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TRI HITA KARANA CULTURE AS MODERATOR ON THE EFFECT OF CREDIT RISK, LIQUIDITY RISK AND OPERATIONAL RISK TOWARDS FINANCIAL PERFORMANCE OF VILLAGE CREDIT INSTITUTION IN DENPASAR

Ni Nyoman Widiasih

Faculty of Economics and Business, University of Udayana, Bali, Indonesia

widiasih.nyoman@ymail.com

Ni Ketut Rasmini

Faculty of Economics and Business, University of Udayana, Bali, Indonesia

Abstract

The study aims to determine the effect of credit risk, liquidity risk, and operational risk on financial performance of village credit institution (known as LPD) in Denpasar with Tri Hita Karana as moderators. The population included all LPDs in Denpasar City that are still operating during 2014-2018. Non-probability sampling method and purposive sampling technique was used resulting in 34 research samples. The data analysis technique used is multiple linear regression with Moderated Regression Analysis (MRA). The result provide empirical evidence that credit risk and operational risk negatively influence LPD financial performance in Denpasar, liquidity risk positively influence LPD financial performance in Denpasar and Tri Hita Karana culture weakens the effect of each credit risk, liquidity risk and operational risk on LPD financial performance in Denpasar City.

Keywords: Tri Hita Karana culture, credit risk (NPL), liquidity risk (LDR), operational risk (BOPO), financial performance (ROA), agency theory

INTRODUCTION

Indonesia economics is currently supported by various business sectors, one of them is the financial sector. The financial sector is expected to improve public's welfare. LPD is a financial institution located in each customary villages in Bali. Nowadays LPD has an important role for the Balinese (Adnyani, 2017). The early LPD formation started as credit seminar held by the Indonesian Department of Internal Affairs in 1984. This seminar provided inspiration for several regions to start a movement by arranging village-based financial institutions, such as that carried out in Bali Province by establishing LPD (Suartana, 2009). Bali Province Regulation No. 4 in 2014 states that the Village Credit Institution is a village-owned financial institution that carries out business activities in the village environment and will be back for the countryside. LPD are expected to be able to encourage the economic development of indigenous peoples through targeted savings and effective distribution of capital (credit). In order to carry out these functions, LPD must be able to increase its business assistance. As the LPD is so important for the Balinese, It is expected that LPDs will be further improved in performance.

Financial performance is a representation of a company's finances condition in a certain period both regarding fund raising and funds distribution aspect, which usually related to indicators of capital adequacy, liquidity, and profitability (Jumingan, 2006). A good performance indicates the level of customary village trust as fund source and target by LPD have a good process In this study, LPD's financial performance uses a return on assets (ROA) ratio. This ROA ratio was chosen because ROA shows an realistic indication of company performance because it shows the efficiency of the total assets for gaining profit (Chadha and Sharma, 2015). The return on asset data of LPDs in Denpasar from 2014-2018 can be seen in Table 1 below.

Table 1 Return on Asset Data of LPDs in Denpasar City on 2014-2018 Period

Year	ROA (%)
2014	4,74
2015	4,70
2016	4,28
2017	3,83
2018	3,34

Based on Table 1 can be seen ROA during 5 years on that period, the average ROA decline continually. The lowest ROA happen in 2018 which are 3,34% and the highest ROA achieved in 2014 as much as 4,74%. This show that LPD facing the difficulty in keeping the growth stabilization in each year. This phenomenon encourage researchers to take LPD as research location.

Some factors that affect the financial performance (ROA) are the decrease of Rupiah exchange rate, weak internal financial institutions conditions such as incapable management and lending that have increased the risk of bad debts, high complexity level of business will followed by the risks and capital cannot cover it causing in decrease banks performance. Several risks that are often associated with financial institutions are credit risk, liquidity risk and operational risk (Darmawi, 2011). Risks that can affect LPD in this study are risks that can be calculated. So this study discusses the risks (credit risk, liquidity risk, and operational risk) on the performance of the LPD which in this case specifically in Denpasar City. Credit risk is the risk arising from the failure to fulfill its obligations. The indicator used to measure credit risk is the Non Performing Loan (NPL), the ratio between the total non-performing loans and the total loans provided by financial institutions to debtors. Liquidity risk is the risk caused by the inability of banks to meet the requirements that are due. Loan to Deposit Ratio (LDR) is an indicator used for liquidity risk. LDR considering the financial needs that are paid back by depositors by relying on loans provided as a source of liquidity. Operational risk is the risk caused by the malfunctioning of internal processes of financial institutions, human errors, technological system failures, or external problems. The Risk Indicator used is Operating Expenses and Operating Income (BOPO). BOPO determines the ability of financial management in controlling operational costs to operating income.

