

Does Ethical Leadership Moderate Internal Control and the Levers of Control on Performance?: A Study of Village Credit Institutions (LPD) in Denpasar City

I Gusti Ayu Asri Pramesti¹, Sistya Rachmawati², Ety Murwaningsari³
Faculty of Economics and Business, Universitas Trisakti, Jakarta, Indonesia^{1,3}
Sekolah Tinggi Ilmu Ekonomi Tri Bhakti, Jakarta, Indonesia²
Corresponding Author: sistya.rachmawati@stietribhakti.ac.id

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ABSTRACT

Companies or organizations, particularly Village Credit Institutions (LPD), need special attention due to the observed decline in performance across various cases. Therefore, this study focuses on the internal control system, management control system, levers of control, and their impact on organizational performance, moderated by ethical leadership. This research intends to look into the significant impact of these variables on organizational performance, particularly when moderated by ethical leadership. Sampling was conducted using a purposive method and hypothesis testing adopted the Structural Equation Modeling method utilizing the application of Partial Least Square. The findings indicated that the internal control system and management accounting system contribute positively to organizational performance, while the levers of control indicated no significant influence. Additionally, ethical leadership failed to augment the effect of the variables on organizational performance. This research holds crucial implications for LPD, emphasizing the importance of controlling activities through policies and procedures to enhance performance.

Keywords: Ethical Leadership; Internal Control System; Levers of Control; Management Accounting System; Organizational Performance

INTRODUCTION

Financial institutions have a crucial role in stimulating the economic sector. An example of a financial institution in Bali is the Village Credit Institution (LPD). Financial institutions such as LPD play a crucial role in motivating Bali's economy forward (Pradnyawati, 2024). The LPD presence supports the community's business capital and contributes to traditional banking practices by gathering monies from the community and distributing them as credit villages located in Bali Province (Kepramareni et al., 2022). LPD in Bali has the capacity to bolster the local economy. The reason for this is because LPDs effectively perform financial functions that optimize the financial potential of villages, hence enhancing the economic conditions of these communities (Trisnawati et al., 2019). Despite the significance of the institution, LPD inconsistently shows strong performance, with recent years indicating a decline attributed to issues including increased non-performing loans and corruption cases. This decline is evidenced by a corruption case including the head of an LPD and the administration in Bali (Mahendro, 2023). Therefore, this study is essential in identifying the factors contributing to LPD performance decline.

The growth of LPD in Bali Province has been rapid, increasing from 8 in 1984 to 1,433 in 2022. However, 158 LPDs experience bankruptcy or cease operations indicating that not all thrive. In Denpasar City, out of the 35 LPD, 17 are categorized as healthy, 11 fall into the moderately healthy category, 3 are considered less healthy, and 4 are deemed unhealthy (Setyaningsih, 2021). This breakdown underscores the critical importance of closely examining LPD performance. The decline in LPD assets can be attributed to an increase in non-performing loans, liquidity challenges, and legal issues.

Several factors are examined in assessing organizational performance including the internal control system, management accounting system, levers of control, and ethical leadership. The substantial number of LPDs in Bali necessitates performance improvement of the institutions. Company performance serves as an indicator for measuring the degree of success in accomplishing organizational objectives (Handayani & Bastian, 2017).

According to SE No.5/22/DPNP in *Regulasip* (2003) as dated September 29, 2003, which provides standards for the Internal Control System of Commercial Banks, non-performing loans can be attributed to a weak internal control system, which can ultimately lead to a bank's insolvency. An internal control system is necessary to protect the organization's assets, enhance precision and efficiency, and effectively implement management rules. Internal control refers to a set of actions undertaken by a firm to ensure that company objectives are achieved with a high level of confidence (Doyle et al., 2007). Mahadeen et al. (2016) stated that the internal control method significantly influences organizational effectiveness in Jordan. According to Maharani and Damayanthi (2020), research findings, the internal control system has an impact on employee performance at LPD. However, the system of management accounting also possesses a substantial impact on shaping organizational performance alongside the internal control system. LPD should adopt robust management accounting systems to mitigate bankruptcy occurrences. Management accounting involves the identification and categorization of accounting information for the purpose of making decisions by individuals within the organization.

