

# Transformational Leadership, Social Entrepreneurship Orientation, and Financial Performance BUMDes: Mediated By Social Performance

Yesi Mutia Basri<sup>1</sup>, Hariadi Yasni<sup>2</sup>, Taufeni Taufik<sup>3</sup>, Rosalina Indah Putri<sup>4</sup>, Taqiyuddin Amri<sup>5</sup>  
{yesimutia@gmail.com<sup>1</sup>, hariadi@lecturer.unri.ac.id<sup>2</sup>, taufeni.taufik@lecturer.unri.ac.id<sup>3</sup>,  
rosa41913@gmail.com<sup>4</sup>, taqinamri@gmail.com<sup>5</sup>}

Universitas Riau, Faculty of Economic and Business, Department of Accounting, Pekanbaru-Riau,  
Indonesia<sup>1,2,3,4,5</sup>

**Abstract.** Researchers and practitioners have become interested in the significance of performance in rural social businesses. This study's objective was to investigate the effects of social entrepreneurship and transformational leadership on the financial performance of rural firms, specifically those owned by villages. Furthermore, this study also examines the mediation of social performance. A total of 217 respondents, namely BUMDes managers, participated in this study using a questionnaire survey. Data analysis with SEM Warp PLS shows that transformational leadership and Social success and financial performance are both positively correlated with social entrepreneurial attitude. Additionally, this study supports the idea that social performance might act as a mediator between transformational leadership and a social entrepreneurial mindset and the financial performance of BUMDes.

**Keywords:** Transformational leadership, social entrepreneurship orientation, social performance, financial performance.

## 1 Introduction

The acceleration of economic development to lead to independence or sovereignty of the village economy is crucial and is always up-to-date for further study [1]. However, [2], and [3] argue otherwise, namely that any improvement efforts for rural or agricultural areas are challenging to achieve and may even fail. It is mainly due to meager capital holdings in the traditional sector. One step in developing villages must be made to strengthen rural economic institutions.

Until now, rural economic institutions have remained an essential and weak point in efforts to realize village financial independence. One of the Government of Indonesia's top priorities is rural areas' social and economic development.

Numerous studies at industrialized nations demonstrate that rural businesses do better than urban ones. In the UK, for instance, [4] found that rural businesses were much better exporters of exportable goods and services. However, there are some flaws and obstacles in most industries and geographical areas. In China, village economic institutions called township-village enterprises (TVEs) play an active role in improving the village economy[5].

In Indonesia, since 2014, the Government has established a village economic institution called the Village Owned Enterprise (BUMDes). The function of BUMDes is an institution

that can utilize all economic potential, economic institutions, and the prospect of natural and human resources. BUMDes, which serves as a social and commercial institution, is a foundation of economic activity in the community. By helping to provide social services, BUMDes, as a social institution, sided with the needs of the neighborhood. In the meantime, as commercial institution, it seeks to make money by supplying the market with local resources like goods and services[6][7].

Based on information from the Republic of Indonesia's Ministry of Villages, Development of Disadvantaged Regions, and Transmigration, Until 2021 BUMDes number reached 57,273, with details of 45,233 active BUMDes and 12,040 inactive BUMDes [8]. There are still many BUMDes that are not yet active, reflecting that the management of BUMDes is still having problems. Based on data from the village ministry, there are at least 45,549 BUMDes in Indonesia. In this case, 4.8% of BUMDes are not running, and 36% are not contributing[9]. A study (Aeni, 2020) [11]also demonstrates that BUMDes management is still insufficient.

Previous research on social enterprises has shown that transformational leadership is essential in improving organizational performance[12];[13][14]. A study (Ketprapakorn & Kantabutra, 2019)shows that transformational leadership affects social performance. This research is in line with[16], which supports using transformational leadership to improve organizational performance However, contrary research conducted by [17]stated that Organizational performance is not impacted favorably by transformative leadership.

In social organizations, the thing that is no less important is the orientation of social entrepreneurship [18][19]. Social entrepreneurship orientation embodies the fundamental goal of making a social impact, in which the behavior of social entrepreneurship orientation seeks to overcome problems in the social environment. previously conducted research by [20]; do Adro et al. (2021)shows that social entrepreneurship orientation affects business performance. On the other hand, findings[22] show that social and financial performance are not correlated in a positive way.

This study investigates how social performance functions as a mediator. Previous research [15] shows that transformational leadership affects social performance. A study[20]shows that social entrepreneurship orientation affects social performance. However research on the relationship between social and financial performance 23] demonstrates that social performance is a crucial element in enhancing economic performance in social organizations. Therefore, this study examines how social performance is affected by social entrepreneurship and transformational leadership and financial performance and examines the mediation of social performance in BUMDes social organizations.

Research on the effectiveness of social companies is still rarely conducted in Indonesia, particularly in the areas of leadership and entrepreneurial orientation. Therefore, this research is interesting to do.

## **2 Literature Review and Hypothesis Development**

### **2.1 Transformational Leadership**

According (to Bass, 1985), in book[24] stated that when a leader inspires his or her followers to go above and beyond what they had originally meant to do, they are said to be exhibiting transformational leadership. The leader can influence and motivate followers by

raising their awareness of the value of work achievements and urging them to put the organization or team's needs before their own.

The term "transformational leadership" refers to an innovative leadership approach in which leaders focus on people, provide followers direction, and encourage progress through motivating inspiration [25].

## **2.2 Social Entrepreneurship Orientation**

In general, the goal of social entrepreneurship orientation is to integrate entrepreneurial processes and activities with a social mission. [26]. According to [20], The following behaviors make up an entrepreneurial activity known as "entrepreneurship orientation," which is motivated by the creation of social benefit: social innovation, social proactivity, social risk-taking, and social nature—trying to solve problems in the social environment[27] to create positive results from prosocial activity that the the target of that behaviour, as well as the greater group of individuals, organizations, and the environment, can profit from [28]. For companies that adhere to the Social Entrepreneurship Orientation, the goal is to make maximizing social value a means of expanding the company's and society's overall prosperity.

