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THE IMPACT OF CORPORATE GOVERNANCE BASED ON NATURAL ENVIRONMENTAL SUSTAINABILITY, INTELLECTUAL CAPITAL, AND RISK MANAGEMENT ON PROFITABILITY AND FINANCIAL SUSTAINABILITY

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Abstract: This research examines the direct impact of corporate governance based on natural environmental sustainability, intellectual capital, and risk management on profitability and financial sustainability. Empirical data was collected from 307 Heads of Village Credit Institutions (LPD) throughout Bali, whose role is to manage natural resources and their conservation by providing important financial support to local farmers and entrepreneurs. Research using questionnaires was analysed using Structural Equation Modelling-Partial Least Squares (SEM-PLS). The research results show that corporate governance, intellectual capital, and risk management increase profitability. Finally, the test results prove that profitability mediates the influence of corporate governance, intellectual capital and risk management on financial sustainability. These findings imply that corporate governance, intellectual capital, risk management, and profitability are significant predictors of achieving financial sustainability in Village Credit Institutions. Therefore, corporate governance, intellectual capital, risk management, and profitability are needed to achieve financial sustainability and help the government implement future policies for the sustainability of Village Credit Institutions. Their contributions include the development of sustainable agricultural practices and community development projects related to preserving the natural environment and promoting environmentally friendly and sustainable agricultural methods, all of which contribute to preserving the natural environment and biodiversity.

Keywords: Financial sustainability, natural environmental sustainability, intellectual capital, risk management.

Introduction

Financial sustainability is the ability of an organisation to maintain its status over a long period by mobilising, managing, and using resources efficiently (Almilia *et al.,* 2009; Bowman, 2011). Financial sustainability is the goal of every company, including Village Credit Institutions (*Lembaga Perkreditan Desa,* hereinafter LPD). Village Credit Institutions (LPD) is an institution that carries out financial functions based on traditional ties in Bali, which plays a role in encouraging the economy of conventional village communities and has provided economic, social, cultural, customary, and religious benefits to traditional village habits by delivering tangible benefits to village traditions. The formation of Village Credit Institutions (LPD) aims to support the role of traditional villages so that they have an independent and sustainable source of financing to finance activities related to traditional or other community affairs. To achieve these goals, Village Credit Institutions (LPD) need to consider elements supporting financial sustainability.

This research analyses the influence of corporate governance, intellectual capital, and risk management on financial sustainability by considering profitability as a mediating variable. The study aims to evaluate the extent of influence of these factors on financial

sustainability and to assess the impact of profitability on financial sustainability. While the existing literature has explored various aspects of corporate governance, intellectual capital, risk management, profitability, and financial sustainability in diverse organisational contexts, a notable research gap is specific to Village Credit Institutions (LPD) in Bali. Firstly, research to date has not systematically investigated the direct impact of corporate governance, intellectual capital, and risk management on the profitability of Village Credit Institutions (LPD) in Bali (Prawiranata, 2013), despite these institutions playing a vital role in the local economy and being intricately connected to natural resources. The literature also needs more detailed studies examining how profitability functions as a mediator in the relationship between corporate governance, intellectual capital, and risk management in the specific context of Village Credit Institutions (LPD) (Wilyadewi, 2023). Understanding this mediation is crucial for comprehensively grasping the financial dynamics and sustainability of these institutions.

In addition, existing research needs to sufficiently focus on Village Credit Institutions (LPD) operating within the natural resource sector in Bali. The unique challenges and opportunities presented by this context, particularly regarding sustainable agricultural practices and community development projects related to natural resources, still need to be explored (Endiana *et al*., 2021). There is a research gap in understanding how the financial practices of Village Credit Institutions (LPD) in Bali impact local environments and biodiversity. More attention should be given to the role of these institutions in contributing to the preservation of natural resources and promoting environmentally friendly farming methods. Comparative studies analysing the variations in corporate governance, intellectual capital, risk management, and financial sustainability among different Village Credit Institutions (LPD) in Bali are scarce. This hinders a nuanced understanding of the factors contributing to success or challenges in various settings.

