SOCIAL CAPITAL EFFECTIVENESS TOWARD COMPETITIVE ADVANTAGE AND BUSINESS PERFORMANCE (CASE STUDY OF VILLAGE CREDIT INSTITUTIONS IN GIANYAR REGENCY, BALI, INDONESIA)

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Abstract

One of the institutional uniqueness in Bali is the existence of custom villages. The Provincial Government of Bali has not been able to take operational funding policies to the level of traditional villages, so there are still many village potentials that still need to be explored and developed for the welfare of the community. To realize this, the Bali Provincial Government triggered the establishment of a Village Credit Institution (LPD) in all traditional villages in Bali. LPD is part of village assets that have the potential to improve the people's economy. This research was conducted to analyze: (1) the effect of social capital on competitive advantage and business performance of LPD; (2) the effect of competitive advantage on business performance of LPD; and (3) the role of competitive advantage as mediator between social capital and business performance of LPD in Gianyar Regency. The population in this study were all LPDs in Gianyar Regency, with a sample of 73 LPD managers, of which respondents were determined by proportional stratified random sampling technique. The data collection technique was done by questionnaire instrument, and continued with SEM-PLS analysis. The results show that social capital has a positive and significant effect on competitive advantage and also on LPD's business performance. Competitive advantage also has a positive and significant effect on LPD's business performance. On the other side, competitive advantage also as significant mediator between social capital and LPD's business performance in Gianyar Regency.

Key words: *social capital, competitive advantage, business performance, village credit institution (LPD)*

INTRODUCTION

Bali is one of the provinces in Indonesia which is famous for its tourism, culture and customs. One of the institutional uniqueness in Bali is the existence of traditional villages or also called traditional villages. The Provincial Government of Bali has not been able to take operational funding policies to the level of custom village, so there are still many village potentials that still need to be explored and developed for the welfare of the community. The Bali Provincial Government realizes that the government needs to support the village to provide institutions that are appropriate to the needs and acceptable to rural communities. Therefore, in 1984 the Provincial Government of Bali established a regulation to establish LPDs in traditional villages in Bali. Village Credit Institutions (LPD) are one of the non-bank financial institutions in rural areas, where LPDs have a very large contribution in helping community businesses in a rural area, especially rural communities in Bali which are often referred to as custom villages.

LPDs are financial institutions belonging to traditional villages, therefore LPDs are part of village assets that have the potential to improve the people's economy. This institution is engaged in finance which functions as a collector and distributor of funds in the form of savings and time deposits which will later be circulated back through credit to the local community.

The LPD encourages economic development of the community by participating and raising funds or savings from custom village members. In addition, the presence of LPDs is expected to be a financial institution that

provides credit for custom village members, so that they are free from loans to those who provide high-interest loans. Another goals of making LPDs is to create business opportunities and employment opportunities for custom village members, and by itself the LPD will be able to support the improving and facilitating the circulation of money in custom villages.

The legal position of the LPD cannot be equated with BPRs, MFIs, and Cooperatives. The LPD's constitutional foundation is different from BPR, MFIs, and Cooperatives, as well as its legal basis [20]. Factors supporting the success of the LPD as a people's economic institution based on customary law communities in Bali, depend on the quality of human resources, namely the moral and desire to progress, followed by HR members of traditional villages who always support LPD programs.

Based on data from the LPD Supervisory Agency (LPLPD), it is known that the number of LPDs in Bali in 2017 was 1,433 LPDs, almost 71.3 percent were declared healthy, while the remaining 28.7 percent were stated to be healthy, unhealthy and stuck. The comparison shows that the percentage of LPDs that are underperforming is still quite high and this indicates that there are LPD constraints in optimizing their performance.

The health condition of LPDs in Gianyar is still low, as indicated by the average of Non Performing Loan (NPL) value of 12.99 percent at the end of 2017. The NPL value is 12.99 percent far above the required value for financial institutions' health at 5 percent. If these conditions are not addressed immediately, it will certainly have an impact on the competitiveness and development of the LPD business.

