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# THE EFFECT OF STRUCTURAL CAPITAL, SOCIAL CAPITAL, AND REPUTATIONAL CAPITAL ON FINANCIAL PERFORMANCE AND BUSINESS SUSTAINABILITY

**(Study on Village Credit Institutions in Badung Regency)**

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**ABSTRACT**

Intellectual capital is considered a strategic resource and the ability to manage it is the key to success, therefore it is very clear that the role of in tellectual capital as a strategic resource for a company will support the sustainability of its business. LPD is a community financial institution based on Balinese local wisdom, in carrying out the TBL business sustainability concept it refers to the local teachings of Catur Purusa Artha. Catur Purusa Artha are the four life goals of Hindus, which consist of Dharma, Artha, Kama and Moksha.

Respondents in this study are Head LPD in Badung Regency. The number of respondents in this study as much 122 respondents using the Nonprobability technique, namely saturated samples or often called total sampling. This study uses the Structural Equation Modeling (SEM) analysis program Smart Pls 3.2.8.

The results of this study indicate thatstructural capitalnegative and significant tofinancial performance. Social capital and reputation capital positive and significant effect onfinancial performance. Structural capital and social capital are noteffect on business continuity. Reputation capital positive and significant effect onbusiness continuity. As well asfinancial performance positive and significant effect on business continuity.

**KEYWORDS:** Structural Capital, Social Capital, Reputation Capital, Financial performance and Business Sustainability.

## 1. INTRODUCTION

In Indonesia, in general, financial institutions are classified into two categories, namely bank financial institutions and non-bank financial institutions. One of the non-bank financial institutions that lives, grows and develops in Bali is the Village Credit Institution (LPD). This financial institution is a business entity owned by Desa Adat (formerly called Desa Pakraman). Operationally, LPDs actually carry out the same activities as banks, namely collecting funds from the public and then channeling them back to the community who need assistance in the form of loans.

Besides being known as the island of a thousand temples, the island of Bali is also known as the island of a thousand microfinance institutions. In Bali, 1,433 LPDs have been established, spread across all traditional villages in Bali. The purpose of establishing an LPD is contained in the Regional Regulation of the Province of Bali No. 3 of 2017 include: First, to support the economic development of rural communities through targeted savings and effective capital distribution. Second, eradicating the debt bondage system, illegal pawnshops and other equivalents in rural areas, which at that time were still common in Bali. Third, creating equity and employment opportunities for rural residents, both those that can be accommodated immediately at the LPD, as well as those that can be accommodated by community productive enterprises funded by the LPD. Fourth, creating purchasing power and facilitating payment and exchange traffic in the village (BKS-LPD, 2017). The 2014 LPD Pararem stated that on the other hand, the aim of the LPD is to strengthen the resilience of traditional villages in preserving and developing the noble points of Balinese customs and habits imbued with Hindu religious teachings.

Putra (2011) describes LPD as a financial institution that is special in nature, is a financial institution belonging to the Balinese indigenous community, with the key to successful intermediation LPD as a microfinance institution is really influenced by local laws that are strictly adhered to by the community. Bali. One of them is social sanctions for members of the public who have bad credit (Non Performing Loans) in LPDs which are held through Awig-awig and Perarem Desa Adat. The uniqueness of the LPD is also considered from the aspect of capital accumulation. LPD capital comes from Pekraman Village which is jointly owned by Pekraman Village residents. LPD financial planning and accountability is done through Paruman Desa Adat.

Currently, there are quite a number of similar financial institutions operating in Bali, such as Savings and Loans Cooperatives and People's Credit Banks (BPR), as well as conventional banks that distribute People's Business Credit (KUR) to rural areas. This is a tough competitor for the LPD, but the LPD is required to maintain its normal existence. Sustainability or what is better known as sustainability has become a topic of discussion both in the discourse of globalization and in relation to industrial performance. Salimath & Raymond (2011) said that until now there is no standard definition of business sustainability, especially in the corporate context, therefore the measurement and interpretation of this construct are in accordance with the objectives and interests of the research.

In this study using the Sustainability Theory put forward by Elkington (1997), where this theory explains that in order to maintain its going concern, companies must be oriented towards the Triple Bottom Line (TBL) which recommends that companies be oriented towards 3P namely Profit, People , Planets. The TBL framework advances sustainability goals in business practice, where companies look beyond profit to include social and environmental concerns to measure the full costs of doing business.

The TBL theory has actually been implemented in LPD business entities, where the LPD is a community financial institution based on Balinese local wisdom, in carrying out the TBL business sustainability concept this refers to the local teachings of Catur Purusa Artha. Catur Purusa Artha are the four life goals of Hindus, which consist of Dharma, Artha, Kama and Moksha. In Pancadana and Parwata's research (2013) entitled "Catur Purusa Artha as the Basis for Business Activities of Village Credit Institutions in Pekraman Kikian Village" shows that what underlies LPD business activities are Hindu religious teachings that originate from the Vedic scriptures.

Implementation Purusa Artha Chessin this study based on Suhardana (2007) quoting Sarasamuccaya Sloka 262 states that the utilization of assets, namely the results of the efforts of a person or company, should be divided into three. The division of assets into three components is intended to implementPurusa Artha Chesswhich are the four life goals of Hindus. First, Artha is intended for Artha, which means that some of the assets obtained should be reused to acquire assets in the future. Second, Artha is intended to fulfill Kama which means to be enjoyed for the life of those involved in the business. Third, Artha is for the sake of Dharma which means it is used for good things or social funds for the business environment.

