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THE MEDIATING ROLE OF GOOD CORPORATE GOVERNANCE BETWEEN INTELLECTUAL CAPITAL AND FINANCIAL SUSTAINABILITY IN BALI LPDS

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Abstract

Financial sustainability is crucial for ensuring the long-term viability of Village Credit Institutions (LPDs) in Bali. Although intellectual capital is recognized as a strategic organizational resource, empirical findings regarding its influence on financial sustainability remain inconclusive. Furthermore, studies examining the mediating role of good corporate governance in the relationship between intellectual capital and financial sustainability, particularly in community-based financial institutions, remain limited. This study aims to analyze the role of good corporate governance in mediating the influence of intellectual capital dimensions (human capital, social capital, and relational capital) on financial sustainability in LPDs in Bali Province. This study employed a quantitative approach using primary data collected through questionnaires distributed to LPD managers and employees. A total of 188 valid responses were analyzed using PLS-SEM with SmartPLS software. The results reveal that social capital and relational capital enhance good corporate governance, which subsequently improves financial sustainability. Good corporate governance mediates the relationship between intellectual capital dimensions and financial sustainability, except for human capital, which has no significant effect. These findings contribute to the intellectual capital and governance literature by demonstrating the role of governance quality in transforming social and relational capital into sustainable financial outcomes. The study also provides practical implications for strengthening governance practices and enhancing the long-term sustainability of LPDs.

Keywords: Good Corporate Governance, Intellectual Capital, Financial Sustainability.

INTRODUCTION

Financial sustainability is essential for ensuring the long-term viability of organizations, particularly financial institutions that operate in dynamic and uncertain environments. Financial sustainability reflects an organization's ability to maintain stable operations, fulfill its financial obligations, and generate sufficient resources to support future growth (Brigham & Houston, 2019; Gleißner et al., 2022). In Bali, Village Credit Institutions (LPDs) play a strategic role in supporting local economic development and strengthening the economic independence of indigenous villages. Beyond their economic function, LPDs contribute to preserving local socio-cultural values and supporting community welfare (BKS-LPD Bali, 2025). Given their importance, maintaining the financial sustainability of LPDs has become a critical concern for both practitioners and policymakers (Munandar et al., 2025). Despite their significant contribution, many LPDs continue to face governance and sustainability challenges. Cases involving financial misconduct, weak internal controls, and governance failures have raised concerns regarding the long-term sustainability of these institutions (Antara News, 2024; Bali Tribune, 2022; Kejati Bali, 2022). These challenges suggest that financial sustainability depends not only on financial resources but also on organizational capabilities and effective governance practices.

The Resource-Based View (RBV) suggests that organizations achieve sustainable performance through the effective utilization of strategic resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991; Wernerfelt, 1984). Among these resources, intellectual capital has been recognized as an important driver of organizational performance and sustainability (Bontis, 1998; Stewart, 1997). However, empirical evidence regarding the relationship between intellectual capital and financial sustainability remains inconclusive. While some studies report positive effects of intellectual capital on sustainability and organizational performance (Florensia et al., 2022; Elmahgop, 2024), others find insignificant relationships, particularly for human capital and social capital dimensions (Matei et al., 2024; Wiranata & Ananda, 2024; Yolanda & Masdupi, 2023). One possible explanation for these inconsistent findings is that intellectual capital may not directly influence financial sustainability but instead operate through governance mechanisms. Stakeholder Theory argues that organizations create sustainable value when they effectively manage stakeholder interests through transparent, accountable, responsible, independent, and fair governance practices (Freeman, 1984; Donaldson & Preston, 1995). Effective governance can improve decision-making quality, strengthen stakeholder trust, and reduce governance-related risks, thereby facilitating the transformation of intellectual capital into sustainable organizational outcomes (Dicuonzo et al., 2022; Thoha et al., 2022).

Although previous studies have examined the relationships among intellectual capital, governance, and organizational sustainability, several research gaps remain. First, limited studies have investigated the mediating role of good corporate governance in the relationship between intellectual capital and financial sustainability. Second, empirical findings regarding the effects of the individual dimensions of intellectual capital remain inconsistent. Third, evidence from community-based financial institutions, particularly Village Credit Institutions (LPDs) in Bali, remains scarce despite their unique governance structure and socio-cultural characteristics. Therefore, this study addresses the following research question: Does good corporate governance mediate the relationships between human capital, social capital, relational capital, and financial sustainability in Village Credit Institutions (LPDs) in Bali Province? Addressing this question is important because the sustainability of LPDs depends not only on the availability of financial resources but also on the effective management of intellectual capital through sound governance practices.