The results of a preliminary survey conducted on several LPD managers in the Gianyar Regency area revealed several problems often faced by LPDs so that they were unable to compete with other bank and non-bank financial institutions including: (1) Regeneration constraints and the age limit of LPD managers; (2) low innovation in business development; (3) there is no guarantee institution for customer deposits; (4) lack of manager's understanding of technological developments to market products and services; (5) community ownership of LPDs is still lacking; (6) public trust in LPDs is still low; (7) networks between institutions and between communities are still low; (8) rules or norms are mostly still conversion and binding into. This obstacle is an indicator, that the LPD does not have competitiveness in the community of custom village.

Social capital was important to the business performance [30][31]. Social capital with a dimension of trust induces a shared vision among business people. Trust is a prerequisite for long-term cooperation and sharing a common goal and vision, so that when you have the same vision between the LPD manager and the community, it can improve business performance. Social capital to build network relationships with company partners emerged as important in achieving competitive advantage [19]. Business performance will increase, if the company has a competitive advantage so that it can compete with competitors. Competitive advantages in terms of cost, quality, kites, innovation and uniqueness of the company will be able to improve the company's business performance [2][11][13].

This research was conducted to analyze: (1) the effect of social capital on competitive advantage and business performance of LPD; (2) the effect of competitive advantage on business performance of LPD; and (3) the role of competitive advantage as mediator between social capital and business performance of LPD in Gianyar Regency.

MATERIALS AND METHODS

The concept of competitive advantage
There are two models that complement each other's competitive advantages. The first model focuses on costs and differentiation and argues that the environment selects companies that are not efficient going out or market-based companies but do not offer products that consumers are willing to pay premium prices. The second model focuses on company

resources and is driven by factors that are internal to the company.

Competitive advantage also mean to maintain the position over its competitor, because it is the view of market-based come from superior cost structure to differentiate in ways which is provide to customer an added value [11][15]. It consists of capabilities that allow an organization to distinguish itself from its competitors and is the result of critical management decisions [9]. The construction dimensions of competitive advantage used in this study are price/cost, dependency delivery, product innovation, and time to market [2]. Competitive advantage is measured by dimensions [10]:

(i)cost-based benefits (two items: lower production costs and lower-priced products);

(ii)product-based profits (six items: product differentiation, packaging, design, style, product quality and accessibility);

(iii)service-based excellence (seven items: extensive product line, reliability, flexibility, product innovation, speed of delivery, technical support and value for customers).

Competitive advantage is more advantage gained from competitors by offering consumers greater value, either by lower prices or by providing products that provide greater consumer benefits and services that justify higher prices [15]. The idea of creating value provides an insight into the source of competitive advantage. Value creation has three aspects: benefits received by customers, costs incurred by the company and its suppliers, and certain combinations of customers and suppliers. Because the total value created by the company also equals the customer's willingness to pay minus the costs of using company assets and costs incurred by suppliers, achieving competitive advantage means that the company must either increase customer benefits, lower supplier costs, or find innovative transactions.

Thus, there are three sources of competitive advantage:

-Cost Efficiency that makes more efficient use of company assets and input suppliers or lower supplier costs;

-Product differentiation to increase customer profits; and

-Transaction Innovations that reduce transaction costs or create new combinations of customers and suppliers.

Companies able to produce products/services with lower costs compared to competitors is one way for competitive advantage [15]. This is often achieved by large-scale organizations that develop efficiency by reasoning with their repeated experience of the tasks involved or using their power to exploit lower costs. Two other sources Competitive advantage comes from the value seen by customers who either see certain interesting elements in supply (differentiation) or feel that all their needs are met in the best way by bidding on the competitor (focus) When market demand outruns industrial capacity, competitive advantage increases added value by the company and also increases its potential profits. When industrial capacity outruns market demand, competitive advantage also ensures that the company will survive [15].

