“Enhancing financial sustainability of rural banks in Bali through social capital, service innovation, and organizational culture”

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ENHANCING FINANCIAL SUSTAINABILITY OF RURAL BANKS IN BALI THROUGH SOCIAL CAPITAL, SERVICE INNOVATION, AND ORGANIZATIONAL CULTURE

Abstract

This study explores rural banks' efforts to leverage intangible assets, particularly organizational culture, to achieve financial sustainability. It examines how organizational culture influences service innovation and how social capital strengthens these relationships to support financial sustainability. The study utilized a quantitative research design targeting a population of 132 rural banks in Bali Province, Indonesia. Using a non-probability sampling technique, specifically saturation sampling, 131 valid samples were analyzed after excluding one due to unreliable data. Data were collected through survey questionnaires and analyzed using path analysis. The results indicate that organizational culture positively influences financial sustainability (path coefficient = 0.104, p = 0.027) and service innovation (path coefficient = 0.141, p = 0.015). Service innovation significantly enhances financial sustainability (path coefficient = 0.741, p = 0.000). Moreover, social capital strengthens the relationship between organizational culture and service innovation (interaction term coefficient = 0.167, p = 0.013) and contributes positively to financial sustainability (interaction term coefficient = 0.124, p = 0.019). However, social capital negatively impacts financial sustainability (path coefficient = –0.51, p = 0.000) and service innovation (path coefficient = –0.688, p = 0.000). These findings underscore the importance of fostering a robust organizational culture and prioritizing service innovation to overcome resource constraints and achieve financial sustainability. The study aligns with contingency theory, highlighting that optimal actions depend on the specific internal and external conditions faced by rural banks.

Keywords financial sustainability, organizational culture, service innovation, social capital collaboration, rural bank

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INTRODUCTION

Financial sustainability remains a significant challenge for People's Credit Banks (Rural Banks) in Bali, which are integral to supporting local economies, particularly underserved market segments. These banks play a crucial role in fostering Indonesia's economic growth by providing essential financial services to micro, small, and medium enterprises (MSMEs). However, the increasingly competitive landscape, driven by commercial banks, financial technology providers, and government initiatives such as the People's Business Loans (KUR) program, intensifies the pressure on rural banks to adapt in order to stay relevant. Despite their importance, rural banks often face limitations in financial resources, prompting a reliance on intangible assets to maintain competitiveness. In Bali, local cultural values, such as "*menyama braya*" (the spirit of communal harmony), can serve as intangible resources that foster trust, collaboration, and innovation (Putnam, 1995).

Organizational culture, as an intangible resource, has the potential to influence internal behaviors and foster an innovative environment, crucial for overcoming resource constraints. Further, social capital – encompassing networks, trust, and collaboration – can act as a catalyst, enhancing innovation and strengthening the bank's ability to adapt to market changes. The scientific problem that emerges in this context is understanding how these intangible assets, specifically organizational culture and social capital, contribute to the financial sustainability of rural banks in Bali. These factors are critical for overcoming resource limitations and ensuring long-term viability, yet their interactions and specific impacts remain underexplored in the existing literature.

1. LITERATURE REVIEW

The Resource-Based View (RBV) theory posits that companies with valuable, rare, inimitable, and non-substitutable assets gain a competitive advantage, leading to superior financial sustainability (Barney, 1991; Grant, 1991). In the context of Bali, the RBV theory can be uniquely linked to cultural values such as "*menyama braya*" (the spirit of communal harmony), which serves as an intangible asset. These cultural values foster strong networks and collaborative efforts that enhance the rarity and inimitability of resources, further solidifying a firm's competitive edge. Organizational culture is a critical component for achieving corporate sustainability. Barney (1986) emphasized that a culture that creates competitive advantage delivers economic value, is unique, and is difficult for competitors to replicate. Similarly, Günther and Fietz (2021) asserted that an adaptive culture, which integrates change into core values, drives sustainability. Research by Liu (2010) and Wijethilake et al. (2021) suggests that organizational culture significantly influences sustainability, as it shapes employee attitudes and business practices aligned with long-term goals.

The connection between organizational culture and financial performance has been further corroborated by Dyck et al. (2019) and Kantabutra (2021), who found that norms, values, and systems within an organization foster sustainable practices that enhance financial outcomes. Specifically, these norms and systems contribute to financial sustainability in the banking sector by promoting ethical decision-making, fostering trust, and enabling the alignment of organizational goals with broader community values, thereby ensuring long-term profitability and resilience. Linnenluecke and Griffiths (2010) argue that organizational culture not only influences sustainability adoption but also encourages employees to integrate sustainability into daily operations. Bertels et al. (2010) highlighted how shifts in leadership perspectives – from treating sustainability as a peripheral concern to embedding it in business strategy – underscore the role of culture in achieving sustainable growth. Studies by Afriyie (2015) and Benn et al. (2014) identified a significant relationship between organizational culture and sustainable growth rates, demonstrating how cultural alignment supports financial sustainability. Pathiranage et al. (2020) echoed these findings, emphasizing that a well-formed organizational culture enhances performance and sustainable value creation. Financial sustainability, defined as the organization's ability to generate income sufficient to sustain and grow its operations can be bolstered through innovation in products, services, and processes (Jeong et al., 2020).

