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Tri Hita Karana-Based Governance and Financial Performance of Village Credit Institutions (LPDs): Moderating Effects of Location and IT

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ABSTRACT

Village Credit Institutions (*Lembaga Perkreditan Desa*/LPDs) in Bali play a strategic role in community-based financial empowerment, yet many face governance and performance challenges. This study aims to examine the effect of Tri Hita Karana (THK)-based governance on the financial performance of LPDs and to test whether institutional fundamentals, specifically location and information technology adoption, moderate this relationship. Using legitimacy theory as the underlying framework, this quantitative research employed data from 94 LPDs across nine regencies in Bali, analyzed through Moderated Regression Analysis (MRA). The results indicate that THK-based governance has a positive and significant effect on financial performance ($\beta = 0.412$, $p < 0.05$). Furthermore, both location ($\beta = 0.217$, $p < 0.05$) and information technology adoption ($\beta = 0.294$, $p < 0.05$) strengthen the relationship between governance and performance. These findings demonstrate that the integration of cultural ethics and digital transformation enhances institutional accountability and sustainability. The study contributes theoretically by extending good corporate governance (GCG) through cultural and technological perspectives and offers practical insights for policymakers to reinforce THK-based governance in LPDs.

Keywords: Financial Performance; Good Corporate Governance; Information Technology Adoption; Village Credit Institutions (LPDs); Tri Hita Karana (THK)-Based Governance

INTRODUCTION

Village Credit Institutions (*Lembaga Perkreditan Desa*/LPDs) are community-based financial entities that play a vital role in promoting economic independence while preserving the social and cultural fabric of Bali's traditional villages (Putra & Muliati, 2020). Unique to the island of Bali, LPDs do not exist in other regions of Indonesia, as they are deeply rooted in the province's customary village system (desa adat) and operate under Balinese local regulations. As microfinance institutions owned and managed by customary villages, LPDs mobilize community savings and redistribute funds through credit schemes designed to strengthen local economies and improve social welfare (Wirasedana et al., 2024). Their role is distinctively dual: beyond functioning as financial intermediaries, LPDs serve as social institutions that foster solidarity, self-reliance, and local identity by financing religious, cultural, and community-based activities (Ardiana et al., 2025). In this way, they stand as both financial engines and cultural anchors, ensuring that economic growth remains rooted in community values. Institutions that are grounded in strong community values tend to generate positive impacts on social and economic empowerment by fostering collective participation, local resource mobilization, and sustainable development rooted in local wisdom and solidarity (James & Suryani, 2025).

However, several cases of weak transparency, fund misappropriation, and inadequate internal control have revealed persistent vulnerabilities in the governance of LPDs. In 2022, financial scandals involving several LPDs, such as LPD Gulingan, Ambengan, Unggasan, Serangan, and Anturan, where mismanagement and fraudulent activities, including fictitious loans and unauthorized withdrawals of customer deposits, which led to severe financial distress and the inability to meet depositor obligations. These incidents not only exposed deficiencies in internal supervision but also undermined public trust in the accountability of LPD management. They serve as critical reminders that governance failures, even in culturally grounded institutions, can erode community confidence and threaten the sustainability of local financial systems (Kepramareni et al., 2024). These incidents have raised legitimate concerns about accountability and institutional integrity, underlining the urgency of strengthening governance systems that integrate modern financial discipline with local ethical foundations (Bhinadi & Simatupang, 2025). To address these challenges, the Bali Provincial Government introduced Regional Regulation No. 3 of 2017 and Governor Regulation No. 44 of 2017, emphasizing the implementation of good corporate governance (GCG) principles: transparency, accountability, responsibility, independence, and fairness (Komite Nasional Kebijakan Governance [KNKG], 2006). Yet, the governance of LPDs cannot be managed through standardized corporate mechanisms alone. Unlike conventional financial institutions, LPDs are deeply embedded in the cultural and spiritual life of Balinese society, and therefore their success depends on governance practices that reflect and uphold the moral values from which their legitimacy originates.