The novelty of this study lies in three aspects. First, it examines the mediating role of good corporate governance in the relationship between intellectual capital and financial sustainability. Second, intellectual capital is analyzed through its three dimensions (human capital, social capital, and relational capital) to provide a more comprehensive understanding of their distinct contributions. Third, this study focuses on LPDs in Bali, a unique indigenous community-based financial institution that has received limited attention in the intellectual capital and financial sustainability literature.

This study contributes to the literature by extending the Resource-Based View and Stakeholder Theory through the examination of governance mechanisms that transform intellectual capital into sustainable financial outcomes. Furthermore, the findings are expected to provide practical insights for LPD managers and policymakers regarding the importance of strengthening governance quality and intellectual capital to enhance long-term financial sustainability.

Based on the above arguments, this study aims to examine the influence of human capital, social capital, and relational capital on financial sustainability, both directly and indirectly through good corporate governance in Village Credit Institutions (LPDs) in Bali Province.

LITERATURE REVIEW

2.1 Resource-Based View Theory

Resource-Based View (RBV) posits that organizational performance and sustainability are determined by the possession and effective utilization of valuable, rare, inimitable, and non-substitutable resources (Barney, 1991; Wernerfelt, 1984). Among these resources, intellectual capital has been recognized as a strategic asset that enables organizations to create value and sustain competitive advantage. Intellectual capital comprises human capital, social capital, and relational capital, which collectively enhance organizational capabilities and performance (Bontis, 1998; Stewart, 1997). Therefore, RBV provides a relevant theoretical foundation for explaining how intellectual capital contributes to governance quality and financial sustainability in Village Credit Institutions (LPDs).

2.2 Stakeholder Theory

Stakeholder Theory argues that organizations achieve long-term success when they effectively balance and fulfill the interests of various stakeholders, including employees, customers, regulators, communities, and other affected parties (Freeman, 1984; Donaldson & Preston, 1995). Good corporate governance serves as a mechanism that promotes transparency, accountability, responsibility, independence, and fairness, thereby strengthening stakeholder trust and organizational sustainability. Consequently, Stakeholder Theory supports the argument that governance quality may facilitate the transformation of intellectual capital into sustainable financial outcomes.

2.3 Human Capital and Good Corporate Governance

Human capital represents employees' knowledge, skills, competencies, and experience that support organizational effectiveness. Employees with higher competencies are more capable of implementing internal controls, complying with regulations, and supporting transparent decision-making processes. Previous studies suggest that human capital contributes positively to governance quality because competent employees facilitate accountability and organizational effectiveness (Mushtaq et al., 2024; Rafique et al., 2024). Therefore, the following hypothesis is proposed:

H1: Human capital positively affects good corporate governance.

2.4 Social Capital and Good Corporate Governance

Social capital refers to trust, cooperation, networks, and shared values among organizational members. Strong social capital facilitates communication, coordination, and collaboration, which are essential for effective governance implementation. Prior studies indicate that organizations characterized by high levels of trust and cooperation tend to demonstrate better governance practices and organizational performance (Khan et al., 2023; Putra et al., 2021). Therefore:

H2: Social capital positively affects good corporate governance.

2.5 Relational Capital and Good Corporate Governance

Relational capital reflects the value derived from relationships with external stakeholders, including customers, regulators, communities, and business partners. Strong stakeholder relationships enhance organizational legitimacy and encourage compliance with governance principles. Previous research has shown that positive stakeholder relationships support governance effectiveness and organizational sustainability (Zhang et al., 2022). Therefore:

H3: Relational capital positively affects good corporate governance.

2.6 Good Corporate Governance and Financial Sustainability

Good corporate governance improves accountability, transparency, risk management, and resource allocation. Effective governance reduces agency problems and enhances stakeholder confidence, thereby supporting long-term financial sustainability. Prior studies have consistently reported positive relationships between governance quality and sustainable organizational performance (Dicuonzo et al., 2022; Thoha et al., 2022). Therefore:

H4: Good corporate governance positively affects financial sustainability.

2.7 Human Capital and Financial Sustainability

RBV suggests that employee competencies constitute a strategic resource that enhances organizational performance and sustainability. Skilled employees improve operational efficiency, innovation, and decision-making quality, which may contribute to sustainable financial performance. Empirical studies generally report a positive relationship between human capital and organizational outcomes, although some findings remain inconsistent (Mushtaq et al., 2024; Matei et al., 2024). Therefore:

H5: Human capital positively affects financial sustainability.