## **2.3 The Influence of Transformational Leadership on BUMDes Performance**

Transformational leaders are passionate about their work and can motivate and inspire others[14]. Many studies show that leaders with a transformational leadership style impact other employees and stakeholders to achieve above-average organizational performance [29]. All employees may exhibit higher levels of innovation under transformational leadership, and they may "inspire workers to higher levels of innovation and performance"[29]. Leaders that practice transformational leadership are viewed as change agents because they are inspiring, motivating, and visionary [14]. A study[15]shows that transformational leadership affects social performance. Transformational leadership has been shown to advance social organization ([12];[13][14].

H<sub>1a</sub>: Transformational Leadership has positive effect on the social performance of BUMDes

H<sub>1b</sub>: Transformational Leadership has positive effect on the Financial Performance of BUMDes

## **2.4 The Influence of Social Entrepreneurship Orientation on BUMDes Performance**

Entrepreneurship is the company's ability to consistently look for new business opportunities to improve and grow plays a vital role in Entrepreneurship. Social entrepreneurship focuses on social organizations. According to[30], Social entrepreneurial orientation has indicators of innovation, risk-taking, proactive nature, and the degree of social nature. Additionally, according to [31] social entrepreneurs should use resources like business owners to carry out operational tasks. In a social organization, this study shows a positive impact of partnership size, funding, innovation, Organizational structure, and transfer of information about social performance. The results show that social entrepreneurship orientation affects business performance ([20];[12];[32];[33];[34];[35];[36];[21][11]).

H<sub>2a</sub>: Social entrepreneurship orientation has positive effect the social performance of BUMDes

H<sub>2b</sub>: Social entrepreneurship orientation has positive effect on the financial performance of BUMDes

## **2.5 The Influence Social Performance on Financial Performance**

An international indicator of a company's social success is social responsibility [37]. Customers and staff satisfaction will both rise if a company actively practices environmental and social responsibility.

Sustainability of satisfaction and the level of the company's reputation will ultimately result in more group customers and increased sales, additionally enhance the business's financial success. [38]; that is, In order to satisfy internal and external customers' expectations and needs, social responsibility [39]. Thus, considering customer rights and benefits, the connection between corporate performance and social performance is investigated. In doing so, it demonstrates how social performance will ultimately encourage economic performance improvement[40] . prior research Financial performance is correlated with social performance [41].

As a result, the following theory is proposed:

H<sub>3</sub>: Social performance has positive effect on the financial performance of BUMDes

## **2.6 Mediating Social Performance on the Relationship of Transformational Leadership with BUMDes' Financial Performance**

Transformational leadership is an approach to leadership that can change followers to overcome their interests by changing their ideals, morals, and values and motivating them to be better than expected [42]. Meanwhile, according to [43], Transformational leadership is where leaders inspire followers, improve employee performance and morality, and have a central role and strategy in bringing the organization to achieve its planned goals. The success and failure of an organization are primarily determined by its leaders and leadership. The decision to implement a task successfully or unsuccessfully rests with the leader [44]. As a result, this transformational leadership can improve the performance of followers. Research [16][45] supports that transformational leadership affects performance.

Employees that are inspired to work in a positive environment will deliver better customer service, boost organizational performance, and generate profits. Transformational leadership can motivate employees to display behaviors that benefit the company and stakeholders[12]. From the explanation above, the following hypothesis is drawn;

H<sub>4</sub>: Social performance mediates the relationship between transformational leadership and BUMDes financial performance

## **2.7 Mediation of Social Performance on the Relationship of Social Entrepreneurship Orientation with Financial Performance of BUMDes**

The orientation of social entrepreneurship is relatively high hybridity, involving the joint development of entrepreneurial opportunities that both the community and the business itself will benefit [46].. Not all social enterprises with a strong social premise are run and controlled by entrepreneurs. However, suppose they adopt a social entrepreneurial mindset and look for opportunities that could lead to both beneficial social benefits and financial gains for the

company. In that case, these activities can resolve the tension between social and economic value logic[20]. Contrary to the traditional entrepreneurial orientation, which only follows a purely commercial institutional logic formed to maximize profits [47].

The social value proposition claims that, social entrepreneurial orientation creates social value related to economic creation [48]. High financial performance is the expected result of a hybrid company, which is driven by an attitude of social entrepreneurship orientation due to a strategic intention to engage in social entrepreneurship efforts that will provide value to the company [20]. Companies expect strategic social entrepreneurship orientation to achieve superior social performance, creating economic value [49]. Developing new markets and meeting unmet social needs is an attitude of social entrepreneurship orientation that makes social value and will ultimately generate economic wealth [19].

H<sub>5</sub>: Social Performance mediates the relationship between social entrepreneurship orientation and BUMDes financial performance.

### 3 Research Method

#### 3.1 Population and Sample

BUMDes are the study's target population, located in Riau Province, by choosing two areas: Bengkalis Regency and Rokan Hilir Regency. BUMDes managers who participated in the survey as respondents included directors, secretaries, treasurers, and unit heads.

In this study, a questionnaire survey was used as the primary method of data collecting. Research questionnaires were distributed directly to respondents at the research site and via google form for respondents who could not be found now.

#### 3.2 Variable Operational Definition

All variables were measured using a 5-point Likert scale: one = Strongly Disagree to 5 = Strongly Agree.

**Table 1.** Definition of Operational Variables

No	Variable	Variable Definition	Indicator
1.	(Dependent) BUMDes Performance	Financial Performance achievement is measured by profitability, leverage, assets, and revenue/sales growth. The indicator uses the indicator from(Prime & Rifai, Ahmad, and Muwardi, 2014)	Profit rate Income growth rate Productivity rate Capital increase
2.	(Independent) Social Orientation	Entrepreneurship Orientation is the propensity for entrepreneurs to innovate, take calculated risks, and actively seek out new opportunities. (Liu et al., 2014)	Innovative Risk-taking Proactive Social mission orientation Effective orientation Sustainability orientation

No	Variable	Variable Definition	Indicator
3.	(Independent) Transformational leadership	Transformational leadership is the capacity to uplift and encourage subordinates to produce greater effects than anticipated. The questionnaire adapted by[52]	Ideal charisma/influence Inspirational Motivation Intellectual Stimulation Individual Considerations
4.	Social Performance	Sukarno (2008) stated that The company's social performance is a collection of results realized and refers to the act of carrying out and implementing a social responsibility expected of the company.	Loyalty Market share Increase employee satisfaction Increase community satisfaction Improve the reputation of BUMDes

### 3.3 Data Analysis Technique

In this study, in testing the hypothesis, the researcher will use an analytical method, namely Structural Equation Modeling (SEM), using WarpPLS. WarpPLS analysis is an extension of PLS analysis. PLS is an effective analytical method since it can be used to all data scales, requires few assumptions, and A high sample size is not required. Aside from being useful for theory confirmation (hypothesis testing), PLS can also be used to create influences that do not have a theoretical basis or to test propositions. The WarpPLS program may find nonlinear connections between latent variables and adjust the path coefficient values in accordance with these connections [53]. [54] states that there are three mechanisms in the analysis of WarpPLS, namely the mechanism for estimating the outer model, inner model.

