

The Impact of Harmonious Culture and Entrepreneurship Training on Loan Repayment Performance at Microfinance in Indonesia

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Abstract

Studies on a topic such as a loan repayment at microfinance institutions are increasingly interesting due to the slumped current global economic condition and the many occurrences of bad debts. Various ways found by the researchers to increase loan repayment. Those ways are, for example, monitoring, mentoring, training, and economic approach. The research is different to previous research in terms of the approach used, which is by linking harmonious culture to the loan repayment rate. The research aims to analyse the relationship between entrepreneurship training and harmonious culture in the effort to increase loan repayment of companies (debtors). 358 qualified debtors are used in the research. Data on the loan repayment rate in 2012 is used as a base for evaluation and re-evaluated in 2017 in the same sample. In addition, an assessment of the perception of debtors toward the entrepreneurship training and the implementation of harmonious culture by microfinance institutions is conducted through questionnaire distribution. Data collected is analysed using regression analysis. The result of regression analysis indicates that entrepreneurship training in form of the ability to develop business, entrepreneurship skill, and marketing skill has no relationship with loan repayment rate. Assistance program in form of cost in increasing faith to God through ceremonies at the companies give new spirit to achieve optimism in business progress since debtors believe that there are other forces in addition to human efforts that could change the business achievement. Cultural activities in maintaining the harmonious relationship with others and the natural environment give a positive impact on the increase in loan repayment. Harmonious culture implemented by the debtors linked to business activities in form of loan repayment is something new. The research result gives suggestion on the human capital theory that harmonious culture is an attribute in determining one's performance.

Keywords

Harmonious culture; entrepreneurship training; loan repayment; microfinance

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Introduction

Microfinance institutions are highly needed in giving credit service in developing countries (Rashidah et al., 2016). Results of studies indicate that Indonesia needs microfinance service of 80 percent (Karim et al., 2008). Therefore, the government encourages the growth of microfinance institutions in various regions to give funding access to underprivileged rural communities in order for them to have economic security. Those microfinance institutions are, for example, rural credit fund institution (Lembaga Dana dan Kredit Pedesaan/LDKP) in West Java, credit for business (Kredit Usaha Rakyat Kecil/KURK) in East Java, Lumbung Pitih Nagari (LPN) in West Sumatera, and village credit institution (Lembaga Perkreditan Desa/LPD) in Bali.

The Government of Indonesia enacted Law no. 1 of 2013 on Microfinance Institutions (MFIs), which regulates the operations of MFIs that play an important role in promoting development in Indonesia (Baskara, 2013). This regulation has criticism from the community because it is equated between microfinance based traditional institutions with modern. As a result, many MFIs based custom are closed cannot follow the management run on modern MFIs. To maintain the MFI's sustainability managers should study the management of MFIs such as commercial banks (Astawa et al., 2016, Baskara, 2013).

Performance improvement of microfinance institutions is maintained by paying attention to the customers' loan repayment and entrepreneurship

training given to the customers (Agbeko et al., 2017). Entrepreneurship training based on human capital theory could give impact on the improvement of knowledge, skill, and job-related competencies (Becker, 1993; Ployhart & Moliterno, 2011). Entrepreneurship training also improves small business performance and their ability to pay the loan (Karlan & Valdivia, 2011; Lensink et al., 2011). However, other studies could not find that entrepreneurship training improves small business performance (Martin et al., 2013).

Efforts to find a way to improve company's performance have been conducted continuously by researchers such as Kotter and Heskett (1992). They found that organizational culture could have a significant influence on the financial performance of the company in a long term. Organizational culture is an increasingly important factor in determining the success or failure of a company. Denison & Mishra (1992), however, found that culture has no influence on the performance of small businesses in Asia. Culture can be an obstacle for a company to implement a strategy to face global competition. A culture that able to create superior performance is categorized as a strong culture and a culture that could help a company to anticipate changes in the environment has the nature of adaptive culture (Kotter and Heskett, 1992). Baker and Sinkula (2009) stated that small companies that effectively implement organizational culture have good performance. The condition is due to the culture is rooted from a set of knowledge, trust, art, moral, law, custom, and capability and habit gained

by someone as the member of an organization (Brown, 1998).

Organizational culture is shaped by local culture, owners, employees and leaders (Shahzad et al.2017). One of the organizational cultures that come from the local culture is the harmony culture called tri hita karana culture which is run on the business of tourism (Astawa et al., 2018 & Surya et al., 2017). This culture is acknowledged by the World Tourism Organization (WTO) in conducting Tourism business in Indonesia and as an organizational culture (Astawa et al., 2018; Surya et al., 2017; Shahzad et al.2017; Astawa & Sudika, 2014; Saputra, 2012) . A culture of harmony is universal which promotes harmonization of God, man, and nature.

