

# Critical Sustainability Insights in Indonesian Village-Owned Enterprises

Satria Tri Nanda<sup>1,3</sup>, Razana Juhaida Johari<sup>2\*</sup> and Zuraidah Mohd Sanusi<sup>1</sup>

<sup>1</sup>*Accounting Research Institute, Universiti Teknologi MARA, Shah Alam Selangor, Malaysia*

<sup>2</sup>*Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia*

<sup>3</sup>*Fakultas Ekonomi dan Bisnis, Universitas Lancang Kuning, Pekanbaru, Indonesia*

## ABSTRACT

The unsustainable performance of Village-Owned Enterprises (VOEs) in Indonesia has emerged as a critical issue requiring immediate resolution. Many VOEs in Indonesia struggle to sustain their performance, necessitating an understanding of the underlying causes. This qualitative study utilized interviews with government officials at both ministry and village levels to identify root problems, along with a literature review to support deeper analysis. Based on these interviews and literature review, three main causes of unsustainable performance of VOE in Indonesia were identified: lack of leadership, lack of innovation, and lack of governance. This article addressed gaps in the sustainability literature for social organizations by adopting a comprehensive approach involving government, practitioners, and academics to examine barriers to the sustainability of VOEs in Indonesia.

**Keywords:** Sustainable Performance, Leadership, Innovation, Governance, Village Owned Enterprises

---

### ARTICLE INFO

#### Article History:

*Received: 11 January 2024*

*Accepted: 16 April 2024*

*Available online: 1 April 2025*

---

\* Corresponding Author: Razana Juhaida Johari; Faculty of Accountancy, Universiti Teknologi Mara, Shah Alam, Selangor, Malaysia; Email: razana@uitm.edu.my; Tel: +60 19-980 9803

## INTRODUCTION

Village Owned Enterprises (VOEs) have risen to prominence as pivotal actors in reshaping Indonesia's economic landscape. These enterprises, deeply entrenched within local communities, wield the potential to serve as agents of sustainable development, elevate livelihoods, and cultivate economic self-sufficiency at the grassroots level. As catalyzers of progress, VOEs not only bolster rural economies but also forge paths toward inclusive growth and equitable resource distribution (Arifin et al., 2020; Sari et al., 2022; Yaya et al., 2022). Recognizing the significance of VOEs within the broader framework of emerging economies offers profound insights into the intricacies of community-driven entrepreneurship and their multifaceted impact, spanning both local and national dimensions. VOEs is the concept of harnessing local resources and expertise to generate economic value while addressing societal needs (Kania et al., 2021; Rahayu et al., 2023; Yaya et al., 2022). Operating across diverse sectors encompassing agriculture, handicrafts, services, and technology, they mirror the diverse aspirations and capabilities of their communities.

Rooted in tradition and cultural heritage, VOEs draw upon indigenous knowledge and sustainable practices, enriching the socio-economic tapestry of their regions. Yet, within the context of developing economies, rural areas frequently grapple with challenges such as inadequate infrastructure, limited educational access, and constrained market reach. In Indonesia, VOEs play an indispensable role in confronting these challenges by reinvesting resources within local communities, invigorating economic activity, creating job opportunities, and curtailing rural-to-urban migration (Yaya et al., 2022). However, a disconcerting reality surfaces as 12,040 out of the 57,226 established VOEs lie dormant, with 35% struggling to sustain performance (Sari et al., 2021). This stark revelation underscores the imperative of ensuring the sustainable performance of VOEs to fulfil the government's vision of fostering economic autonomy in served villages.

Within the contemporary realms of business and governance, the dynamic interplay between leadership, innovation, and governance has emerged as a pivotal determinant in shaping organizational sustainability performance. This phenomenon assumes profound significance for VOEs, which wield substantial influence over local economies and community

development in Indonesia. As these enterprises navigate the intricacies of modern challenges, comprehending how leadership, innovation, and governance practices collectively shape their sustainability performance becomes imperative. While the sustainability performance of various organizational types has been extensively scrutinized by researchers (Bezerra et al., 2021; Broccardo et al., 2023; Elshaer et al., 2023), it remains relatively under-explored, especially in the context of VOEs in Indonesia (Khan et al., 2021). VOEs with robust sustainability practices are adept at managing village assets and fostering community benefits through social business units, thus presenting a compelling avenue for further exploration. Hence, VOEs indisputably assume a critical role in bolstering village economies.

VOEs with robust sustainability practices demonstrate their ability to effectively manage village assets and promote community well-being through social business units. This presents an enticing avenue for deeper investigation, as VOEs undeniably play a pivotal role in fortifying village economies. Operating within distinct socio-economic and cultural environments, VOEs often adopt unconventional leadership, innovation, and governance approaches (Sari et al., 2022; Tortia et al., 2020; Yang & Yang, 2019). Consequently, the primary objective of this study was to comprehensively explore how these distinctive practices collectively influence the sustainability of VOEs. Through a rigorous qualitative analysis, we aimed to gain a holistic understanding of the contextual factors, challenges, and opportunities that shape the sustainability outcomes of these enterprises.

The contribution of this study lies in its identification of leadership, innovation, and governance as key factors contributing to the unsustainable performance of VOEs in Indonesia. By exploring the unique practices of VOEs, the research enriches our understanding of how these enterprises can thrive and make significant contributions to local economies. Furthermore, the findings of this study have practical implications for policymakers, practitioners, and academics. By uncovering effective leadership, innovation, and governance strategies tailored to the specific challenges faced by VOEs, this research offers valuable insights that can inform the development of sustainable business practices in similar socio-economic and cultural settings. The following sections will discuss the conceptual

framework, research methodology, analysis of the findings, and conclude by discussing the implications of this study.

