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Navigating dual logics: A framework for integrating financial performance and social impacts in Indonesian village-owned enterprises (BUMDES)

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Abstract

This study investigates performance measurement challenges in hybrid organizations, focusing on Village-Owned Enterprises (BUMDES) in Indonesia. As hybrid entities, BUMDES balance dual objectives: achieving financial sustainability and delivering social impact. However, tensions arise from resource allocation constraints and diverse stakeholder expectations. The research aims to develop an integrated framework that evaluates economic, social, and environmental outcomes comprehensively. Using qualitative methods, including focus group discussions, direct observations, and document analysis, the study examines 20 BUMDES across West Java and West Nusa Tenggara provinces. Findings reveal the inherent complexity of reconciling profit-oriented and community-focused goals, particularly when resource limitations and a lack of standardized metrics exist. Stakeholders express the need for multidimensional indicators encompassing profitability, job creation, community welfare, and environmental contributions. Proposed strategies, such as segregating revenue streams and fostering participatory governance, align stakeholder priorities and reduce conflicts. This study contributes to hybrid organizational theory by offering actionable insights and a performance framework tailored to BUMDES' dual missions. It highlights implications for policymakers and practitioners seeking to support hybrid organizations in addressing socio-economic challenges sustainably.

Keywords: Financial performance, Hybrid organizations, Performance measurement, Social impacts, Village-owned enterprises (BUMDES).

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1. Introduction

Hybrid organizations have emerged as innovative models to tackle complex societal challenges such as poverty alleviation, public health, and environmental sustainability. These entities integrate multiple institutional logics, combining profit-oriented and social welfare goals [1]. Institutional logics, as conceptualized by Friedland [2], are belief systems derived from symbolic constructs and material practices that shape behavior and decision-making within organizations. Examples include biotechnology firms that merge scientific and market logics [3] and microfinance institutions that balance commercial and charitable logics to advance financial inclusion [4].

Village-Owned Enterprises (BUMDES) exemplify hybrid organizations. Established by the Indonesian government in 2015, BUMDES aims to alleviate rural poverty by fostering economic development and empowering local communities. These organizations operate under dual logics: profit-oriented market logic and social welfare logic [5]. However, their hybrid nature presents challenges, particularly in resource allocation and stakeholder alignment. For example, balancing the financial viability of revenue-generating activities with investments in community welfare often leads to operational tensions [6, 7]. Resource constraints exacerbate these challenges, compelling organizations to prioritize one goal over another, often to the detriment of their social mission.

Stakeholder diversity further complicates the operational landscape of hybrid organizations. Government officials, local communities, and external partners have differing expectations. For instance, while government stakeholders emphasize financial returns, community members prioritize tangible social benefits, such as improved access to services or job creation [8]. Misaligned expectations can lead to decision-making conflicts and mission drift, where the organization deviates from its original purpose under external pressures [9]. BUMDES, like other hybrid organizations, must navigate these challenges to achieve its dual objectives sustainably.

As an initiative backed by the government, BUMDES receives funding primarily through allocations from village funds provided directly by the central government to village administrations. However, to fulfil their role as agents of economic transformation and providers of social benefits, BUMDES requires comprehensive and consistent monitoring mechanisms. Despite existing guidelines, the Minister of Village Regulation No.3 of 2021 [10] identifies seven aspects for evaluating BUMDES performance: institutional framework, management practices, business operations, partnerships and collaborations, asset management and capitalization, administrative reporting, and community benefits. These indicators, while extensive, lack precise definitions and standardized measurement criteria, resulting in inconsistencies and varied interpretations in practice. Consequently, BUMDES performance reporting often differs widely, making it difficult to assess their effectiveness uniformly.

Some BUMDES limit their reports to financial metrics, focusing solely on revenue and expenditures [11], while others include operational outcomes and broader impact indicators [12, 13]. However, these reports primarily emphasize accountability to village and sub-district governments, often neglecting the expectations and feedback of the communities they aim to serve [14]. This lack of community-oriented accountability creates gaps in understanding the true social impact of BUMDES operations and complicates efforts to evaluate their performance comparatively across different regions.

Understanding the hybrid nature of BUMDES as organizations that combine profit-oriented and social impact missions is crucial for developing an effective performance evaluation framework. However, existing empirical studies largely focus on financial and operational aspects [15-20]. Few studies address frameworks that comprehensively reflect the dual missions of BUMDES, capturing their unique hybrid organizational characteristics. Additionally, research on how BUMDES navigates competing stakeholder expectations in their performance assessments remains limited.