In the banking sector, innovation plays a pivotal role in maintaining competitiveness. Product innovation (Asaah et al., 2020; Asisi et al., 2023), service innovation (Tian et al., 2016), and social innovation (Diniz & Vale Leitao, 2016; Vezina et al., 2017) have been identified as crucial drivers of sustainability. Service innovation, in particular, represents an interplay between technological advancements and human systems that reshape managerial and organizational practices (Merlin-Brogniart, 2021; Randhawa & Scerri, 2015). For example, Asisi et al. (2023) highlighted service innovation as a key strategy for sustainable growth in Ghana's banking industry. Barney (1986) argued that organizational culture, as an intangible resource, fosters innovation and flexibility, providing firms with a sustainable competitive advantage. This assertion is supported by Ertosun and Adiguzel (2018), who emphasized the importance of cultural values in shaping employee behavior and organizational processes. Organizations that

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cultivate an innovative culture enhance their ability to compete in dynamic markets (Hazem & Zehou, 2019). Oliveira and Hippel (2011) demonstrated how engaging customers as co-creators in service innovation strengthens competitiveness, while Woszczyna (2014) noted that organizational culture influences employees' perception of innovation, enabling the development of innovative services.

According to contingency theory, optimal actions, including innovation, depend on internal and external contextual factors (Abbas et al., 2019). Companies that align their resources – both tangible and intangible – toward innovation gain a competitive advantage (Brian, 2018; Pinzón-Castro et al., 2021). Social capital, identified as a valuable intangible resource, facilitates knowledge sharing and collaboration, thereby enhancing service innovation (Tian et al., 2016). Research by Nahapiet and Ghoshal (1998) linked social capital to corporate value creation, while Heikkinen et al. (2007) highlighted its role in accessing critical information for innovation. In Bali, local cultural values, such as *menyama braya*, act as social capital, fostering strong community networks that enhance organizational performance. These values contribute to service innovation by promoting trust, collaboration, and mutual support, which align with the research's focus on financial sustainability in rural banks (Armawi & Limbongan, 2022; Yadnya et al., 2021). Social capital, as an intangible resource, aligns with RBV principles by enabling firms to create market value through trust, norms, and reciprocity (Putnam, 1995; Islam, 2013). Additionally, organizational culture fosters social capital, encouraging interpersonal interactions and collaborative behaviors, which in turn support service innovation (Afshari et al., 2020). Service innovation has been shown to mediate the relationship between organizational culture and financial sustainability. Vivi and Harris (2020) concluded that service innovation drives sustainable business performance by adding value and enhancing competitiveness. Chen et al. (2016) argued that innovative service strategies, aligned with sustainability objectives, are critical for long-term success. Thus, companies that embed innovation within their organizational culture are better positioned to achieve financial sustainability through service innovation.

The reviewed literature demonstrates a significant interplay between organizational culture, service innovation, and financial sustainability, with social capital acting as a crucial mediator. Organizational culture fosters norms and behaviors that encourage collaboration and trust, while social capital enhances these interactions, enabling the development of innovative services. These findings collectively highlight how service innovation not only drives competitiveness but also underpins long-term financial sustainability, particularly in rural banking contexts like Bali, where cultural values such as "*menyama braya*" strengthen the impact of social capital on sustainable financial performance. It underscores the critical role of intangible resources, such as social capital and organizational culture, in driving innovation and sustainable financial performance. However, there is a lack of region-specific studies that consider unique cultural contexts like those in Bali.

The primary purpose of this study is to explore the impact of organizational culture on financial sustainability in rural banks in Bali, addressing a significant research gap by examining how unique cultural contexts and values, such as "*menyama braya*," influence the interplay between social capital, service innovation, and sustainable financial performance. The study emphasizes the mediating roles of social capital and service innovation in this relationship. By identifying how these variables interact, the research aims to provide actionable insights into improving financial performance and sustainability in the banking sector, particularly in rural contexts.

This study aims to explore the relationship between organizational culture, service innovation, and financial sustainability in rural banks in Bali, focusing on the influence of local cultural values such as "*menyama braya*" as a form of social capital. Given the unique role of these intangible assets in fostering sustainable growth in the banking sector, the study seeks to address the gap in literature concerning how cultural context, social capital, and innovation intersect to influence financial performance. The study also aims to examine the mediating role of service innovation and the moderating effect of social capital in enhancing the impact of organizational culture on financial sustainability.

