How to Cite
Wati, L. A. M. A., & Suartana, I. W. (2026). Corporate governance and intellectual capital as drivers of financial sustainability: The mediating role of profitability in community-based financial institutions. *International Journal of Business, Economics and Management*, *9*(3), 136-145. https://doi.org/10.21744/ijbem.v9n3.2499

Corporate Governance and Intellectual Capital as Drivers of Financial Sustainability: The Mediating Role of Profitability in Community-Based Financial Institutions

Luh Ade Mirah Anggara Wati
Faculty of Economics and Business, Udayana University, Denpasar, Indonesia
Corresponding author email: mirahanggaraw13@gmail.com

I Wayan Suartana
Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

Abstract---*This study examines the effect of corporate governance and intellectual capital on financial sustainability with profitability as a mediating variable in Village Credit Institutions (LPD) in Badung Regency, Bali, Indonesia. LPDs play an important role as indigenous community-based financial institutions that support local economic development and community welfare; therefore, maintaining their financial sustainability is essential. This study is grounded in Goal Setting Theory and Agency Theory and employs a quantitative approach using Partial Least Squares–Structural Equation Modeling (PLS-SEM). Data were collected through questionnaires distributed to LPD managers and supervisors in Badung Regency. The results reveal that corporate governance positively influences profitability but does not directly affect financial sustainability. Intellectual capital negatively affects profitability while positively influencing financial sustainability. Furthermore, profitability has a positive effect on financial sustainability and mediates the relationship between corporate governance, intellectual capital, and financial sustainability. These findings indicate that the sustainability of community-based financial institutions is determined not only by governance mechanisms and intellectual resources but also by their ability to generate sustainable profitability. This study contributes to the financial sustainability literature by providing empirical evidence from indigenous financial institutions and offers practical implications for policymakers, supervisory institutions, and LPD managers in strengthening long-term institutional sustainability.*
Keywords---*Corporate Governance, Intellectual Capital, Profitability, Financial Sustainability, Community-Based Financial Institutions.*

Introduction

Financial sustainability has become an important issue for community-based financial institutions, particularly in maintaining their ability to support economic and social development over the long term. In Bali, Indonesia, the Village Credit Institution (Lembaga Perkreditan Desa/LPD) represents a unique indigenous financial institution owned by traditional villages (desa adat) that plays a strategic role in strengthening local economies and improving community welfare. LPDs are not only profit-oriented institutions but also serve social, cultural, and customary functions within indigenous communities (Widyani et al., 2020). Therefore, maintaining the financial sustainability of LPDs is essential to ensure their continued contribution to village economic development.

Despite their strategic role, LPDs face various challenges related to governance effectiveness, internal control systems, and organizational resource management. The audit results of LPDs in Badung Regency in 2024 indicated that several institutions still experienced weaknesses in internal control, standard operating procedures, human resource competencies, accounting information systems, credit management, and the implementation of good corporate governance (Pemerintah Kabupaten Badung, 2024). Several cases of financial misconduct involving LPDs

ISSN 2632-9476
Submitted: 27 May 2026 |Revised: 18 June 2026 | Accepted: 09 July 2026

in Badung Regency have further raised concerns regarding institutional governance and long-term sustainability. These conditions indicate that financial sustainability is not only determined by financial performance but also by the effectiveness of organizational management and internal capabilities (Al-Ahdal et al., 2020).

Corporate governance is considered an important mechanism for ensuring transparency, accountability, and responsible decision-making within financial institutions. Effective governance can reduce information asymmetry between managers and stakeholders, strengthen monitoring mechanisms, and support organizational sustainability (Chenuos et al., 2014; Uchenna et al., 2017; Prameswari et al., 2022). Previous studies have demonstrated that corporate governance contributes positively to financial sustainability and financial performance (Castillo-Merino & Rodríguez-Pérez, 2021; Alkaraan et al., 2022). However, other studies have reported inconsistent findings, suggesting that the impact of governance depends on the quality of implementation rather than merely the existence of governance structures (Hashim et al., 2015; Jamil et al., 2021; Rahman et al., 2022).

In addition to governance mechanisms, intellectual capital has increasingly been recognized as a strategic resource influencing organizational sustainability. Intellectual capital, including human capital, structural capital, and relational capital, reflects an organization's ability to utilize knowledge, competencies, and internal capabilities to create value (Agustia et al., 2021). Previous studies have shown that effective intellectual capital management improves financial performance and supports financial sustainability (Jordão & de Almeida, 2017; Farah et al., 2019; Githaiga et al., 2023). However, empirical evidence regarding the relationship between intellectual capital and sustainability remains mixed, particularly in the context of community-based financial institutions.