This study seeks to leverage hybrid organizational theory as outlined by Battilana and Lee [1] and Doherty et al. [6] to guide the development of a robust performance framework for BUMDES. Specifically, it addresses the following questions:

1. How does the hybrid nature of BUMDES influence its performance metrics?
2. How to integrate dual goals of profit generation and social impact into the BUMDES performance measurement framework?

By exploring these questions, this study aims to bridge gaps in existing research and provide actionable insights for a more nuanced and comprehensive performance assessment of BUMDES.

This study distinguishes itself from previous research, which primarily focused on practical approaches to assessing BUMDES performance, by offering a theoretical contribution rooted in the concept of hybrid organizations. By leveraging this theoretical framework, the study addresses how a performance assessment framework can be tailored to align with the unique characteristics of hybrid BUMDES organizations. A qualitative research methodology, employing thematic analysis techniques, was utilized to examine and interpret the data. The findings of this study provide valuable insights, particularly for government authorities responsible for overseeing BUMDES programs, enabling them to design more effective and contextually appropriate performance indicators based on the study's recommendations.

2. Literature Review

2.1. Hybrid Organizations and the Complexity of Multiple Logics

Hybrid organizations combine elements of different institutional logics, creating opportunities for innovation while also generating tensions. Balancing these logics requires deliberate governance and operational strategies to ensure alignment with organizational goals [1]. Institutional logic provides a framework for understanding how organizations navigate conflicting objectives by shaping practices and values [21].

BUMDES operates within two dominant logics: profit-driven and social welfare-oriented. These logics underpin the thinking and behavior of BUMDES actors, reflecting the organization's dual mission. This duality is essential for achieving

their mission, but also creates friction, especially in decision-making and resource allocation. For example, efforts to enhance profitability may reduce the resources available for community-focused projects, thereby risking mission drift [22].

2.2. Key Challenges and Performance Measurement

Resource allocation in hybrid organizations often involves trade-offs between economic sustainability and social impact. Limited resources exacerbate these tensions, as organizations must choose between operational efficiency and community welfare. For instance, Work Integration Social Enterprises (WISEs) face dilemmas when allocating resources to beneficiary training programs versus market-driven activities [6]. This scenario mirrors the struggles of BUMDES, where revenue-generating activities frequently overshadow community welfare initiatives [7].

Diverse stakeholder interests often lead to conflicting priorities in hybrid organizations. Government officials may demand financial accountability, while community members expect equitable resource distribution and tangible social benefits. Misalignments can create internal and external pressures that hinder organizational performance [22, 23]. Effective governance, including participatory decision-making and transparent reporting, is critical for aligning stakeholder expectations and maintaining trust [24].

Schmitz and Glänzel [25] emphasize the importance of maintaining legitimacy among diverse stakeholders to build trust and secure support. For example, financial stakeholders may perceive the organization's social mission as a reduction in profitability, while beneficiaries may prioritize social outcomes over economic performance. Ramus and Vaccaro [24] suggest that engaging stakeholders effectively is essential to aligning their interests and maintaining a focus on the organization's dual missions. Without such alignment, conflicts between stakeholders can erode trust and compromise the organization's ability to achieve its goals.

Effective governance is vital for hybrid organizations to navigate the tensions between their dual goals. However, the risk of mission drift, where organizations deviate from their social objectives under financial pressures is a persistent challenge. Cornforth [9] and Aveling et al. [26] argue that over-reliance on external resource providers exacerbates this risk, as funders may impose priorities that favor business interests over social goals. This dominance of financial logics can marginalize social impact initiatives and destabilize the organization's hybrid nature [27].

Internal pressures to meet financial targets also contribute to mission drift. Ramus and Vaccaro [24] note that the emphasis on measurable economic outcomes often leads to the erosion of social values, as organizations prioritize activities that are easier to quantify and report. Schmitz and Glänzel [25] add that the absence of clear, integrated performance metrics makes it challenging to evaluate whether hybrid organizations are successfully balancing their two missions. This lack of standardization encourages a focus on short-term financial gains, often at the expense of long-term social objectives.

The challenges described above are evident in BUMDES, Indonesia's Village-Owned Enterprises, which operate with a dual mission of generating revenue and improving community welfare. BUMDES entities are evaluated using multidimensional performance metrics, encompassing financial, social, and environmental outcomes. However, research indicates that government assessments often emphasize financial indicators, such as income generation and contributions to village revenues, while overlooking broader social impacts like job creation and social welfare improvements [19].