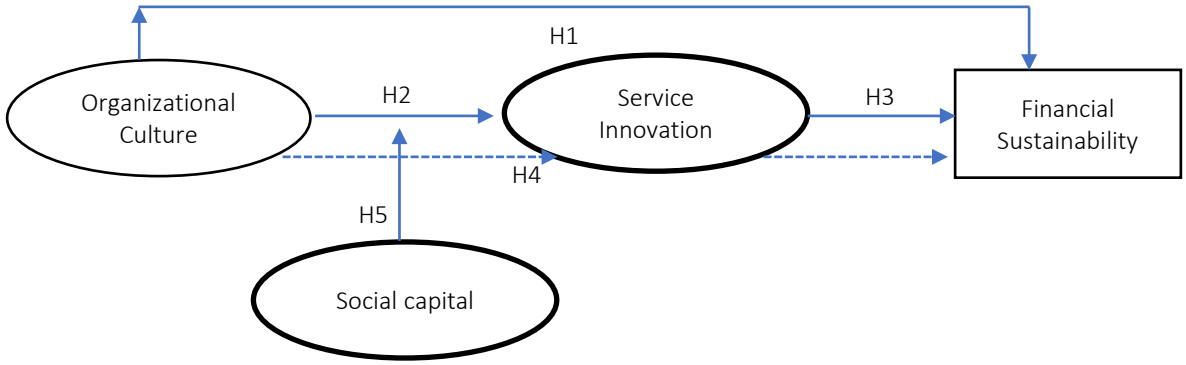

Figure 1. Research framework of financial sustainability of rural banks in Bali through social capital, service innovation, and organizational culture

Based on the literature review and the identified theoretical frameworks, the following hypotheses are proposed to investigate the relationships among organizational culture, social capital, service innovation, and financial sustainability in rural banks in Bali:

H1: Organizational culture has a positive effect on financial sustainability in rural banks in Bali.

H2: Organizational culture has a positive effect on service innovation in rural banks in Bali.

H3: Service innovation positively influences financial sustainability in rural banks in Bali.

H4: Service innovation mediates the relationship between organizational culture and financial sustainability in rural banks in Bali.

H5: Social capital strengthens the relationship between organizational culture and service innovation in rural banks in Bali.

By testing these hypotheses, this study aims to provide valuable insights into how rural banks can leverage their organizational culture, service innovation, and social capital to enhance financial sustainability and navigate the competitive pressures they face.

2. METHOD

The study employs a quantitative research design grounded in the positivist philosophy. Data collection methods incorporate both primary and secondary data, while the analysis is conducted using qualitative techniques. The study population is as large as 132 rural banks in Bali Province,

Table 1. Indicator measurement

Variable	Dimension & Indicator		Source
FS	Operating self-sufficiency (OSS)		Guntz (2011)
	Financial Self-sufficiency (FSS)		
OC	Involvement	Empowerment/OC1, Team/ OC.2, Capability development/OC.3	Denison and Mishra (1995), Wahyuningsih et al. (2019)
	Consistency	coordinating&intregration / OC.4, agreement /OC.5, core value / OC. 6	
	Adaptability	creating change/ OC.7, customer focus/ OC.8, organizational learning / OC.9	
	Mission	goal & objective / OC.10, strategic direction/ OC.11, vision / OC.12	
PI	Use of the latest technology		Dhewanto (2014), Delafrooz et al. (2013), Bilderbeek et al. (1998)
	Customer Interactions		
	New service development		
	Enterprise Service Delivery System		
SC	Network		Islam (2013), Riddell et al. (1997), Yadnya et al. (2021), Putnam et al. (2003)
	Belief		
	Norm		
	Local wisdom		

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Indonesia. The sampling method uses nonprobability sampling techniques. Saturation sampling then obtained 131 samples. A questionnaire was used in the data collection survey. The instrument used in this study to measure variables is a list of questions in the questionnaire, a data collection technique using a list of statements (questionnaires) prepared in advance using 7 (seven) points of differential semantic scale. Data analysis is a Path analysis technique used to assess the acquired data.

All indicators will be measured using 7 (seven) points of differential semantic scale. Data analysis is a Path analysis technique used to assess the acquired data. The sources of measurement in this study are presented in Table 1.

3. RESULTS AND DISCUSSION

This section presents and discusses the results of the Partial Least Square (PLS) analysis. The findings provide insights into the relationships between organizational culture, service innovation, social capital, and financial sustainability. The following subsections will explain the path coefficients, significance levels, and the overall implications of the results in the context of the research hypotheses.

Table 2. Convergent validity and discriminant validity

Source: Result of data processing (2024).

