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How the Wrddhi Griya Concept Moderates Profit Growth in Village Credit Instituions?

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ABSTRACT

This study investigates how the Wrddhi Griya concept moderates the relationship between financial performance and profit growth in Village Credit Institutions (VCIs) in Badung Regency, Bali. Rather than being treated as a directly measurable variable, the Wrddhi Griya concept is conceptualized as a cultural and ethical framework whose values are operationalized through lending practices reflected in credit interest income and credit quality. The study employs annual panel data from 122 VCIs covering the period 2016–2023, resulting in 832 observations selected using purposive sampling. Data were analyzed using Moderated Regression Analysis (MRA) with a Fixed Effects Model. The findings reveal that credit interest income and credit quality have positive and significant effects on profit growth. Furthermore, the interaction between profitability and credit interest income is statistically significant, indicating that financial practices reflecting the values of the Wrddhi Griya concept strengthen the relationship between profitability and profit growth. Conversely, the interaction between profitability and credit quality is not statistically significant, suggesting that not all financial practices associated with the Wrddhi Griya concept provide the same moderating effect. These findings demonstrate that local wisdom can complement conventional financial management by encouraging ethical lending practices while maintaining institutional sustainability. This study contributes to the accounting and microfinance literature by integrating indigenous cultural values into the analysis of financial performance in customary-based microfinance institutions.

Keywords: Village Credit Institutions; Wrddhi Griya; Local Wisdom; Profit Growth; Moderating Effect

INTRODUCTION

The growth of microfinance institutions continues to be a major focus in the financial literature, particularly regarding their profitability and operational stability across various developing country contexts. Systematic research has found that factors such as portfolio quality, interest income levels, and cost management are important determinants of profitability in global microfinance institutions and contribute to the long-term sustainability of their performance (Fonseca et al., 2024). Previous evidence also indicates that profitability is influenced by both internal financial management and external environmental factors, highlighting the importance of a comprehensive performance evaluation framework (Natalia & Wirianata, 2023).

However, some studies also note that the relationship between interest income, credit quality, and profitability is not always consistent across micro-institutional contexts, especially when examined through the lens of local culture or institutional structures (Menicucci & Paolucci, 2016). Meanwhile, accounting literature shows that cultural values such as Tri Hita Karana influence the governance and performance of community-based financial institutions in Bali (Widnyani & Astitiani, 2022). A study in Bali stated that a strong local organizational culture plays a role in harmonious relations between institutions and village communities in their operational context (Wisnu et al., 2021). Other literature highlights the importance of Tri Hita Karana in the management of Village Credit Institutions (LPD) and its impact on local social and economic aspects (Suarmanayasa & Ariasih, 2024). However, comprehensive studies that combine global microfinance aspects with local values, such as Balinese culture, are still rare. Consequently, the current literature fails to fully explain how traditional financial variables are interpreted within the framework of unique local cultural values. This research positions the study at the intersection of global microfinance theory and customary-based financial institutions, with the aim of enriching academic discourse on micro-institutions rooted in local wisdom.

Previous research on Village Credit Institutions (VCIs) in Bali has revealed that these institutions operate under the customary legal system of awig-awig within the pakraman villages, and play an important role in the economic development of local communities (Piadnyan et al., 2020). Profitability is one of the most important indicators of VCI sustainability because it reflects the institution's ability to maintain operational continuity and support local economic development (Kumalasari & Ernawatiningsih, 2020). The study of LPD governance shows a strong relationship between the customary government structure and the socio-economic function of the institution in maintaining the culture of the customary village (Sudiana et al., 2025). Other study also found that Tri Hita Karana was implemented as a foundation for work culture that influenced employee behavior and management practices in LPD (Widnyani & Astitiani, 2022). In addition, the implementation of Tri Hita Karana-based Corporate Social Responsibility in LPDs shows a positive impact on local social and economic development (Dewi et al., 2024). However, there is still little research that explicitly combines financial metrics such as interest income and credit quality with customary values in their empirical models. Most studies emphasize cultural and social aspects without including quantitative relationships to the profitability and profit growth of institutions (Putriani & Wirakusuma, 2024). Thus, a theoretical gap remains in understanding the impact of local values on the relationships between traditional financial variables. This gap is particularly relevant because bank and microfinance profitability is influenced not only by firm-specific factors but also by industry and macroeconomic conditions, requiring a broader contextual perspective (Handriani & Anggara, 2025). This research gap indicates the need for a model that measures the relationship between indigenous cultural values and microfinance institution performance indicators. Therefore, this study is expected to address this gap with a more contextual, multidimensional approach. In this study, Wrddhi Griya is not treated as a directly measurable quantitative variable. Instead, it serves as a cultural and ethical framework that guides financial management practices within Village Credit Institutions. The manifestation of these values is reflected through lending activities represented by credit interest income and credit quality. Therefore, the moderating effects examined in this study should be understood as the influence of financial practices that embody the principles of Wrddhi Griya.

