

MOTIVATIONAL PATHWAYS TO EMPLOYEE PERFORMANCE IN VILLAGE CREDIT INSTITUTIONS

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Abstract

Employee performance is essential to the sustainability of Village Credit Institutions (LPDs), where service quality and financial accountability depend on employees' ability to perform effectively. This study examines the mediating role of work motivation in the relationships between the non-physical work environment, organizational culture, and employee performance. Questionnaire responses were obtained from 234 employees selected through proportionate random sampling across 35 Village Credit Institutions in Denpasar City, Indonesia. The proposed relationships were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4.1. The findings confirm that the non-physical work environment and organizational culture positively influence both work motivation and employee performance. Work motivation also enhances employee performance and functions as a complementary partial mediator in the relationships between the non-physical work environment, organizational culture, and employee performance. The findings extend the application of Social Exchange Theory to community-based financial institutions by highlighting the importance of motivational processes in strengthening employee performance. Practically, the study suggests that improving interpersonal workplace relationships, organizational values, and employee motivation can support sustainable organizational performance in Village Credit Institutions.

Keywords: employee performance; non-physical work environment; organizational culture; village credit institutions; work motivation.

INTRODUCTION

Microfinance institutions are increasingly required to maintain financial sustainability, service quality, and accountability in a competitive environment. These demands are particularly important for community-based financial institutions because their effectiveness depends not only on financial outcomes but also on the quality of human resources and the trust of the communities they serve. In Bali, Village Credit Institutions (*Lembaga Perkreditan Desa* or LPDs) represent a distinctive form of local

financial institution embedded in the customary village system. Unlike conventional financial organizations, LPDs perform both economic and social functions: they mobilize and distribute community funds, support local economic resilience, and contribute to the welfare of *krama desa* and the continuity of village-based development (Widyani et al., 2020). Within this institutional context, employee performance becomes a strategic issue because the quality of daily operations, financial administration, customer service, and institutional credibility depends heavily on employees who carry out core operational activities.

The importance of employee performance in LPDs is closely related to the complexity of employees' responsibilities. They are expected to achieve financial targets while maintaining prudence, service quality, and accountability in managing community funds. Their performance is therefore assessed not only in terms of productivity but also through accuracy, timeliness, responsibility, and consistency in serving village customers. Weak performance may have immediate organizational consequences, including delayed service, administrative errors, ineffective credit management, and declining public trust. In a community-based financial institution, these consequences are particularly serious because they can weaken the legitimacy of the institution in the eyes of the village community.

Initial field evidence indicates that performance-related problems remain relevant in the LPD context. Preliminary interviews with employees in Denpasar LPDs revealed recurring concerns related to work accuracy, timeliness, target completion, effectiveness, and service quality. Six out of ten preliminary informants indicated that target pressure and workload increases affected their concentration, work accuracy, and timeliness in completing tasks. Employees also reported that workload increases and target pressure could reduce concentration, morale, and their ability to complete tasks on time. These findings suggest that performance in LPDs cannot be explained solely by technical competence or formal task allocation. Instead, it appears to be shaped by the interaction between organizational conditions and employees' psychological responses to those conditions. This study therefore treats employee performance as an outcome influenced not only by employees' individual capabilities, but also by the work environment they experience and the motivation that environment generates.

One organizational factor that may shape performance in this setting is the non-physical work environment. In human resource management, the work environment extends beyond physical facilities and includes the social and psychological conditions in which employees perform their duties, such as communication patterns, relationships among colleagues, supervisory support, and psychological safety. A supportive non-physical work environment can foster trust, cooperation, and comfort, enabling employees to remain focused and effective under pressure. By contrast, poor communication, limited support, and strained interpersonal relationships may reduce

morale and weaken employees' willingness to contribute. Prior research has shown that work environment conditions are closely associated with employee motivation and performance (Aboramadan & Kundi, 2020; Kim et al., 2020; Ángeles López-Cabarcos et al., 2022). In LPDs, where employees face operational targets while remaining accountable to the community, these non-material conditions are likely to shape both the quality of work experience and work outcomes.