Organizational performance

Research has shown a significant relationship between competitive advantage and business performance [7] [10] [12]. Companies that have competitive advantages can improve business performance, because companies are unique and not easily imitated by competitors. An effective performance measurement system must be achieved not only financial aspects of business performance but also non-financial elements, thus presenting clearer perceptions and dimensions and broader performance [10].

In this study business performance is assessed based on various perspectives including based on finance, customers, employee performance, and internal business. From several previous studies, we know that there was a significant relationship between competitive advantage and organizational sales-based performance. It's also declared that sales-based performance was measured by the level of sales revenue, profitability, return on investment, productivity, product value added, market share and product growth [10][27][14]. In addition, organizational-

based performance is measured with an emphasis on organizational internal process efficiency, customer satisfaction, employee development and job satisfaction [27][14].

Social capital

Social capital is information, trust, and norms of reciprocity inherent in social networks [26]. Social capital refers to the characteristics of social organizations such as networks, norms, and beliefs that facilitate mutual coordination and cooperation. Social capital also adds subjective elements, cultural processes such as mutual trust and norms that facilitate social action. This difference shows a reciprocal relationship between social capital, community social organizations, and social networks. Social networks and community social organizations provide resources that can be used to facilitate action. Social capital in turn produces further resources that contribute to community social organizations and social network resources.

Social capital is a series of processes of human relations that are supported by networks, norms, and social beliefs that enable efficient and effective coordination and cooperation for mutual benefits and virtues [4]. Social capital is the appearance of social organizations such as trust, respiration, networks that can improve community efficiency by facilitating coordination of cooperation for mutual benefit [17]. The parameters of social capital can be grouped into three, namely network, trust, and norms [21].

Social capital is a productive resource that can be enjoyed by organizations or individuals as long as there is a relationship, but disappears when the relationship no longer exists [32]. Many entrepreneurs are successful because of innovation, but so far many entrepreneurs have not realized that their ability to do business and the ability to innovate are inseparable from the social factors around them, whether from family members, the environment, school environment, colleagues, network performance in business, encouraging family, friends, and colleagues in business [25]. These social factors can be interpreted as social capital in business. The

results of previous studies found that social capital both internal and external has a positive effect on organizational performance [18].

Conceptual framework and hypothesis

Based on the description above, a conceptual framework can be drawn from this research, which is as Figure 1.
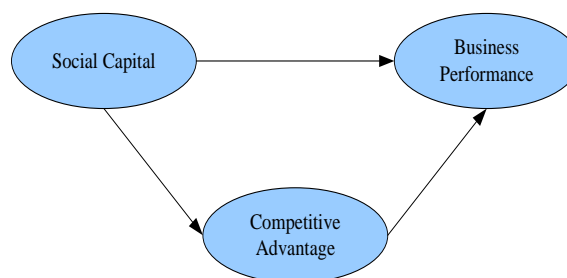

Fig. 1. Conceptual Framework
Source: Own extracted from theory, concept, and previous research.

Based on the formulation of the problem and the theoretical basis can be formulated hypotheses as follows:

H_1:The better social capital, the more competitive advantage will be increased significantly.

H_2:The better social capital, the more business performance will be increased significantly.

H_3:The better competitive advantage, the more business performance will be increased significantly.

H_4:Competitive advantage mediates the effect of social capital on business performance significantly.

Research method

This research was conducted at the Village Credit Institution (LPD) in Gianyar Regency, Bali. The research subjects were managers of LPDs in Gianyar Regency. Consideration of choosing LPDs in Gianyar Regency as the location of the study, with reasons for several reasons: (1) The level of health of LPDs in Gianyar Regency is still low, where NPLs are 13 percent, which means it is still above the healthy NPL standard of 5 percent; (2) The characteristics of the people in the Gianyar Regency region are relatively unique compared to other regions because the ties of adat and culture are still closely related to the community.

This research uses primary data types, by collecting data from LPD managers in Gianyar Regency. The population in this study were all LPDs in Gianyar Regency, where based on data from the Gianyar Regency LPLPD in 2018 there were 270 LPDs. Samples were taken based on population, where the determination of the number of samples used the Slovin formula [22] to obtain a sample of 73 LPDs. Samples taken using method, *probability sampling* namely *proportional stratified random sampling* based on sub-district strata.