The novelty of this study lies in integrating the Wrddhi Griya concept as a local wisdom framework into the analysis of financial performance and profit growth in Village Credit Institutions. Although many studies link financial variables to the performance of microfinance institutions, very few examine the role of local culture or ethics such as Wrddhi Griya in the context of the governance mechanisms of custom-based microfinance institutions. Previous studies have demonstrated that effective management of liquidity, capital, and operational efficiency remains essential for improving financial performance and profitability in banking institutions (Khalifaturofi'ah & Ulum, 2022). The Wrddhi Griya values, which emphasize the implementation of outcome-based interest and moral responsibility to the village community, have never been empirically tested within the framework of the relationship between financial variables and profit growth of custom-based microfinance institutions. Thus, this research not only combines global microfinance theory but also adds a specific cultural dimension that reflects Balinese local wisdom. This integration contributes new concepts to the accounting and microfinance literature, which has been dominated by conventional economic approaches.

This approach also broadens our understanding of culturally based informal control mechanisms that can complement formal governance in microfinance institutions. Another theoretical contribution is the combination of Agency Theory and Stewardship Theory to explain the behavior of VCI administrators within the context of strong local cultural values. This provides a more holistic conceptual framework than previous studies that were theoretically narrow. Furthermore, this research provides practical implications for VCI administrators in optimizing financial performance while maintaining their cultural and social legitimacy. Therefore, this research promises new insights relevant to both academics and practitioners.

The research objective of this study is to measure the moderating role of the Wrddhi Griya concept in the relationship between profitability and loan interest income, and profitability and loan quality on the profit growth of VCIs in Badung Regency, Bali. With this focus, this study is expected to explain how local cultural values influence the financial dynamics of microfinance institutions rooted in customary law structures and community values. In addition, this study aims to provide empirical evidence on the contribution of traditional cultural values within the performance framework of microfinance institutions. The results of this study are expected to enrich the accounting and finance literature with a more contextual and culturally relevant approach. The findings are also expected to form the basis for policy recommendations for VCI administrators and regulators at the regional and national levels. Although Wrddhi Griya is conceptualized as a local wisdom framework rather than a directly measurable construct, its influence is reflected through lending practices represented by credit interest income and credit quality. Accordingly, the moderating effect tested in this study refers to the manifestation of Wrddhi Griya values through these financial variables.

RESEARCH METHODS

This study employs a quantitative approach to investigate the moderating role of the Wrddhi Griya Concept in the relationship between profitability and profit growth in VCIs. The population consists of 122 VCIs operating in Badung Regency, Bali Province, over an eight-year period from 2016 to 2023. The study uses a non-probability sampling method, specifically purposive sampling, to select VCIs that (1) remained active throughout the observation period and (2) consistently published annual financial statements between 2016 and 2023.

The analytical method applied in this study is Moderated Regression Analysis (MRA), which tests the interaction effects between profitability and the Wrddhi Griya variables on profit growth. In this study, the Wrddhi Griya Concept is positioned as a contextual cultural framework that reflects ethical principles in the management of Village Credit Institutions (VCIs). Rather than being measured as a separate quantitative variable, The Wrddhi Griya concept is positioned as a cultural framework that emphasizes prudent, ethical, and sustainable financial management practices. Because the concept cannot be directly quantified through financial statements, its manifestation is reflected through lending-related indicators, namely credit interest income and credit quality. These indicators are therefore employed to examine whether financial performance relationships are consistent with the principles embedded in the Wrddhi Griya concept. Therefore, these variables are employed to examine whether financial performance relationships are consistent with the values embedded in the Wrddhi Griya philosophy. The purpose of the MRA test is to assess whether the moderating effects of these variables significantly influence the strength or direction of the relationship between profitability and profit growth.

