Siyasah Dusturiyah: State Law Review
Published by Yayasan Cerdas Pedia Indonesia
Volume 1 Issue 5, 2026 ISSN (Online) *3109-9726*
Journal Homepage: https://jurnal.smartpedia.co.id/index.php/SDLR

Icelandic and Thai Rural Hybrid Law: Leveraging Local Creativity for Global Diplomacy

Hukum Hibrida Entitas Perdesaan Islandia dan Thailand Mendukung Diplomasi Kreativitas Global

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Article Info

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History:
Submitted: 16-01-2026
Revised: 22-02-2026
Accepted: 29-03-2026

Keyword:
Fiduciary Constraints; Distributed Accountability; Piercing Corporate Veil; Normative Asymmetry; Creative Diplomacy.

Kata Kunci:
Batasan Fidusia; Akuntabilitas Terdistribusi; Penyingkapan Tabir Perusahaan; Ketegangan Normatif; Diplomasi Kreatif.

https://doi.org/10.65101/gx67sr76

Abstract

Indonesian statutory conferral of absolute corporate personhood upon rural enterprises, conspicuously lacking codified fiduciary constraints, precipitates severe normative asymmetry and systemic agency pathology. This legal study utilized a functional comparative methodology to investigate the jurisprudential paradox neutralizing grassroots creative diplomacy. The central thesis asserts that weaponizing the corporate liability shield without rigorous distributed accountability structurally incubates elite capture and asset commingling. Consequently, this research proposes a novel hybrid legal framework that systematically integrates the organizational agility of Thai unincorporated community models with the strategic regulatory architecture of Icelandic cultural exports. The operationalized findings demonstrate that mandating statutory triggers for piercing the corporate veil, combined with exogenous supervision, successfully overrides localized bureaucratic subordination. This doctrinal reconfiguration provides a vital prescriptive paradigm, ensuring domestic corporate governance achieves the stringent international compliance necessary to transform rural cultural capital into formidable sovereign soft power capable of advancing global creative diplomacy across modern international landscapes.

Abstrak

Pemberian status badan hukum mutlak kepada perusahaan perdesaan Indonesia tanpa batasan fidusia terkodifikasi nyata telah memicu ketegangan normatif serta patologi agensi sistemik. Studi hukum ini telah menerapkan metodologi komparatif fungsional untuk menginvestigasi paradoks yurisprudensial penghambat diplomasi kreatif akar rumput. Tesis sentral menegaskan bahwa pemanfaatan tameng tanggung jawab korporasi tanpa akuntabilitas terdistribusi ketat secara struktural menyuburkan eksploitasi elite dan percampuran aset. Oleh karena itu, penelitian ini merumuskan sebuah kerangka hukum hibrida baru yang sistematis mengintegrasikan kelincahan organisasi entitas komunitas Thailand dengan arsitektur regulasi strategis dari ekspor kultural Islandia. Temuan operasional membuktikan bahwa pelembagaan pemicu statutori untuk penyingkapan tabir perusahaan, dikombinasikan dengan pengawasan eksogen, berhasil mengesampingkan subordinasi birokrasi lokal. Rekonfigurasi doktrinal ini secara nyata memberikan sebuah paradigma preskriptif vital, memastikan tata kelola korporasi domestik mencapai standar kepatuhan internasional ketat guna mengubah modal kultural perdesaan menjadi kekuatan lunak berdaulat yang mampu memajukan diplomasi kreatif global melintasi seluruh lanskap hukum internasional era modern ini.

A. INTRODUCTION

1. Background

The twenty-first-century paradigm of international relations has undergone a profound structural transformation, pivoting from conventional geopolitical statecraft toward the strategic deployment of creative economic diplomacy as a primary apparatus of soft power.[1] In this evolving global landscape, sovereign actors increasingly leverage cultural exports and grassroots innovation—moving beyond multinational conglomerates to empower localized, community-driven enterprises—to project influence and secure economic resilience. Nations that successfully harness their creative economies translate localized cultural capital into strategic international leverage, thereby generating normative asymmetry and competitive advantages in the global market.[2] The Icelandic model, for instance, demonstrates how state-sponsored integration of creative industries operates as a potent mechanism for global diplomacy, establishing the nation as an epicenter of modern creative export despite its geographic constraints.[3]

