking. The profit motive in the banking activities is a profit element in the context of capitalist as a production factor. The accumulation of capital formed and devoted puts more priority in the capital accumulative interests of the capitalists. In contrast with the profit element, LPD activities are a profit element in the context of community communal mission (Sukandia, 2011:70-71). LPD supports the role of *pakraman* villages in sustaining the social, cultural, customary, and religious lives, as well as carrying out and integrating into the culture (Seibel, 2008:5-6).

In reality, LPD management refers to the banking management, i.e. by the technical guidance of BPD Bali. The authority guidance by BPD is based on the Governor's Decree. Subsequently, the appraisal of LPD technical health levels arranged by BPD in the forms of technical standards, in accordance with the Decree of Directors of BPD Bali No. 0303.102.2004.2, including the factors of the capital, productive assets, earning, and liquidity (CAEL) of PT BPD Bali (2010:26) and Regional Secretariat Bureau of Economics and Development, Bali Province (2012:75).

The use of CAEL as the performance appraisal of LPDs is not differ from the performance appraisal of financial institutions (banks), whereas the motive formation of LPDs has some uniqueness, as mentioned above. Structurally, LPD receives supervision from *pakraman* villages special team as the Board of Supervisors (BP) of LPD. So far, in ex-officio, the *bendesa* adat serves as the chairperson of BP. It means that see above as a symbol of recognition, guidance and assurance of LPD functions as the owner of *pakraman* villages. Therefore,

maintaining the viability of LPD becomes an important key to run the motive or the spirit of its establishment.

LPD activities refer to THK culture, in addition to its main activities as an intermediary between the parties who have of funds and those who experiencing a fund shortage that relies heavily on public trust. LPD provides benefits, both materially and immaterially to the society, such as performing product innovation activities, giving aid financially in the construction of sacred places, giving aid in *upakara yadnya* facilities, giving scholarships to outstanding students who are economically disadvantaged, and other programs. However, in terms of administrative aspects, LPD adopts banking management, which is more oriented to the economic dimension, the emphasis on efficiency and the performance appraisal based on "results", and not consider "the process" that is more strategic instrument in nature. With the implementation of technical standards in the performance appraisal on LPD from the regulating parties, it means colonization has occurred towards the exemption of LPD in assessing its performance in accordance with the awareness of the operational activities undertaken.

The use of main tool of performance appraisal which is more quantitatively emphasizes on the material or profit seems less representative as it is incompatible to LPD's identities. The profit serves as a greater difference between the incomes realizations originating from transactions in a period and is associated with historical costs (Belkaoui, 2000). The income earned is a rough estimate and should be used carefully, because the income measurement in accounting is a reflection of many assumptions and principles. It can be said that the concept of performance appraisal uses accounting profit that remains effectual by profit management. Similarly, the performance appraisal is performed by comparing the actual financial performance with that budgeted financial performance is insufficient. It may result in negative behavior, such as profit manipulation, associated with the measurement of compensation, such as bonus contracts. The policy of manager accrual is related to income-statement of bonus contracts incentive and changes in accounting procedures by the managers, associated with the adoption or modification of bonus schemes (Healy, 1985). It may occur in LPD, because in addition of getting monthly salary, the officers and employees also receive production services by 10 % of the profit.

LPD performance appraisal which uses CAEL is unsuitable for its operational, such as problematic LPDs or those of which status are less healthy, unhealthy and stagnant which continue to increase by 15.95% in 2009 into 19.82% in 2011. Non-financial issues are also found, such as unfavorable moral factor of several officers and employees, for example, those committing fraud or misappropriation of assets, violating LPD administrative techniques and other issues (PT BPD Bali, 2010). The result of the research by Ananta Wikrama (2012) on the bankruptcy of LPD with critical reviews in Pakraman Village of Bontihing, Kubutambahan District, Buleleng, Bali which is reflected on the dishonesty and negligence in integrity of LPD, especially in the officers and customers. The main cause of LPD bankruptcy is the abuse of power committed by the officers, deviation in congregation, i.e. the officers are involved in corruption of LPD financial capital and the *krama* of the villages are not willing to pay off their loans which results in bad debts.

The implemented LPD performance appraisal is not fully capable to address emerging issues as the above, i.e. the performance appraisal is more financially in nature than the appraisal of "results". In fact, the value of money is not the only means of measuring objective and reliable, as well the companies' performance appraisal which is evaluated in the frame of material, maximizing the profit to be the focus of companies' activities (Riduwan, 2007). The performance appraisal of the companies with non-financial measures is also needed for events that cannot be inexpressible in the units of money. Friedman and Miles (2001) reveals that a variety of factors lead to thoughts on the use of non-financial performance measures, i.e. financial numbers which are viewed as "indicators of delay" in the decision making. By using non-financial benchmarks, the requirements for remedial actions can be found faster.

