

# From capital to welfare: Exploring how good governance mediates the impact of intellectual and social capital in border communities

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## Abstract

**Purpose:** This study aims to determine the role of effective governance as a mediating variable in the relationship between intellectual capital and social capital to improve community welfare in border villages, especially in Belu Regency, Indonesia.

**Methodology:** This study uses a quantitative approach and Partial Least Squares (PLS) analysis method. Data from 155 families in border areas was collected with a survey from 28 border villages in Belu Regency that have distinctive socio-cultural characteristics.

**Results:** Effective governance has been proven to mediate the relationship between intellectual capital and community welfare. Meanwhile, in the relationship between social capital and welfare, partial mediation was found. The distribution of well-managed village funds improves welfare, even with limited intellectual capital.

**Conclusions:** Good governance encourages the compliance of village fund managers with the rules. Strong social capital and local customs-based also strengthen the impact of fund management on welfare.

**Limitations:** The findings are contextual in certain villages in Belu, so they cannot be generalized. This research emphasizes the importance of strengthening governance and integrating traditional values in village resource management.

**Contribution:** This research contributes to the literature by integrating intellectual capital, social capital, and governance into a single framework, highlighting how governance mediates development outcomes in marginalized border communities.

**Keywords:** *Belu Regency, Community Welfare, Good Governance, Intellectual Capital, Social Capital*

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## 1. Introduction

Research on intellectual capital in Indonesia's public sector remains insufficient. The proportion of intellectual capital disclosure among district and city governments in Indonesia remains extremely low, at around 17.9 percent, as evidenced by the financial statements of local governments in 2007. The intellectual capital element is derived from the public sector intellectual capital framework established in Spain. This strategy can be implemented because there is no specially designed intellectual capital model for the public sector in Indonesia. The suggested framework for intellectual capital components aims to aid leaders in assessing and enhancing the entity's internal management activities, accomplishments, and strengths while supplying external users with information regarding administrative performance for decision-making purposes.

Intellectual capital in village financial management constitutes the primary strength of an organization, encompassing knowledge, information, and intellectual property that can identify opportunities and

mitigate threats, thereby influencing sustainability and competitive advantage in multiple ways. The issues concerning social capital in the administration of village funds, as highlighted by the Corruption Eradication Commission (KPK), include the following: (1) stakeholders have not fully comprehended the Village Law and its ancillary regulations; (2) there remains a significant risk of corruption at the regional level; (3) villages are frequently exploited for electoral gains during regional elections; and (4) levels of participation, accountability, and transparency are still inadequate. Maximum engagement in community cooperation has not yet been achieved. Minimal community engagement in activities funded by village resources indicates insufficient community involvement and inadequate communication from the village government to residents.

The concept of good governance in the public sector arose concurrently with the political system's transition towards a more democratic orientation ([Knieć & Goszczyński, 2022](#)). The topic of good governance, also referred to as governmental governance, has sparked controversy due to the demand for reform in the administration of state affairs ([Basri, Findayani, & Zarefar, 2021](#)). The efficacy of local government autonomy at the village level will be diminished and disadvantageous to local communities without the reinforcement of transparency, accountability, involvement, and responsiveness. Moreover, the actual implementation of effective governance in village budget management prioritizes the central government over the community. Field findings indicate that village community development in Belu Regency has not been effectively implemented. This condition impedes the advancement of development and community programs through the application of innovation, resulting in numerous delays and underutilization of aid, which ultimately becomes a burden for both the community and local government ([Saparita, Hidajat, & Apriliyadi, 2019](#)). [Martinidis, Komninos, Dyjakon, Minta, and Hejna \(2021\)](#); [Tarighi, Salehi, Moradi, and Zimon \(2022\)](#) asserted that intellectual capital positively impacts financial performance and may serve as a predictor of future financial outcomes. Consequently, intellectual capital can enhance the efficacy of village administrators and the community in rural development.

This study offers a significant novel contribution to the study of village fund governance by integrating the concepts of intellectual capital, social capital, and effective governance simultaneously in the context of border villages in Indonesia. Another novelty lies in the identification of the weak implementation of good governance principles, such as participation, accountability, and transparency in the management of village funds, which have been more oriented toward the central government than the local community. This research shows that the success of village development is not only determined by the amount of funds or programs but also by the ability of effective governance to connect the potential of intellectual capital (knowledge, information, and intellectual assets) and social capital (beliefs, customary norms, and social networks) to encourage citizen participation and improve the performance of village organizations. Thus, this study broadens the perspective on how the synergy between intellectual and social capital can be optimized through good governance practices to encourage more responsive, inclusive, and sustainable village development.

## **2. Literature review**

### **2.1. Intellectual Capital**

Intellectual Capital denotes the value inherent in the knowledge, skills, experience, and relationships held by individuals and organizations. This concept encompasses three primary dimensions: human, structural, and relational capital ([Martinidis et al., 2021](#); [Omerzel & Jurdana, 2016](#)). Human capital denotes the knowledge, skills, and abilities possessed by individuals within a business, serving as valuable assets for generating added value. Structural capital encompasses the structures, methods, and technologies that facilitate the creation, retention, and distribution of knowledge within a company ([Martinidis et al., 2021](#)). Relationship capital encompasses both internal and external networks and partnerships that enable information and expertise exchange.