The application of Catur Purusa Artha as referred to in Sarasamuccaya Sloka 262 is implemented in the distribution of LPD profits as stipulated in Chapter XIII of Bali Provincial Layout No. 3 of 2017 concerning Village Credit Institutions, Article 23 limits the distribution of net profits of LPDs at the end of the accounting year as follows: (1) Capital Reserves 60%, (2) Development Funds and Village Community Empowerment 20%, (3) Production Services 10% , (4) 5% Empowerment Fund or a maximum of IDR 300,000,000, -, (5) 5% Social Fund. If this net profit share is related to the Catur Purusa Artha concept, then the Capital Reserve of 60% is Artha for Artha. The 20% Village Community Development and Empowerment Fund and 5% Social Fund are Artha for Dharma. Meanwhile, 10% Production Services is Artha for Kama.

The concept of Catur Purusa Artha in the distribution of company profits, is completely in harmony with the company's orientation which leads to Stakeholder Oriented towards the Sustainability Concept where in the long run, or for the sake of the survival of a company (Going Concern), management cannot only be oriented to the interests of company owners (Shareholders) only, but should see the interests of all related parties (Stakeholders). In this way the company can maintain its long-term sustainability. LPD in implementing Catur Purusa Artha continues to strive to increase its profitability performance, except with a consistent percentage through profit distribution which has been controlled through Regional Regulation no. 3 of 2017, many LPDs in their operations issue rates intended for the welfare of management, supervisors and employees which can also be classified as kama as referred to in Catur Purusa Artha. The LPD also routinely allocates operational rates which are recorded as promotional rates for social and customary development purposes which can also be classified as dharma as referred to in Catur Purusa Artha.

The business continuity of a company is not only seen from the distribution of profits, one approach that can be applied by companies to face various challenges and opportunities is an approach based on Resources Based View (RBV). Through RBV companies can build a sustainable competitive advantage through the use of heterogeneous energy sources for their survival. Based on the opinion of Wernerfelt (1984) companies must continue to develop their energy sources (Resources Based View) in order to maintain a sustainable competitive advantage. No company can stay ahead without creative inventions.

Wernerfelt's Resource-Based View of the Firm theory (1984) reveals that superior corporate performance can only be achieved by mastering and using strategic assets that are vital for competitive advantage and have a strong impact on financial performance and organizational sustainability. These strategic assets can be in the form of tangible assets or intangible assets. The RBV concept has been widely accepted in various scientific disciplines and literature in accounting, management, economics and strategic management (Belkaoui and Riahi, 2003). Barney (1991) reveals that sustainable comparative advantage for each company depends on strategic power sources which are characterized: valuable, rare, imperfectly imitable and non-substitutable. Barney's theory is in line with the findings of research conducted by Isabel and Bailoa (2017) suggesting that intellectual capital must be considered as a strategic resource and the ability to manage it is the key to success. Based on the explanation of Isabel and Bailoa (2017) it is very clear that the role of intellectual capital as a strategic source of energy for a company will support the sustainability of its business.

The development of information technology in line with the flow of business globalization has resulted in a hyper-competitive environment, where company leaders must develop new and innovative tactics to stay in the competition. The rapid development of financial institutions in Bali means that LPDs must continue to innovate and explore all the resources they have in order to survive, grow and develop in the midst of increasingly fierce competition. LPDs that are unhealthy and unhealthy must be healthy. If possible, LPDs that have frozen operations must be operated again, because LPDs are the strongholds of traditional villages financially. The key to the competitive advantage of LPDs can be seen from the number of LPDs that have strategic resources, especially those that are immaterial or intangible assets that are not visible in the LPD's balance sheet, namely intellectual capital.

Distinctive culture and organizational structure, which is one of the strategic strengths owned by LPD in Bali. LPD as a financial institution belonging to a traditional village, LPD has organizational habits in the form of core points and habits that become the internal glue of the LPD. The organizational culture that has developed in the LPD is a structural capital that has contributed greatly to improving the performance of the LPD so far. Local culture has been adopted as an organizational habit in improving financial performance in microfinance institutions such as LPDs in Bali (Sukawati and Astawa, 2018). In organizational habits, there is intense interaction between the human resources of microfinance institutions and consumers, which will really help microfinance institutions improve their financial performance (Wolker, 2002).

Another uniqueness lies in the organizational structure of the LPD which involves traditional village leaders in the management and operational functions of the LPD, especially in the field of supervision, making the financial performance of the LPD even better. Traditional village leaders who are commonly called Bendesa, are elected by all members of the traditional village to work on the wheels of the traditional village organization, including in terms of supervising customary village property such as the LPD. Bendesa with his capacity as Chairman of the LPD Supervisory Board, namely the supervisory board that represents all LPD owners because the LPD belongs to a traditional village. LPD customers or customers consist of indigenous villagers who incidentally are also the owners of the LPD, this makes the LPD continue to exist sustainably.

Bontis et al. (2000) stated that in general, previous studies identified three main constructs of IC, namely: Human Capital (HC), Structural Capital (SC), and Customer Capital (CC). Hashim, et al (2015) in his research suggested that the concept of IC is broad and is usually divided into several characteristics, namely human capital, customer capital, structural capital, social capital, technological capital and spiritual capital. This proves that intellectual capital can be seen from its social capital. The interaction between the LPD, which really stands out compared to other micro-institutions, can be realized as social capital. Social capital can be defined as a set of informal values and manners that are shared among members of a category of society that enable cooperation between them. Social capital is the implementation and result of a company orientation that leads to the interests of stakeholders. Companies in maintaining their survival really have an interest in maintaining their social capital.