The inconsistency results of previous studies, makes it urgently need to re-examine by adding moderation variables. Govindarajan (1986) states that to overcome the inconsistency of the results in these studies need a contingency approach. Fisher (1995) states that a management control system is influenced by contingency variables namely culture. So this study also uses culture as a moderating variable, especially the culture that developed in Bali, namely the culture of Tri Hita Karana (THK). Tri Hita Karana culture can minimize the risks that occur in LPD because in the culture of Tri Hita Karana contain noble values that can be a living guide. The values taught in Tri Hita Karana are maintaining a harmonious relationship between humans and humans (pawongan), humans with the environment (palemahan), and humans with God (parahyangan). The Tri Hita Karana (THK) culture can be used as a set of values or habits which become the members of the organization in carrying out obligations and behaving within the organization (Kassandra, 2016). THK as a moderating variable also supported by the program of the Provincial Government of Bali that holds the THK Award for government agencies, schools, financial institutions, hotels and other educational institutions in Bali.

This research was conducted in Denpasar City because LPD plays an important role for the community, especially in Denpasar which has very rapid economic growth. ROA in LPDs in Denpasar City has decreased every year, so this study was conducted in LPD in Denpasar City. In addition, LPD is present as a solution to the problems experienced by the existing community to help economic development.

LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Agency Theory

Jensen and Meckling (1976) state that agency theory is a condition where one or more people (principal) reign other (agent) to carry out a service on behalf of the principal and authorizes the agent to make the best decision for the principal. In this study, principals are those who are customers of LPDs and indigenous villages who demand maximum performance from agents who are LPD chairmen and all employees who work at LPDs.

Agency theory is based on several assumptions, including assumptions about human nature, organizational assumptions, and information assumptions. Assumptions of human nature emphasize that humans have selfishness (self-interest), have rational limitations (bounded rationality) and do not like risk (risk aversion). Organizational assumptions are conflicts between members of the organization, efficiency as effectiveness criteria and the existence of information asymmetry between principals and agents. Agency problems between shareholders and management usually arise from a combination of information asymmetry and differences in sensitivity to company-specific risks. Here the term "company-specific risk sensitivity" is used to refer to how decision makers rank different alternatives in assessing risk.

Research Hypothesis

The development of undesirable lending for banks is when the loans they provide turn out to be bad debts. This is mainly due to the failure of the debtor to fulfill their obligations to pay the installments (principal) of the loan along with the interest agreed by both parties in the credit agreement. Credit risk can also occur due to failure or inability of the customer to return the loan amount received from the bank along with the interest in accordance with a predetermined or scheduled period. The higher this ratio, will affects the decline in profit (ROA) obtained by the bank. Research conducted by Christiano, dkk (2014) found that NPL has a negative effect on ROA. Oktaviantari and Wiagustini (2013) shows that NPL has no significant effect on performance. Based on the description, the hypothesis can be formulated as follows:

H_1: Credit risk has negative effect on LPD Financial Performance

Liquidity risk is the risk caused by the inability of banks to provide funds to meet the withdrawal of deposits and requests for credit and other obligations that are due. The size of the LDR ratio of a bank will affect the value of the bank's performance. The smaller amount of funds lend to customers in the form of credit, the idle funds amount increases so that the interest income earned will decrease, and vice versa. So that the greater the amount of funds distribute can increase LDR that effect in increased bank performance. According to Wibawa, *et al*. (2016) liquidity risk has a positive and significant effect on LPD performance. The higher level of liquidity risk means that the LPD performance will increase and vice versa. The hypothesis can be formulated as follows:

H_2: Liquidity Risk has a positive effect on LPD Financial Performance

Operational risk is the risk which is caused by inadequate or malfunctioning of internal processes, human error, system failure, or the presence of external problems that affect bank operations. Operating costs that are too high than the revenue will not be good for LPD operational performance because it will increase the BOPO ratio so that the LPD is not efficient in managing its management. It is expected that the LPD can reduce the BOPO ratio. If the BOPO increases, the operational costs of the LPD increase, causing profit to decrease, which in turn will cause LPD profitability to decrease. Any increase in operating costs will result in reduced profit before tax which will ultimately reduce profit or profitability (ROA). The research is in line with research conducted by Saputra and Budiasih (2016), Victoria and Erawati (2015) which found that if BOPO increases will result in decreased bank profitability (Saputra and Budiasih, 2016). Based on the description, the hypothesis can be formulated as follows:

H_3: Operational Risk negatively influences LPD Financial Performance

Credit risk can also occur due to inability of the customer to return the loan amount received from the bank along with the interest due to a scheduled period. In this study, a non-performing loan (NPL) proxy was used. Non Performing Loans (NPLs) are loans that have difficulty in paying off or are often referred to as bad loans to banks. If there are problems with non-performing loans, then it will also indirectly harm the community that owns the funds.

One of the goals of the LPD is to strengthen the resilience of the customary village in preserving the noble values of customs and culture. LPD organizations are inseparable from the existence of credit risk. The higher the credit risk, will certainly reduce its financial performance. LPD that operates is not solely engaged in the socio-economic but there is a vision of safeguarding cultural life and the dimensions called the Tri Hita Karana Culture. The values of THK culture, is expected to better internalizing strong cultural values in term of maximize their financial performance (Suartana and Jati, 2016). Implementation of THK Culture through harmonious relations between fellow human beings expected to be able to weaken the occurrence of problem loans in terms of public lending. In the context of business in the form of relations between employees and institutional relations with the community. LPD environment With the THK culture is expected that the negative effect of bad loans from financial performance can weaken with the aim that the LPD's financial performance will improve. Based on the description, the hypothesis can be formulated as follows:

H_4: THK culture weakens the effect of credit risk on LPD performance

The purpose of credit analysis is to see whether a credit potentially expose to problem or not. If no credit analysis is done in granting credit, it could endanger the LPD in the future. Problems arising from credit will affect a bank liquidity risk. LDR shows the level of ability of banks in channeling third party funds collected by banks. The purpose of the LDR is to assess to which an LPD can be said to have a healthy condition in carrying out its operational activities. High or low LDR shows how much distribution and affect the level of its profitability.

The existence of THK culture in an LPD will support the creation of harmony in every business activity. THK culture in this case becomes complementary and provides an understanding that everything must be carried out in a balanced manner. As the implementation of good fund and credit distribution activities in an LPD coupled with THK culture as a foundation carried out by employees, it is expected that the performance of the LPD can reach the maximum level which will be beneficial for all parties both agents in this case are supervisors and employees as well as principals who are all customers and indigenous villages. Based on the description, the hypothesis can be formulated as follows:

H_5: THK culture weakens the effect of liquidity risk on LPD performance

Operational risk is the risk which among others is caused by inadequate or malfunctioning of internal processes, human error, system failure, or the presence of external problems that affect bank operations. The ratio used to measure operational risk is Operating Costs to Operating Expenses (BOPO), the lower the BOPO ratio level means the better the bank's management performance, because the more efficient it is in using the company's resources, the higher the cost of revenue the bank will be efficient so that ROA gets smaller.

The application of Tri Hita Karana Culture in an LPD will support the creation of harmony in every business activity. Tri Hita Karana culture in this case provides an understanding that everything must have noble values that can be a guide in living life and carried out in a balanced manner. If the Tri Hita Karana Culture is used as a foundation in every business activity carried out by LPD Heads and employees, it is expected to weaken operational risks and achieve maximum goals which can later benefit the LPD itself and improve LPD financial performance. The concepts put forward in the Tri Hita Karana Culture are human relations with God, humans with humans, and humans with the environment. The balance will certainly affect the actions or business activities carried out by someone involved in the business, including in minimizing the occurrence of operational risks in the LPD. Based on the description, the hypothesis can be formulated as follows:

H_6: THK culture weakens the effect of operational risk on LPD performance

RESEARCH METHODS

The study adopted a descriptive research design. The population in this study was all Village Credit Institutions (LPD) registered with the Village Credit Empowerment Institution (LPLPD) of Denpasar City, Bali Province, Indonesia for the 2014-2018 period as many as 35 LPD. The sampling method uses non probability sampling and purposive sampling technique. This study uses 34 research samples. Data were collected by distributing questionnaires. The analysis technique used is multiple linear regression analysis using Multiple Regression Analysis (MRA). Sources of data used in this study are primary and secondary data. The method of data collection is questionnaire and documentation.