Construct	Dimension/ Indicator	Item	Factor loading	Composite reliability	Cronbach's alpha	AVE
FS	FSS		0.993	0.944	0.910	0.848
	OSS		0.993			
OC	Involvement	OC 1	0.971	0.954	0.927	0.873
		OC 2	0.963			
		OC 3	0.960			
	Consistency	OC 4	0.884	0.944	0.910	0.848
		OC 5	0.949			
		OC 6	0.929			
	Adaptability	OC 7	0.934	0.976	0.962	0.930
		OC 8	0.935			
		OC 9	0.934			
	Mission	OC 10	0.908	0.964	0.944	0.899
		OC 11	0.970			
		OC 12	0.966			
SI	Use of the latest technology	SI.1	0.926	0.982	0.979	0.844
	Customer Interactions	SI.2	0.925			
		SI.3	0.915			
	New service development	SI.4	0.936			
		SI.5	0.882			
	Enterprise Service Delivery System	SI.6	0.921			
		SI.7	0.866			
		SI.8	0.895			
		SI.9	0.942			
		SI.10	0.976			
SC	Network	SC.1	0.922	0.955	0.946	0.727
	Belief	SC.2	0.868			
		SC.3	0.851			
		SC.4	0.763			
	Norm	SC.5	0.886			
		SC.8	0.803			
	Local wisdom	SC.6	0.818			
		SC.7	0.898			

Table 3. Discriminant validity testing: Fornell & Larcker

Source: Result of data processing (2024).

Variables	Consistency	FS	Involvement	OC	OC · SC	SC	SI	Adaptability	Mission
Consistency	0.921	–	–	–	–	–	–	–	–
FS	0.423	0.993	–	–	–	–	–	–	–
Involment	0.434	0.318	0.964	–	–	–	–	–	–
OC	0.776	0.506	0.750	0.716	–	–	–	–	–
OC · SC	–0.016	0.140	–0.016	–0.029	1.000	–	–	–	–
SC	–0.272	–0.793	–0.230	–0.340	0.047	0.852	–	–	–
SI	0.243	0.741	0.243	0.370	0.124	–0.728	0.919	–	–
adaptability	0.480	0.398	0.408	0.756	–0.030	–0.280	0.344	0.934	–
mission	0.462	0.404	0.430	0.763	–0.027	–0.255	0.297	0.422	0.948

All outer loading values are known to be > 0.7 based on the outer loading validity test in Table 2, indicating they meet the validity requirements based on the outer loading values. An Average Variance Extracted (AVE) value greater than 0.5 is recommended, and since all AVE values are confirmed to exceed this threshold, they satisfy the AVE-based validity criteria. Additionally, Composite Reliability (CR) values are employed for reliability testing, with a CR value of more than 0.7 being suggested. All known CR values exceed 0.7, indicating that they surpass the reliability standards based on CR. Furthermore, Cronbach's Alpha (CA) values were also utilized for reliability assessment. Discriminant validity tests were conducted using the Fornell-Larcker method, and the outcomes of these tests are presented in Table 3.

Table 3 presents the results of the discriminant validity test using the Fornell-Larcker method. This test is designed to confirm that each construct in the model measures distinct concepts, separate from other constructs. According to the Fornell-Larcker criterion, discriminant validity is achieved when the square root of the Average Variance Extracted (AVE) for each construct is greater than the correlations between that construct and others. If the table shows that the AVE values for each construct are higher than the correlations between constructs, it indicates that the model has good discriminant validity. Conversely, if the AVE values do not significantly exceed the correlations, the discriminant validity might be questionable, suggesting that the model could require refinement. The discussion of the table should focus on whether the AVE values meet the required thresholds and explain the overall discriminant validity of the model in the context of the research. If the results align with the expected standards, the model can be considered to have strong construct validity.

The discriminant validity test results, presented in Table 4 and analyzed using the Heterotrait-Monotrait (HTMT) ratio approach, reveal that all values are below 0.9. This indicates that the criteria for discriminant validity, based on the HTMT method, have been satisfied. Additionally, the coefficient of determination (R^2) is utilized to evaluate the extent to which exogenous constructs impact endogenous constructs. The R^2 values obtained in this study are detailed in Table 5.

Table 4. Heterotrait-Monotrait (HTMT) ratio

Source: Result of data processing (2024).

Variables	Consistency	FS	Involvement	OC	OC · SC	SC	SI	Adaptability	Mission
Consistency	–	–	–	–	–	–	–	–	–
FS	0.445	–	–	–	–	–	–	–	–
Involment	0.461	0.327	–	–	–	–	–	–	–
OC	0.849	0.533	0.800	–	–	–	–	–	–
OC · SC	0.017	0.141	0.020	0.032	–	–	–	–	–
SC	0.291	0.821	0.242	0.367	0.053	–	–	–	–
SI	0.254	0.753	0.249	0.390	0.125	0.758	–	–	–
Adaptability	0.518	0.415	0.429	0.820	0.031	0.299	0.360	–	–
Mission	0.494	0.418	0.449	0.818	0.028	0.270	0.307	0.447	–

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Table 5. Coefficient determination (R-squared)

Source: Result of data processing (2024).

