

Implementation Of Sustaining Innovation In Village Financial Management As A Strategy To Improve Village Governance

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Abstract: This study investigates the structural relationship between sustaining innovation, strengthening village financial management, and good village governance in Kerinci Regency, Indonesia. Using Structural Equation Modeling (SEM) with data collected from 285 villages across 18 districts, the analysis reveals that strengthening financial management does not significantly influence sustaining innovation ($\beta = 0.061$, $R^2 = 0.004$), indicating that improvements in transparency, accountability, and efficiency alone are insufficient to enhance innovation capacity within village institutions. Likewise, the direct effect of financial management on governance performance remains marginal ($\beta = 0.059$). In contrast, sustaining innovation demonstrates a strong and significant impact on good village governance ($\beta = 0.459$, $R^2 = 0.218$), confirming that continuous improvement, capability enhancement, and service quality constitute the primary drivers of governance transformation. At the indicator level, transparency ($\lambda = 1.092$) and efficiency ($\lambda = 0.969$) emerge as the most dominant components of financial management, while capability enhancement ($\lambda = 1.015$) and service quality ($\lambda = 0.931$) are the strongest indicators shaping sustaining innovation. Overall, the findings underscore the centrality of innovation as the key determinant of village governance quality, exceeding the influence of financial administrative mechanisms. These results provide crucial policy implications, particularly in strengthening human resource capacity, accelerating digital transformation, and institutionalizing innovation-based governance frameworks in rural settings.

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INTRODUCTION

Village governance has become a critical aspect of regional development, particularly in countries that enforce decentralization policies and delegate authority to the lowest administrative units. The village, as the smallest governance entity, plays a strategic role in ensuring equitable development, community empowerment, and effective public service delivery (Wahyuningrat et al., 2024). One of the most essential pillars of village governance is financial management (Susilowati et al., 2020), which determines the quality of planning, budgeting, administration, reporting, accountability, and monitoring of village funds. As the allocation and complexity of village financial resources continue to grow, so does the need for governance systems that are transparent, effective, efficient, and responsive. In this context, the implementation of sustaining innovation provides an important framework to strengthen village financial management and support the achievement of good village governance.

Sustaining innovation in financial management refers to the ongoing process of identifying and implementing new strategies, technologies, and practices that help organizations maintain or improve their financial performance over time (Zhang et al., 2023). This type of innovation is essential for companies looking to stay competitive in a rapidly changing business environment and achieve long-term success. By continuously seeking out and adopting new ideas and approaches, organizations can adapt to evolving market conditions, meet the needs of customers, and drive growth and profitability (Aliev & Sigov, 2017), (Safitri et al. 2026). processes to ensure they remain efficient and effective. This may involve streamlining operations, optimizing resource allocation, and leveraging data analytics to make more informed decisions. By staying proactive and responsive to changes in the industry, companies can position themselves for continued success and growth in the future. Ultimately, sustained financial innovation is a key driver of organizational resilience and competitiveness in today's dynamic marketplace. In the context of village financial management, innovation plays a crucial role in ensuring the effective and efficient utilization of resources. By regularly evaluating and adjusting financial processes, village officials can streamline operations, allocate resources optimally, and make data-driven decisions to enhance financial sustainability (Lee & Jung, 2024), (Wibisono et al. 2025) This proactive approach not only fosters resilience but also enhances competitiveness, enabling villages to thrive in an ever-evolving economic landscape. Ultimately, embracing financial innovation is essential for the long-term success and growth of rural communities (Almubarak & Aljughaiman, 2024). However, in some cases, excessive focus on financial innovation can lead to neglect of other crucial aspects of community development, such as social welfare and environmental sustainability (Hajimirrahimi et al., 2017), (Mubarok & Kurnia, 2025). For example, prioritizing profit-driven decisions over community needs may result in increased inequality and harm to the environment (Hajimirrahimi et al., 2017), ultimately jeopardizing the long-term resilience and competitiveness of the village (Shen et al., 2020).