2.8 Social Capital and Financial Sustainability

Social capital facilitates knowledge sharing, cooperation, and collective problem-solving, which can improve organizational resilience and long-term performance. Organizations with strong internal trust and collaboration are more capable of adapting to environmental changes and maintaining sustainable operations. Previous studies have found that social capital contributes positively to organizational sustainability and performance (Khan et al., 2023; Florensia et al., 2022). Therefore:

H6: Social capital positively affects financial sustainability.

2.9 Relational Capital and Financial Sustainability

Relational capital strengthens relationships with customers, regulators, and communities, enabling organizations to gain external support, maintain legitimacy, and improve resource access. Such advantages may enhance financial stability and sustainability. Previous studies have demonstrated that relational capital positively influences organizational growth and financial performance (Elmahgop, 2024; Zhang et al., 2022). Therefore:

H7: Relational capital positively affects financial sustainability.

2.10 The Mediating Role of Good Corporate Governance

Although intellectual capital has been widely recognized as a strategic organizational resource, its influence on financial sustainability may not occur automatically. According to the Resource-Based View, valuable, rare, inimitable, and non-substitutable resources generate sustainable competitive advantage only when they are effectively managed and utilized (Barney, 1991; Wernerfelt, 1984). In addition, Stakeholder Theory suggests that governance mechanisms play a critical role in ensuring that organizational resources are employed in ways that create value for stakeholders (Freeman, 1984; Donaldson & Preston, 1995). Previous studies have also demonstrated that good corporate governance enhances the effectiveness of resource management, strengthens stakeholder trust, and supports organizational sustainability (Dicuonzo et al., 2022; Thoha et al., 2022). Therefore, good corporate governance may serve as an intermediary mechanism through which intellectual capital contributes to sustainable financial performance.

Human capital provides the knowledge, expertise, and competencies necessary to support organizational activities. Employees with strong competencies are more likely to improve decision-making quality, operational efficiency, and compliance with organizational policies (Mushtaq et al., 2024; Rafique et al., 2024). However, these capabilities may not generate sustainable financial outcomes unless they are supported by effective governance practices that promote accountability, transparency, and responsible decision-making (Dicuonzo et al., 2022). Therefore, the following hypothesis is proposed:

H8: Good corporate governance mediates the relationship between human capital and financial sustainability.

Similarly, social capital enhances trust, cooperation, and knowledge sharing among organizational members. High levels of trust and collaboration facilitate coordination and strengthen the effectiveness of governance implementation (Khan et al., 2023; Putra et al., 2021). Furthermore, effective governance ensures that these social resources are utilized efficiently to support organizational objectives and long-term sustainability (Thoha et al., 2022). Therefore, the following hypothesis is proposed:

H9: Good corporate governance mediates the relationship between social capital and financial sustainability.

Relational capital strengthens relationships with customers, regulators, communities, and other stakeholders. Strong external relationships can enhance organizational legitimacy, improve access to resources, and increase stakeholder trust (Zhang et al., 2022). However, the benefits of these relationships are likely to be maximized when supported by effective governance mechanisms that ensure transparency, accountability, and the protection of stakeholder interests (Dicuonzo et al., 2022). Therefore, the following hypothesis is proposed:

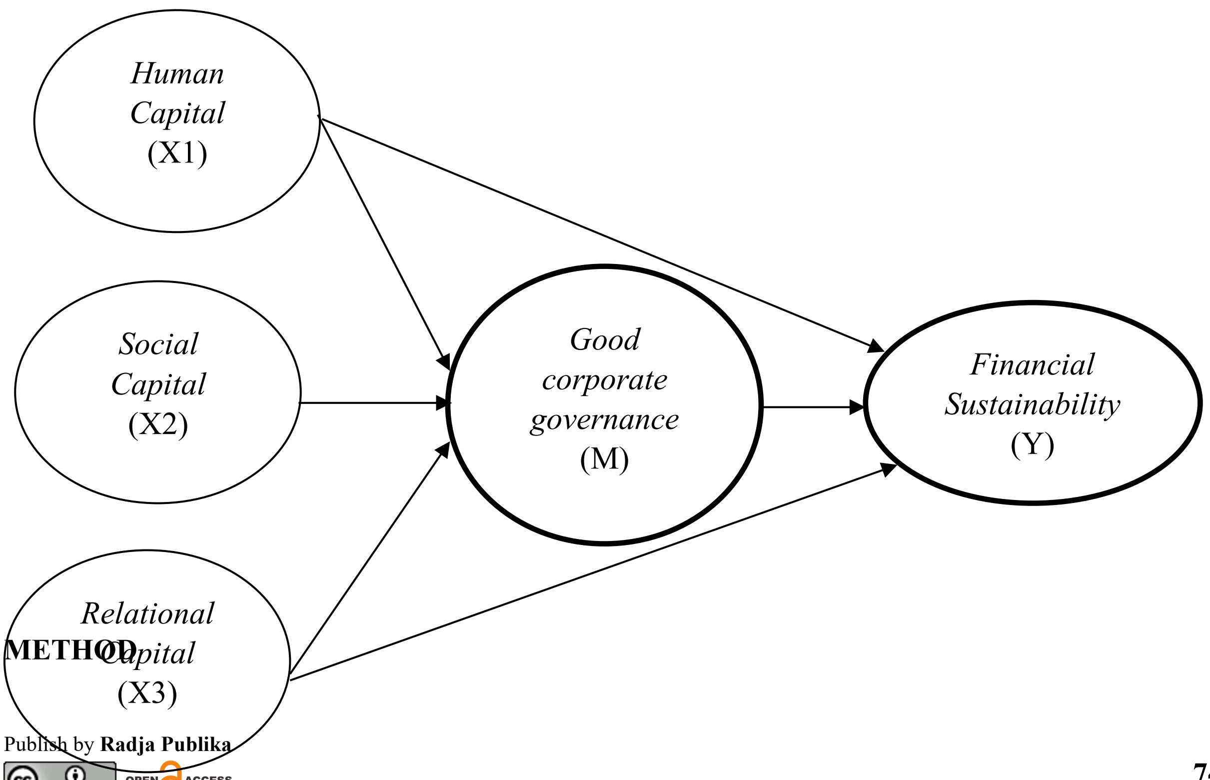
H10: Good corporate governance mediates the relationship between relational capital and financial sustainability.

2.11 Conceptual Framework

Based on the Resource-Based View and Stakeholder Theory, this study proposes that intellectual capital, represented by human capital, social capital, and relational capital, influences financial sustainability both directly and indirectly through good corporate governance. Human capital reflects employee competencies and capabilities, social capital reflects trust and collaboration among organizational members, while relational capital reflects relationships with external stakeholders. These dimensions of intellectual capital are expected to strengthen governance quality and organizational sustainability.

Good corporate governance serves as a governance mechanism that transforms intellectual capital into sustainable financial outcomes through improved accountability, transparency, and stakeholder trust. Therefore, good corporate governance is expected to mediate the relationships between intellectual capital dimensions and financial sustainability in Village Credit Institutions (LPDs) in Bali Province. The proposed conceptual framework is presented in Figure 1.

Figure 1. Conceptual Framework



METHOD

This study was conducted on Village Credit Institutions (LPDs) in Bali Province, Indonesia. LPDs were selected as the research context because they play an important role in supporting local economic development and preserving indigenous village institutions while facing challenges related to governance and financial sustainability. The target population consisted of 1,439 LPDs distributed across nine regencies/cities in Bali. The minimum sample size was determined using the recommendation of Hair et al. (2021), which suggests a sample size of five to ten times the number of indicators used in the model. Since this study employed 25 indicators, the required sample size ranged from 125 to 250 respondents. A total of 188 respondents were selected using proportionate stratified random sampling to ensure proportional representation across all regencies/cities. This study employed both primary and secondary data. Primary data were collected through a structured questionnaire distributed to LPD. The questionnaire used a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Secondary data were obtained from LPD reports, institutional documents, and relevant publications related to the development and performance of LPDs in Bali. In addition, a literature review was conducted to support the theoretical framework and hypothesis development.

Table 1. Construct Measurement

Construct	Indicator/Item	Authors
Financial Sustainability (FS)	Financial Stability Profitability Ability to Meet Financial Obligations Financial Management Efficiency Resilience to Financial Risks	Munandar et al. (2025)
Good Corporate Governance (CG)	Transparency Accountability Responsibility Independence Fairness	Khotimah et al. (2024)
Human Capital (HC)	Education and Qualifications Competencies and Skills Experience and Knowledge Commitment and Loyalty Creativity and Innovation	Rafique et al. (2024)
Social Capital (SC)	Trust Social Networks Shared Norms and Values Participation and Involvement Solidarity	Putra et al. (2021)
Relational Capital (RC)	Customer Trust Customer Satisfaction Relationships with Indigenous Communities Organizational Reputation Relationships with Regulators And External Stakeholders	Zhang et al. (2022)

Source: Author's analysis

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. PLS-SEM was selected because it is suitable for analyzing complex causal relationships involving multiple latent constructs and mediating effects (Hair et al., 2021).

