CONTABILITA
Journal of Accounting and Finance

Volume 02, No. 02, October 2026
ISSN 3123-6499

Building a Sustainable LPD Through Adaptive Leadership

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Abstract:
The Village Credit Institution (LPD) is a customary-based financial institution that plays a strategic role in supporting the economy of indigenous villages in Bali. However, technological advancements, shifts in community behavior, competition within the financial industry, and governance risks pose challenges to LPD sustainability. This article aims to explain the importance of adaptive leadership in ensuring LPD sustainability. An adaptive leader can adapt to environmental changes, foster innovation, strengthen governance, and preserve local cultural values. The findings indicate that adaptive leadership can enhance an organization's ability to navigate change, strengthen community trust, improve service quality, and drive digital transformation without compromising the traditional wisdom of indigenous villages. Thus, the presence of adaptive leaders is a critical factor in ensuring the sustainability and competitiveness of LPD in the modern era.

Keywords: Adaptive Leadership, Organizational Sustainability, LPD, Traditional Villages, Governance.

INTRODUCTION

The Village Credit Institution (LPD) is a traditional Balinese financial institution established to support the economic well-being of traditional village communities. The LPD serves not only as a financial intermediary but also as a social and cultural instrument that strengthens the existence of traditional villages (Mendra et al., 2024). Since its establishment, the LPD has been the heart of the people's economy in Bali, operating based on the Tri Hita Karana philosophy. The uniqueness of the LPD lies in its ability to integrate profitability (business) with social-religious (customary) aspects. The success of the LPD directly impacts the well-being of village residents and the preservation of traditions through its contribution of funds for traditional village development (Sanjaya et al., 2022).

In its development, LPD faces various challenges, such as changes in the business environment, advances in digital technology, increasing competition with formal financial institutions, as well as governance risks and non-performing loans. Many failures in LPD management stem from a lack of leadership training and management practices that violate regulations (Chapano et al., 2022). These conditions require LPDs to have the ability to adapt to an increasingly dynamic environment. One of the key factors determining an organization's ability to navigate change is leadership. Adaptive leaders can anticipate change, make strategic decisions, foster innovation, and maintain a balance between modernization and local cultural values (Sott & Bender, 2025).

Adaptive leadership is relevant in the context of LPD sustainability because these organizations not only pursue economic gains but also preserve the social and cultural functions of traditional villages. Therefore, this article discusses the role of adaptive

Volume 02, No. 02, October 2026
ISSN 3123-6499

leaders in supporting LPD sustainability amid the challenges of modernization and changes in the organizational environment.

The real challenge facing LPD is an adaptive one—that is, a challenge that requires a shift in mindset, work culture, and behavior among all elements within LPD. Therefore, it is important to explore the urgency of adaptive leadership. Adaptive leadership is not about having all the answers, but rather about the ability to inspire people to face difficult realities and make the necessary changes to survive. Building a sustainable LPD means ensuring that the LPD remains relevant for future generations (Generations Z and Alpha) in Bali. Moreover, Generation Z and Generation Alpha currently show little interest in contributing to LPD, which poses a challenge for these organizations. Adaptive leadership is essential for guiding LPD through the complexities of modernity without uprooting the cultural foundations that underpin it. This underscores the importance of discussing strategies for building sustainable LPD through an adaptive leadership approach. The sustainability of the LPD is not only measured by a healthy financial balance sheet but also by public trust (Bontot et al., 2025).

LITERATURE REVIEWS

Adaptive Leadership Theory

This theory discusses how leaders cope with change, uncertainty, and organizational challenges. Adaptive leadership describes a leader's ability to navigate changes in the organizational environment through flexibility, innovation, and organizational learning (Fridayani, 2021). According to Nasir et al., (2022) adaptive leadership helps organizations address complex challenges and drive sustainable change.

The Concept of Adaptive Leadership in LPD

Adaptive leadership is a leader's ability to respond to environmental changes in a flexible and innovative manner. Adaptive leaders do not merely focus on solving short-term problems, but also build the organization's capacity to thrive in the long term. The key characteristics of adaptive leaders include (Latukha et al., 2025): 1) The ability to recognize changes in the environment, 2) Flexibility in decision-making, 3) Fostering organizational innovation, 4) Building collaboration and participation, and 5) Preserving local cultural values.

In the context of Village Credit Institutions (LPD), adaptive leadership is crucial because LPD face the challenges of modernization, digitalization, and competition from other financial institutions (Pramesti et al., 2025). LPD leaders are required to ensure the organization's sustainability without losing its local cultural identity. Adaptive leaders in LPD must be able to improve service quality, strengthen organizational governance, maintain public trust, promote technological innovation, and preserve the cultural values of traditional villages. Thus, adaptive leadership is a key factor in maintaining the stability and sustainability of traditional-based organizations.

