

OPTIMIZATION OF VILLAGE-OWNED ENTERPRISES TO INCREASE VILLAGE ECONOMIC STRENGTH

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ABSTRACT

The village is the foremost government agent, if every village is prosperous then this is an indicator of a country's success. The country's goals will be achieved if development starts from the village. Optimizing the potential of the village will increase the economic strength of the village which in turn will increase the regional / state economy. Each village has a different potential, but only a few villages succeeded in exploiting this potential. To take advantage of the village's potential, a Village-Owned Enterprise (BUMDes) was formed. The purpose of BUMDes is to improve the village economy. Indonesia has more than 35,000 thousand BUMDes, but only a few are progressing rapidly and most of them are dead. This research tries to find the causes of the success of BUMDes. Based on preliminary observations, several main factors cause some BUMDes to succeed and this factor also causes some BUMDes to not succeed. These factors are the quality of human resources, equity participation, social capital, governance, and sustainability. The results of research conducted in several BUMDes in the North Sumatra region indicate that the quality of human resources, capital participation, and governance has a positive and significant effect on the success of BUMDes.

Keywords:

Optimization of Village Potential, Village Economic Strength, Equity Participation, Governance, and Human Resources

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1. INTRODUCTION

The number of Village-Owned Enterprises (BUMDes) throughout, in mid-July 2018 reached 35 thousand of the 74,910 villages in Indonesia, five times greater than the target of the Ministry of Villages. However, most BUMDes are still legally established but do not have business activities, even some eventually wither before developing. Various problems stemming from a lack of understanding and also a wrong understanding of BUMDes have made thousands of BUMDes eventually close.

BUMDes problems that should be expected to be the foundation of village economic development are quite diverse, such as; quality of Human Resources (HR), wrong perceptions, limited capital, and so on. In fact, when viewed from the characteristics of village communities, BUMDes actually have enormous potential to be developed because of their open communication patterns and tend to obey village officials. However, in reality, there are big differences in the progress of BUMDes, both if it is analyzed by province and if it is considered based on one BUMDes

individually. Provinces in Java and Bali tend to have BUMDes that are well developed compared to provinces outside Java, especially North Sumatra Province.

Based on this, to support Joko Widodo's government program to build an economy that is not Jakarta-centric, this research will attempt to replicate the success of BUMDes as much as possible from best practices that can be used as lessons learned for the development of BUMDes in the North Sumatra region. The village is the foremost government agency that can reach the real target groups who want to make welfare. Each village has its own potential, however, not all villages succeed in utilizing, developing, or even optimizing it. This potential differs from one village to another, even if the potential of the two villages is almost the same, the program that is formed must be re-adjusted to the local needs and character of the village community. The potential map reading must be based on the real village situation. How to explore the potential of a village can be started from the closest and simplest thing.

Village potential is divided into 2 types, namely physical potential including land, water, climate, and weather, and non-physical potential including village communities, village social institutions, and village officials. Village development has so far had various kinds of obstacles, such as the quality of human resources, wrong perceptions, limited capital, and so on (Lubis et al. 2017). On the other hand, the social conditions of the village community such as harmonious communication, a common point of view, support, and community trust are the supporting capacities for the success of the village development program. Program planning must be adjusted to these potentials.

This research will integrate a quantitative approach for the first year and a qualitative for the second year which will be used to formulate a good BUMDes development model. The implementation of the resulting BUMDes development model is targeted to increase the income of people who are members of BUMDes in the North Sumatra region by 25%.

On the other hand, because the development of BUMDes cannot be separated from the development of the national economy starting from the village, this research will attempt to develop a rural-based economic development model by optimizing the BUMDes function. To develop this, researchers will study various things done by South Korea which has succeeded in developing the country's economy by building villages through a program entitled "Saemaul Undong". South Korea, which in the 1960s still had the size and progress of an economy similar to that of Indonesia, has transformed into a country with a very calculated economic power. This will be done in the second year of the research plan.

This study aims to find empirical evidence of the factors that influence the success of village-owned enterprises. The results of this study are expected to be useful for the government as a basis for making policies related to the provision of village funds. Is the aid for distributing funds for BUMDes under the government's expectations.

2. LITERATURE REVIEW

Village-owned enterprises (BUMDes) are village business institutions managed by the community and village government to strengthen the village economy and are formed based on the needs and potential of the village. BUMDes is a village-owned business entity that was founded based on the needs and potential of the village as an effort to improve community welfare. Concerning planning and establishment, BUMDes was built on the initiative and participation of the community. BUMDes is also a manifestation of the participation of the village community as a whole so that it does not create a business model that is hegemonized by certain groups at the village level. This means that these rules are manifested in a solid institutional mechanism. Strengthening institutional capacity will focus on the existence of rules that bind all members (one for all).