The performance appraisal which is applied to date, is only dominated by numeric calculation and monetary measuring tools will be "frozen". In connection to it, LPD self-liberation from "dominance" form is needed, for saying no to "oppression" on the use of CAEL instruments which are economic in dimension, financial and quantitative benchmarks only. Therefore, it is important to make basic changes on LPD performance appraisal in accordance with its true identities.

II. FOCUS OF RESEARCH

It is based on the problems that the performance appraisal in the form of CAEL method established to date in LPD is dominated and characterized in monologue by the regulators (local government of Bali and BPD Bali) with appraisal standards equated with financial institutions which are generally capitalist in character. The performance appraisal implemented uses material measures, which are only monetary and quantitative in character. In reality, the operational activities of LPD are much more complex than those of financial institutions, besides its activities as a fund intermediary of the society in villages. Another activity which is not less important is the operational and vision based on THK culture. THK is the three dimensions to realize the welfare and happiness outwardly and inwardly. The three dimensions are *parhyangan*, concerning the harmonization of human relationship with God; *pawongan*, concerning the harmonization of relationship between fellow human beings; and *palemahan*, concerning the harmonization of human relationship with natural environment. The focus of this research is: "How is the construction of *pawongan* of THK culture-based LPD performance appraisal?"

III. RESEARCH METHODOLOGY

The research objective to be achieved is to reconstruct *pawongan* dimension THK culture-based LPD performance appraisal. THK is a concept or often referred as a philosophy of the Hindu society in Bali. THK is local wisdom that has been able to accommodate and integrate foreign cultural elements into native culture, as well as becomes the order frame of the society lives in various sectors (Sulistiyawati, 2000). The use of performance appraisal based on THK culture is a holistic performance measure. A strong culture helps the business performance because shared embraced values and behaviors make people feel comfortable to work, create an extraordinary

level of motivation within the workers (Tika, 2010:141). THK emphasizes that the welfare is achieved if a harmonious relationship between human and God is realized as well as with fellow human beings (*pawongan*), and natural environment (*palemahan*) (Wiana, 2007). In the context of this paper, "welfare" is defined in a holistic sense that welfare is not only limited to material wealth, but also includes mental wealth and spiritual wealth (Triyuwono (2011).

Triyuwono (2003) reveals that modern accounting is incapable to reflect non-economic realities created by the companies. It is only able to recognize and reflect economic events, and even then it is merely private cost/ benefit. Instead, it is unable to recognize the public cost/ benefit. Capitalistic modernism tends to neglect the values of psychology, social, local wisdom, and/or the existence of other beings. As a result, the stakeholders have been misled by the signals of financial success, but being mistaken in the decision making because the information related to the issues of externalities and the actual performance is not presented by the companies. In fact, such information is one of key indicators in assessing the prospects and risks of a company. It is also found in LPD, LPD performance appraisal is implemented simply to reflect the reality of material wealth by CAEL ratios.

This research adopts a critical theory, in which the critical theory as expressed by Laughlin (1987) has the advantages, inter alia; relates between theories and practice, thus an outcome upon theory will be resulted; strive status quo in a constructive manner, accounting is not only considered as a technical issue, but also its broader impact on organizational changes. Critical theory has the objective to emancipate and to transform (Burrell and Morgan, 1979). Critical theory is not simply criticizing, but it also seeks to find a way out of the problems. Similarly, it is also expressed by Sawarjuwono (2005); a critical approach does not stop until the level of knowledge acquirement. It will always continue to try submitting a positive proposal in order to improve the situation on the object being studied (continuous improvement). Critical theory refers to self-awareness that has the objective to make changes and emancipations by enlightenment and does not cling dogmatically. Critical theory assumption is self-awareness, changes, emancipations, and enlightenment. Therefore, what becomes the concept which would become the key of a critical theory is the critique on capitalism, universal rationality, and ideals of liberation. Critical theory is a liberation struggle against capitalists' oppression and injustice (Willis et al., 2007:87).

Habermas (1973) in Lodh & Gaffikin (1997) says that the process of language can be utilized in methodology level. The process of language is for real action situations through which the actors can seize, organize, and change their social lives in a better way. In another words, the analysis of the language is used to help clarify the theories with empirical research (Laughlin, 1995). Laughlin (1995) expresses that Habermas Theory of Communicative Action (HTCA) lies in Middle Range Theory (MRT) position. MRT can be used as a methodological and theoretical framework to complete the theory according to the certain context.