The measurement model (outer model) was evaluated through convergent validity, discriminant validity, and reliability tests. Convergent validity was assessed using outer loadings and Average Variance Extracted (AVE), with acceptable thresholds of 0.70 and 0.50, respectively. Discriminant validity was evaluated using the Fornell-Larcker criterion and Heterotrait-Monotrait Ratio (HTMT). Reliability was assessed through Cronbach's alpha and Composite Reliability.

The structural model (inner model) was evaluated using the coefficient of determination (R^2), effect size (f^2), and hypothesis testing through the bootstrapping procedure. The structural equations are specified as follows:

$CG = \beta_1 HC + \beta_2 SC + \beta_3 RC + \zeta_1$ (1)

$FS = \beta_4 HC + \beta_5 SC + \beta_6 RC + \beta_7 CG + \zeta_2$ (2)

where CG denotes good corporate governance, FS denotes financial sustainability, HC denotes human capital, SC denotes social capital, RC denotes relational capital, β represents path coefficients, and ζ represents error terms. Hypotheses were accepted when the t-statistic exceeded 1.96 and the p-value was below 0.05. The mediating effect of good corporate governance was assessed through indirect effect analysis using the bootstrapping procedure. Mediation was classified as full mediation when the indirect effect was significant while the direct effect became insignificant, and partial mediation when both direct and indirect effects remained significant (Hair et al., 2021).

RESULTS AND DISCUSSION

The measurement model was evaluated using convergent validity, discriminant validity, and reliability tests.

Table 2. Convergent Validity & Reliability

Variables	Items	Loading	AVE	Cronbach's Alpha	Rho_a	Rho_c
Human Capital	HC.1	0.624	0.611	0.928	0.934	0.940
	HC.2	0.748				
	HC.3	0.807				
	HC.4	0.797				
	HC.5	0.766				
	HC.6	0.857				
	HC.7	0.783				
	HC.8	0.775				
	HC.9	0.799				
	HC.10	0.837				
Social Capital	SC.1	0.770	0.706	0.953	0.956	0.960
	SC.2	0.776				
	SC.3	0.792				
	SC.4	0.918				
	SC.5	0.903				
	SC.6	0.869				
	SC.7	0.833				
	SC.8	0.825				
	SC.9	0.875				
	SC.10	0.826				
Relational Capital	RC.1	0.869	0.723	0.957	0.958	0.963
	RC.2	0.841				
	RC.3	0.839				
	RC.4	0.833				
	RC.5	0.874				
	RC.6	0.806				
	RC.7	0.907				
	RC.8	0.900				
	RC.9	0.873				
	RC.10	0.746				
Good Corporate Governance	CG.1	0.913	0.772	0.967	0.968	0.971
	CG.2	0.866				
	CG.3	0.858				
	CG.4	0.896				
	CG.5	0.905				
	CG.6	0.866				
	CG.7	0.889				
	CG.8	0.850				
	CG.9	0.862				
	CG.10	0.880				
Financial	FS.1	0.880	0.774	0.968	0.968	0.972

Variables	Items	Loading	AVE	Cronbach's Alpha	Rho_a	Rho_c
Sustainability	FS.2	0.906				
	FS.3	0.883				
	FS.4	0.859				
	FS.5	0.881				
	FS.6	0.880				
	FS.7	0.888				
	FS.8	0.885				
	FS.9	0.845				
	FS.10	0.888				

Source: Processed data (2026)

The results indicate that all indicators achieved loading factor values above the recommended threshold of 0.70, demonstrating satisfactory convergent validity. Furthermore, all constructs reported AVE values exceeding 0.50, indicating that the constructs adequately explained the variance of their indicators. Reliability assessment showed that Cronbach's Alpha and Composite Reliability values for all constructs exceeded 0.70, confirming satisfactory internal consistency reliability. Therefore, the measurement model fulfilled the required validity and reliability criteria.

The discriminant validity test was conducted using the Fornell-Larcker value parameters & Heterotrait-Monotrait Ratio (HTMT).

Table 3. Fornell-Larcker Test Results

	CG	FS	HC	RC	SC
CG	**0.879**				
FS	0.840	**0.880**			
HC	0.878	0.865	**0.882**		
RC	0.845	0.837	0.818	**0.850**	
SC	0.834	0.805	0.828	0.821	**0.840**

Source: Processed data (2026)

Table 3 indicates that the square root of AVE for each construct exceeded its correlations with other constructs, confirming discriminant validity.

