

THE STRATEGY OF PROMOTING EFFECTIVE MANAGEMENT AND ACCOUNTABILITY IN VILLAGE-OWNED ENTERPRISES THROUGH GOVERNANCE

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Abstract

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The objectives of this study are twofold. The first objective is to assess the degree to which governance principles are implemented in village-owned enterprises, VOEs (*Badan Usaha Milik Desa*, BUMDes) within the Cilacap regency. Identifying the obstacles to the successful implementation of governance practices in BUMDes is the second objective. A mixed-methods approach was used in the research technique, which combined quantitative and qualitative descriptive analyses. The quantitative component involved the administration of a questionnaire to eighty respondents, including BUMDes managers, village chiefs, and oversight bodies. The qualitative component consisted of focus group discussion (FGD), and observations to gather additional insights and perspectives. The primary findings of the study indicate that the application of governance principles exceeds fifty percent, indicating implementation that ranges from effective to extremely effective. However, the study also identified a number of barriers, such as a lack of synergy between the village government, BUMDes, and the community, limited human resource capacity, the absence of legal entity status for BUMDes, and ineffective governance mechanisms, which are similar to Lauwo et al. (2022) research. The significance of this study rests in the fact that research outcomes can direct efforts to overcome obstacles and improve the administration and accountability of BUMDes in the Cilacap regency and other regions with comparable characteristics.

Keywords: Barriers, Effective, Governance Principles, BUMDes, Mix Methods

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1. INTRODUCTION

Village-owned enterprises, VOEs (*Badan Usaha Milik Desa*, BUMDes) are legal companies set up by villages to help the community through business management, asset utilization, investment development, and other activities (Pemerintah Republik Indonesia, 2021). They are frequently found in communities in each of the region's subdistricts. BUMDes are economic growth pillars, contributing to the improvement of the village economy, increasing own-source revenue, and meeting community needs. BUMDes are located in villages throughout numerous subdistricts and operate in a variety of business areas. The current legislation provides for only one BUMDes in each municipality, allowing for asset use, investment development, and other activities. Nugrahaningsih et al. (2016) identified four important reasons for the development of BUMDes: 1) improving the village economy, 2) increasing self-sufficiency revenue, 3) addressing community needs, and 4) acting as a catalyst for economic growth and equity. These businesses act as economic drivers, utilizing available resources to benefit the local community. Furthermore, Afandi et al. (2021), Arifin et al. (2020), Badaruddin et al. (2021), Larasdiputra et al. (2019), Kholmi et al. (2020), Ramadina and Ulum (2021) have researched village-owned firms in diverse circumstances.

To ensure the viability of BUMDes, it is critical to prevent having a negative impact on current local business. BUMDes should welcome and promote community companies rather than compete with them, creating cooperation and synergy. This strategy fosters economic growth while maintaining BUMDes creation goals. Furthermore, by following to financial accounting standards for micro, small, and medium-sized enterprises (MSMEs), BUMDes play an important role in local financial management and independence. BUMDes contribute to the overall welfare of the community by emphasizing the community's well-being and supporting economic activity (Maulany & Fafurida, 2021).

BUMDes establishment in each village relates to the local village administration via the village deliberation (Musdes). It is also attended by representatives from the local subdistrict and the village supervisory board (*Badan Permusyawaratan Desa*, BPD). Additionally, its development is integrated into a community-funded element. This gives each village the same opportunity to develop BUMDes. The central government makes budgets for village funds from the state revenue and expenditure budget. The funds are distributed in stages through the Provincial and local regency governments. According to Pemerintah Republik Indonesia (2021), BUMDes must be legal entities in Indonesia. This regulation exemplifies the government's current aggressive attempts to expand the possibilities of virtual organizations. The requirement indicates the government's dedication to building BUMDes as a cornerstone of a thriving national economy. Indonesia has 57,273 BUMDes, of which 45,233 are active, and 12,040 are inactive. Also, 2,465 BUMDes and 311 joint BUMDes have registered with the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (*Kementerian Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi*, Kemendesa PDTT) as legal entities. They comply

with Pemerintah Republik Indonesia (2021) regulating BUMDes required to become a legal company.

The village and government are expected to promote BUMDes in their legally recognized zone actively (Bake et al., 2021; Sofyani et al., 2022). This applies to BUMDes' legality to aid them in developing and managing their potential optimally. The participation of villages in achieving this relates primarily to the synergistic relationship between the villages and BUMDes. An economically stable BUMDes positively impacts the village's income or village own-source revenue. Many components, including a share of BUMDes profits designated for village own-source revenue, may contribute to village own-source revenue depending on the source. However, the data indicated that many BUMDes could not contribute to the village's own-source earnings. This is because many BUMDes still need effective management, and others are dormant, especially in Cilacap Regency, Central Java.