A second factor central to this study is organizational culture. Organizational culture refers to the shared values, norms, and assumptions that guide how employees think, interact, and perform their work. A constructive culture may encourage responsibility, cooperation, and commitment, whereas a weak or inconsistent culture may create ambiguity and reduce organizational attachment. Previous studies have consistently linked organizational culture with employee motivation, job satisfaction, and performance (Awan & Mahmood, 2010; Hartnell et al., 2011; Shahzad et al., 2012). In the LPD context, culture becomes especially important because these institutions are embedded in Balinese customary villages and influenced by local values. LPDs operate within a social environment shaped by Tri Hita Karana, a Balinese philosophy emphasizing harmony between human beings and God, among human beings, and between human beings and the environment. In the LPD context, organizational culture is also shaped by local Balinese values, particularly Tri Hita Karana, which emphasizes harmonious relationships between human beings and God, among human beings, and between human beings and the environment. These values strengthen the understanding of organizational culture in LPDs because *parahyangan* reflects integrity and moral responsibility, *pawongan* reflects harmonious workplace relationships and cooperation, while *palemahan* reflects concern for the work environment and institutional sustainability. Thus, Tri Hita Karana is not treated as a separate construct in this study, but is integrated into the contextual interpretation of organizational culture in Village Credit Institutions.

Although the non-physical work environment and organizational culture may influence performance, their effects are unlikely to operate automatically. Organizational conditions often affect behavior through psychological mechanisms that determine how employees interpret organizational treatment and translate it into work effort. In this study, work motivation is proposed as the key mediating mechanism. Work motivation refers to the internal drive that energizes, directs, and sustains effort toward work goals. Employees with strong motivation tend to display persistence, responsibility, discipline, and commitment, whereas low motivation is associated with weaker effort and poorer work outcomes. Motivation has long been recognized as a central explanatory construct in organizational research because it helps explain why individuals respond differently to similar work conditions (Gagné & Deci, 2005; Kanfer et al., 2017; Vroom, 1964). In the LPD setting, motivation is especially

relevant because employees operate under formal organizational demands while also bearing strong social accountability to the village community.

This argument can be explained through Social Exchange Theory, which views the relationship between employees and organizations as a reciprocal exchange. Employees who perceive support, fairness, and recognition from the organization are more likely to reciprocate with stronger motivation and better performance. In this study, the non-physical work environment and organizational culture represent forms of organizational treatment, work motivation reflects employees' psychological response, and employee performance represents the resulting contribution. This perspective is particularly suitable for LPDs because these institutions depend not only on formal control systems but also on reciprocal trust, social legitimacy, and sustained employee commitment in serving village communities.

Despite extensive research on work environment, organizational culture, motivation, and employee performance, two important gaps remain. First, previous studies have not consistently explained whether the effects of organizational conditions on performance are direct or mediated through work motivation. Some studies emphasize the direct role of work environment and organizational culture, whereas others argue that motivation is the more immediate mechanism through which organizational conditions influence employee behavior (Akhsa et al., 2024; Dullah, 2023; Kim & Park, 2022). Second, much of the existing evidence has been generated in private companies, manufacturing firms, hospitality businesses, or conventional corporate organizations. These settings differ substantially from LPDs, which operate as community-based financial institutions rooted in customary village structures. As a result, findings from conventional organizations cannot automatically be generalized to the LPD context.

This study addresses these gaps by examining work motivation as a mediator of employee performance in Village Credit Institutions, with particular attention to the roles of the non-physical work environment and organizational culture. Specifically, the study aims to analyze whether the non-physical work environment and organizational culture influence employee performance directly and whether these relationships are strengthened through work motivation as an intervening variable. By doing so, the study is expected to contribute to the human resource management literature by extending motivation-based explanations of performance to a community-based microfinance setting, while also offering practical guidance for improving employee effectiveness in LPDs.

RESEARCH METHOD

An explanatory quantitative design was employed to examine the relationships among the non-physical work environment, organizational culture, work motivation, and employee performance in Village Credit Institutions (LPDs). The proposed model

assumes that organizational conditions influence employee performance directly as well as indirectly through employees' work motivation. The research was conducted in Denpasar City, Bali, where LPDs operate as community-based financial institutions within the customary village system.

The study involved 560 employees from 35 LPDs. Using the Slovin formula with a 5% error tolerance, 234 respondents were selected through proportionate random sampling to ensure that every institution was represented according to its workforce size. Primary information was obtained from employee questionnaires using a five-point Likert scale. Supporting documents and preliminary interviews were utilized only to strengthen the contextual understanding of the research setting and were not included in the hypothesis testing. Four latent constructs were investigated: the non-physical work environment and organizational culture as exogenous variables, work motivation as the mediating variable, and employee performance as the endogenous variable. The measurement indicators were adapted from established human resource management literature and adjusted to reflect the operational characteristics of Village Credit Institutions.