Panel data regression was employed because the study combines cross-sectional observations of Village Credit Institutions with time-series observations from 2016–2023. The Fixed Effects Model was selected because it allows the analysis to control for unobservable characteristics that are unique to each institution and remain relatively constant over time. Such characteristics include organizational culture, governance practices, and institutional history, which may influence profit growth but cannot be directly measured.

The moderated regression equation used is specified as follows:

$Y1 = \alpha + \beta_1 X_1 + \beta 2X2 + \beta 3X3 + \beta 4X_1X2 + e$………………………………………………… (1)

$Y2 = \alpha + \beta_1 X_1 + \beta 2X2 + \beta 3X3 + \beta 4X_1X3 + e$………………………………………………… (2)

Explanation:

Y = Profit Growth
α = Constant
$\beta_1 - \beta 3$ = Regression Coefficient
X_1 = Profitability
X2 = Credit Interest Income
X3 = Credit Quality
X_1 X2 = Interaction between Profitability and Credit Interest Income
X_1 X3 = Interaction between Profitability and Credit Quality
e = error

RESULTS AND DISCUSSIONS

Descriptive statistics are presented to provide information on the characteristics of the research variables, including minimum, maximum, mean and standard deviation values. The results of descriptive statistics are shown in Table 1 below.

Table 1. *Descriptive Statistics*

	Profitability (X1)	Credit Interest Income (X2)	Credit Quality (X3)	(X1X2)	(X1X3)	Profit Growth (Y)
Mean	1.912344	5.784567	23.72650	19.28208	8.928990	-0.769829
Median	2.320000	5.605000	16.75000	12.79660	33.62375	0.036010
Maximum	12.23000	21.08000	100.0000	338.5200	377.2133	4.058034
Minimum	-235.0000	-10.20000	0.000000	-2.346000	-19977.35	-643.8488
Std. Dev.	11.32780	3.148879	22.93589	26.12774	755.7692	22.33114
Skewness	-19.70184	0.514862	1.485727	6.046042	-23.97556	-28.75536
Kurtosis	398.5574	5.723163	4.796029	60.81685	608.4402	828.5801
Jarque-Bera	5477969.	293.8329	417.9157	120952.2	12787050	23742855
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	1591.070	4812.760	19740.45	16042.69	7428.920	-640.4977
Sum Sq. Dev.	106633.2	8239.729	437151.9	567289.4	4.75E+08	414403.1
Observations	832	832	832	832	832	832

Source: Data Processed (2024)

Table 1 presents descriptive statistics that provide insight into the performance dynamics of Village Credit Institutions (VCIs) during the observation period. The average profit growth (Y) of –0.77 indicates suboptimal performance across the sample. This negative figure suggests that many VCIs have faced challenges in maintaining sustainable profitability. One key explanatory factor is profitability (X1), which records an average of 1.91 with a relatively high standard deviation of 11.33. The wide dispersion is further reflected in the extreme minimum value of –235, indicating that several VCIs have experienced substantial financial losses. These negative profitability figures directly undermine the institutions' ability to generate positive profit growth.

Conversely, some VCIs demonstrate strong financial performance, as reflected by profitability values nearing the maximum of 12.23. These institutions likely contribute more significantly to profit growth, although their number appears relatively limited. Such a disparity underscores the heterogeneity in managerial efficiency and operational capacity among VCIs in the sample.

Credit interest income (X2), with an average value of 5.78, represents another critical factor influencing profit growth. Elevated credit interest rates increase the financial burden on borrowers, which in turn may restrict the institution's ability to channel funds toward productive economic activities. This dynamic potentially hampers profit growth. VCIs with lower credit interest rates, however, may be better positioned to stimulate economic activity and enhance financial performance. The wide range of values, from –10.2 to 13.8, signals substantial variation in lending conditions across VCIs, possibly influenced by local risk profiles, credit policies, and customary practices.

The quality of credit management (X3) also plays a vital role in shaping profit growth. Similar evidence from Village Credit Institutions shows that weak credit risk management can reduce profitability and threaten institutional sustainability (Sri et al., 2023). An average credit quality of 23.73 suggests that most VCIs are able to manage credit reasonably well. However, the presence of institutions with credit quality as low as zero points to weaknesses in risk assessment and credit monitoring, which can lead to increased default rates, reduced cash flow, and diminished profitability. In contrast, VCIs with credit quality approaching the maximum observed value of 100 exhibit stronger credit management practices and greater financial resilience. These institutions are more capable of minimizing default risk and sustaining long-term profitability compared with institutions that display lower levels of credit quality.