There is a BUMDes in every hamlet in Cilacap Regency, Central Java. This regency was claimed to have 269 BUMDes from 269 villages, though not all qualify as legal entities. The typical state of BUMDes in the regency stays unaltered in terms of circumstances. The following information was provided by Mrs TM, the section head of Economic Development, Social Culture, and Village Institutions of the Cilacap regency village community empowerment service (*Dinas Pemberdayaan Masyarakat dan Desa*, Dispermades):

"Honestly, all villages in Cilacap Regency have VOE, but many are still stagnant".

Mrs TM also stated that many BUMDes had not commenced operating.

"Many established VOEs are still confused about what to do".

BUMDes establishment must be accompanied by sufficient governance assistance because their activities must be acknowledged and accounted for in a report at the village deliberation. Governance refers to mechanisms utilized by an organization to carry out its activities. The principles of good governance compliant with applicable legislation enhance organizational performance in accomplishing its objectives (Budisetyowati, 2017). The village and the BUMDes must know the six fundamental principles that serve as the basis for management. The six principles are: 1) cooperative, 2) transparent, 3) emancipatory, 4) accountable, 5) sustainable, and 6) participatory governance.

BUMDes has not fully adopted these management ideas to date, as seen from the case in Cilacap. Data from the Dispermades of Cilacap regency showed that many BUMDes have not fully followed the six principles. Transparency and accountability are among the values still challenging to implement. The BUMDes management affects the smooth business operation, the firm's earnings, and its contribution to the village's own-source revenue. However, management issues are currently prevalent for BUMDes in Indonesia, as evidenced by Senjani (2019) in Klaten. In 2017, BUMDes Ngudi Mulyo in Kerten Village, Klaten, had not maximized its contribution to its own-source revenues. Serious business commenced in 2018, meaning its management structure was not yet robust. Consequently, Ngudi Mulyo's BUMDes has not optimally contributed to the village's own-source earnings. This is because business organization

administration significantly impacts the profits obtained. The COVID-19 pandemic that struck Indonesia in 2020 also hindered the BUMDes company's performance. The impedance indirectly affected the village's own-source revenue contribution.

Arfah et al. (2021) analyzed the BUMDes business condition during the pandemic. The study found that BUMDes conditions in Bantimurung District were not optimal during the COVID-19 pandemic. This was due to a lack of security in their business units and insufficient funding for operational activities. One challenge to BUMDes development is the suboptimal implementation of its management. Arindhawati and Utami (2020) examined BUMDes in Ponggok village, Klaten, and found a similar problem involving transparency. Studies on four BUMDes also found that the companies require support in compiling financial reports according to applicable requirements. Moreover, the average BUMDes worker has a second job, meaning professionalism must be applied to each employee. Adhinata et al. (2020), and Astuti and Suaedi (2019) also examined the application of village government. According to Hanafi and Kusumastuti (2022), Sukarja et al. (2020), Susan and Budirahayu (2018), and Winarsi et al. (2018) adopting BUMDes governance is crucial for enhancing community welfare and income. The studies also found variations in governance implementation levels.

Implementing BUMDes management principles is urgent for all stakeholders, including BUMDes actors, the village administration, and local people. According to Prafitri et al. (2018), several factors motivate local officials to manage BUMDes. These include the village heads' participation in creating and disseminating business plans, delegating authority, capital, transparency, and official control. Other factors are the cooperation of various stakeholders, accounting audits, and accountability for reporting activities (Solimun et al., 2021).

This study was compelled to reexamine the effectiveness of adopting good BUMDes governance principles in light of the aforementioned issues (Amin, 2020; Luturmas, 2022; Madjid, 2022). The issues are discussed and investigated include:

RQ 1: How cooperative, transparent, accountable, emancipatory, participatory, and sustainable principles are implemented in BUMDes management?

RQ 2: What hurdles do BUMDes face in increasing village own-source revenues?

RQ 3: How BUMDes overcome impediments to expanding village own-source revenues?

Given that the number of BUMDes has reached thousands, it would be unfortunate for them not to operate optimally. The study utilized qualitative and quantitative data to reinforce the outcomes.

The study's structure consists of the following sections. Section 1 sets the stage, Section 2 reviews the literature that establishes the theoretical framework, Section 3 explains the research methodology, results that present the findings, a discussion that provides analysis and interpretation in Section 4, and Section 5, the conclusion that covers the key findings and implications. This structure improves the paper's clarity and readability, allowing for more effective communication of the research findings and their larger implications.

2. LITERATURE REVIEW

2.1. The new institutional model

New institutional theory has been the subject of substantial investigation in public administration and management accounting (Tran & Nguyen, 2020; Tallaki & Bracci, 2019). However, the studies focused more on industrialized nations and less on developing nations (Tallaki & Bracci, 2019; Van Helden & Uddin, 2016). According to DiMaggio and Powell (1983), the new institutional theory focuses on the linkages between institutional and organizational theory. The organization's existence is highly dependent on the institution. The new institution is an amalgamation of social interactions and institutions. To determine and motivate the economic conduct of community members, these principles regulate the institutional framework and informal social groups. Therefore, studies employ the new institutional theory extensively, particularly in public institutions (Ahyaruddin & Akbar, 2018; Sofyani et al., 2019; Tran & Nguyen, 2020).

