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Determinant Factors of Village-Owned Enterprise Best Practice in Indonesia

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ABSTRACT

The enactment of the Village Law marks the beginning of the rural development transformation through Village Owned Enterprise (VOE) implementation. In Indonesia, 45,549 VOEs have been established in 83,931 villages. VOEs are developed with a social business model to provide economic and social benefits to the community. Unfortunately, VOEs demonstrating satisfying performance in Indonesia have not reached 600. This research focused on discovering significant factors influencing VOEs' ability to accomplish their best economic and social performance and proposed a success pattern that other VOEs could adapt to their natural and human assets. This study adopted a qualitative mono-method with 24 sources, varying from village government officers, directors and personnel of VOEs, academicians, and other parties, focusing on exploring three VOEs with accomplishments. The findings uncovered six propositions that must be fulfilled for VOEs to attain the necessary success concerning social and economic performance. These results suggested that the village government's commitment, the VOEs' management professionalism, and the village community's involvement must cooperate to produce a balanced social and economic performance. This discovery also suggested VOEs to reflect and reproduce local knowledge through take an advantage of their distinctive natural and human resources.

Keywords: Rural business; Rural entrepreneurship; Social performance; VOE

INTRODUCTION

The number of villages in Indonesia reaches 83,931, spread from Nanggroe Aceh Darussalam to Papua (Kementerian Desa Pembangunan Daerah Tertinggal dan Transmigrasi Republik Indonesia [Kemendesa RI], 2019). Following the mandate of the Rural Act issued in 2014, villages are given the authority to manage internal governance, social and economic affairs, and community relations. One of the essential authorities from the Rural Act is the right to establish *Badan Usaha Milik Desa (BUMDes)* or Village-Owned Enterprises (VOEs). A VOE is a business unit owned by the village government in the economic sector and public services based on the Law No. 6 of 2014 (Republik Indonesia, 2014). Until 2019, VOEs established in Indonesia reached 45,549 (Kemendesa, 2019).

The existence of VOEs is a legitimate endeavor to manage productive village resources. However, VOEs encountering difficulties have nearly reached 90% of the total VOEs established (Suryanto, 2018). The forecast number of start-up VOEs across Indonesia in 2018 was approximately 41,000, with only 600 categorized as healthy (Suryanto, 2018). Unhealthy VOEs indicate performance issues (Puri & Khoirunurrofik, 2021). The challenges ranged from internal factors, such as the management of VOEs, to external influences, such as the willingness of the village government and other stakeholders in the village to support VOEs (Puri & Khoirunurrofik, 2021; Srirejeki, 2018). The situation has made it increasingly difficult for VOEs to contribute substantially to the village's well-being.

One of the most commonly addressed issues is the form of the VOE business model. In compliance with the mandate of the constitution, VOEs are classified as social enterprises because they can provide public services while still earning financial benefits (Kemendesa, 2015). In this regard, the analysis of VOE operations can be performed through social entrepreneurship theory. Social entrepreneurship is deemed necessary to address the community's social needs, which can boost living conditions (Detelj, Kedmenec, & Vuković, 2018; Fuller-Love, Midmore, Thomas, & Henley, 2006). A social company can typically be defined as a hybrid corporation, an organization incorporating the features of commercial companies and public service organizations (Barraket et al., 2017). As social enterprises, therefore, VOEs must simultaneously achieve economic and social success (Dart, 2004).

VOEs, on the other hand, are distinct from other forms of social enterprises. They are set up by the village government, while other social businesses are established based on personal or collective motives (Srirejeki, 2018). VOEs are also recognized nationally due to the official narration in the Rural Act. Therefore, VOEs are frequently viewed as a business model innovation to enhance the village's welfare more creatively and collectively.