Tri Hita Karana (THK) philosophy offers a powerful ethical and spiritual foundation for governance, one that harmonizes economic activity with the moral, cultural, and ecological dimensions of community life. Rooted in Hindu cosmology, the THK philosophy emphasizes harmony among three essential relationships: between humans and God (*Parahyangan*), among humans (*Pawongan)*, and between humans and the environment (*Palemahan*) (Suardikha, 2013). When applied to institutional management, THK provides a moral compass that encourages accountability, integrity, and fairness in decision-making. Prior studies have shown that the integration of THK-based values can strengthen ethical governance, enhance accountability, and promote the long-term sustainability of community institutions (Ardiana et al., 2025). Moreover, embedding THK principles within governance structures not only improves financial performance but also reinforces the moral legitimacy of LPDs as trusted community institutions (Ardiana et al., 2025).

Despite these promising insights, research findings on the relationship between governance, culture, and performance remain inconsistent. Some studies indicate that GCG and cultural values positively influence organizational performance, while others find the effects insignificant, especially among institutions constrained by limited managerial skills or technological capacity (Apriliani & Yudantara, 2025). These inconsistencies suggest that the success of culturally embedded governance depends on contextual and institutional characteristics, such as location, organizational size, and the level of technological adoption. As noted by Wirasedana et al. (2024), the financial and cultural sustainability of microfinance institutions is closely tied to their structural capital, human resource competence, and capacity to adapt to external challenges. In a similar vein, Wati et al. (2025) found that the effective use of accounting information systems (AIS) enhances institutional performance by improving efficiency, accuracy, and transparency, elements that align closely with the accountability principle of GCG.

These observations reveal a clear research gap. While prior studies have largely focused on the direct relationship between culture, governance, and performance, very few have examined how contextual factors, particularly institutional fundamentals such as operational location, scale, and degree of digitalization, mediate or moderate this relationship. These factors likely determine how deeply cultural values are embedded in day-to-day management practices. For example, LPDs located in urban areas may benefit from better access to skilled human resources, technological infrastructure, and innovation, whereas those in rural areas often depend more on social cohesion and traditional trust networks. Empirical evidence shows that automation within AIS reduces human error, enhances data integrity, and facilitates timely reporting, all of which contribute to more reliable and transparent financial statements (Kimani, 2024). Furthermore, Rengganis et al. (2024) emphasized that AIS adoption fosters digital accountability by promoting efficiency and sustainability in community financial reporting. Collectively, these findings highlight that integrating digital accounting systems into traditional governance frameworks not only optimizes operational performance but also enhances institutional legitimacy through transparency and ethical financial stewardship.

Building on these dynamics, this study seeks to analyze the influence of THK-based governance on the performance of LPDs in Bali, while also examining how fundamental characteristics (location and information technology adoption) moderate this relationship. This analysis is particularly relevant as LPDs across Bali undergo a dual transformation: preserving their cultural integrity while simultaneously embracing digital modernization as a means of achieving long-term resilience and competitiveness.

The novelty of this research lies in its integration of modern governance frameworks with indigenous cultural ethics, an intersection that remains underexplored in the context of community-based financial institutions. By positioning institutional characteristics such as location and technology adoption as moderating variables, this study offers a multidimensional understanding of how culture-based governance operates within diverse organizational settings. It thus extends the conceptual scope of GCG by embedding cultural and technological adaptability as essential drivers of institutional effectiveness. From a theoretical standpoint, this study broadens the application of legitimacy theory, which posits that organizations achieve sustainability when their operations and values are consistent with societal norms and expectations (Deegan et al., 2002). In this sense, the THK philosophy serves as a culturally grounded source of social legitimacy that strengthens public trust and institutional credibility. From a practical perspective, the findings of this research are expected to inform policymakers and the

Development Agency of Village Credit Institutions (*Lembaga Pemberdayaan Lembaga Perkreditan Desa*/LPLPD) in developing governance frameworks, training programs, and supervisory systems that effectively combine digital transformation with local wisdom.

Ultimately, this study contributes not only to the growing discourse on governance and institutional performance but also to the advancement of a culturally grounded and technology-adaptive governance model for sustainable community-based finance. It highlights how harmonizing modern governance mechanisms with the THK philosophy can create organizations that are not only efficient and accountable but also ethically resilient and culturally sustainable, ensuring that Bali's LPDs continue to thrive as both economic pillars and guardians of cultural integrity.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory emphasizes that the survival of an organization depends on how well its actions align with societal norms, values, and expectations (Deegan et al., 2002). Legitimacy acts as a "social contract," implying that institutions must operate ethically within the moral boundaries accepted by the community (Abumere, 2019). Within the Balinese context, legitimacy for LPDs is deeply rooted in the THK philosophy, which embodies spiritual, social, and ecological harmony. When governance practices internalize these values, they cultivate moral credibility, strengthen community trust, and ensure institutional sustainability. A prior study by Manuari et al. (2024) confirms that culturally grounded governance improves ethical accountability and performance. However, legitimacy can also be fragile when governance mechanisms fail to translate cultural values into formal systems of control (Schleifer & Bloomfield, 2015). Hence, the challenge lies not only in adopting THK principles symbolically but in institutionalizing them through measurable governance practices.