It is important to comprehend these phrases to understand organizations and institutions. An institution is a purpose-driven organization with a supportive structure for attaining its objectives. While the organization is a component of a larger institution, it structurally comprises individuals collaborating to achieve their objectives. There is a relationship between BUMDes as an institution and its internal organizational structure. Good communication between BUMDes as an institution and the internal organizations significantly impact the implementation of the plans to achieve objectives. People structured into an organizational exist within BUMDes. Their existence depends significantly on how the BUMDes serves as an overseeing institution.

2.2. Village-owned enterprises (BUMDes)

Government Regulation (GR) No. 11 of 2021 defines BUMDes as legal entities established by local villages to benefit the community through business management, asset utilization, investment development, or other services. Its inauguration as a legal entity, as referred to in GR No. 11 of 2021, is new because BUMDes was previously a business entity. BUMDes immediately became a legal entity following the issuance of GR No.11 of 2021 (Pemerintah Republik Indonesia, 2021).

BUMDes is usually found in villages in each subdistrict spread throughout the region. One village is only allowed to have one BUMDes as stipulated in the existing provisions. BUMDes operates in various business sectors, from trading to service businesses, provided they are not run by the community. This is because BUMDes is expected to be a pillar of the village community's economy, not kill the village business. However, this does not mean that BUMDes cannot have the same business as the community because it is established to protect the community's efforts. BUMDes and community businesses could synergize to form partnerships instead of competition.

2.3. Village own-source income

The village generates own-source revenue by exploiting village potential or other business endeavors. According to (Pemerintah Republik Indonesia, 2014, pp.39–40), village income is derived from: 1) village own-source revenue comprising business results, asset returns, self-help and participation, and cooperation, 2) other village own-source revenues, 3) budget allocation for state revenues and expenditures, 4) a portion of the regency's or regional city's tax revenues and regional contributions, 5) distribution of village funds, comprising the balance sum received by the regency or city, 6) assistance from the provincial and regional revenue and expenditure budget for the county or city, 7) non-binding grants and contributions from third parties, 8) additional legal village revenue.

Based on this explanation, as well as the same article and law, village own-source revenue is derived from: 1) operating outcomes, 2) helping oneself and participation, 3) asset return, 4) mutual cooperation, and 5) own legal revenue. According to (Pemerintah Republik Indonesia, 2014, pp. 39) describes, operating earnings could be a source of village own-source revenue. One facet of company success is the outcome of BUMDes operations. BUMDes profits significantly impact the village's own-source revenue because the profit-sharing percentage assigned to village income contributes to the village's own-source revenue. The government urges local village governments to study and support the possibilities of BUMDes establishment in their communities. This is because the proper management of BUMDes potential would significantly impact the village's income.

2.4. Governance principles of the BUMDes

Based on Backhouse and Wickham (2020), and Bolton and Park (2020), corporate governance is a key control mechanism that links the strategic focus of a business to its impact on the world at large. BUMDes implementation necessitates an underlying principle for all corporate and social activities. These concepts are essential for good governance that contributes to the efficient operation of commercial activities. Business entities with effective governance management attain their objectives more easily. According to Jati et al. (2022), the BUMDes governance process is founded on six concepts, including:

1) *Cooperative*. To attain the defined goals, the cooperative principle highlights the importance of effective collaboration and synergy among all parts of the village-owned enterprises (BUMDes). This principle emphasizes the significance of coordinating efforts and resources from many stakeholders, such as the village government, BUMDes management, and the local community. Collaboration across these groups is critical for improving the BUMDes' overall performance, productivity, and sustainability. Thus, the cooperative principle emphasizes that all BUMDes aspects must collaborate and synergize effectively to attain the goals set (Haekase et al., 2020; Pradana et al., 2021; Sofyani et al., 2019; Widyastuti & Ambarwati, 2020).

2) *Participatory*. Within BUMDes, the participation principle fosters inclusive and democratic processes. It promotes community members to participate in the development, implementation, and evaluation of projects and initiatives. BUMDes can benefit from local knowledge, perspectives, and needs by integrating the local community in decision-making processes, resulting in more contextually appropriate and community-driven projects. This principle underlines that all members of society must willingly engage and contribute to BUMDes advancement (Kholmi et al., 2020; Kurnianto & Iswanu, 2021; Naldi et al., 2021; Winarsi et al., 2018).

3) *Emancipatory*. In the context of BUMDes, emancipatory principles refer to the promotion of social justice, empowerment, and the freedom of marginalized or disadvantaged groups within the community. These principles seek to challenge existing power structures and inequities, allowing individuals and communities to exercise their rights, gain access to resources, and engage meaningfully in decision-making processes. The emancipatory principle emphasizes that all BUMDes aspects must be treated equally, regardless of variations in colour, ethnicity, or socioeconomic status (Istanti, 2021; Haekase et al., 2020).