## LITERATURE REVIEW

### Development of Social Enterprises

Over recent decades, scholarly interest in social organizations, often referred to as ‘social entrepreneurship’ and ‘social enterprises’ (Ahmad & Bajwa, 2023), has grown substantially. These entities are distinguished by their ability to independently address societal issues without relying on external grants (Ahmad & Bajwa, 2023; Bagnoli & Megali, 2011; Sari et al., 2021; Yu, 2013). Their unique characteristic lies in the dual performance mandate they pursue, combining financial and social dimensions (Arena et al., 2015). The emergence of these organizations has offered governments worldwide a valuable solution to complex social problems (Cheah et al., 2019; Khan et al., 2018; Poledrini & Tortia, 2020). Research in this field explored the intricate dynamics of social entrepreneurship and enterprises, with a particular emphasis on the interplay between financial and social dimensions, which significantly influences performance sustainability (Rehman & Iqbal, 2020; Zhang et al., 2022).

Globally, the formation of social enterprises is influenced by unique founding goals aligned with specific country problems and needs (Johari et al., 2020). Consequently, the nature of these organizations varies, resulting in diverse approaches to evaluating their performance (Son et al., 2018). Previous research has explored various performance measurement methods, including balanced scorecards, Social Return on Investment (SROI), and customized indicators (Beer et al., 2022; Chenhall & Langfield-Smith, 2007; Chmelik et al., 2016; Lee & Moon, 2008; Mamabolo & Myres, 2020). While measurement methodologies differ, the ultimate goal remains consistent – ensuring the sustained performance of social enterprises (Arena et al., 2015; Bagnoli & Megali, 2011; Sari et al., 2021).

## **Comprehensive Perspective on Performance Sustainability**

While traditional business models often focus on augmenting market share, nurturing a robust customer base, and maximizing investment returns (Eltayeb et al., 2011; Mokbel Al Koliby et al., 2022), a more comprehensive perspective mandates the integration of both financial and social dimensions (Rehman & Iqbal, 2020; Zhang et al., 2022). This holistic outlook recognizes that sustainable performance involves a complex interplay between social and economic facets within an organization (Koliby et al., 2022). This interdependence not only cultivates strong stakeholder relationships but also weaves organizations into the fabric of communities, collectively shaping their sustainability (Koliby et al., 2022).

The dynamics of performance sustainability markedly diverge between traditional business models and social organizations. While traditional businesses may primarily focus on financial gains, social organizations must balance both economic and social dimensions of performance. This contrast underscores the need to identify strategies that bridge this divide, contributing to a broader discussion on organizational sustainability and societal impact (Eltayeb et al., 2011; Koliby et al., 2022). This evolving exploration encourages critical reflections, inviting scholars to delve deeper into the interplay of economic and social factors and their collective influence on organizational sustainability and societal significance.

## **Sustainability in the Context of Village Owned Enterprises (VOEs)**

Within the context of social organizations, VOEs in Indonesia occupy a unique landscape. These entities operate within the dual performance dimensions of economic and social (Johari et al., 2020; Sari et al., 2021). Here, financial achievements and social progress are intrinsically linked – one cannot thrive without the other (Arena et al., 2015; Powell et al., 2019). This interdependence necessitates that VOEs adeptly navigate the intersection of these dimensions to achieve sustained success. However, it is notable that the existing body of research delving into performance sustainability within social enterprises remains relatively limited (Khan et al., 2021). This gap underscores the intricacy of measuring performance sustainability within these multifaceted entities, particularly the unique

challenge of balancing positive outcomes across both economic and social spheres. Inspired by foundational work by Piwowar-Sulej and Iqbal (2023), the sustainability of social organizations' performance hinges on the tangible and observable outcomes they generate. Importantly, in the realm of business organizations, social and economic sustainability tends to complement financial success rather than stand on its own.

In the Indonesian context, the VOEs emerge as a commercial entity designed meticulously to uplift the welfare of local communities through the efficient management and leverage of existing village assets (Arifn et al., 2020; Sari et al., 2022). Regulatory frameworks, such as the "Ministerial Regulation of Village, Development of Disadvantaged Regions Regulation and Transmigration No. 4 Year 2015" and "Government Regulation No. 11 Year 2021," firmly endorse the classification of VOEs as social enterprises. In contrast to State-Owned Enterprises and Regional Government-Owned Enterprises in Indonesia, which prioritize profit generation, VOEs are established with a core focus on enhancing local well-being and fostering collective cooperation (Yaya et al., 2022). This community-centric development ethos solidifies the characterization of VOEs as social enterprises.

Previous research has examined various factors influencing sustainable performance across diverse organizations (Borah et al., 2022; Brofman Epelbaum & Martinez, 2014; Rathore et al., 2020). These investigations have explored factors influencing performance sustainability, including leadership types (Khaw et al., 2022; Nasfi et al., 2023; Piwowar-Sulej & Iqbal, 2023), innovation (Koliby et al., 2022; Kuhl et al., 2016; Zhang et al., 2022), and good governance (Niesten et al., 2017; Rahim et al., 2022), among others. However, prior research has primarily focused on VOE managers through case studies and surveys (Gandhiadi, 2021; Hendriani et al., 2019; Sari et al., 2021), leaving a significant knowledge gap in terms of perspectives from central government regulators and provincial -local government level. These entities possess comprehensive insights into VOE intricacies (Sari et al., 2021) and can provide a holistic understanding of the complex interactions among stakeholders, regulators, and local communities in shaping VOE sustainability. Consequently, this study aimed to address this gap and advance our understanding of the sustainability of VOE performance in Indonesia.