The research outcomes offer practical guidance for Village Credit Institutions (LPD) across Bali, informing strategies to optimise operations and enhance financial sustainability. By uncovering the direct impacts of corporate governance, intellectual capital, risk management, and the mediating role of profitability, the study equips Village Credit Institutions (LPD) with insights to tailor their approaches for greater financial resilience. Simultaneously, these findings provide valuable input for government policymakers, assisting in the formulation of targeted strategies and policies that support the long-term sustainability of Village Credit Institutions (LPD) in the region, with a focus on encouraging sustainable practices tied to natural resources and environmentally friendly farming methods.

Literature Review

Goal Setting Theory

Goal setting theory is one of the most influential theories of behaviour change. It is based on the idea that when an individual or organisation has a goal to achieve, it will commit to the set goal and find and use better strategies to achieve that goal (Locke & Latham, 1991; Locke & Latham, 2002). The basic principles of goal-setting theory include clarity, level of challenge, individual involvement in goal setting, feedback, and considering task complexity. This theory has implications for how organisations measure their performance by ensuring clarity, level of challenge, and commitment to achieve it. In goal setting theory, it is stated that an organisation needs to set higher goals, based on this, to maintain the existence of the Village Credit Institutions (LPD). The goals that the Village Credit Institutions (LPD) wants to achieve in this case are profitability for short-term goals and financial sustainability for long-term goals.

Agency Theory

Agency theory discusses the relationship between company owners and managers as agents in carrying out tasks. The emergence

of agency problems occurs because the owner needs help managing the company directly due to its large size or scattered ownership. That triggers agency problems, where managers tend to prioritise their interests. Effective control is needed to overcome this (Jensen & Meckling, 1976; Eisenhardt, 1989). Agency theory, in this case, is related to the existence of Village Credit Institutions (LPD), occurs as a kind of contract between the owners of Village Credit Institutions (LPD) in terms of all village residents' customs with administrators and supervisors, and later influences the sustainability of the Village Credit Institutions (LPD) alone. Agency theory thinks that Possible interests between the company and management consist of individuals who can behave differently according to human characteristics. In order to mitigate agency conflicts, implementing good corporate governance practices will help narrow the gap between the agent and principal within business management. Apart from corporate governance, there is a need for risk management, which is the basis for financial institution practices that are carried out based on the principle of prudence. The implementation of risk management is an effort to strengthen institutions and improve the reputation of financial institutions based on the policy direction developed (COSO, 2004).

Resource-Based View Theory

The resource-based view (RBV) theory, i.e., a thought that has been developed in strategic management theory and the competitive advantage of the company that believes that the company will reach superiority if its source power is superior. There are several criteria for companies that can achieve a competitive advantage; namely, first, resources must add positive value to the company. Second, resources must be unique or rare among existing competitors. Third, resources must be complex for imitation, and source power cannot be replaced with resource competitors (Barney, 1991; Barney *et al.,* 2001). Village Credit Institutions (LPD) must create a competitive advantage over their competitors, which can be obtained appropriately through innovation and resource management. Business innovation is essential for developing and running strategies for a business. RBV states that source Power is the strategic source, power capable of creating competitive advantage; the strategic resources in question are intangible assets like intellectual capital.

Corporate Governance on Financial Sustainability

Corporate governance is a set of interconnected rules by which companies, management, and shareholders regulate their behaviour. These regulations are characteristics of the company and factors that enable it to uphold good corporate governance, such as communication with stakeholders, transparency, accountability, fairness, and responsibility (Aras & Crowther, 2008). The importance of corporate governance to financial sustainability was stated by Uchenna *et al.* (2020), which states that the essential feature of financial sustainability is the company's strength and ability to maintain financial self-sufficiency. This goal is achieved by the company implementing corporate governance because, with good corporate governance management, the company achieves financial sustainability. Several studies related to corporate governance on financial sustainability include Chenuos (2014), Sulimany *et al.* (2021), and Merino and Perez (2021), stating that corporate governance has a positive effect on financial sustainability. Based on the description above, the hypothesis can be formulated as follows:

H_1: Corporate governance has a positive effect on financial sustainability

Intellectual Capital on Financial Sustainability

RBV states that strategic power is source power, which can create a competitive advantage; the strategic resources are intangible assets like intellectual capital. Intellectual capital is one source of power, not tangible knowledge and skills organisation, which can create a competitive advantage for an organisation