4) *Transparency*. In the context of BUMDes, transparency principles refer to the dedication to openness, accountability, and the supply of accessible and trustworthy information to stakeholders and the public. These principles seek to guarantee that BUMDes operations, decision-making processes, and financial transactions are transparent, fostering trust, integrity, and good governance. This principle refers to the transparency that BUMDes must implement in community activities. Since BUMDes is based on community interests, its operations must be publicized (Haekase et al., 2020; Hanafi & Kusumastuti, 2022; Kurnianto & Iswanu, 2021; Winarsi et al., 2018).

5) *Accountability*. The accountability principle in the context of BUMDes refers to the obligation of these enterprises to take responsibility for their actions, decisions, and outcomes. Accountability principles aim to ensure that BUMDes are answerable to various stakeholders, including the local community, government authorities, investors, and other interested parties. The accountability concept emphasizes that all BUMDes actions must be conducted with complete accountability. BUMDes is responsible for all activities conducted during the present time frame, including administrative and technical duties (Amerieska et al., 2021; Haekase et al., 2020; Kurnianto & Iswanu, 2021; Winarsi et al., 2018).

6) *Sustainability*. Sustainability principles in the context of BUMDes refer to the integration of environmental, social, and economic considerations into the operations and decision-making processes of these enterprises. These principles aim to ensure that the activities of BUMDes are conducted in a manner that promotes long-term sustainability, balances the needs of the present and future generations, and contributes to the well-being of the community and the environment. This principle stresses that BUMDes activities must be durable and long-term for community enterprise. Community companies are effectively maintained and sustained through BUMDes (Amerieska et al., 2021; Kaur & Lodhia, 2019; Mswaka & Aluko, 2015; Peña & Jorge, 2019).

3. RESEARCH METHODOLOGY

This study was conducted on all BUMDes in the Cilacap regency between January and March 2022. It focused on 269 BUMDes in Cilacap regency and other interconnected parties. The other parties include the village community empowerment service (Dispermades), village assistants, village heads, and village supervisory boards (BPD).

A mixed-methods strategy, which integrated quantitative and qualitative descriptive analyses, was utilized as the method of research for this particular study. It was determined that this approach was suitable for gathering an accurate picture of the current status of governance implementation in BUMDes and bringing attention to the difficulties that they face in the Cilacap regency. Previous studies used a mix approach as their research methodology (Dahler-Larsen, 2023; Khan et al., 2022; Song et al., 2023; Vinod et al., 2022).

Quantitative data were collected using questionnaires distributed to 269 BUMDes chairs, Village heads, and BPD chairs in the Cilacap regency. The responses to questionnaires were measured using a dichotomous scale. This measurement scale offers only two contradictory answer options of yes or no, with no neutral option to ensure that respondents provide solid and clear replies. The goal is to answer the first issue posed problem formulation about the cooperative, transparency, accountable, emancipatory, participatory, and sustainable principles in BUMDes management. The percentage of each question item grouped according to the six BUMDes governance principles was calculated based on the responses to the questionnaire. The responses were aggregated according to each respondent's subdistrict of origin. The aim was to evaluate whether respondents within the same subdistrict provided identical responses.

This study also used qualitative methodologies in addition to the questionnaire to acquire deeper insights and viewpoints. Focus group discussions (FGDs) were held, allowing participants from diverse stakeholder groups to engage in open and engaging conversations. FGDs provided useful qualitative data by capturing many perspectives, experiences, and issues associated with BUMDes governance. Observations were carried out to supplement the questionnaire and focus groups. The researchers were able to gain contextual information and corroborate the conclusions obtained through other study approaches by directly observing BUMDes operations and interactions. A qualitative study thoroughly explains the phenomenon, where the author acts as a study tool. Meanwhile, qualitative data were acquired through direct, in-depth interviews and FGD with resource individuals.

Qualitative data were obtained through observation and FGD with resource persons. The aim was to determine the hurdles and examine how BUMDes overcame the obstacles in enhancing the village own-source revenue. Interviews are used in qualitative studies to determine the respondents' understanding of the topic and to collect the information needed. This study employed unstructured interviews. The interviewer has a question guide but is free to improvise questions to sources relevant to the topic of discussion. Furthermore, interviewers are deemed knowledgeable

about the phenomenon being studied. The resource personnel comprised representatives from each BUMDes category, Village heads, BPD, and BUMDes partners. The chosen resource individuals are respondents that filled out the questionnaire to provide replies with elaborate and intricate explanations. Focus group discussions (FGD) were conducted to investigate data and equalize perceptions of the discussed issues. FGD is an interview with 6 to 12 individuals to address a specific issue. The approach was used to facilitate the informants' awareness of barriers and BUMDes strategies for overcoming them. BUMDes facilitators at the district level, experts, and Disperdes participated in the FGD with the presumption that they have experience in BUMDes management. The study functioned as a moderator and facilitator to ensure that the conversation process ran successfully. The observation and FGD were used to determine shifts in the perspectives and ideas of BUMDes players regarding the hurdles and how to overcome them to grow the village own-source revenue. The data collection process was conducted for 120 minutes using questions and a recording device to capture the outcomes of the discussion in audio and video form. The information recorded was then translated and transcribed into a transcript.