Efficient management of Intellectual Capital can yield significant advantages for firms, such as enhanced performance, innovation, competitiveness, and market value ([Nurcahyono, Sinarasri, Pamungkas, & Hanum, 2025](#)). Intellectual Capital extends beyond conventional tangible assets in assessing an organization's value. While tangible assets like land, buildings, and equipment are

significant, in an expanding knowledge economy, an organization's value is increasingly determined by its proficiency in knowledge, creativity, and invention ([Alfaro-Navarro, López-Ruiz, & Nevado Pena, 2017](#)). Investing in the cultivation of intellectual capital is a strategic imperative for firms to endure and prosper in a competitive business environment ([Omerzel & Jurdana, 2016](#)). Effective management of human, structural, and relational capital is crucial for businesses to realize their full potential and maintain relevance in the face of ongoing market and technological change. Consequently, it is essential for leaders and managers to comprehend the significant role of Intellectual Capital and formulate appropriate strategies to optimize the value of their intellectual assets.

**H1: Intellectual Capital has a positive and significant effect on the welfare of border communities**

**H2: Intellectual capital has a positive and significant effect on good governance**

## 2.2. *Sosial Capital*

Social capital is an individual asset derived from a network of relationships ([Hill-Briggs et al., 2020](#)). Social capital is a valuable resource accessible to organizations or individuals contingent upon the existence of a relationship, which dissipates upon its dissolution ([Knieć & Goszczyński, 2022](#)). Numerous entrepreneurs achieve success through innovation; however, many fail to recognize the intrinsic connection between their business acumen and their capacity for innovation, which is profoundly influenced by surrounding social factors, including familial support, environmental context, educational settings, professional networks, and encouragement from family, friends, and business associates ([Aldrich & Meyer, 2015](#)). Social capital is a byproduct of interpersonal interactions, particularly close and enduring ones. Social Capital denotes the networks, norms, and attitudes that can influence individuals' productivity ([Tarighi et al., 2022](#)).

The notion of Social Capital encompasses "social networks, reciprocal relationships, and shared values aimed at achieving a common objective." Social capital is the outcome of interpersonal interactions, particularly those that are close and enduring. Social Capital denotes the networks, norms, and attitudes that can influence individuals' productivity. There are three markers of social capital. [Adler and Kwon \(2002\)](#): 1. Trust is the expectation that flourishes in a society characterized by honest, orderly, and cooperative conduct rooted in collectively accepted norms. Norms comprise shared understandings, values, expectations, and objectives upheld and enacted collectively by a group of individuals. Norms may originate from religious beliefs, ethical principles, secular criteria or professional norms of conduct. Norms are established and evolve from historical cooperation to foster a collaborative environment. (3). networks. The dynamic structure of social capital manifests as collaborative networks among individuals. The network enables communication and engagement, fostering trust and enhancing cooperation. Robust social networks characterize healthy community. They then establish a robust interrelationship encompassing both formal and informal dimensions. Intimate social networks enhance the sense of collaboration among their members and the advantages of engagement ([Colombo, Franzoni, & Rossi-Lamastra, 2015](#)).

**H3: Social Capital has a positive and significant effect on the welfare of border communities**

**H4: Social capital has a positive and significant effect on good governance**

## 2.3. *Good Governance*

Effective governance in a firm is predicated on adherence to professional ethics ([Zakrzewska, Ahn, Biglieri, Zascerinska, & Gruenwald, 2017](#)). Comprehending good governance entails recognizing the significance of a framework of regulations designed to manage the connections, functions, and interests of diverse stakeholders in business and public services ([Knieć & Goszczyński, 2022](#)). The concept of good governance entails establishing excellence in performance management across manufacturing enterprises (good corporate governance), service organizations, and public/government service institutions (good governance). Comprehending effective governance signifies an acknowledgment of robust procedures and frameworks for managing the Company to enhance corporate efficiency ([Hidayah, Hapsari, Saputra, Dharmawan, & Yadiati, 2023](#)).

According to [Basri et al. \(2021\)](#), good governance is a novel idea for Indonesian society, and its implementation frequently relies on collaboration between the government and the community to attain two objectives: a transparent and democratic administration. [Hermanto, Lusy, and Widayastuti \(2021\)](#)

asserted that effective governance establishes an equilibrium between enhancing the function of public administration and the operation of market mechanisms, as the necessity for sound governance in public services and administration is critical, alongside the demand for the effectiveness of market processes. According to [Casallas \(2020\)](#), good governance is defined as an approach centered on enhancing the public sector through effective governance. Moreover, the World Bank (2017) defines good governance as a principle in the execution of robust and accountable development management that aligns with democratic ideals and efficient markets, mitigates the misallocation of limited investments, curtails corruption in both political and administrative spheres, enforces budgetary discipline, and establishes a legal framework conducive to entrepreneurial growth. The World Bank equates good governance with a synergistic and productive connection among nations, the business sector, and communities.