## METHODOLOGY

Our study adopted a qualitative approach, specifically using a phenomenological framework, chosen for its ability to delve deeply into the complex real-world contexts surrounding VOEs. The qualitative approach allowed us to capture insights effectively, shedding light on the intricacies of regulatory viewpoints. Our primary data collection method consisted of semi-structured interviews, a well-suited approach to explore the rich experiences and perceptions of our participants. We carefully selected our participants, focusing on regulatory experts with direct involvement in Indonesian VOEs. These individuals were chosen with utmost consideration for ethical principles, including the protection of anonymity and obtaining informed consent. This ensured the ethical integrity of our study and fostered an open and candid exchange of perspectives during the interviews.

The researcher had a list of questions, but during the interview session the questions can develop according to the direction of the discussion. All conversations that occurred during the interview were recorded and used as a transcript of the interview results. To carry out the interviews, a letter of willingness to interview was sent to the key informants via e-mail and private message. After receiving confirmation from the key informants, a place and time for the interview was determined. The questions asked led to the problem of the sustainability of VOE's performance that occurred in Indonesia. The list of informants is presented in the Table 1.

**Table 1: List of Respondents**

No	Name	Role	Institution	Location	How	Length (mins.)	Language
1	Person 1	Head of Division	Ministry of Village, Development of Disadvantaged Regions and Transmigration	Jakarta	Face to face	45	Bahasa Indonesia
2	Person 2	Secretary of Division	Ministry of Village, Development of Disadvantaged Regions and Transmigration	Jakarta	Face to face	45	Bahasa Indonesia

3	Person 3	Head of Division	Office of Community Empowerment, Village Affairs, and Civil Registration of Riau Province	Pekanbaru	Face to face	75	Bahasa Indonesia
4	Person 4	Head of Sub Division	Office of Community Empowerment, Village Affairs, and Civil Registration of Central Java	Semarang	Face to face	75	Bahasa Indonesia
5	Person 5	Staff	Office of Community Empowerment, Village Affairs, and Civil Registration of Central Java	Semarang	Face to face	75	Bahasa Indonesia
6	Person 6	Staff	Office of Community Empowerment, Village Affairs, and Civil Registration of Central Java	Semarang	Face to face	75	Bahasa Indonesia
7	Person 7	Staff	Office of Community Empowerment, Village Affairs, and Civil Registration of Central Java	Semarang	Face to face	75	Bahasa Indonesia
8	Person 8	Academics/ Expert	Universitas Lancang Kuning/ head of "Forum BUM Desa Riau".	Pekanbaru	Face to face	50	Bahasa Indonesia

For the systematic analysis of our qualitative data, we employed thematic coding techniques. Drawing inspiration from established methodologies (Junaidi et al., 2019; Ryan & Bernard, 2003), we were engaged in rigorous data reduction, categorization, and pattern identification. This process allowed us to distil the core themes and patterns that emerged from the interviews, providing a comprehensive understanding of the regulatory perspectives on sustainability of VOs. Furthermore, to enhance the credibility and robustness of our findings, we applied a data triangulation

approach. This involved cross-referencing information obtained from multiple respondents, ensuring the validity, consistency, and reliability of our results. By triangulating data from various regulatory experts, we reduced the potential for bias and strengthened the overall trustworthiness of our study.

## RESULTS

Almost all key informants stated that the characteristics of leadership were the cause of delays in the sustainability of VOEs performance. The main difference that was often seen was the difference in vision and mission between the village head and the VOEs director. This difference in vision and mission can occur in VOEs that have just been established or in those that were already in the advanced category.

*[..] “When we talk about the existence of VOE in the village, what often becomes a problem is the disagreement between the village head and the VOE director in running the VOE business”.*

Another key informant said (person 5),

*[..] “In our work area, there is a VOE that is advanced and has many assets, but when the director changes, the VOE performance is low. According to the information we got, the director and the village head didn't get along because each had their own thoughts about VOE” (Person 5).*

Differences in vision and mission were also conveyed by key informant 8:

*[..] “Often when I gave training materials to the VOE director, participants often complained about the village head's unwillingness to develop VOE, even though they as directors had explained the potentials that could be explored in order to produce profit.”.*

In addition to differences in vision and mission, we also found that differences in perceptions between village heads regarding operational

practices of VOEs management which were obstacles to the development of VOEs. One of them (person 7) was related to the salary of VOEs directors.

*[..] “Village heads often think that VOE is a social organization, so yes, the director is not paid. The director can get a salary if the VOE makes a profit, if there is a loss, there is no salary for the director”.*

The informant 4 also argued,

*[..] “According to our experience in fostering VOE, it is very difficult to convince the village head to provide adequate capital so that VOE can operate. The village head thinks that VOE will have no impact, will not be able to develop in their village, and will only spend village money. So, they only set up VOE as a condition to comply with regulatory demands”.*

One of the other key informant (person 8) argued,

*[..] “Sometimes I also hear complaints that it often happens when VOE has started to grow that the old director is suddenly replaced by a new director who has never been involved in VOE operations before. Not a few also underperformed when the director was replaced”.*

Overall, it was concluded that there were frequent disputes between the village head and the VOEs director in several aspects. Starting from (1) differences in vision and mission between the village head and the VOEs director and (2) inappropriate operational practices.

In addition to these findings, we learned more about the innovations that have been carried out by VOEs. We found that most VOEs failed to find innovative products or services that could be implemented. Failure to innovate that has been experienced by VOEs that were just established and in the pilot category.

*[..] “Learn from our experience when we went down to the village to see VOE problems. Most of them could not find ideas*

*for developing VOE. This is why most of them only have savings and loan business units. This is because most of the VOE in this village used to be savings and loan businesses in the village; now these businesses are under the auspices of VOE” (Person 6).*

The same thing was conveyed by key informant 3

*[..] “The VOE managers we met often complained about their limitations in developing business units. They tend to open the same businesses as other villages whose products are considered best-selling. One example in District X, when VOE from another village ran a drinking water business and was successful, other villages competed to open the same business. Even though later the market will be saturated because consumers are fighting each other”.*

The inability to innovate was also conveyed by key informant 2.