Liberation and enlightenment according to Habermas (Held, 1980:249-259) is to make linkage between theories and praxis. Praxis in this case is understood as a central concept for the theories which look for their linkage with social lives. The efforts to understand emancipatory praxis are communicative

dialogues and actions leading to enlightenment. Habermas takes consensus path with the target of the creation of social relations in the scope of domination-free communication.

HTCA serves as an analytical tool, besides THK culture as a basis for reconstructing the LPD performance appraisal to conform its identities. Meanwhile, the concept Habermas HTCA is as the following.

If we assume that the human species maintains it self through the socially coordinated activities of its members and that this coordination is established through communication - and in certain spheres of life, through a communication aimed at reaching agreement, then the reproduction of the species also requires satisfying the condition of a rationality inherent in communicative action (Habermas, 1984:397).

The data used in the research are gathered through documentation studies, observations and interviews. Subsequently, an analysis was performed based on the data, those derived from the research site (LPD of Kuta customary village), central government, local government, BPD Bali, and other sources. This stage was analyzed by the integration HTCA and THK culture, started with the purposive-rational actions, particularly in the context of power of Provincial Government of Bali and BPD Bali over LPD in Bali to implement performance appraisal on LPD. Similarly, the rationalization of communication, especially in the context of the interaction-communication between BPD Bali, the society, and the LPD in Bali used CAMEL method for performance appraisal of LPD, which was transformed into CAEL method. How the communication was established, what the interest (rationalization) is behind the interaction, and so on. Subsequently was praxis, i.e. how a communication is to reach a consensus, which is based on the emancipatory spirit. Habermas understands that praxis is not only "works", but also as a "communication".

IV. DISCUSSION

The number of LPD per December 31, 2011 was 1,418 out of 1,473 customary villages. There fore ,no wonder if Bali Island is referred as an island of thousand LPDs as it has been known that Bali is the island of a thousand temples (Ramantha, 2012:1). Since its establishment, LPD has lofty goals. Roughly a quarter century of its existence in Bali, LPD's existence and benefits increasingly felt by the rural society in Bali. Real welfare contribution that it provides is not only in economic aspect, but also in socio-culture and religious aspects. Besides many contributions or benefits and advantages possessed by these financial institutions, there are also some weaknesses that need further ideas and handling from various parties, including their performance appraisal. This research finds the concept of "HARMONI" as the LPD performance appraisal which is suitable for its identities through several stages.

THE RATIONALIZATION OF PURPOSIVE ACTION

Provincial government of Bali possesses power to issue several governor's decrees and local regulations, including the appointment of PT. BPD Bali as a technical adviser of LPD. Several changes have occurred on the local regulations regarding LPD, including the current local regulation, i.e. Bali Provincial Regulation No. 4 of 2012 which still implement performance appraisal by using CAEL method.

The establishment of technical standards of LPD performance appraisal by using CAEL method from BPD Bank of Bali gains supports, one of which is from the officer the Bureau of Economics and Development of Bali Province, i.e. Pak Gede S. who revealed the following;

"BPD uses technical standards or performance appraisal or health level of LPD, such as CAEL which is suitable, as LPD conducts savings and loan activities and utilizes the public funds. Thus, what applies to financial institutions regulations is also applicable in LPD, including the audit, if necessary. LPD performance appraisal by using CAEL is still suitable because its operational is similar to banks, only its name takes the equivocation of customary villages. If there are no such rules, the funds may be used carelessly for customary activities. It is simply cannot be arbitrary. It should remain to use the performance measurement with the applicable rules".

CAEL method is implemented as the basis for the performance appraisal to date still needs to be maintained in LPD. It gains support from the Trustees of Village Credit Institutions of Bali Province.

"In principle, the direction of LPD development is still income-oriented. Nevertheless, the use of the profit is different for pakraman villages. The orientation is equally for profit as they are financial institutions. Increased efficiency of LPD is important although generally, the performance of LPD is favorable based on financial indicators, such as ROA, ROE, and other indicators. Pak Nyoman from PLPDP of Bali Province revealed that the operational of LPD must remain efficient and healthy in terms of the income, cost and profit. They all should have standards. The larger the profit is, the greater it will be distributed" (Pak Nyoman A).

Bali Provincial Regulation No. 8 of 2002, Article 7 (d) on storing the excess liquidity in BPD in return for competitive interest and adequate services. The purpose of this financial policy or local regulation can be interpreted implicitly that this local regulation has an interest for BPD Bali, i.e. acquiring relatively easier and cheaper fund sources. Easy means BPD Bali indirectly receives placement funds from LPDs in Bali having excess liquidity. Meanwhile, cheap can be defined that BPD Bali can take the policy on the determination of the percentage rate of interest on funds lower than the interest rates in other banks. Similarly, the accountability on the supervision of BPD Bali is reported to the Governor of Bali, rather than to the society of *pakraman* village (the owner of LPD). In addition, LPD must deposit its funds to the provincial government of Bali by five percent (5%) out of each LPD's profit.