**H5: Good Governance has a positive and significant effect on the welfare of border communities**

#### 2.4. Community Welfare

The notion of welfare has evolved to encompass more than merely assessing the nominal income. Welfare encompasses the level of living, well-being and quality of life. [Putu, Ernawatiningsih, Agung, Marhaeni, and Yuliarmi \(2023\)](#) define welfare as a measure of life satisfaction that assesses the status of community members in achieving a balanced life, encompassing a) material welfare, b) community welfare, and c) emotional welfare security. Welfare can be assessed from various dimensions of life. The quality of life is evaluated in material terms, including housing quality, nutrition, and similar factors. b. By evaluating quality of life from a physical standpoint, including bodily health and the natural environment, among other factors. The quality of life is assessed from a psychological standpoint, including educational institutions, cultural milieu, and similar factors ([Kotkas & Veitch, 2016](#)). Enhancing family well-being is essential for decreasing poverty rates; therefore, comprehending the causes of poverty is crucial for developing effective poverty alleviation measures ([Taylor-Gooby, 2008](#)). Research on family welfare is typically conducted using many indicators, with numerous metrics employed to assess the level of family welfare, including those from the World Bank, Sajogyo, BPS, BKKBN, and other welfare indicators ([Abrahamson, 1999](#)).

**H6: Good governance mediates the relationship between intellectual capital and the welfare of border communities.**

**H7: Social capital mediates the relationship between intellectual capital and border community welfare.**

### 3. Methodology

This study employs a quantitative methodology with an explanatory or causal design intended to elucidate the influence of one variable on the alterations in other variables. Cross-sectional data were gathered simultaneously through the distribution of questionnaires to respondents. This study employed a survey methodology utilizing a questionnaire to gather data about the research subject within a brief timeframe. The operational definition of this study comprises a comprehensive set of guidelines detailing the observations and measurements of the variables included in the research. The subsequent information is provided in Table 1, which presents the definitions of each variable.

Table 1. Operational Definition

Dimensions	Indicators	Sources
<b>Intellectual Capital</b>		
Quality of Competency (X11)	The existence of human resource development programs can improve the quality of competencies (X11.11)	<a href="#">(Barton, 2000; Lee &amp; Hu, 2012; Nurcahyono et al., 2025)</a>
	The existence of the Village Development program improves the quality of competence (X1.12)	
	The existence of economic development programs can improve the quality of competencies (X1.13)	

Organizational commitment (X12)	The existence of human resource development programs can create organizational commitment (X1.21)	<a href="#">(Adler &amp; Kwon, 2002; Aldrich &amp; Meyer, 2015; Tarighi et al., 2022; Tsai &amp; Mutuc, 2020)</a>  <a href="#">(Basri et al., 2021; Hermanto et al., 2021; Kniec &amp; Goszczyński, 2022; Zakrzewska et al., 2017)</a>  Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 113 of 2014 concerning Village Financial Management.
	The existence of village development programs can create organizational commitment (X1.22)	
	The existence of economic development programs can create organizational commitment (X1.23)	
Job control (X13)	The existence of human resource development programs can create control in work (X1.31)	
	The existence of village development programs can create control in work (X1.32)	
	The existence of economic development programs can create control in work (X1.32)	
<b>Social Capital</b>		
Belief (X21)	Involvement of Indigenous leaders in every policy-making (X2.11)	
	Traditional leaders represent the aspirations of the village community (X2.12)	
Networking (X22)	Cooperation between traditional leaders and village government officials (X2.21)	
	Involvement of traditional leaders and policy socialization (X2.22)	
Norm (X23)	Village Fund Policy Contains Customary Sanctions in Decision Making (X2.31)	
	Customary sanctions are treated fairly in the Decision (X2.32)	
<b>Good Governance</b>		
Participant (Y11)	Involvement in planning on village funds (Y1.11)	
	Involvement in the implementation of development activities (Y1.12)	
	Involvement in monitoring and evaluating programs on village funds (Y1.13)	
Transparency (Y12)	Transparency in managing village funds (Y1.21)	
	Publication of village fund accountability reports (Y1.22)	
Independence (Y13)	Professional implementation of work programs (Y1.31)	
	Independent implementation without intervention from other parties (Y1.32)	
Accountable (Y14)	Use of an effective accounting system in administration (Y1.41)	
	Availability of financial statements for village funds (Y1.42)	
Accountability (Y15)	Management of village funds according to existing rules (Y1.51)	
	Management of Village Funds According to Community Needs (Y1.52)	
Fairness (Y16)	The village government has managed village funds honestly (Y1.61)	



	The village government has managed village funds reasonably (Y1.62)	
<b>Community Welfare</b>		
Income (Y21)	Assisting village economic activities (Y2.11)	
	Increase employment (Y2.12)	
	Increasing my income and my family (Y2.13)	
Basic Needs (Y22)	Fulfillment of clothing and food needs (Y2.21)	
	Fulfillment of board needs (home improvement) (Y2.22)	( <a href="#">Abrahamson, 1999</a> ; <a href="#">Kotkas &amp; Veitch, 2016</a> ; <a href="#">Putu et al., 2023</a> ; <a href="#">Taylor-Gooby, 2008</a> )
Education (Y23)	Fulfilling the needs of the education sector (Y2.31)	
	Improving the quality of education (Y2.32)	
Health (Y24)	Improving public health conditions (Y2.41)	
	Increasing public awareness of environmental cleanliness (Y2.42)	

Source: Data processed (2024)

The study population comprised people residing in the border settlement of Belu Regency. According to data from the Belu Regency Regional Border Management Agency in 2021, the population of border village residents is 58,016 individuals residing in 28 villages, comprising 26,475 households, distributed over seven sub-districts. A sample is a subset of a population whose attributes are deemed typical of the entire population. The Slovin formula [Tejada and Punzalan \(2012\)](#). The Slovin approach, with an error rate of eight percent, yielded a sample size of 155 families. The sum of 155 heads of families was calculated by comparing the number of villages in a sub-district to the overall number of villages, multiplied by 155. This study employed quantitative descriptive analysis and Structural Equation Models (SEM)-Partial Least Squares to examine the direct effects of the variables under investigation through route analysis. The rationale for employing PLS includes (1) its suitability for examining predictive correlations between variables inside a model and (2) its capability to operate with a limited sample size, lack of stringent assumptions, and ability to evaluate the research model.