## 4 Research Result

Of the 300 questionnaires distributed, the questionnaires can be processed are 217. The details of the identities of the participating respondents are as follows

**Table 2.** Characteristics of Respondents

	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Man	160	74%
Woman	57	26%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>
<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
<20 Years	1	0.4%
21-30 Years	94	43.3%
31-40 Years	77	35.4%
41-50 Years	33	15.3%
>50 Years	12	5.6%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>
<b>Education</b>	<b>Frequency</b>	<b>Percentage</b>
Junior High School	2	0.9%
Senior High School	120	55%
D1	1	0.4%
D2	1	0.4%
D3	14	6.4%
D4	2	0.9%
S1	72	33.1%
S2	5	2%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>
<b>Length of work</b>	<b>Frequency</b>	<b>Percentage</b>
<1 Year	21	9.6%
1-5 Years	180	84%
6-10 Years	16	7.3%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>
<b>Position</b>	<b>Frequency</b>	<b>Percentage</b>
Director	128	59%
Secretary	43	20.1%
Treasurer	35	16.1%
Supervisor	4	1.9%
Unit Leader	7	2%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>
<b>Bumdes category</b>	<b>Frequency</b>	<b>Percentage</b>
Up	35	16%
Develop	67	31%
Grow	75	35%
Base	40	18%
<b>TOTAL</b>	<b>217</b>	<b>100%</b>

#### 4.1 Descriptive Statistics Test Results

Descriptive statistical tests can be seen in Table 3

**Table 3.** Descriptive Statistics

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>mean</b>	<b>Std. Deviation</b>
Transformational leadership	217	14.00	35.00	29.1567	3.50969
Social entrepreneurship orientation	217	16.00	40.00	32.2120	3,76402
Social performance	217	18.00	40.00	31.8065	4.29355
Financial performance	217	10.00	20.00	15.8387	2,39729
Valid n (listwise)	217				

The descriptive statistical test results demonstrate that the standard deviation value does not surpass the mean value, indicating that the data range is pretty excellent.

#### 4.2 Inner Model Test Results

##### Validity Test Results

Convergent and discriminant validity are used in validity testing. Using the loading factor to achieve convergent validity, which can be seen in Table 4

**Table 4.** Convergent Validity

	<b>Transformational Leadership (X<sub>1</sub>)</b>	<b>Social Entrepreneurship Orientation (X<sub>2</sub>)</b>	<b>Social Performance (Z)</b>	<b>Financial Performance (Y)</b>
X <sub>1</sub> 1	(0.807)	0.106	-0.233	0.226
X <sub>1</sub> 2	(0.861)	-0.037	-0.097	0.025
X <sub>1</sub> 3	(0.852)	-0.017	0.042	-0.019
X <sub>1</sub> 4	(0.865)	-0.080	0.042	-0.061
X <sub>1</sub> 5	(0.881)	0.020	0.104	-0.101
X <sub>1</sub> 6	(0.853)	-0.047	0.002	-0.004
X <sub>1</sub> 7	(0.841)	0.062	0.126	-0.050
X <sub>2</sub> 1	-0.006	(0.715)	0.148	-0.022
X <sub>2</sub> 2	0.238	(0.806)	-0.044	-0.011
X <sub>2</sub> 3	-0.128	(0.763)	0.071	0.003
X <sub>2</sub> 4	0.037	(0.757)	-0.032	-0.144
X <sub>2</sub> 5	-0.023	(0.818)	-0.027	0.077



	<b>Transformational Leadership (X<sub>1</sub>)</b>	<b>Social Entrepreneurship Orientation (X<sub>2</sub>)</b>	<b>Social Performance (Z)</b>	<b>Financial Performance (Y)</b>
X <sub>26</sub>	-0.017	(0.761)	-0.124	0.039
X <sub>27</sub>	0.037	(0.706)	0.014	0.039
X <sub>28</sub>	-0.159	(0.704)	0.008	0.016
Y <sub>1</sub>	-0.003	0.019	-0.032	(0.911)
Y <sub>2</sub>	-0.012	-0.020	-0.071	(0.920)
Y <sub>3</sub>	-0.053	0.050	0.031	(0.881)
Y <sub>4</sub>	0.098	-0.069	0.107	(0.622)
Z <sub>1</sub>	0.145	0.101	(0.663)	-0.066
Z <sub>2</sub>	0.098	-0.040	(0.780)	-0.118
Z <sub>3</sub>	0.288	-0.053	(0.737)	-0.050
Z <sub>4</sub>	-0.339	-0.031	(0.714)	0.153
Z <sub>5</sub>	-0.198	-0.011	(0.717)	0.147
Z <sub>6</sub>	0.117	-0.086	(0.820)	-0.013
Z <sub>7</sub>	0.019	-0.069	(0.780)	-0.067
Z <sub>8</sub>	-0.151	0.217	(0.735)	0.029

The test findings demonstrate that each indicator employed has a loading factor value more than 0.7, demonstrating convergent validity of the data [55]. The results of the cross-loading discriminant validity test demonstrate that the variable indicator block has a greater loading value than the other blocks. This implies that discriminant validity is also met. In addition to the cross-loading discriminant validity test, it is also possible to use the correlation of latent variables compared to the AVE squared value. The correlation between latent variables can be seen in Table 5.