This study uses a questionnaire that has been proposed validity and reliability as a research instrument. In addition, the questionnaire was also compiled based on the results of several previous research.

As show in Figure 1, the model in this research is built from latent with its reflective indicators which are quite complex, data analysis will use the discussion of Structural Equation Modeling (SEM) - Partial Least Square (PLS) that based on components or variants. PLS is an alternative approach to the shift from a covariant SEM-based approach to a variance-based [6]. explained that the difference between PLS and SEM lies in the purpose of its use, covariance-based SEM is generally to test a theory or causality relationship, while PLS tends to be more predictive of a model.

RESULTS AND DISCUSSIONS

General description of LPD in Gianyar

Regency Gianyar Regency has the highest number of LPD after Tabanan Regency. The development of LPDs in Gianyar Regency is not immune from several problems, including the difference in the amount of LPD asset growth where some LPDs have large amounts of assets and others have relatively few assets, besides the capital adequacy of several LPDs has not been fulfilled.

Based on Table 1, it can be seen the highest total assets owned by LPD Subdistrict of Ubud amounting to Rp1,108,053,382 and the lowest is owned by Payangan District of Rp147,051,272 while the highest net income

is owned by Ubud District of Rp32,334,032 and the lowest was the District of Tampaksiring in the amount of Rp.4,606,884.

Table 1. Net Profit, Total Assets, and *Return On Asset* of LPD in Gianyar Regency by District Year 2016

District	Net Profit (Million IDR)	Total Assets (Million IDR)	ROA (%)
Blahbatuh	10.574	379.401	2.79
Gianyar	16.250	360.844	4.50
Payangan	4.688	147.051	3.19
Sukawati	25.465	596.176	4.27
Tampaksiring	4.606	203.160	2.27
Tegallalang	9.268	491.434	1.89
Ubud	32.334	1,108.053	2.92
Total	103.188	3,286.120	3.14

Source: LPLPD Gianyar Regency, 2018.

The importance of the role of the LPD to improve the economy of indigenous villagers therefore the LPD needs to get the attention of indigenous villagers.

The concern is that LPDs cannot be separated from the LPD's ability to make a profit, which is a company performance indicator [16]. A good LPD performance can lead to increased profits or profits.

Results of Data Analysis

Data analysis stage with the SEM-PLS technique was carried out through two stages. In the first stage an evaluation of the carried out outer model is by evaluating the validity and reliability between each indicator and its construct.

Then the structural model or tested inner model is to evaluate the influence between constructs or between research variables.

Evaluation of outer model

An indicator can be said to be valid *(convergent validity)* if it has a *factor loading* and AVE above 0.5 against the intended construct.

Table 2. shows that there is one indicator that has an outer loading value below 0.5 which is a growth and learning performance indicator (Z4) in the construct or business performance variable (Z).

This shows that growth and learning performance indicators (Z4) must be eliminated from the research model.

After an invalid indicator is eliminated, the next step needs to be retested. The test results are in the form of output as in Table 3.

Table 2. Test Results for Validity of Convergent

Outputs	Indicators	Construct		
		X	Y	Z
Outer Loading	X1	0.697		
	X2	0.638		
	X3	0.820		
	Y1		0.758	
	Y2		0.507	
	Y3		0.693	
	Y4		0.570	
	Z1			0.776
	Z2			0.670
	Z3			0.660
	Z4			*0.401*
AVE		0.522	0.509	0.402

Note: X=social capital, X1=trust, X2=norm, X3=network, Y=competitive advantage, Y1=cost efficiency, Y2=product quality and services, Y3=innovations and R&D, Y4=competitor orientation, Z=business performance, Z1=performance of social mission, Z2=financial performance, Z3=internal business performance, Z4=growth and learning performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