Pratama (2021) indicated the favorable and noteworthy impact of the management accounting system on managerial interpretation. The vitality of LPD depends heavily on internal organizational factors in financial and human resources management. Significantly, LPD evaluations correlate with statements on general and risk planning in management control systems, requiring thorough exploration to understand internal

errors within the organization (Adiputra & Sujana, 2021). The health of LPD is significantly influenced by internal organizational issues when it comes to financial management and human resources. There are indications that evaluating the management aspects of LPD is connected to assessing the general management statements and risk management associated with the management control system (MCS). Further exploration and identification of these connections are necessary to find solutions to the problems faced by LPD, which have resulted in specific organizational failures. Simon (1995) introduced a concept known as levers of control (LoC) as part of the MCS framework. Levers of control refer to a framework that emphasizes the execution of strategies inside the management control system. Baird and Tung (2023) also affirmed an advantageous connection between levers of control as well as organizational performance.

The primary ethical dilemma in organizations evolves from the conflict between individual interests and the pressure for overall financial outcomes, potentially detrimental to society or individuals (Trihudyatmanto, 2021). LPD requires a leader with strong ethical values to ensure the continuity of its growth. The ethical conduct of a leader significantly influences the efficiency of corporate operations and ensures the organization's harmonious functioning (Bhegawati & Novarini, 2021). According to Ren and Chadee (2017), ethical leadership positively correlates with employee job satisfaction in China. This finding underscores the significance of fostering a culture of integrity and transparency within organizational leadership practices in Indonesia. Based on the outcomes, the study is conducted on LPD in Denpasar City, Bali Province, Indonesia.

This study examines and evaluates the impact of various factors on organizational performance, including the internal control system, management accounting system, and levers of control. Additionally, it aims to investigate the role of ethical leadership as a moderator in these relationships. The significance of this research arises from the observation that the rise in bankrupt LPDs can be attributed to inadequate management control. Thus, it is crucial to conduct this research in order to pinpoint the factors responsible for the decrease in LPD performance.

LITERATURE REVIEW

Contingency Theory

Contingency theory emphasizes the correlation of strategy with the external business environment, which determines the survival and performance of a company (Child, 1997). Contingency theory suggests that when there is a lack of harmony between the external environment and strategic planning, an organization or firm may face a crisis as a result of a decline in performance (Elenkov, 1998). The internal control system, management accounting system, and levers of control relate to how LPD administrators are able to provide confidence to the traditional village krama (village community) that the managed LPD will be able to improve performance and provide benefits to the village krama amid the issue of LPD cases that are rampant.

Stakeholder Theory

Stakeholder theory encompasses the understanding of how a business operates, emphasizing that in order for a firm to thrive, it must generate value for its customers, employees, society, and capital owners. Organizations are required to perform activities that are deemed significant by stakeholders and communicate the details of these actions to stakeholders in order to deliver advantages. The existence of stakeholder theory helps company managers, in this case, the head of the LPD, to manage the company more effectively. Managers must manage the organization for the benefit of all stakeholders (indigenous villagers).

Social Learning Theory

Brown and Treviño (2006) adopted from the standpoint of social learning, suggesting that executives served as function models as well as used incentives as well as sentences to boost behavior. According to the principles of social learning theory, in order for leaders to be perceived as ethical leaders by their followers, they must exhibit qualities of attractiveness and credibility as role models. Brown and Treviño (2006) proposed that social learning theory posits that individuals acquire knowledge and skills by observing and replicating the attitudes, values, and behaviors of appealing and trustworthy role models. The success of LPD management was influenced by the participation of leaders in guiding and promoting human resources, capital, customers, and other supporters to achieve organizational objectives. Ethical leaders must encourage and effectively compete with other financial institutions, such as cooperatives and commercial banks, by implementing LPD.

Internal Control System

Internal control encompasses the harmonization of various elements within an institution, including movements, plans, policies, attitudes, and actions of individuals, all working together to ensure the company achieves its objectives and missions (Mahadeen et al., 2016). Moreover, effective internal management contributes significantly to the overall success of the organization by facilitating efficient operations. Management holds the responsibility for internal control, encompassing both the planning and monitoring of its implementation (Dwipayanti et al., 2020). The components constituting internal control include the control environment, communication, risk management, control activities, and monitoring, with the control environment regulating organizational activities and influencing control awareness (Zhu et al., 2014).

