Village-Owned Enterprises Performance and Rural Entrepreneurship Development in Central Java

Nanik Sri Utaminingsih¹, Amir Mahmud², Nurdian Susilowati³
{nurdiansusilowati@mail.unnes.ac.id³}
Universitas Negeri Semarang, Indonesia¹,²,³

Abstract. Rural entrepreneurship in Indonesia is implemented through Village-Owned Enterprises (BUMDesa). Village-Owned Enterprises has a vital role as a collective economic institution that aims to optimize the welfare of rural communities and develop village potential. However, the implementation and effect of the Village-Owned Enterprises program are questionable. Thus, this study aims to investigate the role of Village-Owned Enterprises in encouraging rural entrepreneurship and strengthening rural economic development. In addition, this study also explores the challenges and performance of Village-Owned Enterprises. This study uses a qualitative method with a case study approach. Data were obtained through in-depth interviews: this research interviews some society, Village-Owned Enterprises administrators, village heads, and village secretaries. The results show that Village-Owned Enterprises are proven to encourage rural entrepreneurship with the dimensions of exploration and empowerment, capacity building, and all stakeholders’ support and involvement. The village government provides a capital stimulus through village funds so that Village-Owned Enterprises can develop sustainable businesses. During the pandemic, Village-Owned Enterprises can continue to run their business. Except for Village-Owned Enterprises with tourism business units, their income has decreased significantly. The challenge faced by Village-Owned Enterprises is the weak commitment of the management and traditional management. So that innovation is needed in developing the business.

Keywords: Community-Based Development Programs, Rural Entrepreneurship, Village Fund, Village-Owned Enterprises Performance

1 Introduction

The economic impact of the Covid-19 outbreak is still being felt today. Most economic sectors experienced negative growth due to the pandemic, which has lasted almost two years since the WHO declared a global pandemic. As an effort to overcome the impact of this pandemic, innovation and economic strategies are needed at the regional and village levels. Strengthening the economic potential of villages is one of the strategic efforts to maintain the economy during the pandemic. Law Number 6 of 2014 concerning villages states that one of the priority programs in rural economic development is Village Owned Enterprises (BUMDesa). Village-Owned Enterprises can be an essential element that plays a role in awakening the sluggish economy during the Covid-19 pandemic. Village-Owned Enterprises are managed by the community and village government to strengthen the village economy and are formed based on the needs and potential of the village. Village-Owned Enterprises can be
developed by considering aspirations and involving village community components collaborating to develop BUMDesa [1].

Optimization to support the development and progress of Village-Owned Enterprises, one of which is driven by the performance factor of their managers themselves. Village-Owned Enterprises must measure their performance regularly to be useful for policymakers in evaluating and improving at points that are not yet optimal [2]. The management of Village-Owned Enterprises must be carried out professionally and independently to maintain its business continuity [2]. The performance of Village-Owned Enterprises can be shown by the presence of productivity and effectiveness of business going concerned [3][4]. According to Anwar [5], performance results from an employee's work both in quality and quantity based on his responsibilities. Hidayah et al. [6] explained that BUMDesa must run conducive to improving performance and productivity.

As a form of rural entrepreneurship, Village-Owned Enterprises has become one of the leading forces in economic growth, especially in developing countries. Village entrepreneurship is considered a key factor to improve regional and village financial performance [7][8]. One strategy in encouraging rural entrepreneurship is to design entrepreneurship programs. These programs develop thinking styles and skills in identifying business opportunities, analytics and problem solving, creativity, expanding the cooperation network, taking risks, business start-up, and management among small business owners/managers [9][10].

The study results Putterman [11] show that Village-Owned Enterprises in rural China were once an economic engine and an essential contributor to the success of China's economic reforms. According to Patel and Chavda [12], the fundamental problem of rural development is limited authority. Most rural development methods only place villagers as objects of action and not as subjects with decisive and strategic control to manage village assets. In addition, Village-Owned Enterprises still experience various obstacles, including the lack of capital, limited human resource capacity in managing. Nowadays, Village-Owned Enterprises lacks community involvement in their business units [13]. Village Funds and Village-Owned Enterprises are believed to have many benefits for rural communities, but little research is related to them in developing countries [14]. Most of the previous studies examined the effectiveness of the establishment of Village-Owned Enterprises. Still, they had not yet reached analysis of its function in mobilizing and involving the community and absorption of labour.