Variables	R-square	R-square adjusted
Financial Sustainability	0.549	0.545
SI	0.573	0.563

Table 5 presents the results of the coefficient of determination (R^2) and adjusted R^2 values for the constructs in the model. R^2 is used to assess how well the independent variables explain the variability in the dependent variables. In this case, it measures the explanatory power of the model for both financial sustainability (FS) and service innovation (SI). R^2 for Financial Sustainability (FS) = 0.549: This means that the model explains 54.9% of the variation in financial sustainability. This indicates a moderate level of explanatory power. The adjusted R^2 value of 0.545 suggests that the model still provides a good fit, accounting for the number of predictors used, with a slight reduction due to the inclusion of additional variables. R^2 for Service Innovation (SI) = 0.573: This indicates that the model explains 57.3% of the variation in service innovation, which is also a moderate level of explanatory power. The adjusted R^2 of 0.563 shows that even after considering the complexity of the model, the predictors still account for a significant portion of the variance in service innovation. These values suggest that the model has a decent explanatory power for both dependent variables, with the adjusted R^2 values confirming that the inclusion of additional variables does not lead to overfitting. The results highlight the model's ability to capture the key relationships between organizational culture, service innovation, and financial sustainability.

Table 6. Goodness of fit test results

Source: Result of data processing (2024).

Measurements	Saturated model	Estimated model
SRMR	0.063	0.070
d_ULS	0.484	0.626
d_G	0.383	0.386
Chi-square	289.420	315.901
NFI	0.887	0.876

Table 6 presents the results of the goodness of fit (GoF) test for both the saturated and estimated models. The GoF test evaluates how well the structural model fits the data based on several fit indices. SRMR (Standardized Root Mean Square Residual): For both the saturated model and the estimated model, the SRMR values are 0.063 and 0.070, respectively. These values indicate a good fit, as they are below the recommended threshold of 0.08. d_ULS (Unweighted Least Squares Distance): The values of d_ULS for the saturated and estimated models are 0.484 and 0.626, respectively. This index assesses the overall discrepancy between the observed and estimated covariance matrices, with lower values indicating a better fit. d_G (Geometrical Mean of the Squared Correlations): The d_G values for both models are very close (0.383 and 0.386), indicating a good overall fit between the model and the data. Chi-square: The chi-square statistic measures the discrepancy between the observed and predicted covariance matrices. The saturated model has a chi-square value of 289.420, while the estimated model has a chi-square value of 315.901. Both values, though slightly higher in the estimated model, suggest a moderate fit. NFI (Normed Fit Index): The NFI values are 0.887 and 0.876 for the saturated and estimated models, respectively. An NFI value above 0.90 typically indicates a good fit, and while the values here are slightly below this threshold, they still reflect an adequate fit.

Table 7 shows the results of the path coefficient test, presenting the relationships between the variables in the study. The table includes the original sample values, sample mean, standard deviation, t-statistics, and p-values, which help assess the significance of the relationships.

OC → FS (Organizational Culture to Financial Sustainability): The path coefficient is 0.104, with a t-statistic of 2.222 and a p-value of 0.027. Since the p-value is less than 0.05, the relationship is statistically significant, indicating that organizational culture positively influences financial sustainability.

OC → SI (Organizational Culture to Service Innovation): The path coefficient is 0.141, with a t-statistic of 2.438 and a p-value of 0.015. The result shows that organizational culture has a significant positive impact on service innovation, as the p-value is below the threshold of 0.05.

OC · SC → FS (Organizational Culture and Social Capital Interaction to Financial Sustainability):

Table 7. Coefficient path test results

Source: Result of data processing (2024).

Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
OC → FS	0.104	0.111	0.047	2.222	0.027
OC → SI	0.141	0.148	0.058	2.438	0.015
OC · SC → FS	0.124	0.127	0.053	2.358	0.019
OC · SC → SI	0.167	0.171	0.067	2.49	0.013
SC → FS	−0.51	−0.51	0.035	14.49	0.000
SC → SI	−0.688	−0.69	0.049	13.948	0.000
SI → FS	0.741	0.741	0.047	15.626	0.000
OC → SI → FS	0.104	0.111	0.047	2.222	0.027
OC · SC → SI → FS	0.124	0.127	0.053	2.358	0.019
SC → SI → FS	−0.51	−0.51	0.035	14.49	0.000

The interaction term coefficient is 0.124, with a t-statistic of 2.358 and a p-value of 0.019. This indicates that the interaction between organizational culture and social capital has a significant positive effect on financial sustainability.