In-Law Number 4 of 2015 concerning the Establishment, Management and Management, and Dismissal of Village-Owned Enterprises, it is stated that Village-Owned Enterprises, hereinafter referred to as BUMDes, are business entities which are wholly or most of the capital owned by the Village through direct participation which derived from the greatest possible wealth of village community welfare.

The ability of BUMDes to develop and function as expected depends on their basic material and social assets (both tangible and intangible). These materials and assets are "capital" or capital which is a resource that must be owned in a relatively balanced or balanced proportion. Based on the literature explanation, there are at least four capitals that are assumed to have a significant effect on BUMDes' success.

1. Natural capital - refers to the availability of natural resources (land, water, air, genetic resources, etc.) and environmental aspects (hydrological cycle, pollution, pollution, etc.). Natural capital is also related to aspects of agroecology/agroecosystem such as topography, climate, and location (for

- example, the distance to the nearest city or market) which determines, for example, the degree of ease of access or transportation. This natural capital reflects the resources' from 'and' where 'BUMDes' businesses will be directed.
2. Economic or financial capital - is the basis of capital (cash, debt, savings, and other economic assets, including basic infrastructure and production equipment and technology) that are essential for conducting business. Included here is the economic context (market), which refers to the extent to which market conditions (both domestically and abroad) can allow BUMDES to develop, or on the contrary, they limit it to growth (Trienekens, 2011; Vermeulen & Hovens, 2006; Wijaya & Glasbergen, 2016). For example, the lack of demand for products produced by BUMDes in the market, or the low ability to create various kinds of products that are desired by the market (product differentiation), the incentives to develop will be low and BUMDes will increasingly lose their relevance to existence.
 3. Human capital - namely the skills and knowledge possessed by BUMDES HR (supported by good health and excellent physical abilities) to be able to work optimally. In other words, human capital is related to the existence of competent personnel, for example having knowledge and expertise regarding technical aspects (for example tools, diseases, pests, soil, seeds) and managerial / non-technical aspects (for example, communication and organizational management) (Devas, 1997; Guijarro, 2007; Stapel & Schneider, 2012).
 4. Social capital - relates to social resources (networks, social relationships, affiliations, associations) that are used when BUMDES pursue business strategies and require coordinated action. Thus, social capital is also related to the existence of village organizations that play a role in formal

meetings, helping negotiate BUMDes interests with external parties (such as the government or the private sector) to increase financial capital and broader market access and job opportunities.

As stated in Law No.6 of 2014 concerning Villages, BUMDes is understood as a village business institution that accommodates village economic activities and is managed by the village. According to the Ministry of Villages, Development of Disadvantaged Areas and Transmigration (2018), the profit from BUMDes is used maximally for the benefit of the village, for example, to build schools, roads, social activities, and others. However, BUMDes are not expected to 'kill' community businesses that already exist in a village. Every BUMDes capable of living independently and progressing is required to create a cooperative, and BUMDes independence is characterized by increased profits, and various business units and/or products. . Based on these expectations, the indicators of success (advanced and independent) of BUMDES can be categorized into four:

- a. Profit or profit and assets that increase continuously and/or consistently. One of the ways to do this is if BUMDes has good planning and goals (planning and goals), which is well documented and implemented properly.
- b. An increased network, including the expansion of the reach of consumers / targeted markets through the ability to create various products and business units, and through the ability to create mutually beneficial collaborations between BUMDes and other parties (private and government).
- c. The satisfaction of BUMDes managers tends to be positive and high on the performance of BUMDes. This includes satisfaction with aspects of organizational management and the ability of employees to carry out tasks.
- d. Village community satisfaction tends to be positive and high on the benefits of having a BUMDes. The indicator is if the BUMDes

can have a real impact on the community, such as opening jobs, increasing educational opportunities, improving access to transportation and others, and preventing conflicts (because of competition with similar businesses in their respective villages).

It is stated in the Regulation of the Minister of Home Affairs Number 39 the Year 2010 article 5 paragraph 1 concerning Village-Owned Enterprises that BUMDes can be established according to the needs and potential of the village. What is meant by "village needs and potentials" are:

1. Community needs, especially in meeting basic needs.
2. There are village resources that have not been used optimally, especially village wealth and there is a demand in the market.
3. There are human resources capable of managing a business entity as an asset that drives the community's economy
4. There are business units that are part of the economic activities of the community members that are partially managed and less accommodated.

In the BUMDes guidebook, the Ministry of National Education (2007: 6). BUMDes is a vehicle for running a business in the village. What is meant by "village business" is a type of business that includes village economic services, such as:

1. Financial services businesses, land and water transportation services, village electricity, and other similar businesses.
2. Distribution of nine basic village economic materials.
3. Trade-in agricultural products include food crops, plantations, livestock, fisheries, and agribusiness. Industry and folk crafts.