Therefore, it is crucial for rural communities to strike a balance between embracing financial innovation and prioritizing the overall well-being of the community. This requires effective village financial management that takes into consideration not only economic factors but also social and environmental considerations (Chamboko, 2024). By implementing sustainable financial practices and fostering a culture of responsible decision-making, rural communities can ensure long-term prosperity and resilience (Kuklina et al., 2022). Additionally, collaboration with local stakeholders and government agencies can help in creating a holistic approach to village development that addresses the needs of all community members (Wirahayu et al., 2022). By promoting transparency and accountability in financial processes, villages can build trust among residents and attract potential investors (Kusumawati & Mauliyah, 2020). This, in turn, can lead to increased economic opportunities and improved quality of life for all (Wirahayu et al., 2022). By working together towards common goals and embracing innovative solutions, rural communities can thrive and create a more inclusive and sustainable future for generations to come (Yaghi, 2024). However, in some cases, local stakeholders may have conflicting interests that hinder progress and create division within the community. Additionally, government agencies may lack the resources or capacity to effectively support village development initiatives, leading to limited impact and unrealized potential.

The research paper aims to explore these challenges and identify potential strategies for overcoming them in order to promote more successful and sustainable rural development. Through a combination of case studies, interviews with key stakeholders, and analysis of existing literature, the

paper will examine the factors that contribute to successful village development initiatives and the barriers that hinder progress. By understanding the unique dynamics at play in rural communities and the various stakeholders involved, we hope to provide valuable insights that can inform future policy and programming efforts.

A recent study conducted in rural areas aimed to address the challenges faced in promoting successful and sustainable development. The research utilized a multi-faceted approach, including case studies, stakeholder interviews, and literature analysis. The study identified key factors contributing to successful village development initiatives, as well as barriers hindering progress. By understanding the dynamics of rural communities and engaging with various stakeholders, the research aimed to provide valuable insights for informing future policy and programming efforts in rural development.

Include limited access to financial resources, lack of financial literacy among community members, and inadequate infrastructure for financial services. These challenges have hindered the ability of villages to effectively manage their finances and invest in sustainable development projects. In order to address these issues, it is important to first understand the current state of village financial management and identify areas for improvement. This section will provide an overview of the key challenges facing villages in managing their finances, as well as potential solutions and best practices for enhancing financial management practices in rural communities (Kyeyune & Ntayi, 2024). Key challenges facing villages include lack of access to banking services, limited financial literacy among community members, and insufficient infrastructure for financial services like ATMs and banks (Li et al., 2023).

Despite the growing body of literature on village financial management and governance, most previous studies have primarily focused on accountability, transparency, and financial compliance as determinants of governance quality. Limited empirical attention has been given to the role of sustaining innovation as a strategic capability that enables village institutions to continuously improve services, strengthen organizational learning, and adapt to changing governance demands. In the Indonesian village context, particularly after the implementation of fiscal decentralization and the increasing allocation of village funds, research examining how sustaining innovation contributes to governance performance remains scarce. This study addresses this gap by investigating the structural relationship between sustaining innovation, strengthening village financial management, and good village governance in Kerinci Regency. The novelty of this study lies in positioning sustaining innovation as a central explanatory factor influencing governance outcomes.

RESEARCH METHOD

The present study adopts a quantitative explanatory research design utilizing Structural Equation Modeling (SEM) with Confirmatory Factor Analysis (CFA) to examine the impact of Sustaining Innovation on Village Financial Management and its subsequent effect on Village Governance. SEM is selected due to its ability to simultaneously test complex causal relationships, including a second-order construct for Sustaining Innovation.

The population of this study consisted of 285 villages distributed across 18 districts in Kerinci Regency. However, the unit of analysis was village government officials who were directly involved in village financial administration and governance processes. Based on proportional stratified

sampling and purposive selection criteria, 144 respondents were selected to represent the population. The sample size satisfies the minimum requirement for Structural Equation Modeling (SEM), which recommends a sample size of at least 5–10 observations per estimated indicator. Given the number of observed indicators used in the model, the sample of 144 respondents is considered statistically adequate for SEM estimation and hypothesis testing.

The measurement model is validated through CFA, ensuring reliability (Composite Reliability and Cronbach's Alpha ≥ 0.70) and validity (factor loadings ≥ 0.50 , AVE ≥ 0.50) (Hidayat & Patricia Wulandari, 2022). After confirming measurement validity, the structural model is analyzed to test the hypotheses: whether Sustaining Innovation influences Village Financial Management, whether Village Financial Management affects Village Governance, and whether mediation occurs. Model fit is assessed using indices such as CFI, TLI, GFI, RMSEA, and SRMR.