Harmonious culture develops into an organizational culture based on several types of research by Astawa, (2013); Astawa and Sudika, (2014); PutuAstawa et al. (2016) that found that harmonious culture called tri hita karana (THK) had a significant influence on the improvement of the company's performance and it was implemented well in Bali. The culture has an important role in decreasing the credit risk level in village credit institution (Astawa et al., 2013). It is due to a belief that not paying on time will give impact on everyone and it is a disavowal to the teachings of God that gives guidance for everyone, to be honest, does not harm others and always do good things. If this is violated, they believe it will have a bad impact on the family and the future life. The implementation of the values of the culture conducted by the LPDs by, for example, giving assistance in religious activities, improving public health, and environmental improvement

and delivered through information technology is able to give a positive response on the number of savings (Astawa et al., 2016).

This research is the development of a thought by Agbeko et al. (2017) by entering the variable of harmonious culture to increase the loan repayment rate of customers. It is different to previous researches since none of them paid attention to customers' culture integrated with entrepreneurship training. Most of the researches emphasized the financial and economic aspects and the character of customers in payment (Karlan & Valdivia, 2011; Lensink et al., 2011). The result of the study gives information that entrepreneurship training at the LPDs does not have any significance in the effort of increasing loan repayment rate while harmonious culture has an influence on loan repayment rate. The study is based on various theories, such as human capital (Becker, 1993) and culture (Kotter & Heskett, 1992) and uses a quantitative method with multiple regression analysis. The number of samples is 358 based on the criteria that customers received entrepreneurship training for three years in a row since 2012. Data is collected through the questionnaire given to the owner of the companies receiving the training.

Literature Review

Human capital theory (Becker, 1993) has been tested in various countries resulting that entrepreneurial and competence business increase the entrepreneurial performance (Newman et al., 2014; Ucbasaran et al., 2008; Baron & Ensley, 2006; Baum & Locke, 2004). Other studies found that entrepreneurship

training could help small companies to be more effective in using microfinance institutions (Idris & Agbim, 2015; Ekpe et al., 2010; Karnani, 2007). In addition, through the training program, the companies avoid poverty since they are able to use the fund effectively (Mutisya & Yarime, 2014; Karlan & Valdivia, 2011). The training program followed by the debtors is also found to be beneficial for the improvement of the company's performance and better loan repayment (Lensink et al., 2011).

Other studies found the different result that entrepreneurship training program gave the small benefit to the performance and credit payment and only on some participants (Karlan & Valdivia, 2011). Other studies concluded that training program usually has a small positive effect on business practice and it was not significant in increasing sales and profitability (McKenzie & Woodruff, 2013). The view is validated by Yunus (1999), the founder of Grameen Bank, stated that expertise in entrepreneurship cannot be done through training since it is a gift.

Referring to Yunus (1999) that entrepreneurship skill is a gift, there are other perspective opportunities used to increase the punctuality of credit payment, such as culture, as stated by Baker and Sinkula (2009) that small companies that effectively implement their own culture could improve the performance. The result is justified by Brown (1998) that a culture is rooted from a set of knowledge, trust, art, moral, law, custom, and capabilities and habits gained by someone as the member of an organization (Brown, 1998).

Microfinance institutions like LPD in Bali have implemented the harmonious culture in their daily practice. For example, by maintaining harmonization with God (parahyangan), harmonization with the employees, customers, and rural communities (pawongan), and maintaining the preservation of the natural environment (palemahan) (Astawa et al., 2016). Harmonious culture has been well conducted at the LPDs and is able to give influence on credit risk, where the LPDs that conducting the culture well have low credit risk level (Astawa et al., 2013). The practices of harmonious culture in the parahyangan aspect are praying and honesty; in pawongan aspect are work hard, mutual cooperation, mutual love; and in palemahan aspect is green and clean (Astawa & Sudika, 2014). Based on the previous studies and theories, the following are hypotheses submitted:

- H1: The loan repayment rate of debtors is related to the entrepreneurship training conducted by the village credit institution.
- H2: The loan repayment rate of debtors is related to the harmonious culture implemented by the village credit institution.