Unfortunately, only a small proportion of VOEs could perform successfully enough to generate social and economic benefits for their villages. According to the Audit Board of the Republic of Indonesia (2018) at least 7,759 VOEs have experienced problems ranging from no longer providing services (2,188 units), still operating but providing a minimum contribution for village income (1,670 units), not providing routine evaluation reports (1,034 units), not having any business plan when establishing the organization (871 units), poor management reporting (864 units), not professional VOEs' management (585 units), and business not suiting with the villages' uniqueness potency (547 units). Moreover, a study from *bundes.id* identified at least three primary problems contributing to the unsteady performance of VOEs: selecting a business field not associated with self-sustainability, market potential, and village strength; less room to expand due to negative support; and not being consistent with the decision of the village head and council and policy mismatch in every level of government (Suryanto, 2018). These are undoubtedly challenges that must be resolved together because the progress of VOEs will positively contribute to the village's independence (Puri & Khoirunurrofik, 2021).

However, existing research simply outlines the role of VOEs, their success and failure, and their achievement without deeper exploration into the factors significantly driving their

success (Anggraeni, 2016; Dewi, 2014; Prasetyo, 2016). The situation has created the absence of a pattern that can be learned to be replicated by new VOEs to enhance their organizations. As a result, these new VOEs directly imitated the action that the VOE role model shared without considering the natural resources and assets inherited by the village (Kretzmann & McKnight, 1993; Nel, 2015).

As the novelty, this research aims to identify significant factors determining VOEs in achieving their best performance both in the economic and social aspects and propose a success pattern that can be adopted by other VOEs and adjusted following their natural and human assets. Two questions guided the analysis of this study: “What makes VOEs capable of achieving better economic and social results?” and “What are some aspects influencing the VOEs’ success?”.

This research offers significant benefits both in theory and practice. Theoretically, the findings can serve as a starting point for broader validation methods through a quantitative approach. The practical implication is that VOEs can perform self-reflection following the findings of this study to adapt the pattern and implement the concept.

RESEARCH METHOD

This study seeks to obtain insight, knowledge, and experience from VOEs, regarded as one of Indonesia’s best practices for achieving a balance of economic and social performance. According to Becker (1998), a researcher should select a sample representative of all potentially relevant and essential cases. Moreover, sampling can provide the best representation when it is impracticable to survey the entire population and its relationship with the needs of the study to answer the research question (Saunders, Lewis, & Thornhill, 2015). This study employed a qualitative mono-method to collect data from targeted informants using semi-structured interviews.

A case study was applied in this investigation. Three VOEs were selected to be examined based on the argument of Becker and Saunders: VOE Cisantana (in Cigugur District, Kuningan Regency, West Java Province), VOE Muktisari (in Kalapanunggal District, Sukabumi Regency, West Java Province), and VOE Panggung Lestari (in Sewon District, Bantul Regency, Special Region of Yogyakarta Province). The three VOEs, obtained through purposive sampling, have demonstrated best practices. Both VOE Cisantana and VOE Muktisari won the 2019 Most Productive VOEs for West Java based on the success of their business units, while VOE Panggung Lestari was crowned many awards at the national and international levels.

This exploratory research aims to identify the determinant factors affecting the success of the aforementioned VOEs. The respondents of this study came from the village heads, village officials, directors of VOEs, VOE staff, academics, local governments, and private organizations, totaling 24 people. The data were collected through interviews and focus group discussions (FGDs). However, some interviews were conducted via online platforms due to the pandemic.

Qualitative data were then analyzed using thematic analysis to search for patterns (Braun & Clarke, 2006). The interview results were transcribed, accompanied by coding, to identify relevant information. Subsequently, integrating the interview results generated the main patterns. In addition, after collecting a thematic summary of the data, it was compared with current hypotheses, followed by drawing conclusions and validating the results (Braun & Clarke, 2006).

This study performed a validity and reliability check to ensure the procedure’s quality and the research process mechanism. A systematic literature review preceded this research to draw an initial model concerning the research questions and later to guide the conclusion. Moreover, some organizations’ archives and official reports were employed to verify the interview results. The empirical framework from systematic coding was discussed again with crucial informants to ensure their opinions. For reliability issues, the process of concluding was provided in this study, along with research process steps and transcript data.