Social relations between the LPD and indigenous village residents are closely intertwined so that social trust and social networks are created that allow each individual, whether administrators, supervisors and LPD employees, as well as the community as LPD customers to work together. The social network between the LPD and the surrounding community has enabled the LPD to gain trust as a holding area for public funds in the form of savings and time deposits. Good social interaction is also an important evaluation basis for LPDs in channeling back funds collected in the form of credit to the community. Financially feasible under the existing regulations, the LPD provides 5% of its profits each year for social funds.

Nahapiet and Ghoshal (1998) refer to social relations between individuals and networks of interrelationships between them as social capital. Coleman (2009) termed social capital as a characteristic of relationships between individuals within organizations or with individuals outside organizations that can take the form of social trust, norms and social networks that enable each individual to work together to achieve common goals.

Reputation capital or a source of reputation energy is the public's perception of the company or as a determinant of the perception of consumer loyalty to the company's products (Dollinger, 1999). The main criteria for reputation energy sources are product quality, integrity, management, financial soundness, achievement of market objectives and good reputation. Based on this understanding, reputation resources refer more to intangible assets that are built through customer perceptions or the value of employees or company employees.

In the LPD context, reputational capital is built mainly due to its institutional strength. The good name of the LPD has been built for a long time after experiencing quite encouraging developments from year to year. Suarmanayasa's research (2016) revealed the success of LPD in rural development in the Province of Bali. LPD's reputation capital is realized from two sides of the customer's interests. LPDs are highly relied upon by the community as a saving area for those who have excess funds. One of the advantages of LPDs as depositors of funds is that customers are not subject to income tax on interest on deposits earned.

LPD's reputation capital is realized from the ease of LPD evaluation in lending. This convenience ultimately makes LPD credit services faster, because LPD customers come from the local Pekraman village environment, so the evaluation of credit distribution becomes relatively faster because the character, capacity and ability to repay the prospective customer community has been known to the staff and management of the LPD beforehand. they apply for credit. The LPD's reputation is also manifested by the public's belief that all profits earned by the LPD will ultimately provide economic benefits for the community, for example in the form of free tariffs for carrying out several traditional ceremonies.

The success of a company in providing benefits to all interested parties is not only obtained from controlling, managing, developing strategic resources in the form of intellectual capital, but also from financial performance that can be pursued in a sustainable manner. This statement is in line with Edelman's study (2002) that human resources are less able to partially explain benefits to stakeholders, but must be mediated by financial performance.

Increasing intellectual capital is one of the strategies to achieve business sustainability through TBL, and the creation of a good corporate financial workforce. Customers will give a higher score to LPDs that are able to show good financial performance, and financial performance can be increased through intellectual-based resources (intellectual capital). Thus, financial performance can act as an intervening variable in the relationship between intellectual capital and firm scores. Nuryaman's research (2015) strengthens this statement with his research which concludes that financial performance proxied by Return on Equity (ROE) actually functions as an intervening variable in the relationship between intellectual capital and company scores. This shows that greater intellectual capital can increase employee performance. the higher the company's financial (ROE), the implication is increasing business sustainability. However, the results of this study are different from the results of research conducted by Raharjo, et al (2022) intellectual capital does not have a significant effect on firm value.

The financial performance of LPDs in evaluating their soundness is assessed via the capital, assets, profitability and liquidity approach which refers to the CAMEL concept (Capital, Assets, Management, Earning, and Liquidity). This concept comes from international banking regulations known as BIS (Bank for International Settlements). Empirical research related to financial performance and its relation to business sustainability, conducted by Arsyad (2005) entitled "An Assessment of Microfinance Institution Performance, The Importance of Institutional Environment", found that the financial performance of microfinance institutions in the form of LPDs in Gianyar Regency, Bali, is assessed by financial indicators (portfolio quality, leverage, capital adequacy ratio, productivity, efficiency, profitability, The results of research conducted by Ulum (2008) and Tan et al. (2007) stated that intellectual capital has a significant positive effect on company performance. However, the results of this study are different from the results of research conducted by Santosa, S. (2012) where intellectual capital does not affect company performance.

Badung Regency is one of the districts that has been heavily affected by Covid-19, due to the large number of tourism sectors and the large number of villagers working in the tourism sector. This will certainly have an impact on the finances of the villagers so that it can indirectly reduce financial performance and have an impact on the sustainability of the LPD in Badung Regency.Based on the results of observationsto find out the health level of LPDs throughout Badung Regency in 2019-2021presented in Table 1

Table 1
LPD Health in Badung Regency in 2019-2021

| No | Year | Healthy | | Healthy Enough | | Unwell | | No Healthy | | No Operating | | Amo unt |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | fruit | % | fruit | % | fruit | % | fruit | % | frui t | % | |
| 1 | 2019 | 78 | 63,9 3 | 21 | 17,2 1 | 12 | 9.8 4 | 4 | 3,28 | 7 | 5,74 | 122 |
| 2 | 2020 | 55 | 45.0 8 | 25 | 20,4 9 | 19 | 15. 57 | 16 | 13,11 | 7 | 5,74 | 122 |
| 3 | 2021 | 39 | 31.9 7 | 28 | 22.9 5 | 27 | 22, 13 | 22 | 18.03 | 6 | 4.92 | 122 |