Empirical analysis was carried out using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with SmartPLS version 4.1. The evaluation began with an assessment of the measurement model, including indicator reliability together with convergent and discriminant validity, followed by examination of the structural model to estimate direct and indirect relationships among the constructs. Statistical significance was determined through bootstrapping, using t-values above 1.96 or p-values below .05. The mediating effect of work motivation was examined by evaluating the significance of the direct effect, indirect effect, and the direction of the relationships. Mediation was interpreted using the P1, P2, and P3 path approach, where P1 represents the effect of the exogenous variable on work motivation, P2 represents the effect of work motivation on employee performance, and P3 represents the direct effect of the exogenous variable on employee performance. When both direct and indirect effects were significant and moved in the same direction, the mediation was classified as complementary partial mediation.

RESULT AND DISCUSSION

Overview of the Research Setting

Village Credit Institutions (Lembaga Perkreditan Desa or LPDs) are community-based financial institutions owned by customary villages in Bali. Their main functions include mobilizing savings, distributing credit, providing financial services, and supporting the management of village funds. Unlike conventional financial institutions, LPDs are closely linked to customary village life and therefore carry not only economic responsibilities but also social and moral obligations in maintaining community trust. This institutional character makes LPDs an important context for examining employee

performance, particularly because employees are directly involved in financial services and public fund management.

This study was conducted in Denpasar City, Bali, an area with strong economic activity and an extensive network of LPDs. The research covered 35 LPDs operating across Denpasar's customary villages. These institutions perform routine operational activities such as savings collection, credit disbursement, administrative recording, and customer service. Because these activities require accuracy, coordination, responsibility, and consistent service quality, employee performance becomes a critical organizational issue. Administrative errors, delays in service, or weak credit management may directly affect both operational effectiveness and public trust in the institution.

The study involved a population of 560 employees working in the 35 LPDs, from which 234 respondents were selected using the Slovin formula with a 5% margin of error. The analysis focused on four variables: non-physical work environment, organizational culture, work motivation, and employee performance. In the research model, non-physical work environment and organizational culture were treated as exogenous variables, work motivation as the mediating variable, and employee performance as the endogenous variable. Data were collected through questionnaires distributed to LPD employees and analyzed using SEM-PLS with SmartPLS 4.1.

In terms of respondent characteristics, the sample was relatively balanced by gender, consisting of 123 men (52.6%) and 111 women (47.4%). Most respondents had completed senior high school or vocational education (45.7%), followed by undergraduate education (37.6%). The age profile was dominated by employees aged 51–60 years (30.3%) and 41–50 years (26.9%), indicating that many respondents were in mature working-age groups. In terms of tenure, the largest proportion had worked for 1–10 years (39.3%), followed by 11–20 years (23.1%). Overall, these characteristics suggest that the respondents represent a workforce with a mix of long-standing institutional experience and ongoing employee regeneration, providing a relevant basis for analyzing the relationship between organizational conditions, work motivation, and employee performance in the LPD setting.

Descriptive Statistics of the Research Variables

Descriptive statistics were used to summarize employees' perceptions of the research variables based on their responses to the questionnaire items. The interpretation of mean scores followed a five-point scale, where higher values indicate more favorable perceptions of the non-physical work environment and organizational culture, as well as higher levels of work motivation and employee performance. Overall, the descriptive results show that the respondents tended to evaluate the organizational

conditions in Denpasar LPDs positively, with all variables falling within the good or high category.

The non-physical work environment obtained an average score of 3.49, indicating that employees generally perceived their social and psychological work environment as supportive. Positive relations with co-workers emerged as the strongest aspect, while feelings of safety and freedom from pressure received comparatively lower ratings. This pattern suggests that interpersonal relations were relatively well maintained, although some employees still experienced limitations in psychological comfort and workplace security.

The organizational culture variable recorded the highest overall mean among the exogenous variables, with a score of 3.62, categorized as good. Collaboration with team members was the most positively perceived dimension, indicating that teamwork was a prominent cultural characteristic within the LPDs. By contrast, attention to small details received the lowest score within this variable, suggesting that although the culture was generally constructive, consistency in carefulness and detail-oriented behavior was not equally strong across respondents.

For work motivation, the mean score reached 3.49, placing it in the high category. Employees most strongly agreed that they were involved by supervisors in decision-making, which indicates that participation and managerial inclusion were meaningful motivational drivers. However, the lowest score was found for rewards as a source of motivation, implying that formal appreciation and reward mechanisms may not yet be perceived as fully effective in strengthening employee motivation.

The highest overall mean was found for employee performance, which scored 3.59 and was categorized as high. The strongest performance dimension was the ability to cooperate with colleagues in completing work, showing that teamwork was a key strength of LPD employees. In contrast, the ability to complete a large volume of work received the lowest rating, followed by timeliness-related items in the full descriptive table. This indicates that although employee performance was generally strong, workload capacity and speed of task completion remained areas requiring attention.