OC · SC → SI (Organizational Culture and Social Capital Interaction to Service Innovation): The interaction term coefficient is 0.167, with a t-statistic of 2.49 and a p-value of 0.013. This relationship is also statistically significant, suggesting that the combination of organizational culture and social capital positively influences service innovation.

SC → FS (Social Capital to Financial Sustainability): The coefficient is -0.51, with a t-statistic of 14.49 and a p-value of 0.000. The negative coefficient indicates that social capital has a negative effect on financial sustainability, which is statistically significant.

SC → SI (Social Capital to Service Innovation): The coefficient is -0.688, with a t-statistic of 13.948 and a p-value of 0.000. Similar to the previous result, this negative relationship suggests that social capital negatively influences service innovation, with a high level of statistical significance.

SI → FS (Service Innovation to Financial Sustainability): The coefficient is 0.741, with a t-statistic of 15.626 and a p-value of 0.000. This strong positive relationship between service innovation and financial sustainability is highly significant, indicating that service innovation has a major positive impact on financial sustainability.

OC → SI → FS (Organizational Culture to Service Innovation to Financial Sustainability): The indirect effect is 0.104, with a t-statistic of 2.222 and a p-value of 0.027. This suggests that organizational culture influences financial sustainability indirectly through service innovation, with statistical significance.

OC · SC → SI → FS (Organizational Culture and Social Capital Interaction to Service Innovation to Financial Sustainability): The indirect effect is 0.124, with a t-statistic of 2.358 and a p-value of 0.019. This indicates that the combined effect of organizational culture and social capital on service innovation also indirectly influences financial sustainability in a significant manner.

SC → SI → FS (Social Capital to Service Innovation to Financial Sustainability): The indirect effect is -0.51, with a t-statistic of 14.49 and a p-value of 0.000. This negative indirect effect suggests that social capital negatively impacts both service innovation and financial sustainability.

Overall, Table 7 shows the significance and direction of each relationship, with organizational culture and service innovation having significant positive effects, while social capital has negative effects on service innovation and financial sustainability. The significant indirect effects highlight the complex interrelationships between the variables.

The data analysis results revealed that the path coefficient for the effect of organizational culture on financial sustainability was 0.104, with a significance level (p-value) of 0.027. Since the p-value is less than the alpha level (α) of 0.05, this indicates a statistically significant relationship. Hypothesis

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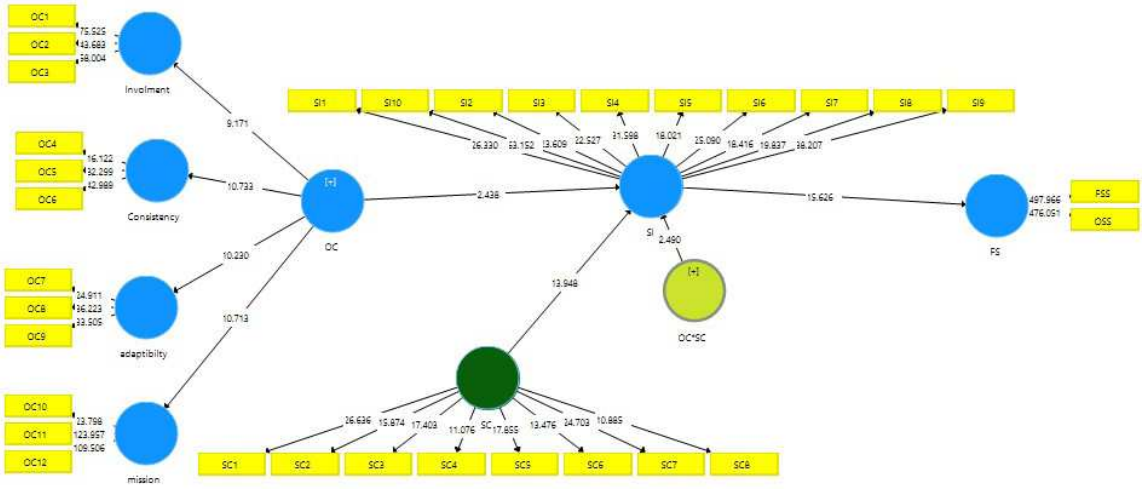

Figure 2. Structural model

1 is accepted, which means that organizational culture influences financial *sustainability.* These values prove that organizational culture positively influences financial sustainability, in line with the study's findings that indicate a relationship between organizational culture, sustainable growth rate, and financial sustainability (Benn et al., 2014; Dyck et al., 2019; Tipu, 2022). The study results follow the findings (Liu et al., 2010; Wijethilake et al., 2021) explaining that organizational culture affects sustainability. Organizational culture in the form of norms, values, and systems can affect employee attitudes toward *sustainability* (Linnenluecke & Griffiths, 2010). Employees recognize the importance of sustainability and have the mindset to integrate sustainability into the organization's business practices. Prior research indicates that both organizational culture and sustainable growth rate significantly influence financial sustainability. Consequently, organizational culture plays a critical role in enhancing financial sustainability (Benn et al., 2014; Afriyie, 2015). This underscores the impact of organizational culture and sustainable growth rate on financial sustainability (Benn et al., 2014).