RESULTS AND DISCUSSION

The qualitative interviews with 24 informants elicited 72 distinct responses to critical factors supporting VOEs’ success in carrying out their performance. After collecting analytical information from the interviews, the 72 response items were thematically classified before being put into a framework.

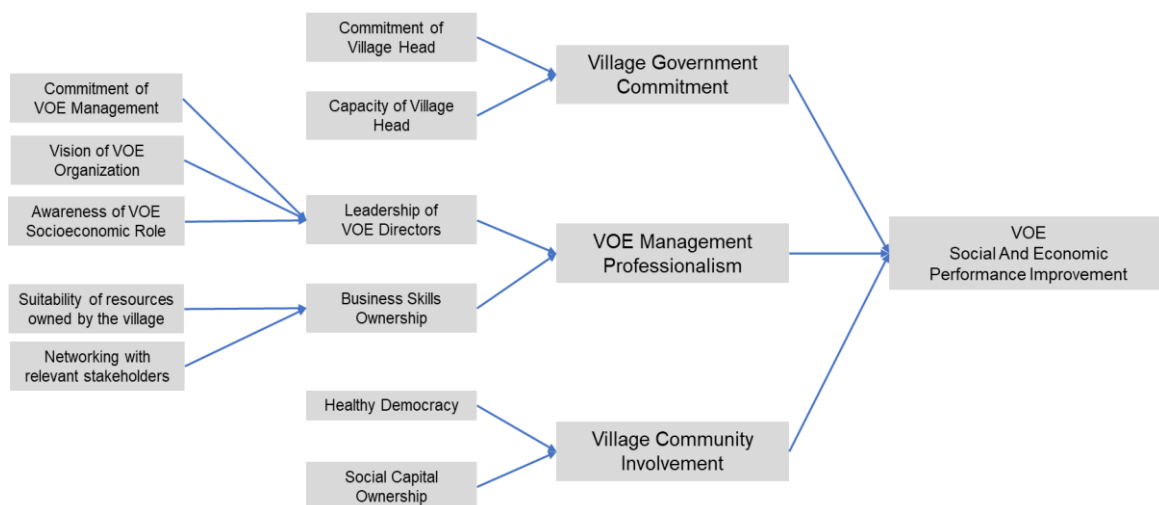


FIGURE 1. PROPOSED MODEL OF VOES’ SUCCESS FACTORS

Figure 1 displays three crucial aspects determining the development of the social and economic performance of VOEs: the village government’s commitment, VOEs’ management professionalism, and the village community’s involvement. These indicators illustrate that the vision of successful VOEs must accommodate three stakeholders playing a role in the village with commitment, professionalism, and participation (Kim, Chan, & Gupta, 2016; Ling, Na, Yan-Li, & Sriyanto, 2020; van den Berg et al., 2018). Derivations connected these three aspects to further sub-aspects, yielding six propositions. These six propositions were examined one by one, with existing theories compared to field facts.

Proposition 1

The village government's commitment, VOEs' management professionalism, and the village community's involvement determined their social and economic performance improvement.

VOEs' social and economic success was highly affected by three fundamental factors: the village government's engagement, VOEs' management professionalism, and the village community's participation. The village government's commitment was significant because the incumbent village head essentially decided the source of the initial capital and the legal umbrella for VOEs. Commitment could bridge the organization's vision and its members' awareness (Kim et al., 2016). Committed ownership became the secret to boosting competitiveness and the positive spirit of the village government to help VOEs (Kim et al., 2016; Verkhohlyad & McLean, 2012).

VOEs were essential to the success of the organizations in the village; hence, their management professionalism was crucial. Work professionalism would promote the growth of trust among stakeholders (Ling et al., 2020). It was also critical to avoid political issues and nepotism likely emerging in the village's institutional positions.

The subsequent keyword was the presence of the village's culture (Hartoyo, Sindung, Teuku, & Sunarto, 2020). If the village government is committed and the VOE runs the organization professionally, but the village population is unwilling to participate, it will be in vain. In compliance with the legal mandate, the village community became the primary beneficiary of the VOE's activities. Therefore, the dedication of the village government and the professionalism of the VOE's administration was expected to reinforce the village community's confidence to participate in any VOE operation.