The interaction between profitability (X1) and credit interest income (X2), represented by the variable X1X2, has an average of 19.28. This suggests a moderate interaction effect on profit growth. The range of values—spanning from –2.34 to 377.21—along with a standard deviation of 26.13, reflects substantial variability in how this interaction influences performance. Specifically, high credit interest tends to dampen the positive impact of profitability on profit growth. In contrast, low credit interest may enhance this relationship by reducing borrowing costs and supporting more efficient capital allocation.

The interaction between profitability (X1) and credit quality (X3), represented by the variable X1X3, demonstrates a lower average value of 8.93, suggesting a more modest moderating effect compared to X1X2. Nonetheless, the wide dispersion—evidenced by a maximum value of 755.76 and an extremely negative minimum of –19,977.35—combined with a high standard deviation of 755.76, points to considerable variation in this interaction's influence on profit growth. These extreme values suggest that while the majority of VCIs may experience only limited interaction effects, some institutions exhibit highly volatile or atypical performance due to variations in credit quality and profitability alignment.

Collectively, the interaction analyses indicate that both credit interest and credit quality serve as significant moderating variables in the relationship between profitability and profit growth. The impact of profitability on profit growth is not uniform across VCIs but is contingent upon the institution's credit management practices and interest income structure. High interest expenses may erode the gains from profitability, while robust credit quality may either buffer or amplify its effect depending on how well it aligns with operational efficiency.

The findings emphasize the importance of an integrated approach to financial management within VCIs. A combination of high profitability, low credit interest rates, and strong credit quality creates the most favorable conditions for sustained profit growth. To achieve this, VCIs must prioritize strategic initiatives focused on enhancing operational efficiency, optimizing interest rate structures, and improving credit risk assessment frameworks.

Long-term profit growth will depend not only on managing internal financial metrics but also on the institution's ability to adapt to external economic and community dynamics. Comprehensive financial planning—grounded in prudential credit governance and culturally aligned lending practices—is essential for ensuring institutional resilience and sustainability. Moreover, strengthening management capabilities in data-driven decision-making and financial forecasting will enhance VCIs' capacity to fulfill their dual role as financial intermediaries and custodians of local socio-economic development.

Table 2. *Simultant Test (F-Test)*

Effects Test	Model	Prob.	Hypothesis	Conclusion
Prob. (F-Statistic)	Model 1 (Profit Growth)	0.0000	Ha Accepted	Significant Influence
	Model 2 (Profit Growth)	0.0000	Ha Accepted	Significant Influence

Source: Data Processed (2024)

The results of the statistical analysis reveal that the Prob(F-statistic) value for Model 1, which examines profit growth, is 0.0000 well below the conventional significance threshold of 0.050. This finding supports the acceptance of the alternative hypothesis (Ha), indicating that the independent variables collectively exert a statistically significant influence on the dependent variable. A consistent result is observed in Model 2, where the Prob(F-statistic) likewise registers at 0.0000, reaffirming the joint significance of all explanatory variables in explaining variations in profit growth.

The consistency across both models strengthens the robustness of the empirical evidence and confirms the validity of the proposed relationships between the independent variables and profit growth. These results provide a sound basis for continuing the investigation and suggest that further analysis of the underlying mechanisms and interactions among variables is warranted to deepen theoretical and practical understanding.

Table 3. *Result of Coefficient of Determination (R^2)*

Testing	Model	Value
Adjusted R-Squared	Model 1 (Profit Growth)	0.2679
	Model 2 (Profit Growth)	0.0648

Source: Data Processed (2024)

The results of the regression analysis indicate that the Adjusted R-squared value for Model 1 (Profit Growth) is 0.2679, suggesting that approximately 26.79% of the variation in profit growth can be explained by the model's independent variables. The remaining 73.21% of the variance is attributable to factors not included in the model, reflecting the influence of external or unobserved variables. In contrast, Model 2 exhibits a considerably lower Adjusted R-squared value of 0.0648, indicating that only 6.48% of the variation in profit growth is explained by the included predictors, while 93.52% is influenced by factors outside the model.

These findings demonstrate that Model 1 possesses a stronger explanatory capability relative to Model 2, highlighting the greater relevance of its specified variables in capturing the dynamics of profit growth within Village Credit Institutions. Nonetheless, the relatively low explanatory power in both models underscores the complexity of the factors affecting profit growth and suggests that additional variables possibly including institutional, macroeconomic, or behavioral dimensions may be needed to more fully account for the observed variation.