Table 4. Heterotrait-Monotrait Ratio (HTMT) Test Results

	CG	FS	HC	RC	SC
CG					
FS	0.700				
HC	0.233	0.633			
RC	0.819	0.737	0.269		
SC	0.710	0.393	0.826	0.642	

Source: Processed data (2026)

All HTMT values were below the recommended threshold, indicating adequate discriminant validity among constructs.

The structural model was assessed using the coefficient of determination (R^2), effect size (f^2), and hypothesis testing through bootstrapping procedures.

Table 5. The Coefficient of Determination Test

	R-square	R-square adjusted	Information
CG	0.920	0.919	Strong
FS	0.907	0.905	Strong

Source: Processed data (2026)

The results show that intellectual capital dimensions explained 92.0% of the variance in good corporate governance, while human capital, social capital, relational capital, and good corporate governance jointly explained 90.7% of the variance in financial sustainability. These results indicate that the proposed model possesses substantial explanatory power in explaining governance quality and financial sustainability within Village Credit Institutions (LPDs) in Bali.

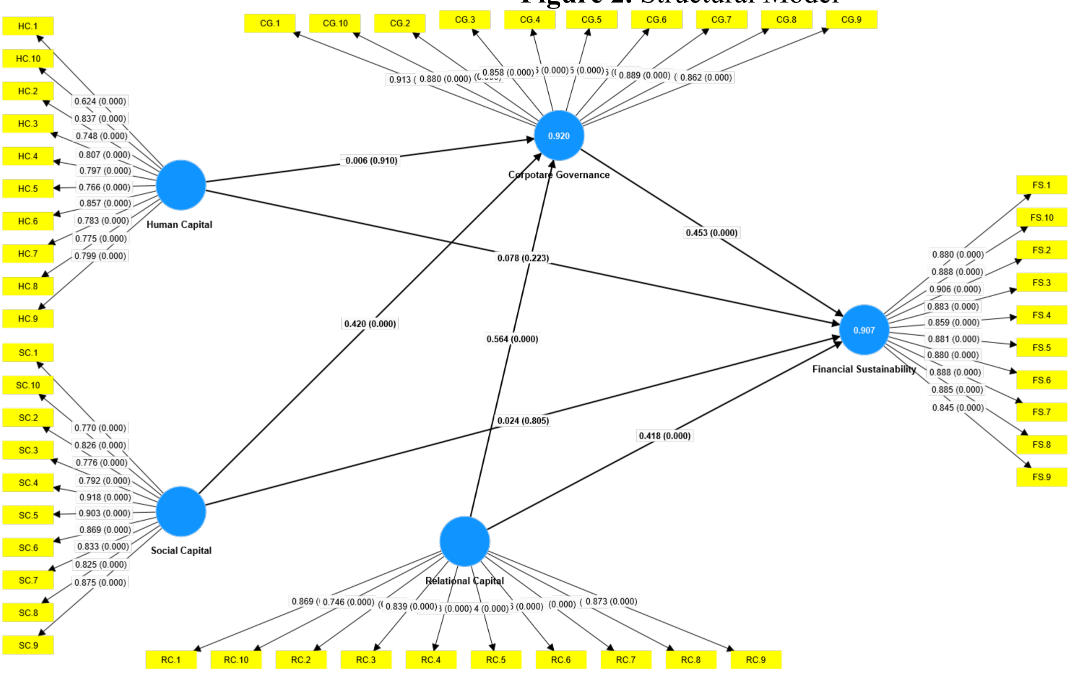
Table 6. f Square Test Results

	CG	FS	HC	RC	SC
CG		0.176			
FS					
HC	0.100	0.109			
RC	0.594	0.176			
SC	0.197	0.005			

Source: Processed data (2026)

The f² results show that relational capital has the strongest effect on good corporate governance (f² = 0.594). Social capital (f² = 0.197), good corporate governance (f² = 0.176), relational capital (f² = 0.176), and human capital (f² = 0.109) demonstrate small-to-moderate effects, while social capital has a negligible effect on financial sustainability (f² = 0.005). Overall, relational capital contributes the greatest effect size within the proposed model.