The mixed-methods approach was chosen because it allowed for a thorough evaluation of governance processes in BUMDes. The use of quantitative and qualitative data gave a more nuanced view of the current situation and aided in the identification of potential areas for change. Thus, using mixed data provides a more thorough grasp of the study problem than using only one data type (Matović & Ovesni, 2023). Although the mixed-methodologies technique was chosen for this study, additional methods for future research in this field should be examined. In-depth interviews with important stakeholders such as government officials, community people, and BUMDes personnel, for example, could provide greater insight into specific difficulties and opportunities. Case studies of successful BUMDes from other regions could also provide comparative analysis and best practices for effective governance. Exploring these different approaches would contribute to a more comprehensive knowledge of BUMDes governance and serve as a foundation for future research and policy recommendations.

4. RESULTS AND DISCUSSION

4.1. Description of study information

The questionnaire was filled out by the BUMDes chair, the village head, and the village supervisory board (BPD) as representatives of the local community from 269 villages in the Cilacap regency, which has 269 BUMDes. The chair was the most knowledgeable party regarding the benefits and drawbacks. The village head, also serving as the advisory council, is most familiar with the evolution of the businesses. Additionally, the village supervisory board oversees the enterprises' overall operation.

The resource individuals that participated in in-depth interviews and FGDs served as supporting informants. The FGD was conducted with

the participation of individuals with the ability to handle BUMDes. The participants also expressed their views on managing, dealing with, and resolving problems with BUMDes. Resource persons were selected as supporting informants based on their responses to the distributed questionnaires and their willingness to provide their perspectives during interviews and FGD. The interview and FGD also helped cross-check the questionnaire responses regarding consistency. Furthermore, the methods determined whether informants had adequate knowledge of the present conditions in their BUMDes. Table 1 shows the list of informants:

Table 1. List of informants

No	Initial name	Gender	Village	Position
1	SY	Male	Pasuruhan	BUMDes manager
2	YF	Male	Menganti	BUMDes administrator
3	TP	Male	Karangrena	BUMDes manager
4	SI	Male	Sidareja	BUMDes manager
5	PJ	Male	Karangreja	Head of village
6	IH	Female	Sumingkir	Village secretary
7	EW	Female	Menganti	BPD
8	MY	Male	Menganti	BPD
9	BW	Male	Karangrena	Ketua Bank Sampah
10	TM	Female	-	Dispermades
11	AD	Male	-	Dispermades
12	MF	Male	-	Experts
13	SD	Male	-	Village subdistrict coordinator — Binangun
14	NT	Male	-	Village subdistrict coordinator — Sidareja

4.2. Implementation of BUMDes principles concerning BUMDes in the Cilacap regency

The questionnaires, which comprised the research methodology, were sent out to a total of 276 respondents. However, only 80 of the respondents provided fully filled-out questionnaires, which indicates that the response rate was relatively low. The village owned enterprises (VOE) manager, the village apparatus, and the BPD were all members of the respondents who took part in the survey. While the low response rate may restrict the generalizability of the findings to the total population of BUMDes in the Cilacap regency, the replies collected from the 80 participants nevertheless offer useful insights into the implementation of governance practices in BUMDes.

Despite the fact that the low response rate may limit the generalizability of the findings, the responses obtained from the 80 participants may be found here. It is essential to recognize that the low response rate could be the result of a number of different circumstances, including time constraints, a lack of interest, or a limited understanding of the study. In spite of this constraint, an analysis was performed on the data collected from the 80 respondents in order to determine the level of governance implementation and identify the challenges that BUMDes in the research area face.

According to the responses from 80 different people, the majority of BUMDes in the Cilacap regency have adhered to the BUMDes principles (as described in further detail in Appendix).

The BUMDes management concepts that have been embraced are as follows, notwithstanding the fact that they are not totally flawless: According to the responses from 80 different people, the majority of BUMDes in the Cilacap regency have adhered to the BUMDes principles (as described in further detail in Appendix). The BUMDes management concepts that have been embraced are as follows, notwithstanding the fact that they are not totally flawless: First, the cooperative principle highlights the synergy and cooperation between elements that must be correctly developed to advance BUMDes. Based on the results, 90.72% of the 80 verified respondents explained that the enterprises implemented cooperative principles well in their village. They provided additional explanations, such as 1) BUMDes has benefited the community, 2) it is a social and economic forum for the local community, 3) the enterprises have a legal entity consistent with the community's wishes, 4) synergy exists between the enterprises and the local community.