**Table 5.** Correlation among LVs with square roots of AVE

	X <sub>1</sub>	X <sub>2</sub>	Y	Z
X <sub>1</sub>	(0.852)	0.657	0.471	0.625
X <sub>2</sub>	0.657	(0.755)	0.444	0.544
Y	0.471	0.444	(0.842)	0.706
Z	0.625	0.544	0.706	(0.745)

The correlation between latent variables shows the squared value of AVE on the diagonal line is higher than the other correlations, which means discriminant validity is met (Fornell & Larcker, 1981).

### Reliability Test

Reliability testing uses composite reliability and Cronbach alpha which can be seen in Table 6

**Table 6.** Reliability and R-Square

	X <sub>1</sub>	X <sub>2</sub>	Y	Z
R-squared			0.531	0.435
Adj. R-Squared			0.524	0.429
Composite reliable.	0.949	0.913	0.905	0.908
Cronbach's alpha	0.937	0.891	0.856	0.884

The reliability test results show that the Cronbach alpha value has a value > 0.7 and composite reliability > 0.9, which indicates that the variable has excellent reliability[55]. The next test is testing the inner model.

### 4.3 Inner Model test results

The first inner model test is to calculate R Square. R Square Z (Social Performance) shows a value of 0.435, indicating that the proportion of changes in social performance determined by the orientation of social entrepreneurship and transformational leadership is 0.435; other variables influence the remaining 0.565. At the same time, the value of R square Y (financial performance) is 0.531, which indicates that the proportion of changes in financial performance is influenced by transformational leadership, social entrepreneurial orientation, and social performance of 0.531 or 53.1%. The remaining 0.469, or 46.9%, is influenced by additional variables not examined in this study. The next test of the inner model is to look at the model fit and quality index.

Table 7 lists three of the top model fit indices produced by WarpPLS: average path coefficient (APC), average R-squared (ARS), and average variance inflation factor (AFVIF).

**Table 7.** Model Fit

Model fit indicator	Provision	Results	Information
Average path coefficient (APC)	p < 0.05 then good	0.299, P<0.001	Good
Average R-squared (ARS)	p < 0.05 then good	0.483, P<0.001	Good
Average block VIF (AVIF)	AVIF < 5 then good	0.477, P<0.001	Good
Tenenhaus GoF (GoF)	0.1, medium >= 0.25, large >= 0.36	0.556	Large

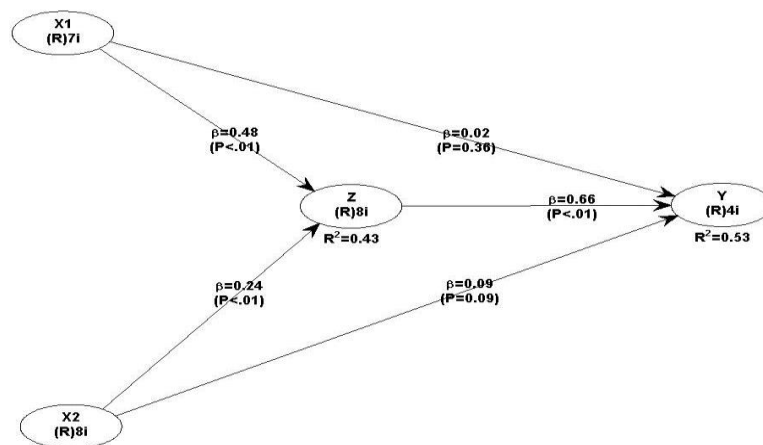
Table 5 shows the criteria for fit models APC, ARS, AVIV, and GoF all have good standards so that the test can be continued in testing the hypothesis.

### 4.4 Hypothesis Testing Results

Comparing the p-value and path coefficient values is how hypotheses are tested. In Table 8, the findings of the hypothesis test are shown.

**Table 8.** Results of Hypothesis Testing

Hypothesis	Path Coefficient	P Value	Decision
Transformational leadership has positive effect on the social performance of BUMDes (H <sub>1a</sub> )	0.481	<0.001	Accepted
Social Entrepreneurship Orientation has positive effect on Social Performance (H <sub>1b</sub> )	0.238	<0.001	Accepted
Transformational Leadership leadership has positive effect on Financial Performance (H <sub>2a</sub> )	0.024	0.360	Rejected
Social Entrepreneurship Orientation leadership has positive effect on Financial Performance (H <sub>2b</sub> )	0.090	0.090	Rejected
Social Performance leadership has positive effect on financial performance (3)	0.661	<0.001	Accepted
Social performance mediates the relationship between transformational leadership and bumdes financial performance (H <sub>4</sub> )	0.047	<0.001	Accepted
Social Performance mediates the relationship between social entrepreneurship orientation and BUMDes financial performance(H <sub>5</sub> )	0.045	<0.001	Accepted



**Fig 1.** Structural Equation Model

### **The Effect of Transformational Leadership on Social Performance of BUMDes**

According to the findings of testing Hypothesis 1a, the path coefficient value is 0.481 and the P value is less than 0.01 (less than 0.05), which means the hypothesis can be accepted. The results of the study indicate that high levels of transformational leadership can enhance BUMDes' social performance because of the relationship between these two variables. BUMDes, a social organization that grows and develops during society, must be an open organization. BUMDes is a subsystem of its environment that can influence or be influenced by its environment[57]. Organizations are not only responsible for producing a product and service with good quality but also must be able to meet the needs of stakeholders (Jonker and White, 2004).

Descriptive statistics show that transformational leadership is quite good. Support statement[29]that transformational leadership results in higher levels of innovation and effectiveness. Transformational leadership in BUMDes can inspire, motivate and have a vision to change stakeholder demands.

The transformational leadership style in BUMDes can influence the development of viewing employees as assets. When employees are active and feel safe in their work, they will be emotionally committed to their organization and do more than expected ([15]. This research supports research[12];[13][14]which shows that transformational leadership affects social performance.