## 4. Results and discussions

### 4.1. Result

Table 2. Statistic Result

No	Variable		Average	Perception Criteria
1	Intellectual Capital	X1	3,96	High
2	Social Capital	X3	3,75	High
3	Good Governance	X2	3,67	Medium
4	The Welfare of Village Communities	Y2	3,63	Medium

Source: Data processed (2024)

Table 2 indicates that two variables exhibit a high perception, while two variables demonstrate a medium perception criterion. This indicates a strong correlation between Intellectual Capital and Social Capital in the management of village funds in border communities. Moreover, with effective governance, the welfare of the village community serves as a moderate standard in the administration of border village funding; therefore, enhancements to these criteria are essential for improvement. Summary of *Structural Equation Models (SEM)-Partial Least Squares* using *path analysis* ([Hair Jr et al., 2021](#)).

### 4.2. Evaluation Outer Model

#### 1) Validity Test

Validity assessment can be established using the outcomes of convergent and discriminant validity computed via PLS. The findings of the Convergent Validity indicate that the loading factor values range

from 0.70 to 1.00, exceeding the recommended threshold of 0.5 ([Henseler, Ringle, & Sarstedt, 2015](#)). The construct's Average Variance Extracted (AVE) value ranged from 0.596 to 1.00. This result exceeds 0.5, indicating that the construct in this study can measure the associated latent variables. Validity was assessed by discriminant validity by analyzing the specified cross-loading values. The indicator has the strongest connection with its latent variables compared to other latent variables. The results of the investigation indicate that both valid indicators and discriminant validity were satisfied.

## 2) Reliability Test

Reliability testing was assessed using PLS via internal consistency reliability. The composite reliability and Cronbach's alpha values for internal consistency reliability were equal to or exceeded 0.7, indicating that the latent variables in this study produced consistent and trustworthy results ([Henseler et al., 2015](#)).

### 4.3. Evaluation Inner Model (Structural Model)

This evaluation phase was conducted to validate the theoretical model integrated into the research structural model using three indicators: R2, predictive relevance (Q2), and goodness-of-fit (GoF).

#### 1) Value R<sup>2</sup>(R-Square)

In this PLS computation, the R2 value signifies the quantity of variance encompassed within the model ([Wold, Sjöström, & Eriksson, 2001](#)). The R2 values in this study are presented in Table 3.

Table 3. R Square Value (R<sup>2</sup>) on Endogenous Variables

Variable		Value R Square (R <sup>2</sup> )
Good Governance	Y1	0,750
Community Welfare	Y2	0,733

Source: Data processed (2024)

#### 2) Predictive Relevance

The Q2 predictive relevance value in a structural model assesses the extent to which the model generates the observed value and evaluates the accuracy of the parameter estimates. The Q2 value in this study was determined using the following formula:

$$\begin{aligned}
 Q^2 &= 1 - (1-R_1^2) (1-R_2^2) \\
 &= 1 - (1-(0,750)^2) (1-(0,733)^2) \\
 &= 1 - (1-0,563) (1-0,537) \\
 &= 1 - (0,437) (0,463) \\
 &= 0,898
 \end{aligned}$$

The value indicates that the collective contribution of the variables Village Government Role (X1), Good Governance (X2), Social Capital (X3), and Village Economic Performance (Y1) to the community welfare variable (Y2) is 89.80 percent, with the remaining 10.20 percent attributed to other variables not encompassed in this model.