The analysis showed a path coefficient of 0.141 for the influence of organizational culture on service innovation, with a p-value of 0.015. As the p-value is below the threshold, Hypothesis 2 is confirmed, indicating a positive effect of organizational culture on service innovation. (Asaah et al., 2020; Tian et al., 2016), which shows that organizational culture significantly positively affects innovations. Organizational culture shapes the perception of employees in innovating so that they better understand the procedures and practices to innovate in providing services to customers (Ogbeibu et al., 2018; Woszczyna, 2014).

The data analysis results revealed that the path coefficient for the analysis showed a path coefficient of 0.104 for the impact of service innovation on financial sustainability, with a p-value of 0.000. As the p-value is below 0.05, service innovation significantly influences financial sustainability, confirming the third hypothesis. In banking, service innovation focuses on strategies integrating digital finance and advanced financial technologies like fintech, to ensure financial sustainability (Ibrahim et al., 2019). This aligns with the observations of Chen et al. (2016), who noted that service innovation is increasingly vital for companies aiming to develop sustainable, innovative services. These findings further reinforce the Resource-Based View (RBV) theory, which posits that companies can achieve a competitive advantage by leveraging their resources to ensure ongoing sustainability.

The results indicate that service innovation serves as a mediator between organizational culture and financial sustainability, with a significant p-value of 0.019. Since this p-value is less than the alpha level (α) of 0.05, Hypothesis 4 is accepted, confirming that service innovation mediates the influence of organizational culture on financial sustainability on *Financial Sustainability.* The results of the analysis show that a better organizational culture mediated by service innovation will have an impact on increasing financial sustainability. Rural banks can develop their culture according

to their specific needs and a dynamic business environment to achieve and maintain financial sustainability as well as through the development of innovative rural bank services. Service innovation is essential in mediating organizational culture's influence on financial sustainability.

The effect of organizational culture on financial sustainability, with service innovation as a moderating variable, resulted in a coefficient of 0.124 and a p-value of 0.000. This indicates a positive and significant direct influence of organizational culture on financial sustainability. Therefore, Hypothesis 5 is accepted with service innovation as a mediator variable that enhances this relationship. This study's findings assert that the variable of service innovation is a crucial moderating factor. The absolute moderator is a variable that directly impacts the dependent variable and can also interact with the independent variable to affect the dependent variable. Moderation factors are necessary so that the dependent variable impacts the dependent variable. The service innovation variable is an independent variable that directly influences financial sustainability and works as a moderator variable that interacts with organizational culture to impact financial sustainability.

Heikkinen et al. (2007) suggest that rural banks should harness social capital to drive service innovation, especially in response to market changes. Social capital helps align goals and values between companies and partners, facilitating the sharing of knowledge and ideas. This alignment improves communication, resource utilization, and understanding, which fosters innovation. Furthermore, social capital enables access to updated information, supporting ongoing service innovation activities and strengthening the link between organizational culture and innovation (Tian et al., 2016).

Based on the study's findings, it is known that service innovation practices used by rural banks in Bali may increase organizational culture's impact on these institutions' financial sustainability. These results show that the role of culture in maintaining the operational and financial sustainability of rural banks in Bali is crucial. This study's results align with previous research findings, which explained that open organizational culture facilitates change and incorporates change into organizational values and culture that can drive sustainability (Günther & Fietz, 2021). Rural banks can develop their culture according to their specific needs and dynamic business environment to achieve and maintain financial sustainability. Organizational culture and sustainable growth rates impact financial sustainability (Benn et al., 2014; Dyck et al., 2019; Tipu, 2022). However, organizational culture alone is not enough to improve financial sustainability (Pinzon-Castro et al., 2021). Service innovation is a relatively new construct in the scientific literature and is considered vital to achieving sustainable performance levels.

Banking service innovation focuses on integrating digital finance, advanced technologies, and partnerships with financial providers to ensure sustainability (Ibrahim et al., 2019). Consistent with Chen et al. (2016), service innovation is vital for companies aiming for sustainable, innovative services, aligning with the Resource-Based View (RBV) theory, which posits that a company can achieve a competitive advantage by effectively leveraging its resources to foster continuous sustainability. For this reason, rural banks with limited resources owned in the current era of technological advancement inevitably have to choose to carry out service innovation to improve their financial sustainability.