### **The Effect of Transformational Leadership on BUMDes Financial Performance**

The results of hypothesis testing 1b show the path coefficient value 0.024 and P value 0.360 (> 0.05), which means that hypothesis 1b is rejected. The test results show that transformational leadership does not directly affect the financial performance of BUMDes. Descriptive statistics show that transformational leadership in BUMDes is quite good. However, transformational leadership cannot improve the financial performance of BUMDes. Although the BUMDes managers have a transformational leadership spirit, they do not. It seems that BUMDes managers have not fully implemented this leadership trait. In their financial management, they do not directly impact the financial performance of BUMDes. In addition, there has not been a complete harmonization of cooperation, coordination, and good communication in the management of BUMDes. Interviews with BUMDes managers revealed that the lack of collaboration between the village administration and BUMDes managers limited BUMDes management, making it difficult to adopt innovation and creativity. The findings of this study are also similar with the findings of another study [58] that Buleleng Regency has been unable to boost village income.

### **The Effect of Social Entrepreneurship Orientation on Social Performance**

According to the findings of testing Hypothesis 2a, the path coefficient value is 0.238 and the P value is less than 0.01 (less than 0.05). It means that the hypothesis can be accepted, namely that social entrepreneurial orientation affects the social performance of BUMDes. Social performance is the social impact an organization produces from prosocial attitudes enjoyed by the organization's community or other communities at large. (Rawhouser et al., 2017). In generating the impact of social entrepreneurship, the number of stakeholders involved is usually higher than in pure entrepreneurship, such as beneficiaries, volunteers, and customers[27] [18].

BUMDes managers with a high social entrepreneurial orientation will take risks proactively, developing new initiatives to deal with social problems in a sustainable manner. The creation of new BUMDes products and services as a result of innovations can directly contribute to solving social issues and sustainable competitive advantage for the organization. Support statement[59]that organizational innovation can solve social problems. Social entrepreneurship requires innovations to encourage new ways to meet social demands[60][61]. This study supports research showing that social entrepreneurial orientation increases social performance [20];[12]

### **The Effect of Social Entrepreneurship Orientation on the Financial Performance of BUMDes**

According to the findings of hypothesis testing 2b, hypothesis 2b is rejected since the path coefficient value is 0.90 and the P value is 0.90 ( $> 0.05$ ). The test results show that social entrepreneurship orientation does not directly affect the financial performance of BUMDes. The results of descriptive statistics show that the BUMDes managers have a relatively good social entrepreneurship orientation but have not improved the financial performance of BUMDes. [30]states that social entrepreneurial orientation has indicators of innovation, risk-taking, proactive nature, and the degree of social nature. Although the BUMDes managers have a reasonably good social entrepreneurship orientation, they have not been able to fully implement their social entrepreneurial spirit. A small number can see it as business units owned by BUMDes. There are even 7 BUMDes that do not yet have a business unit. Business units that have not been appropriately managed impact BUMDe's income.

### **The Effect of Social Performance on BUMDes financial performance**

The results of testing hypothesis 3 show that the path coefficient value is 0.238 and the P value  $< 0.01$  ( $< 0.05$ ). It means that the hypothesis—that social entrepreneurial orientation influences BUMDes' social performance—can be accepted.

Social performance, according to [62], is the interaction of social responsibility concepts, social responsibility processes, and policies to address social challenges that have been generated. Not quite enough, an indicator of a company's social performance is its commitment to social responsibility [37]. Social responsibility is a unified policy, action, and program. It is applied in business operations, supplies, and decision-making processes and generally includes issues relating to business ethics, investment, society, environment-related issues, governance, human rights, and the work environment [63].

This study demonstrates that social responsibility in BUMDes will improve employee and customer satisfaction, as well as the level of corporate reputation. It will also result in more customer groups and increased sales, which will ultimately have an impact on the firm's financial success. [38]. Previous research by [23]shows the connection between social performance and financial performance..

### **Mediation of Social Performance on the Relationship of Social Entrepreneurship Orientation with Financial Performance of BUMDes**

The outcomes of hypothesis testing 2b demonstrate the path coefficient value 0.661 and P value  $< 0.001$  ( $< 0.05$ ), which confirms that 2b is a valid hypothesis. The test findings demonstrate how social performance impacts BUMDes' financial performance.

From the results of this test, it can also be interpreted that social entrepreneurial orientation affects financial performance without the mediation of social performance variables. Social entrepreneurship's focus on financial performance and social performance as a mediation of that relationship turned out to be mediating. Mediation means that social performance influences the development of entrepreneurial opportunities in social enterprises. And social entrepreneurial orientation affects the hybrid companies that are predicted to perform well financially, which are driven by social entrepreneurial orientation attitudes because of the planned intent to engage in social entrepreneurship activities that will benefit the company [20].

This research is consistent with the research [64] social performance mediates the link between social entrepreneurial attitude and effectiveness.

### **Mediation of Social Performance on the Relationship of Transformational Leadership with BUMDes' Financial Performance**

The results of hypothesis testing 2b show the path coefficient value 0.661 and P value  $< 0.001$  ( $< 0.05$ ), which means that hypothesis 3 is accepted. The test results show that social performance affects the financial performance of BUMDes.

From the results of this test, it can also be interpreted that transformational leadership will still be able to significantly affect financial performance without the mediation of social performance variables. It turned out that there is a mediation between the effects of transformative leadership on both financial and social performance. Mediation means that the social version influences the formation of a leader responsible for the success and failure of implementing a job. As a result, this transformational leadership can improve the performance of followers. This research supports previous research [12]; [13]; [14] that transformational leadership affects performance.

## **5 Conclusion**

BUMDes as a social enterprise has become necessary in improving the community's economy, especially in rural areas. This study aims to look into the impact of social entrepreneurship and transformational leadership on the financial performance of BUMDes, and the part of social performance in mediating the effect of transformational leadership and social entrepreneurial direction on the financial performance of BUMDes. The results of this study conclude that transformational leadership and social entrepreneurship orientation directly affect social performance and have no direct impact on improving the financial performance of BUMDes. The study's findings revealed that social performance can serve as a mediator between social entrepreneurialism and transformational leadership in terms of their influence on BUMDes' financial performance.

This study still has several limitations. Namely, it can only collect data in two districts in Riau Province and is still testing factors affecting social and financial performance. Therefore, further research can be conducted in the broader area to look at potential performance influences on BUMDes social enterprises, such as external pressure.