Source: LPLPD Badung Regency, 2022

Table 1 shows that healthy LPD has decreased every year. Likewise, LPDs who are less healthy and unhealthy experience a significant increase every year. The situation for healthy LPDs is the opposite. The number of healthy LPDs has decreased by 50% from 2019-2021. From 2019, there were 78 healthy LPDs. In 2021, it was stated that only 39 LPDs were still healthy. The decline and increase in the level of soundness shows indications that the operational continuity of the LPD is facing challenges in the midst of such a noble mission. Managers, supervisors and all parties who have an interest in the existence of the LPD should think about and seek solutions to maintain the continuity of the LPD. The survival of the company will only occur if the company has concern for economic growth,

This study wants to confirm how influencestructural capital, social capital, and reputation capital on financial performance and business sustainabilitybecause of the field phenomena that occurred from 2019 to 2021 in LPDs throughout Badung Regency, LPDs that were declared healthy continued to decline. For this reason, based on the things that have been done in previous research as a comparison and some other research results as a support, the authors are interested in conducting research on the influence ofstructural capital, social capital, and reputation capital on financial performance and business sustainability (Study on LPDs throughout Badung Regency).

## 2. LITERATURE REVIEW

**Resource-Based View Theory (RBV)**

The development or evolution of the RBV theory was initiated by the opinion of Penrose (1959) who views a company as an organization that manages various productive resources. Some of the resources managed are material and some are immaterial, some are tangible, some are intangible. Penrose (1959) also suggests that the same material resources and human resources can be combined in different ways from one company to another, depending on the ideas underlying their use.

Based on the definition put forward by Penrose (1959) about the company, Wernerfelt (1984) put forward a view based on the resources owned by the company (Resources-Based View) when companies develop business strategies that can create sustainable competitive advantage.

The competitive advantage model was first put forward by Michael M. Porter in 1980. Porter describes two strategic issues that are very closely related to the company's efforts to earn profits. First, the company must be able to choose the type of industry to be engaged in. Second, companies must be able to choose a position and determine the right competitive strategy (focus, differentiation strategy, or price leadership strategy) which then makes it able to outperform competitors in the same type of industry.

Along with the widespread acceptance of the opinion of Penrose (1959) and Wernerfelt (1984), research on the behavior of resources owned by companies is increasingly being carried out and it is proposed to pay attention to the various resources owned by companies when developing strategies, because in essence companies is a collection of resources, both tangible and intangible.

Barney (1991) states that strategic resources are resources capable of creating sustainable competitive advantage and these resources have the attributes of being valuable, rare or difficult to obtain, difficult or inimitable, and irreplaceable. substitutes). These four attributes are hereinafter known as VRIN and are considered as important requirements so that a set of resources can be used as the basis for creating a sustainable competitive advantage.

Curado (2006) argues that the RBV theory with its VRIN is an idea that emphasizes that competitive strategy is carried out by prioritizing strengths and weaknesses, both of which come from within the company. This then becomes the main differentiator from the competitive advantage model put forward by Porter (1980) which prioritizes opportunities and threats that exist in the company's external environment.

Fahy (2000) explains that a lot of research in the last ten years has attempted to combine and integrate two viewpoints (internal and external) in analyzing and developing business strategies. This cannot be separated from the notion that a company's competitive advantage requires matching between the organization's internal capabilities and changes in external conditions.

The RBV approach to competitive advantage which states that internal resources are more important than external factors in achieving and maintaining competitive advantage has been rejected by other studies. Fahy (2000) examines the influence of the internal and external environment on the banking industry in Indonesia. The result is precisely the external environment that has more influence on banking performance. Barney (1991) states that organizational performance is basically determined by internal resources. In order for the internal resources owned by a company to have strategic value, they must have the following characteristics:

A. Rare resources are resources that competitors do not have. If many companies have the same resources, then these companies tend to implement similar strategies, so it will not provide a competitive advantage.
B. The same resources are difficult to imitate, if the company does not easily get the resources, then the resources will lead to competitive advantage.
C. Not easily replaced, if there is no possible substitute product, the company will be able to maintain its competitive advantage.

Firm-specific factors are more important than environmental or industrial structure characteristics for producing superior performance. Barney (1991) explains that companies have strategic resources that are heterogeneous and difficult to imitate. "The RBV identifies four key resource attributes needed for potentially sustainable competitive advantage: value, rarity, imperfect imitability, and non-substituability. Barney explained that the RBV theory is currently a very helpful theory in strategy formulation and has received a significant amount of attention in the strategic management literature. The RBV theory is very important for research with a strategic object to examine how companies develop strategic resources as a competitive advantage.

Dehui, *et al* (2014) developed the RBV model which is stated as Extended RBV (ERBV). ERBV is stated on the basis of strategic resources and knowledge not only brought from the company's boundaries. Companies must combine internal and external organizational capabilities and resources to enhance organizational capabilities and sustainable competitive advantage. Another thing that was explained was that the organization's internal resources included top management support and information technology. While the external resources of the organization include suppliers and customer integration.

Strategic resources are believed to be capable of realizing a sustainable competitive advantage if they have valuable, rare, difficult to follow, and difficult to replace characteristics that create performance that can outperform competing companies (Barney, 1991; Amit and Schoemaker, 1993; Peteraf, 1993). According to this, the identification, development and preservation of resources as a core competency is an important effort that needs to be carried out by companies in order to realize a sustainable competitive advantage.

The business continuity of a company is not only seen from the distribution of profits, one approach that can be applied by companies to face various challenges and opportunities is an approach based on Resources Based View (RBV). Through RBV companies can build a sustainable competitive advantage through the use of heterogeneous energy sources for their survival. The company must continue to develop the energy sources owned by the RBV in order to be able to maintain a sustainable competitive advantage (Wernerfelt, 1984).