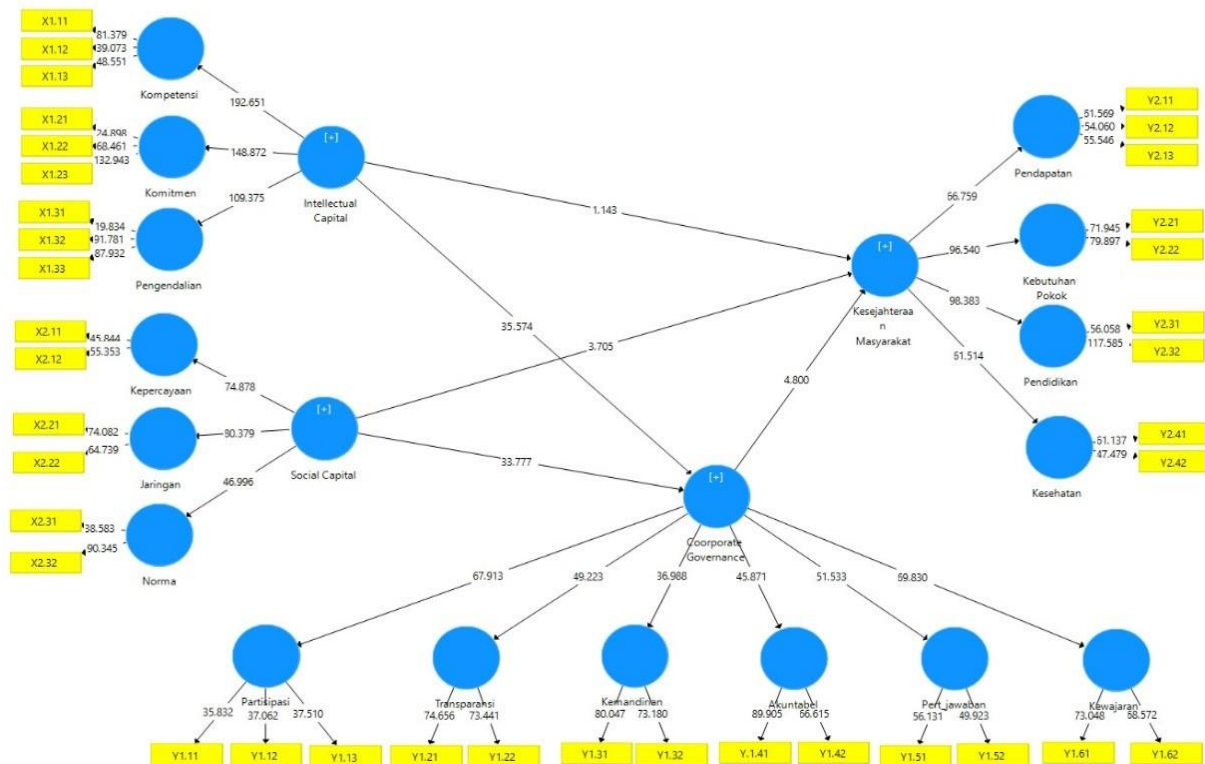


Figure 1. Variable Presentation Results

#### 4.4. Hypothesis Testing

Hypothesis testing was conducted using bootstrap resampling. Hypothesis testing about the management of village funds for fostering a thriving community in border villages of Belu Regency, East Nusa Tenggara Province, was conducted by comparing T-statistics and P-values while examining the original sample values in the Path Coefficients table. If the T-statistic exceeds the t-table value of 1.96, the variable is deemed to have a significant effect on the dependent variable. A p-value of less than 0.05 indicated a significant effect. A two-tailed test with a significance threshold of 5 percent indicates that a variable is deemed to influence others if it achieves a minimum t-value of 1.96. Conversely, in a one-tailed test, a hypothesis positing a positive or negative effect requires a p-value of 0.10 or a minimum t-value of 1.65. Hypothesis testing relies on the outcomes of assessing the relevance of the impact on structural models. This is Table 4 of the Results from the Direct Influence Test on the Structural Model.

Table 4. Results of Direct Influence Test on Structural Models

Hypothesis	Direct Influence	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values	Information
1	X1 -> Y1	0,954	0,060	35,574	0,000	Significant
2	X2 -> Y1	0,860	0,025	33,777	0,000	Significant
3	X1 -> Y2	0,044	0,038	1,143	0,254	Not-Significant
4	X2 -> Y2	0,388	0,105	3,705	0,000	Significant
5	Y1 -> Y2	0,502	0,104	4,800	0.000	Significant

Source: Data Processed (2024)

Information:

X<sub>1</sub> = Intellectual Capital

X<sub>2</sub> = Social Capital

Y<sub>1</sub> = Good Governance

Y<sub>2</sub> = Community Welfare

1. The initial hypothesis that Intellectual Capital (X1) exerts a positive and significant influence on Good Governance (Y1) is validated. The direct impact of Intellectual Capital (X1) on Good



- Governance (Y1) was strong at 35.574 (exceeding 1.96). The influence test results indicated a probability value of 0.000 (below 0.05), with a positive original sample estimate of 0.000, demonstrating a substantial positive relationship between Intellectual Capital (X1) and Good Governance (Y1).
- The second hypothesis posits that Social Capital (X2) exerts a positive and considerable influence on Good Governance (Y1), which is deemed acceptable. The impact of Social Capital (X2) on Good Governance (Y1) was considerable at 33.777 (exceeding 1.96). The influence test results indicated a probability value of 0.000 (below 0.05), with the initial sample estimate being 0.860, demonstrating a positive relationship between Social Capital (X2) and Good Governance (Y1).
  - The third hypothesis, which posits that Intellectual Capital (X1) exerts a favorable, although minor, influence on individuals' welfare (Y2), is deemed unsuitable. The impact of Intellectual Capital (X1) on community well-being (Y2) was significant at 1.143 (1.96 years older). The influence test results indicated a probability value of 0.254 (exceeding 0.05), whereas the initial sample estimate was positive at 0.044, demonstrating a positive relationship between Social Capital (X2) and community welfare (Y2).
  - The fourth hypothesis posits that Social Capital (X2) exerts a positive and considerable influence on Good Governance (Y1), which is deemed acceptable. The impact of Social Capital (X2) on community welfare (Y2) was considerable at 3.705 (exceeding 1.96). The influence test results indicated a probability value of 0.000 (below 0.05), with the original sample estimate being positive at 0.388, demonstrating the effect of Social Capital (X2) on community well-being (Y2).
  - The fifth hypothesis posits that Good Governance (Y1) positively and significantly influences community welfare (Y2), which is deemed acceptable. The impact of Good Governance (Y1) on community well-being (Y2) was substantial, with a value of 4,800 (exceeding 1.96). The influence test results indicated a probability value of 0.000 (below 0.05), with the initial sample estimate being 0.502, demonstrating a positive correlation between Good Governance (Y1) and community well-being (Y2).