Taken together, the descriptive findings indicate that employees of Village Credit Institutions in Denpasar generally perceived their work environment and organizational culture positively and reported relatively high levels of motivation and performance. At the same time, the item-level patterns show that several aspects particularly psychological comfort, attention to detail, recognition, workload capacity, and timeliness were not as strong as other dimensions. These results provide an initial picture of the organizational context in which employee motivation and performance are formed and offer a useful basis for the subsequent structural analysis.

Table 1. Descriptive Summary of Research Variables

Variable	Mean	Catagory	Highest-Rated Indicator	Mean	Lowest-Rated Indicator	Mean
Non-physical work environment	3.49	Good	Good relationships with co-workers	3.69	Feeling safe and free from pressure at work	3.34
Organizational culture	3.62	Good	Collaboration with team members	3.85	Attention to small details in the workplace	3.40
Work motivation	3.49	High	Involvement in decision-making by supervisors	3.61	Rewards as a source of motivation	3.38
Employee performance	3.59	High	Ability to cooperate with other employees	3.99	Ability to complete a large amount of work	3.33

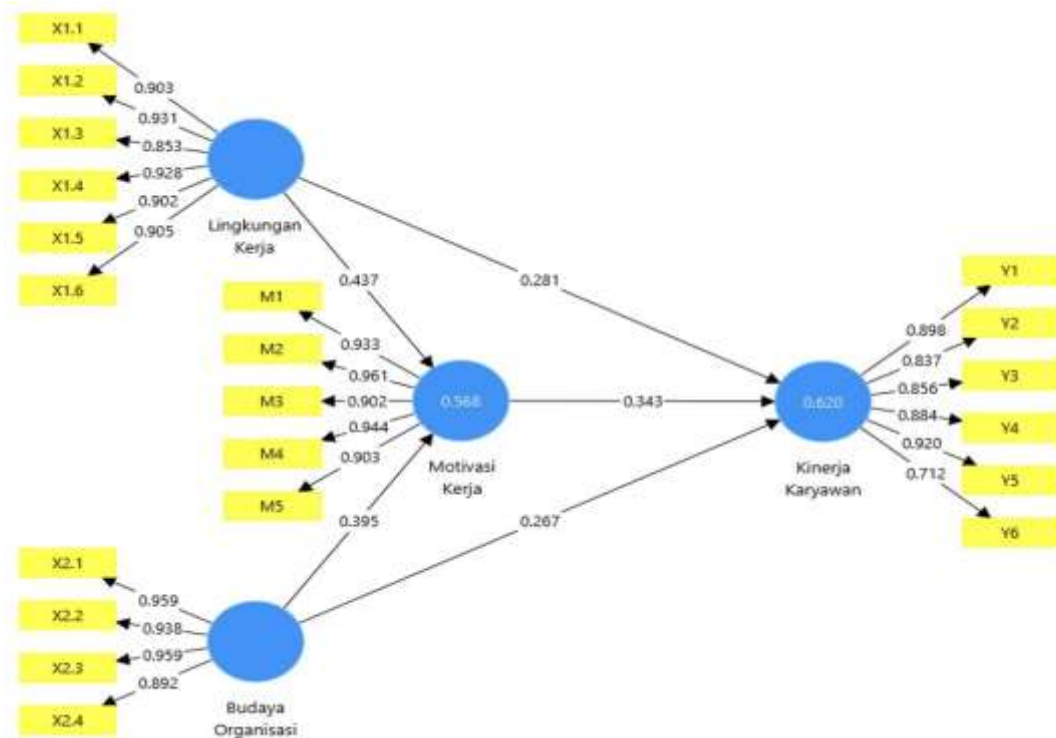
Source: Processed data, 2026

Inferential Analysis Based on the PLS-SEM Approach

Relationships among the latent constructs were examined through a variance-based structural equation modeling approach implemented in SmartPLS 4.1. The analytical procedure consisted of evaluating the measurement properties of the constructs before estimating the structural relationships proposed in the research framework. Figure 1 illustrates the estimated research model.

The quality assessment confirmed that every construct satisfied the recommended psychometric criteria. Indicator loadings ranged from 0.712 to 0.961, exceeding the accepted minimum value of 0.70, which indicates satisfactory indicator representation. Convergent validity was evidenced by AVE values above 0.50 for all constructs. Construct distinctiveness was also supported because the HTMT ratios remained below 0.90, while cross-loading comparisons showed that each indicator loaded more strongly on its intended construct than on the others. Reliability assessment produced Composite Reliability coefficients between 0.941 and 0.969, together with Cronbach's Alpha values ranging from 0.924 to 0.960, confirming a high level of internal consistency.