*[..] “I see VOE managers are not good at finding innovations that can be done. My experience when I trained VOE directors with pilot status was that they only thought of one type of business and could not see many other businesses. In contrast to the VOE directors who have developed, they are very shrewd in seeing opportunities that they can take advantage of to become business units. However, innovation in implementing VOE has actually been observed in the regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration No. 4 of 2015. “If we refer to the applicable regulations, innovation should be carried out in stages by VOE; there should be business development at VOE every year; at least VOE has new business plans to be implemented. However, most VOEs do not do this based on the potential of each village. Most VOEs follow suit by running businesses that are considered successful in other villages, even though each village has different potential and resources”.*

We concluded that VOE’s inability to innovate was also an obstacle to the sustainability of its performance. In essence, innovation in VOEs

is an aspect that must be considered in preparing a VOEs management strategy. This means that innovation plays an important role and that it is an obligation for VOEs management to develop a VOEs management strategy. The ability to innovate is increasingly important because VOEs are required to use local resources owned by the village in its operational processes. Finally, VOEs managers must be able to innovate if the VOEs they manage have to maintain sustainable performance.

Furthermore, there were other noteworthy discoveries uncovered in this study. Good governance guidelines are important for VOEs, considering that VOEs are social organizations with many stakeholders. In addition, performance measurement tools are important for VOEs in evaluating the performance they have achieved. Furthermore, with the existence of a standard performance measurement tool, it will be easier for stakeholders to make decisions related to VOEs. In this regard, informants 1 and 2 argued:

*[..] "Regarding the VOE governance guidelines, at this point in time we do not yet have specific governance guidelines for VOE; the current governance of each VOE is still in the form of the household budgets of each VOE. All the rules related to how VOE operations run are there. But in the future, this VOE can also become a large organization, which will involve many parties in it, so there needs to be guidelines for good governance like in companies in general".*

*[..] "Currently, as a basis for seeing how VOE governance and performance are, we have the VOE ranking that we have done. This ranking is actually intended to determine what treatment is appropriate for each VOE. So later, between the pioneering and advanced VOEs, the training will not be the same"*

The same argument was also conveyed by key informants 8, 2 dan 3.

*[..] "Right now, to assess performance, we can look through the VOE classification. In the classification, there are several items of governance assessment and performance measurement, but henceforth there should be better governance guidelines and performance measurement. Because if VOE goes as expected,*

*VOE will be in the same position as other companies that need governance guidelines and performance measurement”.*

*[..] “Indeed, there are no guidelines for governance and performance measurement; currently, our guideline in providing training, assistance, grants, and other decisions refers to the VOE classification.*

*[..] However, if there is a more complete governance assessment and performance measurement, it will assist us in making a decision on VOE”.*

The same argument was conveyed by key informant 5.

*[..] “Before conducting assistance, training, and providing assistance, we are currently referring to the VOE classification, but if there is a clear measurement of VOE governance and performance, it will be much better, so it will be more precise to provide training and assistance to VOE” (Person 5).*

It can be concluded that, at this time, the VOEs classification was the only tool for determining the performance of the VOEs. There were no specific guidelines or rules for assessing VOEs governance and performance evaluation. Most of the key informants agreed that if the guidelines for governance and performance measurement were made better, the decisions they made would be more appropriate. Governance guidelines will be very useful as guidelines for VOE managers in carrying out operations. Especially for VOE managers who have been categorized as advanced and developing to show their accountability. Because usually VOEs that are already in the advanced and developing category will manage large funds and have a variety of stakeholders. As a result, accountability is needed in the management of VOEs. As with governance, standardized performance measurement will make it easier for VOEs managers to evaluate the performance they have achieved. Standard performance measurement for VOE is also very useful for many parties, such as investors, the government, and donors, in making decisions. Clear performance measurements will provide accurate information for VOEs. The accuracy of decision-making will certainly affect the sustainability of VOEs performance in the future.

The sustainability of VOEs performance is very important to consider. VOEs that have sustainable performance will be able to create economic independence and provide maximum service to the village community. However, as explained in the previous section, there are still many challenges to creating VOEs with sustainable performance. Therefore, a solution is needed to create sustainable VOEs performance. Regarding this issue, key informant 1 argued:

*[..] “As we already know, realizing a VOE that still exists is not an easy thing. It takes the contributions of many parties to realize a VOE that can continue to exist in terms of its sustainable performance. We, as regulators, will continue to strive to make good regulations in order to achieve sustainable VOE performance. We have to fix many things, such as human resources, the village community’s understanding of VOE, guidance in fostering VOE innovation, and clear guidelines for measuring the sustainability of VOE performance. The most important thing now is how to maintain VOE, which has succeeded in achieving good performance, without being affected by political problems in the VOE Village. We can actually arrange this in the standard form of VOE governance, like the one in the company. We in government will continue to try to update regulations related to VOE. At this time, we already have VOE qualification guidelines to determine what assistance is provided. It is possible that in the future we will have more complete regulations”.*

Key informant 2 also argued about the sustainability of VOEs performance.