RESULTS AND DISCUSSION

This study used respondents as many as 34 people consisting of 34 LPD chairpersons in each LPD spread across Denpasar City. The usability response rate of the questionnaire is 100%.

Respondent characteristic data in this study include the level of education. Based on education level, as many as 9 people (26.47%) with a high school education, 5 people (14.70%) with a diploma 3 education, as many as 18 people (52 , 94%) had S1 education (bachelor), and 2 people (5.88%) had S2 education (master).

To test the research instrument, a reliability test was performed. The reliability test results are shown in Table 2. It shows that all research instruments have a Cronbach's Alpha coefficient of more than 0.70. It can be said that all instruments are reliable so that they can be used to conduct research.

Table 2 Reliability Test Result

Variable	*Cronbach's Alpha*	Information
Tri Hita Karana Culture (THK)	0.916	Reliable

Normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution or not. To detect the normality of data used Kolmogorov-Smirnov with criteria if Asymp. The result of the normality test with the Kolmogorov-Smirnov test in the moderated regression analysis shows the Asymp value. Sig (2-tailed) 0.062 is greater than the level of significant (0.05), so the data tested is spread normally (Table 3).

Table 3 Normality Test Result (One-Sample Kolmogorov-Smirnov Test)

		Unstandardized Residual
N		170
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	0.76947712
Most Extreme Differences	Absolute	0.101
	Positive	0.094
	Negative	-0.101
Kolmogorov-Smirnov Z		1.318
Asymp. Sig. (2-tailed)		0.062

An autocorrelation test is performed to track the correlation of data from year t to year t-1 (before). DW value of 1,745, this value when compared to the significance table value of 5%, the number of samples 170 (n) and the number of independent variables (K = 7), the value of du 1.8354 was obtained. DW value of 1,745 is less than the upper limit (du) which is 1.8354 and less than (4-du) 4-1.8354 = 2.164, it can be concluded that the data did not pass the autocorrelation test using the Durbin Watson test. Therefore the autocorrelation value in the Durbin-Watson test does not meet the criteria. The regression model is said to be free from autocorrelation if the Aymp.Sig (2-tailed) value in the Run Test has a value of more than 0.05. The results of the autocorrelation test can be seen in the following Table 4.

Table 4 Autocorrelation Test Result with Run-Test

Information	***Unstandardized Residual***
Test Value[a]	0.01245
Cases < Test Value	85
Cases >= Test Value	85
Total Cases	170
Number of Runs	80
Z	-0.923
Asymp. Sig. (2-tailed)	0.356

Table 4 shows that the Aymp.Sig (2-tailed) value in the Run Test is 0.356 which is more than 0.05, so it can be concluded that there is no autocorrelation between residual values.

Multicollinearity test aims to test whether the regression model found a correlation between independent variables. Based on the analysis results in Table 5 below, it can be seen that the tolerance value of all independent variables is greater than 0.10, namely NPL of 0.976, LDR of 0.985, OPO of 0.982, and Culture of THK of 0.985.

Table 5 Multicollinearity Test Result

Variables	***Tolerance***	**VIF**	**Information**
NPL	0,976	1,024	Free from multicoleniarity
LDR	0,985	1,015	Free from multicoleniarity
BOPO	0,982	1,018	Free from multicoleniarity
Culture_THK	0,985	1,015	Free from multicoleniarity

Heteroscedasticity test in this study used the Glejser test. Glejser Test is done by regressing the absolute residual value of the estimated model of the independent variable. If the sig. value is more than 0.05 then there are no symptoms of heterosedastosity shown in Table 6.