In stark contrast, Indonesia faces a profound jurisprudential paradox. While possessing an immense repository of cultural heritage and village-level creative potential, the nation struggles to elevate its rural enterprises into effective instruments of global economic diplomacy. The Indonesian government has attempted to institutionalize this grassroots economic capacity through the establishment of Village-Owned Enterprises (*Badan Usaha Milik Desa*, or BUMDes), designed to serve as public welfare aggregators that orchestrate local capital and eliminate market intermediaries. Following the enactment of Law No. 11 of 2020 on Job Creation and its operational derivative, Government Regulation No. 11 of 2021, the state formally conferred separate legal personality upon BUMDes, establishing them as independent legal entities (*personae fictae*).[4]

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[1] Snezhana Chubarova, "Creative Industries as a Tool of Soft Power in International Cultural Policy," *Social Sciences in Brief* 3, no. 1 (March 10, 2026): 1–6, https://doi.org/10.47909/ssb.30.
[2] Desti Fitriani, Amirul Shah Md Shahbudin, and Elvia R. Shauki, "Exploring BUMDES Accountability: Balancing Expectations and Reality," *Cogent Business & Management* 11, no. 1 (December 31, 2024), https://doi.org/10.1080/23311975.2024.2402083.
[3] Kristín Ingvarsdóttir and Guðbjörg Ríkey Th. Hauksdóttir, "Science Diplomacy for Stronger Bilateral Relations? The Role of Arctic Science in Iceland's Relations with Japan and China," *The Polar Journal* 14, no. 1 (January 2, 2024): 314–32, https://doi.org/10.1080/2154896X.2024.2342114.
[4] Muhammad Ikhsan Kamil et al., "The Concept of A Perfect BUMDES Law Entity After Law No. 11/2020 on Working Creation in The Role of Increasing Village Income," *Jurnal IUS Kajian Hukum Dan Keadilan* 11, no. 3 (December 26, 2023): 589–601, https://doi.org/10.29303/ius.v11i3.1277.

This absolute conferral of corporate personhood—absent the concomitant harmonization of orthodox corporate law principles, particularly stringent fiduciary duties—has catalyzed severe structural ambiguity and agency pathology.[5] BUMDes are legally constructed as autonomous entities with demarcated assets; nevertheless, their managerial accountability remains subjugated to the hierarchical administrative authority of local village heads. This systemic disparity between the requisite commercial rationality of an independent enterprise and the entrenched bureaucracy of local politics has precipitated profound governance dysfunctions. Recent empirical evidence from Bali Province confirms the total collapse of early warning systems, where the absence of robust internal controls and conflict-of-interest mitigation has facilitated asset commingling, fictitious credit distribution, and white-collar malfeasance.[6] Consequently, the current framework creates an "illusion of accountability," rendering BUMDes structurally incapable of participating in the highly regulated ecosystem of international creative diplomacy.

Existing academic discourse regarding rural corporate governance and community enterprises bifurcates into distinct jurisprudential clusters. The first cluster critically examines the institutional disorientation and agency pathologies endemic to BUMDes, emphasizing how the statutory conferral of legal personality—without commensurate fiduciary constraints—precipitates systemic accountability failures, severe operational inefficiencies, and asset commingling.[7,8,9,10] Conversely, a second cluster investigates communal entities through a comparative lens, noting that foreign jurisdictions, particularly Thailand, successfully accommodate unincorporated community enterprises to mitigate agency costs while fostering entrepreneurial agility and local resource

[5] Gusti Putu Mutia Wulandari and Ni Putu Nina Eka Lestari, “Transformasi Tata Kelola Badan Usaha Milik Desa (BUMDes) Pada Era Digital,” *Ganaya : Jurnal Ilmu Sosial Dan Humaniora* 7, no. 3 (July 5, 2024): 263–81, https://doi.org/10.37329/ganaya.v7i3.3336.
[6] Faris Satria Alam, Mohamad Mujibur Rohman, and Elisa Eka Andriyani, “Early Warning System in The Supervision of Village-Owned Enterprise (BUMDes) Management: A Legal Perspective and Its Implementation in Bali Province,” *Jurnal Poros Hukum Padjadjaran* 7, no. 1 (November 28, 2025): 37–48, https://doi.org/10.24198/jphp.v7i1.2457.
[7] Alam, Rohman, and Andriyani.
[8] Susanty Ismail, Tri Handayani Amaliah, and Mahdalena Mahdalena, “Governance, Accountability, and Accounting Practices in Village-Owned Enterprises (Bumdes): A Scoping Review,” *Journal Research of Social Science, Economics, and Management* 5, no. 6 (February 2, 2026): 10065–73, https://doi.org/10.59141/jrssem.v5i6.1289.
[9] Imam Radianto Anwar Setia Putra et al., “Village-Owned Enterprises Perspectives Towards Challenges and Opportunities in Rural Entrepreneurship: A Qualitative Study with Maxqda Tools,” *Administrative Sciences* 15, no. 3 (February 24, 2025): 74, https://doi.org/10.3390/admsci15030074.
[10] Fitriani, Md Shahbudin, and Shauki, “Exploring BUMDES Accountability: Balancing Expectations and Reality.”