Profitability may serve as an important mechanism linking corporate governance and intellectual capital with financial sustainability. A higher level of profitability indicates an institution’s ability to manage resources effectively, maintain operational efficiency, and generate sufficient financial capacity to support long-term sustainability. Previous studies suggest that profitability strengthens the relationship between organizational capabilities and financial sustainability (Castillo-Merino & Rodríguez-Pérez, 2021; Wahyuni et al., 2023; Mendra et al., 2024). However, limited studies have examined profitability as a mediating variable in explaining the sustainability of indigenous community-based financial institutions.

Therefore, this study aims to examine the effect of corporate governance and intellectual capital on financial sustainability with profitability as a mediating variable in LPDs in Badung Regency, Bali. This research contributes to the sustainability and financial institution literature by providing empirical evidence from a unique indigenous community-based financial institution context.

Literature Review and Hypothesis

Based on Goal Setting Theory, organizations require clear and measurable objectives to achieve long-term performance, including financial sustainability. However, achieving sustainability goals may be influenced by conflicts of interest between managers and owners, as explained by Agency Theory. In this context, corporate governance functions as a control mechanism to align managerial actions with organizational objectives through transparency, accountability, responsibility, and effective monitoring. Good corporate governance enables organizations to improve decision-making quality, reduce agency problems, and strengthen financial stability. Previous studies have demonstrated that effective corporate governance contributes to financial sustainability by improving organizational control and financial resilience (Uchenna et al., 2017; Castillo-Merino & Rodríguez-Pérez, 2021; Wahyuni et al., 2023; Mendra et al., 2024). Therefore, stronger corporate governance practices are expected to enhance the ability of LPDs to maintain their long-term financial sustainability.
H1: Corporate governance has a positive effect on financial sustainability.

Goal Setting Theory emphasizes that organizations require appropriate strategies and resources to achieve predetermined objectives. From the perspective of strategic management, intellectual capital represents a valuable organizational resource that enables institutions to create competitive advantages through knowledge, skills, organizational systems, and stakeholder relationships. Effective management of intellectual capital allows organizations to improve operational efficiency, innovation capability, and adaptability, which ultimately supports financial sustainability. Previous empirical studies have confirmed that intellectual capital contributes positively to sustainability by strengthening organizational capabilities and financial performance (Sheikh & Wepukhulu, 2019; Farah et al., 2019; Munir et al., 2019; Muchran, 2020; Githaiga et al., 2023). Therefore, LPDs with stronger intellectual capital capabilities are expected to achieve higher levels of financial sustainability.
H2: Intellectual capital has a positive effect on financial sustainability.

Agency Theory explains that corporate governance plays an important role in reducing conflicts between managers and stakeholders by establishing effective monitoring and control mechanisms. Strong governance practices improve transparency, accountability, and managerial discipline, thereby reducing inefficient decision-making and enhancing operational effectiveness. These improvements can contribute to better resource utilization and increased profitability. Previous studies have shown that corporate governance positively influences financial performance and profitability by strengthening organizational control and managerial effectiveness (Lokaputra et al., 2022; Mendra et al., 2024; Fajriyanti et al., 2021; Amelia et al., 2024). Therefore, effective corporate governance is expected to improve the profitability of LPDs.
H3: Corporate governance has a positive effect on profitability.

According to Goal Setting Theory, organizations need strategic resources to achieve performance objectives, including profitability improvement. Intellectual capital represents an intangible strategic resource consisting of human capital, structural capital, and relational capital that enables organizations to create value and improve operational efficiency. Furthermore, from the perspective of Agency Theory, intellectual capital can reduce information asymmetry by improving organizational knowledge and decision-making quality, thereby minimizing agency costs and enhancing performance. Previous studies indicate that intellectual capital contributes to improved financial performance and profitability through innovation, productivity, and efficient resource utilization (Munir et al., 2019; Muchran, 2020; Githaiga et al., 2023; Marcodinata et al., 2023). Therefore, intellectual capital is expected to strengthen the profitability of LPDs.
H4: Intellectual capital has a positive effect on profitability.

Profitability reflects an organization's ability to generate earnings through effective utilization of resources and operational activities. From a financial sustainability perspective, profitability provides internal financial capacity that enables organizations to maintain operations, develop resources, and overcome future financial risks. Higher profitability allows institutions to accumulate financial reserves and strengthen long-term stability. Previous studies have found that profitability positively influences financial sustainability because profitable organizations possess greater capacity to maintain continuous operations and achieve long-term financial resilience (Anggara et al., 2025; Permatasari et al., 2024). Therefore, higher profitability is expected to improve the financial sustainability of LPDs.
H5: Profitability has a positive effect on financial sustainability.