The mediation role analysis using the Mediator Analysis Procedure according to ([Hair Jr et al., 2021](#)) is presented in Table 5.

Table 5. Results of the Indirect Influence (Mediation) Test of the Structural Model

Hypothesis	Indirect Influence	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Information
6	X1 -> Y1 -> Y2	0,479	0,017	4,601	0,000	Full mediation
7	X2 -> Y1 -> Y2	0,431	0,095	4,543	0,000	Partial mediation

Source: Data Processed (2024)

Information:

X<sub>1</sub> = *Intellectual Capital*

X<sub>2</sub> = *Social Capital*

Y<sub>1</sub> = *Good Governance*

Y<sub>2</sub> = *Community Welfare*

- The sixth hypothesis posits that Good Governance (Y1) mediates the impact of Intellectual Capital (X1) on community welfare (Y2) and is deemed acceptable. The impact of Intellectual Capital (X1) on community welfare (Y2) via Good Governance (Y1) yields a calculated value of 4.601 with a significance level of 0.000. A significant value below the error threshold of 0.05 indicates that Intellectual Capital (X1) may exert an indirect influence on community well-being (Y2) via Good Governance (Y1). [Hair Jr, Hult, Ringle, and Sarstedt \(2017\)](#) assert that the established mediation is Indirect-only (Full mediation), indicating that the variable Intellectual Capital (X1) can influence the variable community welfare (Y2) both directly and indirectly via Good Governance (Y1).
- The seventh hypothesis posits that Good Governance (Y1) mediates the impact of Social Capital (X2) on community welfare (Y2) and is deemed acceptable. The impact of social capital (X3) on community well-being (Y2) through good governance (Y1) yielded a calculated value of 4.543, with a significance level of 0.015. A significant value below the error rate of 0.05 indicates that Social Capital (X2) may exert an indirect influence on community well-being (Y2) through good

governance (Y1). The established mediation is complementary (partial mediation), indicating that Social Capital (X2) can influence community well-being (Y2) both directly and indirectly via Good Governance (Y1).

#### **4.5. Discussion**

##### **4.5.1. *The Direct Influence of Intellectual Capital on Good Governance of the Community in Border Villages***

The research findings and data analysis indicate that Intellectual Capital significantly influences Good Governance in border communities. Optimal intellectual capital in border village communities enhances governance. The qualifications of village apparatus resources pertain to professionalism, expectations, specialties, and competencies in alternative selection and policy information management. Village officials, equipped with professional bureaucracy, expertise, and specialization, consistently demonstrate capabilities in review analysis, cross-impact analysis, and the translation of values in effective governance. Village authorities lack adequate expertise and professionalism, rendering them unsatisfactory in addressing governance-related development challenges. The study's findings corroborate those of ([Nurcahyono et al., 2025](#)).

The presence of intellectual capital positively influences corporate governance; thus, a company with substantial intellectual capital is likely to enhance its corporate governance and subsequently improve its performance. Similarly, when village authorities possess high-quality intellectual capital, they can enhance their performance through corporate governance. Intellectual capital in border communities is crucial for comprehending development through effective business governance. Good governance denotes a mechanism through which society manages its economy, institutions, and social and political resources, aimed not only at development but also at fostering cohesiveness, integration, and the well-being of its populace. Consequently, the involvement of the populace in public administration, as enabled by village authorities, plays a pivotal role in maintaining equilibrium.

##### **4.5.2. *The Direct Influence of Social Capital on Good Governance of the Community in Border Villages***

The research findings and data analysis indicate that social capital significantly influences effective governance in border settlement areas. Optimal social capital in border village communities enhances the governance. Social capital in Border Villages encompasses (1) social networks and interactions among residents, (2) trust among community members, (3) shared norms and values, and (4) engagement in community activities. This promotes the execution of village development through effective management. The correlation between social capital and effective governance encompasses robust social capital that enhances citizen engagement in local matters, trust among residents that promotes communication with village authorities, shared norms that foster behaviors conducive to good governance, and social networks that aid in the distribution of information and community oversight. The findings of this study corroborate the research by [Knieć and Goszczyński \(2022\)](#) on natural disaster management, emphasizing the integration of existing social capital within the community to enhance resilience following natural catastrophes, underpinned by the principles of good governance. This initiative encourages religious leaders and local communities to strengthen their confidence.

##### **4.5.3. *The Direct Influence of Intellectual Capital on Community Welfare in Border Villages***

The results of the research and data analysis indicate that Intellectual Capital has no significant effect on the welfare of the community in border villages. *Intellectual Capital* is not optimal in border village communities, which also leads to a decrease in family welfare. The quality of competence makes the community responsible for village development and together in creating the village economy, but what happens is that the quality of human resources is low due to (1) education and competence in managing village funds are still low, (2) training in improving human resources is still minimal, (3) border information related to financial management policies is limited. Strengthening *the Intellectual Capital* of the community in border villages can develop and mobilize community resources, thereby enhancing the community's capacity to create and empower itself. This involves the community engaging in participatory development and empowerment initiatives for the greater good.