Prasetyo [28] and Darwita and Redana [29] argue that BUMDES should adopt more holistic performance metrics to reflect their broader impact on community development. Such metrics could include employment creation, subsidies for vulnerable populations, and contributions to environmental sustainability. However, the lack of standardized reporting mechanisms complicates the evaluation process. Wahyuni and Ismail [11] observe that some BUMDES limit their reporting to financial outcomes, while others include operational metrics. Additionally, vertical accountability to village and sub-district governments often takes precedence over horizontal accountability to the community, leading to gaps in transparency and stakeholder engagement [14].

Similar challenges are evident in other rural empowerment programs, such as Thailand's One *Tambon* One Product (OTOP) and Vietnam's One *Commune* One Product (OCOP). These initiatives focus heavily on economic outcomes, such as sales growth and market reach, while neglecting social and environmental impacts. Wannaosote and Pooripakdee [30] note that OTOP's success is primarily measured in terms of revenue and product certification, leaving its contributions to social capital and community cohesion largely unexamined. Similarly, Phan et al. [31] highlight that OCOP prioritizes income generation over fostering community resilience and environmental sustainability.

To address challenges in hybrid organizations like BUMDES and similar organizations, an integrated performance metric that balances financial and social goals is required. Such metrics should capture both the quantitative aspects of financial performance and the qualitative dimensions of social impact. For instance, financial indicators like revenue growth and return on investment could be complemented by measures of community satisfaction, employment creation, and access to essential services.

Stakeholder engagement is also critical in designing these metrics. Involving diverse stakeholders, including funders, local governments, and community members, can help ensure that the metrics reflect a comprehensive view of the organization's performance. This participatory approach can also build trust and alignment among stakeholders, reducing conflicts and enhancing organizational cohesion [24]. Such approaches not only enhance the ability to achieve dual goals but also ensure their sustainability and relevance in addressing complex social and economic issues.

3. Research Method

This study adopts a qualitative research approach to explore the complexities of performance measurement in BUMDES. Data collection involved focus group discussions, direct observations, and document analysis across 20 BUMDES in West

Java and West Nusa Tenggara provinces. Participants included BUMDES management teams, village heads, Village Consultative Bodies, and government representatives.

This multi-case study was conducted in two Indonesian provinces, West Nusa Tenggara and West Java, with 20 BUMDES serving as units of analysis. Participants included members of BUMDES management, village heads, Village Consultative Body representatives, and local government officials, as depicted in Table 1.

Table 1.
Participants of the Study.

Participants	West Nusa Tenggara	West Java	Total
BUMDES management	12	19	31
Village Head	7	6	13
Village Consultative Body	5	6	11
Regional government	8	2	10
TOTAL	32	33	65

The selection of BUMDES was based on their developmental stages, which ranged from pioneering to advanced. This approach enabled a comprehensive understanding by capturing insights from BUMDES at different stages of growth. The classification of developmental stages follows the business life cycle framework proposed by Hallbom [32] and Wang [33] which categorizes organizations into pioneer, developing, advanced, decline, and rebirth stages. This model aligns with the evaluation system used by Indonesia’s Ministry of Villages, Development of Disadvantaged Regions, and Transmigration. However, as public access to the Ministry’s detailed evaluation criteria is limited, Hallbom and Wang’s framework provided a solid basis for assessing the developmental stages of BUMDES.

The study employs thematic analysis to identify recurring themes and patterns in stakeholder perspectives. This method ensures a comprehensive understanding of the dynamics influencing BUMDES performance. To enhance credibility, data were triangulated through multiple sources, including interviews and field observations.

The study adhered to ethical standards to protect participants’ rights and ensure transparency. All participants were provided with detailed consent forms explaining the voluntary nature of their involvement, the confidentiality of their identities, and the secure handling of sensitive information. These forms were available in both English and Bahasa Indonesia to ensure accessibility and comprehension. By prioritizing ethical practices, the study maintains integrity and upholds the trust of all involved stakeholders. This research provides actionable insights into designing an integrated performance measurement framework that aligns with the unique characteristics of BUMDES. By balancing financial and social priorities, the proposed framework aims to enhance accountability, foster trust, and ensure sustainable impact within local communities.