The next finding is related to the results of testing each independent variable. The purpose of this experiment is to test the influence of the independent variable on the dependent variable. Table 4 and Table 5 show the results of the individual significance test and the interaction test.

Table 4. *Result of Analysis (Model 1)*

Fixed Effects Model				
Dependent Variable: Profit Growth				
Variables	**Coefficient**	**Prob.**	**Hypothesis**	**Conclusion**
Constanta	-36.20348	0.0000		
Profitability	-1.375056	0.0000	Ha Accepted	Significantly Influenced
Credit Interest Income	8.680194	0.0000	Ha Accepted	Significantly Influenced
Credit Quality	0.210828	0.0000	Ha Accepted	Significantly Influenced
Interaction between Profitability and Credit Interest Income	-0.889434	0.0000	Ha Accepted	Significantly Influenced

Source: Data Processed (2024)

The formula in this research:

$$Y_{it}=-36,20348 - 1,375056X_{1it} + 8,680194X_{2it} + 0,210828X_{3it} - 0,889434X_{1it}X_{2it} + e_{it} \ldots\ldots\ldots\ldots(1)$$

Table 4 presents the results of the Fixed Effects model estimation, indicating that all independent variables significantly influence profit growth in Village Credit Institutions (VCIs) at the 5% significance level ($\alpha = 0.05$). Profitability is found to have a negative and statistically significant effect on profit growth, as evidenced by a coefficient of –1.375056 and a probability value of 0.0000. This finding suggests that, contrary to conventional expectations, higher profitability is associated with a decline in profit growth. The negative coefficient of profitability suggests that higher current profitability does not necessarily translate into higher profit growth in subsequent periods. This finding may indicate that some VCIs prioritize maintaining current earnings rather than expanding productive activities capable of generating sustainable growth. Such results are consistent with the notion that profitability and profit growth represent different dimensions of financial performance and may not always move in the same direction. Profitability generally reflects management effectiveness in utilizing available resources and is often associated with organizational growth and sustainability (Muhtadin et al., 2022). Mubarok et al. (2024) also argue that profitability is influenced by multiple financial factors simultaneously, indicating that financial performance should be interpreted from a multidimensional perspective. However, the present findings indicate that such relationships may vary depending on institutional characteristics.

Credit interest income exhibits a positive and significant relationship with profit growth, as indicated by a coefficient of 8.680194 and a probability value of 0.0000. This result implies that increases in credit interest income contribute meaningfully to improving institutional profitability. The ability to generate stable income from credit operations serves as a key driver of financial performance, particularly in community-based financial institutions such as VCIs. This finding supports Daulay and Prasetyo (2025), who concluded that interest-based income remains one of the primary contributors to profitability and financial resilience in banking institutions.

Similarly, the credit quality variable shows a positive and statistically significant impact on profit growth, with a coefficient of 0.210828 and a p-value of 0.0000. This finding reinforces the importance of sound credit risk management in enhancing financial stability and sustaining long-term growth. This result is consistent with Suryanugraha et al. (2026), who found that credit quality remains one of the most important determinants of financial performance because non-performing loans directly affect profitability and institutional stability. Institutions with higher credit quality are better positioned to minimize default risks, maintain liquidity, and build stakeholder trust—factors that are essential for continuous performance improvement.

The interaction term between profitability and credit interest income yields a negative coefficient of –0.889434 with a probability value of 0.0000, indicating a statistically significant negative moderating effect. This suggests that while credit interest income individually supports profit growth, its interaction with high profitability may produce diminishing returns. One interpretation is that excessive reliance on interest income during periods of strong profitability may lead to overextension of credit or neglect of portfolio quality, thereby offsetting the positive effects of each variable when considered independently.

Overall, these findings highlight the nuanced relationship between financial performance indicators and profit growth in VCIs. Credit interest income and credit quality emerge as key drivers of positive performance, while profitability—when unmoderated—and its interaction with credit interest income require careful strategic management. These results underscore the importance of aligning income generation strategies with sustainable credit practices to optimize institutional growth outcomes.