The objective of this research first is to analyse the development of rural entrepreneurship through Village-Owned Enterprises. Second, the function of village funds in supporting the growth and development of Village-Owned Enterprises. Third, analyse the performance of Village-Owned Enterprises and its relationship to village welfare and independence. This research contributes to the theory of community-driven development (CDD), rural entrepreneurship, community-based enterprise (CBE). CDD explained that public programs for rural communities are significant to improving rural communities' living standards and resilience in the face of adversity.

Meanwhile, rural entrepreneurship is the development of entrepreneurial activities in the countryside. In other words, the development of industry also implies that village entrepreneurship is identical to rural industrialization. Rural entrepreneurship in Indonesia is reflected in Village-Owned Enterprises. The concept of Village-Owned Enterprises is similar to Social Enterprise (SE) or Community Based Company (CBE). SE is an organizational form that combines the characteristics of business and community seeking public benefit [8], is focused on social goals and has a relatively broad scope of governance arrangements [15].
2 Method

This research uses a qualitative approach, namely a case study. The case study was conducted in Village-Owned Enterprises in Central Java Province. The research will be divided into Karisidenan in Central Java, Karisidenan Pati, Banyumas, Kedu, Surakarta, Semarang, and Tegal. The residency area based on the Ministry of Finance data in 2020 received the most village funds, ranging from 500 million to 1 billion. The growth of Village-Owned Enterprises in the area is also high. There are four growth criteria for Village-Owned Enterprises: Village-Owned Enterprises Basic, Growing, Developing, and Advanced. This research focuses on the requirements of developing Village-Owned Enterprises. The following is a flow chart of the study to be carried out.

The stages of the research carried out are, first, to explain the central theme of rural entrepreneurship in Village-Owned Enterprises and the involvement of rural communities. At this stage, we conducted a joint analysis by looking for literature sources and observations in units in international journals and data from the Ministry of Villages and the Village Community Empowerment Agency of Central Java Province. Next, analyse the increasing community capacity to become entrepreneurs, market expansion, cultural and environmental conservation potential, support and supervisory by reviewing international journal articles. Collectively compose interview guidelines, conduct data analysis, discussion, and compile reports.

The primary data sources in this qualitative research are words and actions. Therefore, the main instrument in this research is the researcher himself. The informants are village communities, Village-Owned Enterprises administrators, village heads, and village secretaries spread across six residencies in Central Java Province. Purposive sampling is a sampling technique of data sources with specific considerations (according to the purpose). The Village-Owned Enterprises, which is the focus of the research, is Village-Owned Enterprises with the Flower criteria. The characteristics of Village-Owned Enterprises are having employees and cooperation between villages. A work program has Standard Operating Procedures and Village-Owned Enterprises regulations, stakeholder support, permanent office, capital/third parties, orderly, village deliberations at least twice a year, providing job opportunities, and community services.

According to the research objectives, data collection methods were carried out in three ways: in-depth interviews using interview guides. Discussions were addressed to village communities, Village-Owned Enterprises administrators, village heads, and village secretaries. Second, observations were made in the village to get an accurate picture of Village-Owned Enterprises business activities. Third, documentation is used to obtain secondary data on Village-Owned Enterprises capital. In addition, it is also in the form of literature studies, government regulations regarding village funds and Village-Owned Enterprises, and scientific journals related to the problems studied. Furthermore, doing data analysis using qualitative data analysis techniques Miles and Huberman. There are three lines of qualitative data analysis, namely data reduction, data display, and conclusion.
3 Result and Discussion

3.1 Village-Owned Enterprises Development in Central Java

Based on the research results, 6,638 Village-Owned Enterprises have been formed, but only 77 have developed. Based on the Village-Owned Enterprises assessment from Central Java Province in 2020, there are four criteria. There is primary, growing, developing, and advanced. Essential Village-Owned Enterprises that have just been established and have a basic budget and by-laws. Its legality is supported by the issuance of village government regulations regarding Village-Owned Enterprises. Growing means having a clear organizational structure and having one business unit. Developing category Village-Owned Enterprises are the entity with transparent institutions, legal entities, assets and capital, and cooperate with external parties. The last is Advance with indicators that they are independent, collaborate with stakeholders, have systematic financial management, have a significant impact on the community, and increase village income.