Figure 1. Results of the PLS-SEM Algorithm



Source: Processed data, 2026

The endogenous constructs demonstrated acceptable explanatory power. The coefficient of determination ($R^2 = 0.568$) indicates that differences in work motivation were explained by the combined contribution of the non-physical work environment and organizational culture. Likewise, the predictors included in the model accounted for 62.0% ($R^2 = 0.620$) of the variation in employee performance. Moreover, the Q^2 statistic of 0.836 suggests that the proposed model possesses strong predictive capability for the observed data.

Estimated structural coefficients consistently revealed positive associations among the study variables. The non-physical work environment contributed positively to work motivation ($\beta = 0.437$) and employee performance ($\beta = 0.281$). Likewise, organizational culture showed favorable effects on work motivation ($\beta = 0.395$) and employee performance ($\beta = 0.267$). Work motivation also displayed a positive contribution to employee performance ($\beta = 0.343$). Collectively, these findings indicate that the proposed measurement model fulfills the required validity and reliability standards, whereas the structural model provides sufficient explanatory and predictive capacity to support subsequent hypothesis testing and mediation analysis.

Table 2. Summary of PLS-SEM Model Evaluation

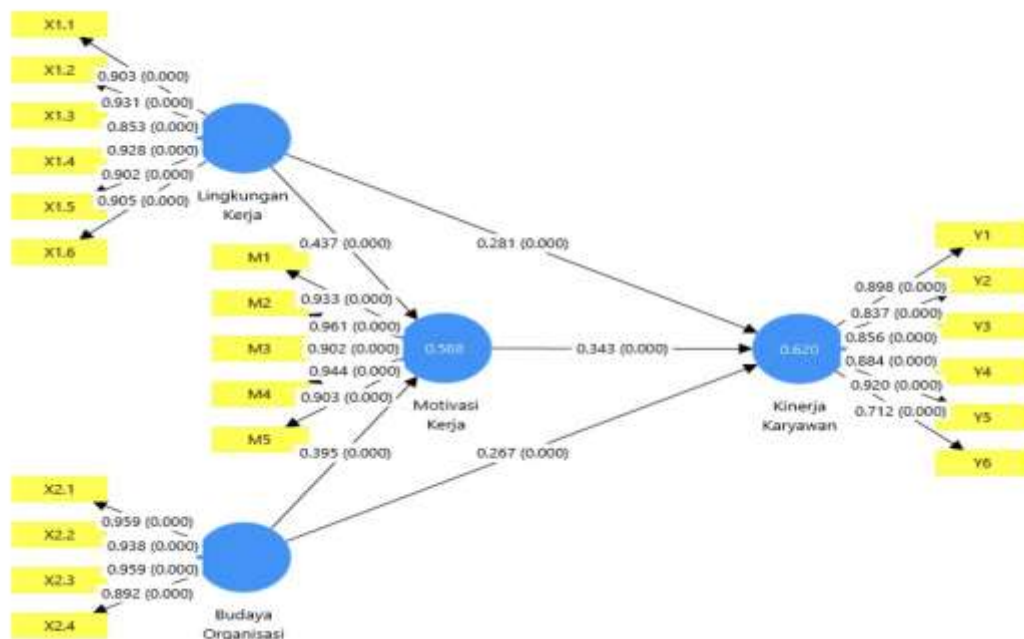
Evaluation	Results	Interpretation
Outer Loadings	0.712–0.961	All indicators are valid
AVE	0.729–0.879	Convergent validity achieved
HTMT	< 0.90	Discriminant validity achieved
Composite Reliability	0.941–0.969	High reliability
Cronbach's Alpha	0.924–0.960	High internal consistency
R ² (Work Motivation)	0.568	Strong explanatory power
R ² (Employee Performance)	0.620	Strong explanatory power
Q ² Predictive Relevance	0.836	Strong predictive relevance

Source: Processed data, 2026

Structural Path Evaluation

The proposed structural relationships were examined through a bootstrapping resampling procedure implemented in SmartPLS 4.1. Statistical support for each hypothesis was determined using the conventional significance criteria of $t > 1.96$ and $p < 0.05$. The estimated structural paths are illustrated in Figure 2, whereas the numerical results are summarized in Table 3.