According to Agency Theory, corporate governance serves as a mechanism to align the interests of managers and stakeholders by reducing information asymmetry and improving organizational control. Effective governance practices can enhance operational efficiency and managerial accountability, which subsequently improve profitability. Profitability then becomes an important pathway through which governance practices contribute to long-term financial sustainability. Organizations with effective governance mechanisms are more capable of generating sustainable financial performance, which strengthens their ability to maintain long-term operations. Previous studies suggest that corporate governance improves financial performance and that profitability plays an important role in supporting sustainability outcomes (Robiyanto et al., 2021; Rustam & Adil, 2022; Mendra et al., 2024). Therefore, profitability is expected to mediate the relationship between corporate governance and financial sustainability.
H6: Corporate governance has a positive effect on financial sustainability through the mediating role of profitability.

Intellectual capital represents an organization's ability to utilize knowledge, competencies, systems, and relationships to create value. Based on the resource-based perspective, intellectual capital serves as a strategic resource that improves operational efficiency and organizational performance. Effective utilization of intellectual capital enhances profitability by increasing productivity, innovation, and resource efficiency. Furthermore, profitability provides financial strength that enables organizations to sustain their operations and support long-term financial sustainability. Previous studies suggest that intellectual capital improves financial performance, while profitability strengthens organizational sustainability (Riahi-Belkaoui, 2003; Arsyad et al., 2024; Mendra et al., 2024; Yusliza et al., 2020). Therefore, profitability is expected to act as a mechanism that explains how intellectual capital contributes to financial sustainability.
H7: Intellectual capital has a positive effect on financial sustainability through the mediating role of profitability.

Methods

This study employed a quantitative approach to examine the relationship between corporate governance, intellectual capital, profitability, and financial sustainability in Village Credit Institutions (LPD) in Badung Regency, Bali, Indonesia. The population consisted of LPDs operating in Badung Regency, with respondents selected using purposive sampling based on their involvement and understanding of LPD management and supervision. Data were collected through structured questionnaires distributed to LPD managers and supervisors. The research variables consisted of corporate governance and intellectual capital as exogenous variables, financial sustainability as the endogenous variable, and profitability as a mediating variable. Each construct was measured using indicators adapted from previous studies, including governance principles, intellectual capital dimensions (human capital, structural capital, and relational capital), profitability capability, and long-term financial sustainability.

Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) to test the proposed hypotheses and examine both direct and indirect relationships among variables. The analysis involved evaluating the measurement model through reliability and validity assessments and assessing the structural model through path coefficients, coefficient of determination (R^2), and bootstrapping procedures. Mediation analysis was conducted to determine the role of profitability in explaining the relationship between corporate governance and intellectual capital and financial sustainability.

Result and Discussion

Measurement Model Assessment

The measurement model was evaluated using Partial Least Squares–Structural Equation Modeling (PLS-SEM) through SmartPLS 3.0. The assessment was conducted to ensure the validity and reliability of the constructs, including convergent validity, discriminant validity, and composite reliability. The convergent validity was evaluated based on the outer loading values, with a minimum acceptable value of 0.50.

Table 1
Convergent Validity Results

Construct	Indicators	Outer Loading Range	Threshold	Result
Corporate Governance	X1.1–X1.20	0.558–0.845	>0.50	Accepted
Intellectual Capital	X2.1–X2.16	0.764–0.939	>0.50	Accepted
Financial Sustainability	Y1–Y11	0.956–0.990	>0.50	Accepted
Profitability	M1–M6	0.963–0.982	>0.50	Accepted

Primary Data, 2026

The results indicate that all indicators have outer loading values above the recommended threshold of 0.50. Therefore, all measurement indicators demonstrate adequate convergent validity and are appropriate for measuring each latent construct.

Reliability and Discriminant Validity Assessment

The reliability of each construct was assessed using Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). A construct is considered reliable when Cronbach's Alpha and Composite Reliability exceed 0.70, while AVE should be above 0.50.