Table 3. Convergent Validity Test Results Stage Two

Outputs	Indicators	Construct		
		X	Y	Z
Outer Loading	X1	0.686		
	X2	0.639		
	X3	0.826		
	Y1		0.771	
	Y2		0.509	
	Y3		0.650	
	Y4		0.600	
	Z1			0.822
	Z2			0.662
	Z3			0.672
AVE		0.521	0.509	0.522

Note: X=social capital, X1=trust, X2=norm, X3=network, Y=competitive advantage, Y1=cost efficiency, Y2=product quality and services, Y3=innovations and R&D, Y4=competitor orientation, Z=business performance, Z1=performance of social mission, Z2=financial performance, Z3=internal business performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

The results of the validity test show that all research indicators have outer loading above 0.5 and the value of Average Variance Extracted (AVE) greater than 0.5, it can be said that all research indicators are valid as they appear in Table 3.
Measuring discriminant validity from the measurement model can be assessed based on cross-loading measurement indicators with the construct.
Table 4 shows a comparison between the indicator correlation of a construct and the correlation of the indicator with other constructs.

Table 4. Results of Discriminant Validity

Indicators	Construct		
	X	Y	Z
X1	*0.686*	0.286	0.216
X2	*0.639*	0.174	0.300
X3	*0.826*	0.250	0.487
Y1	0.295	*0.771*	0,407
Y2	0.010	*0.509*	0.183
Y3	0.301	*0.650*	0.288
Y4	0.109	*0.600*	0.393
Z1	0.386	0.478	*0.822*
Z2	0.358	0.293	*0.662*
Z3	0.318	0.336	*0.672*

Note: X=social capital, X1=trust, X2=norm, X3=network, Y=competitive advantage, Y1=cost efficiency, Y2=product quality and services, Y3=innovations and R&D, Y4=competitor orientation, Z=business performance, Z1=performance of social mission, Z2=financial performance, Z3=internal business performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

Table 4 shows that construct indicator correlation has a higher value than the correlation of the indicator with other constructs, so the construct has high discriminant validity. The value of Cronbach's Alpha measures the lower limit of the reliability value of a construct, and Composite Reliability measures the true value of the reliability of a construct [23]. The Role of thumb of the value of Cronbach's Alpha or Composite Reliability must be greater than 0.7, but if the results obtained are close to 0.7 (such as 0.6), this can still be accepted in studies that are exploratory in nature [8]. The results of the construct reliability test can be seen in Table 5.

Table 5. Value Cronbach's Alpha and Composite Reliability

Construct	Cronbach's Alpha	Composite Reliability
Social Capital (X)	0.868	0.893
Competitive Advantage (Y)	0.606	0.786
Business Performance (Z)	0.791	0.862

Source: Output of data from questionnaire that analyze with Smart-PLS application.

Values in Table 5. shows the value of Cronbach's Alpha and Composite Reliability of each construct has a value greater than 0.60

so it can be said that the measurement used in this study is reliable.

Evaluation of inner/structural model

The structural model in PLS needs to be evaluated using the R-square for the dependent variable and its significance value based on the t-values in each path.

Table 6. Value of R-square

Endogenous Variable	*R-square*
Competitive Advantage (Y)	0.106
Business Performance (Z)	0.387

Source: Output of data from. questionnaire that analyze with Smart-PLS application

Values in Table 6 shows the R-square 0.106 to construct a competitive advantage, which means that the variability construct competitive advantage can be explained by the social capital construct is 10.6%, and the remaining 89.4% is explained by factors other than social capital. Furthermore, it is also known that the *R-square* value of 0.387 over the construct of business performance shows that business performance variability can be explained by the construct of social capital and competitive advantage by 38.7%, while the remaining 61.3% is explained by other factors outside the model.