(Bontis, 1998). Intellectual capital is an essential factor for companies that positively influence financial sustainability; the higher the use of strategic resources in the form of intellectual capital, the higher the financial sustainability (Sheikh & Wepukhulu, 2019). Several researchers stated that intellectual capital has a positive effect on economic sustainability, including Jordao & Almeida (2017); Dal Mas (2018); Munir *et al.* (2019); and Githaiga *et al.* (2023). Based on the description above, the hypothesis can be formulated as follows:

H_2: Intellectual capital has a positive effect on financial sustainability

Risk Management for Financial Sustainability

From an agency theory perspective, risk management can help organisations achieve business goals, support company operational performance, help make strategic decisions, and maximise shareholder value. (Nocco & Stulz, 2006; Ibrahim *et al*., 2024). Risk management is the basis of prudent banking practices, and risk management is an effective technique for minimising the undesirable effects of risk and optimising the benefits achieved. Through high-risk management, the company's long-term goal, namely the company's financial sustainability, will be achieved (Mokni *et al.,* 2014). As per the findings of Aziz *et al.* (2016) and Jain *et al.* (2020), risk management and sustainability play pivotal roles in the company overarching strategy to achieve sustainability, particularly about its impact on financial sustainability. Based on the description above, the hypothesis is formulated as follows:

H_3: Risk management has a positive effect on financial sustainability

Corporate Governance on Profitability

Companies with the maximum implementation of corporate governance can increase profitability, where corporate governance will create more effective control and supervision of company finances and aims to maximise company profitability (Paul *et al.,* 2015). Apart from that, companies that implement good corporate governance show that the company have transparency, responsibility, and accountability, which aims to maximise the company's profitability (Aggarwal, 2013; Orazalin *et al.,* 2016; Robiyanto *et al.,* 2021). Based on the description above, the hypothesis is formulated as follows:

H_4: Corporate governance has a positive effect on profitability

Intellectual Capital on Profitability

Intellectual capital is an invisible asset that has added value for the company. Suppose the assets in the company can be managed well. In that case, the company's profitability will increase, and it will have added value as a competitive advantage to compete with its competitors (Cater & Cater, 2009). Intellectual capital can develop a company's profitability, and this happens because intellectual capital can make existing resources in the company more capable of managing the company so that the company's goal is achieved, namely increasing profits (Belkaoui, 2003; Sharabati *et al.,* 2010; Ousama & Fatima, 2015; and Robiyanto *et al.,* 2021). Based on the description above, the hypothesis is formulated as follows:

H_5: Intellectual capital has a positive effect on profitability

Risk Management on Profitability

The importance of implementing risk management in increasing profitability means that risk management positively affects company profitability. Implementing good risk management and fully understanding risks will increase banking profitability. (Susatyo *et al.,* 2011, Lestari, 2013, and Khan and Ali, 2017). To increase profitability, companies must pay attention to their risk management. The higher the implementation of risk management, the greater the company's profitability. Jafari *et al.* (2011) and Saputra *et al*. (2023) stated that risk management has a positive effect on company profitability, where if the company's

risk management is high, then the level of profit achieved by the company, namely profitability, will also increase. Based on the description above, the hypothesis is formulated as follows:

H_6: Risk management has a positive effect on profitability

Profitability Against Financial Sustainability

Profitability is a company's ability to generate profits during a specific period; a company with the ability to create good profits indicates good company performance. If profitability is high, the company's ability to obtain profit levels will be better, so its financial sustainability will increase (Dave *et al.,* 2013; Marwa & Aziakpono, 2015; Naz *et al.,* 2019; Fajriyanti *et al.,* 2021). Based on the description above, the hypothesis is formulated as follows:

H_7: Profitability has a positive effect on financial sustainability

Corporate Governance, Profitability, and Financial Sustainability

Good corporate governance shows that the company has transparency, responsibility, and accountability with the aim of maximising the company's profitability (Robiyanto *et al.,* 2021). Corporate governance positively affects profitability, which means implementing good corporate governance can minimise differences in interests, increasing the company's profitability (Bastomi *et al.,* 2017). Profitability is one of the critical factors that must be maintained, and it is a benchmark for knowing the extent to which the company retains smooth operations so that it is not disrupted. The level of company profitability is essential for assessing the company's financial sustainability in the future (Rustam & Adil, 2022). If the company's corporate governance management is good, its profitability will be high, and with high profitability, it will achieve financial sustainability. Based on the description above, the hypothesis is formulated as follows:

H_8: Corporate governance has a positive effect on financial sustainability with profitability as a mediator

Intellectual Capital, Profitability, and Financial Sustainability

Intellectual capital can develop a company's profitability; this happens because intellectual capital can make existing resources in the company more capable of managing the company so that the company's goal is achieved, namely increasing profits (Belkaoui, 2003). Companies can be successful if they pay attention to short-term aspects, namely company profitability, and long-term, namely financial sustainability (Shim, 2014). If financial performance, namely high profitability, the company's ability to obtain profit levels will be better, meaning that high profitability provides information that the company has good performance in generating profits so that its financial sustainability increases (Arsyad *et al., 2021*). If the company has high intellectual capital, then profitability will increase, which can improve financial sustainability. Based on the description above, the ultimate hypothesis can be formulated as follows:

H_9: Intellectual capital has a positive effect on financial sustainability with profitability as a mediator

Risk Management, Profitability, and Financial Sustainability

Risk management can help organisations achieve business goals, support operational performance, help make strategic decisions, and maximise company value and profits (Nocco & Stulz, 2006). Implementing good risk management and fully understanding risk profits will improve the performance of the banking industry (Susatyo *et al.,* 2011). If a company has high-risk management, it will be able to increase the company's profitability. If the company's profitability has increased, then the company's long-term goal, namely financial sustainability, will be achieved. Based on the description above, the hypothesis can be formulated as follows:

H_{10}: Risk management has a positive effect on financial sustainability with profitability as a mediator

The research model is presented in Figure 1 below:

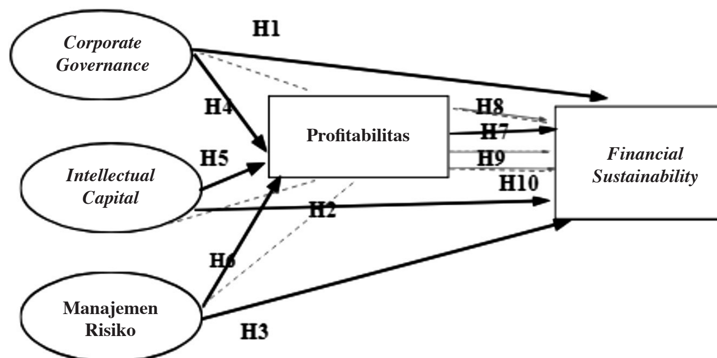

Figure 1: Research model

Research Methods

This study is quantitative research with a positivist approach. Data was collected through questionnaires, and research was conducted in 9 cities/regencies in Bali. Research variables include corporate governance (CG), intellectual capital (IC), risk management (MR), profitability (Profit), and financial sustainability (FS). The research population consisted of 1318 LPDs operating in Bali, and samples were taken using the Slovin method and randomly from the population for further analysis of 307 Village Credit Institutions (LPD). As many villages in Bali depend on agriculture and other related activities, Village Credit Institutions (LPD) often provide financial support to local farmers, helping them invest in crops, equipment, and other resources needed for agricultural production (Tambunan, 2015). Village Credit Institutions (LPD) often extend credit to local entrepreneurs and small businesses. This can include businesses related to natural resources, such as small-scale forestry, fishing, or eco-tourism ventures that aim to utilise and protect the natural environment (Saskara & Yuliarmi, 2017; Oka, *et al*., 2019).

The research instrument uses a questionnaire to measure corporate governance, intellectual capital, and risk management variables, and a Likert scale with five answer choices is used in the questionnaire. Corporate governance includes transparency, accountability, responsibility, independence, and fairness. Intellectual capital consists of the dimensions of human, social, spiritual, and cultural capital. Risk management consists of liquidity, credit, operational, legal, and owner and management risks. ROA is used for the profitability variable, while financial sustainability uses OSS. Apart from that, interviews were also conducted to obtain additional information. Descriptive analysis is used to provide an overview of the characteristics of the research variables. Data analysis uses the Structural Equation Modeling (SEM) method with the Partial Least Square (PLS) approach using SmartPLS 3.0. PLS is suitable for undeveloped theories and for predicting or explaining latent constructs.