The organizational culture in each rural bank must be able to encourage rural banks to carry out strategies to compete in the financial business to produce new advantages that are important for financial sustainability. Organizational culture in the form of norms, values, and systems can influence the attitude of rural bank employees towards sustainability (Linnenluecke & Griffiths, 2010). Rural bank employees recognize the importance of sustainability and have the mindset to integrate sustainability into the organization's business practices. The findings of this study corroborate previous research indicating that organizational culture and sustainable growth rates significantly influence financial sustainability. Thus, it is evident that corporate culture is vital for enhancing financial sustainability (Afriyie, 2015; Benn et al., 2014).

This study fills the gap of previous research stating that rural banks find it challenging to innovate amid limited resources owned (Brian, 2018;

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Quartey et al., 2019; Widyastuti et al., 2023). It turns out that by utilizing social capital owned, namely the ability to do work, it is possible to still innovate in the form of service innovation by cooperation or collaboration with other parties, both fellow rural banks, commercial banks, fintech companies, and other financial institutions, which were initially competitors, are now collaborating to improve the financial sustainability of Rural Bank.

This study incorporates the element of intellectual capital, specifically social capital. The fifth finding reveals that social capital positively moderates the relationship between organizational culture and service innovation. This means that rural banks' social capital strengthens organizational culture's influence on service innovation. The social capital variable is also measured by the value of Balinese local wisdom. The uniqueness of the rural bank organizational culture in Bali is that it upholds local Balinese wisdom that is honest, friendly, responsible, and loyal to the company (Susilo et al., 2019). The study results follow the findings (Liu, et al., 2010; Wijethilake et al., 2021) explaining that organizational culture affects sustainability. Organizational culture in the form of norms, values, and systems can affect employees' attitudes towards sustainability (Linnenluecke & Griffiths, 2010). Employees recognize the importance of sustainability and have the mindset to integrate sustainability into the organization's business practices. This study integrates the aspect of intellectual capital, focusing on social capital. The fifth finding indicates that social capital positively moderates the link between organizational culture and service innovation. In light of the swift changes in the market environment (Benn et al., 2014).

CONCLUSION

This study explored the roles of organizational culture and service innovation in enhancing financial sustainability within rural banks. The findings provide a clear and practical understanding of the intricate relationships between these variables, demonstrating their significant impact on the long-term success of rural financial institutions.

The results indicate that a robust organizational culture is not only an essential driver of service innovation but also directly contributes to improved financial sustainability. A strong organizational culture, characterized by shared values, norms, and systems, encourages employees to align their attitudes and behaviors with the bank's sustainability goals. It fosters a sense of commitment and responsibility among employees, which, in turn, enhances the bank's ability to innovate and adapt to changing market dynamics.

Service innovation emerged as a critical factor in enhancing financial sustainability, with the study showing that innovations in service delivery play a vital role in improving efficiency, customer satisfaction, and ultimately, profitability. As rural banks face increased competition and challenges in a rapidly evolving financial landscape, the ability to innovate becomes a key determinant of their success. Banks that embrace new technologies and create innovative services can better meet customer needs and remain competitive, which is crucial for their financial stability and growth.

Furthermore, the study highlights the important role of social capital as a moderating variable in the relationship between organizational culture and service innovation. Social capital, which includes the networks, relationships, and trust that banks build with their stakeholders, has been found to strengthen the link between organizational culture and service innovation. By leveraging social capital, rural banks can access valuable resources, knowledge, and partnerships that foster innovation. These networks not only help in sharing best practices but also provide opportunities for collaboration, which is vital for driving continuous service innovation.

The practical implications of these findings suggest that rural banks aiming for financial sustainability should prioritize cultivating a positive organizational culture. This involves fostering an environ-

ment that promotes values such as adaptability, collaboration, and a commitment to sustainability. Additionally, investing in service innovation is crucial for remaining competitive and relevant in the market. This could involve embracing digital transformation, adopting new financial technologies, and continuously improving service offerings to meet customer demands.

Moreover, rural banks should actively nurture and leverage their social capital to create stronger ties with partners, customers, and other stakeholders. These relationships can be leveraged to access resources, gain insights, and build a foundation for long-term growth and stability. The importance of collaboration and network-building cannot be overstated, as these practices provide the foundation for continued innovation and competitive advantage.

In conclusion, rural banks seeking financial sustainability must adopt a holistic approach by integrating organizational culture, service innovation, and social capital. By doing so, they can enhance their adaptability to changing market conditions, improve service delivery, and ensure the financial viability of their operations. These strategies provide a roadmap for rural banks to build a sustainable future, offering valuable lessons for other financial institutions aiming to thrive in a dynamic and competitive environment.

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