Legitimacy for LPDs arises when their operations reflect and uphold the moral and cultural values of Balinese customary communities. These values are reflected in the THK philosophy. When LPDs embody these values in their governance practices, they strengthen public trust and reinforce their legitimacy as ethical financial institutions. Thus, legitimacy theory provides a strong conceptual foundation for understanding how culturally grounded governance helps maintain social approval and institutional sustainability.

Good Corporate Governance (GCG)

GCG provides a structural framework that defines managerial responsibilities to ensure transparency, accountability, responsibility, independence, and fairness (KNKG, 2006; Mahrani & Soewarno, 2018; Wiratama & Prasetio, 2025). Empirical evidence has linked GCG to enhanced financial performance in microfinance institutions (Sara, 2020), yet other studies found insignificant or inconsistent results (Dewany, 2015). These mixed findings suggest that governance effectiveness is context-dependent and may vary with organizational resources and cultural embeddedness. Embedding GCG within THK-based ethics thus bridges corporate discipline and moral legitimacy, providing a holistic governance model that addresses both managerial accountability and cultural expectations.

Tri Hita Karana (THK) Culture

The THK philosophy, derived from Balinese Hinduism, advocates harmony among humans, nature, and the divine (Putra & Muliati, 2020). As a moral compass, THK promotes ethical behavior, social responsibility, and ecological awareness in organizational practices. Suardikha (2013) demonstrates that THK values shape accountability and the use of accounting systems in ways that reflect communal responsibility. A study by Manuari et al. (2024) reveals that integrating THK principles into management enhances both financial outcomes and stakeholder trust. Nonetheless, the practical implementation of THK varies among LPDs, depending on leadership commitment and institutional capacity. These variations highlight a potential gap. While THK offers an ethical foundation, its ability to improve performance depends on contextual enablers such as technology and organizational resources.

Financial Performance

Financial performance reflects how efficiently institutions manage assets to achieve profitability and long-term sustainability (Lo & Liao, 2021; Widyastuti et al., 2025). In the case of LPDs, return on assets (ROA) serves as a key indicator of financial effectiveness and governance quality. Studies in the microfinance sector (Ozkan et al., 2017) indicate that better governance enhances profitability through improved resource management and accountability. Therefore, financial performance not only measures operational success but also represents the tangible outcome of culturally embedded governance.

Fundamental Characteristics of LPDs: Location and Technology Adoption

Institutional context shapes how THK-based governance affects financial performance. Recent studies highlight that location influences access to human resources, technology, and managerial competence (Rambe, 2018). LPDs in urban areas benefit from better infrastructure and professional management, resulting in stronger governance outcomes, whereas rural LPDs depend more on informal trust systems that may limit efficiency (Prayudia et al., 2020). Thus, location moderates the governance performance relationship, with urban institutions more capable of institutionalizing THK principles. Technological capability further determines governance effectiveness. The adoption of AIS enhances transparency, accuracy, and accountability, improving financial outcomes. Prior evidence shows that digital readiness and AIS adoption strengthen the governance performance link by fostering efficiency and oversight (Kimani, 2024; Laourou, 2025; Rengganis et al., 2024). Therefore, this study posits that THK-based governance improves financial performance, but its impact depends on institutional fundamentals, particularly location and technology adoption.

Hypotheses Development

The Effect of THK-Based Governance on LPD Performance

The implementation of THK-based governance is expected to enhance public trust and strengthen social legitimacy among LPDs. The THK values emphasizing integrity in *Parahyangan*, social harmony in *Pawongan*, and environmental responsibility in *Palemahan* provide an ethical foundation for responsible management and decision-making (Manuari et al., 2024). Aligning governance practices with local cultural values enables LPDs to improve operational effectiveness, optimize resource utilization, and ultimately increase profitability.