Table 2
Reliability and Average Variance Extracted Results

Construct	Cronbach's Alpha	Composite Reliability	AVE	Result
Corporate Governance	0.958	0.960	0.549	Accepted
Intellectual Capital	0.977	0.979	0.742	Accepted
Financial Sustainability	0.995	0.995	0.949	Accepted
Profitability	0.989	0.991	0.949	Accepted

Primary Data, 2026

The results demonstrate that all constructs meet the reliability criteria, with Cronbach's Alpha and Composite Reliability values exceeding 0.70. Furthermore, all AVE values are above 0.50, confirming adequate convergent validity. Therefore, the measurement model is considered reliable and valid for further structural model analysis.

Structural Model Assessment

The structural model was evaluated through the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2).

Coefficient of Determination (R^2)

The R^2 value indicates the explanatory power of exogenous variables in predicting endogenous constructs. According to Hair et al. (2021), R^2 values of 0.25, 0.50, and 0.75 represent weak, moderate, and substantial explanatory power, respectively.

Table 3
R-Square Results

Endogenous Construct	R^2	Interpretation
Profitability	0.521	Moderate
Financial Sustainability	0.722	Moderate

Primary Data, 2026

The results show that corporate governance and intellectual capital explain 52.1% of the variance in profitability, while the remaining 47.9% is explained by other factors outside the model. Furthermore, corporate governance, intellectual capital, and profitability explain 72.2% of the financial sustainability variance. These findings indicate that the proposed model has moderate explanatory capability.

Effect Size (f^2)

The effect size analysis was conducted to determine the contribution of each exogenous variable toward endogenous constructs. According to Cohen (1988), f^2 values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects, respectively.

Table 4
Effect Size Results

Predictor Variable	Financial Sustainability	Profitability
Corporate Governance	0.002	0.775
Intellectual Capital	0.276	0.301
Profitability	0.037	-

Primary Data, 2026

The results indicate that corporate governance has a very strong effect on profitability ($f^2 = 0.775$). Intellectual capital demonstrates moderate effects on both financial sustainability ($f^2 = 0.276$) and profitability ($f^2 = 0.301$). Meanwhile, profitability shows a small effect on financial sustainability ($f^2 = 0.037$).

Predictive Relevance (Q^2)

The predictive relevance of the model was assessed using the Q^2 value. The calculation resulted in:

$Q^2 = 1 – (1 – R_1^2)(1 – R_2^2)$

Calculated:

$Q^2 = 1 – (1 – 0{,}722)(1 – 0{,}521)$

$Q^2 = 1 – (0{,}278 \times 0{,}479)$

$Q^2 = 1 – 0{,}133$

$Q^2 = 0{,}867$

The Q² value of 0.867 indicates that the model has strong predictive relevance, as it exceeds the recommended value of zero. This result confirms that corporate governance, intellectual capital, and profitability provide substantial predictive capability in explaining financial sustainability.

Hypothesis Testing

Hypothesis testing was conducted using bootstrapping procedures in SmartPLS. The decision criteria were based on t-statistic values (>1.645 for one-tailed testing) and p-values (<0.05).

Table 5
Hypothesis Testing Results

Hypothesis	Relationship	Path Coefficient	t-statistic	p-value	Result
H1	Corporate Governance → Financial Sustainability	0.063	0.758	0.449	Rejected
H2	Intellectual Capital → Financial Sustainability	0.723	9.574	0.000	Accepted
H3	Corporate Governance → Profitability	1.396	15.391	0.000	Accepted
H4	Intellectual Capital → Profitability	-0.870	7.899	0.000	Rejected
H5	Profitability → Financial Sustainability	0.146	3.194	0.000	Accepted
H6	Corporate Governance → Financial Sustainability through Profitability	0.205	2.815	0.005	Accepted
H7	Intellectual Capital → Financial Sustainability through Profitability	-0.127	2.654	0.010	Rejected

Source: Data processed (2026)

The Effect of Corporate Governance on Financial Sustainability

The results indicate that corporate governance does not have a significant direct effect on financial sustainability in Village Credit Institutions (LPD) in Badung Regency. The path coefficient of 0.063 with a t-statistic of 0.758 and a p-value of 0.449 indicates that improvements in governance practices alone are insufficient to directly enhance the long-term financial sustainability of LPDs. Therefore, H1 is rejected.

This finding suggests that the existence of governance mechanisms does not automatically guarantee financial sustainability unless such mechanisms are effectively translated into improved financial performance and operational effectiveness. In the context of LPDs, corporate governance practices may primarily function as administrative and regulatory compliance mechanisms rather than direct drivers of financial sustainability. Although governance principles such as transparency, accountability, responsibility, independence, and fairness are essential, their impact on sustainability requires an intermediate mechanism that strengthens institutional financial capacity.