This research has contributed to supporting the RBV theory that performance improvement can occur in terms of transformational leadership and social entrepreneurship orientation. This research proves that transformational leadership and social entrepreneurship

can improve social performance. Therefore, to enhance performance, BUMDes, BUMdes can provide entrepreneurial leadership training to BUMDes managers.

## References

- [1] M. . Kalla, “Kemajuan Ekonomi, Kewirausahaan, dan Kemandirian Bangsa, Orasi Akademik Penganugerahan Gelar Doktor Kehormatan Bidang Pemikiran Ekonomi dan Bisnis.” Fakultas Ekonomi dan Bisnis Universitas Brawijaya, Malang, 2011.
- [2] W. . Collier and K. Santoso, *A New Approach to Rural Development in Java: Twenty Five Years of Village Studies*. Sajogyo (penerjemah). *Pendekatan Baru Dalam Pembangunan Pedesaan di Jawa: Kajian Pedesaan Selama Dua Puluh Lima Tahun*. Jakarta: Yayasan Obor Indonesia, 1996.
- [3] B. Arifin, *Spektrum Kebijakan Pertanian Indonesia: Telaah Struktur, Kasus, dan Alternatif Strategi*. Jakarta: Erlangga, 2001.
- [4] J. Phillipson, P. Tiwasing, M. Gorton, S. Maioli, R. Newbery, and R. Turner, “Shining a spotlight on small rural businesses: How does their performance compare with urban?,” *J. Rural Stud.*, no. 68, pp. 230–239, 2019.
- [5] G. McElwee, R. Smith, and P. Somerville, “Conceptualising animation in rural communities: the Village SOS case,” *Entrep. Reg. Dev.*, vol. 30, no. 1–2, pp. 173–198, 2018, doi: <https://doi.org/10.1080/08985626.2017.1401122>.
- [6] R. Anggrainie, “The Effect Of Community Empowerment Bumdes On Community Income (Case Study In Sinar Rambang Village Prabumulih) Efek,” *Manag. Stud. Entrep. J.*, vol. 3, no. 1, pp. 245–253, 2022.
- [7] Samjulaifi, Muhammadiyah, and J. Usman, “Prinsip-Prinsip Pengelolaan Badan Usaha Milik Desa Dalam Meningkatkan Kesejahteraan Masyarakat Di Desa Ko'mara Kecamatan Polongbangkeng Utara Kabupaten Takalar,” *J. Manag. Strateg.*, vol. 21, no. 1, pp. 1–9, 2020.
- [8] R. A. Iger, “The heart and soul of the company/ organization is creativity and innovation,” *kemenkeu. go.id*, 2022.
- [9] I. CNN, “Jokowi Temukan 2.188 BUMDes ‘Ambyar,’” *CNN Indonesia*, 2019.
- [10] N. Aeni, “DESCRIPTION OF VILLAGE-OWNED ENTERPRISES (BUMDES) PERFORMANCE IN PATI DISTRICT,” *J. Litbang Provinsi Jawa Tengah*, vol. 18, no. 2, pp. 131–146, 2020.
- [11] Y. M. Basri, N. A. Br Pinem, and H. Yasni, “Improving Performance of Village Owned Enterprises: The Role of Human Capital, Organizational Culture, and Entrepreneurial Orientation,” *J. Account. Strateg. Financ.*, vol. 4, no. 2, pp. 256–273, 2021, doi: [10.33005/jasf.v4i2.193](https://doi.org/10.33005/jasf.v4i2.193).
- [12] A. Naderi, L. N. Vosta, A. Ebrahimi, and M. R. Jalilvand, “The contributions of social entrepreneurship and transformational leadership to performance: Insights from rural tourism in Iran,” *Int. J. Sociol. Soc. Policy*, vol. 39, 2019, doi: [DOI:10.1108/IJSSP-06-2019-0124](https://doi.org/10.1108/IJSSP-06-2019-0124).
- [13] E. Muralidharan and S. Pathak, “Sustainability, transformational leadership, and social entrepreneurship,” *Sustain.*, vol. 10, no. 2, pp. 1–22, 2018, doi: [10.3390/su10020567](https://doi.org/10.3390/su10020567).
- [14] S. M. Buchholtz, “An Examination of Not-for-Profit CEO Transformational Leadership Style and its Influence on Entrepreneurial Behavior and Social Enterprise Initiation,” 2021, [Online]. Available: [https://scholarship.rollins.edu/dba\\_dissertations/33/](https://scholarship.rollins.edu/dba_dissertations/33/).
- [15] N. Ketprapakorn and S. Kantabutra, “Sustainable social enterprise model: Relationships and consequences,” *Sustain.*, vol. 11, no. 14, pp. 1–39, 2019, doi: [10.3390/su11143772](https://doi.org/10.3390/su11143772).
- [16] T. G. A. Orabi, “The Impact of Transformational Leadership Style on Organizational Performance: Evidence from Jordan,” *Int. J. Hum. Resour. Stud.*, vol. 6, no. 2, p. 89, 2016, doi: [10.5296/ijhrs.v6i2.9427](https://doi.org/10.5296/ijhrs.v6i2.9427).
- [17] A. Alrowwad, B. Y. Obeidat, A. Tarhini, and N. Aqqad, “The Impact of Transformational Leadership on Organizational Performance via the Mediating Role of Corporate Social Responsibility: A Structural Equation Modeling Approach,” *Int. Bus. Res.*, vol. 10, no. 1, p. 199, 2016, doi: [10.5539/ibr.v10n1p199](https://doi.org/10.5539/ibr.v10n1p199).