Figure 2. Bootstrapping Results of the Structural Model



Source: Processed data, 2026

The statistical evaluation confirmed support for all seven hypotheses. Among the direct effects, the relationship between the non-physical work environment and work motivation produced the largest standardized coefficient ($\beta = 0.437$; $t = 7.582$; $p < 0.001$). The association between organizational culture and work motivation also reached a high level of statistical significance ($\beta = 0.395$; $t = 7.003$; $p < 0.001$). These findings indicate that improvements in organizational conditions are accompanied by stronger employee motivation.

The remaining structural paths also produced significant positive coefficients. The non-physical work environment contributed directly to employee performance ($\beta = 0.281$; $t = 5.616$; $p < 0.001$), while organizational culture demonstrated a comparable positive influence ($\beta = 0.267$; $t = 3.947$; $p < 0.001$). In addition, work motivation exhibited a significant contribution to employee performance ($\beta = 0.343$; $t = 5.445$; $p < 0.001$), indicating that employees with higher motivational levels tend to achieve better work outcomes.

Table 3. Structural Path Estimates and Significance Assessment

Hypothesis	Structural Path	Path Coefficient (β)	t-value	p-value	Decision
H1	Non-Physical Work Environment → Work Motivation	0.437	7.582	0.000	Supported
H2	Organizational Culture → Work Motivation	0.395	7.003	0.000	Supported
H3	Non-Physical Work Environment → Employee Performance	0.281	5.616	0.000	Supported
H4	Organizational Culture → Employee Performance	0.267	3.947	0.000	Supported
H5	Work Motivation → Employee Performance	0.343	5.445	0.000	Supported
H6	Non-Physical Work Environment → Work Motivation → Employee Performance	0.150	4.238	0.000	Supported
H7	Organizational Culture → Work Motivation → Employee Performance	0.135	4.622	0.000	Supported

Source: Processed data, 2026

Indirect-effect estimation further demonstrated that work motivation transmitted the influence of both organizational antecedents to employee

performance. The indirect effect of the non-physical work environment through work motivation was significant ($\beta = 0.150$; $t = 4.238$; $p < 0.001$), as was the indirect effect of organizational culture ($\beta = 0.135$; $t = 4.622$; $p < 0.001$). Because the corresponding direct effects remained statistically significant, work motivation can be interpreted as a complementary partial mediator in both structural relationships. Accordingly, organizational conditions improve employee performance not only through direct organizational influences but also by reinforcing employees' motivational capacity.

Discussion

The present study provides empirical evidence that employee performance in Village Credit Institutions (LPDs) is shaped by the interaction between organizational conditions and employees' psychological responses. The findings demonstrate that the non-physical work environment and organizational culture not only exert direct effects on employee performance but also strengthen work motivation, which subsequently contributes to higher performance. These results suggest that organizational effectiveness in community-based financial institutions cannot be explained solely by structural arrangements or operational procedures. Instead, employee behavior is influenced by a combination of organizational support, shared organizational values, and individual motivation. Such evidence reinforces the importance of integrating organizational and psychological perspectives in understanding employee performance within indigenous financial institutions.

The first major finding indicates that a supportive non-physical work environment significantly enhances employees' work motivation. Unlike physical facilities, the non-physical work environment reflects interpersonal relationships, communication quality, supervisory support, and psychological safety. Employees who perceive these conditions positively are more likely to develop stronger enthusiasm for accomplishing organizational goals. This finding supports Social Exchange Theory, which argues that employees respond reciprocally to favorable organizational treatment (Blau, 1964). When organizations create respectful relationships, open communication, and supportive supervision, employees perceive these practices as organizational investments in their well-being and respond through greater motivation.

The present finding is consistent with previous studies reporting that supportive workplace environments encourage stronger employee motivation (Aboramadan & Kundi, 2020; Kim et al., 2020). However, the contribution of this study lies in extending these findings to Village Credit Institutions, which differ substantially from conventional financial organizations. LPD employees perform financial responsibilities while simultaneously maintaining social legitimacy within customary village communities. Consequently, interpersonal trust and psychological support become particularly important because employees operate in an environment where professional obligations and community expectations coexist.

Organizational culture also emerged as a significant determinant of work motivation. Employees who perceived stronger organizational values, collaboration, and shared commitment reported higher motivational levels. Organizational culture provides behavioral guidance that enables employees to understand organizational expectations while strengthening their sense of belonging. Rather than functioning merely as formal organizational norms, culture becomes a psychological resource that gives meaning to employees' daily activities.