Second, the participatory principle states that community participation is imperative for the joint construction and administration of BUMDes for the public welfare. Based on the findings, 67.85% of the respondents admitted that the community was highly involved. This is evidenced by: 1) the support and contributions from the management, village government, and communities that encourage BUMDes development, 2) community participation in management, 3) BUMDes is a strong and independent economic institution that provides community services, 4) the ability to create business opportunities and reduce unemployment in the village, 5) the capacity to provide services based on community needs.

Third, the emancipatory principle emphasizes treating BUMDes elements equally. According to the findings, 61.52% of respondents stated that BUMDes in their village had implemented emancipatory management principles, including: 1) disregarding ethnic, national, and religious differences, 2) training interested parties on improving the living standards of rural communities, 3) involving the community in its operations, 4) understanding the vogue system.

Fourth, the transparency principle highlights the openness that BUMDes must incorporate into its community-based activities. Since BUMDes is based on community interests, all its operations must be publicized. The results showed that 76.9% of BUMDes had applied the transparency principle. The transparency is reflected in: 1) regular reports on funds obtained for business development, 2) the village community is informed about the acquisition of funds, 3) the existence of a village regulation (Perdes) in BUMDes formation, 4) its significant contribution to enhancing the people's welfare.

Fifth, the accountability principle relates to BUMDes responsibility for all current activities. The findings indicated that the Cilacap regency BUMDes accountability to the community has been effective, with a score of 62.9%. This was demonstrated from the questionnaire responses that: 1) the business entity has been managed effectively, efficiently, professionally, independently, and responsibly, 2) the village government involves

the community in planning deliberations regarding BUMDes accountability, 3) the existence of accountability for routine monthly reports accessible via the internet or information media, 4) there is a disclosure of information regarding the business entity, 5) there is accountability for law violations of the law, though not fully executed.

Sixth, the sustainability principle emphasizes long-term BUMDes activities and the ability to become a forum for community business. The questionnaire responses showed that sustainability had been implemented by 74.68%. This was reflected in: 1) BUMDes as the main pillar of village business that increases village own-source revenue, 2) it is a village community empowerment institution, and 3) BUMDes as a forum to promote the rural communities' independent and sustainable economic development. Previous studies measure these variables by the average BUMDes in Cilacap regency. The implementation of governance principles has exceeded 50%, indicating moderately to extreme effectiveness (Guilford, 1956, p. 145).

4.3. Implementation of BUMDes principles based on focus group discussion results

Focus group discussions were conducted to reinforce the data collected using questionnaires. The FGD results indicated several facts, including:

1) *There is insignificant synergy between the village government, BUMDes, and the community.* The discussions with informants found that the role of the village government and the community was crucial for BUMDes sustainability. The existence of synergy between BUMDes, the village government, and the community is important and closely relates to the cooperative principle. The cooperative aspect is related to the village government establishment and capital support. This is what happened in BUMDes Rejamulya, Karangreja village, Maos district. According to PO, a BUMDes manager, the role of the local village government is significant in supporting BUMDes.

"The support from the village is extraordinary because of budget constraints. VOEs in other villages may have hundreds of millions as capital because they have been running for many years. However, Rejamulya only has 23 million as the capital remaining from 2021".

Regarding the cooperative principle, the village government has not synergized well with the local BUMDes in cases such as in Binangun district. A local subdistrict assistant stated that there is no synergy between BUMDes and the village government due to minimal communication.

"Communication between VOE and the village government is very minimal. Because when we accompany VOE, the management says: 'It should be Pemdes'. When we communicate to the village government, they say 'Wow, VOE is weird'. In the end, it is like throwing things around".

2) *Community involvement in BUMDes remains minimal.* The participatory and emancipatory principles implementation directly correlates with the lack of community involvement in BUMDes administration. Interviews with informants found that many BUMDes management positions were appointed by the local Village Head not based on their own volition or adequate competence, as in

Sidareja village. The SI informant stated that the election of the BUMDes Manager did not involve recruitment based on their managerial capacity. On the contrary, the Village head made the selection.

"The establishment of VOE SIMAS Sidareja was a historical accident, as the village chief asked me to serve as the organization's chairman. Although there is a Musdes in the process, there were already lobbyists before them. Everyone agreed that I was the chairman, though I am not from a business background. This was the beginning of the VOE problem because the managerial ability was not considered when recruiting a manager".

The lack of community participation in selecting VOE administrators also indicates that the participatory principle has not been properly implemented. This transpired in Sumingkir village, Jeruk Legi district. According to an IH informant, one problem with BUMDes in their village was unmanageability due to a lack of human resources. The informant's village has the potential for assets and manageable capital.

"Until 2021, we have assets comprising agricultural equipment from the province's food security assistance. In 2019, we will also receive \$20 million in cash assistance intended for VOE capital participation. However, the capital remains intact because VOE is not present".