One of the main elements of the successful development of Village-Owned Enterprises is the existence of an organizational structure. The division of tasks and authority becomes apparent with the organizational structure, and the work becomes more focused. An example is the BUMDes Gate Lentera, and there are directors and managers from each business unit. Mrs Ratni conveyed this.

[...] There are seven administrators of each business unit who act as the head of the business unit. Each unit business has one manager who is responsible for every activity

This opinion follows the study results, namely that Village-Owned Enterprises need to be adequately managed to start planning, budgeting, implementation, coordination, and evaluation [16]. The planning stage includes determining the business activity plan, which is submitted through village deliberations. The budgeting stage provides for the determination of additional capital and the planned budget. While the implementation stage is related to the sustainability of the Village-Owned Enterprises business and the obstacles faced. Coordination and evaluation are carried out by directors, managers, administrators, village heads or village governments and village communities. The Previews finding explained that village heads and directors have an essential role in encouraging policies and performance [17]. Government participation and assistance have a significant effect on the performance of BUMDes managers [18].

The overall leadership style of Village-Owned Enterprises is good. However, some things need to be improved, considering that the Village-Owned Enterprises director is chosen from the village deliberations and lacks skills and experience in managing the Village-Owned Enterprises. The typical leadership style is explained by Mr Sumariyadi as follows.

[...] Hopefully, the leadership will be more innovative and adaptive to global trends. For now, the leadership style is still lacking; several things underlie it, one of which is being professional in the field being carried out

Village-Owned Enterprises leaders who are innovative, adaptive to global changes are shown by their responsiveness to change. This indicates that even though there is a pandemic, they can innovate. One of them is the temporary diversion of the budget for tourism into the opening of a new unit, namely the telecommunications unit. In addition to responding to community difficulties, this unit was built to add and develop Village-Owned Enterprises. In addition, complementary leadership is a factor that supports the successful performance of Village-Owned Enterprises.
3.2 The Function of Village Funds in Developing Village-Owned Enterprises

Village funds function as the principal capital for the development of Village-Owned Enterprises. It is especially for the basic, growing and developing Village-Owned Enterprises. So far, Village-Owned Enterprises capital participation has come from village funds managed by the Village Government. The amount varies depending on the needs of each Village-Owned Enterprises, as stated by Mas Fery as Director of BUMDesa Asung Daya. […] in 2020, we received a village fund of 100 million, which we obtained through three stages, namely in April, August, and October.

The same thing is also found in Village-Owned Enterprises, Sumber Arto Director, Mr Pristiyo. […] so far, the village government has always provided financial support to fulfill the capital needs of BUMDes. A year we are given 50 million. At the end of the year, we have to share the profits for the village treasury.

Based on law number 6 of 2014 concerning villages, it is stated that the purpose of village funds is to improve public services in villages, eradicate poverty and create jobs. Appropriate management of village funds can increase economic growth rapidly and achieve community welfare. In addition, village administrators carry out measurable direction and require the participation of district and central governments and the community itself [19]. The purpose of allocating village funds is as stimulant assistance to encourage village financing from government programs supported by self-help community collaboration in carrying out government activities and community empowerment [20].

The village fund program is a form of trust from the central government to the village government to plan and implement activity programs according to the needs and potential of each village. Besides, village funds have been adjusted to their respective portions [21]. For village funds to achieve the expected targets or objectives, it is necessary to apply the principles of good governance [22]. Accountability and transparency of village financial management are needed to gain the trust of the community and village government. Excellent and appropriate financial management is expected to support village programs, improve welfare and equitable rural development can be achieved and increase community participation [23].

3.3 Village-Owned Enterprises Performance Evaluation

Village-Owned Enterprises performance evaluation is based on six dimensions in the development criteria compiled by the Village Community Empowerment, Population and Civil Registration Office of Central Java Province. The six dimensions are institutions, regulations, business, administration, reporting and accountability, capital and assets, and the impact of Village-Owned Enterprises on communities and villages. The analysis of the six dimensions indicates that most Village-Owned Enterprises in Central Java have weaknesses in all dimensions but with different intensities.