Table 6 Heteroskedastisity Test Result

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.521	0.044		11.720	0.000
	NPL	-0.005	0.067	-0.010	-0.073	0.942
	LDR	-0.050	0.067	-0.091	-0.742	0.459
	BOPO	0.024	0.047	0.054	0.513	0.608
	Culture_THK	-0.009	0.048	-0.017	-0.192	0.848
	NPL.THK	0.033	0.068	0.065	0.484	0.629
	LDR.THK	-0.029	0.071	-0.054	-0.401	0.689
	BOPO.THK	-0.026	0.048	-0.058	-0.541	0.590

Table 6 shows that all variables have values greater than 0.05 which means there is no influence between the independent variables on absolute residuals. Thus, the model created does not contain symptoms of heteroscedasticity.

Table 7 Moderated Regression Analysis Result

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.012	0.062		-0.197	0.844
	NPL	-0.214	0.093	-0.237	-2.310	0.022
	LDR	0.304	0.093	0.303	3.275	0.001
	BOPO	-0.135	0.065	-0.164	-2.055	0.042
	Culture_THK	0.079	0.067	0.080	1.186	0.237
	NPL.THK	-0.274	0.094	-0.296	-2.911	0.004
	LDR.THK	0.205	0.099	0.210	2.071	0.040
	BOPO.THK	-0.148	0.067	-0.181	-2.213	0.028
R Square		0,439				
Adjusted R Square		0,415				
F value		18,138				
Significance		0,000				

Table 7 show Moderated Regression Analysis (MRA) result which contains the interaction between the multiplication of two or more dependent variables. The results of testing the effect of credit risk, liquidity risk, and operational risk on LPD financial performance moderated by THK cultural variables.

Based on multiple linear regression result as shown above, the structural equation will be:

$Y = -0{,}012 - 0{,}214\ X_1 + 0{,}304\ X_2 – 0{,}135\ X_3 + 0{,}079\ Z – 0{,}274\ X_1{*}Z + 0{,}205\ X_2{*}Z - 0{,}148\ X_3{*}Z$ …………………(2)

The coefficient of determination test (R^2) is used to determine and measure the ability of the model to explain the variation of independent variables. The test results give results where the adjusted R^2 is obtained (the adjusted coefficient of determination) in Table 5.13 is 0.415. This means that variations in the Financial Performance of LPD in Denpasar City during the 2014-2018 period can be significantly influenced by the variables Credit Risk (X1), Liquidity Risk (X2), Operational Risk (X3), Tri Hita Karana Culture (Z), variables X1.Z interaction, X2.Z interaction variable and X3.Z interaction variables 41.5% while the remaining 58.5% are explained by other factors.

The feasibility test of the regression model aims to determine whether all independent variables identified (credit risk, liquidity risk, operational risk, THK culture, interaction variables between credit risk and THK, and interaction variables between liquidity risk and THK, and interaction variables between operational risk and THK) predicts performance appropriately. This test is often also called the F test or simultaneous test. The results of the F test (Ftest) show that the calculated F value of 18.138 with a significance of P value 0.000 which is smaller than $\alpha = 0.05$, this means that the model used in this study is feasible.

T test or hypothesis test. Test criteria to explain the interpretation of the influence between each variable, ie if the significance value <0.05 then H0 is rejected and H1 is accepted. Conversely, if the significance value> 0.05 then H0 is accepted and H1 is rejected. Based on the results of multiple linear regression analysis as, the structural equation is as follows

$Y = -0{,}012 - 0{,}214\ X_1 + 0{,}304\ X_2 – 0{,}135\ X_3 + 0{,}079\ Z – 0{,}274\ X_1{*}Z + 0{,}205\ X_2{*}Z - 0{,}148\ X_3{*}Z$…………………(2)

The first hypothesis states that Credit Risk negatively influences LPD Financial Performance. Based on the results of the t test, the significance value of 0.022 with a regression coefficient of -0.214. This result means that Credit Risk which is proxied by NPL has a negative and significant effect on the financial performance of LPD which is proxied by ROA, then H1 is accepted. This means that the lower the level of bad debt compared to total loans, the higher the LPD's financial performance.

The second hypothesis states that Liquidity Risk has a positive effect on LPD Financial Performance. Based on the results of the t test, the significance value of 0.001 with a regression coefficient of 0.304. This result means that liquidity risk which is proxied by LDR has a positive and significant effect on financial performance of LPD which is proxied by ROA, then H2 is accepted.