*“In my opinion, sustainable performance can be achieved if VOE is able to innovate, so VOE should not only have one or two business units. Furthermore, VOE must also create businesses that are different from the community businesses that already existed in the previous village. Don’t let VOE kill people’s livelihoods. We often find that VOE opens business units that compete with village community businesses that have existed before. VOE must take the place of being a partner for existing*

*community businesses. In addition, I found that many VOEs were still unable to plan for the establishment of a good business unit, so training and assistance were needed in preparing a VOE business plan”.*

Regarding the idea of having specific guidelines for governance and performance measurement, key informant 3 commented that:

*“It is a very good idea to create specific guidelines or standards for assessing VOE governance and performance. This can be a solution for us to monitor the development of VOE. So, we use the VOE rating instrument to determine what guidance we will provide, while governance guidelines and performance measurement can be used to make more strategic decisions for many stakeholders. Because the hope is that VOE will not only become a village-class business but can become a national and even international-class business. So, we need a valid measuring tool to help stakeholders make decisions. Apart from that, we still have to improve other factors that impede the sustainability of VOE’s performance. Because some of the factors that affect the unsustainability of VOE are caused by the inability of the human resources in the village. Thus, special guidance is needed to train the public to understand the aims and objectives of VOE”.*

Other arguments related to solutions for creating sustainable performance were also presented by the key informant 8.

*“In my opinion, the solution that can be done is that we must understand the fundamental constraints experienced by VOE. After knowing the problems of each VOE, we can determine what steps we will take to overcome them. It is not easy to understand VOE problems one by one because there are so many VOEs. So, it is necessary to work together from various parties, including academics, to assist VOE in achieving its existence or sustainability. Regarding the standardized guidelines for measuring governance and performance measurement, this is an interesting idea, but it cannot be applied to all VOEs. VOEs that are already in the advanced category will probably need*

*these guidelines, but VOs that are still pioneering will need a lot of assistance to develop their business”.*

It can be concluded that the solution to creating sustainable VOs performance can be achieved using various approaches. For VOs that have just been established and have pilot status, the classification of governance can be used to determine the model of assistance to be provided to the VOs. The form of assistance can be in the form of training leaders who will carry out VOs, providing understanding to the village head as the owner of capital, increasing the ability to innovate for VOs managers, and training in preparing good business plans. The guidelines for governance and performance measurement can be assigned to VOs that are already in advanced or developing status. Given their increasing demands to create accountability for stakeholders, in addition, with clear performance measurements, it will be easy for managers to evaluate their performance.

## **DISCUSSION**

Our qualitative investigation illuminates pivotal discoveries essential for bolstering the sustainability of VOs performance in Indonesia. Conflict between village leaders and VOs management has the potential to undermine the efficiency and enduring success of VOs, frequently arising from disparities in vision, mission, and operational perspectives among these leadership factions. Such a revelation presents a significant hurdle in VOs administration. Resolving this issue necessitates an intervention to reconcile these conflicting interests, as VOs cannot attain sustainable performance if their leaders remain embroiled in disputes.

In continuation of leadership, our research findings uncovered the significant impact of the experience level of VOs directors on their capacity to identify innovative business opportunities. Seasoned directors demonstrated enhanced proficiency in discerning and leveraging unique potentials within their villages. Conversely, many less-experienced VOs directors tended to emulate successful businesses from other villages without regard for their own village’s distinctive attributes and resources. These findings underscore the influence of leadership on innovation capacity. Innovation stemming from leaders appropriate at spotting opportunities holds the key to sustaining their performance over time.

In the context of this study, innovation emerged not as a choice but as an imperative for these entities to effectively utilize local village resources. The capacity for innovation is paramount for VOEs managers as they endeavor to secure the enduring sustainability of the enterprises under their purview. However, findings from this research underscore a prevalent challenge, revealing that a considerable number of VOEs presently struggle to implement innovations aligned with the resources in their respective villages. Furthermore, in their attempts to innovate, VOEs often resort to emulation, replicating business models or practices from villages that have successfully embraced innovation. Unfortunately, these imitated innovations often prove incongruent with the unique wealth and needs of their own communities, leading to the failure of innovation initiatives. Compounding this issue is the tendency of a majority of VOEs to operate within a single business unit, typically centered around savings and loans. The comfort derived from this singular business focus renders them reluctant to explore novel avenues for innovation. Given this scenario, it becomes imperative to seek viable solutions to enhance innovation within VOEs and strengthen the sustainability of their performance.

Various approaches can be taken to address this issue. Firstly, the government should provide incentives and technical assistance to VOEs engaged in innovative endeavours based on local needs and resources. This includes offering training, access to affordable financial resources, and fiscal incentives to encourage the development of innovations relevant to the village context. Second, village facilitators need to provide technical support and access to networks and resources that enable VOE to access information and training on best innovative practices. This can be achieved through workshops, face-to-face consultations, and the establishment of discussion groups among VOEs to share experiences and knowledge. Thirdly, practitioners in rural development and entrepreneurship can offer direct support to VOEs, assisting them in identifying innovation opportunities, developing sustainable business plans, and facilitating partnership strategies with other stakeholders such as the private sector or research institutions. Through close collaboration between the government, village facilitators, and practitioners, VOEs can enhance their innovative capacity and improve their ability to contribute to sustainable development at the local level.

Leadership and innovation factors are determinants of sustainability in the early stages of VOEs establishment. However, at a more advanced stage, performance sustainability can be maintained through the existence of VOEs governance guidelines. At this level, the VOEs must increase its accountability to various stakeholders. Standard governance guidelines will help VOEs managers carry out good governance. In addition, the available governance guidelines will also be useful for stakeholders to assess the management carried out by VOEs managers. Similar to governance, VOEs managers also need to measure VOEs performance to find out what achievements they have achieved. They will have clear guidelines for assessing the performance they have achieved. From the stakeholder perspective, if there are clear guidelines regarding performance sustainability, then the decisions they make will be the right ones.