In the BUMDes guidebook issued by the Ministry of National Education (2007: 4). There are 7 (seven) main characteristics that distinguish BUMDes from commercial economic institutions in general, namely:

1. This business entity is owned by the village and managed jointly.
2. Business capital comes from the village (51%) and the community (49%) through equity (shares or shares).
3. The operation uses a business philosophy rooted in local culture (local wisdom).
4. The line of business is carried out is based on the potential and results of market information.
5. The profits obtained are aimed at improving the welfare of members (capital participants) and the community through village policies.
6. Facilitated by the Government, the Provincial Government, Regency Government, and Village Government
7. The implementation of operationalization is controlled jointly (PemDes, BPD, members).

3. RESEARCH METHOD

The research will be carried out in two stages. The first year uses quantitative methods and the second year uses qualitative methods. The quantitative method, namely the causal approach, aims to test whether the quality of human resources (X1), capital participation (X2), social capital (X3), governance (X4), and sustainability (X5) affect the success of village-owned enterprises. The population of this research is village heads and BUMDes managers in North Sumatra. The research data is primary data obtained through distributing questionnaires. Hypothesis testing is done using the PLS application. Before testing the hypothesis, the research data validity and reliability are tested.

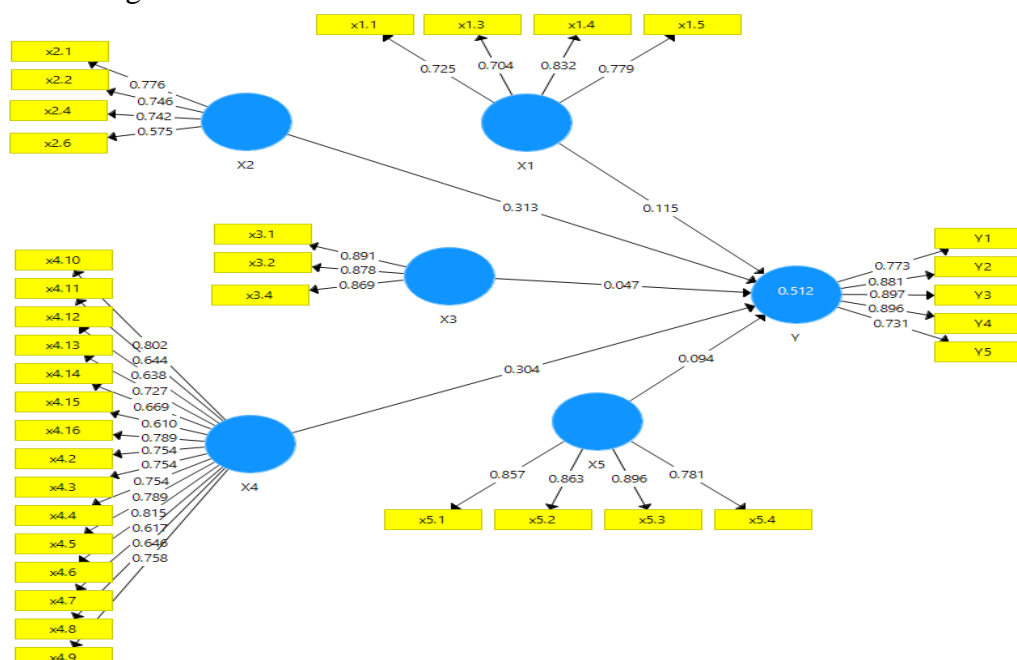
4. RESULTS AND DISCUSSION

4.1. Result

Analysis of the research data using the Partial Least Square (PLS) application. The outer model test begins by estimating or estimating the parameters. A convergent validity test is done by looking at the loading factor value in each construct. A loading factor value above 0.7 is stated as an ideal measure or valid as an indicator

in measuring constructs, values 0.5 to 0.6 are still acceptable, while values below 0.5 must be excluded from the model (Abdillah, & Jogiyanto, 2008). Based on the data calculated using the PLS algorithm, the loading factor value of each

variable indicator is still below 0.5, so the question item is dubbed. After that, the second stage of testing is carried out. The test results can be seen in Figure 1 below.



Source : SmartPLS (2020).