R-square is grouped into three categories, namely substantial (> 0.67), moderate (0.19 - 0.67), and weak (<0.19) [3]. So that the *R*-square value for the competitive advantage variable is included in the weak category, while the R-square value for the business performance variable includes the moderate category. Based on R^2 in Table 6, Q^2 can be calculated or Stone Geiser Q-Square, namely:

$$Q^2 = 1 - \{(1 - 0.106)(1 - 0.387)\}$$
$$= 1 - \{(0.894)(0.613)\}$$
$$= 0.452$$

The results of Q^2 calculation are 0.452 so that it can be said to have predictive prevalence a fairly strong, so that the resulting model deserves to be used to predict. Figures of 0.452 can be interpreted that variations in LPD business performance by 45.2% can be explained by variations in variables of social capital and competitive advantage, while the remaining 54.8% is explained by other variables outside the model.

Hypothesis testing

To test hypotheses, it is necessary to analyse the direct influence, indirect influence, and total influence between the research variables. The results of the analysis related to the influence between research variables are presented in Table 7.

Table 7. Path Coefficient

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
X → Y	0.325	0.358	0.114	2.850	0.005
X → Z	0.358	0.359	0.104	3.434	0.001
Y → Z	0.405	0.415	0.117	3.451	0.001

Note: X=social capital, Y=competitive advantage, Z=business performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

As the research conceptual framework, that there is an indirect relationship between variables of social capital and business performance through competitive advantage, then Table 8 shows an analysis of indirect effects.

Table 8. Indirect Effect

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
X→Y→Z	0.132	0.144	0.057	2.310	0.021

Note: X=social capital, Y=competitive advantage, Z=business performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

Based on Table 7 and Table 8 can be summarized and calculated direct influence, indirect influence, and total influence between research variables as presented in Table 9 below.

Table 9. Summary of Direct Effects, Indirect Effects, and Total Effect Among Variables

Exogenous Construct	Endogenous Constructs					
	Y			Z		
	DE	IDE	TE	DE	IDE	TE
X	0.325	-	0.325	0.358	0.132	0.490
Y	-	-	-	0.405	-	0.405

Note: DE=Direct Effect, IDE=Indirect Effect, TE=Total Effect, X=social capital, Y=competitive advantage, Z=business performance
Source: Output of data from questionnaire that analyze with Smart-PLS application.

Based on the results of data analysis, it can be summarized the direct influence, indirect influence, and total influence between variables chosen as results.

Table 10. Results of Hypothesis Testing

Hypo-thesis	Description	Results
H1:	The better social capital, the more competitive advantage will be increased significantly.	Accepted
H2:	The better social capital, the more business performance will be increased significantly.	Accepted
H3:	The better competitive advantage, the more business performance will be increased significantly.	Accepted
H4:	Competitive advantage mediates the effect of social capital on business performance significantly.	Received

Source: Own Analysis.

Data analysis results show that social capital has a positive and significant effect on excellence competing LPDs in Gianyar Regency. This means that the higher the social capital the LPD has, the higher the competitive advantage that the LPD has, and vice versa.

The trust of the people in Gianyar Regency continues to spur LPDs in Gianyar Regency to innovate in providing quality financial services according to community needs. LPDs in Gianyar Regency have been able to compete with other microfinance institutions that have also begun to develop. Even the LPD not only provides savings and loan services to the community, but also in the form of insurance, and deposits for special purposes, such as education and religious ceremonies.

The results of previous studies of the LPD in Buleleng Regency, indicate that the operating strategy contained in LPD's organizational culture adopted by the values of Tri Hita Karana [29]. *Tri Hita Karana* is a philosophy that has been considered as a norm and/or belief that regulates the relationship between humans and God, humans and fellow humans, and humans and the environment. This is shown from the results of hypothesis testing that the organizational culture based on *Tri Hita Karana* has a significant effect on LPD operating strategies. This result is consistent with other studies which state that organizational culture plays a role in the process of formulating operational strategies as the operationalization of underlying values

and assumptions [5]. The operating strategy formulated by LPD administrators in Buleleng Regency tends to be directed at developing facilities for service improvement and product development, where service and product quality are tangible forms of competitive advantage.

The results of data analysis showing significant social capital have a positive impact on LPD business performance in Gianyar Regency. With regard to social capital that will help create good business too, on the contrary choose bad social capital, the LPD business performance in Gianyar Regency also decreases.