Research from Nurhajati (2004), Hakim (2007), Ainudin et al., (2007), and Fereira et al., (2007) who use the RBV approach have confirmed that strategic resources have a significant impact on company strategy and performance. Bontis et al. (2000) said that structural capital has a critical relationship with intellectual capital as measured at the level of operational analysis. Viewed from organizational analysis, structural capital is related to company performance. If an organization can classify organizational knowledge and develop structural capital it can produce a sustainable competitive advantage. These advantages can relatively produce performance.

Bourdieu (1980) says social capital is a whole source of actual or potential concepts, which are associated with the ownership of a long-lasting network or reciprocal relationships between institutions that are known. Fine and Lavavitsas (2004) explains the definition of social capital according to Bourdieu (who first wrote social capital/in 1970): as an aggregate of actual or potential resources that are bound to create a durable network so as to institutionalize mutually beneficial affinity. . Bourdieu (1980) believes that social networks are not natural (naturally given), but are constructed through investment strategies that are oriented towards the institutionalization of group relations which can be used as a trusted source to gain benefits (benefits).

Trust is a mutual trustworthiness on which all social relations depend (Simmel, 1990). Mayer et al., (1995) measure trust which then forms reputation with three factors, namely: ability, benevolence and integrity. Ability is a combination of skills, competencies and specific characteristics that a person needs to do or do something in a certain field. Ability is assessed by the person who gives the trust based on the relationship and information collected regarding the trusted party and is used as a basis for placing trust. Benevolence means wisdom or kindness. Benevolence is a measure of the extent to which the trusted party wants to do good to the trusted party. outside of the desire to gain personal or corporate benefits. Integrity involves the perception of the party that trusts, that the party that is trusted will fulfill principles that are acceptable to both parties in a relationship of trust.

**Hypothesis**

In accordance with the formulation of the problem, theoretical studies, and empirical studies, hypotheses can be developed in this study with the following exposure.

**H1:** Structural capital has a positive and significant effect on financial performance
**H2:** Social capital has a positive and significant effect on financial performance
**H3:** Reputation capital has a positive and significant effect on financial performance
**H4:** Structural capital has a positive and significant effect on business sustainability
**H5:** Social capital has a positive and significant effect on business sustainability
**H6:** Reputation capital has a positive and significant effect on business sustainability
**H7:** Financial performance positive and significant effect on business sustainability

## 3. RESEARCH METHODS

This research approach is a quantitative approach combined with the aim to find outinfluencestructural capital, social capital, and reputation capital on financial performance and business sustainabilityp.sthere is an LPD in Badung Regency.Based on the research hypothesis, there are 5 variables used in this study namelystructural capital,social capital, reputation capital,financial performance,Andbusiness continuity. These variables then become guidelines for developing research instruments. The preparation of the instrument is carried out if the sample has been determined. Furthermore, data collection both primary data and secondary data, then the data is processed using PLS analysis techniques. The results of data processing will be interpreted so as to get conclusions from the research.

This research is located atLPD in Badung Regency. This research was conducted in 2022. The choice of research location was based on the phenomenon of a decrease in LPDs declared healthy by 50% from 2019 to 2021 in LPDs throughout Badung Regency.

PopuThe lation used in this study was 122 headsLPD in Badung Regency. The sample for this study is a saturated sample (census).(Sugiyono, 2018:85)said saturation sampling is a sampling technique that utilizes all members of the population as a sample. The samples taken in this study were as many as122 HeadsLPD in Badung Regency.

## 4. RESULTS AND DISCUSSION

### a. Hypothesis testing results

Hypothesis testing is done by t-test on each path of partial direct influence and indirect influence through mediating variables. Related to this test, hypothesis testing can be divided into direct submission and indirect effect testing or mediating variable testing. In the following sections, the results of testing the direct effect and testing the mediating variable are described successively.

**Test the direct effect hypothesis**

The recapitulation of the results of the Path coefficient validation test on each path for a direct effect can be presented in Table 2

**Table 2**
**Results of Direct Effect Hypothesis Testing**

| No. | Relations between Variables | Path Coefficient (Bootstrapping) | T-Statistics | P Values | Ket |
|---|---|---|---|---|---|
| 1 | Structural Capital -> Financial Performance | -0.606 | 2,435 | 0.015 | Significant |
| 2 | Social Capital -> Financial Performance | 0.544 | 8,189 | 0.000 | Significant |
| 3 | Reputation Model -> Financial Performance | 1,030 | 4,197 | 0.000 | Significant |
| 4 | Structural Capital -> Business Sustainability | -0.132 | 0.989 | 0.323 | No Significant |
| 5 | Social Capital -> Business Sustainability | 0.031 | 0.685 | 0.494 | No Significant |
| 6 | Reputation Model -> Business Sustainability | 0.432 | 3,052 | 0.002 | Significant |
| 7 | Financial Performance -> Business Sustainability | 0.675 | 13.134 | 0.000 | Significant |

Source: Processed data, 2023

Table 2 results of hypothesis testing are presented in the following description:

1) Structural capital proved to have a negative and significant effect onfinancial performance. This result is indicated by the path coefficient which has a negative value of -0.606 with a T-statistic =2,435(T-statistic > 1.96) and P-values = 0.015 (P-values <0.05), so hypothesis 1 (H1): structural capital has a positive and significant effect onfinancial performancecan't be proven.
2) Social capital proved to have a positive and significant effect onfinancial performance. This result is indicated by the path coefficient which has a negative value of 0.544 with T-statistics =8,189(T-statistic > 1.96) and P-values = 0.000 (P-values <0.05), so hypothesis 2 (H2): social capital has a positive and significant effect onfinancial performance provable.
3) Reputation capital proved to have a positive and significant effect onfinancial performance. This result is indicated by the path coefficient which has a positive value of1,030with T-statistics =4,197(T-statistic > 1.96) and P-values = 0.000 (P-values < 0.05), so hypothesis 3 (H3): reputation capital has a positive and significant effect onfinancial performanceprovable.
4) Structural capital proved to have a negative and not significant effect onbusiness continuity. This result is indicated by the path coefficient which has a negative value of-0.132with T-statistics =0.989(T-statistic <1.96) and P-values = 0.323 (P-values > 0.05), so hypothesis 4 (H4): structural capital has a positive and significant effect onbusiness continuitycan't be proven.
5) Social capital proved to have a positive and not significant effect onbusiness continuity. This result is indicated by the path coefficient which has a positive value of0.031with T-statistics =0.685(T-statistic <1.96) and P-values = 0.494 (P-values > 0.05), so hypothesis 5 (H5): social capital has a positive and significant effect onbusiness continuitycan't be proven.
6) Reputation capital proved to have a positive and significant effect onbusiness continuity. This result is indicated by the path coefficient which has a positive value of0.432with T-statistic = 3.052 (T-statistic > 1.96) and P-values = 0.002 (P-values < 0.05), so hypothesis 6 (H6): reputation capital has a positive and significant effect onbusiness continuityprovable.

7) Financial performanceproved to have a positive and significant effect onbusiness continuity. This result is indicated by the path coefficient which has a positive value of0.675with T-statistics =13.134(T-statistic > 1.96) and P-values = 0.000 (P-values < 0.05), so hypothesis 7 (H7):financial performancepositive and significant effect onbusiness continuityprovable.

**Indirect test results through mediating variables**

In testing the following hypothesis, the role of mediating variables will be examinedfinancial performance(Y1) on the indirect effectstructural capital(X1), social capital(X2), reputation capital (X3)to business continuity(Y2). Testing the indirect effect hypothesis in this study is presented in Table 3.

**Table 3**
**Recapitulation of Mediation Variable Testing Results**

| No. | Variable Mediation | (a) | (b) | (c) | (d) | Ket |
|---|---|---|---|---|---|---|
| 1 | Structural Capital -> Financial Performance -> Business Continuity | -0.132 (N. Sig) | 0.851 (Sig) | -0.606 (Sig) | 0.675 (Sig) | *fully mediated* |
| 2 | Social Capital -> Financial Performance -> Business Continuity | 0.031 (N. Sig) | 0.804 (Sig) | 0.544 (Sig) | 0.675 (Sig) | *fully mediated* |
| 3 | Reputation Capital -> Financial Performance -> Business Continuity | 0.432 (Sig) | 0.877 (Sig) | 1,030 (Sig) | 0.675 (Sig) | *partially mediated* |

Source: Processed data, 2023

Information : Significant (Sig) = T statistic > 1.96 at α = 5%, not significant (N. Sig) = T statistic < 1.96 at α = 5%

Information that can be obtained from Table 3 above can be presented in the following description:

1. Financial performanceas a mediating indirect influencestructural capitaltobusiness continuity. These results are shown from the mediation test carried out,If the effects c and d are significant, but the effects a are not significant. The results of this test showstructural capitalcan affectbusiness continuitythroughfinancial performancecan be proven empirically. Other information that can be conveyed, the effect of mediating variablesfinancial performanceto indirect influencestructural capitaltobusiness continuity proven fully (fully mediated) in the model. This finding is an indication that variablefinancial performanceis a mediating variable on influencestructural capitaltobusiness continuity.
2. Financial performanceas a mediating indirect influencesocial capitaltobusiness continuity. These results are shown from the mediation test carried out,If the effects c and d are significant, but the effects a are not significant. The results of this test showsocial capitalcan affectbusiness continuitythroughfinancial performancecan be proven empirically. Other information that can be conveyed, the effect of mediating variablesfinancial performanceto indirect influencesocial capitaltobusiness continuity proven fully (fully mediated) in the model. This finding is an indication that variablefinancial performanceis a mediating variable on influencesocial capitaltobusiness continuity.
3. Financial performanceas a mediating indirect influence reputation capitalto business continuity. This result is shown from the mediation test that was carried out, it appears effects c, d, and a significant. The results of this test showreputation capitalcan affectbusiness continuity through financial performance can be proven empirically. Other in formation that can be conveyed, the effect of mediating variables financial performance to indirect influence reputation capital to business continuitym unproven edition. This finding is an indication that variable financial performance is a mediating variable on influencereputation capital to business continuity.

**b. Discussion**

Based on the results of the PLS analysis, this section will discuss the results of the calculations that have been carried out. This study aims to determine the determinantsstructural capital, social capital,Andreputation capitaltobusiness continuitythroughfinancial performanceas an intervening variable in the study of LPD in Badung Regency. Testing is shown through the existing hypotheses so that you can find out how each variable influences the other variables

i. **Influencestructural capital on financial performance**
The results of hypothesis testing indicate that structural capital has a negative and significant effect on financial performance. This result means that the better the structural capital of the LPD in Badung Regency, the lower the financial performance. The results of this hypothesis test support various concepts and empirical findings that have previously existed which explain negative and significant structural capital to financial performance.