Figure 2. Structural Model



Source: Processed data (2026)

Table 7. Structural Model Test Results

	Original sample	**t-statistics**	**p-values**
Human Capital -> Corporate Governance	0.006	0.113	0.910
Social Capital -> Corporate Governance	0.420	5,792	0,000
Relational Capital -> Corporate Governance	0.564	6,703	0,000
Corporate Governance -> Financial Sustainability	0.453	4,774	0,000
Human Capital -> Financial Sustainability	0.078	1,219	0.223
Social Capital -> Financial Sustainability	0.024	0.246	0.805
Relational Capital -> Financial Sustainability	0.418	4,248	0,000
Human Capital -> good corporate governance -> Financial Sustainability	0.003	0.108	0.914
Social Capital -> good corporate governance -> Financial Sustainability	0.190	3,582	0,000
Relational Capital -> good corporate governance -> Financial Sustainability	0.255	3,528	0,000

Source: Processed data (2026)

The hypothesis testing results reveal mixed findings regarding the role of intellectual capital dimensions in promoting governance quality and financial sustainability. Human capital was found to have no significant effect on either good corporate governance or financial sustainability. In contrast, social capital and relational capital significantly enhanced good corporate governance. Furthermore, relational capital and good corporate governance positively affected financial sustainability. Mediation analysis demonstrated that good corporate governance fully mediated the relationship between social capital and financial sustainability and partially mediated the relationship between relational capital and financial sustainability. However, good corporate governance was unable to mediate the relationship between human capital and financial sustainability.

4.1 Human Capital, Good Corporate Governance, and Financial Sustainability

Employee competencies, knowledge, and experience may not automatically contribute to stronger governance practices or sustainable financial outcomes within LPDs. Although human capital is recognized as a strategic resource that can create competitive advantage and organizational value (Barney, 1991; Wernerfelt, 1984), its contribution depends on the organization's ability to transform individual capabilities into collective organizational capabilities. In the context of LPDs, employee expertise appears to remain concentrated at the individual level and has not been fully institutionalized into governance systems, organizational learning, or innovation processes that support accountability and sustainability.

This condition may be related to the operational characteristics of LPDs, where governance effectiveness is often influenced more by organizational culture, stakeholder trust, and collective decision-making than by individual employee competencies. The descriptive results indicate that employee initiative and innovation remain relatively limited, suggesting that available human resources have not yet been optimally leveraged to improve governance quality and financial resilience. Consequently, the strategic value of human capital may not be fully realized in supporting organizational sustainability. This interpretation is consistent with the findings of Matei et al. (2024), Wiranata and Ananda (2024), and Khan et al. (2025), which suggest that employee competence alone is insufficient to generate sustainable organizational outcomes without adequate organizational support and governance mechanisms.

4.2 Social Capital, Good Corporate Governance, and Financial Sustainability

Trust, cooperation, communication, and shared values among organizational members create a social environment that facilitates coordination and collective action. These elements are essential for the implementation of governance principles because transparency, accountability, and responsibility are more likely to emerge in organizations characterized by strong interpersonal trust and collaboration (Putra et al., 2021; Khan et al., 2023). In the context of LPDs, which are deeply embedded within indigenous village communities, social relationships play an important role in maintaining organizational cohesion and ensuring compliance with organizational norms and responsibilities.

However, social relationships alone may not be sufficient to generate sustainable financial outcomes. Stakeholder Theory argues that organizational resources create value when they are effectively managed through governance structures that align stakeholder interests with organizational objectives (Freeman, 1984; Donaldson & Preston, 1995). Therefore, the benefits of social capital are more likely to emerge when trust and cooperation are translated into transparent decision-making processes, effective oversight, and accountable management practices.

This finding provides an explanation for the inconsistent results reported in previous studies regarding the relationship between social capital and organizational sustainability. Rather than functioning as a direct source of financial sustainability, social capital appears to operate through governance mechanisms that transform social relationships into organizational effectiveness and sustainable financial performance. As a result, governance quality serves as a crucial link between internal social resources and long-term organizational sustainability.

4.3 Relational Capital, Good Corporate Governance, and Financial Sustainability

Relationships with customers, indigenous communities, regulators, and other external stakeholders represent valuable intangible assets that strengthen organizational legitimacy and stakeholder confidence. In community-based financial institutions such as LPDs, stakeholder trust is particularly important because organizational survival depends heavily on community participation, customer loyalty, and public confidence. Strong external relationships help institutions maintain their reputation, attract financial resources, and secure community support, all of which contribute to long-term sustainability.