The result of this research revealed the current absence of concrete regulations governing the governance of VOEs. One instrument that could serve as a guideline in assessing VOEs management is the VOEs classification system. However, this instrument is deemed adequate for measuring governance quality because the indicators used are still mixed with performance evaluation instruments for VOEs. There is a need for the development of a concrete governance instrument for VOEs to determine the quality of future VOEs management. This is imperative as the demand for good governance will increase as VOEs evolve into larger institutions. Moreover, the existence of sound governance guidelines will serve as a framework for VOEs managers in decision-making processes.

In the pursuit of scholarly rigor, we acknowledge certain limitations in our study. The qualitative nature of our research, while rich in insights, may have not captured all perspectives comprehensively. The potential for researcher bias is inherent in qualitative inquiry. Future research avenues beckon, building upon the foundations laid by this study. Researchers can delve deeper regarding the preparation of good governance indicators that could impact VOE's governance regulations, further investigate the intricate links between leadership, innovation, and sustainability within VOEs, explore the dynamics of external partnerships, and develop more robust performance metrics with a quantitative method. The generalization of qualitative research findings was also limited thus the critical role of governance indicators promoting VOEs sustainability and community

well-being warrants further exploration. Future studies could address this limitation by conducting a robust quantitative study to further examine the direct and indirect influences of the key governance indicators that suits with the VOEs and align with existing regulations.

In essence, this research transcends the confines of a singular study, paving the way for an enriched understanding of the complex interplay between leadership, innovation, and governance in shaping the sustainability of social enterprises, with implications that reverberate not only in academic circles but also in policy-making and community development. As we collectively strive for economic independence, poverty eradication, gender equality, and environmental sustainability, the sustainable performance of VOEs emerges as a vital conduit for progress, bridging the gap between theory and impactful change on the ground.

## **CONCLUSION**

The primary objective of this research was to assess the current state of VOEs in terms of leadership, innovation, and governance, aiming to propose effective strategies for enhancing their sustainable performance. From the findings and discussions conducted, it can be inferred that leadership plays a significant role in determining the sustainability of VOEs. A key challenge that emerged was the disparity in vision and mission between the village head and the VOEs director, often leading to conflicts and hindering effective VOE soperations, even in those that are already advanced and established. Additionally, differences in perception regarding operational practices and compensation pose obstacles for VOEs. Village heads often perceive VOEs as a social organization where the director's salary depends on the enterprise's profit, hence the lack of profit results in no director's salary. This misalignment can lead to conflicting incentives and impede effective decision-making.

Additional challenges arise in terms of innovation. Many VOEs, especially those newly established, struggle to develop new service offerings and often imitate successful business models from neighbouring villages. This can lead to market saturation and intense competition, hindering sustainable growth. The findings suggest the need for incentives to boost

innovation within VOEs, through collaborative partnerships and the promotion of alliances, which could be crucial in addressing the innovation challenges faced by VOEs.

A key conclusion drawn from this research underscores the necessity for a comprehensive governance framework tailored to the unique context of VOEs. Such guidelines could facilitate informed decision-making, enhance managerial accountability, and establish transparent criteria for stakeholders to evaluate VOEs performance. As a result, future research efforts might concentrate on refining more specific governance guidelines and fostering closer collaboration between VOEs and other stakeholders.

In considering future research prospects, there exist several areas ripe for further exploration. Delving deeper, studies could rigorously examine the impact of governance, leadership, innovation, and organizational capability on sustainability within VOEs. Additionally, research efforts could scrutinize the development of performance metrics for VOEs, encompassing both financial and social performance indicators. Moreover, the pivotal role of governance indicators in enhancing VOE sustainability and community well-being warrants further investigation. Concerning good governance for VOEs, subsequent research could formulate governance indicators tailored to the VOEs context. In the VOEs context, governance values have been specified in Government Regulation No. 11 of 2021. This regulation could serve as a reference for establishing governance indicators in the VOEs context. Such an effort is crucial for aligning governance practices with the unique characteristics and operational dynamics of VOEs, ensuring effective oversight and sustainable performance within these entities.

## **ACKNOWLEDGEMENT**

This research was financially supported by the Institute of Postgraduate Studies and Accounting Research Institute, Universiti Teknologi MARA (UiTM).

## REFERENCES

- Ahmad, S., & Bajwa, I. A. (2023). The role of social entrepreneurship in socio-economic development: a meta-analysis of the nascent field. In *Journal of Entrepreneurship in Emerging Economies*, 15(1), 133–157). Emerald Publishing. <https://doi.org/10.1108/JEEE-04-2021-0165>.
- Arena, M., Azzone, G., & Bengo, I. (2015). Performance Measurement for Social Enterprises. *Voluntas*, 26(2), 649–672. <https://doi.org/10.1007/s11266-013-9436-8>.
- Arifin, B., Wicaksono, E., Tenrini, R. H., Wardhana, I. W., Setiawan, H., Damayanty, S. A., Solikin, A., Suhendra, M., Saputra, A. H., Ariutama, G. A., Djunedi, P., Rahman, A. B., & Handoko, R. (2020). Village fund, village-owned-enterprises, and employment: Evidence from Indonesia. *Journal of Rural Studies*, 79, 382–394. <https://doi.org/10.1016/j.jrurstud.2020.08.052>.
- Bagnoli, L., & Megali, C. (2011). Measuring performance in social enterprises. *Nonprofit and Voluntary Sector Quarterly*, 40(1), 149–165. <https://doi.org/10.1177/0899764009351111>.
- Beer, H., Micheli, P., & Besharov, M. (2022). Meaning, Mission, and Measurement: How Organizational Performance Measurement Shapes Perceptions of Work as Worthy. *Academy of Management Journal*, 65(6), 1923–1953. <https://doi.org/10.5465/amj.2019.0916>.
- Bezerra, P. R. S., Schramm, F., & Schramm, V. B. (2021). A literature review on models for assessing corporate sustainability. In *International Journal of Sustainable Engineering*, 14(6), 1306–1318). Taylor and Francis Ltd. <https://doi.org/10.1080/19397038.2021.1999531>.
- Borah, P. S., Iqbal, S., & Akhtar, S. (2022). Linking social media usage and SME's sustainable performance: The role of digital leadership and innovation capabilities. *Technology in Society*, 68. <https://doi.org/10.1016/j.techsoc.2022.101900>.
- Broccardo, L., Truant, E., & Dana, L. P. (2023). The interlink between digitalization, sustainability, and performance: An Italian context.