Previous studies support this reasoning, showing that THK-based governance exerts a positive influence on financial performance (Manuari et al., 2024). Based on both theoretical and empirical evidence, the first hypothesis is proposed as follows:

H1: THK-based governance positively affects the financial performance of LPDs.

The Moderating Role of Fundamental Characteristics

The influence of governance on performance is rarely uniform across all institutions; it often varies depending on environmental and organizational contexts. This study identifies two moderating variables, namely location and information technology adoption, to explain such variations.

First, location may moderate the relationship between governance and performance due to disparities in access to resources, managerial competence, and competitive intensity. LPDs in urban areas typically benefit from stronger management systems and external oversight, which may amplify the impact of THK-based governance on performance.

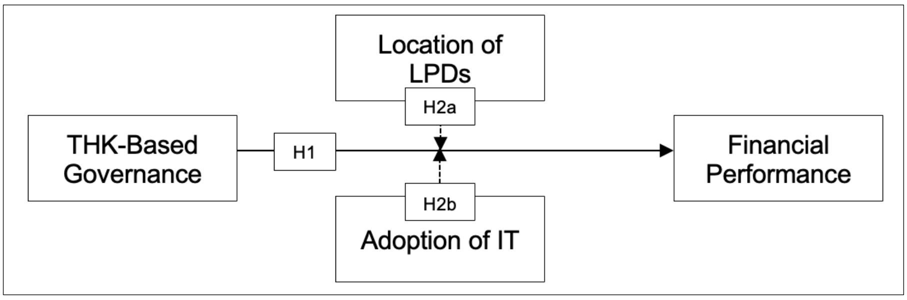
Second, information technology adoption enhances the efficiency of governance processes by facilitating accurate recordkeeping, timely reporting, and reliable internal control (Kimani, 2024). The presence of well-functioning AIS reinforces transparency and accountability, thereby strengthening the relationship between governance quality and institutional performance.

Accordingly, the following hypotheses are formulated:

H2a: The location of LPDs moderates the relationship between THK-based governance and financial performance, such that urban LPDs exhibit a stronger relationship.
H2b: The adoption of information technology moderates the relationship between THK-based governance and financial performance, such that LPDs with higher levels of technological adoption exhibit a stronger relationship.

Conceptual Framework
Based on the hypothesis development, the conceptual framework of this study illustrates that THK-based governance serves as the independent variable influencing the financial performance of LPDs. The application of THK values is expected to enhance social legitimacy, strengthen accountability, and optimize institutional effectiveness. However, the strength of this relationship is contingent upon the fundamental characteristics of the institutions, namely, location and AIS adoption, which function as moderating variables. Drawing on Resource Dependence Theory, LPDs located in urban areas possess greater access to resources, professional human capital, and infrastructure, thereby amplifying the impact of governance on performance. Meanwhile, in line with institutional capacity theory, LPDs that have adopted AIS demonstrate higher institutional capacity in implementing transparency and accountability principles, which reinforces the positive influence of culturally grounded governance on financial outcomes. Thus, the conceptual framework posits that the effectiveness of THK-based governance in improving financial performance is context-dependent, shaped by the structural environment and digital capacity of each institution. The study framework model is depicted in Figure 1.

Figure 1. Research Framework



RESEARCH METHOD

This study employed a quantitative, cross-sectional survey design combined with archival financial data to examine the effect of THK-based governance on the financial performance of LPDs in Bali. It also analyzed the moderating roles of two institutional fundamentals, namely location and AIS adoption. The unit of analysis in this study was the institutional level because each LPD operates independently within the administrative and customary framework of its respective village. The population in this research consisted of all 1,436 LPDs operating across nine regencies and municipalities in Bali, as recorded by the LPLPD of the Bali Provincial Government. The sample size was determined using the Slovin formula.

$$n = \frac{N}{1+N(e)^2},$$

Where $N = 1{,}436$ and the significance level $e = 0.10$, resulting in a total sample of 94 LPDs. Sampling was conducted using a proportional random sampling technique to ensure fair representation of LPDs from each region. The respondents consisted of LPD Chairpersons and Heads of Supervisory Boards, who possess the authority and comprehensive understanding of governance practices and financial performance within their institutions.