The third hypothesis states that Operational Risk negatively influences LPD Financial Performance. Based on the results of the t test, the significance value of 0.042 with a regression coefficient of -0.135. This result means that the Operating Risk which is proxied by BOPO has a negative and significant effect on the financial performance of LPD which is proxied by ROA, then H3 is accepted. The smaller the BOPO, the more efficient the operational costs incurred by the company concerned.

The forth hypothesis states that the Tri Hita Karana Culture strengthens the effect of credit risk on LPD financial performance. Based on the results of the moderation analysis, the results of the hypothesis test showed that the significance value was 0.004 with a regression coefficient value of -0.274. This result means that there are interactions of THK culture and credit risk in influencing LPD financial performance, THK culture strengthens the effect of credit risk on financial performance, then H4 is accepted. The test results indicate that the moderating role of THK cultural variables on credit risk is reinforcing, meaning that the application of credit risk management is better and followed by the implementation of THK culture will jointly improve the performance of LPD in the city of Denpasar.

The fifth hypothesis 5 states that the Tri Hita Karana Culture strengthens the effect of liquidity risk on LPD financial performance. Based on the results of the moderation analysis, the results of the hypothesis test showed that the significance value was 0.040 with a regression coefficient value of 0.205. This result means that there is an interaction between THK culture and liquidity risk in influencing LPD financial performance, THK culture strengthens the effect of liquidity risk on financial performance, then H5 is accepted. The test results indicate that the moderating role of THK culture variables on liquidity risk is to strengthen, meaning that the application of liquidity risk management that is getting better and followed by the application of THK culture will jointly improve the performance of LPDs in the city of Denpasar.

The last hypothesis states that the Tri Hita Karana Culture strengthens the effect of operational risk on LPD financial performance. Based on the results of the moderation analysis, the results of the hypothesis test showed that the significance value was 0.028 with a regression coefficient value of -0.0148. This result means that there is an interaction between THK culture and operational risk in influencing financial performance of LPD, THK culture strengthens the effect of operational risk on financial performance, then H6 is accepted.

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, it can be concluded the results of this study are as follows:

Credit risk negatively affects the financial performance of LPDs. The results of this study indicate that the higher the credit risk obtained by the Denpasar City LPD, it will have an impact on the declining financial performance of the LPD in the City of Denpasar. Liquidity risk has a positive effect on LPD financial performance. The results of this study indicate that the higher the liquidity risk obtained, it will improve the financial performance of LPDs in Denpasar City.

Operational risk has a negative effect on LPD's financial performance. The results of this study indicate that the higher the operational risk obtained by the Denpasar City LPD, it will have an impact on the declining financial performance of the LPD in the City of Denpasar.

The results of the moderation regression analysis show that THK strengthens the effect of credit risk on financial performance in the LPD of Denpasar City. The test results indicate that LPDs in Denpasar that apply credit risk management, and are strengthened by the application of a high THK culture, will be able to improve the financial performance of LPDs. The results of the moderation regression analysis show that THK strengthens the effect of liquidity risk on financial performance in the LPD of Denpasar City. The test results indicate that LPDs in

Denpasar City that apply liquidity risk management, and are strengthened by the application of a high THK culture, will be able to improve the financial performance of LPDs. The result of the moderation regression analysis shows that THK strengthens the effect of operational risk on financial performance in the LPD of Denpasar City. The test results indicate that LPDs in Denpasar City that apply operational risk management, and are strengthened by the application of a high THK culture, will be able to improve the financial performance of LPDs.

SUGGESTIONS

Based on the results of the study, there are some suggestions that can be given for development and improvement are as follows:

This study has limitations on conclusions only on the LPD in the Denpasar City area and it cannot be generalized to all LPD in the Bali Province. Future studies can use this research as one of the references regarding LPD in other regions.

Adjusted R2 value of 0.415, this shows that 41.5% of LPD financial performance during the 2014-2018 research period was influenced by credit risk variables, liquidity risk, operational risk which was moderated by the Tri Hita Karana cultural variable while 58.5% was influenced by other variables not presented in this research model. This is an opportunity for further researchers to develop research related to other factors that affect the financial performance of LPDs.

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