4. Findings and Discussion

4.1. Hybrid Nature of BUMDES and Its Implications for Performance Measurement

The findings confirm the hybrid nature of BUMDES, which necessitates balancing financial and social objectives. Stakeholders emphasized the importance of financial metrics, such as revenue growth and contributions to village original income. However, they also highlighted the need to incorporate social indicators, including job creation, community satisfaction, and access to essential services. Quotes from participants illustrate these priorities:

"Financial performance is crucial, but we must also measure how our initiatives improve community welfare." (Participant #48, BUMDES Management)

"Revenue alone does not reflect our success. Metrics should include the number of villagers employed or services provided." (Participant #23, Village Consultative Body)

The coexistence of profit and social missions within BUMDES exemplifies the hybrid organizational characteristics described by Battilana and Dorado [4] and Canales [34].

4.2. Ambiguity in Performance Metrics

The hybrid nature of BUMDES leads to ambiguity in performance measurement due to a lack of standardized metrics. Village governments tend to focus on economic indicators, such as return on investment and revenue growth, while BUMDES managers advocate for incorporating metrics that reflect social contributions. For example:

"The village government wants financial reports, but the social contributions we make, like employment generation or supporting local businesses, are just as important and need to be included in performance evaluations." (Participant #44, BUMDES Management)

"Currently, the metrics used for evaluating BUMDES focus heavily on financial results, but these don’t fully reflect the social impact we’re creating, like providing access to services for low-income residents." (Participant #49, BUMDES Management)

This divergence in expectations between the village government and BUMDES management illustrates the challenge of aligning performance metrics with the organization’s dual objectives.

4.3. Tensions in Resource Allocation

Tensions in resource allocation were evident, particularly when financial performance metrics dominated decision-making. Participants suggested segregating revenue streams to mitigate conflicts. For example, profits from water system management could be reinvested in community projects while sustaining operational needs. This is reflected in the following statements:

"Most of our resources are allocated to income-generating activities, but this often means that programs benefiting the community, like building public facilities, are deprioritized due to a lack of funding." (Participant #4, BUMDES Management)

"There's always a tension between meeting financial targets and ensuring we're making a meaningful impact. Profit often wins because it's easier to measure and report on." (Participant #43, BUMDES Management)

These findings align with Mair et al. [22] and Moore [35], who note that hybrid organizations often face friction in allocating resources to balance public and private value. Zheng et al. further argue that such tensions frequently lead to the prioritization of income-generating activities over social missions. Similarly, Schmitz and Glänzel [25] highlight how the lack of standardized performance measurement frameworks encourages organizations to favor quantifiable financial outcomes, often at the expense of long-term social objectives.

This study's findings demonstrate that the hybrid nature of BUMDES inherently creates challenges in performance measurement and resource allocation. While financial metrics are more straightforward to quantify and report, the absence of standardized frameworks for measuring social impact leads to an unintended prioritization of short-term financial gains over broader community development initiatives. Addressing these challenges requires the development of integrated performance metrics that effectively balance profit and social goals, ensuring that both aspects of BUMDES' mission are adequately reflected and pursued.

The study highlights that segregating revenue streams offers a practical solution to mitigate resource allocation conflicts in BUMDES and similar hybrid organizations. By proportionately dividing profits between operational needs and community welfare initiatives, organizations can better balance their dual objectives. For instance, profits generated from water system management could be partially reinvested in infrastructure projects for the community while ensuring that the operational costs of the organization are adequately met. This approach was supported by participants in the study, as reflected in their comments:

"One solution could be segregating the revenue streams: allocating a portion for operational needs and reserving the rest for social welfare programs to ensure a balance."(Participant #44, BUMDES Management)

"If we set clear allocations for both business growth and community welfare, we can reduce conflicts over how funds are used and ensure all goals are met."
(Participant #44, BUMDES Management)

This strategy addresses the tension between financial sustainability and social impact by ensuring that neither goal is entirely sacrificed. It also aligns with the principles of hybrid organizational governance, which advocate for resource allocation frameworks that support both economic and social missions.

4.4. Navigating Integrated Performance Measurement for Financial and Social Missions

The varied expectations of stakeholders in the BUMDES ecosystem underscore the importance of adopting a multidimensional performance measurement framework. This framework should balance the need for short-term financial achievements with the broader, long-term impacts on community well-being and environmental sustainability. These findings align with Prasetyo [28] and Darwita and Redana [29], who advocate for more holistic performance metrics that reflect the broader impact of BUMDES on communities.

This study proposes a set of performance indicators that encompass economic metrics, such as profitability, revenue growth, and contributions to the village's original income. Besides financial performance, the framework underscores the significance of social metrics that measure factors like community satisfaction, increased access to essential services, and job creation. Environmental sustainability is also a key dimension, emphasizing the organization's efforts to preserve and enhance ecological resources. Table 2 summarizes the proposed performance metrics for BUMDES.