- Journal of Business Research*, 158. <https://doi.org/10.1016/j.jbusres.2022.113621>.
- Brofman Epelbaum, F. M., & Martinez, M. G. (2014). The technological evolution of food traceability systems and their impact on firm sustainable performance: A RBV approach. *International Journal of Production Economics*, 150, 215–224. <https://doi.org/10.1016/j.ijpe.2014.01.007>.
- Cheah, J., Amran, A., & Yahya, S. (2019). External oriented resources and social enterprises' performance: The dominant mediating role of formal business planning. *Journal of Cleaner Production*, 236. <https://doi.org/10.1016/j.jclepro.2019.117693>.
- Chenhall, R. H., & Langfield-Smith, K. (2007). Multiple Perspectives of Performance Measures. *European Management Journal*, 25(4), 266–282. <https://doi.org/10.1016/j.emj.2007.06.001>.
- Chmelik, E., Musteen, M., & Ahsan, M. (2016). Measures of Performance in the Context of International Social Ventures: An Exploratory Study. *Journal of Social Entrepreneurship*, 7(1), 74–100. <https://doi.org/10.1080/19420676.2014.997781>.
- Elshaer, I. A., Azazz, A. M. S., & Fayyad, S. (2023). Green Management and Sustainable Performance of Small- and Medium-Sized Hospitality Businesses: Moderating the Role of an Employee's Pro-Environmental Behaviour. *International Journal of Environmental Research and Public Health*, 20(3), 2244. <https://doi.org/10.3390/ijerph20032244>.
- Eltayeb, T. K., Zailani, S., & Ramayah, T. (2011). Green supply chain initiatives among certified companies in Malaysia and environmental sustainability: Investigating the outcomes. *Resources, Conservation and Recycling*, 55(5), 495–506. <https://doi.org/10.1016/j.resconrec.2010.09.003>.
- Gandhiadi, G. K. (2021). Determinants of business performance of village-owned enterprises (V-OE) in Jembrana regency of Bali using SEM. *Journal of Physics: Conference Series*, 1722(1). <https://doi.org/10.1088/1742-6596/1722/1/012062>.

- Hendriani, S., Efni, S. E., & Tiyasiningsih, E. (2019). Analysis On Factors Affecting Performance Of Village-Owned Enterprises (Bumdes) Administrator With Commitment As Moderator Variables In Kampar District. *International Journal of Scientific & Technology Research*, 8(11), 443–452. <http://www.riauterkini.com>.
- Johari, R. J., Sanusi, Z. M., & Shafei, N. A. (2020). Social Enterprises' Performance: The Influences of Corporate Structure, Corporate Monitoring Process and Corporate Controlling Process. *International Journal of Academic Research in Business and Social Sciences*, 10(13). <https://doi.org/10.6007/ijarbss/v10-i13/6890>.
- Junaidi, J., Suci, A., Nanda, S. T., & Kadaryanto, B. (2019). Halal-friendly tourism business process: Tourism operators in Indonesia. *Geojournal of Tourism and Geosites*, 27(4). <https://doi.org/10.30892/gtg.27403-422>.
- Kania, I., Anggadwita, G., & Alamanda, D. T. (2021). A new approach to stimulate rural entrepreneurship through village-owned enterprises in Indonesia. *Journal of Enterprising Communities*, 15(3), 432–450. <https://doi.org/10.1108/JEC-07-2020-0137>.
- Khan, H. U. R., Ali, M., Olya, H. G. T., Zulqarnain, M., & Khan, Z. R. (2018). Transformational leadership, corporate social responsibility, organizational innovation, and organizational performance: Symmetrical and asymmetrical analytical approaches. *Corporate Social Responsibility and Environmental Management*, 25(6), 1270–1283. <https://doi.org/10.1002/csr.1637>.
- Khan, S. H., Yasir, M., Ahmed Shah, H., & Majid, A. (2021). Role of Social Capital and Social Value Creation in Augmenting Sustainable Performance of Social Enterprises: Moderating Role of Social Innovation. In *Pakistan Journal of Commerce and Social Sciences* (Vol. 15, Issue 1).
- Khaw, T. Y., Teoh, A. P., Abdul Khalid, S. N., & Letchmunan, S. (2022). The impact of digital leadership on sustainable performance: A systematic literature review. In *Journal of Management Development*, 41(9–10), 514–534. Emerald Publishing. <https://doi.org/10.1108/JMD-03-2022-0070>.