Results and Discussion

Respondent Characteristics

This research involved 307 respondents, namely Heads of LPDs throughout Bali. Based on data on the characteristics of respondents, an interesting picture is drawn in Table 1. Regarding gender, most respondents are men (85.3%), with only a tiny proportion of women (14.7%). That reflects the dominance of men in Village Credit Institutions (LPD) leadership in Bali, illustrating a paternalistic cultural pattern that is still strong. Judging from the age range, most respondents were in the age category

Table 1: Respondent Characteristics

Characteristics	Number of People	Percent
Gender		
Man	262	85.3
Woman	45	14.7
Age		
20-30 years	1	0.3
31-40 years old	30	9.8
41-50 years old	101	32.9
> 50 years	175	57.0
Education		
Middle/Junior High School	0	0
High School	133	43.3
Diploma	11	3.6
Bachelor Degree	160	52.1
Master	3	1.0
Years of Service		
< 3 years	9	2.9
3-6 years	23	7.5
> 6-10 years	54	17.6
> 10 years	221	72.0
Total	307	100

Source: Processed Data (2023)

above 50 years (57%), followed by those aged 41-50 years (32.9%). This data indicates that many LPD heads have been in this position for many years, by regulations allowing LPD administrators up to 60. Regarding education, most respondents had a bachelor's educational background (52.1%), followed by high school/ high school (43.3%). This shows that the level of education is an essential consideration when selecting the head of the village credit institutions (LPD). Regarding length of service, most respondents (72%) have served as Head of Village Credit Institutions (LPD) for more than 10 years. These data are consistent with an age range of > 50 years, indicating that most Village Credit Institutions (LPD) Heads have accumulated significant years of experience in Village Credit Institutions (LPD) leadership.

Outer and Inner Models

The Structural Equation Modelling Partial Least Square (SEM PLS) method makes it possible to examine the influence of exogenous variables on endogenous variables with mediating variables. The evaluation process begins by reviewing the measurement model (outer model). At this stage, three main aspects are examined, namely, convergent validity, where the outer loading value of the indicator is considered adequate if it is above 0.5, especially in the early stages of developing the measurement scale. In Table 2, the results show that the corporate governance, intellectual capital, and risk management variables meet the convergent validity criteria. Next, discriminant validity is analysed by comparing cross-loadings between indicators from different constructs. The results show that the indicators for each variable have met the

discriminant validity criteria. Finally, composite reliability was examined, where Cronbach's alpha and composite reliability values above 0.7 indicated good construct reliability. The results show that the reliability of the corporate governance, intellectual capital, and risk management constructs meets the criteria.

The Structural Model (inner model) is evaluated using two approaches, namely first, through R- Square (R2), which indicates how much variability in endogenous variables can be explained by exogenous variables. The results show that profitability can be explained by 40% by corporate governance, intellectual capital, and risk management, while financial sustainability can be explained by 72.2% by these variables and profitability. Next, Q-squared predictive relevance (Q2) is evaluated, which measures how well the model can predict the observed values. The calculation results show a Q2 value of 0.598, indicating that the structural model has good predictive relevance. In the overall evaluation, Goodness of Fit (GoF) parameters are used to validate the overall model. The GoF score of 0.652, which is included in the large category, indicates that the structural model is formed in good condition and provides an adequate representation of the relationships between variables in the context of this research. Thus, the evaluation results imply that the proposed model meets the criteria for validity and reliability and has predictive relevance and good GoF, confirming the reliability and suitability of the model in analysing the influence of the variables studied.

Table 2: Discriminant Validity Test Results Using Cross-Loading

Variable	Indicator	*Discriminant Validity*	*Cronbach's Alpha*	*Composite Reliability*	AVE
***Corporate Governance* (X1)**	X1		0.911	0.924	0.640
	X11		0.765	0.720	0.642
	X11.1	0.135			
	X11.2	0.515			
	X11.3	0.773			
	X11.4	0.152			
	X12		0.808	0.874	0.635
	X12.1	0.674			
	X12.2	0.725			
	X12.3	0.730			
	X12.4	0.737			
	X13		0.807	0.874	0.634
	X13.1	0.732			
	X13.2	0.651			
	X13.3	0.700			
	X13.4	0.731			
	X14		0.761	0.774	0.647
	X14.1	0.564			
	X14.2	0.699			
	X14.3	0.395			
	X14.4	0.475			