aggregation.[11,12,13] Furthermore, contemporary scholarship on international relations underscores that flexible, state-supported local creative economies are indispensable catalysts for projecting soft power and executing effective bilateral diplomacy, as evidenced by Iceland's strategic integration of cultural exports.[14]

To bridge this critical gap, this study offers a novel jurisprudential synthesis through a functional comparative-corporate approach. The central thesis posits that the unconditional attribution of separate legal personality to BUMDes—without the precise operationalization of fiduciary duties and the business judgment rule—has systemically facilitated the abuse of power, thereby neutralizing Indonesia's grassroots diplomatic potential. As a comprehensive resolution, this article conceptualizes a "Hybrid Legal Framework" for rural corporate governance. By functionally integrating the organizational agility of Thailand's unincorporated community enterprises with the state-sponsored, internationally integrated regulatory strategy of Iceland's creative diplomacy, this hybrid model aims to restore institutional integrity. Ultimately, this structural reconfiguration will legally empower Indonesian rural enterprises to transcend domestic bureaucratic stagnation and emerge as competitive, accountable actors within the global creative economy.

2. Research Questions

Predicated upon the identified doctrinal lacunae and the systemic disparity between domestic corporate governance and international diplomatic imperatives, the exigency of this study is distilled into two primary jurisprudential inquiries:

a. How does the statutory conferral of absolute corporate personhood upon Indonesian Village-Owned Enterprises (BUMDes) precipitate agency pathology and normative asymmetry, thereby neutralizing their capacity for international creative diplomacy when juxtaposed with the regulatory agility of Thailand's unincorporated community models?

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[11] Jeera Phumpuong and Kumchai Jongjakapun, "Measures for Social Enterprise Promotion Pursuant to the Social Enterprise Promotion Act B.E. 2562 (2019)," *Rajapark Journal* 16, no. 46 (May 20, 2022): 262–78, https://so05.tci-thaijo.org/index.php/RJPJ/article/view/255433.

[12] Surutchada Reekie and Adam Reekie, "Comparing Comparative Law: Perspectives from Thailand," *International and Comparative Law Quarterly* 73, no. 2 (April 18, 2024): 447–75, https://doi.org/10.1017/S0020589324000058.

[13] Phiphop Somwethee et al., "Developing Social Entrepreneurial Capability in Thai Community Enterprises: The Roles of Intellectual Capital, Creating Shared Value, and Organizational Agility on Sustainability," *Social Sciences & Humanities Open* 11 (2025): 101269, https://doi.org/10.1016/j.ssaho.2024.101269.

[14] Ingvarsdóttir and Hauksdóttir, "Science Diplomacy for Stronger Bilateral Relations? The Role of Arctic Science in Iceland's Relations with Japan and China."

b. To what extent can a "Hybrid Legal Framework"—synthesizing the distributed accountability of Thai grassroots structures with the macro-strategic, diplomatic architecture of Iceland's creative economy—be doctrinally engineered to cure domestic governance dysfunctions and project local cultural capital as global soft power?

3. Research Methode

To deconstruct the normative asymmetry inherent in rural corporate governance and address the articulated research questions, this study employs a rigorous socio-legal methodology, inextricably linking prescriptive doctrinal analysis with the empirical evaluation of governance pathologies (*law in action*). The inquiry is anchored in a tripartite functional comparative approach (*functional comparative approach*), establishing a precise *tertium comparationis* across three distinct jurisprudential models: the rigid legal personhood of Indonesian Village-Owned Enterprises (BUMDes), the distributed accountability inherent in Thailand's unincorporated community associations, and the macro-strategic regulatory architecture of Iceland's creative diplomacy.[15]

The jurisprudential corpus is extracted from two primary stratifications. Primary legal materials encompass statutory frameworks across the examined jurisdictions, specifically Indonesia's Law No. 6 of 2014, Law No. 11 of 2020, and Government Regulation No. 11 of 2021; Thailand's Community Enterprise Promotion Act B.E. 2548 (2005) and its subsequent B.E. 2562 (2019) amendment[16]; and Iceland's institutional public policies governing cultural exports. To ensure absolute methodological transparency, secondary legal materials were systematically aggregated from elite academic databases—primarily Scopus and HeinOnline—strictly bounded to peer-reviewed literature published between 2021 and 2026. The thematic extraction utilized Boolean search parameters (e.g., *"fiduciary duty" AND "rural enterprise"*; *"creative diplomacy" AND "hybrid governance"*), employing strict inclusion criteria focused on corporate liability matrices and grassroots diplomatic strategies, while purposefully excluding localized, non-comparative descriptive studies.