The need for such an integrated approach is echoed by BUMDES stakeholders:

"We propose a framework that includes financial performance, community satisfaction, and environmental contributions. This would help ensure that all aspects of BUMDES' impact are recognized." (Participant #42, BUMDES Management)

"The current focus on financial performance is too narrow. Metrics like the number of villagers employed and how much we're reinvesting in community projects are also important." (Participant #61, BUMDES Management)

Table 2.

Proposed Performance Metrics for BUMDES.

	Economic Performance	Social Impact	Environmental Sustainability
Proposed Indicators	Revenue growth, profitability, and financial contributions to local village income.	Community satisfaction, job creation, and access to services.	Resource conservation, ecological contributions.
Example metrics	Revenue growth rate, net profit margin, contribution to local village income, return on Investment (ROI), cost recovery ratio, etc.	Number of households receiving subsidies, number of employment opportunities created, village reduction in poverty rate, etc.	Volume of organic waste managed, volume of inorganic waste recycled, reduction of waste sent to landfills, percentage of households provided with access to sustainable and clean water systems, etc.

This study highlights the presence of conflicting priorities among stakeholders in the BUMDES ecosystem, making it crucial to balance these divergent expectations. Government officials often emphasize measurable financial returns, such as revenue and profitability. In contrast, community stakeholders prioritize tangible social benefits, including infrastructure improvements and fair resource distribution. A collaborative approach involving all stakeholders in the development of performance metrics is recommended to ensure alignment and minimize conflicts.

The importance of balancing stakeholder expectations is reflected in the following quotes:

"Different stakeholders have different priorities. The government wants to see financial growth, while the community expects more direct benefits such as access to affordable services or subsidies for essential goods." (Participant #36, Regional Government)

"The key challenge is aligning the expectations of funders, who prioritize profitability, and the local community, which expects social improvements." (Participant #50, Village Consultative Body)

These findings reinforce the observations of Newth [23] and Mair et al. [22] who note that conflicting stakeholder interests in hybrid organizations often generate both internal and external pressures, ultimately impacting organizational performance.

A significant gap identified in this study is the lack of accountability and transparency in BUMDES reporting practices. Many BUMDES entities either provide limited financial reports or fail to adequately assess and report on their social impacts. This lack of transparency undermines trust among stakeholders and weakens engagement. Capacity-building initiatives for BUMDES managers and the adoption of standardized reporting templates are critical to addressing these issues. These measures would not only improve the quality of reporting but also foster greater accountability and trust among stakeholders. This need for improved accountability is emphasized by the following stakeholder insights:

"Many BUMDES struggle with producing timely and comprehensive financial reports. This affects transparency and erodes trust among stakeholders." (Participant #52, BUMDES Management)

"Some BUMDES only report financial data, but there's a lack of transparency about how these earnings are reinvested into the community, which creates mistrust." (Participant #34, Regional Government)

The findings align with Wahyuni and Ismail [11] and Kurniasih et al. [14], who identify limited public accountability in BUMDES performance reporting as a significant issue. This lack of transparency often results in a gap between stakeholder expectations and organizational actions, further hindering effective stakeholder engagement. By addressing the need for multidimensional metrics, balancing stakeholder expectations, and improving accountability and transparency, BUMDES can enhance its performance measurement framework. This approach would enable the organization to more effectively balance its dual objectives of financial sustainability and social impact while maintaining stakeholder trust and support.

Trust among stakeholders is identified as a critical foundation for effective hybrid governance. The study underscores the importance of participatory decision-making and transparent reporting mechanisms in bridging the gap between financial and social priorities. When BUMDES leaders actively involve community members in setting goals and allocating resources, they foster trust and legitimacy, which are essential for aligning diverse stakeholder expectations. This sentiment is echoed in participant feedback:

"Transparent reporting and involving community members in decision-making are key to building trust and maintaining legitimacy." (Participant #14, Village Consultative Body)

"Stakeholders need to feel included in the process, whether it's planning new projects or evaluating existing ones. This builds trust and aligns expectations." (Participant #55, Village Consultative Body)

These findings reinforce the observations of Ramus and Vaccaro [24] who argue that stakeholder engagement is vital for fostering alignment and reducing conflict in hybrid organizations. A participatory approach allows stakeholders to feel invested in the organization’s success, enhancing both cohesion and accountability.