Enterprise Risk Management (ERM), also known as risk management in business, involves a systematic approach to strategizing, coordinating, directing, and overseeing an organization's operations to mitigate the adverse effects of risk on financial resources and profits (Mahadeen et al., 2016). Control activities encompass a set of management rules and procedures implemented to achieve firm goals, safeguard assets, and evaluate performance. Monitoring, on the other hand, is an ongoing function aimed at providing management and key stakeholders with timely indications of progress, whether positive or negative, towards achieving objectives. It aids the organization in evaluating performance quality over time and assessing its efficiency.

Management Accounting System

Management accounting system includes the process of recognizing and classifying bookkeeping information regarding the advantage of economic decision-making by internal forces. There were four elements of management accounting system information, namely broad scope, aggregation, timeliness, and integration (Damayanti & Augustine, 2019). The term "broad scope" refers to a wide range of economic and non-economic facts. Aggregated information sent in a short time, but without reducing the value of information quality, can help improve management efficiency, as it takes less time. Timeliness refers to the prompt delivery of information. Timely information is characterized by its ability to accurately represent current conditions in a manner that meets the requirements of managers. Integrated information from the management accounting system can be used as a coordination tool between segments of a subunit and between subunits.

Levers of Control

Levers of control were developed to incorporate control systems to achieve company objectives. The four systems for levers of control were belief, diagnostic control, boundary, and interactive control. A belief system clarifies the fundamental principles and ideals that underpin the organization, defining its essence, purpose, and trajectory. The boundary system is a structured system employed by senior executives to convey the limits and regulations of an organization that must be adhered to. A diagnostic control system is a structured feedback system utilized to monitor organizational outcomes and rectify deviations from organizational performance standards. An interactive control system refers to a control system whereby managers actively and regularly participate in decision-making and staff activities (Baird et al., 2019). An interactive control system is a bilateral communication process that occurs between supervisors and subordinate staff at different hierarchical levels within an organization.

Ethical Leadership

Ethical leadership comprises demonstrating normatively proper behavior via personal actions and interpersonal connections. This was achieved by promoting the manners to disciples via two-way contact, reinforcement, as well as decision-making (Brown et al., 2005). The concept comprised two parts namely, the moral individual and the manager. The moral person of an individual is constructed upon the foundations of equity, integrity, compassion, trustworthiness, and steadfast values. Moral managers exert their influence by exemplifying deliberate ethical conduct and implementing a system of accountability that links employees' ethical behavior to the organization's management structure, thereby offering incentives and penalties. Organizational performance is measured through financial and non-financial performance (Baird & Tung, 2023).

Organizational Performance

Gavrea et al. (2011) state that there is no widely agreed-upon concept of organizational performance. There are multiple perspectives to define the concept of organizational performance, specifically: (1) Performance is a tool that provides information on the achievement of goals and results, both financially and non-financially; (2) Performance is constantly changing and requires careful consideration and interpretation; (3) Performance is demonstrated through the use of a quality model that explains how actions can impact future results; (4) Different individuals have varying understandings of performance when assessing organizational performance; (5) Understanding the concept of work involves knowing the specific characteristics of each area of responsibility; and (6) Quantifying the results is necessary when reporting the level of organizational performance.

Performance was an explanation regarding the achievement level of activities in realizing the organization's mission, vision, and objectives, as outlined in strategic planning (Bandiyono & Augustine, 2019). It served as a crucial metric for evaluating the effectiveness of organizational strategies and initiatives implemented. It is thought that the performance demonstrates how successful it has been in reaching its objectives (Kepramareni & Pradnyawati, 2021).

Hypothesis Development

A good internal control system influences effective and efficient business processes, producing quality products or services in line with the organization's mission (Mahadeen et al., 2016). LPD must establish an internal control system for their lending operations. The absence of internal control is one of the causes of the amount of LPD bankruptcy cases. Establishing internal control mechanisms through village *awig-awig* (regulations) can effectively address the issues present in LPD (Dwipayanti et al., 2020). According to Ren and Chadee (2017), ethical supervision was positively connected to worker job

satisfaction in China. The study conducted by Xu et al. (2016) demonstrates that ethical leadership behavior has a positive impact on employee trust within their respective organizations, thereby suggesting the proposed hypothesis below.

H1: The internal control system had a positive effect on organizational performance.

The management accounting system was expected to supply convenient and accurate information to encourage cost control efforts, measure and enhance productivity, as well as design better production processes (Johnson & Kaplan, 1987). Empirical evidence has been gathered on the features of relevant information that managers perceive. These features can be classified into four dimensions: broad scope, timeliness, aggregation, and integration (Damayanti & Augustine, 2019). Gnowali (2017) showed in the research that the management accounting system influenced organizational interpretation. Therefore, the below hypothesis was proposed based on the findings and theoretical underpinnings.