With the power existing on the provincial government of Bali, it will be able to provide forcing power on the LPDs mentioned in the regulation. These appraisal methods in form of these standards or ratios are instrumental rational by nature, monologues without going through communication and agreement processes focusing on the control system to achieve targets. It will allow the officers of LPD to focus on production section (economics). Human relation will be merely interpreted as labor relation. Human will experience instrumentalization in the framework of effective and efficient productions related to the efforts in maximizing profits and achieve standards or ratios set by BPD Bali.

This social process is still influenced by the steering media, i.e. money media in the form of a cash deposit by 5% of LPD profit and LPD fund placement in the BPD Bali and the power

in the process of local regulation making and decrees on LPD. The media subsequently replace the language as a mechanism to coordinate actions. They set determine the social actions to be separated from the integration through consensus value and move to purposive-rational, such as the following quote.

"...Rationalization of everyday communication that is tied to the structures of the intersubjectivity of the lifeworld, in which language is counts as a genuine and irreplaceable medium of reaching an understanding, and on the other hand, the growing complexity of subsystems of purposive-rational action, in which the actions are coordinated through steering media, such as power and money..." (Habermas, 1984:342).

CAEL based-performance appraisal based in LPD is maintained because financial performance of LPD is equal to financial institutions (banks). The rationalization of the performance appraisal factors is material by nature, which is related to human beings (*pawongan*) in THK cultural perspective.

COMMUNICATIVERATIONALIZATION: EMANCIPATION PROCESS

LPD possesses distinctiveness, such as to serve as a financial institution established for the benefit of economic empowerment of the society in *pakraman* villages, and to contribute in the welfare of the society. "Aren't in general, various theories and economic models created by experts in the world have the same final purpose, i.e. for the welfare of society?" LPD is a community established in *pakraman* villages, which is presumably one of the Balinese models to empower the economy and welfare of indigenous people.

The result of Arsyad's research (2008) concludes that the success of LPD is inseparable from the socio-cultural characteristics of the Balinese society which is based on the teachings of Hinduism. Besides, the distinctiveness and uniqueness of the LPD are also confirmed, i.e. the LPD is not simply a micro-financial institution performing a financing function on micro economic activities in villages, but actually LPD is also a highly complex socio-cultural institution. Therefore, using economic approach strategies alone will not be able to maintain and develop it.

LPD which belongs to *pakraman* villages need to be dissected based on the emancipation, deliberation and consensus, and improve the welfare of the society. In reality, the emancipation process occurs in the arrangement of the Work Plan (RK) and Plan of Budget and Expenditure (RAPB) of the LPD officers, regulatory bodies and *prajuru desa prakaman* (co-owner). If there are problems in incorporating interests according to the objectives of LPD in the RK and RAPB, a third-party communication is conducted to create a consensus or an agreement which is free of domination and coercion, through deliberation and consensus. It is in accordance with local wisdom on unity (*sagilik-saguluk*) as the translation of *parasparos sapranaya, salulung subayantaka*, which means mutual respect and appreciation, and obeying the rules in order to achieve common goals. Thus, *sagilik-saguluk* functions as a condition for the sustainability of harmonious social relationship.

PRAXIS STUDIES ACCORDING TO THK CULTURE

Performance appraisal on LPD with instrumental rationalization is with the objective of improving the financial performance through CAEL ratios established by the regulators

with material indicators and quantitative measures (monetary). In contrast, communicative rationalization, LPD performance appraisal is not only accompanied by the objective of financial performance, but also by the objective of the preservation of tradition and culture. LPD performance appraisal is not enough only by conducting measurements materially, but it also needs non-materially measurements, i.e. sacrifice (*ngayah*), related to the religion is *karmaphala*. In addition, an increase in the emancipation of the society (*krama*) in determining RK and RAPB of LPD, and to improve the governance of the officers with belief on the law of *karma*, i.e. one's good deeds and bad deeds affect their karma in the present life and through the next reincarnation. LPD's officers run the concept of *karma phala* which mandates that the work is worship (*yadnya* or sacrifice). Work awareness is an obligation to provide welfare for its stakeholders. The value contained in the concept is the loyalty and responsibility in performing duties.