Based on the research results, the dimensions of capital and assets still require intensive attention. Village-Owned Enterprises capital ranges from tens to hundreds of millions of rupiah with less than 200 million assets. The business capital owned by Village-Owned Enterprises in general only comes from village capital participation, but the amount given is relatively tiny for managing a business. The business activity was conveyed by the Director of BUMDesa Dana Jaya as follows. […] the capital investment from the village is around 25 million to 100 million. Even though we need big capital to be able to develop the business.
Based on the interviews, the village government low commitment to developing Village-Owned Enterprises. The value of village capital participation for Village-Owned Enterprises has been regulated by law. However, in reality, most village governments do not implement these provisions. The value of business capital included for BUMDes is usually the village budget SILPA. This condition then has an impact on the low ownership of assets by Village-Owned Enterprises. They do not have permanent offices and adequate office assets. The low capital owned by Village-Owned Enterprises is the main obstacle to pay the management, as stated by the Director of BUMDes Asung Daya.

[...] BUMDes administrators are generally referred to as BUMDes volunteers, where they do not get a continuous salary, and managing BUMDes is a side job.

The conditions that occurred in some Village-Owned Enterprises in Pati Regency were also found in the same other areas. There is the non-optimal management of Village-Owned Enterprises. This finding follows the results of Aeni [19], namely Village-Owned Enterprises experiencing capital constraints because they only depend on capital participation from the village government, which is lowered once a year. Meanwhile, Village-Owned Enterprises in Kopeng Village also have limited capital. The capital assistance provided by the village government was uncertain and only given when the Village-Owned Enterprises felt it needed capital. This condition hinders the development of BUMDes businesses which is exacerbated by the low participation of several Village-Owned Enterprises administrators in preparing work programs [24].

Administration, reporting, and accountability are the second weakest dimensions. There are several main problems with this dimension, including irregular bookkeeping processes. Village-Owned Enterprises are recorded as not doing regular bookkeeping and not carrying out financial and business responsibilities through village deliberations. In addition, the bookkeeping is carried out by simple and relatively unorganized. Financial reporting that is less orderly and too simple is somewhat less able to describe the actual condition of Village-Owned Enterprises [19]. Weaknesses Village-Owned Enterprises financial reporting system reflects the low capacity of managers, which is one of the biggest obstacles in managing business entities.

Managing Village-Owned Enterprises is generally a side job, so that managers cannot fully dedicate their time to working business. Therefore, managerial capacity development training is needed for Village-Owned Enterprises management and directors to develop the business sustainably. So far, there has been no touch from the government, both central and local, regarding Village-Owned Enterprises human resource capacity development. Based on the Director of Gate Lentera, the management has an education equivalent to high school or equivalent and has no previous business management background.

[...] the employees and management must have a minimum of high school or vocational high school graduates who can count and can use computers.

Furthermore, the management cannot be separated from the political constellation that exists in the village. The personnel chosen to manage Village-Owned Enterprises are figures close to the village head who is in power. In the management structure, the village head has a strategic position as an advisory board. However, in practice, the village head carries out this task beyond the authority he has. The study results Firdaus [22] concluded that the village head is the party that has the most power in managing the entity. It can be reflected in the role of the village head in determining the manager, the business unit to be run, making agreements.
with other parties and the utilization of business profits. This condition can threaten sustainability because the village head is in a political position at a particular time level. The change of power in the village can cause conflict and differences in management policies, weakening the entity institution.

Village-Owned Enterprises institutional participation steps first include socialization, such as making innovative efforts to convince the community that BUMDesa will benefit the community and village informing entity [25]. Second, the implementation of village deliberations such as village council meetings or consultations between the BPD, local government, and the community. Its management capability determines the success of management. Most of the administrators are elected by villagers from the results of village deliberations. At the same time, the number of people who are able and willing to contribute to become managers is minimal, so the selected managers are experienced and have different backgrounds even though they are required to work professionally. Therefore, entrepreneurship education and training are needed for managers to develop their villages [20].

Furthermore, another weakness of Village-Owned Enterprises development is that it has not significantly impacted the independence and welfare of rural communities. The impact of Village-Owned Enterprises on the community can be divided into three, namely economic, social and village development impacts. For the village community, the existence of Village-Owned Enterprises is felt to have quite an effect on the businesses run by the community. Although in some villages, the impact is only enjoyed by a few groups. Political conditions in the town affect the development of the entity.

Most of the village community consider Village-Owned Enterprises as part of the village head in power, so they are sometimes reluctant to take advantage. The results of this study are in line with the conditions that occur in Village-Owned Enterprises in Gunungkidul Regency. The surrounding community has not felt the benefits of the existence of Village-Owned Enterprises in the area. Most of the profits obtained go to the village treasury, but the community does not directly feel the benefits. In addition, conflicts in the management of Village-Owned Enterprises have made some hamlets unable to optimally access the benefits of sustainable business [14].