Table 5. *Result of Analysis (Model 2)*

Fixed Effects Model				
Dependent Variable: Profit Growth				
Variables	**Coefficient**	**Prob.**	**Hypothesis**	**Conclusion**
Constanta	-25.13067	0.0000		
Profitability	0.266524	0.2114	Ha Rejected	No Significantly Influenced
Credit Interest Income	3.048037	0.0000	Ha Accepted	Significantly Influenced
Credit Quality	0.263613	0.0000	Ha Accepted	Significantly Influenced
Interaction between Profitability and Credit Quality Income	-0.003922	0.2080	Ha Rejected	No Significantly Influenced

Source: Data Processed (2024)

The formula in this research:

$$Y_{it}=-25.13067 + 0.266524X_{1it} + 3.048037X_{2it} + 0.263613X_{3it} - 0.003922X_{1it}X_{3it} + e_{it} \ldots\ldots(2)$$

Table 5 presents the results of the Fixed Effects model estimation, revealing varying effects of the independent variables on profit growth in Village Credit Institutions (VCIs) at the 5% significance level ($\alpha = 0.05$). Profitability exhibits a probability value of 0.2114, exceeding the significance threshold. As a result, the alternative hypothesis (Ha) is rejected, indicating that profitability does not have a statistically significant effect on VCI profit growth in this model. This suggests that fluctuations in profitability, on their own, do not substantially influence the overall growth trajectory of VCI earnings during the observation period.

In contrast, credit interest income shows a strong and positive influence on profit growth, as evidenced by a coefficient of 3.048037 and a probability value of 0.0000. This finding implies that increases in interest income from credit activities contribute significantly to enhancing the financial performance of VCIs. Credit operations, therefore, represent a key revenue source that can be leveraged to support institutional growth.

Similarly, the credit quality variable is also positively and significantly associated with profit growth, with a coefficient of 0.263613 and a p-value of 0.0000. This indicates that improvements in credit quality reflected in lower default rates and more effective credit management directly contribute to strengthening the institution's profitability and long-term sustainability.

The interaction between profitability and credit quality, however, does not yield a significant effect, as shown by a probability value of 0.2080. This result leads to the rejection of the alternative hypothesis, suggesting that the combined influence of these two variables does not meaningfully affect profit growth when considered interactively. Although each may individually influence performance under certain conditions, their interaction does not appear to generate additional explanatory power in this context.

In summary, the findings from Model 2 emphasize the central role of credit interest income and credit quality as key drivers of profit growth in VCIs. Conversely, profitability and its interaction with credit quality do not demonstrate a statistically significant effect. These results underscore the importance of prioritizing improvements in credit management and income generation strategies, particularly through interest-based lending, to promote sustainable growth. VCIs should therefore focus their strategic efforts on enhancing credit governance and maintaining income stability to achieve long-term financial resilience.

The Concept of Wrddhi Griya Moderating the Effect of Profitability on Profit Growth

This study yields two key findings concerning the interaction of variables within the Wrddhi Griya Concept, proxied by credit interest income and credit quality, in influencing profit growth among Village Credit Institutions (VCIs). Model 1 reveals that the interaction between profitability and credit interest income exerts a statistically significant effect on profit growth. In contrast, Model 2 shows that the interaction between profitability and credit quality does not yield a significant effect. These results contribute novel insights to the literature, as the empirical role of the Wrddhi Griya Concept in the context of VCI financial performance has received limited scholarly attention.

The findings from Model 1 highlight the central role of credit interest income in enhancing profit growth, particularly when aligned with profitability. This aligns with the Wrddhi Griya principle in which interest is only levied once borrowers have derived benefit from their credit. Such practices reflect a stewardship-based approach to fund management, wherein VCI administrators uphold fiduciary responsibilities to ensure that community funds are utilized efficiently and equitably. This result is consistent with Munawaroh et al. (2022), who found that the effectiveness of credit interest income in promoting profit growth depends significantly on how credit operations are managed.

In contrast, the interaction between profitability and credit quality in Model 2 does not exhibit a significant impact on profit growth. One plausible explanation lies in the prevalence of elevated credit risk, which is often associated with higher rates of non-performing loans (NPLs). Within the philosophical framework of Hinduism, credit quality is not merely a financial metric but embodies the value of Daana—a concept encompassing both material assistance and intangible support such as mentoring and guidance. Thus, credit quality in VCIs reflects not only institutional capacity but also a commitment to holistic community development.