THK CULTURE IN PERFORMANCE CONCEPT: THE HARMONY BETWEEN FELLOW HUMAN BEINGS (PAWONGAN)

THK is the local wisdom that is derived from the concept of Hindu and the uptake of local culture of Balinese society which emphasizes that welfare and prosperity of the plenary people can be achieved by three dimensions of harmony and togetherness. One of which is *pawongan* dimension. *Pawongan* dimension emphasizes the need of the creation or maintenance of harmonious relationship between people on site (*desa*), time (*kala*), and certain conditions (*patra*). With a harmonious relationship between the stakeholders, LPD may exist and survive. LPD carries out several activities and programs directed in giving contribution both economically and socially that provides impact or contribution to the stakeholders through the implementation of religious values and local wisdom. The values and contributions function as a basic reference for formulating the concepts and indicators of LPD's performance.

LPD applies *menyama braya* concept, i.e. a way of life understanding that all human beings are brothers and the concept of unity (*sagilik-saguluk*). LPD is highly dependent on the level of public satisfaction and trust. The reciprocation of LPD is highly dependent on the extent of LPD's capability to maintain the level of public trust, especially *krama* of the *pakraman* villages where the LPD is located. What is not less important to foster the customers' trust is to design innovative products in accordance with the condition and needs of *krama* of *pakraman* villages as the owner and the consumer of LPD. In the holy book of *Sama Veda*, section 502 (Gunawan, 2012), it is stated that someone will attain success, either in this world or hereafter, if he develops a creativity to create new things (innovation).

In general, there are two LPD products, i.e. savings/deposit and loan products. These products are varied according to the needs of *krama* of *pakraman* villages. In order to improve the services and public satisfaction, LPD's officers implement three main work ethics, i.e. sincerity, righteous, and serious (Madra and Sujaya, 2010:16). Out of the three concepts, they will lead to the three goals, namely trust, integrity, and professionalism. Trust is a social capital for LPD. Therefore, the officers must establish and nurture unselfish personalities, and so must *satya*. *Satya* may mean the truth and honesty or loyalty. Therefore, honesty and the truth are the basis of trust (Sura, 1985:51). Integrity which involves a strong commitment

to the institutions and professionalism is the key to the birth of trust and integrity. The entire officers and staffs should develop professional performance in order to contribute and improve the public's trust on LPD.

The Economic Contribution of LPD's Existence on its Stakeholders

LPD distribute welfare to the various parties involved in the improvement of the institution. Hindu scripture of *Atharwaveda* 115.4; i.e. "Use the progress and profits of the companies for sake of the common welfare" (Sunetra and Suartika, 2007:71), in accordance to the relationship of harmony and togetherness in relation to human resources to the companies in the framework of business sustainability consistent with the expectation of THK. Human should be able to provide best service to the five essential components (Windia, 2007:15-16), i.e. the best service to: (1) the customers; (2) the employees; (3) the owners; (4) the government; and (5) society around the companies.

LPD provides economic contribution to the stakeholders, namely: (1) customary villages (*pakraman*) in the form of profit distribution by 20% for the rural development fund and by 5% for social fund, and the loan provision for the society of *pakraman* villages without mortgage under certain requirements; (2) its customers, with the appropriate level of interest rates; (3) officers, employees and regulatory bodies, in addition to basic salary and production services, amounted to 10% of the profit, the allowances are also given, i.e. food allowance, transportation allowance, health allowance, holiday allowance, health insurance coverage, and working clothes; (4) the government, LPD provides indirect economic implications to the government, i.e. supporting the government's efforts in relation to the preparation of the facilities in saving fund productively, supporting the government in bearing equitable development in rural infrastructure, including the maintenance of cultural heritage, assisting the government in reducing poverty and unemployment in the efforts for the equity and employment opportunities, and other forms of programs.

The policy and contribution of LPD are in the form of "*krama*" empowerment of *pakraman* villages and social care. Meanwhile, the LPD contributions to social care are in the form of: (1) the provision of scholarships for outstanding students and economically disadvantaged students, and free tutoring; (2) sport and health coaching on the society of *pakraman* villages; (3) the provision of fund in art and creativity coaching of the youth; (4) death benefits; (5) provides subsidized fund of *ngaben*/cremation ceremony and mass *nyekah*. The result of Dewi's research (2008) reveals that the LPD of *pakraman* Village of Dharmajati Tukadnungga, Buleleng Regency performs many activities in its social environment. The implementation of LPD's social responsibility towards its environment includes educational field, arts and cultural field, the development of local business, and the development of rural infrastructure.