[15] Reekie and Reekie, "Comparing Comparative Law: Perspectives from Thailand."
[16] Phumpuong and Jongjakapun, "Measures for Social Enterprise Promotion Pursuant to the Social Enterprise Promotion Act B.E. 2562 (2019)."

The aggregated data is subsequently scrutinized through qualitative deductive reasoning and teleological statutory interpretation. Doctrinally, the analysis operationalizes *fiction theory* and *fiduciary theory* as advanced hermeneutic instruments to interrogate the systemic disparity between positive law and empirical malfeasance—specifically observing documented instances of asset commingling and white-collar exploitation within BUMDes operations in Bali and North Sumatra.[17] By deploying this multifaceted analytical technique, the study transcends mere textual description, enabling the precise jurisprudential formulation of a Hybrid Legal Framework designed to cure domestic agency problems and elevate local enterprises into viable, accountable actors for international diplomatic engagement.

B. PEMBAHASAN

1. The Pathology of Corporate Personhood: Doctrinal Voids and Agency Costs in Indonesian Rural Enterprises

Jurisprudentially, the attribution of corporate personhood to non-state collective entities is deeply rooted in orthodox *fiction theory*, which posits that the law artificially breathes legal life into organizations to facilitate complex economic transactions.[18] However, when mechanically transplanted into the socio-cultural fabric of Indonesian rural enterprises, this doctrinal attribution rapidly unravels. Recent socio-legal critiques illuminate a profound institutional disorientation; scholars such as Fitriani et al., and Dewi et al., argue that endowing Village-Owned Enterprises (BUMDes) with a *separate legal personality* artificially conflates irreconcilable socio-commercial objectives.[19,20] This statutory maneuver attempts to fuse the ruthless profit-maximization mandates of modern corporate capitalism with the inherent social-welfare obligations of communal village life. Consequently, as meticulously documented by Ismail et al., this ontological friction generates severe accounting and accountability deficits, rendering local enterprises structurally incapable of sophisticated financial governance and paralyzing

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[17] Alam, Rohman, and Andriyani, “Early Warning System in The Supervision of Village-Owned Enterprise (BUMDes) Management: A Legal Perspective and Its Implementation in Bali Province.”
[18] M. Zulfa Aulia, “Friedrich Carl von Savigny Tentang Hukum: Hukum Sebagai Manifestasi Jiwa Bangsa,” *Undang: Jurnal Hukum* 3, no. 1 (July 7, 2020): 201–36, https://doi.org/10.22437/ujh.3.1.201-236.
[19] Fitriani, Md Shahbudin, and Shauki, “Exploring BUMDES Accountability: Balancing Expectations and Reality.”
[20] Amelia Sri Kusuma Dewi et al., “Motion Sickness: Holding the Acupressure Point of Village-Owned Business Entities on the Wheel of ‘Good Corporate Governance,’” *Brawijaya Law Journal* 11, no. 1 (October 1, 2024): 48–71, https://doi.org/10.21776/ub.blj.2024.011.01.03.

their potential to generate export-grade creative capital.[21]

Expanding upon this scholarly baseline, a critical doctrinal deconstruction of Law No. 11 of 2020 on Job Creation and its operational derivative, Government Regulation No. 11 of 2021, reveals a far more perilous systemic defect: a profound normative asymmetry. By formally designating BUMDes as independent legal entities, the Indonesian state granted these grassroots institutions the ultimate corporate privilege—a statutory liability shield. Yet, it inexplicably failed to impose the indispensable counterbalance of rigorous, codified fiduciary duties. In elite corporate governance, the veil of limited liability is inextricably bound to the absolute enforcement of the *duty of care* and the *duty of loyalty*. By divorcing the protective shield from these fundamental fiduciary constraints, the legislative framework birthed a doctrinal void, effectively immunizing local operators from personal liability without demanding the concomitant managerial rigor required to protect public assets.