Data collection was carried out through a structured questionnaire distributed to the sampled LPDs and supplemented with secondary data obtained from their 2023 financial reports and official records from the LPLPD. The questionnaire used a four-point Likert scale, ranging from 1 (strongly disagree) to 4 (strongly agree), to capture perceptions of governance implementation. Participation in the study was voluntary, and respondents were assured of the confidentiality of their responses. Ethical approval was granted by the Research Ethics Committee of Universitas Udayana, ensuring that the research adhered to established ethical standards for data collection and participant protection. The THK-based governance variable was measured using 19 indicators adapted from Manuari et al. (2024), which reflect the five principles of GCG, namely transparency, accountability, responsibility, independence, and fairness. Responses to each indicator were aggregated into a composite mean score representing the governance level of each institution. The instrument's validity was confirmed through expert review by scholars specializing in accounting ethics and local governance, while a reliability test using Cronbach's alpha produced a coefficient above 0.90, indicating high internal consistency.

Financial performance, as the dependent variable, was assessed using the ROA ratio, calculated by dividing net income by total assets and multiplying by 100 percent. The ROA data were obtained from the audited financial statements of the participating LPDs for the 2023 fiscal year. To minimize data skewness, the ROA values were winsorized at the 5th and 95th percentiles before statistical analysis.

The moderating variables consisted of location and AIS adoption. Location was coded as a dummy variable based on the administrative classification provided by the Bali Provincial Statistics Agency, where LPDs located in Denpasar, Badung, and Gianyar were categorized as urban (1), while those in other regencies were categorized as rural (0). AIS adoption was also treated as a binary variable, with a value of 1 assigned to LPDs that had implemented a computerized accounting system (including modules for cash, loans, and reporting) and 0 for those still operating manually. To control for institutional heterogeneity, several control variables were included in the regression model, namely institutional size (log of total assets), age (years of operation), and capital adequacy ratio (CAR), which together account for variations in capacity, experience, and financial stability across institutions.

Data analysis was conducted using Moderated Regression Analysis (MRA) with the assistance of SPSS version 23. The F-test was employed to evaluate the overall model fit, while t-tests were used to assess the significance of individual regression coefficients. The coefficient of determination (R^2) measured the explanatory power of the model in predicting variations in LPD financial performance. All statistical tests were carried out at a 5 percent significance level (α = 0.05), and diagnostic tests were performed to ensure that the regression model satisfied the assumptions of normality, multicollinearity, and heteroscedasticity.

RESULTS

Descriptive Statistical Analysis

The descriptive statistical analysis indicates the implementation of THK-based governance among 94 LPDs in Bali. To provide an overview of the data characteristics and ensure that the variables meet analytical requirements, descriptive statistics were computed for all variables used in the study. These statistics summarize the minimum, maximum, mean, and standard deviation values for THK-based governance, financial performance, location, and information technology adoption among the 94 sampled LPDs in Bali. The results are presented in Table 1.

Table 1. Descriptive Statistics (N =94)

Variable	Min.	Max.	Mean	Standard Deviation
THK-Based Governance	0.79	1.00	0.9253	0.04833
Financial Performance	0.13	3.90	1.8416	0.88396
Location	0.00	1.00	0.4787	0.50223
Information Technology Adoption	0.00	1.00	0.8085	0.39558

The descriptive results in Table 1 indicate that the implementation of THK-based governance among LPDs is consistently high, with a mean index value of 0.9253 and relatively low variation (SD = 0.04833). This suggests that most institutions apply THK principles of transparency, accountability, responsibility, independence, and fairness at a strong and uniform level. Financial performance, measured by ROA, shows an average of 1.8416 with a moderate standard deviation (0.88396), reflecting that profitability levels vary across LPDs but remain generally positive. The mean value for location (0.4787) implies that the sample is nearly balanced between urban and rural LPDs, while the mean for information technology adoption (0.8085) indicates that most institutions have already implemented computerized accounting systems. Overall, these results depict a sample characterized by strong governance, good financial outcomes, and substantial progress in digital adoption, conditions that provide a solid foundation for the subsequent regression analysis.

Moderated Regression Analysis (MRA)

To examine the hypothesized relationships and the moderating effects of institutional fundamentals, the study employed MRA. This analysis tested the direct influence of THK-based governance on financial performance (H1) and the interaction effects of location (H2a) and information technology adoption (H2b). The results of the regression model, including standardized coefficients (β), significance values (p-values), and overall model fit indicators, are summarized in Table 2.