By adopting strategies such as segregating revenue streams and fostering stakeholder trust, BUMDES and similar organizations can navigate the inherent tensions of their hybrid nature more effectively. These measures not only mitigate conflicts but also ensure that both financial and social objectives are pursued in a balanced and sustainable manner. Integrating these practices into organizational governance can enhance the legitimacy and long-term impact of hybrid organizations operating in community-focused environments.

The proposed integrated framework, designed to capture and reflect the multifaceted performance of hybrid organizations like BUMDES and similar entities, is comprehensively visualized and succinctly summarized in Figure 1. This framework integrates economic, social, and environmental dimensions, offering a holistic approach to evaluating organizational performance while addressing the complexities of balancing financial sustainability and social impact.

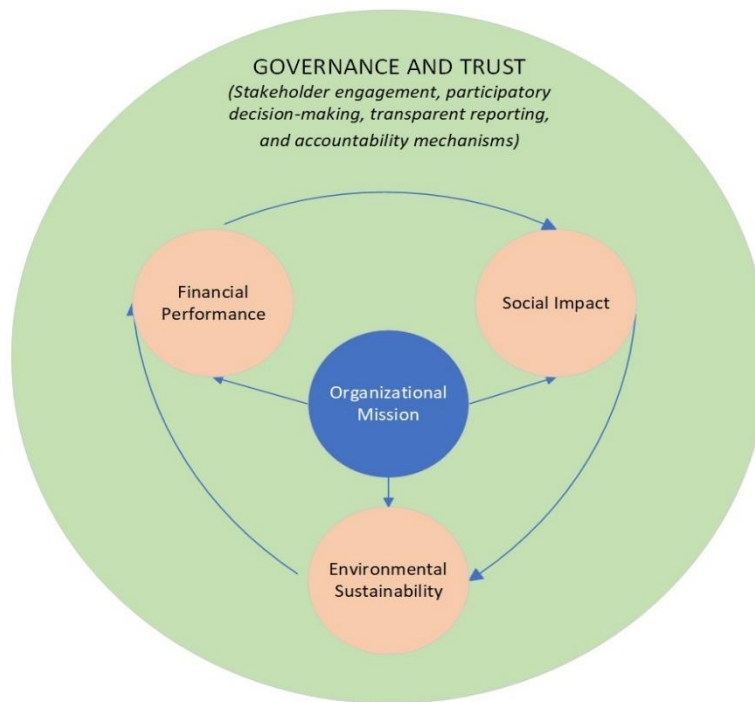


Figure 1.
Integrated Framework for BUMDES Performance Measurement.

5. Conclusion

This study highlights the complexities faced by BUMDES in balancing financial and social objectives. Dual missions in BUMDES create significant challenges in resource allocation, reconciling diverse stakeholder interests, and developing a performance measurement framework that captures both economic and social outcomes. The inherent conflict between profit-driven and social welfare goals becomes more pronounced when resources are scarce and must be allocated between operational needs and community-focused activities. These challenges are further intensified by disparities in stakeholder expectations, where government authorities prioritize financial results, while community members emphasize social benefits.

This study proposes practical strategies, including the segregation of revenue streams to ensure both financial and social priorities are adequately supported. This approach reduces conflict by channeling profits into community projects while maintaining operational viability. Trust and transparency are highlighted as essential components of effective governance, with participatory decision-making and clear reporting practices playing a critical role in aligning stakeholder expectations and fostering organizational cohesion.

A central recommendation is the creation of an integrated performance measurement framework that balances economic, social, and environmental metrics. This framework seeks to prevent the prioritization of short-term financial outcomes over long-term social objectives. However, the study also identifies significant gaps in accountability and standardized reporting, underscoring the need for capacity-building programs and consistent performance evaluation templates.

Despite its contributions, the study has some limitations. As the findings are derived from qualitative analyses of a limited number of BUMDES entities, they may not fully represent other regions or types of hybrid organizations. Additionally, reliance on self-reported stakeholder data introduces the potential for bias and subjective interpretations of performance.

Future research should expand the scope geographically, conducting comparative studies across regions to uncover variations in challenges and strategies under different socio-economic and cultural conditions. Exploring sector-specific hybrid organizations in areas such as agriculture, trade, waste management, education, and healthcare could deepen insights

into tensions between financial and social goals. Incorporating quantitative methods would provide a more comprehensive evaluation of performance metrics and resource allocation strategies. Addressing these limitations and exploring these directions can enhance the understanding of hybrid organizations and contribute to more effective frameworks for achieving sustainable impact.

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