H2: The management accounting system positively influenced organizational performance.

Levers of control were one of the MCS concepts proposed by Simon (1995), comprising four systems namely, belief, boundary, diagnostic, and interactive control. The trust system showed the core values of the organization, while the boundary outlined what employees could not carry out. The diagnostic control system motivated employees to perform and correlated the behavior with organizational objectives, providing monitoring mechanisms. Additionally, the interactive control system facilitated a two-way communication process between managers and subordinates at various levels of the organization (Simon, 1995). Baird et al. (2019) stated that levers of control were directly related to organizational performance with management innovation as a mediator. According to Hatane et al.'s (2019) research, the levers of control have an impact on the revival of organizations at every point of their life cycle. Based on the findings, the following hypothesis was developed.

H3: Levers of control had a positive influence on organizational performance.

Leaders were expected to apply ethical leadership in managing subordinates, as the influence of superiors significantly impacts organizational success. The ethical leadership applied assisted managers in implementing the organization's internal control system. Through adopting leadership ethics, managers will efficiently carry out the organization's internal control system. When leaders guide their subordinates by utilizing the internal control system as a means to achieve organizational objectives, this is impacted by ethical leadership. Xu et al. (2016) stated that employees enhanced the perception of organizational justice, while Ren and Chadee (2017) asserted that moral leadership was positively connected to job satisfaction in China. Therefore, the below hypothesis was formulated based on the findings.

H4: Ethical leadership strengthened the effect of the internal control system on organizational performance.

Ethical leadership's importance for organizational performance was undeniable, while the management accounting system improved manager perceptions. The company's human resources are crucial assets due to their responsibility for implementing company policy and operational activities. The matter of ethical leadership is crucial in regard to organizational performance. Trihudiyatmanto (2021) stated that ethical leadership

influenced organizational performance. Based on the findings, the below hypothesis was cultivated.

H5: Ethical leadership strengthened the effect of the management accounting system on organizational performance.

Failures in organizations were frequently attributed to the inadequate implementation of levers of control. Particularly in organizations such as LPD, failures to implement MCS could be traced to leadership roles leading to deviations in management. Hernando et al. (2022) indicated that levers of control could influence the association between performance measurement and managerial performance. Consequently, the below hypothesis was proposed based on the findings.

H6: Ethical leadership could amplify the impact of levers of control on organizational performance.

RESEARCH METHOD

Data Collection

The research used a quantitative method with the analysis unit being individuals working in LPD in Denpasar City. Researchers visited each respondent directly based on a list of questions (questionnaires) that had been prepared, according to the research variables. Furthermore, measurement was performed using a Likert ranking varying from 1 (strongly disagree) to 6 (strongly agree). Questionnaires were circulated to all LPD heads, secretaries, treasurers, as well as heads of funding, general, and credit departments. The study obtained a total sample of 165 individuals using purposive sampling criteria from a population of 549. Primary data collection was conducted through a survey method using questionnaires. Table 1 below describes the contents of the questionnaire.

Table 1. Operational Variables

Variable	Dimension	Indicator	Source
Internal Control System	Control Environment	LPD offers services/products and are satisfied with the efficiency of current products.	Mahadeen et al., 2016
		LPD strives to respond quickly to market needs.	
		LPD ensures the competency of its employees by establishing appropriate human resource policies and practices.	
	Communication	LPD has efficient communication channels.	
		LPD uses available communication channels to communicate relevant information to the right people at the right time.	
		I am satisfied with the means of communication used in my organization.	
	Risk Management	There is a general awareness of the importance of risk	

		<p>profiling in LPD.</p> <p>In general, the organizational structure includes a unit to identify internal and external risks faced by LPD.</p> <p>Risk management system established and implemented in LPD.</p>	
	Control Activity	<p>As soon as something extraordinary and undesirable is noticed, it can be dealt with appropriately.</p> <p>The LPD where I work uses both manual and automated control systems.</p> <p>The LPD where I work implements effective and efficient control activities that reduce risk.</p>	
	Monitoring	<p>The LPD where I work conducts reviews of activities and transactions to assess the quality of work from time to time.</p> <p>Internal controls are assessed and reviewed periodically to ensure effectiveness.</p> <p>All employees understand the organization's mission and goals.</p>	
Management Accounting System (SAM)	Broadscope	<p>LPD has a broadscope on non- economic information such as employee attitudes, government policies, and competitive threats as well as productivity information and market information.</p> <p>LPD analyzes prices or interest rates set by competitors.</p> <p>LPD conducts research and development.</p>	Rasid et al., 2014; Damayanti & Augustine, 2019
	Timeliness	<p>LPD has timeline access to requested information is immediately available and timely reports are made by LPD.</p> <p>LPD recognizes that timeliness, no lag between events occurring and relevant information being reported, is important for LPD.</p> <p>LPD realizes that the correct use of Management</p>	