This normative asymmetry is dangerously exacerbated when dissected through the lens of Agency Theory. The statutory architecture of BUMDes constructs a deeply flawed principal-agent dynamic characterized by acute hierarchical subordination. Operational directors, who should theoretically act as independent fiduciaries for the village constituency (the ultimate beneficial owners), are structurally subjugated to local village heads functioning as *ex officio* advisors. This rigid bureaucratic subordination severely compromises the directors' capacity to exercise untainted business judgment. Rather than operating as autonomous economic engines primed for creative innovation and market expansion, BUMDes are frequently co-opted as auxiliary instruments of local political administration, heavily burdened by localized agency costs and exogenous bureaucratic shocks.

The theoretical vulnerabilities of this structural void are unequivocally validated by recent empirical realities. Observational data extracted from rural governance failures in Bali and North Sumatra demonstrate that the absence of strict fiduciary enforcement cultivates an environment ripe for moral hazard.[22,23] Protected by the absolute liability

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[21] Ismail, Amaliah, and Mahdalena, "Governance, Accountability, and Accounting Practices in Village-Owned Enterprises (Bumdes): A Scoping Review."
[22] Alam, Rohman, and Andriyani, "Early Warning System in The Supervision of Village-Owned Enterprise (BUMDes) Management: A Legal Perspective and Its Implementation in Bali Province."
[23] Lili Naili Hidayah, Johni Najwan, and Dwi Suryahartati, "Village-Owned Enterprises Legal Accountability for Village Natural Resources Management in the Perspective of Separate Legal Entity and Legal Certainty," *Mendapo: Journal of Administrative Law* 6, no. 3 (January 25, 2026): 275–301, https://doi.org/10.22437/mendapo.v6i3.52967.

shield and unchecked by robust internal controls, village elites routinely engage in egregious asset commingling—leveraging BUMDes capital to underwrite fictitious credit distribution and sustain entrenched patronage networks. Ultimately, the current statutory framework does not deliver corporate autonomy; rather, it constructs an "illusion of accountability." It entraps local creative enterprises within a matrix of unchecked localized exploitation, fundamentally neutralizing their capacity to mature into robust economic actors capable of international diplomatic engagement.

Table 1. Matrix of Agency Pathologies and Fiduciary Deficits in BUMDes Operations

Agency Theory Indicators	Normative Intent (GR No. 11/2021)	Empirical Reality (Bali & North Sumatra Data)	Resulting Fiduciary Deficit
Principal-Agent Dynamic	Autonomous operational management by professional directors.	Acute subordination to the Village Head (*ex officio* advisor) dictating business operations.	Compromised independent business judgment; high agency costs.
Asset Demarcation	Absolute legal separation of corporate entity wealth from personal/village assets.	Pervasive asset commingling and extra-legal pledging of corporate assets for political gain.	Severe breach of the *Duty of Loyalty* (Conflict of Interest).
Risk Allocation	Prudent commercial risk-taking shielded by limited liability.	Fictitious credit distribution diverted to entrenched local patronage networks.	Systemic moral hazard; egregious breach of the *Duty of Care*.
Accountability Mechanism	Periodic performance reporting to the community (Beneficial Owners).	Opaque governance mechanisms weaponized to shield elite capture from public scrutiny.	The "Illusion of Accountability"; structural incapacity for global trade.

As synthesized in Table 1, the prevailing statutory architecture of Indonesian rural enterprises fundamentally weaponizes the corporate form. Rather than cultivating agile economic entities capable of projecting creative soft power on a global scale, the premature conferral of a liability shield insulates bureaucratic malfeasance and institutionalizes a severe fiduciary deficit. Resolving this deep-seated normative asymmetry requires a radical jurisprudential departure from the dogma of mandatory formal corporatization. To reclaim the diplomatic and economic viability of grassroots enterprises, it is imperative to investigate alternative governance models that prioritize distributed accountability and robust peer-monitoring over rigid legal personhood—a paradigm most effectively operationalized within the unincorporated community enterprise structures of Thailand.