- [18] G. T. Lumpkin, T. W. Moss, D. M. Gras, S. Kato, and A. S. Amezcua, "Entrepreneurial processes in social contexts: how are they different, if at all?," *Small Bus. Econ.*, vol. 40, no. 3, pp. 761–783, 2013, doi: 10.1007/s11187-011-9399-3.
- [19] Ramani, S. Ghazi, and Gupta, "Catalysing innovation for social impact: The role of social enterprises in the Indian sanitation sector," *Technol. Forecast. Soc. Change*, pp. 216–227, 2017, doi: <https://doi.org/10.1016/j.techfore.2016.10.015>.
- [20] N. Gali, T. Niemand, E. Shaw, M. Hughes, S. Kraus, and A. Brem, "Social entrepreneurship orientation and company success: The mediating role of social performance," *Technol. Forecast. Soc. Change*, vol. 160, 2020, doi: <https://doi.org/10.1016/j.techfore.2020.120230>.
- [21] F. do Adro, C. I. Fernandes, P. M. Veiga, and S. Kraus, "Social entrepreneurship orientation and performance in non-profit organizations," *Int. Entrep. Manag. J.*, vol. 17, no. 4, pp. 1591–1618, 2021, doi: 10.1007/s11365-021-00748-4.
- [22] M. P. Miles, M.-L. Verreynne, B. Luke, R. Eversole, and J. Barraket, "The Relationship of Entrepreneurial Orientation, Vincentian Values and Economic and Social Performance in Social Enterprise," *Rev. Bus.*, vol. 33, no. 2, pp. 91–102, 2013, [Online]. Available: <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=91612014&site=ehost-live>.
- [23] J. H. Choi, S. Kim, and D. H. Yang, "Small and medium enterprises and the relation between social performance and financial performance: Empirical evidence from Korea," *Sustain.*, vol. 10, no. 6, pp. 15–19, 2018, doi: 10.3390/su10061816.
- [24] G. Yukl, *Kepemimpinan dalam Organisasi*. PT. Indeks Jakarta, 2015.
- [25] M. K. Imran, M. Ilyas, U. Aslam, and U.-R. Ubaid, "Organizational Learning through Transformational Leadership." 2016.
- [26] T. Saebi, N. J. Foss, and S. Linder, "Social Entrepreneurship Research: Past Achievements and Future Promises," *J. Manage.*, vol. 45, no. 1, 2018, doi: <http://dx.doi.org/10.1177/0149206318793196>.
- [27] Rauch, Wiklund, Lumpkin, and Frese, "Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future," *Entrep. theory Pract.*, vol. 33, no. 3, pp. 761–787, 2009.
- [28] H. Rawhouser, M. Cummings, and S. L. Newbert, "Social Impact Measurement: Current Approaches and Future Directions for Social Entrepreneurship Research," *Entrep. Theory Pract.*, vol. 43, no. 1, 2017.
- [29] S. E. Bryant, "The Role of Transformational and Transactional Leadership in Creating, Sharing and Exploiting Organizational Knowledge," *J. Leadersh. Organ. Stud.*, vol. 9, no. 4, pp. 32–44, 2003, doi: 10.1177/107179190300900403.
- [30] S. Kraus, T. Niemand, J. Halberstadt, E. Shaw, and P. Syrjä, "Social entrepreneurship orientation: development of a measurement scale," *Int. J. Entrep. Behav. Res.*, vol. 23, no. 6, pp. 977–997, 2017, doi: 10.1108/IJEBR-07-2016-0206.
- [31] M. Mayenkes, C. Rob-Post, and J. Stamp, "Social Ventures from a Resource-Based Perspective: An Exploratory Study Assessing Global Ashoka Fellows," *Entrep. theory Pract.*, 2010, doi: <https://doi.org/10.1111%2Fj.1540-6520.2010.00389.x>.
- [32] D. Palacios-Marqués, M. G. Garcia, M. M.-S. Sánchez, and P. Pilar Alguacil, "Social entrepreneurship and organizational performance: A study of the mediating role of distinctive competencies in marketing," *J. Bus. Res.*, 2019, doi: • 10.1016/j.jbusres.2019.02.004.
- [33] C. Shin and J. Park, "Classifying social enterprises with organizational culture, network and socioeconomic performance: Latent profile analysis approach," *J. Open Innov. Technol. Mark. Complex.*, vol. 5, no. 1, 2019, doi: 10.3390/joitmc5010017.
- [34] S. Doh, "Social entrepreneurship and regional economic development: The case of social enterprise in south korea," *Sustain.*, vol. 12, no. 21, pp. 1–20, 2020, doi: 10.3390/su12218843.
- [35] P. P. Pinheiro, A. Daniel, and A. Moreira, "Social Enterprise Performance: The Role of Market and Social Entrepreneurship Orientations," *Volunt. Int. J. Volunt. Nonprofit Organ.*, vol. 32, 2021.
- [36] J. Halberstadt, T. Niemand, S. Kraus, G. Rexhepi, and J. Kailerf, "Social entrepreneurship orientation: Drivers of success for start-ups and established industrial firms," *Ind. Mark.*



Manag., vol. 94, 2021, doi: <https://doi.org/10.1016/j.indmarman.2020.06.012>.