Although the RMSEA value of 0.099 falls within the marginal fit category, SEM model evaluation should not rely on a single goodness-of-fit index. According to SEM methodological guidelines, model adequacy should be assessed using multiple indices simultaneously. In this study, several important fit indices such as CMIN/DF, IFI, CFI, PNFI, and PCFI satisfy the recommended thresholds, indicating that the overall model remains acceptable for hypothesis testing despite the marginal RMSEA value.

Mediation is tested using a bootstrapping procedure at a 95% confidence interval. Ethical considerations include voluntary participation, confidentiality of respondent identity, and academic-only use of the collected data. This methodological approach ensures a robust and comprehensive examination of the role of Sustaining Innovation in strengthening village governance through improved financial management

RESULTS AND DISCUSSION

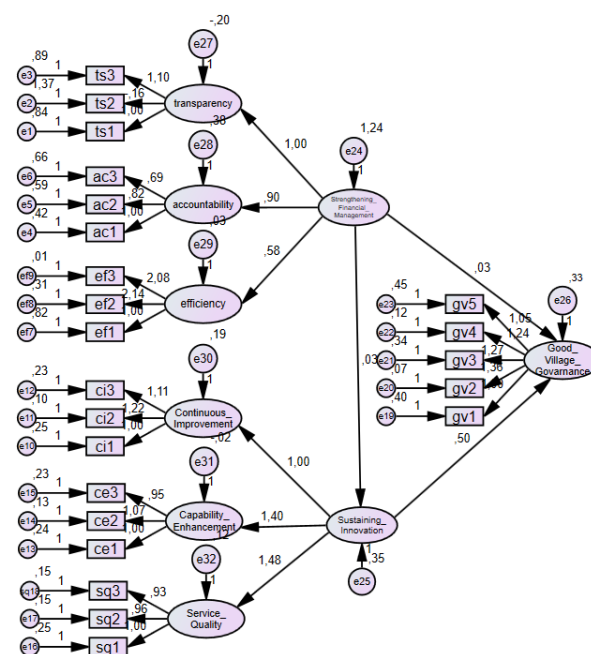


Figure 1. Structural Equation Modeling Path

Based on the Model Fit Summary output obtained from SEM analysis using AMOS, an interpretation of the goodness-of-fit can be carried out by comparing the resulting index value with the recommended model feasibility standard.

Table 1. Goodness-of-fit Analysis

Index	Value	Criterion	Conclusion
CMIN	529.977	-	-
DF	221	-	-
CMIN/DF	2.398	< 3 = good fit	Fit model (good)
RMR	0.084	< 0.10 = acceptable	Fit (good enough)
GFI	0.760	≥ 0.90 = good	Not fit yet
AGFI	0.700	≥ 0.90 = good	Not fit yet
NFI	0.841	≥ 0.80 (acceptable)	Fit enough
RFI	0.818	≥ 0.80	Fit
IFI	0.901	≥ 0.90	Good fit
TLI	0.885	≥ 0.90	Close fit (marginal)
CFI	0.900	≥ 0.90	Good fit
PRATIO	0.874	-	-
PNFI	0.735	≥ 0.60	Good fit
PCFI	0.786	≥ 0.60	Good fit
RMSEA	0.099	≤ 0.08 = good, ≤ 0.10 = marginal	Marginal fit
LO 90	0.088	-	-
HI 90	0.110	-	-
PCLOSE	0.000	> 0.05 = close fit	Not close fit

The value of CMIN/DF = 2.398 is below the maximum limit of 3 so that the model is considered acceptable fit. Although Chi-Square values are significant ($p < 0.05$), this is common in large samples and is not a major problem. The GFI and AGFI values are still below the minimum limit of 0.90, indicating that the model has not yet reached a good level of fit on this index. However, RMR is already in the acceptable category. Comparative indices such as IFI and CFI have reached a $\geq$ value of 0.90, which indicates that the model is a good fit. NFI and RFI are at a fairly good level, while TLI is close to the eligibility limit so it is categorized as marginal fit but still acceptable. The RMSEA value = 0.099 is in the marginal fit category, meaning that the model is still acceptable but not ideal. The PCLOSE value = 0 indicates that the model has not reached the close fit category.