2. Distributed Accountability and Organizational Agility: The Thai Unincorporated Community Enterprise Model

To construct a viable doctrinal cure for the normative asymmetry paralyzing Indonesian rural enterprises, it is jurisprudentially instructive to pivot toward the comparative paradigm of Thai agrarian and social enterprise legislation. As Reekie and Reekie articulate in their methodological deconstruction of Thai comparative law,[24] Thailand offers a distinct regulatory ecology that eschews rigid Western corporate transplants in favor of models uniquely calibrated to grassroots socio-economic realities. This legislative ethos is explicitly codified in frameworks such as the Social Enterprise Promotion Act, which prioritizes operational fluidity and community integration over strict legal formalism.[25] Extending this discourse, contemporary socio-legal scholarship demonstrates that Thai community enterprises achieve remarkable sustainability and organizational agility not by hiding behind corporate veils, but by leveraging robust social capital and decentralized governance. Nakhonsong and Chamruspanth, alongside Somwethee et al., compellingly argue that the structural reliance on trust networks and reciprocal obligations—rather than mandatory corporatization—enables these local entities to adapt rapidly to market demands and maintain high levels of internal accountability.[26,27]

Establishing the *tertium comparationis*, the stark jurisprudential contrast between Indonesia's mandatory corporatization and Thailand's flexible statutory architecture reveals the profound efficacy of the latter's approach. Under the Community Enterprise Promotion Act B.E. 2548 (2005) and its subsequent amendments, Thailand predominantly governs its grassroots collectives—including the highly successful One Tambon One Product (OTOP) initiatives—as unincorporated associations. Unlike the Indonesian BUMDes, which labors under the rigid *fiction theory* of an artificial person, the Thai model operates on a sophisticated iteration of *aggregate theory*. The enterprise is legally constructed not as an isolated, fictional entity equipped with an impenetrable liability shield, but as an organic aggregation of its constituent members bonded by

[24] Reekie and Reekie, "Comparing Comparative Law: Perspectives from Thailand."
[25] Phumpuong and Jongjakapun, "Measures for Social Enterprise Promotion Pursuant to the Social Enterprise Promotion Act B.E. 2562 (2019)."
[26] Phannavich Nakhonsong and Viyouth Chamruspanth, "Promoting Community Enterprises in Thailand: Challenges and Opportunities," *Revista de Gestão Social e Ambiental* 18, no. 4 (May 23, 2024): e06505, https://doi.org/10.24857/rgsa.v18n4-123.
[27] Somwethee et al., "Developing Social Entrepreneurial Capability in Thai Community Enterprises: The Roles of Intellectual Capital, Creating Shared Value, and Organizational Agility on Sustainability."

shared social capital and linear economic objectives.

Crucially, this Thai model intentionally omits the corporate liability shield, fundamentally altering the risk allocation matrix. The doctrinal absence of a separate legal personality mandates a regime of *distributed accountability*, wherein members bear joint and several liability (*in solidum*) for the enterprise's obligations. While orthodox corporate theorists might view this exposure as a commercial deterrent, in the context of rural micro-economies, it functions as a highly effective, self-executing regulatory mechanism. Stripped of the liability shield that typically insulates bureaucratic malfeasance in Indonesia, Thai community members are structurally compelled to engage in rigorous peer-monitoring. This hyper-vigilance organically neutralizes the agency costs that plague BUMDes, successfully curtailing elite capture and ensuring that local capital is shielded from political expropriation.

Furthermore, Thailand fortifies this peer-monitoring dynamic with a sophisticated mechanism of administrative preventive supervision, orchestrated by the Department of Agricultural Extension (DOAE) under the Ministry of Agriculture and Cooperatives. Operating as an external, sectoral supervisor, the DOAE provides critical technical oversight, standardizes production methodologies, and guarantees operational legitimacy. This paradigm of independent sectoral supervision is demonstrably superior to Indonesia's reliance on localized bureaucratic oversight by Village Heads. By inserting an independent, specialized authority into the governance matrix, the Thai model effectively severs the patron-client networks that breed systemic disparity and conflict of interest. The DOAE's intervention insulates the community enterprise from exogenous political shocks, projecting a positive signaling effect to third-party creditors and supply-chain partners regarding the entity's *bona fides*, despite its unincorporated status.

Table 2. Ontological Architecture Comparison: Indonesian BUMDes vs. Thai Community Enterprises

Comparative Parameters	Indonesian Village-Owned Enterprises (BUMDes)	Thai Community Enterprises (OTOP Model)
Statutory Pillar	Law No. 11/2020 & Gov. Reg. No. 11/2021	Community Enterprise Promotion Act B.E. 2548 (2005) & 2562 (2019)
Entity Attributes	Absolute Legal Entity (*Mandatory Corporatization*)	Predominantly Unincorporated Associations (*Flexible*)
Jurisprudential Foundation	*Fiction Theory* (Artificial Personhood)	*Aggregate Theory* (Organic Collective Aggregation)
Asset Demarcation & Liability	Normative separation of assets; protected by a liability shield (highly vulnerable to commingling).	Based on social capital; driven by *distributed accountability* and joint & several liability (*in solidum*).
Third-Party	Low protection; risk of default due to	High protection; sustained by rigorous

Protection & Oversight	internal elite capture and localized bureaucratic subordination.	peer-monitoring and independent preventive supervision by the DOAE.