LPDs in Gianyar Regency tend to still be highly trusted by member of custom village, as well as stakeholders related. Many member of custom village use financial services provided by the LPD. In addition, LPDs are also trusted by other institutions, such as PT. Bank BPD Bali related to capital. Even some LPDs have collaborated with outside parties such as the PDAM, PLN, and other government institutions including the LPLPD. This shows that the network built by the LPD is growing.

Social capital has had a positive impact on LPD business performance. It is evident that many LPDs in Gianyar Regency have been able to provide substantial financial assistance to traditional customary activities *village*. This certainly happened as a result of the LPD's financial performance success. Own financial performance is of course also for the participation of the local community.

The results of previous studies regarding the inclusion of social capital in the LPD Internal Control Structure of the Penglatan traditional village, Buleleng District, Buleleng Regency, explained that the LPD Penglatan had not been able to implement a disciplined internal control structure to improve its business performance [1]. But this indiscipline does not cause problems for LPDs, even the LPDs continue to develop. This success is due to the LPD incorporating social capital in its internal control structure.

It was also explained that social capital turned out to have a positive and significant effect on

the existence of LPDs. This indicates that the better the social capital, the existence of LPD is also getting better or more existing [24].

The results of data analysis show that competitive advantage has a positive and significant effect on LPD business performance in Gianyar Regency. This means that the better LPD competitive advantage will have an impact on improving LPD business performance, and vice versa.

Competitive advantage is an important element for a business. Likewise the LPD as an organization *profit oriented*, which despite its socio-cultural nature. This means that in order to optimize its performance, both financial and non-financial performance, LPDs must be able to provide products and services according to the needs of the community, as well as make efficiency. In addition, LPDs also need to innovate so that they are not left behind by competitors, in this case other microfinance institutions.

In the empirical study of LPD in Rendang Subdistrict Karangasem Regency, that the relationship between operating efficiency on profitability in Village Credit Institutions (LPD) in Rendang Subdistrict, Karangasem Regency based on statistical test results, can be interpreted that if the value of operating efficiency is high, the profitability of LPD will be lower. On the other side, if the value of operating efficiency is low, then the profitability of LPD will be higher [28]. It's caused by the increased in operational costs in Village Credit Institutions (LPD) in all Rendang Districts, Karangasem Regency will have an impact on decreasing profitability. Increase in operational costs because LPD operational activities are less efficient, so the BOPO ratio is also very high. The higher the low BOPO ratio, the better the LPD and operational activities will be more efficient, so the operating profit will increase.

Competitive advantage proved to be able to significantly mediate the influence of social capital on LPD business performance in Gianyar Regency. This means that in order for social capital to be optimal in improving LPD performance, it can be done by optimizing the role of competitive advantage as a mediator.

Given that directly or indirectly by mediating competitive advantage, that social capital turns out to have a significant effect on business performance, then this indirect effect is *partial mediation* (partial mediation).

These results indicate that the social capital shown by *trust, norms,* and the *network* LPD plays an important role in LPD business performance, both in its social mission, internal business performance, and financial performance.

CONCLUSIONS

The results show that social capital has a positive and significant effect on competitive advantage and also on LPD's business performance. Competitive advantage also has a positive and significant effect on LPD's business performance. On the other side, competitive advantage also as significant mediator between social capital and LPD's business performance in Gianyar Regency.

There are several things that can be suggested as a follow-up to the results of the study, including:

(i)In its operational activities, LPDs in Gianyar Regency need to implement a component of the internal control structure in a disciplined manner. One of them is by utilizing social capital to strengthen the LPD internal control structure, namely through *trust* (mutual trust), social networks, and social institutions;

(ii)LPDs in Gianyar Regency can utilize the social capital they have for the efficiency and effectiveness of LPDs, one of which is by reducing transaction costs;

(iii)Further researchers can develop this research model to be more complex, by adding other variables, and expanding the scope of the study.

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