	X15		0.811	0.876	0.642
	X15.1	0.681			
	X15.2	0.787			
	X15.3	0.719			
	X15.4	0.533			
***Intellectual Capital* (X2)**	X2		0.929	0.937	0.640
	X21		0.851	0.894	0.628
	X21.1	0.675			
	X21.2	0.676			
	X21.3	0.694			
	X21.4	0.582			
	X21.5	0.723			
	X22		0.861	0.896	0.590
	X22.1	0.606			
	X22.2	0.741			
	X22.3	0.711			
	X22.4	0.652			
	X22.5	0.691			
	X22.6	0.654			
	X23		0.841	0.878	0.648
	X23.1	0.340			
	X23.2	0.654			
	X23.3	0.629			
	X23.4	0.574			
	X23.5	0.780			
	X23.6	0.630			
	X23.7	0.446			
	X23.8	0.641			
	X24		0.705	0.820	0.539
	X24.1	0.643			
	X24.2	0.607			
	X2 4.3	0.606			
	X2 4.4	0.416			
Management Risk (X3)	X3		0.928	0.938	0.508
	X31		0.768	0.896	0.812
	X 31.1	0.782			
	X3 1.2	0.710			
	X32		0.876	0.924	0.801
	X3 2.1	0.744			

	X32.2	0.802			
	X32.3	0.813			
	X33		0.733	0.848	0.652
	X33.1	0.680			
	X33.2	0.546			
	X33.3	0.745			
	X34		0.817	0.891	0.732
	X34.1	0.653			
	X34.2	0.785			
	X34.3	0.672			
	X35		0.809	0.874	0.638
	X35.1	0.383			
	X35.2	0.742			
	X35.3	0.727			
	X35.4	0.784			
Profit (M)			1,000	1,000	1,000
FS (Y)			1,000	1,000	1,000

Source: Processed Data (2023

Hypothesis Testing Results

Hypothesis testing carried out in this research consists of two stages: Direct influence testing and indirect influence testing. Testing is done by comparing t statistics and p values and observing the original sample in the path coefficient table. The variable is declared influential if the statistical t value > t table (1.96) and the p-value < 0.05.

Table 3: Hypothesis Test Results

Influence	Coef. Track	Stdev	t-stat	P	Note
CG → FS	0.004	0.060	4,067	0,000	H_1 Accepted
IC → FS	0.058	0.122	4,478	0,000	H_2 Accepted
MR → FS	0.047	0.108	1,437	0.066	H_3 Rejected
CG → Profit	0.075	0.096	3,784	0,000	H_4 Accepted
IC → Profit	0.088	0.129	4,683	0,000	H_5 Accepted
MR → Profit	0.063	0.092	3,686	0,000	H_6 Accepted
Profit → FS	0.475	0.112	4,240	0,000	H_7 Accepted
CG → Profit → FS	0.036	0.047	3,766	0,000	H_8 Accepted
IC → Profit → FS	0.042	0.063	3,663	0,000	H_9 Accepted
MR → Profit → FS	0.030	0.045	3,663	0,000	H_{10} Accepted

Source: Processed Data (2023)

The Influence of Corporate Governance on Financial Sustainability

Corporate governance positively affects financial sustainability, with a path coefficient of 0.004, a t-statistic of 4.067, and a significance of 0.000. That indicates that corporate governance is essential in supporting financial sustainability (H_1 is accepted). Corporate governance, which includes transparency, accountability, liability, independence, and fairness, positively influences financial sustainability. The higher the level of implementation of corporate governance, the more outstanding the achievement of financial sustainability in LPDs throughout Bali. That is reinforced by the high assessment of the implementation of corporate governance, especially in the dimensions of accountability, responsibility, and fairness. Financial sustainability is an essential and fundamental tool for companies for long-term success, which requires governance that the company must implement to minimise differences in the interests of principals and agents, namely corporate governance; with the maximum implementation of corporate governance, financial sustainability will be achieved (Sulimany *et al*., 2021). The results of this research are strengthened by research by Chenuos *et al*. (2014), Uchenna *et al*. (2014), and Merino and Perez (2021), which state that corporate governance has a positive effect on financial sustainability.