Community participation in the BUMDes Renajaya business unit in Karangrena village is well established. This is seen through cooperation in making personal protective equipment (PPE) to meet partners' needs (Pertamina). In this case, Pertamina's role as a provider of CSR eliminates the problem of low community participation, as stated by the informant TP, Manager of VOE Renajaya:

"We provide incentives from Pertamina to business actors in convection. Therefore, we collaborate with them in manufacturing PPE. We only manage and regulate the marketing, but the individuals run the business".

3) *Inadequate human and financial resources in BUMDes.* Inadequate human and financial resources in BUMDes affect the many unexplored villages with potential, such as Babakan village. SN, the account of the local village apparatus, stated that:

"Our town has a great potential that could be utilized as a mangrove forest tour. There is a shrimp pond whose products' potential has been explored, but insufficient human resources hinder VOE management, causing difficulties. Furthermore, each village has a different budget, which was 1.1 billion rupiah (IDR) yesterday and is now 700 million rupiah (IDR). The SDGs have prompted the calculation of the area and population to be closely monitored for developing underdeveloped villages. This negatively affects our village budget, decreasing it by approximately 500 million rupiah. The great potential for village own-source revenue has not been explored".

The village assistant of the Binangun subdistrict stated that the alignment of the local government also relates to BUMDes capital.

"At the internal level, when the village government is not taking sides, it allocates capital, such as from provincial assistance or village funds. They allocate 20-50 million for VOE because I still have no business mind. I have given a little tax-free capital, but there is no tax deduction for VOE capital. When you do not give it, a photo is taken and you are

asked for the capital again, but not for taxes. When you take all it, the VOE is confused because running a business requires operational costs, such as paying employees within a year of their employment. Taxes are already deducted from a small capital amount, and the SPJ only takes photographs and handovers. Therefore, why not become village assistants? We want to report it, but the VOE administrator advises not to worry or feel bad about it”.

4) The successful contribution of BUMDes to the village own-source revenues. This is comparable to what happened with BUMDes SIMAS in the Sidareja district. According to SI, the BUMDes director, BUMDes SIMAS has contributed to the village own-source revenue.

“VOE SIMAS has several business units whose core performance is not yet optimal, but they have contributed to the village-owned revenue streams”.

4.4. Obstacles encountered by BUMDes in boosting village own-source income

Obstacles encountered by BUMDes in boosting village own-source income are as follows.

1) *The COVID-19 pandemic.* The COVID-19 pandemic makes many BUMDes businesses struggle. Some BUMDes business units are susceptible to infection by the pandemic, which happened to BUMDes SIMAS in Sidareja District.

“VOE SIMAS Sidareja was impacted in 2020 when the pandemic occurred. Our business is susceptible to events such as the pandemic due to the presence of rental and financial services”.

BUMDes SIMAS’s rental services failed due to the pandemic, reducing its contribution to the village own-source revenue.

“In the first four years, the village own-source revenue was IDR2,250,000, IDR6,500,000, IDR13,150,000, and IDR4,000,000. The ongoing pandemic has made the rental services record a depreciation. Last year, we were burdened with 30% from the village chief, forcing us to deposit IDR13 million. This year, we deposited IDR25 million due to a 25% burden”.

2) *A lack of coordination between the village administration and the BUMDes.* Some villages show inadequate coordination between the village government and the local BUMDes. The Village assistant, Binangun district, stated that:

“From this vantage point, VOE assistance is quite substantial. There is little communication between VOE and village government. When we accompany VOE, the management says, ‘Wow, the VOE is strange’. Therefore, it is like throwing things around”.

3) *BUMDes that is not yet a legal entity.* The BUMDes Mesem in Kesugihan village is a legal entity, though it is not recognized by the Ministry of Law and Human Rights of the Republic of Indonesia (Kemenkumham RI). YF as its administrator stated that:

“We are in ring 1 of PLTU, and yesterday we collided with a legal entity related to the project. Based on what was relayed by friends and the district government, we hope that the legality would be made clear to make us more enthusiastic”.

4) *BUMDes lack of human resources hinders exploring the village’s potential.* SN, a local village official, stated that this happened in BUMDes in Babakan village.

“Our village has a great potential that could be utilized as a mangrove forest tour. There is a shrimp pond whose products’ potential has been explored, but insufficient human resources hinder VOE management, causing difficulties. Furthermore, each village has a different budget, which was 1.1 billion rupiah yesterday and is now 700 million. The SDGs have prompted the calculation of the area and population to be closely monitored for developing underdeveloped villages. This negatively affects our village budget, decreasing it by approximately 500 million rupiah. The great potential for village owns-source revenue has not been explored”.

4.5. Solutions to overcome obstacles faced by BUMDes in increasing village own-source revenue

Solutions to overcome obstacles faced by BUMDes in increasing village own-source revenue are listed as follows.

1) *Increase synergy between the village government, BUMDes, and community members.* The synergy could be achieved by enhancing coordination and cooperation among the three parties. As anticipated by BUMDes Mesem, the community and the village government would cooperate in concert.