Organizational Sustainability

Organizational sustainability refers to an organization's ability to maintain its existence and performance over the long term through resource management, innovation, and adaptation to environmental changes (Harefa, 2026). Sustainability is not limited to economic aspects but also encompasses social and environmental dimensions. A sustainable organization can strike a balance between achieving economic goals and fulfilling its social responsibilities. In the context of community-based organizations such as LPD, organizational sustainability is also linked to the ability to maintain the social and cultural legitimacy of the community.

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ISSN 3123-6499

RESEARCH METHODOLOGY

Research Approach

This study employs a qualitative approach using descriptive methods (Ariawan et al., 2025). The qualitative approach was chosen because the study aims to gain an in-depth understanding of the role of adaptive leaders in ensuring the sustainability of LPD. Qualitative research allows researchers to explore the experiences, perspectives, and leadership strategies applied within the context of organizations rooted in local customs and culture. A descriptive method is used to describe the phenomenon of adaptive leadership, organizational challenges, and efforts toward LPD sustainability based on actual conditions in the field.

Research Locations

The study was conducted at several LPD in Bali that were selected through purposive sampling based on the criterion that they were still active. The research locations were selected to obtain information relevant to the focus of the study.

Research Informants

Informants were selected using purposive sampling, which involves the deliberate selection of informants based on their knowledge of and involvement with the phenomenon under study. The informants in this study included LPD heads, LPD officials, and traditional leaders. These informants were selected because they were considered to have a thorough understanding of the organization's conditions, leadership processes, and the sustainability of the LPD.

Data Analysis Techniques

Data analysis utilized the interactive model proposed by Miles and Huberman (Miles et al., 2014), which consists of: 1) Data Reduction (The researcher selected, focused, and simplified the data relevant to the research focus on adaptive leadership and the sustainability of LPD). 2) Data Presentation (The analyzed data is organized into narratives, matrices, and research themes to help researchers understand the relationships between the data). 3) Drawing Conclusions (This stage involves interpreting the meaning of the data to conclude the role of adaptive leaders in supporting the sustainability of LPD).

RESULTS AND DISCUSSION

A Leader's Ability to Cope with Environmental Change

The interview results indicate that LPD leaders are expected to be able to identify changes in both the external environment and within the organization. Informants noted that technological advancements and increasing competition from banks and financial technology (fintech) companies pose major challenges to the sustainability of LPD.

Adaptive leaders demonstrate the ability to respond to change by adjusting organizational strategies, such as improving service quality, refining administrative systems, and strengthening relationships with indigenous communities.

One informant stated that:

"These days, people want fast and convenient service. If the LPD doesn't keep up with the times, people might turn to other institutions."

This statement shows that a leader's ability to anticipate change is a key factor in ensuring the organization's survival.

Implementing adaptive leadership in Village Credit Institutions (LPD) must account for structural and cultural challenges that affect organizational transformation. Adaptive

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leadership is essential for flexibility, innovation, and responsiveness to environmental changes; however, institutional structures and traditional decision-making mechanisms can hinder its effectiveness. In the context of LPD, senior customary leaders and village stakeholders play a crucial role in maintaining the organization's legitimacy and upholding local cultural values.

Therefore, changes in operational procedures, governance systems, and financial management practices may lead to resistance if they diminish customary authority or alter long-standing institutional traditions. Such resistance challenges organizational modernization, especially when innovations require shifts in work patterns and decision-making mechanisms that have been in place for generations. Thus, adaptive leadership is not only about a leader's ability to introduce change but also about building communication, negotiating interests, and creating consensus among stakeholders. A participatory leadership approach that respects institutional legitimacy is critical to supporting the sustainability of LPD.

The Role of Leaders in Driving Organizational Innovation

Research findings indicate that adaptive leaders play an active role in driving organizational innovation. Innovation is achieved through the digitization of administrative processes, the use of more modern record-keeping systems, and improvements in the quality of customer service.

Some LPD have already implemented Automated Teller Machine **(**ATM) services and are beginning to leverage technology to streamline transaction processing and financial data management. Although they are not yet fully digital like commercial banks, these steps demonstrate the organizations' efforts to adapt to the changing times. In addition to technological innovation, leaders are also promoting innovation in social services for the community, such as traditional assistance programs and economic empowerment activities for rural communities.

Strengthening Organizational Governance

Research has found that governance is a critical aspect in maintaining public trust in the LPD. Adaptive leaders strive to enhance organizational transparency and accountability through improved internal oversight. Informants noted that sharing financial information with traditional villages is one strategy for maintaining the organization's legitimacy in the eyes of the community. Additionally, leaders conduct regular evaluations of employee performance and the organization's financial condition to minimize the risk of misuse of funds.

Human Resource Development

Research findings indicate that the quality of human resources poses a challenge for some LPD, particularly in light of technological advancements and modern financial systems. Adaptive leaders strive to enhance employee competencies through training, on-the-job coaching, and instruction in financial administration technologies. Human resource development is considered essential for improving organizational professionalism and the quality of services provided to the public.