Proposition 2

The commitment and capacity of the village head determined the village government's commitment.

The head of the village is a minor king in his region and shall be elected by the village community through a system of democratic direct elections based in the Law No. 4 of 2014 (Republik Indonesia, 2014). It indicates the village head's considerable political influence in deciding the policies of the village government. Additionally, the village head also possesses the power to appoint village officials to assist him in running the administration of the village. The discovery concerning VOEs unveiled that the village head determined their initial capital. If the village head lacks the competence to grasp the Village Law and the state of the village government and VOEs, the village government will have a limited commitment to assist the VOEs' administration.

The subsequent significant factor regarding the village head was that he must share common objectives and provide moral and capital support to the management of VOEs. The village head should have trust in the management of VOEs, encourage the management of the village government to support the management of VOEs, assist the community in socializing the life of VOEs, and take charge (in a positive way) when the activities of VOEs are deadlocked (Beard & Dasgupta, 2006).

Nevertheless, the capacity of the village head was formed by his adequate capacity and competence (Alifa & Nugroho, 2019; Setyadi, Syaifudin, & Desmawan, 2020). There was a clear division of tasks between the village government and the management of VOEs, and both the village head and government had a firm grasp of the Rural Act and the ideology of VOEs (Donaldson & Davis, 1991).

Proposition 3

The leadership of VOEs' directors and business skill ownership determined VOEs' management professionalism.

The leadership of VOEs' directors was considered critical to driving their movement (Leach, 2013; Walker & Salt, 2012). Accordingly, VOEs' directors must possess the strong political ability, assertiveness, risk-taking, effective lobbying skills, and adequate management skills. In addition, they must be open-minded and consider the philosophy of VOEs as social enterprises.

A vital understanding of entrepreneurial skills must also follow the leadership of VOEs' directors. VOEs should manage their economic activities that directly affect the lives of the rural community. Therefore, creativity must always come first, so VOEs can be more involved in finding market opportunities and benefitting the beneficiaries (Hsu, 2017).

Proposition 4

Healthy democracy and ownership of social capital determined the village community's involvement.

The village community refers to citizens distinguished by shared interaction and mutual assistance. Accordingly, it is crucial to realize a stable democracy to accommodate the input and desires of people to advance their village through VOEs. The village government and VOEs must be able to promote this democracy based on the village deliberation mechanism to decide on the VOEs' directors, as well as the transparency and accountability of the financial reports prepared by VOEs. If the community sees trustworthiness within the management of VOEs, their involvement will be highly capable of promoting the positive performance of VOEs through the purchase and sale of transactions and business relationships (Tanimoto, 2012; Wilson, 2012).

Proposition 5

Commitment to VOEs' management, VOEs' vision, and awareness of VOEs' socioeconomic role determined the leadership of the VOEs' directors.

Without committed VOEs' management, a clear vision, and an appreciation of the VOEs' socioeconomic position, the directorship of VOEs would not emerge. The VOEs' management dedication was a true picture of the motivation of the VOEs' employees. Motivation to join VOEs must begin with a social purpose rather than pursuing benefit, and the management of the VOEs must develop a sense of belonging to their village, have the

enthusiasm to advance VOEs, and devote their whole efforts and concentrate on VOEs (Lyne, Ngin, & Santoyo-Rio, 2018).

In addition, the vision of VOEs could be defined as a technological matter allowing their management to function optimally. Professionalism requires the competence of adequate human resources and a straightforward and trustworthy attitude. VOEs' management should understand the VOEs' ideology, have an open mind, be focused on solving problems, have strong internal cooperation, maintain a culture of creativity, create a competent organizational structure, and consider the status of VOEs in the industry.

The third factor was awareness of the VOEs' socioeconomic role, focusing on the awareness of VOEs' management to understand the role of VOEs in the village economy. The business of VOEs must not terminate other people's businesses, their profits must be returned to the village as part of village income, oriented to assist the village, and VOEs should not always have to generate profits in a financial context (López, Cazorla, & Panta, 2019).