The Influence of Intellectual Capital on Financial Sustainability

Intellectual capital positively affects financial sustainability, with a path coefficient of 0.058, a t-statistic of 4.478, and a significance of 0.000. That indicates that intellectual capital supports financial sustainability (H_2 is accepted). Intellectual capital, which includes human, social, spiritual, and cultural capital, has a positive effect on financial sustainability. The higher the level of intellectual capital, the more outstanding the achievement of financial sustainability. This finding is reinforced by the high assessment of intellectual capital in LPDs throughout Bali, especially human, social, and cultural capital. Sheikh & Wepukhulu (2019) stated in their research that intellectual capital has a positive effect on financial sustainability, whereby financial sustainability can be achieved through the excellent use and utilisation of intellectual capital in the company. Intellectual capital is an essential company factor and influences financial sustainability (Jordao & Almeida, 2017; Dal Mas, 2018; Munir., *et al.,* 2019; Muchran, 2020; Githaiga., *et al.,* 2023).

The Influence of Risk Management on Financial Sustainability

Risk management does not affect financial sustainability, with a path coefficient of 0.047, a t-statistic of 1.437, and a significance of 0.066. That indicates that intellectual capital plays a small role in supporting financial sustainability (H_3 is rejected). Risk management, which includes liquidity, credit, operational, legal, and owner and management risks, does not affect financial sustainability. The effectiveness of implementing risk management, as well as assessing it without clear procedures by LPD managers, can result in a lack of impact on financial sustainability in the long term. There are challenges in consistently implementing risk management in various LPDs, mainly due to the different characteristics of village behaviour. Even though it has been regulated in Regional Regulations and Governor Regulations regarding risk management, each village has different attributes in LPD management, including the risk management implemented by each Village Credit Institution (LPD). The characteristics of traditional villages and the economic conditions of each Village Credit Institution (LPD) are different, so the implementation of risk management can be applied differently because each traditional village has its own rules called pararem. Due to the ineffective implementation of risk management, risk management does not affect financial sustainability.

The Influence of Corporate Governance on Profitability

Corporate governance positively affects profitability, with a path coefficient of 0.075, a t-statistic of 3.784, and a significance of 0.000. This indicates that corporate governance is essential to increasing profitability (H4 is accepted). The implementation of corporate governance has a positive effect on profitability. Corporate governance positively affects profitability, meaning that implementing good corporate governance can minimise differences in interests, which can increase company profitability (Bastomi *et al*., 2017). The higher the level of implementation of corporate governance, the greater the possibility of achieving a higher level of profitability in LPDs throughout Bali. When implemented well, corporate governance principles create an environment where public trust increases, positively impacting the profitability of LPDs throughout Bali. The results of this research are confirmed by several researchers who state that corporate governance has a positive effect on profitability (Orazalin *et al.,* 2016; Siswanti *et al.,* 2017; Danescu *et al.,* 2021; Robiyanto *et al.,* 2021).

Influence of Intellectual Capital on Profitability

Intellectual capital positively affects profitability, with a path coefficient of 0.088, a t-statistic of 4.683, and a significance of 0.000. That indicates that intellectual capital is essential in increasing profitability (H_5 is accepted). Intellectual capital is an invisible asset that has added value for the company. Suppose the assets in the company can be managed well. In that case, the company's profitability will increase, and it will have added value as a competitive advantage to compete with its competitors (Cater & Cater, 2009). Intellectual capital can develop the company's profitability by creating existing resources to become more capable of managing the company so that the company's goal is achieved, namely, increasing profits (Belkaoui, 2003). In increasing profitability, Village Credit Institutions (LPD) should have superior and competitive resources, namely intellectual capital. There needs to be a synergy of each intellectual capital component, including human capital, social capital, spiritual capital, and cultural capital. If all these components are implemented well, high intellectual capital will have an impact on increasing the profitability of Village Credit Institutions (LPD) throughout Bali. Superior and competitive resources such as intellectual capital are essential in increasing profitability. The results of this research are strengthened by Ousama & Fatima (2015), Sidharta & Affandi (2016) and Rustiarini *et al* (2022).

Effect of Risk Management on Profitability

Risk management positively affects profitability, with a path coefficient of 0.063, a t-statistic of 3.686, and a significance of 0.000. That indicates that intellectual capital is essential in increasing profitability (H_6 is accepted). Risk management controls risks that can occur due to differences in interests between the principal and the agent. The analysis results show that risk management positively affects profitability, meaning that implementing sound risk management will increase the profitability of village credit institutions (LPD) throughout Bali. Implementing good risk management and fully understanding risks will increase profitability (Gordon *et al.,* 2009; Jafari *et al.,* 2011; Lestari, 2013).