Village-Owned Enterprises business management carried out professionally by applicable regulations is proven to benefit the village community. This condition occurred in Ponggok Village, Klaten Regency. The community in the village stated that they benefited from the existence of Village-Owned Enterprises in the town, mainly in the form of improving public facilities and developing tourist villages. Village-Owned Enterprises and the village government dared to take the one house one scholar policy even from the profit-sharing. The hope is that there will be an increase in the quality of rural communities by studying up to university.

The next dimension that becomes a weak point for developing Village-Owned Enterprises is running one type of business. In addition, there is a tendency not to run their business units efficiently. This can be seen from the operating income obtained. There are 293 units, or about 73% of Village-Owned Enterprises, that recorded revenue in 2020. The value of the income obtained varies from Rp. 150,000.00 to Rp. 73,400,000 per year with an average income of around Rp. 16,000,000.00 per year. The value of the income obtained is relatively small if it is used for the development of business.

Based on the research results, the most widely run business is savings and loans. Savings and loans are a business that is easier to manage than other business units. In addition, savings and loan businesses generally existed before the establishment of Village-Owned Enterprises.
The preparation time for establishing is relatively short, making the management choose a business unit in the village that has previously operated, namely savings and loans. Pati Regency has much potential in several sectors, especially agriculture (agriculture, animal husbandry, and fisheries).

However, only a tiny number of Village-Owned Enterprises have businesses in this sector, but the results are also not optimal. The conditions that occurred in Pati Regency also occurred in Jepara Regency. Almost all Village-Owned Enterprises in the region have savings and loan businesses and tend to ignore the tourism sector, which holds considerable potential. The selection of various businesses according to their local potential is expected to increase profits and provide new jobs to improve the community's economy.

Tourism is a potential sector which is one of the leading regions. Some villages have succeeded in developing natural tourist destinations, but their management is not carried out with Village-Owned Enterprises. The selection of business units carried out by Village-Owned Enterprises reflects the leadership and village government's inability to identify the village's potential to be developed into a business unit. Most of the villages chose a business unit as stated in the sample Village-Owned Enterprises teaching proposal provided by the Village Community Empowerment Service. This condition further makes the purpose of establishing Village-Owned Enterprises not achieved.

However, this condition began to improve. Several Village-Owned Enterprises started to develop business units after identifying their potentials, such as the Ponggok BUMDesa in Klaten and the Sumber Arto BUMDesa in Semarang, which created a tourism business unit. Besides that, BUMDesa Bergas Kidul also has a waste management business unit to deal with waste generation from family waste and develop organic and non-organic waste management businesses.

The last dimension that becomes a source of development problems is the rule/legality. The existence of a work copyright law requires all Sumber Arto BUMDes to have a legal entity, not using a Village Regulation (Perdes) for the legality of its establishment and a Village Head Decree for determining its management. This is one of the obstacles in the development of Village-Owned Enterprises, especially when it wants to develop its business and cooperate with external parties. Another weakness is that almost all in Pati Regency do not yet have a standard operating procedure that guides the business management.

4 Conclusion

Since 2020, the government has ranked Village-Owned Enterprises into basic, developing, growing, and advanced. The rating indicators are the basis for evaluating their performance. There are six indicators or dimensions of Village-Owned Enterprises performance: institutions, rules, business, administration, reporting, accountability, capital and assets, and the impact of Village-Owned Enterprises on communities and villages. The analysis of the six dimensions shows that most BUMDesa in Central Java has weaknesses in all measurements but with different intensities. Village funds have a vital role in their development. Therefore, there is a need for synergies between the village government, the community, and the director in developing capital and sustainable business ventures. So that, in the future, if there is no village fund budget, each village will be able to stand up with their respective abilities.

This research has implications for the management and development of rural entrepreneurship by mobilizing all the resources owned by the village. The development of
Village-Owned Enterprises as a driving force for village entrepreneurship must receive support from the village government and the community so that it will move the function of their optimally, namely improving the welfare of the village community. By identifying the village's potential and the needs of the village community, the Village-Owned Enterprises can develop properly.

Future research can analyse Village-Owned Enterprises resources, both human resources and financial resources, indispensable in developing a sustainable business. Another topic that can be explored is the financial performance and use of technology.

References