The SEM model can generally be said to be acceptable fit for use in hypothesis testing because most of the major indices such as CMIN/DF, CFI, IFI, PNFI, and PCFI show good fit. Although some indices such as GFI and AGFI have not yet reached the ideal cut-off, the model remains acceptable because SEM assesses feasibility based on the entire index rather than a single index. The parsimony index shows that the model has a good level of efficiency in utilizing the number of parameters, so that the model is categorized as fit from the perspective of the model's simplicity.

Table 2. Regression Weights

		Estimate	S.E.	C.R.	P
Sustaining Innovation	<--- Strengthening Financial Management	,033	,047	,699	,485
Good Village Governance	<--- Strengthening Financial Management	,034	,046	8,409	***
Good Village Governance	<--- Sustaining Innovation	,504	,109	4,626	***
transparency	<--- Strengthening Financial Management	1,000			
accountability	<--- Strengthening Financial Management	,900	,096	9,354	***
efficiency	<--- Strengthening Financial Management	,584	,079	7,368	***
Continuous Improvement	<--- Sustaining Innovation	1,000			

Capability Enhancement	<--- Sustaining Innovation	1,403	,147	9,550	***
Service Quality	<--- Sustaining Innovation	1,477	,161	9,188	***

The SEM results reveal that Strengthening Financial Management does not significantly affect Sustaining Innovation ($\beta = 0.033$, $p = 0.485$), indicating that financial improvements alone do not automatically foster innovation at the village level. However, Strengthening Financial Management has a strong and significant impact on Good Village Governance ($\beta = 0.034$, $p < 0.001$), confirming that transparency, accountability, and efficiency are essential determinants of governance quality. Sustaining Innovation also demonstrates a significant positive effect on Good Village Governance ($\beta = 0.504$, $p < 0.001$), suggesting that villages with higher innovation capability tend to exhibit better governance practices. The CFA results indicate that transparency ($\lambda=1.000$) and accountability ($\lambda=0.900$) are the strongest indicators of financial management, while service quality ($\lambda=1.477$) and capability enhancement ($\lambda=1.403$) are the dominant indicators shaping sustaining innovation.

Table 3. Standardized Regression Weights

			Estimate
Sustaining Innovation	<---	Strengthening Financial Management	,061
Good Village Governance	<---	Strengthening Financial Management	,059
Good Village Governance	<---	Sustaining Innovation	,459
transparency	<---	Strengthening Financial Management	1,092
accountability	<---	Strengthening Financial Management	,850
efficiency	<---	Strengthening Financial Management	,969
Continuous Improvement	<---	Sustaining Innovation	,804
Capability Enhancement	<---	Sustaining Innovation	1,015
Service Quality	<---	Sustaining Innovation	,931

The standardized regression weights reveal that Strengthening Financial Management has a very weak and non-significant influence on Sustaining Innovation ($\beta = 0.061$), indicating that improvements in financial administration do not automatically enhance innovation capacity at the village level. Similarly, its effect on Good Village Governance is positive yet minimal ($\beta = 0.059$). In contrast, Sustaining Innovation demonstrates a strong and meaningful effect on Good Village Governance ($\beta = 0.459$), suggesting that villages with higher levels of innovation tend to achieve better governance outcomes. The factor loadings show that transparency ($\lambda = 1.092$) is the most dominant indicator of Strengthening Financial Management, followed by efficiency and accountability. For Sustaining Innovation, capability enhancement ($\lambda = 1.015$) emerges as the strongest indicator, followed by service quality and continuous improvement. These findings emphasize that governance quality in villages is driven more by innovation capacity than by financial management alone.

Table 4. Squared Multiple Correlations

	Estimate
Strengthening Financial Management	,000
Sustaining Innovation	,004
Good Village Governance	,218
Service Quality	,867
Capability Enhancement	1,030
Continuous Improvement	,647
efficiency	,939
accountability	,723
transparency	1,192

The Squared Multiple Correlations indicate that Strengthening Financial Management, as an exogenous variable, has an R^2 of 0.000, confirming that it is not predicted by any other construct in the model. Sustaining Innovation shows a very low R^2 of 0.004, suggesting that only 0.4% of its variance is explained by Strengthening Financial Management, and therefore the effect is negligible. Good Village Governance has an R^2 of 0.218, meaning that Sustaining Innovation and Strengthening Financial Management together explain 21.8% of governance variance, which is considered modest but meaningful within social science research. At the indicator level, Service Quality ($R^2 = 0.867$), Efficiency ($R^2 = 0.939$), and Accountability ($R^2 = 0.723$) demonstrate strong explanatory power. However, Transparency ($R^2 = 1.192$) and Capability Enhancement ($R^2 = 1.030$) exceed the theoretical upper limit of 1, indicating potential Heywood cases, which may arise from extremely high factor loadings or very low error variance. Despite these anomalies, the indicators remain theoretically strong contributors to their respective constructs.