		Accounting System information should be done on time and according to the needs of the company.	
	Integration	LPD provides integrated information and targets for all departments within the company and decision-related information on company performance.	
		LPD integrates both financial and non-financial information in achieving company goals.	
	Aggregation	LPD pays attention to aggregated information on the impact of activities for a certain period of time such as monthly, quarterly, or annually etc. and conducts credit policy.	
		LPD aggregates the information that influences individual decisions in the area of responsibility and impacts decisions.	
		LPD requires that the use of SAM information must be relevant and up-to-date in achieving its objectives.	
Levers of Control	Boundary controls system	Code of conduct informs workforce about prohibited behaviors.	Baird et al., 2019; Hatane et al., 2019
		LPD communicates labor risks to be avoided.	
		Code of conduct defines appropriate behavior for the workforce.	
		Workers know the LPD code of ethics.	
	Belief Controls System	LPD mission statement communicates the organization's core values.	
		Top management communicates core values.	
		Workforce realizes LPD core values.	
		LPD mission statement is able to inspire the workforce.	
	Interactive Control System	There are many ongoing interactions between operational management and senior managers in the performance management system process.	

		<p>The performance measurement system is used regularly in scheduled face-to-face meetings between LPD management and employees.</p> <p>Performance measurement systems are often used as a means to develop ongoing action plans.</p> <p>Performance measurement systems are often used as a means to identify strategic uncertainties.</p>	
	Diagnostic Control System	<p>Controls are used to track progress towards LPD goals and monitor control outcomes.</p> <p>Controls are used to plan how operations will be conducted in accordance with the LPD's strategic plan.</p> <p>Controls used to review LPD performance.</p> <p>Controls are used to identify errors and take appropriate action.</p>	
Ethical Leadership	Moral Person	<p>Leaders listen to what employees have to say.</p> <p>Leaders discipline employees who violate ethical standards.</p> <p>Leaders consider the best interests of employees.</p> <p>Leaders make fair and balanced decisions.</p> <p>Leaders model how to do things the right way in ethics.</p> <p>Leaders define success not only by results but also by how they get it.</p> <p>When making decisions, leaders ask "what is the right thing to do".</p>	Brown & Treviño, 2006; Khan & Javed, 2018
	Moral Manager	<p>Leaders ensure that employees are promoted within the organization because they demonstrate ethical behavior.</p> <p>Leaders recognize ethically valued employee behavior.</p> <p>Leaders reward employees for good ethical behavior.</p> <p>Leadership decisions have a positive influence on organizational and stakeholder well-being.</p>	

		Leaders reprimand employees who exhibit unethical behavior.	
		Leaders' ethical behavior inspires employees to resolve ethical issues in a principled way.	
		Leaders' actions reflect their moral beliefs.	
Organization Performance (LPD)	Financial Performance	LPD has achieved the annual profit that has been set.	Baird & Tung, 2023
		The profit target of the LPD work plan has been achieved.	
		The LPD's investment return objective has been achieved.	
	Non-financial Performance	LPD has better quality products than competitors.	
		LPD has higher customer retention rates than competitors.	
		LPD has a lower employee turnover rate than competitors.	

Variables and Measures

The internal control system in the study comprised five dimensions with a total of fifteen indicators used to assess organizational performance in LPD. These dimensions included control conditions, communication, risk management, control activities, as well as monitoring, as adopted by (Mahadeen et al., 2016).

The management accounting system in this study has four dimensions with a total of twelve indicators used to identify organizational performance at Village Credit Institutions in Denpasar City. The dimensions of the management accounting system in this study are broad scope, timeliness, integration, and aggregation (Damayanti & Augustine, 2019).

Levers of control consisted of four dimensions with a total of sixteen indicators used to evaluate organizational performance in LPD. These dimensions included boundary, belief, interactive control, as well as diagnostic management techniques (Baird et al., 2019).