Anchored in both Agency Theory and Stewardship Theory, these findings underscore the dual responsibility of VCI administrators: to optimize profit growth while safeguarding the socio-economic welfare of traditional village communities. The administrators must exercise prudent credit risk management and adopt credit interest strategies aligned with communal values. The application of the Wrddhi Griya Concept enhances VCI's role beyond financial intermediation, positioning it as a vital instrument for village development. Profits generated through efficient and culturally sensitive management can be reinvested in community infrastructure, education, healthcare, and religious activities, thereby reinforcing the economic autonomy and cultural vitality of traditional villages.

Theoretically, Stewardship Theory compels VCI leaders to act as public servants, prioritizing collective benefit over self-interest. In parallel, Agency Theory highlights the necessity of transparency and accountability in managing public funds to mitigate opportunistic behavior. The integration of these frameworks provides a robust foundation for sustaining institutional trust and performance. Priharta and Gani (2024) emphasize that sustainable profitability can be achieved through effective management of credit quality, capital resources, and operational efficiency, all of which contribute to long-term organizational performance. To further strengthen credit governance, VCIs could adopt financial technology (fintech) solutions that facilitate real-time monitoring of debtor performance and enhance decision-making. Capacity-building initiatives, such as training programs on credit risk assessment and financial literacy for VCI staff, are equally crucial.

Moreover, consistent implementation of profit-contingent interest policies, in accordance with Wrddhi Griya values, can foster deeper community trust and long-term borrower commitment. Strategic partnerships with local governments may also support the provision of interest subsidies for productive loans, thereby reinforcing VCI's developmental impact. Simultaneously, digitalizing administrative and lending processes can improve operational efficiency and reduce costs. Periodic evaluations of both financial and social performance, especially regarding poverty alleviation and improvements in community welfare are essential to ensure VCI's long-term sustainability.

At its core, the Wrddhi Griya philosophy rooted in Daana (giving) and Dhana (finance) offers a unique synthesis of socio-cultural wisdom and financial prudence. Its practical manifestations through Sarwa Daana (capital support) and Abhaya Daana (business mentoring) not only uplift the livelihoods of indigenous communities but also enhance the competitiveness of rural economies. By integrating these local values with modern governance principles, VCIs are uniquely positioned to become not only profit-generating entities but also guardians of cultural heritage and community resilience. In doing so, they contribute to a balanced ecosystem that harmonizes economic advancement, cultural preservation, and the elevation of communal living standards.

This study is limited to Village Credit Institutions operating in Badung Regency and relies on secondary financial data. Consequently, the findings may not be fully generalizable to other microfinance institutions with different institutional and cultural characteristics.

CONCLUSION

This study examined how the Wrddhi Griya concept moderates the relationship between financial performance and profit growth in Village Credit Institutions (VCIs) in Badung Regency, Bali. The findings indicate that profitability, credit interest income, and credit quality significantly influence profit growth under the first estimation model. Furthermore, the interaction between profitability and credit interest income is statistically significant, demonstrating that lending practices reflecting the ethical values of the Wrddhi Griya concept influence the relationship between profitability and profit growth. In contrast, the interaction between profitability and credit quality is not statistically significant, indicating that credit quality does not strengthen the contribution of profitability to profit growth. These findings suggest that the implementation of the Wrddhi Griya concept is more strongly reflected through productive lending activities represented by credit interest income than through credit quality. Although both financial indicators contribute directly to institutional performance, only credit interest income demonstrates a moderating role in explaining sustainable profit growth. This result implies that indigenous cultural values embedded in financial management do not exert uniform effects across all financial indicators but operate through specific lending practices that integrate financial objectives with social responsibility. The theoretical contribution of this study lies in extending Agency Theory and Stewardship Theory by incorporating the Wrddhi Griya concept as a cultural framework for understanding financial management in customary-based microfinance institutions. Rather than treating local wisdom merely as an organizational value, this study demonstrates that indigenous cultural principles can be operationalized through financial management practices to explain variations in institutional performance.

From a practical perspective, managers of Village Credit Institutions are encouraged to strengthen sustainable lending policies that balance institutional profitability with community welfare. Productive credit distribution, prudent interest income management, and ethical financial governance are expected to enhance institutional resilience while preserving the socio-cultural values of indigenous communities. This study is limited to Village Credit Institutions located in Badung Regency during the 2016–2023 observation period. Future studies are encouraged to expand the research area to other regencies in Bali or other customary-based financial institutions and incorporate additional financial or governance variables to obtain a more comprehensive understanding of the interaction between local wisdom and institutional performance.

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