Effect of Profitability on Financial Sustainability

Profitability positively affects financial sustainability, with a path coefficient of 0.475, a t-statistic of 4.240, and a significance of 0.000. That indicates that profitability is essential in achieving financial sustainability (H_7 is accepted). Profitability has a positive influence on financial sustainability, and this means that if profitability is high, the company's ability to earn profits will be better, meaning that high profitability provides information that the Village Credit Institutions (LPD) has good

performance in generating profits so that financial sustainability will increase. Profitability is one of the essential factors that must be maintained, and it is a benchmark for knowing the extent to which the company retains smooth operations so that it is not disrupted. Profitability conditions are essential for assessing the company's financial sustainability in the future (Rustam & Adil, 2022). The results of this research support research by Marwa & Aziakpono (2015), Weber (2017), and Naz *et al.* (2019), which state that profitability has a positive effect on financial sustainability.

The Influence of Corporate Governance on Financial Sustainability with Profitability as a Mediator

Influence corporate governance on financial sustainability with profitability as a mediator shows a path coefficient of 0.036 with a t-statistic value of 3.766 and a significance value of 0.000. These results show that the statistical t value is more significant from the t table (t-stat > 1.960), and the significance value is less than 0.05. Thus, corporate governance positively affects financial sustainability through profitability (H_8 is accepted). The nature of mediation is complementary (partial mediation), which means corporate governance can influence financial sustainability directly or indirectly through profitability. Profitability acts as an intermediary that connects the influence of corporate governance on financial sustainability. In other words, by implementing effective corporate governance, Village Credit Institutions (LPD) can increase their profitability, supporting financial sustainability. That is in line with previous research, which shows that corporate governance has a positive effect on profitability, and profitability has a positive impact on financial sustainability.

The Influence of Intellectual Capital on Financial Sustainability with Profitability as a Mediator

Influence intellectual capital on financial sustainability with profitability as a mediator shows a path coefficient of 0.042 with a t-statistic value of 3.663 and a significance value of 0.000. These results show that the statistical t value is more significant from the t table (t-stat > 1.960), and the significance value is less than 0.05. Thus, intellectual capital positively affects financial sustainability through profitability (H9 is accepted). The nature of mediation is complementary (partial mediation), which means that intellectual capital can influence financial sustainability directly or indirectly through profitability. Intellectual capital has a positive effect on financial sustainability through profitability. The analysis results show that companies with high levels of intellectual capital tend to achieve better financial sustainability. Strategic resources in the form of intangible assets, such as intellectual capital, provide competitive advantages that encourage financial sustainability.

The Influence of Risk Management on Financial Sustainability with Profitability as a Mediator

Influences Risk management toward financial sustainability with profitability as a mediator shows a path coefficient of 0.030 with a t-statistic value of 3.663 and a significance value of 0.000. These results show that the statistical t value is more significant from the t table (t-stat > 1.960), and the significance value is less than 0.05. Thus, risk management positively affects financial sustainability through profitability (H_{10} is accepted). The nature of mediation is complete mediation, which means no risk management can directly influence financial sustainability but can influence it indirectly through profitability. Even though risk management does not directly influence financial sustainability, the results of the analysis show that effective risk management can influence financial sustainability through profitability. That emphasises the importance of exemplary implementation of risk management in achieving financial sustainability goals.

Conclusions

Based on the analysis and discussion results, it is concluded that the implementation of corporate governance and intellectual capital has a positive effect on financial sustainability in LPDs throughout Bali. However, risk management does not affect financial sustainability. Apart from that, corporate governance, intellectual capital, and risk management have a positive effect on profitability, which, in turn, profitability plays a vital role as a mediator in the influence between corporate governance, intellectual capital, and risk management on financial sustainability. Suggestions for further research include classifying sample categories, using consistent research methods, and emphasising the development of intellectual capital dimensions. For Village Credit Institutions (LPD), it can be used as a guideline for achieving financial sustainability. It must pay attention to corporate governance, intellectual capital, and risk management, while for the government, it can also be used as a basis for policy-making.

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Conflict of Interest Statement

The authors declare that they have no conflict of interest.

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