The organizational performance was characterized by two dimensions with a total of six indicators, comprising financial and non-financial performance (Baird & Tung, 2023). Furthermore, ethical leadership consists of two dimensions with fourteen indicators, including the moral individual and manager (Brown & Treviño, 2006; Khan & Javed, 2018). These dimensions were used to examine how ethical leadership could strengthen the association between the internal control system, system of management accounting, and levers of control on organizational performance in LPD.

Descriptive Statistical Analysis

Descriptive analysis aims to explain the characteristics of respondents to each statement item submitted. Descriptive analysis includes gender, age, education level, position, and tenure, as well as respondents' responses to each statement on each research variable.

If the average value (mean) is greater than the standard deviation, then the data quality is good.

Moderation Partial Least Square (PLS) Analysis Technique

PLS can be used on each type of data scale (nominal, ordinal, interval, ratio) and the terms of a more flexible assumption (Kristaung & Augustine, 2013). It also accommodates more complex concepts. Adaptable presumption. PLS is utilized to assess the correlation between each indicator and its construct. Furthermore, additionally a bootstrapping test can be conducted on both the outer model and inner model of the structural model in PLS. In this study, indicators are used to measure each construct, and the measurement methodology is structural. The decision was made to utilize PLS. Ghozali and Latan (2015) stated that PLS can be utilized for the purpose of confirmation, such as objectives for hypothesis testing and inquiry. The crucial factor that needs to be taken into account in this scenario is the importance of a theoretical framework that offers assumptions to explain the model, selection of variables, and approach to analysis is crucial and analysis of findings.

Testing Moderating Variables

Moderating variables are variables that strengthen or weaken the effect of explanatory variables (exogenous) on dependent variables (endogenous). According to Solimun (2011), moderating variables can be classified into pure moderation, quasi-moderation, homologous moderation, and predictor moderation.

The econometric equation model used with moderating variables is :

$$OP\ LPD = \beta_0 + \beta_1SPI + \beta_2SAM + \beta_3LoC + \beta_4SPI*KE + \beta_5SAM*KE + \beta_6LoC*KE + \varepsilon$$

where:

- OP = Organizational Performance
- SPI = Internal Control System
- SAM = Management Accounting System
- LoC = Levers of Control
- β_0 = constant value
- β_1 = regression coefficient of internal control system
- β_2 = regression coefficient of management accounting system
- β_3 = regression coefficient of levers of control
- β_4 = regression coefficient of ethical leadership strengthens SPI
- β_5 = regression coefficient of ethical leadership strengthens SAM
- β_6 = regression coefficient of ethical leadership strengthens LoC
- e = error level

RESULTS

Data Quality Test

The outer model analysis used in this study is Average Variance Extracted (AVE) to assess the validity of the variables in this study. The results of data quality test can be seen in Table 2

Table 2. Discriminant Validity Test

	Average Variance Extracted (AVE)
KE	0.573
KO LPD	0.689
LOC	0.540
SAM	0.513

SPI	0.531
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Upon getting the calculation result, it is obvious from the data shown on Table 2 that neither of the indicators have a value below 0.50 in the validity test. Therefore, it can be concluded that all indicators in the model are considered to be suitable.

Test Construction Reliability

The assessment of construct reliability is determined by examining Cronbach's Alpha, Composite Reliability, and AVE (Average Variance Extracted) values. According to the calculations, the value of Cronbach's alpha is greater than 0.70. The results of the reliability test can be seen in Table 3 as follows.

Table 3. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
KE	0.938	0.942	0.946	0.573
KO_LPD	0.911	0.926	0.930	0.689
LOC	0.924	0.931	0.933	0.540
SAM	0.880	0.897	0.903	0.513
SPI	0.928	0.944	0.936	0.531

Based on data shown on Table 3, all the variables, including the internal control system variable with a value of 0.928, the management accounting system variable with a value of 0.880, the levers of control variable with a value of 0.925, the ethical leadership variable with a value of 0.938, and the organizational performance variable with a value of 0.911, demonstrate high levels of reliability.

The AVE output consistently displays values greater than 0.50. Variable internal control system with a value of 0.531 management accounting system variable with a value of 0.513, levers of control variable with a value of 0.540, ethical leadership variable with a value 0.537, organizational performance variable with a value 0.930. Therefore, all variables exhibit strong convergent validity. The composite reliability value in this study of all variables shows values above 0.90. Variable internal control system with a value of 0.944, management accounting system variable with a value of 0.903, levers of control variable with a value 0.933, ethical leadership with a value 0.964, organizational performance variable with a value of 0.911. Thus, all research variables are considered to be reliable.