Preserving Local Cultural Values Amid Organizational Modernization

One of the key findings of the study is the ability of leaders to strike a balance between organizational modernization and local cultural values. LPD are not solely profit-oriented; they also have social and cultural responsibilities. Leaders strive to uphold local values such as community, trust, and the Tri Hita Karana philosophy in the organization's

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operations. These values form the core identity that distinguishes LPD from other financial institutions. An informant stated that:
"LPD cannot simply seek profit; they play a vital role in village development because 20 percent of LPD profits are allocated to village development."

This indicates that adaptive leadership at LPD focuses not only on business aspects but also on the organization's sociocultural sustainability. These findings suggest that organizational sustainability cannot be achieved if the organization continues to rely on traditional work patterns without system updates. Therefore, adaptive leaders serve as agents of change driving organizational transformation. However, the innovations implemented still take into account the socio-cultural conditions of the indigenous village community, ensuring that modernization does not erase the organization's local identity.

The Importance of Governance in Building Public Trust

Public trust is a key asset for the sustainability of LPD. Research findings indicate that organizational transparency and accountability are critical factors in maintaining an organization's social legitimacy. Adaptive leaders play a role in building good governance through internal oversight, information transparency, and periodic organizational evaluations. This is essential for minimizing the risk of fund misuse and enhancing public trust in the organization. These findings demonstrate that an organization's sustainability is influenced not only by financial aspects but also by the quality of its governance and its social relationships with the community.

Financial and Technological Limitations in the Digital Transformation of Village Credit Institutions (LPD)

Digital transformation is crucial to enhancing an organization's adaptability to an evolving business environment. However, implementation must account for differences in financial capacity, the availability of technological infrastructure, and the competence of human resources in each LPD. Research findings indicate that some LPDs have adopted technological innovations through administrative digitalization, modern financial recording systems, and the development of Automated Teller Machine (ATM) services. Nevertheless, these developments do not reflect uniform digital transformation capabilities across all LPDs.

LPDs with relatively small business scales may face budget constraints for technology procurement, information system maintenance, data security enhancement, and human resource training. Such conditions can create gaps in adaptability and competitiveness between well-resourced LPDs and those with limited financial capacity. From an adaptive leadership perspective, organizational transformation requires leaders to prioritize investments, conduct financial feasibility analyses, and allocate resources effectively and efficiently. Gradual digitalization strategies, the development of technology partnerships, and ongoing improvement of staff competency can be alternative solutions to these limitations. Thus, LPD sustainability depends not only on leadership's ability to drive innovation but also on the availability and effectiveness of managing financial, technological, and human resources.

Integrating Modernization and Local Cultural Values

The uniqueness of the LPD lies in its connection to Balinese cultural values and customary systems. Therefore, adaptive leaders must be able to maintain a balance between organizational modernization and the preservation of local culture. Research findings indicate that values such as solidarity, social responsibility, and the Tri Hita Karana philosophy remain the foundation of organizational decision-making. This

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suggests that the sustainability of traditional-based organizations is determined not only by economic capacity but also by the organization's ability to maintain cultural legitimacy amidst a changing modern environment.

Institutional Tensions between Customary Law (Awig-Awig) and Modern Financial Governance

Another important factor in supporting the sustainability of Village Credit Institutions (LPD) is the potential for institutional tension between customary law provisions (awig-awig) and the demands of implementing modern financial governance. As community-based financial institutions, LPDs feature institutional characteristics that integrate economic interests, customary authority, and social and cultural responsibilities. Customary values help strengthen social legitimacy and trust-based relationships with the community. However, in organizational management practice, conflicting interests may arise between traditional decision-making mechanisms and principles of transparency, accountability, internal control, and financial risk management. For example, lending decisions influenced by social relationships or customary obligations may cause issues if not accompanied by objective creditworthiness assessments and the application of prudent principles. Additionally, traditional institutional oversight mechanisms may need adjustment to align with the needs of more structured financial reporting and internal control systems. This situation shows that integrating modernization with the preservation of local cultural values does not always proceed without obstacles. Adaptive leaders must develop governance mechanisms that respect customary provisions while also meeting the principles of professionalism, accountability, and compliance with applicable regulations. Therefore, harmonizing awig-awig and modern financial governance requires communication among stakeholders, clear divisions of authority, and conflict-resolution mechanisms that balance cultural legitimacy with the organization's financial sustainability.

CONCLUSION

The sustainability of Village Credit Institutions is greatly influenced by the organization's ability to adapt to environmental changes. In such circumstances, adaptive leaders play a crucial role as drivers of organizational transformation, enhancers of governance, and guardians of local cultural values. Adaptive leaders do not merely focus on achieving economic performance but also on maintaining public trust and ensuring the continued functioning of the LPD social and cultural roles. Therefore, strengthening adaptive leadership capacity must be a primary focus in the development of the LPD so that it can survive and compete in the modern era. This study offers both theoretical and practical implications. Theoretically, the research reinforces the concept of adaptive leadership as a critical factor in the sustainability of community-based organizations.

Practically, the findings can serve as guidance for LPD managers and traditional village leaders in strengthening organizational leadership capacity, governance, and innovation. Furthermore, this study highlights the importance of human resource development and digital transformation while upholding local cultural values as the organization's identity.

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