Local Wisdom Values Implemented in LPD as a Performance Conception of Relationship between fellow Human Beings

Hindu businessmen in Bali, especially LPD have the view that people are not alone in this world and they always expect helps and cooperation from others. It is closely related to their lives. LPD makes efforts maximally to practice religious values

and local wisdom or THK culture of *pawongan* dimension in the research entities. Whilst the values, among others; (1) the employees always perform their duties and responsibilities honestly (the concept of *karma pala*), sincerely and selflessly (*yadnya* concept) with fellow human beings; (2) the employees work in a professional, focused, specialized manners in accordance with the distribution of the functions based on the organizational structure and job descriptions and responsibilities (the concept of *kasta/catur warna*); (3) seeks to improve trust, by reminding each other (*asah*), respect (*asih*), guiding each other (*asuh*) and spirit of togetherness (*menyamabraya*) and cooperation (the concept of *tat twam asi*); (4) maintains the integrity, consistency, and the truth by working with disciplines, implements *tri kaya parisuda* (thoughts, words, and actions are in line); (5) wealth contribution to the stakeholders, both materially and non-materially that prioritizes customer service and satisfaction; and (6) seeks perfection (work to work), which is innovative and oriented to the added value and continuous improvement.

"HARMONI" AS AN ALTERNATIVE CONCEPTUAL UNIT OF LPD'S PERFORMANCE APPRAISAL CONSTRUCTION

HTCA integration and THK culture of *pawongan* dimension in practices are the basis for the reconstruction of LPD performance appraisal. The performance appraisal factors include: liquidity (the ability to pay off debt); asset quality (the quality of productive assets) with modifications; profitability (earnings) with modifications; capital (capital adequacy ratio). The appraisal on capital factors is based on the ratio of capital towards risk-weighted assets with modifications; the distribution of welfare (give out), i.e. the distribution of the wealth in harmonious relationship between fellow human beings and the government, and the distribution of wealth related to social, the parties who do not interact or financially and non-financially contribute to LPD (ratio or the ratio between the amount of contributions and operational profit); and *niskama karma*. LPD's officers and employees carrying out *swadarmanya* do their best so that LPD can be formed and operated, and obtain progress which is equipped by spirits for works. The indicator of working values for works is *yadnya* (sacrifice or devotion), dedication, loyalty, trust, truth and the beneficence of the society as an action motive.

Working sincerely without expecting the results is called as *niskama karma*. Wiana (2007:79), Pal (2001) and Sudiarja (2012:26). The activities are the law of life, whilst 'no strings attached' is the essence of the religion. This is confirmed in Bhagawadgita II.47; your duty is to work only and never at anytime in expects their results. You should never be motivated by the results of the actions nor should there be any attachment in not doing your prescribed activities. Bhagawadgita III.19, it is revealed that without being attached to the fruits of activities, one should act as a matter of duty, for by working without attachment, one attains the supreme. Nevertheless, nowadays many people work with intention, working solely to fulfill the lust by bounding to the material world (Mas, 2004:63).

LPD's officers working spirit is *niskama karma* by nature, as a basis for the action motive in order to provide welfare in the society, to preserve the culture and tradition, and to assist the government. Human relationship is not interpreted to the working relationship only, by necessitating all capabilities to put into instrumentalization by human in order to gain effective

and efficient production. In addition, the logic is not reduced in technical interests and material benefits merely, thus setting aside other interests existing in the society along human values. Therefore, the officers of LPD relevantly apply *niskama karma* attitude in their operational in accordance with THK culture.

Niskama karma attitude is believed by the officers and employees, customary villages (*prajuru*), and the *krama* of villages to achieve the objective of LPD which does not seek to maximize its profit. However, LPD aims to remain exist, provide benefits and distribute the welfare, either materially and non-materially to the stakeholders sustainably, and to maintain the culture and customs, yet LPD still get progress and is sustainable, based on the activities in socio-economic and cultural-religious nuances. GTZ consultant, Promotion of Small Financial Institutions (ProFi) Prof. Dr. Hans Dieter Seibel (2008: 11) finds that LPD has a role in replacing the presence of loan sharks and LPD has given 'a new force' to *pakraman* villages that it did not possess prior; contributing to economic, cultural, and religious development.

LPD officers understand that their success is not only assessed based on work indicators for results, as in CAEL, it is implied that in the instrumental rational with the basis of capitalist principles, it pays less attention to *yadnya*. The most important indicators are value indicators for the work. In which the LPD performance appraisal, the primary indicator is not performance, but the resilience of an institution where the element of loyalty is highly emphasized. This is consistent with the values contained in the *Bhagavad Gita*, i.e. human beings must work, i.e. to work with the values of loyalty, diligence, honesty, maintaining relationship or communication, and nonmaterial. Therefore, the officers must be professional, that is work for work by continuous improvement in order to make the LPD achieves its objective in the long-term. Therefore, the performance indicator should be a quantitative measure (number, percentage, ratio, average, and index) and indicators (may be using value scales, for example; good, fair, low and so on).