Descriptive Statistics

A summary of the demographic characteristics of respondents is presented, indicating defining statistics such as mean, standard deviation, minimum, and maximum for each variable Table 4. These statistics provided valuable insights into the distribution and variability of the data.

Table 4. Descriptive Statistics

N	Min	Max	Mean	Std. Deviation
155	2.00	6.00	5.1465	0.46349
155	4.27	6.00	5.1321	0.37094
155	4.00	6.00	5.1433	0.39765
155	1.17	6.00	5.0245	0.61471
155	2.14	6.00	5.1846	0.44327

The mean in Table 4 showed relatively high ethical leadership, with levers of control having the highest minimum value but no significant influence on organizational performance. This might have been due to the low knowledge of managers caused by the lack of training conducted by the LPD empowerment agency. Summarily, the mean was more significant than the standard deviation showing that the data was good because it had a small standard error.

Hypothesis Testing

Table 5 presents the results of the testing of hypotheses, providing insights into the outcomes of the analyses. This table served as a key reference point for understanding the implications of the conducted tests. The explanation regarding the hypothesis testing results will be discussed further in the discussion section.

Table 5. Hypothesis Testing Results

	Description	Coefficient	Statistic	p-value	Conclusion
H1	SPI → KO LPD	1.635	9.525	0.000**	Accepted
H1	SAM → KO LPD	0.100	2.162	0.031**	Accepted
H3	LOC → KO LPD	0.948	0.948	0.343	Rejected
	KE → KO LPD	0.285	3.305	0.001	
H4	KE*SPI → KO LPD	-0.038	0.641	0.522	Rejected
H5	KE*SAM → KO LPD	0.038	0.701	0.483	Rejected
H6	KE*LOC → KO LPD	0.002	0.053	0.958	Rejected

Source: PLS processed data,2023

**significant 5%

DISCUSSION

The Impact of Internal Control System on Organizational Performance in LPD

The findings indicate a positive regression coefficient of 1.635 and a t-statistic of 9.525, with a probability value of 0.000 which is less than 0.05. This shows that the significance level of $\alpha = 5\%$, thereby suggesting H1 is supported and H0 rejected. The study successfully proves that the internal rule system has an effective positive influence on organizational performance. The discovery implies that the increasing performance of the internal control system by LPD will be accompanied by an improvement in organizational performance in both financial and non-financial aspects. An acceptable internal control system will control fraud, thereby enhancing the performance of LPD. The findings correlate with the study by Maharani & Damayanthi (2020) and Mahadeen et al. (2016) which showed that the internal control system positively influences organizational performance.

The Impact of Management Accounting System on Organizational Performance in LPD

Considering the findings, a positive reversal coefficient of 0.100 and a t-statistic of 2.162 are observed, indicating that the probability value of 0.031 is below the threshold of 0.05. This outcome signifies that the significance level of $\alpha = 5\%$, indicating H2 is supported. The study displays that the management accounting system has a substantial positive influence on organizational performance. This implies that a better management accounting system will increase the probability of company performance. The findings are consistent with the research by Wiryana and Augustine (2014) which shows that the system of management accounting affects organizational performance. Juliana et al. (2021) additionally discovered that the mismatch between the management accounting system indicates a negative relationship with the financial as well as non-financial performance of companies.

The Impact of Levers of Control on Organizational Performance in LPDI

The results indicate a negative regression coefficient of -0.034 and a t-statistic of 0.948. The probability value of 0.343 is greater than the threshold of 0.05, implying that the significance level is greater than $\alpha = 5\%$. These findings confirm the hypothesis H3 is not supported or H0 is to be accepted.

The study shows that levers of control do not affect organizational performance. Levers of control including boundary, belief, and interactive indicators show low loading factors compared to other variables. This indicates that LPD in Bali did not understand each of the questions asked, thereby influencing the negative results observed. The findings contradict the research by Adiputra and Sujana (2021) which found that a culture with levers of control could influence financial performance.