This finding further supports Social Exchange Theory because organizational culture represents an intangible form of organizational support (Cropanzano & Mitchell, 2005). Employees who experience fairness, cooperation, and mutual trust are more likely to reciprocate through stronger motivation and organizational commitment. The finding is also consistent with Hartnell et al. (2011) and Paais & Pattiruhu (2020), who concluded that collaborative organizational cultures encourage employee engagement and motivational behavior. Within the LPD context, these relationships become more meaningful because organizational values are reinforced by the social norms of Balinese customary villages. In the LPD context, the principles of Tri Hita Karana strengthen the interpretation of organizational culture. The value of parahyangan reflects integrity and moral responsibility, pawongan reflects cooperation and harmonious relationships, while palemahan reflects concern for the work environment and institutional sustainability. These values help explain why organizational culture becomes an important motivational resource for employees in Village Credit Institutions.

The findings further demonstrate that both the non-physical work environment and organizational culture directly improve employee performance. Employees who experience supportive interpersonal relationships, effective communication, and shared organizational values tend to perform their duties more effectively, cooperate better with colleagues, and maintain higher service quality. These results indicate that organizational conditions reduce psychological barriers that often interfere with work performance while simultaneously encouraging stronger responsibility and accountability.

These findings are consistent with previous research demonstrating that favorable workplace environments improve employee performance by strengthening work engagement and reducing psychological strain (Ángeles López-Cabarcos et al., 2022; Zhenjing et al., 2022). Likewise, earlier studies have shown that organizational culture enhances employee effectiveness by encouraging commitment, discipline, and collaborative behavior (Cherian et al., 2021; Ferine et al., 2021). Nevertheless, this study contributes additional evidence from a community-based financial institution operating within a customary governance system, where employee performance is evaluated not only through operational achievements but also through the ability to maintain public trust and institutional legitimacy.

Taken together, these findings indicate that organizational conditions function as strategic resources for improving employee performance. The non-physical work environment primarily strengthens interpersonal relationships and psychological comfort, whereas organizational culture provides shared behavioral expectations that guide employee actions. Both factors complement each other in creating an organizational climate that encourages employees to contribute beyond formal job requirements. Consequently, strengthening organizational support should be viewed not merely as an administrative initiative but as a long-term investment in employee capability and institutional sustainability.

Another important finding of this study is that work motivation significantly improves employee performance, confirming its role as a key psychological mechanism through which organizational conditions are translated into productive work behavior. Employees with stronger motivation are more likely to perform their responsibilities accurately, complete assigned tasks efficiently, and maintain consistent service quality. Within Village Credit Institutions (LPDs), motivation becomes particularly important because employees are expected not only to achieve operational targets but also to safeguard public funds and preserve the confidence of customary village communities. Consequently, employee performance depends not only on technical competence but also on the willingness to exert sustained effort in fulfilling organizational responsibilities.

This finding supports Social Exchange Theory (Blau, 1964), which argues that employees reciprocate favorable organizational treatment through positive attitudes and behaviors. It also aligns with Self-Determination Theory, which emphasizes that employees perform better when their needs for autonomy, competence, and relatedness are fulfilled (Gagné & Deci, 2005). In the present study, supportive communication, participation in decision-making, and organizational recognition appear to strengthen employees' intrinsic motivation, which subsequently contributes to higher performance. These results are consistent with previous studies demonstrating that motivation is one of the strongest predictors of employee performance across different organizational contexts (Boon et al., 2021; Kanfer et al., 2017). However, this study extends existing evidence by confirming that the same motivational mechanism also applies to community-based financial institutions operating within customary governance systems.

A major contribution of this research lies in demonstrating the mediating role of work motivation. The findings reveal that work motivation significantly mediates the relationships between the non-physical work environment and employee performance, as well as between organizational culture and employee performance. Because both the direct and indirect effects remain significant, work motivation functions as a complementary partial mediator (Hair et al., 2022). This result indicates that organizational conditions influence employee performance through two

interconnected pathways. They directly facilitate employees' ability to perform their work while simultaneously strengthening the internal motivation that encourages employees to utilize their capabilities more effectively.

The mediation results provide a deeper explanation of how organizational support affects employee behavior. Improvements in communication quality, psychological safety, and collaborative relationships do not automatically lead to higher performance unless employees perceive these conditions as meaningful organizational support. Likewise, organizational values become effective only when they encourage employees to identify with organizational goals and develop stronger work commitment. Therefore, motivation serves as the psychological bridge connecting organizational practices with employee performance. This finding reinforces the argument of Social Exchange Theory that reciprocal relationships between employees and organizations operate primarily through employees' psychological evaluations of organizational support rather than through formal organizational control alone (Cropanzano & Mitchell, 2005).