Good communication between communities and kinship, and added optimism, strengthen the network. The achievement of the use of village funds through community participation is carried out by increasing community participation starting from development planning by paying attention to the needs of the community, involving the community in compiling a priority agenda for developers to strengthen and focus on the performance of development implementation, and empowering the community in the implementation of development to increase self-help participation and cooperation. The results of this study support these findings. [Omerzel and Jurdana \(2016\)](#) the study's results indicate that intellectual capital has no significant impact on the performance of banking companies. In contrast to the research ([Mukaro, Deka, & Rukani, 2023](#)), this indicates that Intellectual Capital has a positive and significant impact on the company's current and future performance, and the average growth of Intellectual Capital has a similarly positive and significant effect on the company's future performance.

#### *4.5.4. The Direct Influence of Social Capital on Community Welfare in Border Villages*

The Social Capital cultivated in the border villages of Belu Regency has empowered the village community to execute programs via the Village Fund. However, a prevailing issue is that most Indigenous individuals, particularly the youth, are unfamiliar with traditional leaders and the regulations governing customary institutions. Consequently, the application of diverse laws or regulations of customary law becomes confusing or is not executed accurately under their intended meaning. Moreover, social capital utilized in the near term typically enhances welfare temporarily. For instance, when information from traditional leaders pertains to community needs, they endeavor to communicate it to the village government (VG). Following the provision of aid, the community's accountability is not accompanied by a report. The community seeks aid solely on an individual basis rather than collectively.

When assistance is collectively provided, social capital, particularly through the role of indigenous leaders, becomes important during conflicts in the community. This study aligns with the research conducted by [Nugrahani, Suharni, and Saptatiningsih \(2019\)](#), who demonstrated that social capital significantly influences individuals' behavior in various communal activities aimed at achieving well-being. [Carradore \(2022\)](#) asserts that social capital is constructed not solely by individuals but collectively, stemming from the propensity within a community group to engage socially and foster cooperation through participation, which is fundamental to community values. The examination of social capital focuses on the capacity of a community within a group to engage in network formation aimed at achieving shared objectives through mutually advantageous interactions founded on trust and reinforced by good social norms and values.

#### *4.5.5. The Direct Influence of Good Governance on Community Welfare in Border Villages*

The efficacy of the local fund's administration in enhancing local economic development is ascribed to the community's engagement in programs and activities associated with the Village Fund. The administration of Village Funds, adhering to the principles of good governance acknowledged by the village community, is advantageous for optimizing the management of village funds to attain economic development objectives. The findings of this study demonstrate that proficient management of village funds substantially enhances community welfare in the border villages of Belu Regency. Effective governance in the administration of village funds can markedly improve the resolution of community welfare issues in border villages in Belu Regency. Effective governance profoundly impacts the well-being of communities in the border villages of Belu Regency. The administration of village funds necessitates the use of strong governance.

Effective governance must be fully implemented to uphold the credibility and accountability of village administration. [Baihaqi, Asmawanti-S, and Putradana \(2023\)](#) found that accountability, transparency, and community participation in village financial management have a simultaneous impact on village economic development. The welfare of the village community will be realized if the Village Fund program is suitable for the needs of the community, a positive relationship between the Village Fund Management carried out on village economic development and the empowerment of the village community, especially in building a spirit of participation for the community so that it becomes greater, and community concern increases. In the implementation of village fund management, the principles

and values of village finance have been applied, namely, transparency, accountability, participation, order, and budget discipline.

#### 4.5.6. *Good Governance (Y1) Mediates the Influence of Intellectual Capital (X1) on the Welfare of the Community (Y2)*

The study's findings indicate that: (1) Intellectual Capital (X1) exerts a direct, positive, and significant influence on Good Governance (Y1); (2) Good Governance (Y1) directly impacts the welfare of the village community positively and significantly; and (3) Intellectual Capital (X1) has a direct, positive, but insignificant effect on community welfare (Y2). Consequently, the mediation effect of Good Governance (Y1) on the relationship between Intellectual Capital (X1) from the Village Fund and community welfare in the border village of Belu Regency is characterized as an indirect influence (indirect-only or full mediation). The notion of effective governance concerning Village Funds is not a novel subject within public sector accounting; nonetheless, there is a paucity of studies addressing good governance in the financial administration of villages, which represent the lowest tier of government in Indonesia. Prior studies have assessed the efficacy of Village Fund Allocation management ([Azheri and Anggunsuri \(2018\)](#); [Revida et al. \(2023\)](#)) and examined the concept of accountability as a fundamental element of good governance ([Basri et al., 2021](#)). Accountability is underscored in non-governmental organizations, particularly in non-profit entities ([Knieć & Goszczyński, 2022](#)).

The disbursement of village funds in border villages has limited human resources related to the quality of competence, organizational commitment and work control. This is due to the characteristics of border villages far from the center of government, limited infrastructure, low levels of education and skills, lack of access to the latest technology and information, and the risk of border conflicts or cross-border legal activities. However, the existence of village financial management that applies *good governance* values to *Intellectual Capital* shows that related parties in implementing village fund management minimize fraud. This has an impact on improving the welfare of the communities in border villages. This is due to the three dimensions of the variable *Intellectual Capital* having a low perception value, including Competency Quality (X11) with an indicator that the existence of economic development programs can improve the quality of competence (X1.13) with a value of 4.019. Organizational commitment (X12) with the indicator of the existence of an economic development program can create organizational commitment (X1.23) with a value of 4.019. Likewise, the existence of work control (X13) with a value of 3,987 includes the indicator that the existence of village development programs can create control in work (X1.32) and the existence of economic development programs can create control in work (X1.32).