A thick organizational culture in which all personal animates the vision, mission and goals of the LPD actually lowers their enthusiasm and hard work, this is because in organizational practices the LPD has not prioritized the interests of traditional villages. On the other hand, the presence of Bendesa Adat in the organizational structure as Chair of the Supervisory Board whose job is to direct LPD policies to be more effective and efficient has not been able to streamline the ratio of Operational Costs to Operational Income (BOPO).
The results of this study do not support the research conducted byClarke et al. (2011), Mention and Bontis (2013), Sayad and Pourmohammadi (2014), Gamayuni (2015), Luminitas (2016), and Gugon et al. (2016) which states that structural capital has a positive and significant effect on financial performance.

**4.2.2 Influencesocial capital on financial performance**
The results of hypothesis testing show that social capital has a positive and significant effect on financial performance. This result means that the better the social capital of the LPD in Badung Regency, the better financial performance will be. The results of this hypothesis test support various pre-existing concepts and empirical findings that explain positive and significant social capital on financial performance.

LPD management and employees are skilled in working with the community which causes the community to be close to the LPD. This has led to increased public trust and loyalty to save funds and seek credit at LPDs, so that LPD assets continue to increase and their ability to channel credit to the public also increases. Apart from being caused by the amount of credit disbursement which continues to increase from year to year, the efficiency of LPD is also influenced by the existence of social sanctions against debtors who have bad credit.

The results of this study support research conducted byKhalique and Iqbal (2014), Maryam Jameelah Hashim, et.al (2015), Dar and Mishra (2020), and Hasan, et.al (2020) which prove that social capital has a positive and significant effect on financial performance.

**4.2.3 Influencereputation capital on financial performance**
The results of hypothesis testing show that reputation capital has a positive and significant effect on financial performance. This result means that the better the reputation capital of the LPD in Badung Regency, the better financial performance will be. The results of this hypothesis test support various concepts and empirical findings that have previously existed which explain positive and significant reputational capital on financial performance.

Competitive deposit interest rates coupled with the obligation to deduct interest income tax on customer deposits have indeed caused people to prefer to place their funds in LPDs. High fundraising when accompanied by balanced lending as previously described causes the Loan to Deposit Ratio (LDR) to strengthen which in turn has the potential to increase the efficiency and profitability of LPDs to increase significantly. On the other hand, the procedure for disbursement of credit by the LPD is not complicated, the high interest rates for LPD loans in the midst of competition for cheap bank loan interest rates (such as People's Business Credit interest) which have penetrated into the countryside, have not caused LPD lending to experience difficulties which in the end will lead to optimal LPD profit. Therefore,

The results of this study support research conducted byBoekastain (2006), Cabrita, et al. (2008), Hashim, et al. (2015), Parson (1970), Vincent Jones (1997), and Haworth (2006) who prove that reputation capital has a positive and significant effect on financial performance.

**4.2.4 Influencestructural capital on business continuity**
The results of the study found that structural capital has a negative and insignificant effect on business continuity or structural capitalno effect onbusiness continuity.These results indicate thatwhen the condition of structural capital is reflected fromorganizational cultureAndorganizational structureThe LPD in carrying out its responsibilities cannot improve the sustainability of the LPD's business.

A thick organizational culture where all personnel live the vision, mission and goals of the LPD is unable to increase their enthusiasm and hard work, this is because in organizational practices the LPD has not prioritized the interests of traditional villages.

On the other hand, the presence of Bendesa Adat in the organizational structure as Chair of the Supervisory Board whose job is to direct LPD policies in the interests of traditional villages. This condition has not been able to have an impact on increasing operational costs incurred by the LPD for the benefit of traditional villages as an indicator of business sustainability which in this study is measured by Artha for Dharma as part of the implementation of Catur Purusa Artha as mandated by Tri Warga in the Saracamuscaya Sloka 262. Such fee policies are periodically carried out, The results of this study do not support the research conducted byVan Zyl (2005) and Farah, et.al (2019) which proves that structural capital has a positive and significant effect on business sustainability.

**4.2.5 Influencesocial capital on business sustainability**

The results of the study found that social capital has a positive and insignificant effect on business sustainability or social capitalno effect onbusiness continuity.These results indicate thatwhen the condition of social capital is reflected fromconnectionLPDwith societyAndshared goal of traditional villagecannot increase the sustainability of the LPD business.

LPD management and employees are less skilled in working with the community which causes the community to be less close to the LPD. This has resulted in reduced public trust and loyalty to save funds and seek credit at LPDs, so that LPD assets continue to decline and their ability to channel credit to the public also decreases. The decline in assets and lending has the potential to reduce LPD profitability. The decline in assets was caused by unfavorable social relations with customers. Which resulted in a decrease in the quality of earning assets.

The decline in productive assets will reduce the opportunity for LPD to allocate costs to support traditional villages that are classified as Artha for Dharma. The reduction in LPD profits due to productive assets could also reduce the 20 percent amount distributed to adat villages and 5 percent to social funds which are also the Artha component for Dharma. The decline in profit due to current productive assets also causes a decrease in capital reserves which is Artha for Artha and a decrease in the manager bonus which is Artha for Kama which is an indicator of business continuity.

The results of this study do not support the research conducted bybyIto (2003) and Kusakabe (2012) proved that social capital has a positive and significant effect on business sustainability.

**4.2.6 Influencereputation capital on business continuity**

The results of hypothesis testing show that reputation capital has a positive and significant effect on business sustainability. This result means that the better reputation capital of the LPD in Badung Regency, will increase business sustainability. The results of this hypothesis test support various pre-existing empirical concepts and findings which explain positive and significant reputation capital for business sustainability.