From the perspective of Agency Theory, corporate governance is expected to reduce agency conflicts between managers (agents) and village communities (principals) through monitoring and control mechanisms. However, the effectiveness of governance depends on how these mechanisms influence managerial decisions and resource utilization. This finding supports previous studies indicating that corporate governance does not always have a direct influence on sustainability outcomes because governance effectiveness depends on implementation quality rather than merely the existence of formal governance structures (Hashim et al., 2015; Jamil et al., 2021; Rahman et al., 2022). Therefore, in LPDs, governance mechanisms need to be supported by stronger financial capabilities and performance outcomes to contribute to long-term sustainability.

The Effect of Intellectual Capital on Financial Sustainability

The findings demonstrate that intellectual capital has a positive and significant effect on financial sustainability, with a path coefficient of 0.723, a t-statistic of 9.574, and a p-value of 0.000. Therefore, H2 is supported. This result indicates that intellectual capital represents an important strategic resource in maintaining the long-term sustainability of LPDs.

This finding can be explained through the Resource-Based View (RBV), which argues that organizations can achieve sustainable competitive advantages through valuable, rare, and difficult-to-imitate resources. In the context of LPDs, intellectual capital includes the competence of managers and employees (human capital), organizational systems and operational procedures (structural capital), and social relationships with indigenous communities (relational capital). These intangible resources strengthen institutional capability, improve service quality, and maintain community trust, which ultimately supports financial sustainability.

Unlike conventional financial institutions, LPDs operate within a unique socio-cultural environment where trust and social relationships represent important institutional assets. Strong relational capital enables LPDs to maintain close relationships with village communities, while human and structural capital enhance managerial capability and operational effectiveness. The findings are consistent with previous studies demonstrating that intellectual capital contributes positively to financial sustainability by strengthening organizational capabilities and financial resilience (Sheikh & Wepukhulu, 2019; Farah et al., 2019; Munir et al., 2019; Muchran, 2020; Githaiga et al., 2023). Therefore, strengthening intellectual capital becomes a strategic priority for LPDs in achieving sustainable financial performance.

The Effect of Corporate Governance on Profitability

The results reveal that corporate governance has a positive and significant effect on profitability, with a path coefficient of 1.396, a t-statistic of 15.391, and a p-value of 0.000. Thus, H3 is supported. This finding indicates that effective governance practices contribute to improving the ability of LPDs to generate profits.

This result supports Agency Theory, which emphasizes that governance mechanisms reduce conflicts of interest between managers and owners by strengthening monitoring systems and ensuring that managerial decisions align with organizational objectives. Effective governance improves transparency, accountability, and internal control, allowing LPDs to manage resources more efficiently and reduce operational risks.

In the context of LPDs, good governance practices can improve credit management, strengthen internal supervision, and enhance decision-making quality. These improvements contribute to better operational efficiency and financial performance. This finding is consistent with previous studies showing that corporate governance positively influences profitability by improving managerial effectiveness and financial control (Fajriyanti et al., 2021; Lokaputra et al., 2022; Amelia et al., 2024; Mendra et al., 2024). Therefore, although governance does not directly determine financial sustainability, it plays an important role in creating profitability as a foundation for long-term sustainability.

The Effect of Intellectual Capital on Profitability

The results indicate that intellectual capital has a negative and significant effect on profitability, with a path coefficient of -0.870, a t-statistic of 7.899, and a p-value of 0.000. Therefore, H4 is rejected. This finding suggests that increasing intellectual capital investment does not immediately translate into higher profitability for LPDs.

Although intellectual capital is theoretically considered a strategic resource, its financial benefits may require a longer period to materialize. Based on the Resource-Based View, intangible resources such as employee competence, organizational systems, and relational networks contribute to competitive advantages; however, developing these resources often requires significant initial investment. In the short term, investments in employee training, information systems improvement, digital transformation, and organizational development may increase operational costs and reduce current profitability.

This finding indicates the existence of a possible time-lag effect, where the benefits of intellectual capital accumulation emerge gradually rather than immediately. The result differs from previous studies that found positive relationships between intellectual capital and profitability (Githaiga et al., 2023; Marcodinata et al., 2023). However, the finding provides an important insight that intellectual capital development in community-based financial institutions may require a long-term perspective because the initial investment burden may temporarily reduce financial returns.

The Effect of Profitability on Financial Sustainability

The findings confirm that profitability has a positive and significant effect on financial sustainability, with a path coefficient of 0.146, a t-statistic of 3.194, and a p-value of 0.000. Therefore, H5 is supported. This result indicates that profitability represents an important determinant of LPDs' ability to maintain long-term financial sustainability.