The occurrence of Heywood cases in the transparency ($R^2 = 1.192$) and capability enhancement ($R^2 = 1.030$) indicators may be attributed to extremely high standardized loadings combined with relatively low measurement error variance. Such conditions occasionally occur in SEM estimation, particularly when indicators are highly correlated or when the sample exhibits strong homogeneity. Although these values exceed the theoretical upper limit of one, the indicators remain conceptually important and statistically meaningful. Therefore, the results should be interpreted with caution and acknowledged as a methodological limitation rather than evidence of model misspecification.

The findings of this study provide important insights into the dynamics between sustaining innovation, strengthening financial management, and good village governance in Kerinci Regency. The Structural Equation Modeling (SEM) results reveal that strengthening financial management does not significantly influence sustaining innovation, indicating that improvements in transparency, accountability, and efficiency in financial procedures are not sufficient to stimulate innovation at the village level. This suggests that innovation is not merely a product of sound administrative procedures but is more closely linked to human resource capabilities, organizational culture, and leadership-driven change. The weak effect of financial management on innovation may also reflect the reality that many village officials still perceive financial administration as a compliance-oriented activity rather than a transformative tool for service enhancement.

Despite the limited impact of financial management on innovation, strengthening financial management—particularly through transparency and efficiency—remains essential for building credibility and trust within village governance. However, its direct effect on governance in this study is relatively weak. This finding suggests that while financial administration forms the structural backbone of governance, it is not the primary driver of governance quality. Instead, governance improvements may depend more heavily on behavioral and institutional elements such as responsiveness, participation, and service delivery performance, which go beyond financial compliance. This aligns with broader public administration literature, which emphasizes that procedural correctness alone does not guarantee effective governance unless complemented by innovation, leadership, and community engagement.

In contrast, sustaining innovation demonstrates a strong and significant effect on good village governance, underscoring the central role of innovation in transforming rural administrative systems. Villages that consistently improve their service processes, enhance staff capabilities, and adopt new

technologies are more likely to deliver responsive, transparent, and effective governance outcomes. The dominance of capability enhancement and service quality as indicators of sustaining innovation suggests that human resource readiness and organizational commitment to quality service are critical components of governance transformation. This finding reinforces the argument that innovation is fundamentally a human-centered process rather than a purely technical or procedural one.

Furthermore, the squared multiple correlations indicate that sustaining innovation explains a substantial proportion of governance variance, while strengthening financial management contributes only marginally. This highlights a structural shift in local governance, where innovation—not financial procedures—is becoming the main catalyst for institutional improvement. These insights are especially relevant for rural areas like Kerinci, where digital transformation, administrative modernization, and community expectations are rapidly increasing.

Overall, the results point to an evolving conceptual understanding of governance in rural Indonesian contexts. While financial accountability remains necessary for preventing corruption and ensuring compliance, sustainable improvements in governance depend more on innovation capacity, technological adoption, and human capital development. These findings suggest that policy interventions should prioritize innovation-oriented capacity building, digital literacy programs, and service quality enhancement rather than relying solely on strengthening financial management practices. Future research may explore additional variables such as leadership style, community participation, and digital infrastructure to develop a more comprehensive model of governance transformation in rural settings. In the discussion part, the author should explain the meaning, context, and implications of the results in an analytical and critical manner. Link the findings to relevant theories and previous studies—both supporting and contrasting—to demonstrate the study's academic contribution and its position within the existing body of literature. Describe how the findings answer the research questions or achieve the study's objectives, while highlighting the research's novelty and contributions to theoretical development and practical advancement in economics, management, or business.