Competitive deposit interest rates coupled with the obligation to deduct interest income tax on customer deposits have indeed caused people to prefer to place their funds in LPDs. High fundraising when accompanied by balanced lending as previously described causes the Loan to Deposit Ratio (LDR) to strengthen which in turn has the potential to increase the efficiency and profitability of LPDs to increase significantly. On the other hand, the procedure for disbursement of credit by the LPD is not complicated, the high interest rates for LPD loans in the midst of competition for cheap bank loan interest rates (such as People's Business Credit interest) which have penetrated into the countryside, have not caused LPD lending to experience difficulties which in the end will lead to optimal LPD profit. Increased efficiency on the one hand and the obligation to keep LPDs profitable on the other hand, has resulted in increased opportunities for LPDs to allocate costs to support traditional villages which are Artha for Dharma. Under such conditions, it is clear that increasing reputation capital can indeed significantly increase business sustainability.

The results of this study do not support the research conducted byJanne and Kina (2017) prove that reputation capital has a positive and significant effect on business sustainability.

**4.2.7 Influencefinancial performance on business continuity**

Hypothesis testing shows that financial performance has a positive and significant effect on business sustainability. This result means that the increasing financial performance of LPD in Badung Regency will increase business sustainability. The results of this hypothesis test support various pre-existing empirical concepts and findings which explain positive and significant financial performance towards business sustainability.

If the LPD can increase its efficiency and profitability, it will increase the opportunity for the LPD to allocate costs for routine needs in supporting traditional villages. These routine expenditures are the embodiment of Artha for Dharma (planet in the triple bottom line) which is an indicator of LPD Business Sustainability. The achievement of high profits will also increase the allocation of LPD to provide various benefits and incentives for LPD employees which is an embodiment of Artha for Kama (people in the triple bottom line) which is also an indicator of Business Sustainability.

The results of this study support research conducted byAras and Crother (2011); Ajanthan (2013); and Eishehhi et.al (2017) which proves that financial performance positive and significant effect on business sustainability.

### 4.2.8 Novelty

A number ofnovelty that can be conveyed from researchthese include:

1. Researchers used two exogenous variables, namely: structural capital, social capital, Andreputation capital, whereas previous research tends to be juxtaposed with other exogenous variables as an effect onbusiness continuitywithfinancial performanceas an intervening variable.
2. The Catur Purusa Artha concept, which serves as a proxy for measuring the sustainability of the LPD's business in accordance with John Elkington's theory (1994) regarding the Triple Bottom Line, has in fact been implemented by the LPD ten years earlier, namely since 1984. Implementation of the Catur Purusa Artha described in Sarasamuccaya Sloka 262.

### 4.2.9 Research implications

**Theoretical implications**

The results of this study are empirical evidence for the theory that underlies the relationship between the variables described in the research model. This research has proven thatstructural capitalnegative and significant tofinancial performance.Social capital and reputation capital positive and significant effect onfinancial performance. Structural capital and social capital are noteffect onbusiness continuity.Reputation capital positive and significant effect onbusiness continuity. As well asfinancial performance positive and significant effect onbusiness continuity.

**Practical implications**

The results of this study can be used in making decisions onLPDs in the District.Financial performancecan improvebusiness continuity. Howeverfinancial performancejust can not be used as a basis for improvementbusiness continuity. The results of this study provide suggestions and input toLPD in Badung Regencyrelated to improvement effortsbusiness continuity.

### 4.2.10 Research limitations

A number oflimitations that can be conveyed from the studythese include:

1. The research implementation time is relatively short, this limitation certainly has an impact on the low generalization of the research, considering the problems encountered are relatively complex and dynamic from time to time. If the model is applied at other times and conditions it is possible to obtain different results.
2. This study has limitations because it only examines 3 (three) Intellectual Capital, namely Structural Capital, Social Capital and Reputation Capital. Testing of other non-financial capital such as Human Capital, Technological Capital and Spiritual Capital has not been carried out.
3. This research is a quantitative research with statistical analysis techniques which are limited only to examine the effect between variables, both direct and indirect. Whereas in LPDs which are microfinance institutions in Bali, such as the Grameen Bank in Bangladesh, there are many factors that determine the success of these institutions.which cannot be quantified.
4. The implementation of Catur Purusa Artha in this study is only used to measure Business Sustainability, while there are many other indicators that can also be used in companies and even non-Hindu companies.

## 5. CONCLUSION

Based on the results of the analysis and discussion that has been carried out in this study, it can be concluded as follows:

1. Structural capitalnegative and significant effect on financial performance. These results provide meaningthat structural capital has a positive effect on financial performancecan't be proven.
2. Social capital positive and significant effect on financial performance. These results provide meaningthat social capital has a positive effect onfinancial performanceprovable.

3. Reputation capital has a positive and significant effect onfinancial performance. These results give the meaning that reputation capital has a positive effect onfinancial performanceprovable.
4. Structural capital has no effect onbusiness continuity. These results give the meaning that structural capital has a positive effect onbusiness continuitycan't be proven.
5. Social capital has no effect onbusiness continuity. These results give the meaning that social capital has a positive effect onbusiness continuitycan't be proven.
6. Reputation capital has a positive and significant effect onbusiness continuity. These results give the meaning that reputation capital has a positive effect onbusiness continuityprovable.
7. Financial performancepositive and significant effect onbusiness continuity. This result gives the meaning that the betterfinancial performance, sobusiness continuitywill increase.

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