#### 4.5.7. *Good Governance (Y1) Mediates the Influence of Social Capital (X2) on People's Welfare (Y2)*

The established mediation is complementary (partial mediation), indicating that Social Capital (X2) may indirectly influence community well-being (Y2) through Good Governance (Y1) ([Tarlani, Dariah, & Rani, 2022](#)). This development paradigm necessitates a balance between the government, private sector, and community. Good governance emphasizes the importance of the government engaging constructively with the community to enhance village development through the effective utilization of village funds, bolstered by strong village economic performance, thereby achieving the ultimate objective of welfare. The government's role has become restricted, eliminating its monopoly on development. Enhancing the government, private sector, and community sectors through the utilization of village finances, with the government acting as a facilitator, regulator, and catalyst in growth, employing the principle of entrepreneurship (reinventing government/privatization) is suggested.

This paradigm underscores the government's role in embracing principles prevalent in the private sector, particularly entrepreneurship, alongside societal principles such as self-management, which are deemed essential for the success of both the private sector and society, while also advocating for the reduction of bureaucracy ([Revida et al., 2023](#)). [Knieć and Goszczyński \(2022\)](#) assert that ultimately, a new paradigm would emerge, showcasing novel developmental potentials aimed at enhancing societal growth, welfare, justice, and sustainability, which is termed people-centered development. The findings indicate that among the three dimensions of social capital, trust (X21) has a low perceived value, specifically regarding the engagement of Indigenous leaders in policy-making (X2.11), which is

quantified at 3.75. The Network Dimension (X22) in the indicator of collaboration between traditional leaders and village government officials (X2.21) had a value of 3.74. Similarly, the Norm (X23) inside the Customary Sanctions indication is adequately addressed in Decision (X2.32) with a value of 3.65.

## **5. Conclusions**

### **5.1. Conclusion**

Intellectual Capital significantly affects Good Governance in Border Villages. Professional, expert, and specialized village apparatus can effectively handle development issues, leading to better performance and implementation of good governance. High-quality intellectual capital in border villages contributes to understanding development based on good governance. Social Capital significantly affects Good Governance in Border Villages. Social capital in border villages encompasses social networks, trust, shared norms and community engagement. These factors encourage good management of village development. Substantial social capital increases citizen participation, trust facilitates communication, shared norms encourage good governance, and social networks help disseminate information and supervise the community.

Intellectual Capital does not significantly impact the welfare of people in border villages. The low quality of competence and education in managing village funds, the lack of training in improving human resources, and limited information on financial management policies are factors that cause a decline in family welfare. Strengthening the community's Intellectual Capital can help mobilize resources and increase community participation in development initiatives. Social Capital has provided strength to border village communities in implementing village programs through the Village Fund. However, the younger generation's lack of knowledge about customary figures and rules has led to confusion and the inappropriate application of customary law rules. When applied in the short term, social capital tends to improve current welfare. However, social capital, facilitated by Indigenous leaders, is essential for conflict resolution.

The administration of Village Funds, adhering to the principles of good governance, has markedly enhanced the economic growth of border communities in Belu Regency. This results from community involvement in programs and activities associated with the Village Fund. Effective governance in the administration of Village Funds can directly and substantially enhance the resolution of community welfare issues in border communities. Intellectual Capital positively and significantly influences Good Governance, which subsequently has a positive and considerable impact on the welfare of the village community. Intellectual Capital exerts a beneficial but insignificant influence on individual welfare. Consequently, Good Governance mediates the effect of Intellectual Capital on community well-being, signifying an indirect influence link.

Border communities encounter difficulties, including insufficient human resources, inadequate education and skill levels, restricted access to technology and information, and the potential for border violence. Nonetheless, adopting sound governance principles in Intellectual Capital can enable stakeholders involved in village fund administration to mitigate fraud and enhance community welfare. Investigating Good Governance in village financial management is crucial, particularly in border villages with constrained human resources and infrastructure. The principles of Good Governance in Intellectual Capital can reduce fraud in the administration of village money, hence enhancing community welfare. The three elements of Intellectual Capital exhibit a diminished perceived worth regarding Competency Quality, Organizational Commitment, and Work Control. This development model necessitates equilibrium among the government, business sector, and community. The government's position has evolved from that of a monopolist to a facilitator, regulator, and active participant in the development process. The emerging paradigm, known as people-centered development, prioritizes justice, sustainability, and the advancement and well-being of the community.

### **5.2. Limitations**

1. Limitations of Data and Regional Representation: This study may be constrained by data sourced from specific villages in Belu Regency, which complicates the generalization of these findings to other border villages with differing social, economic, or political contexts.



2. Other Variables Not Researched: Many other variables may affect good governance and community well-being, such as cultural aspects, private sector involvement, or local political dynamics, which were not considered in this study. These factors can impact the results and should be investigated in greater detail.
3. Limitations of Intellectual Capital Measurement: Intellectual capital is typically viewed from the perspective of competence, education and training. This may not be broad enough to capture other dimensions of intellectual capital, such as innovation, creativity, and adaptability to change, which also play essential roles in good governance.
4. Unexplored Long-Term Impacts: This study places more emphasis on the short-term impact of social capital on well-being but does not explore the more complex long-term impacts that may be present. A deeper understanding of how social capital can be sustainable in the long term needs to be investigated further.

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