As delineated in Table 2, the ontological divergence between the two jurisdictions highlights a fundamental governance paradox: the heavily formalized Indonesian BUMDes suffers from transactional paralysis and localized expropriation, whereas the unincorporated Thai model achieves dynamic commercial stability through distributed accountability and external sectoral oversight. However, while Thailand's grassroots agility provides the perfect antidote to domestic agency pathology, localized efficiency alone is insufficient to project national soft power on a global scale. To transition these rehabilitated rural entities into formidable instruments of international creative diplomacy, this decentralized accountability must be integrated with a macro-strategic architectural framework—a diplomatic synergy exquisitely epitomized by the Icelandic strategy.

3. Structuring the Hybrid Legal Framework: Elevating Local Agility to Global Creative Diplomacy via the Icelandic Strategy

To transcend the localized agency pathologies previously identified and successfully project rural creative capital onto the global stage, domestic corporate reform must be inextricably linked to a macro-objective: international economic diplomacy. Contemporary international relations scholarship underscores that sovereign soft power relies heavily on the seamless export of localized cultural and scientific innovation. As Ingvarsdóttir and Hauksdóttir compellingly articulate, Iceland has masterfully operationalized its domestic creative and scientific capital as a high-impact instrument of bilateral diplomacy.[28] However, projecting this caliber of soft power requires a sanitized, highly functional domestic base. In Indonesia, cultivating this base necessitates the downward application of sophisticated corporate doctrines to rural entities. Hasiholan et al., provide a crucial jurisprudential stepping stone in this regard, demonstrating how the Business Judgment Rule (BJR) can successfully defend directors of Indonesian State-Owned Enterprises (SOEs) from unwarranted criminalization. Extending this doctrinal protection downward to Village-Owned Enterprises (BUMDes) is the prerequisite for

[28] Ingvarsdóttir and Hauksdóttir, "Science Diplomacy for Stronger Bilateral Relations? The Role of Arctic Science in Iceland's Relations with Japan and China."

fostering the entrepreneurial risk-taking essential for export-grade creative production.[29]

Building upon this scholarly baseline, this article conceptualizes the Hybrid Legal Framework for Creative Diplomacy—a novel jurisprudential synthesis that cures domestic systemic disparity by integrating Indonesian legal personhood, Thai distributed accountability, and Icelandic macro-strategic diplomatic projection. The operationalization of this framework necessitates a rigorous, four-step structural reconfiguration.

Step 1: Fiduciary Codification and the Statutory Safe Harbor. The framework begins by retaining the *separate legal personality* of Indonesian BUMDes—a necessary prerequisite for international transacting. However, it cures the existing normative asymmetry by explicitly codifying the *duty of loyalty* and the *duty of care* within the village enterprise's governing statutes. Crucially, these fiduciary obligations must be insulated by a statutory Business Judgment Rule (BJR). By establishing a definitive safe harbor, local directors are shielded from personal liability and localized political criminalization when executing legitimate, good-faith entrepreneurial strategies, thereby incubating a safe environment for high-yield creative innovation.

Step 2: Statutory Triggers for Piercing the Corporate Veil (PCV). To counterbalance the BJR protection, the framework establishes explicit statutory triggers for *Piercing the Corporate Veil* (PCV). When local elites or BUMDes directors engage in *ultra vires* acts, self-dealing, or the commingling of corporate and village assets, the liability shield instantly dissolves. Upon this dissolution, the liability matrix defaults to the Thai community enterprise model: imposing *in solidum* (joint and several) personal liability upon the offending actors. This threat of distributed accountability functions as a severe doctrinal deterrent, organically neutralizing moral hazard and elite capture.