Profitability reflects the capacity of an institution to generate internal financial resources through effective operational management. Higher profitability enables LPDs to strengthen capital reserves, maintain liquidity, absorb financial risks, and support future operational development. In this context, profitability does not merely represent short-term financial performance but also serves as a foundation for long-term institutional resilience.

This finding supports previous research indicating that profitability contributes significantly to financial sustainability because financially stronger institutions have greater capacity to maintain continuous operations and overcome future financial challenges (Permatasari et al., 2024; Anggara et al., 2025). Therefore, improving profitability remains an important strategy for LPDs to ensure sustainable financial performance.

The Mediating Role of Profitability in the Relationship between Corporate Governance and Financial Sustainability

The mediation analysis shows that profitability significantly mediates the relationship between corporate governance and financial sustainability. The indirect effect has a coefficient of 0.205, a t-statistic of 2.815, and a p-value of 0.005. Therefore, H6 is supported.

The findings indicate that corporate governance influences financial sustainability indirectly through profitability rather than through a direct pathway. This explains why corporate governance did not significantly affect financial sustainability in the direct relationship. Effective governance mechanisms improve supervision, accountability, and operational efficiency, which subsequently enhance profitability. Increased profitability then strengthens the financial capacity of LPDs to maintain long-term sustainability.

This finding provides empirical support for Agency Theory by demonstrating that governance mechanisms create value when they successfully improve managerial efficiency and financial outcomes. In other words, governance acts as an enabling mechanism that contributes to sustainability through improved financial performance. This finding is consistent with previous studies emphasizing that governance effectiveness contributes to sustainability outcomes through improved financial performance (Robiyanto et al., 2021; Mendra et al., 2024).

The Mediating Role of Profitability in the Relationship between Intellectual Capital and Financial Sustainability

The results indicate that profitability significantly mediates the relationship between intellectual capital and financial sustainability; however, the indirect effect is negative, with a coefficient of -0.127, a t-statistic of 2.654, and a p-value of 0.010. Therefore, H7 is rejected.

This finding reveals a complex relationship between intellectual capital, profitability, and sustainability. While intellectual capital directly improves financial sustainability, its indirect effect through profitability becomes negative because intellectual capital investment reduces short-term profitability. This condition indicates a competitive mediation effect, where intellectual capital provides long-term sustainability benefits but may generate short-term financial pressure.

For LPDs, investment in intellectual capital such as employee development, improvement of operational systems, and strengthening community relationships requires financial resources. Although these investments enhance institutional capability and sustainability in the long term, the associated costs may reduce profitability in the short term. Therefore, the contribution of intellectual capital to sustainability is not necessarily achieved through immediate profit generation but through strengthening organizational capacity and stakeholder trust.

This finding extends previous intellectual capital research by showing that the relationship between intellectual capital and sustainability may vary depending on institutional characteristics and investment horizons. In community-based financial institutions such as LPDs, intellectual capital functions more as a sustainability capability rather than merely a short-term profitability driver.

Conclusion

This study examined the role of corporate governance and intellectual capital in enhancing financial sustainability with profitability as a mediating variable in Village Credit Institutions (LPD) in Badung Regency, Bali, Indonesia. The findings provide empirical evidence that the determinants of financial sustainability in community-based financial institutions are not solely derived from formal governance mechanisms but also from internal organizational capabilities and financial performance.

The results demonstrate that corporate governance does not directly influence financial sustainability; however, it contributes positively to profitability, which subsequently strengthens financial sustainability. This finding indicates that governance mechanisms create sustainability value when they are effectively translated into improved operational efficiency and financial outcomes. Meanwhile, intellectual capital has been proven to directly enhance financial sustainability, highlighting the importance of knowledge, organizational capabilities, and social relationships as strategic resources for LPDs. However, intellectual capital negatively affects profitability, suggesting that investments in intangible resources may require substantial initial costs and longer periods before generating financial returns.

Furthermore, profitability plays an important role in strengthening financial sustainability and acts as a mediating mechanism between corporate governance and financial sustainability. However, the mediation effect of profitability in the relationship between intellectual capital and financial sustainability shows a negative direction, indicating that intellectual capital contributes more strongly to sustainability through institutional capacity development rather than short-term profitability improvement. Overall, this study contributes to the financial sustainability literature by demonstrating the unique dynamics of indigenous community-based financial institutions, where governance, intellectual resources, and financial performance interact to determine long-term institutional resilience.