The potentials of performance appraisal and is being developed by the LPD in *niskama karma* factor, there are several indicator. The indicator includes: 1) Job performance appraisal (devotion/ *ngayah*). The attitude or behavior of the officers and employees is measured from the intensity, i.e. several people and several times work (devotion) in *pawongan* dimension; 2) The ratio of the funding sources (third party) and loan distribution. This appraisal is used to use trend analysis, this analysis illustrates the changes tendency of a financial statement items during several periods (year to year) and it takes a year (certain period) which is used as the basic year. The basic year selected from a post, which is usually given an index number of 100 (Subramanyam and Wild, 2010: 37); 3) Accountability. Performance appraisal on the accountability of the officers is usually measured from the loyalty and consistency normatively, in accordance with the existing regulations (local regulations), i.e. the intensity of the reporting; 4) the quality of human resources (HR). This performance appraisal includes the behavior/ attitude of the LPD officers and employees' morale committing violation or fraud, namely (a) the intensity of behavior (moral attitudes), i.e. measuring how many times the officers and the employees commit bad actions or disgraceful acts; (b) The ratio of the amount of fraud, the ratio of the amount of fraudulence in rupiahs with the total revenue in rupiahs. IAI (2012) revealed

that the banking industry is closely related to the management of customers' funds, thus the temptation to commit fraud is relatively bigger. The result of the research by Deputy Governor of Bank Indonesia, Alamsyah (IAI, 2012) shows that 80% of the fraud committed by internal parties results in 5% loss of the revenue per year; And, 5) the performance appraisal is related to the customers' dimensions, such as customers' satisfaction.

The development of LPD performance appraisal factors as above, the distribution of welfare (Give Out) is wider and *niskama karma* with expectation to give multiplier effects is much greater. In addition, encouraging the stakeholders to participate in improving the economy by participating in LPD, maintaining, improving loyalty or dedication of the officers and employees is performing the *swadharmanya*. LPD officers is improving more on the understanding of the principle of joint ownership (community-owned), joint responsibilities, and performing joint determination by mutual agreement from the communication process that is free from domination and coercion. Increased active society's participation in *pakraman* villages so as not being spectators, may even become the victims, such as customary economic activities. Liberalism provides a basis for the survival of the fittest, i.e. "the strong win and survive". Indonesia is based on Pancasila. Here the values of togetherness, respect, mutual respects, deliberation, unity and kinship (*menyambraya*) and other values are being maintained.

"HARMONI" as the concept of LPD performance appraisal in emancipation leads to the officers to exert their efforts in every performance of THK culture in order to maintain a harmonious relationship for creating the welfare and happiness of life. Nasr (1984:104) reveals that the objective of the wise is to harmonize with nature because through this harmony, a harmony with human is born and the harmony itself is a reflection of the harmony with heaven (God). Conceptually, according to Gunawan (2012), THK philosophy contributes to the growth and improvement of the performance of LPD in Bali. In addition it is also suggested that THK is used as a working guideline for the officers of LPD in Bali. Astawa et al. (2012) finds that the practices of harmonic value presented in THK culture may cause a decline in non-performing loans (NPL) which is one of important indicators in assessing the performance/ health of LPD. Similarly, Suartana (2013:33) reveals that in the context of management philosophy and operating style, LPD makes THK culture as the spirit directing all actions and behaviors in strengthening the sustainable foundations. Moreover, LPD has possessed a national legal framework and its existence is recognized by customary law (Republic of Indonesia's Law Decree No. 1 of 2013). This condition provides greater and secure opportunities and it does not violate the law for taking reformative actions and changes as well as implementing performance appraisal suitable for the spirit of the LPD.

V. CONCLUSION

Performance appraisal is a part of the management control process that can be used as a management tool to achieve the companies' objectives, including LPD, directed for the creation of the sustainability. The construction of LPD performance appraisal is currently only oriented on the material performance (economics), with quantitative benchmarks (monetary), which is dominated from the regulator parties or BPD Bali. This

appraisal has not incorporated the element of non-material performance appraisal with qualitative and quantitative benchmarks (non-monetary) towards the spirit of THK culture underlying the birth of LPD and harmonious relationship between wider stakeholders. LPD performance appraisal which is suitable for the activities or its identities is necessary, because it is believed that a more comprehensive performance appraisal and the selection of indicators which are considered as an important part will likely allow LPD to reap durable abundant blessings, provide a wider usefulness and is believed to realize its survival.