Proposition 6

The suitability of resources owned by the village and networking with relevant stakeholders determined business skill ownership by VOEs.

As a social and economic-oriented business organization, the business element was deemed essential to the success of VOEs. The suitability of the market potential handled by VOEs and the ability to network with stakeholders were two key factors in assessing their business skills. VOEs-operated businesses will have a leg up on the competition if the business comes from the village. When forming a business, VOEs could utilize the village's assets to lessen the risks.

The second aspect involved networking with relevant stakeholders. VOEs required network support to ensure the availability of market access and financial, legal, and other business support (Bodorkós & Pataki, 2009; Katonáné Kovács & Zoltán, 2017; López et al., 2019; Sebayang & Sebayang, 2020; Vernet, Khayesi, George, George, & Bahaj, 2019). Professionalism in VOEs could be achieved by networking with local governments, central governments, and authorized institutions covering the police, military districts, and the village community, such as village entrepreneurs, youth groups, and institutions.

Managerial Implications

This study's initial objective is to examine a growth model of VOEs that other VOEs could adapt following their physical and intellectual environments. It was essential since many VOEs erroneously adopted role models due to lacking in-depth investigation and introspection (Anggraeni, 2016; Dewi, 2014; Prasetyo, 2016). This issue naturally arose because rural residents tended to be stuck in their traditional minds and repeat what had worked in the past without critically analyzing it in light of their strengths (Susilo, Hidayat, & Marta, 2021). Additionally, the fact that many villages lacked the authority to manage their

assets made the situation much riskier (Kania, Anggadwita, & Alamanda, 2021; Muhammad, McElwee, & Dana, 2017).

Initial managerial implications of this study's findings included the relevance of the commitment of the village head and government as the first capital for boosting VOEs' performance. This dedication was crucial in fostering innovation in the public sector and services (Susilo et al., 2021). One dedication that could serve as an illustration was a pro-entrepreneurship policy from the local government, fostering the rural community's growth (Nguyen, Frederick, & Nguyen, 2014). This commitment was an excellent place to begin encouraging the government to support VOEs by overseeing stakeholder engagement to enhance the community's participation (Dhewanto, Ratnaningtyas, Permatasari, Anggadwita, & Prasetyo, 2020; Fibrianto, 2021; Kusmulyono, Dhewanto, & Famiola, 2022; Umam, Kurniawati, & Widiyanto, 2022).

Optimizing the function of VOEs to promote the growth of village entrepreneurship in the dimensions of exploration, empowerment, capacity building, and stakeholder support was a management implication worth considering (Kania et al., 2021). It enhanced the ability of VOEs to support the development of sustainable opportunities in rural areas (Faher, 2014; Kania et al., 2021). However, to achieve this, VOEs must improve knowledge, learning, and abilities highly pertinent to the growth of entrepreneurship in villages (Hazarika, 2016). The results of this research corroborate previous studies, demonstrating that members of the VOEs exhibited critical business abilities. VOEs must possess these abilities to become a force for economic change in the village (Leach, 2013; Walker & Salt, 2012).

A VOE could help bridge the gap between rural and urban communities, something village governments could perform (Das, 2014; Kusumastuti, Silalahi, Asmara, Hardiyati, & Juwono, 2022). Closing this gap would result in multiplier impacts, reducing unemployment, poverty, and other social issues (Deshwal, 2015; Kusumastuti et al., 2022). As VOE expanded, its members would have a clear picture of the two roles that ought to be established in the law as VOEs' obligations: fostering prosperity and living independently from the conduct of their business (Sari, Junita, Anugerah, & Nanda, 2021). It demonstrates that VOEs fit into social entrepreneurship, balancing financial gain with social benefits (Gutierrez & Montes, 2010; Sari et al., 2021).