Managerial Implications

The findings provide several practical implications for LPD managers, supervisory institutions, and policymakers. First, LPD management should strengthen corporate governance practices not only as a compliance mechanism but as a strategic management tool that improves operational effectiveness and profitability. Although corporate governance does not directly enhance financial sustainability, its ability to improve profitability indicates that transparent decision-making, effective internal control, accountability, and risk management are essential foundations for strengthening financial capacity. Therefore, LPD managers should focus on improving governance implementation, particularly in credit management, internal supervision, and financial control systems.

Second, LPD managers should prioritize the development of intellectual capital as a long-term investment strategy rather than expecting immediate financial returns. The negative relationship between intellectual capital and profitability indicates that investments in employee competency development, digital systems, and organizational improvement may create short-term financial pressure; however, these investments are essential for strengthening institutional capability and long-term sustainability. Therefore, LPDs should develop a balanced strategy by aligning intellectual capital investments with financial planning, ensuring that resource development supports both current operational stability and future sustainability. For policymakers and supervisory institutions, these findings emphasize the importance of providing continuous training, governance strengthening programs, and capacity-building initiatives to improve the resilience of LPDs as indigenous community-based financial institutions.

References

Agustia, D., Asyik, N. F., & Midiantari, N. (2021). Intellectual Capital Terhadap Financial Performance Dan Sustainable Growth. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*, *5*(2), 159-179.

Al-Ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. (2020). The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance*, *51*, 101083. https://doi.org/10.1016/j.ribaf.2019.101083

Alkaraan, F., Albitar, K., Hussainey, K., & Venkatesh, V. G. (2022). Corporate transformation toward Industry 4.0 and financial performance: The influence of environmental, social, and governance (ESG). *Technological Forecasting and Social Change*, *175*, 121423. https://doi.org/10.1016/j.techfore.2021.121423

Amelia, E., Pasca, Y., Abriyani, L., Hasanah, A. S., Pratiwi, V. A., Susnita, T. A., & Sari, G. K. (2024). Optimizing Employee Performance: The Role of Public Service Motivation and Organizational Citizenship Behavior. *Airlangga Journal of Innovation Management*, *5*(4), 651-665.

Anggara, C. N., & Harori, M. I. (2025). Effect of Green Finance, Profitability, Leverage and Company Size on Financial Sustainability Ratio at Sharia Commercial Banks in Indonesia for the Period 2019-2023. *The Es Accounting And Finance*, *3*(02), 162-178.

Arsyad, A. W., Rohmah, A. N. M., Boer, K. M., & Ghalib, A. (2024). ENHANCING BUSINESS SUSTAINABILITY THROUGH CSR: A CASE STUDY OF" BETTER LIVING IN MALAHING" IN THE PERSPECTIVE OF CARROLL'S PYRAMID. In *International Conference of Business and Social Sciences* (pp. 293-306).

Castillo-Merino, D., & Rodríguez-Pérez, G. (2021). The effects of legal origin and corporate governance on financial firms' sustainability performance. *Sustainability*, *13*(15), 8233.

Chenuos, N. K., Mohamed, A., & Bitok, S. K. (2014). Effects of corporate governance on micro finance institutions financial sustainability in Kenya. *European Journal of Business and Management*, *6*(30), 71-81.

Dwi Widyani, A. A., Landra, N., Sudja, N., Ximenes, M., & Sarmawa, I. W. G. (2020). The role of ethical behavior and entrepreneurial leadership to improve organizational performance. *Cogent Business & Management*, *7*(1), 1747827.

Fajriyanti, N., Sukoharsono, E. G., & Adib, N. (2021). Examining the effect of diversification, corporate governance and intellectual capital on sustainability performance. *International Journal of Research in Business and Social Science*, *10*(2), 12-20.

Farah, A. A., Mbebe, J. N., & Muyoka, B. (2019). Effect of Intellectual Capital on Financial Sustainability of savings and credit cooperative societies in Kenya. *International Academic Journal of Economics and Finance, 3*(4), 16–31.

Githaiga, P. N., Soi, N., & Buigut, K. K. (2023). Does intellectual capital matter to MFIs' financial sustainability?. *Asian Journal of Accounting Research*, *8*(1), 41-52.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis* (7th ed.). Pearson.