Methodology

The research was conducted at microfinance institutions called LPD in Bali. About 1408 LPDs in Bali (Regional Development Bank) with the aim to give credit service to rural communities with an expectation to increase economy and conduct cultural preservation (Astawa, 2013). The LPDs have been conducted

mentoring in form of entrepreneurship training to debtors of 1658 small companies since 2012 in one year, two years, and three years periods (Regional Development Bank, 2015). The number of the sample based on criteria of companies receiving training every year for the last three years was 358 companies. The sampling technique was based on the research of (Idris & Agbim, 2015; Ekpe et al., 2010; Karnani, 2007) that companies receiving entrepreneurship training will be more effective in using financial institutions. The training was divided into three modules. The first module was about the ability to build business consisted of general business planning, record keeping, and financial management skills (Smith & Perks, 2006; Van Dyke et al., 1992; Edgcomb, 2002; Karlan & Valdivia, 2011; Mano et al., 2012). The second module was about entrepreneurial skill consisted of willingness to take risks and be innovative and pro-active (Verhees et al., 2012; Wiklund et al., 2009). The third module was about market orientation skills and focused on

how to set sales, profit and market share objectives (Alby et al., 2011; Chen et al., 1998; Edgcomb, 2002; Oosterbeek et al., 2010; Otero-Neira et al., 2013; Verhees et al., 2012). Harmonious culture consists of parahyangan (harmony with God) that contents pray and honestly; pawongan (harmony with human) that contents activity of work hard, mutual cooperation, mutual love; and palemahan (harmony with the nature) that contents green and clean (Astawa et al., 2013; Astawa et al. 2016; Astawa & Sudika, 2014; Putu Astawa et al., 2016). Data of average loan repayment rate in 2012 was the base for evaluation and in 2017 reevaluation was conducted in the same companies using regression analysis. Data was collected through Likert scale questionnaire from 1 = disagree to 5 = strongly agree, except for loan repayment rate that calculated based on punctuality as stated on credit agreement (Agbeko et al., 2017). The research model could be built based on theoretical study and previous studies as illustrated in Figure 1.

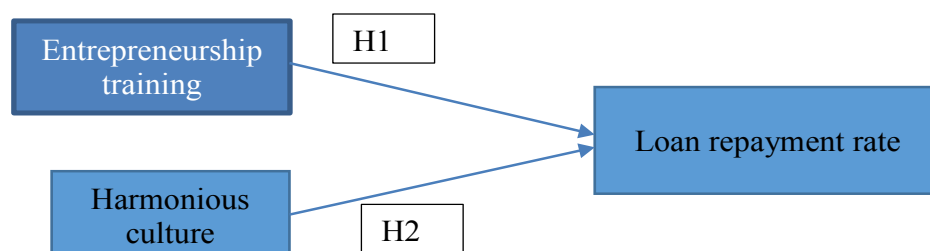


Figure 1. Research Model

Result

The research sample consisted of 358 debtors that received entrepreneurship training for three years from 2012 to 2014. At the beginning of 2012, the average loan repayment rate was 55 percent and in 2016 it decreased to 53 percent. Based on the education of the debtors, the average loan repayment rate at the beginning of training was 55% and it experienced an increase of 4 percent. Women had higher loan repayment rate of 58% at the beginning of the evaluation and it increased by 64 percent in 2016 and

male was lower of 6% at the beginning of the evaluation. The length of business operation for at least five years until now had the average repayment of 55% and it increased 2% in 2016. The cost of the implementation of harmonious culture given by the LPDs to the debtors that conducting cultural activities in the organization, such as those related to the belief in the existence of God, maintain harmony with employees and nature was 56 percent, in average. The description of characteristics of respondents is displayed in Table 1.

Table 1. Description of Debtors and Loan Repayment Rate

| | Debtors | Loan Repayment Rate 2012 | Loan Repayment Rate 2016 |
|----------------------------|--------------------------|--------------------------|--------------------------|
| Entrepreneurship training | 358 | 0.55 | 0.53 |
| Education | 215 (bachelor's degree) | 0.56 | 0.59 |
| | 107 (senior high school) | 0.55 | 0.57 |
| | 36 (elementary school) | 0.54 | 0.59 |
| Gender | 321 (male) | 0.52 | 0.58 |
| | 37 (female) | 0.58 | 0.64 |
| | 122 (11-15 years) | 0.53 | 0.57 |
| | 22 (> 16 years) | 0.55 | 0.58 |
| Cost of harmonious Culture | 245 (1-10 million) | 0.56 | 0.62 |
| | 113 (> 10 million) | 0.56 | 0.69 |

The result of multiple regression analysis indicates that entrepreneurship training had no relationship with the increase in loan repayment with significance value above 0.05. On the other hand,

harmonious culture had a relationship with the increase in loan repayment with significance value lower than 0.05. The condition is explained in Table 2.