Table 2. MRA Results

Hypothesis		Coefficient (β)	Sig. (p-value)	Result
H1	THK-based Governance → Financial Performance	0.412	0.000	Supported
H2a	Location x THK-based Governance → Financial Performance	0.217	0.032	Supported

H2b	Information Technology Adoption x THK-based Governance → Financial Performance	0.294	0.009	Supported
Model Fit Indicators				
Adjusted R^2		0.63		
F-test			0.001	

The regression results in Table 2 show that THK-based governance has a positive and significant effect on the financial performance of LPDs, with a standardized coefficient of β = 0.412 and a significance value of $p < 0.001$. This finding indicates that stronger implementation of governance principles derived from the THK philosophy leads to higher institutional performance, confirming the first hypothesis (H1). The moderating variable location also shows a significant positive interaction effect (β = 0.217; p = 0.032), supporting H2a. This means that the relationship between governance and performance is stronger for LPDs operating in urban areas compared to those in rural settings, suggesting that environmental resources and infrastructure enhance the effectiveness of governance practices. Similarly, information technology adoption demonstrates a significant positive moderating effect (β = 0.294; p = 0.009), supporting H2b. This result implies that LPDs using computerized accounting systems experience greater performance benefits from effective governance implementation than those that have not adopted such systems.

The overall model fit is satisfactory, with an Adjusted R^2 value of 0.63, meaning that approximately 63 percent of the variation in financial performance can be explained collectively by THK-based governance, location, and information technology adoption. The F-test (p = 0.001) confirms that the regression model is statistically significant and has strong explanatory power. These results provide robust empirical evidence that governance based on cultural values, when supported by institutional fundamentals, substantially contributes to the financial success of LPDs in Bali.

DISCUSSION

The empirical results confirm that governance practices grounded in the THK philosophy have a significant and positive impact on the financial performance of LPDs in Bali. The regression analysis shows that THK-based governance (β = 0.412, $p < 0.001$) enhances profitability, while the moderating effects of location (β = 0.217, p = 0.032) and information technology adoption (β = 0.294, p = 0.009) further strengthen this relationship. The overall model explains 63 percent of the variation in financial performance (Adjusted R^2 = 0.63), indicating that cultural governance, supported by institutional fundamentals, is a key determinant of LPD sustainability.

These findings reinforce previous evidence by Manuari et al. (2024) that embedding local cultural principles in governance systems leads to superior performance outcomes. The mechanisms behind this relationship can be understood through legitimacy theory (Deegan et al., 2002), which posits that institutional survival depends on conformity with societal norms and moral expectations. The THK philosophy operationalizes this legitimacy through three dimensions: *Parahyangan, Pawongan*, and *Palemahan,* which collectively promote transparency, accountability, and environmental harmony. When these ethical norms are embedded into management practices, they foster trust among stakeholders, reduce transaction costs, and enhance social cohesion, thereby improving financial outcomes.

The significant moderating effect of location indicates that environmental context influences how cultural governance translates into performance. LPDs in urban areas benefit from greater access to skilled human resources, digital infrastructure, and external oversight, which enable more consistent implementation of transparent and accountable practices. In contrast, rural LPDs often depend on informal trust and social proximity as sources of legitimacy. While this strengthens community bonds, it can also limit managerial innovation and accountability. These findings highlight the need for differentiated policy approaches: urban LPDs require governance reinforcement through standardization and monitoring, while rural LPDs need capacity-building programs to professionalize management without eroding traditional trust systems.

The moderating role of information technology adoption further illustrates that digitalization can serve as a bridge between cultural and modern governance. LPDs that have implemented AIS exhibit greater transparency, timeliness, and accuracy in reporting, supporting previous research (Kimani, 2024; Rengganis et al., 2024). Mechanistically, AIS makes accountability visible and measurable, turning cultural governance principles into operational practices. Technology also enhances monitoring by supervisory boards, minimizes manual errors, and increases confidence among stakeholders. Rather than undermining traditional wisdom, digital systems amplify the ethical intent of THK by providing reliable structures for its execution.

From a theoretical standpoint, this study extends legitimacy theory by demonstrating how indigenous cultural values can function as endogenous drivers of both legitimacy and performance. The results align with the perspective of Wirasedana et al. (2024), who argued that hybrid governance models integrating traditional ethics with modern systems enhance both moral and economic legitimacy. In the context of LPDs, THK-based governance serves not merely as symbolic adherence to culture but as a practical mechanism for achieving sustainable performance through trust, transparency, and technological support.