The Impact of Internal Control System on Organizational Performance with Ethical Leadership as a Moderator

From the findings, it is evident that ethical leadership cannot moderate the affinity in between the internal control system and organizational performance. This conclusion is observed from the significance value of 0.522, which surpasses the threshold of $\alpha = 5\%$, alongside a negative reversal coefficient of -0.038 and a t-statistic of 0.641. Consequently, the H4 is rejected or the H0 is accepted due to the findings. The result of this study does not support the assumption of ethical leadership as a pure moderator is not proven. Therefore, the moderating variable which is ethical leadership, serves as a moderator predictor, indicating its role solely as an independent predictor variable in the established relationship model.

The strength or weakness of ethical leadership in LPD evidently cannot influence the connection between the internal control system and organizational performance. This is attributed to the performance of the internal control system correspondingly to the context of LPD. Therefore, ethical leadership becomes the secondary factor, as employees understand the aspects of the LPD internal control system. The findings contradict the research taught by (Alam et al., 2019) regarding the idea that the internal control system and leadership attribute contribute to an increasing tendency for public sector accountability.

The Impact of Management Accounting System on Organizational Performance with Ethical Leadership as a Moderator

The findings show that ethical leadership cannot moderate the connection in between the system of management accounting and organizational performance. This observation is due to the significance value of 0.483, which is greater than $\alpha = 5\%$ with a reversal coefficient of 0.038 and a t-statistic of 0.641. Therefore, the results signify that H5 is not accepted or H0 is accepted. The result of this study does not support the assumption of ethical leadership as a pure moderator is not proven. Therefore, the moderating variable which is ethical leadership, serves as a moderator predictor, indicating its role solely as an independent predictor variable in the established relationship model.

The strength or weakness of ethical leadership cannot influence the affinity between the management accounting system and organizational arrangement. This discovery correlates with the research performed by Jusriadi (2022) which indicated that supervision style only strains the effect of the administration accounting information as well as a command structure on organizational performance.

The Influence of Levers of Control on Organizational Performance with Ethical Leadership as a Moderator

The study suggests that virtuous leadership does not moderate the connection between levers of control and organizational commission. This is evidenced by the significance value of 0.958, which exceeds $\alpha = 5\%$, along with a reversal coefficient of 0.002 and a t-statistic of 0.641. The outcomes imply that H6 is rejected or H0 is accepted. The result of this study does not support the assumption of ethical leadership as a pure moderator is not proven. Therefore, the moderating variable which is ethical leadership, serves as a moderator predictor, indicating its role solely as an independent predictor variable in the established relationship model.

The result of ethical leadership in LPD on the relationship between levers of authority and organizational interpretation remains unchanged, despite potential variations when LPDs have women leaders. These findings contradict with Adi and Sukmawati's (2020) research, which associated levers of control with leaders additionally showed a positive impact on employee creativity. The study suggests that leaders exhibiting transformational behavior strengthen the levers of control, thereby enhancing employee creativity and performance.

CONCLUSION

In conclusion, this study identified several key findings, providing valuable insights into the factors affecting organizational performance within LPD. Firstly, the study established the fact that the internal control system indicated a positive as well as noteworthy influence on organizational performance, signifying that a strong system can enhance total achievement. The study further established that the system of management accounting held a positive as well as noteworthy impact on the organizational arrangement, suggesting that an effective implementation within LPD could improve the company's productivity. However, the findings showed levers of control were found to have no significant influence on organizational performance due to insufficient training and resulting limitations in leader knowledge. Ethical leadership also did not strengthen the association between the internal control plan, system of management accounting, and levers of control on organizational performance. These findings underscore the matter of effective internal control and management accounting systems in driving corporate success.

The study provided theoretical implications suggesting the fact that the performance of the internal control system and management accounting system by LPD with a contingency theory method correlated with performance improvement. The findings illustrated that both the internal control system and management accounting system were factors influencing organizational performance. Control activities through policies and procedures evolved as crucial factors for achieving objectives and enhancing the performance of LPD. These findings held essential implications for LPD, emphasizing the importance of effectively executing internal control and management accounting techniques to enhance organizational performance.

The study was conducted based on the interpretation of data obtained through the questionnaire collection process. The limitations included the potential for subjectivity during the questionnaire filling process, as not all respondents were willing to receive assistance. Among the 165 returned questionnaires, only 155 were processed due to the presence of outliers. The lack of managerial knowledge about levers of control at the LPD level could have contributed to the observed absence of influence on LPD performance. Additionally, special attention was needed for non-financial performance in LPD to correlate with the vision, mission, and objectives.

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