Compared with previous studies, this research offers several important contributions. Earlier investigations have generally confirmed that organizational climate, organizational culture, and motivation influence employee performance. Nevertheless, most empirical evidence has been derived from private companies, manufacturing firms, hospitality organizations, or commercial financial institutions. Research focusing on Village Credit Institutions, which combine financial services with customary governance and community accountability, remains relatively limited. By examining these relationships within LPDs, this study broadens the applicability of organizational behavior and human resource management theories to indigenous financial institutions. The findings suggest that organizational support and employee motivation remain fundamental determinants of performance even when organizations operate within distinctive cultural and institutional environments.

The study also contributes theoretically by integrating organizational and psychological perspectives into a single explanatory framework. Rather than treating organizational resources and employee motivation as separate determinants of performance, the proposed model demonstrates that these factors are closely interconnected. A supportive non-physical work environment and a constructive organizational culture create conditions that strengthen employees' motivation, which subsequently enhances performance. This integrated perspective provides a more comprehensive explanation of employee behavior and supports contemporary human resource management literature emphasizing the interaction between organizational context and individual psychological processes.

From a managerial perspective, the findings offer practical implications for leaders of Village Credit Institutions. Improving employee performance should not rely exclusively on supervision or financial incentives. Managers should prioritize the

development of a supportive organizational climate characterized by open communication, mutual respect, psychological safety, and effective teamwork. Organizational culture should also be strengthened through consistent leadership behavior that promotes integrity, accountability, collaboration, and service orientation. At the individual level, employees' motivation can be reinforced by increasing participation in decision-making, providing fair recognition, offering career development opportunities, and facilitating continuous professional learning. Together, these initiatives can improve both employee performance and institutional sustainability.

Despite these contributions, several limitations should be acknowledged. First, the cross-sectional design limits the ability to establish causal relationships over time. Second, the study focused exclusively on LPDs in Denpasar City, which may restrict the generalizability of the findings to other regions or financial institutions with different organizational characteristics. Third, the research relied on self-reported questionnaire data, which may be influenced by respondents' subjective perceptions despite the satisfactory validity and reliability of the measurement model.

Future research could address these limitations by adopting longitudinal designs to examine changes in motivation and performance over time. Comparative studies involving LPDs from different districts or other community-based financial institutions would also strengthen external validity. In addition, future models could incorporate variables such as transformational leadership, perceived organizational support, employee engagement, organizational commitment, or psychological empowerment to provide a broader understanding of employee performance in community-based financial organizations.

Overall, this study demonstrates that employee performance in Village Credit Institutions is not determined solely by organizational systems or individual capability. Instead, performance emerges from the interaction between supportive organizational conditions and employees' motivational responses. By confirming the complementary mediating role of work motivation, the study provides a more comprehensive explanation of employee performance while extending the application of Social Exchange Theory to community-based financial institutions. These findings contribute to both human resource management theory and organizational practice by highlighting that sustainable organizational performance depends on strengthening the quality of organizational relationships as well as employees' internal motivation.

CONCLUSION

The empirical evidence indicates that differences in employee performance across Village Credit Institutions are associated with organizational and motivational factors rather than with individual capability alone. A supportive non-physical work environment and a well-established organizational culture were found to improve

employee performance directly while simultaneously strengthening employees' work motivation. The mediation analysis further reveals that work motivation functions as a complementary partial mediator, indicating that favorable organizational conditions contribute to better performance both independently and by encouraging employees to become more committed and engaged in their work. These findings enrich the application of Social Exchange Theory by illustrating that reciprocal exchanges within customary village-based financial institutions are reinforced through employees' motivational responses. They also contribute to the human resource management literature by providing evidence from Village Credit Institutions, which operate within a unique institutional environment characterized by financial responsibility, customary governance, and strong community relationships.

The findings imply that sustainable employee performance cannot be achieved solely through administrative supervision or monetary rewards. Managers should prioritize interpersonal communication, psychological safety, collaborative teamwork, and leadership practices that reinforce shared organizational values, because these organizational resources strengthen employees' motivation and ultimately support better service quality and operational reliability. Although the study offers meaningful theoretical and managerial insights, its conclusions are derived from a cross-sectional survey conducted only in Village Credit Institutions located in Denpasar City. Subsequent research could strengthen the generalizability of these findings by adopting longitudinal or comparative designs and by incorporating additional organizational or behavioral variables, such as leadership style, employee engagement, organizational commitment, or perceived organizational support, to obtain a broader understanding of performance development in community-based financial institutions.

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