In terms of policy implications, the findings call for coordinated action from regulators, community leaders, and LPD management. The LPLPD and the Bali Provincial Government should strengthen the integration of THK principles into formal governance codes and training modules. This could include (1) developing standardized governance guidelines that align THK's ethics with financial reporting and supervisory requirements; (2) organizing capacity-building programs that equip rural LPD managers with skills in financial control and ethical decision-making; and (3) expanding AIS adoption through technical assistance, subsidies, or shared digital platforms to ensure consistent data management and transparency.

For LPD managers, the results highlight several managerial priorities. First, leadership should emphasize value-driven governance, ensuring that every operational policy reflects THK's principles of harmony and accountability. Second, managers should invest in digital literacy and system integration to strengthen the accuracy and traceability of transactions. Third, institutions should establish performance evaluation mechanisms that link adherence to ethical governance with tangible financial incentives. Finally, fostering collaboration between urban and rural LPDs can facilitate knowledge sharing and mentorship in both cultural and digital governance practices. Overall, this study demonstrates that cultural governance and technological capability are not competing paradigms but complementary forces. Integrating THK values with digital innovation enables LPDs to achieve both ethical legitimacy and financial sustainability, a balance that represents the future of community-based financial institutions in Bali.

CONCLUSION

This study aimed to examine the effect of THK-based governance on the financial performance of LPDs in Bali and to analyze the moderating roles of location and AIS adoption. Using data from 94 LPDs across nine regencies, the results of the MRA revealed that THK-based governance positively and significantly influences financial performance ($\beta = 0.412$; $p < 0.001$). The moderating effects of location ($\beta = 0.217$; $p = 0.032$) and AIS adoption ($\beta = 0.294$; $p = 0.009$) further strengthened this relationship, with the overall model explaining 63 percent (Adjusted $R^2 = 0.63$) of the variation in financial performance. These findings indicate that governance practices rooted in local cultural ethics enhance both legitimacy and profitability, particularly when supported by favorable institutional conditions.

Theoretically, this study extends legitimacy theory and GCG by demonstrating that indigenous cultural values, such as those embodied in the THK philosophy, can serve as endogenous drivers of institutional legitimacy and performance. The research introduces a hybrid governance model that harmonizes traditional ethics with modern accountability mechanisms, thereby enriching the conceptual understanding of how culture and technology jointly sustain community-based financial institutions. From a practical standpoint, three key recommendations emerge. First, the LPLPD and the Bali Provincial Government should institutionalize THK principles within formal governance frameworks through training and standardized codes of ethics. Second, capacity-building initiatives are needed to strengthen the managerial and ethical competencies of rural LPD leaders while promoting digital transformation through the adoption of AIS. Third, continuous supervision and performance benchmarking across urban and rural LPDs should be implemented to ensure consistent accountability, transparency, and community trust. These steps will help align Balinese cultural values with modern financial governance practices.

Despite its contributions, this study has several limitations. It employs a cross-sectional design, which restricts causal inference over time, and its focus on Bali limits generalizability to other cultural or institutional contexts. In addition, the reliance on self-reported governance data introduces the possibility of common method bias. Future research should therefore employ longitudinal or panel data to capture dynamic changes in governance effects, extend the analysis to multiple provinces or regions to test external validity, and incorporate qualitative approaches to explore how THK values are enacted in leadership, decision-making, and risk management practices. In conclusion, this study underscores that balancing local wisdom and digital modernization is not only feasible but also essential for sustainable institutional development. By embedding THK values into formal governance systems, LPDs can preserve their cultural authenticity while achieving modern standards of accountability and performance. This hybrid governance framework provides a resilient and ethical pathway for community-based financial institutions to thrive in an increasingly digital and competitive financial landscape.

LIMITATION

While this study provides new insights into the interaction between cultural governance and institutional performance, several limitations remain. First, it focuses solely on LPDs in Bali, whose governance systems are uniquely shaped by local cultural norms; thus, generalization beyond this context should be made cautiously. Although the model explains a substantial portion of performance variation, other factors such as leadership behavior, risk management, and community engagement warrant further investigation.

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DECLARATION OF CONFLICTING INTERESTS

The author declared no potential conflicts of interest with respect to the study, authorship, and/or publication of this article.

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