Table 2. Summary of Multiple Regression Analysis Result

| Dependent Variable | Independent Variables | Coefficient of regression | Standard Error | t- count | Sig |
|-------------------------|--------------------------------|---------------------------|----------------|----------|------|
| Loan Repayment Rate (Y) | Entrepreneurship training (x1) | .173 | .079 | 2.179 | 0.62 |
| | Harmonious culture (2x) | .433 | .094 | 4.633 | .000 |
| <i>Constant</i> = 3.407 | | F-count = 51.875 | | | |
| <i>R-Square</i> = .247 | | Sig = .000 | | | |

Discussion

Entrepreneurship training given by the village credit institutions (LPDs) in the effort to increase the loan repayment rate was unable to increase the entrepreneurial skill of the entrepreneurs; therefore, the result of the study was different from the result of previous studies, such as Idris & Agbim, 2015; Lensink et al., 2011; Ekpe et al., 2010; and Karnani, 2007. Previous studies explained that entrepreneurship training could increase debtors' skill in managing business including financial and marketing issues; therefore, they would be more effective in the business and able to increase profit (Mutisya & Yarime, 2014; Karlan & Valdivia, 2011). However, the result of regression analysis as presented in Table 2 explained that entrepreneurship training had no significant influence on credit repayment rate thus Hypothesis 1 is rejected. The result supports the studies by McKenzie & Woodruff, (2013) and Yunus (1999) stated that entrepreneurial skill cannot be gained merely by training but it came from the person itself. Entrepreneurial spirit cannot be forced. It will grow in an appropriate atmosphere and environment. The LPDs that serve the community and have strong harmonious culture and unite with religious rituals would have difficulty to adapt to modern theory

thus collaboration between harmonious culture and entrepreneurship training is needed. The result of the combination of both variables, statistically, gave significant influence on the credit repayment rate as explained in the ANOVA analysis in Appendix 1.

Another result explained that harmonious culture had the significant influence on the increase in loan repayment thus it accepts hypothesis 2. The result is in line with the result of previous studies that communities had implemented the harmonious culture and were able to improve the company's performance (Astawa et al., 2013; Astawa et al. 2016; Astawa & Sudika, 2014; Putu Astawa et al., 2016). The management of the companies believes that the belief in the existence of God, human, and nature will give strong impact on the company life; thus, the three concepts of relationship are implemented harmoniously in the company. The harmonious relationship of the three dimensions – God, human and nature – results in the spirit of honesty, sincere, and work hard that growth inside the company (Astawa & Sudika, 2014) and able to drive the achievement of high productivity.

Implication

The research result gives input to human capital theory (Becker, 1993) that in

developing the ability to work is not only conducted through training but also through attention to the belief adopted by the company management based on three dimensions of harmonious concept: maintaining the harmonious relationship with God, human, and nature. Management of the village credit institutions should combine modern theories, such as entrepreneurship training, with the belief of the debtors to motivate better loan repayment.

Conclusion

A modern approach to the delivery of entrepreneurship training for debtors will give high benefit by paying attention to the cultural values run in the company. Entrepreneurship training will only have benefit in developing mindset, theoretically, but does not touch the heart of the debtors thus they are slow in driving their sources. The delay brings consequence on the less effective of the training model as a motor in increasing the loan repayment.

The implementation of harmonious culture conducted at microfinance institution aligned with the belief of the customers or debtors is a new solution in the implementation of integrated service concept to decrease the rate of bad debt or to increase the loan

repayment. Debtors feel touched by the microfinance institution that willing to serve and pay attention to their interest although they have a different belief. The condition creates respect among the customers and in turn, they are willing to pay the loan on time.

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Notes on Contributor

I Putu Astawa is a lecturer at the Bali State Polytechnic and actively conducts research in the field of management. The results of the study were presented at international seminars and published in international journals. Currently conducting research on local culture-based performance measurement in microfinance institutions. One of the books published this year is entitled *The Power of Harmony Culture in Village Credit*.

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Appendix 1. Multiple regression analysis result

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | ,497 ^a | ,247 | ,229 | 9,321 |

,06a. Predictors: (Constant), Entrepreneurship Training, Harmonious Culture

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 292,270 | 2 | 97,423 | 51,875 | ,000 ^b |
| | Residual | 180,290 | 96 | 1,878 | | |
| | Total | 472,560 | 99 | | | |

a. Dependent Variable: Loan repayment

b. Predictors: (Constant), Entrepreneurship Training, Harmonious Culture

Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-----------------------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | 3,407 | 1,390 | | 2,452 | ,016 | | |
| 1 Entrepreneurship Training | ,173 | ,079 | ,181 | 2,179 | ,062 | ,574 | 1,742 |
| Harmonious culture | ,433 | ,094 | ,473 | 4,633 | ,000 | ,381 | 2,628 |

a. Dependent Variable: loan repayment