As a form of social business entity developed in Indonesia, VOEs benefited from official support through law and financial support from the central government. It differentiates VOEs from several concepts of community development organizations in other countries. The Chinese term for Township-Village Enterprises (TVEs) is conceptually comparable to VOEs (Kania et al., 2021; Suartini, Safa'at, Permadi, & Istislam, 2019). To manage community assets and keep them all within the control of the village government, TVEs were established and are managing all the circumstances. The Chinese Government has also promoted TVEs by supporting production, infrastructure, and industrial readiness (Suartini et al., 2019). It differs from Vietnam, preparing a village development design to accommodate the transformation from agriculture to industry (Nguyen et al., 2014). It caused the originality of the village as an agriculture center to be increasingly vulnerable to climate crises and disasters due to the rapid

growth of industry (Nguyen et al., 2014; Sohns & Revilla Diez, 2018). The concept of developing village organizations in Vietnam and China shared a similar industrial infrastructure, making the notion of building village organizations possible in both countries. In contrast, Indonesian villages have been rooted in centuries of traditional culture and wisdom.

In addition to China and Vietnam, the United States has also maintained a Community Development Corporation (CDC) program. This formal organization works with businesses, nonprofits, and governmental entities to promote and advance local economic development (Squazzoni, 2009). The CDC wants to provide the community with high-quality public services, enhance people's welfare, and promote knowledge transfer between sectors (Squazzoni, 2009). Since CDC is not a part of the government, it is independent and has more professional organizational governance, allowing it to adopt essential initiatives and participate in the local economy's growth (Squazzoni, 2009). Since the village government formally established VOEs, they possessed a different social business model than CDC.

By bolstering the dedication of the village head and government, the professionalism of VOEs' management, and the participation of the village community, these managerial implications have demonstrated how VOEs' performance could be enhanced and managed to make it simple to replicate in other VOEs following their respective assets and uniqueness. Compared to other models of village development groups, such as those in Vietnam, China, and the United States, these organizations were engaged in social entrepreneurship. It depicts that social initiatives were the first step in village development in both developed and developing countries.

CONCLUSION

The research aims to discover major characteristics influencing VOEs' capability to accomplish their best economic and social performance and propose a success pattern that other VOEs enable to adapt by relying on their natural and human assets. This objective was accomplished by the six propositions that emerged from the qualitative exploration of the three VOE targets. VOEs must acknowledge many stakeholders, such as village administration, as legitimate owners, working partners, and the rural community as beneficiaries. To realize the fundamental purpose of developing VOEs in raising the well-being of rural areas through economic and social performance, VOEs must balance social benefit and financial profit.

This proposition evaluation unveiled that VOEs' success was highly interrelated and affected all aspects of the community. When VOEs apply a business decision, it will directly impact the village economy, society, entrepreneurs, and other partners with whom they collaborate. VOEs should never lose sight of their socioeconomic status in the village community and not neglect the importance of pursuing special benefits.

VOEs must also be conducted with the best intentions and high professionalism. Social motivations must spark the urge to engage, and business processes must be activated with a

strong entrepreneurial orientation. VOEs must be propelled by innovation, inventiveness, and directed by a kind heart to advance the village's development.

This study lays a foundation for other VOEs wishing to enhance their social and economic efficiency. However, this qualitative study has shed long-term insight into some VOEs to achieve this accomplishment, as well as cultural aspects and village values with unnoticeable gaps. As the path to VOEs with good output could not be accomplished instantly and briefly, so the thoroughness, continuity, and dedication of VOEs' management in implementing this proposal were critical.

This study also had limitations. Firstly, this study focused on cases in Java that benefited on market availability, well access to education and technology, and low cost of logistics expenses. The subsequent barrier was the lack of qualified human capital to serve VOEs or village governments. This constraint was associated with residents' willingness to serve as steward leaders in their community and contribute to the greater good. Finally, the scarcity of natural resources was the last constraint. This study has not linked its findings to the availability of natural resources in the village. Instead, it has highlighted the advantages of VOEs, which could be replicated in other areas.

Existing constraints could be utilized for future research. A possible future study should cover the relationships between natural resources and the finding propositions in this research. Furthermore, these results could be strengthened by encouraging the validation of this research concept into a confirmation process carried out through a quantitative method in more villages.

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Conflict of interest: There was no conflict of interest in this study because the internal research fund funded it.

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