Hashim, F., Mahadi, N. D., & Amran, A. (2015). Corporate governance and sustainability practices in Islamic financial institutions: the role of country of origin. *Procedia Economics and Finance*, *31*, 36-43. https://doi.org/10.1016/S2212-5671(15)01129-6

Jamil, A., Mohd Ghazali, N. A., & Puat Nelson, S. (2021). The influence of corporate governance structure on sustainability reporting in Malaysia. *Social Responsibility Journal*, *17*(8), 1251-1278.

Jordão, R. V. D., & Almeida, V. R. D. (2017). Performance measurement, intellectual capital and financial sustainability. *Journal of intellectual capital*, *18*(3), 643-666.

Lokaputra, M., Kurnia, P., & Anugerah, R. (2022). Pengaruh Tata Kelola Perusahaan Terhadap Pengungkapan Manajemen Risiko. *Jurnal Kajian Akuntansi Dan Auditing*, *17*(1), 50-63.

Marcodinata, M., Yusralaini, Y., & Susilatri, S. (2023). The Effect of Ownership Structure And Good Corporate Governance on Risk Management Disclosure. *CURRENT Jurnal Kajian Akuntansi Dan Bisnis Terkini*, *4*(3), 421-433.

Mendra, N. P. Y., Ramanta, I. W., Widanaputra, A. A. G. P., & Suaryana, I. G. N. A. (2024). The impact of corporate governance based on natural environmental sustainability, intellectual capital, and risk management on profitability and financial sustainability. *Journal of Sustainability Science and Management*, *19*(10), 8-24.

Muchran, M. (2020). Effect of intellectual capital on sustainable financial performance of Indonesian pharmaceutical firms with moderating role knowledge management. *Systematic Review Pharmacy*, *11*(1), 203-212.

Munir, A., Khan, F. U., Usman, M., & Khuram, S. (2019). Relationship between corporate governance, corporate sustainability and financial performance. *Pakistan Journal of Commerce and Social Sciences, 13*(4), 915–933.

Permatasari, D. I., & Sidauruk, S. H. (2024). Sustainability Accounting, Company Performance, On Company Value In Companies With Common Effect Model In IDX 30 Companies On The IDX. *Jurnal Ekonomi*, *13*(04), 1585-1595.

Prameswari, N. P. A. S., Suaryana, I. G. A. N., Sujana, I. K., & Rasmini, N. K. (2022). Good corporate governance moderates the effect of corporate social responsibility disclosure, financial distress and managerial ability on earnings management with variable. *International Journal of Business, Economics and Management*, *5*(4), 453-462. https://doi.org/10.21744/ijbem.v5n4.2038

Rahman, M. S., Sarker, P. K., & Giessen, L. (2022). Super-bureaucracy in climate adaptation governance in Bangladesh. *Climate and Development*, *14*(5), 459-471.

Riahi-Belkaoui, A. (2003). Intellectual capital and firm performance of US multinational firms: A study of the resource-based and stakeholder views. *Journal of Intellectual capital*, *4*(2), 215-226.

Robiyanto, R., Putra, A. R., & Lako, A. (2021). The effect of corporate governance and intellectual capital toward financial performance and firm value of socially responsible firms. *Contaduría y administración*, *66*(1).

Rustam, A., & Adil, M. (2022). Financial sustainability ratio and aspects that affect it. *Jurnal Akuntansi*, *26*(1), 144-160.

Sheikh, H. I., & Wepukhulu, J. M. (2019). Effect of intellectual capital efficiency on financial sustainability of Savings and Credit Cooperative Societies in Nairobi County, Kenya. *International Academic Journal of Economics and Finance*, *3*(4), 16-31.

Sheikh, H. I., & Wepukhulu, J. M. (2019). Effect of intellectual capital efficiency on financial sustainability of Savings and Credit Cooperative Societies in Nairobi County, Kenya. *International Academic Journal of Economics and Finance*, *3*(4), 16-31.

Uchenna, O. L., Adedayo, E. O., Ahmed, A., & Isibor, A. (2017). Corporate governance and Financial Sustainability of microfinance institutions in Nigeria. *Proceedings of the IBIMA Conference*, 4035–4045.

Wahyuni, N. P. E., Putra, I. G. C., & Sentosa, M. E. (2023). Pengaruh Corporate governance terhadap kinerja keuangan dan Financial Sustainability pada LPD. *Jurnal Ilmiah Akuntansi, 11*(1), 92–105.

Yusliza, M. Y., Yong, J. Y., Tanveer, M. I., Ramayah, T., Faezah, J. N., & Muhammad, Z. (2020). A structural model of the impact of green intellectual capital on sustainable performance. *Journal of cleaner production*, *249*, 119334. https://doi.org/10.1016/j.jclepro.2019.119334