The result of the research indicates that the conception of performance appraisal suitable for the accounting reality which is shown in the model of "HARMONI". This naming is resulted from the integration of a single word from the acronym "HARMONI", which is based on the construction of THK cultural values of *pawongan* dimension. H (the first letter of *hutang* (debt) on the meaning of liquidity) is the liquidity (the ability to pay off debts). The performance appraisal of the factor of debt/ liquidity is an important factor for LPD to maintain the customers' trust when the customers want to withdraw or take their funds and LPD is able to pay its debts. The measurement of this ratio includes "result" factor with quantitative benchmarks. A (the second letter of the acronym) is asset quality of the appraisal on productive assets which is used to obtain income. The construction of the performance appraisal is a modification of this ratio, i.e. the classification of productive assets. R (the third letter of acronym) is *rentabilitas* (earning) that shows the amount of the ability of a LPD in producing profits, either from the use of assets, income or costs originating from the operational. Ratio construction of ROA is the modification on the average assets for the use of the asset (land) owned by *pakraman* villages for office buildings and assets (land) of LPD for social activities of which utilization is devoted to customary villages (*pakraman*). Meanwhile, the ratio construction of BOPO, i.e. the adjustment between operational costs and the costs expended for THK activities. It is important in the light of LPD consciousness which is not simply emphasizing on the efficiency and is not oriented in maximizing profit, but its main function is in the nuance of socio-economic and cultural-religious in pattern. M or *Modal* (Capital) (Capital Adequacy Ratio) (the fourth letter of the acronym), this ratio is modified, i.e. risk-weighted assets component as the special divisor of fixed asset components which does not show the actual number used in the LPD operational.

The new performance appraisal factor of LPD is O (give out) and Ni (*niskama karma*). O (give out), the distribution of the welfare is for the common welfare recommended in Hindu scriptures. The distribution of this welfare is for the parties, either those participating directly or indirectly in the LPD. Human are required to "work" to achieve the welfare between fellow human beings and the universe, happiness and *moksa*. The indicator in this ratio is one of the barometers of LPD obedience towards the moral (ethics) and is an indicator of LPD that has good "organ" to support the level of its health. Ni (the sixth letter of the acronym) *Niskama karma* is a sincere act done selflessly. The attitude of *niskama karma*, this factor shows *swadharma management* of LPD in implementing strategic actions based on *karma phala* concept for the sustainability of LPD. The performance appraisal includes the appraisal on the input, process, and output. The factor of

yadnya performance appraisal within the meaning of work for work (devotion) assesses input in the form the resources development in third party fund entrusted and placed in LPD. This appraisal is very important for LPD because it is the most substantial funding source currently to be processed in performing the basic duties of the officers in the form of loan distribution. Performance appraisal is relating to the innovative actions of the officers, product or service innovation, the accountability of the officers towards fellow human beings. Appraisal on the intensity of attitude and behavior of the officers and employees on the regulations, the amount of fraud, turnover rate (employee retention), the improvement level of human resources quality, and customers' perspectives are the intensity of customer complaints (customers' satisfaction). This appraisal is suitable for the quantitative benchmarks (monetary and non-monetary).

VI. IMPLICATIONS OF RESEARCH

1. Theoretical Implications.

The application of "HARMONI" model has theoretical implications, as this model provides performance appraisal concepts which are more comprehensive. The paradigm of performance appraisal underlying on economic orientation, the measurements with the quantitative benchmarks, and the scope which is relatively narrow is not suitable for the reality of values and the role or the contribution of performance appraisal subjects, thus as the harmony conception is being put forward.

The application of this "HARMONI" model is more specifically expected to contribute in the field of management accounting which is part of the accounting which is aimed to assist the managers (officers) to run three principal functions, i.e. planning, controlling, and decision making. The use of this model is expected as the strategic management system and is able to serve as a tool to supervise whether LPD strategies have been implemented or not, and to assess whether the strategies established is proper or not. Likewise, LPD has arranged RK and RAPB which are included as planning, while the appraisal on the implementation of RAPB is included as control.

2. Practical Implications

The practical contribution, the use of this model in the implementation of LPD performance appraisal can be done by the officers, LPD internal regulatory bodies, and Trustees of Village, District/ Municipality and Provincial Credit Institutions (PLPDK/ PLPDP) as the direct implementer assesses the performance to date and is a representative of BPD Bali as the supervisor/ external trustees of LPD as a benchmark for the improvement of LPD performance appraisal by adopting the knowledge of the results of this research which are developed from the condition of LPD itself. The regulators can immediately reform a number of accounting limitations implemented currently as a main media in the application of this performance appraisal model. For the regulators, it can be used as a reference to reform accounting, i.e. the existing principles and applied accounting standards in LPD that can be recognized, reported, and allows its performance to be assessed based on THK culture. It is also possible to direct the aspect towards the accountability, transparency, and sustainability. And, this model is also be expected to contribute as a referral source of reference in the development of performance appraisal factors in the institutions and companies at local,

national, and international levels, since THK philosophy is universal.

VII. LIMITATIONS

This "HARMONI" model does not provide weight rating on each performance appraisal factor. And, this model does not set a measurement trade-off and it does not discuss performance indicators of the benefits and impacts.

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