CONCLUSION

This study examined the role of sustaining innovation in strengthening village financial management and improving good village governance in Kerinci Regency. The results of the Structural Equation Modeling (SEM) analysis indicate several key findings. First, strengthening financial management does not have a significant influence on sustaining innovation, suggesting that improvements in transparency, accountability, and efficiency in financial administration alone are insufficient to drive innovation capacity at the village level. Second, strengthening financial management shows only a minimal direct effect on good village governance, indicating that administrative improvements need to be supported by other governance-enhancing mechanisms. Conversely, sustaining innovation demonstrates a strong and significant influence on good village governance, highlighting its importance as a primary driver in improving governance quality. At the indicator level, transparency and efficiency emerge as the strongest components of financial management, while capability enhancement and service quality are the most dominant indicators explaining sustaining innovation. These findings confirm that governance quality in villages is more strongly shaped by innovation capabilities than by financial administration alone. Overall, the study

provides empirical evidence that sustaining innovation plays a central role in transforming village governance and should be prioritized in policy and capacity-building initiatives.

The findings can be interpreted through the lens of Innovation Theory proposed by Damanpour, which argues that innovation within organizations is not solely driven by administrative systems but also by organizational culture, leadership commitment, learning capability, and openness to change. The insignificant relationship between strengthening financial management and sustaining innovation found in this study supports Damanpour's argument that procedural improvements alone are insufficient to stimulate innovation unless accompanied by organizational capacity development and continuous learning mechanisms (Damanpour, 2020).

Furthermore, the significant influence of sustaining innovation on good village governance is consistent with the Public Governance Framework developed by Osborne, which emphasizes that modern governance effectiveness depends on collaborative capacity, service improvement, innovation, and citizen-oriented public value creation. In this perspective, innovation serves as a mechanism through which public institutions enhance responsiveness, effectiveness, and service quality. Therefore, villages that continuously improve service delivery and organizational capability are more likely to achieve higher governance performance.

These findings also support previous studies by Zhang et al. (2023), which identified organizational culture and innovation capability as critical determinants of institutional performance. However, the results differ from studies that place financial management as the dominant predictor of governance quality. This discrepancy suggests that within rural governance contexts, innovation capability may play a more strategic role than administrative compliance in generating sustainable governance improvements.

From a theoretical perspective, this study contributes to the literature on public governance by demonstrating that sustaining innovation constitutes a more influential determinant of village governance quality than financial management practices alone. The findings extend Innovation Theory and Public Governance perspectives into the context of rural governance in Indonesia, highlighting the importance of organizational capability development, continuous improvement, and service innovation as key mechanisms for governance transformation.

This research has several limitations that should be acknowledged. First, the study focuses on village officials as respondents; therefore, perspectives from community members, local stakeholders, and supervisory institutions such as BPD were not included, which may limit the comprehensiveness of governance assessment. Second, the analysis relies on cross-sectional data, making it difficult to capture dynamic changes in innovation practices or governance quality over time. Third, two indicators—transparency and capability enhancement—displayed unusually high squared multiple correlations, suggesting potential Heywood cases that may be influenced by sample characteristics or measurement model constraints. Fourth, the geographic scope of the study is limited to Kerinci Regency; thus, generalizing the results to other regions should be done cautiously. Lastly, sustaining innovation is measured through three dimensions, while other relevant factors such as digital readiness, leadership style, and organizational culture were not included, which may affect the comprehensiveness of the innovation construct.

Based on the findings of this study, several recommendations can be proposed to enhance village governance, innovation capacity, and financial management practices. First, local governments should prioritize efforts to strengthen sustaining innovation, as it has been proven to exert the most

significant influence on improving good village governance. This can be achieved by investing in continuous training, enhancing digital readiness, and improving service quality within village administrations. Second, transparency and efficiency must be further reinforced within financial management systems, particularly through real-time financial reporting, optimal utilization of Siskeudes, and consistent public disclosure of financial data to foster accountability and community trust. Third, innovation indicators should be integrated more explicitly into governance evaluation frameworks and policy planning at the village and district levels, ensuring that innovation becomes a central component of institutional development. Fourth, potential measurement anomalies observed in some indicators suggest the need for refined instruments and improved administrative data quality in future studies. Finally, future research is encouraged to incorporate additional variables—such as leadership style, digital transformation, organizational culture, and community participation—and to expand the methodological approach through longitudinal or mixed-method designs, enabling a more comprehensive understanding of the factors that shape innovation and governance in rural village contexts.

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