According to the Resource-Based View, stakeholder relationships constitute strategic resources that are difficult for competitors to imitate and therefore provide a sustainable competitive advantage (Barney, 1991; Wernerfelt, 1984). Strong relationships also encourage organizations to maintain accountability and transparency in order to preserve stakeholder trust. Consequently, relational capital not only supports organizational sustainability directly through stakeholder support but also strengthens governance quality by encouraging responsible organizational behavior. The ability of relational capital to contribute through both governance and stakeholder support highlights its strategic importance within LPDs. Unlike human capital, which primarily depends on internal organizational capabilities, relational capital derives its value from external stakeholder interactions. This finding supports the argument that organizations with stronger stakeholder relationships are better positioned to achieve sustainable performance because they possess greater legitimacy, trust, and access to external resources (Zhang et al., 2022; Dicuonzo et al., 2022).

4.4 Good Corporate Governance and Financial Sustainability

Governance quality plays a critical role in ensuring that organizational resources are managed efficiently, transparently, and responsibly. Effective governance reduces agency problems, strengthens internal controls, and improves the quality of managerial decisions, thereby enhancing organizational stability and resilience (Harinurdin & Safitri, 2022; Dicuonzo et al., 2022). For financial institutions, governance is particularly important because stakeholder confidence is closely linked to perceptions of accountability, transparency, and institutional integrity.

In the context of LPDs, governance quality serves as an important mechanism for maintaining public trust and safeguarding organizational resources. Since LPDs operate within community-based environments, any decline in stakeholder confidence may directly affect financial performance and organizational sustainability. Governance practices based on transparency, accountability, responsibility, independence, and fairness therefore contribute to the institution's ability to maintain stable operations, manage risks, and achieve long-term sustainability. These findings reinforce previous studies emphasizing the importance of governance quality as a determinant of sustainable organizational performance (Thoha et al., 2022; Dicuonzo et al., 2022).

4.5 Theoretical Implications

This study extends the Resource-Based View by demonstrating that the value of intellectual capital depends not only on the possession of strategic resources but also on the mechanisms through which those resources are utilized. The findings indicate that different dimensions of intellectual capital contribute to organizational sustainability in different ways. While human capital appears insufficient to create sustainable outcomes independently, social capital and relational capital generate greater value when supported by effective governance mechanisms.

The study also strengthens Stakeholder Theory by highlighting the importance of governance quality in transforming trust, cooperation, and stakeholder relationships into sustainable financial outcomes. Governance functions as an institutional mechanism that aligns stakeholder interests, enhances accountability, and enables organizations to extract value from intangible resources. Furthermore, the findings help address inconsistencies in previous empirical studies by demonstrating that the relationship between intellectual capital and financial sustainability is more complex than a simple direct association and involves governance-related processes.

4.6 Practical Implications

The findings suggest that LPD managers should focus not only on developing employee competencies but also on creating organizational systems that enable those competencies to be effectively utilized. Training programs should therefore emphasize innovation, problem-solving capabilities, governance awareness, and knowledge-sharing practices that support organizational learning. In addition, strengthening trust, collaboration, and stakeholder relationships should become a strategic priority because these resources contribute significantly to governance quality and organizational sustainability. Efforts to improve transparency, accountability, stakeholder engagement, and internal control systems may enhance the ability of LPDs to transform intellectual capital into sustainable financial performance. Policymakers and supervisory institutions may also consider strengthening governance capacity-building programs to support the long-term sustainability of LPDs throughout Bali Province.

CONCLUSION

This study examines the role of good corporate governance in mediating the relationship between intellectual capital and financial sustainability in Village Credit Institutions (LPDs) in Bali Province. The findings indicate that social capital and relational capital strengthen governance quality, while relational capital also contributes directly to financial sustainability. In addition, governance quality plays a significant role in supporting sustainable financial performance and serves as an important mechanism through which social capital and relational capital create organizational value. In contrast, employee competencies alone have not yet been effectively translated into governance effectiveness or sustainable financial outcomes. These findings extend the Resource-Based View and Stakeholder Theory by demonstrating that the contribution of intellectual capital to financial sustainability varies across its dimensions. The study highlights the importance of governance quality in transforming trust, collaboration, and stakeholder relationships into sustainable financial outcomes. Empirically, the findings provide evidence from community-based financial institutions and emphasize that social and relational capital are more effective when supported by sound governance practices.

From a practical perspective, LPD managers should prioritize strengthening governance quality, stakeholder trust, organizational collaboration, and external relationships. Efforts to improve employee competencies should also be accompanied by initiatives that encourage innovation, participation, and the effective utilization of human resources within organizational processes. Future studies are encouraged to examine additional determinants of financial sustainability, such as organizational culture, leadership, risk management, innovation capability, and digital transformation, as well as extend the analysis to other types of financial institutions and broader geographical settings.

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