- Koliby, I. S. M. Al, Abdullah, H. H., & Mohd Suki, N. (2022). Linking entrepreneurial competencies, innovation and sustainable performance of manufacturing SMEs. *Asia-Pacific Journal of Business Administration*. <https://doi.org/10.1108/APJBA-09-2021-0480>.
- Kuhl, M. R., Da Cunha, J. C., Maçaneiro, M. B., & Cunha, S. K. (2016). Relationship between innovation and sustainable performance. *International Journal of Innovation Management*, 20(6). <https://doi.org/10.1142/S136391961650047X>.
- Lee, Y.-T., & Moon, J.-Y. (2008). An Exploratory Study on the Balanced Scorecard Model of Social Enterprise\*. In *The Asian Journal on Quality* (Vol. 9, Issue 2).
- Mamabolo, A., & Myres, K. (2020). Performance Measurement in Emerging Market Social Enterprises using a Balanced Scorecard. *Journal of Social Entrepreneurship*, 11(1), 65–87. <https://doi.org/10.1080/19420676.2018.1561499>.
- Mokbel Al Koliby, I. S., Abdullah, H. H., & Mohd Suki, N. (2022). Linking entrepreneurial competencies, innovation and sustainable performance of manufacturing SMEs. *Asia-Pacific Journal of Business Administration*. <https://doi.org/10.1108/APJBA-09-2021-0480>.
- Nasfi, Aimon, H., & Ulfa Sentosa, S. (2023). Build the village economy: A systematic review on academic publication of Indonesian village-owned. *Cogent Social Sciences*, 9(2). <https://doi.org/10.1080/23311886.2023.2252682>.
- Nielsen, E., Jolink, A., Lopes de Sousa Jabbour, A. B., Chappin, M., & Lozano, R. (2017). Sustainable collaboration: The impact of governance and institutions on sustainable performance. *Journal of Cleaner Production*, 155, 1–6. <https://doi.org/10.1016/j.jclepro.2016.12.085>.
- Piwowar-Sulej, K., & Iqbal, Q. (2023). Leadership styles and sustainable performance: A systematic literature review. *Journal of Cleaner Production*, 382. <https://doi.org/10.1016/j.jclepro.2022.134600>.

- Poledrini, S., & Tortia, E. C. (2020). Social Enterprises: Evolution of the Organizational Model and Application to the Italian Case. *Entrepreneurship Research Journal*, 10(4). <https://doi.org/10.1515/erj-2019-0315>.
- Powell, M., Gillett, A., & Doherty, B. (2019). Sustainability in social enterprise: hybrid organizing in public services. *Public Management Review*, 21(2), 159–186. <https://doi.org/10.1080/14719037.2018.1438504>.
- Rahayu, M. J., Mukaromah, H., & Mulyanto, M. (2023). Social capital-based strategy of sustainable village-owned enterprises (BUMDes) development. *International Journal of Social Economics*. <https://doi.org/10.1108/IJSE-10-2022-0700>.
- Rahim, N. A. A. A., Muhmad, S. N., Abidin, A. F. Z., Muhmad, S. N., & Omar, K. (2022). A Systematic Review of Corporate Governance and Sustainability Performance: Pre-and Post-Sustainable Development Goals Adoption Period. In *Management and Accounting Review*, 21. <https://doi.org/10.24191/MAR.V21i03-02>.
- Rathore, H., Jakhar, S. K., Bhattacharya, A., & Madhumitha, E. (2020). Examining the mediating role of innovative capabilities in the interplay between lean processes and sustainable performance. *International Journal of Production Economics*, 219, 497–508. <https://doi.org/10.1016/j.ijpe.2018.04.029>.
- Rehman, U. U., & Iqbal, A. (2020). Nexus of knowledge-oriented leadership, knowledge management, innovation and organizational performance in higher education. *Business Process Management Journal*, 26(6), 1731–1758. <https://doi.org/10.1108/BPMJ-07-2019-0274>.
- Ryan, G. W., & Bernard, H. R. (2003). Techniques to Identify Themes. *Field Methods*, 15(1), 85–109. <https://doi.org/10.1177/1525822X02239569>.
- Sari, R. N., Junita, D., Anugerah, R., & Nanda, S. T. (2021). Social entrepreneurship, transformational leadership and organizational performance: The mediating role of organizational learning. *Polish*

- Journal of Management Studies*, 23(2), 464–480. <https://doi.org/10.17512/pjms.2021.23.2.28>.
- Sari, R. N., Junita, D., Anugerah, R., Nanda, S. T., & Zenita, R. (2022). Effect of governance practices on value co-creation and organizational performance: Evidence from village-owned enterprises in Riau, Indonesia. *Problems and Perspectives in Management*, 20(4), 532–543. [https://doi.org/10.21511/ppm.20\(4\).2022.40](https://doi.org/10.21511/ppm.20(4).2022.40).
- Son, H., Lee, J., & Chung, Y. (2018). Value creation mechanism of social enterprises in manufacturing industry: Empirical evidence from Korea. *Sustainability (Switzerland)*, 10(1). <https://doi.org/10.3390/su10010046>.
- Tortia, E. C., Degavre, F., & Poledrini, S. (2020). Why are social enterprises good candidates for social innovation? Looking for personal and institutional drivers of innovation. *Annals of Public and Cooperative Economics*, 91(3), 459–477. <https://doi.org/10.1111/apce.12265>.
- Yang, H., & Yang, J. (2019). The effects of transformational leadership, competitive intensity and technological innovation on performance. *Technology Analysis and Strategic Management*, 31(3), 292–305. <https://doi.org/10.1080/09537325.2018.1498475>.
- Yaya, R., Suryanto, R., Abubakar, Y. A., Kasim, N., Raimi, L., & Irfana, S. S. (2022). Innovation-based diversification strategies and the survival of emerging economy village-owned enterprises (VOEs) in the Covid-19 recession. *Journal of Entrepreneurship in Emerging Economies*. <https://doi.org/10.1108/JEEE-06-2021-0213>.
- Yu, X. (2013). The governance of social enterprises in China. *Social Enterprise Journal*, 9(3), 225–246. <https://doi.org/10.1108/sej-08-2012-0034>.
- Zhang, Z., Zhu, H., Zhou, Z., & Zou, K. (2022). How does innovation matter for sustainable performance? Evidence from small and medium-sized enterprises. *Journal of Business Research*, 153, 251–265. <https://doi.org/10.1016/j.jbusres.2022.08.034>.