Figure 1. Loading Factor Step 2

The structural model in PLS is evaluated using the R-square for the dependent variable and the path coefficient value for the independent variable which is then assessed for its significance based

on the t-statistic value for each path (Yahya et al., 2018). The results of the PLS Algorithm Smart PLS program in assessing the value of the path coefficient can be seen in Table 1 below:

Table 1. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Decision
X1 -> Y	0,115	0,118	0,046	2,486	0,013	Accepted
X2 -> Y	0,313	0,313	0,046	6,869	0,000	Accepted
X3 -> Y	0,047	0,047	0,053	0,877	0,381	Rejected
X4 -> Y	0,304	0,307	0,062	4,894	0,000	Accepted
X5 -> Y	0,094	0,089	0,050	1,878	0,061	Rejected

Source : SmartPLS (2020).

Based on Table 1, the structural equation formed is as follows:

$$Y = 0.115 X_1 + 0.313 X_2 + 0.047 X_3 + 0.304 X_4 + 0.094 X_5$$

The variables of human resources, equity participation, social capital, governance, and sustainability have positive coefficients. This

means that if human resources, capital participation, social capital, governance, and sustainability increase, then BUMDes' performance will increase.

4.2. Discussion

The ability of BUMDes to develop and function as expected depends on their basic material and

social assets (both tangible and intangible). These materials and assets are “capital” or capital which is a resource that must be owned in a relatively balanced or balanced proportion. Based on the literature explanation, there are at least four capitals that are assumed to have a significant effect on BUMDes' success.

Based on the test results in table 1, it is known that human resources have a positive and significant effect on the success of BUMDes. This is in line with the results of previous studies and accordance with the proposed hypothesis. The relatively low quality of human resources in the village and their relatively low managerial skills have resulted in several BUMDes not carrying out any activities. So that most BUMDes formed have withered before developing.

Equity participation is a factor that plays a major role in the success of BUMDes. The results of this study prove that equity participation has a positive and significant impact on the success of BUMDes. Several BUMDes are starting to develop, but the availability of capital is relatively low so that business sustainability does not go as expected. Some BUMDes have not been able to collaborate with supplier companies so that to get raw materials or supplies they require a large capital. If cooperation has been established, the need for business capital will below.

Governance has a significant effect on the performance of BUMDes. Most of the BUMDes can develop because the governance they carry out is going well. There is an element of supervision and good communication between BUMDes managers and the local community. Social capital and sustainability do not affect BUMDes performance. Social capital is related to social resources (networks, social relationships, affiliations, associations) that are used when BUMDes pursue business strategies and require coordinated action. Thus, social capital is also related to the existence of village organizations that play a role in formal meetings, helping negotiate BUMDes interests with external parties (such as the government or the private sector) to

increase financial capital and broader market access and job opportunities. Further research is needed, why social capital does not affect the success of BUMDes. Because it is suspected that social capital is the most needed in the village community so that their business is successful.

Several factors influence the success of BUMDes including natural capital, economic or financial capital, human capital, social capital, and sustainability of resources. Natural capital is the availability of natural resources (land, water, air, genetic resources, etc.) and environmental aspects (hydrological cycle, pollution, pollution, etc.). Natural capital is also related to aspects of agroecology/agroecosystem such as topography, climate, and location (for example, the distance to the nearest city or market) which determines, for example, the degree of ease of access or transportation. This natural capital reflects the resources "from" and "where" the BUMDes businesses will be directed.

Economic or financial capital is the basis of capital (cash, credit, savings, and other economic assets, including basic infrastructure and production equipment and technology) which are essential for conducting business. Included here is the economic context (market), which refers to the extent to which market conditions (both domestically and abroad) can allow BUMDES to develop, or on the contrary, they limit it to growth (Trienekens, 2011; Vermeulen & Hovens, 2006; Wijaya & Glasbergen, 2016). For example, the lack of demand for products produced by BUMDes in the market, or the low ability to create various kinds of products that are desired by the market (product differentiation), the incentives to develop will be low and BUMDes will increasingly lose their relevance to existence. Human capital, namely the skills and knowledge possessed by BUMDes HR (supported by good health and excellent physical abilities) to be able to work optimally. In other words, human capital is related to the existence of competent personnel, for example having knowledge and expertise regarding technical aspects (for example tools,

diseases, pests, soil, seeds) and managerial / non-technical aspects (for example, communication and organizational management) (Devas, 1997; Guijarro, 2007; Stapel & Schneider, 2012).

5.CONCLUSION

Social capital relates to social resources (networks, social relationships, affiliations, associations) that are used when BUMDEs pursue a business strategy and require coordinated action. Thus, social capital is also related to the existence of village organizations that play a role in formal meetings, helping negotiate BUMDEs interests with external parties (such as the government or the private sector) to increase financial capital and broader market access and job opportunities.

The results showed that social capital and the sustainability of natural resources had no significant effect on the success of BUMDEs. Meanwhile, according to several previous studies, it is this social capital and sustainability that greatly affects the performance of BUMDEs.

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