- [37] M. Vankatesh and G. Angappa, "Four forces of supply chain social sustainability adoption in emerging economies," *Int. J. Prod. Econ.*, vol. 199, 2018, doi: [10.1016/j.ijpe.2018.02.015](https://doi.org/10.1016/j.ijpe.2018.02.015).
- [38] Y. Lu, C. Zhao, L. Xu, and L. Shen, "Dual institutional pressures, sustainable supply chain practice and performance outcome," *Sustain.*, vol. 10, no. 9, pp. 1–25, 2018, doi: [10.3390/su10093247](https://doi.org/10.3390/su10093247).
- [39] H. Refkee and D. Sundaram, "Key themes and research opportunities in sustainable supply chain management – identification and evaluation," *Omega*, pp. 195–211, 2017, doi: <https://doi.org/10.1016/j.omega.2016.02.003>.
- [40] S. Laari, J. Toyli, T. Solakivi, and L. Ojala, "Firm performance and customer-driven green supply chain management," *J. Clean. Prod.*, vol. 112, no. 3, pp. 1960–1970, 2016, doi: <https://doi.org/10.1016/j.jclepro.2015.06.150>.
- [41] M. J. Kim, "A Study of the Economic and Social Performance of Social Enterprise," *Int. J. Adv. Cult. Technol.*, vol. 6, no. 2, pp. 43–50, 2018.
- [42] B. M. Bass and P. Steidlmeier, "Ethics, character, and authentic transformational leadership behavior," *Leadersh. Q.*, vol. 10, no. 2, pp. 181–217, 1999, doi: [10.1016/S1048-9843\(99\)00016-8](https://doi.org/10.1016/S1048-9843(99)00016-8).
- [43] H. B. Ariffin, "Pengaruh Kepemimpinan Transformasional Terhadap Kinerja Pegawai Bagian Keuangan Sekretariat Daerah Kabupaten Ciamis," *Decis. J. Adm. Publik*, vol. 1, no. 2, p. 110, 2019, doi: [10.23969/decision.v1i2.1817](https://doi.org/10.23969/decision.v1i2.1817).
- [44] J. A. Gaubatz and D. C. Ensminger, "Department chairs as change agents: Leading change in resistant environments," *Educ. Manag. Adm. Leadersh.*, vol. 45, no. 1, 2016.
- [45] T. W. H. Ng, "Transformational leadership and performance outcomes: Analyses of multiple mediation pathways," *Leadersh. Q.*, vol. 28, no. 3, pp. 385–417, 2017, doi: <https://doi.org/10.1016/j.leaqua.2016.11.008>.
- [46] S. A. Alvarez and J. B. Barney, "Entrepreneurship and Epistemology: The Philosophical Underpinnings of the Study of Entrepreneurial Opportunities," *Acad. Manag. Ann.*, vol. 4, no. 1, pp. 557–583, Jan. 2010, doi: [10.1080/19416520.2010.495521](https://doi.org/10.1080/19416520.2010.495521).
- [47] J. Austin, H. Stevenson, and J. W. Skillern, "Social and Commercial Entrepreneurship: Same, Different, or Both?," *Entrep. Theory Pract.*, vol. 30, no. 1, 2006, doi: <https://doi.org/10.1111/j.1540-6520.2006.00107.x>.
- [48] M. H. Rispal and V. Sarventie, "Deconstructing the Way in which Value Is Created in the Context of Social Entrepreneurship," *Br. Acad. Manag.*, vol. 20, no. 1, pp. 62–80, 2018.
- [49] C. Guo and W. Bielefeld, *Social Entrepreneurship: An Evidence-Based Approach to Creating Social Value*. Jossey-Bass, 2014.
- [50] P. Perdana and D. Rifai, Ahmad, Muwardi, "Analisis Kinerja Sosial dan Kinerja Keuangan Lembaga Keuangan Mikro (LKM) Usaha Ekonomi Desa-Simpan Pinjam (UED-SP) Badan Usaha Milik Desa (BUMDes) Ngaso Mandiri Desa Ngaso Kecamatan Ujung Batu Kabupaten Rokan Hulu Analysis," *Jom Faperta*, 2014.
- [51] G. Liu, S. Takeda, and W. W. Ko, "Strategic Orientation and Social Enterprise Performance," *Nonprofit Volunt. Sect. Q.*, vol. 43, no. 3, pp. 480–501, 2014, doi: [10.1177/0899764012468629](https://doi.org/10.1177/0899764012468629).
- [52] G. Wiranegara, "Hubungan Gaya Kepemimpinan Transformasional Dan Perilaku Kewargaan Organisasi Serta Peningkatan Pengetahuan Gaya Kepemimpinan Transformasional Melalui Pelatihan Kepada Atasan Di PT. X.," 2013.
- [53] M. Sholihin and D. Ratmono, "Analisis SEM-PLS dengan Warp PLS 3.0." Andi Offset Yogyakarta, 2013.
- [54] B. S. Koch, "Balanced scorecards: An experimental study of the effects of linking the evaluators' and subordinates' balanced scorecards on performance evaluation.," 2008.
- [55] J. F. Hair, W. C. Black, J. B. Babin, and R. E. Anderson, *Multivariate data analysis*. Amazon, 2010.
- [56] C. Fornell and D. F. Larcker, "Evaluating structural equation models with unobservable variables and measurement," *J. Mark. Res.*, vol. 18, no. 1, pp. 39–50, 1981, doi: <https://doi.org/10.1080/00273178108839537>.

<http://dx.doi.org/10.2307/3151312>.

- [57] V. Ariyani, "Keterkaitan Kinerja Sosial Perusahaan Dengan Kinerja Keuangan Perusahaan," *Widya War.*, no. 2, pp. 168–177, 2014.
- [58] G. A. Yuniarta and I. G. A. Purnamawati, "Apakah Potensi Desa Dan Kepemimpinan Transformasional Mampu Meningkatkan Pendapatan?," *J. Akunt. Multiparadigma*, vol. 11, no. 1, pp. 77–88, 2020, doi: 10.21776/ub.jamal.2020.11.1.05.
- [59] W. Kuncoro and W. O. Suriani, "Achieving sustainable competitive advantage through product innovation and market driving," *Asia Pacific Manag. Rev.*, vol. 23, no. 3, pp. 186–192, 2018, doi: 10.1016/j.apmr.2017.07.006.
- [60] A. Groot and B. Dankbaar, "Does Social Innovation Require Social Entrepreneurship?," *Technol. Innov. Manag. Rev.*, vol. 4, no. 12, pp. 17–26, 2014, doi: 10.22215/timreview854.
- [61] A. Mthembu and B. Barnard, "Social Entrepreneurship: Objectives, Innovation, Implementation and Impact on Entrepreneurship," *SSRN Electron. J.*, vol. 7, no. 1, pp. 147–177, 2019, doi: 10.2139/ssrn.3343448.
- [62] S. L. Wartick and P. L. Cochran, "The Evolution of the Corporate Social Performance Model," *Acad. Manag. Rev.*, vol. 10, no. 4, pp. 758–769, Sep. 1985, doi: 10.2307/258044.
- [63] M. Tsoutsoura, "Working Paper Series Title Corporate Social Responsibility and Financial Performance," pp. 1–21, 2004, [Online]. Available: <https://escholarship.org/uc/item/111799p2>.
- [64] Z. Zafar, L. Wenyuan, M. A. Bait Ali Sulaiman, K. A. Siddiqui, and S. A. Qalati, "Social Entrepreneurship Orientation and Enterprise Fortune: An Intermediary Role of Social Performance," *Front. Psychol.*, vol. 12, no. February, pp. 1–17, 2022, doi: 10.3389/fpsyg.2021.755080.