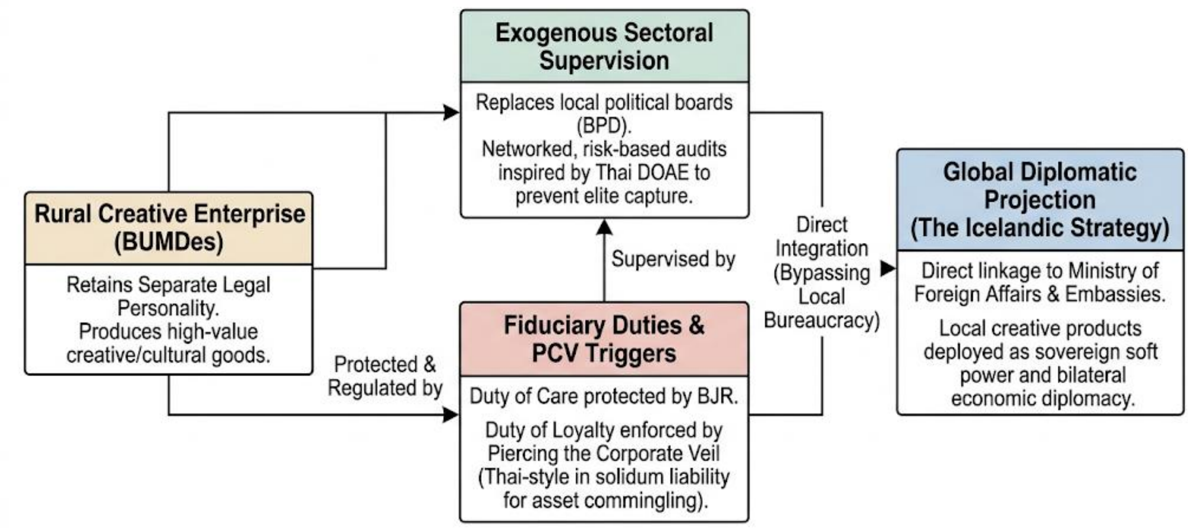
Step 3: Networked, Risk-Based Supervision. The hybrid model mandates the dismantling of the politically compromised local oversight boards (BPD), which have historically functioned as incubators for patron-client exploitation. Inspired by the Thai Department of Agricultural Extension (DOAE), this framework replaces localized oversight with a networked, risk-based supervision architecture. By elevating oversight to an exogenous sectoral authority—comprising regional inspectorates and independent

[29] Tohom Hasiholan et al., "The Business Judgment Rule as a Criminal Defense for State-Owned Enterprise Directors in Indonesian Corruption Cases," *International Review of Social Sciences Research* 5, no. 3 (September 30, 2025): 79–94, https://doi.org/10.53378/irssr.353236.

auditors—the enterprise is insulated from localized exogenous shocks and political coercion, ensuring that corporate governance adheres to international compliance standards.

Step 4: The Icelandic Integration for Global Diplomacy. Once the grassroots governance architecture is thoroughly sanitized through Steps 1 through 3, the BUMDes ecosystem is legally and commercially primed for international statecraft. Emulating the "Creative Iceland" paradigm, the final phase of the framework mandates direct institutional linkages between these hyper-accountable local enterprises and the Indonesian Ministry of Foreign Affairs. By establishing an integrated diplomatic pipeline between high-performing BUMDes and Indonesian Embassies abroad, the state bypasses intermediary bureaucratic stagnation. Consequently, meticulously governed rural creative products are seamlessly elevated into sovereign soft power, transforming village-level organizational agility into a formidable asset for global economic diplomacy.

Figure 1. The Hybrid Legal Framework for Creative Diplomacy: Synthesizing Grassroots Agility and Macro-Strategic Governance



Ultimately, this multi-tiered architectural synthesis bridges the chasm between domestic regulatory reform and international statecraft. By reconciling the formal attributes of corporate personhood with the self-executing discipline of distributed accountability—and systematically aligning rehabilitated grassroots enterprises with macro-level diplomatic apparatuses—the proposed framework resolves the structural paradoxes inherent in rural institutional design. Through this normative realignment, developing jurisdictions can effectively transform localized economic vulnerabilities into globally competitive instruments of soft power and economic resilience.

C. CONCLUSION

The unconditional statutory conferral of corporate personhood upon Indonesian rural enterprises has catalyzed a severe normative asymmetry, insulating bureaucratic malfeasance behind a liability shield while weaponizing the entity against its communal beneficiaries through unchecked agency pathology. To cure this systemic disparity, the jurisprudential paradigm must pivot from rigid legal formalism toward a model of distributed accountability, adopting the joint liability and exogenous sectoral supervision intrinsic to Thailand's unincorporated community structures to organically neutralize elite capture. By strictly codifying fiduciary duties insulated by the business judgment rule and enforcing veil-piercing mechanisms for asset commingling, this doctrinal recalibration structurally sanitizes grassroots governance. Ultimately, this Hybrid Legal Framework functionally engineers local agility into a macro-strategic asset, enabling direct institutional linkages with foreign affairs apparatuses to seamlessly project rural creative capital as sovereign soft power, effectively emulating the Icelandic diplomatic architecture.

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