“We wish that they come here and go to VOE. Therefore, we compete with the surrounding environment, with our sole objective being the village government. What activities are available in the village? PLTU has been our mainstay, and we provide snacks and other stuff when its activities occur. Our ATK is attempting to enter education by photocopying in Menganti schools”

The village is expected to actively evaluate the BUMDes report through the BPD’s function in the Musdes. The Cilacap regency Dispermades expert stated that:

“This relates to the BPD, BPD, or Musdes as the most important forum in the VOE context. According to Article 61 of PP Number 11, the village head, director, or supervisor bears responsibility. This indicates that the implementation of this Musdes falls under the jurisdiction of the BPD. Consequently, there are multiple reports during the evaluation, such as the Musdes when closing the books. Many supervisors do not comprehend the VOE report, which is received immediately. The Musdes is in proximity to the BPD. When it is simplified or there is a problem, it is not necessarily the APH’s responsibility. The APH must examine the Musdes, an analogous to the PT holding the AGM. When the BPD did not comprehend the VOE report, there was no evaluation and no improvement”.

2) *Training availability.* The Director of BUMDes in Karangreja village stated:

“We hope there would be trainings for VOE because I am still young and require advice from elders”.

Sumingkir village also hoped to receive training.

“VOE is still new and requires training and direction from the government or related agencies to advance. Therefore, we require PAD to support village activities”.

AD, the representative of Cilacap regency Dispermades, stated that Dispermades frequently provides training to BUMDes in managerial and business fields.

5. CONCLUSION

The study investigates the current state of governance implementation in BUMDes in the Cilacap regency, as well as the challenges that must be solved in order to develop successful governance practices. In this study, using a mixed-methods research design would provide a more comprehensive knowledge of governance implementation and challenges experienced by BUMDes. Integrating quantitative data analysis with qualitative insights from interviews or case studies would provide a more nuanced and in-depth examination of the issues under consideration. While the use of governance principles reveals a positive level of adoption, a number of impediments prohibit BUMDes from performing at their best. Improving governance procedures and increasing BUMDes performance and accountability necessitates overcoming these roadblocks.

In Cilacap regency, the average BUMDes has imperfectly applied management ideas. This study also revealed that BUMDes faces four significant barriers to increasing village own-source revenues, including: 1) a lack of established synergy between the village government, BUMDes, and the community; 2) limited capacity and insufficient human resources; 3) the fact that BUMDes is not yet a legal entity; and 4) ineffective BUMDes governance. The findings could help Cilacap regency's central and village administrations, as well as stakeholders, establish policies that promote BUMDes development. To overcome these problems, the following additional recommendations could be implemented: 1) increase the village government's and BUMDes management's synergy in order to maximize the village's potential and affect its own-source revenue; 2) the BUMDes evaluation must be appraised using the self-assessment system. This would simplify categorizing BUMDes into fundamental, growth, progression, and development groups based on actual conditions; 3) an experienced assessor could complete the evaluation independently; 4) promote community engagement to increase their contribution to rural BUMDes development.

There are several research limitations in this study. First, the study draws on the responses of 80 people, including BUMDes managers, community leaders, and supervisory bodies. While every attempt

was taken to ensure that the sample was representative, the relatively small sample size may restrict the generalizability of the findings. Future research may enlarge the sample size to include a more diverse range of respondents, such as BUMDes employees, community members, and relevant stakeholders, to improve the representativeness of the findings. This would allow for a more complete knowledge of the difficulties that BUMDes face and their impact on many stakeholders. Second, the study largely focuses on assessing the current state of governance implementation and hurdles in BUMDes. However, without a comparative analysis with BUMDes in other regions or other governance practices, completely understanding the uniqueness or commonalities of the highlighted impediments may be difficult. Comparative research across different regions or jurisdictions would provide a more comprehensive knowledge of the application of governance principles and the challenges that BUMDes face. Furthermore, conducting comparison studies across different regions or jurisdictions would provide a deeper knowledge of how governance principles are implemented and the challenges that BUMDes confront. Comparing the Cilacap regency to other locations may aid in identifying common difficulties as well as distinct aspects that influence governing strategies in various contexts. Third, the report provides an overview of the current state of governance implementation and challenges in BUMDes. However, it may not provide a thorough grasp of these entities' dynamic character throughout time. A more comprehensive historical analysis or a longitudinal perspective could provide a more thorough understanding of the changes, progress, and issues experienced by BUMDes in the Cilacap regency and other regions or jurisdictions.

Despite these limitations, the study is extremely relevant to the field of local government and village-owned businesses. It offers useful insights into the implementation of governance concepts as well as the specific issues encountered in the Cilacap Regency. The findings add to the existing literature on BUMDes governance and provide actionable recommendations for policymakers and stakeholders interested in improving governance practices and fostering BUMDes sustainability.

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APPENDIX

Table A.1. The application of the governance principle of village-owned enterprises in Cilacap regency (Part 1)

No	Question	Answer	Position			Amount	Percentage
			Village-owned enterprise manager	Head of village	Village supervisory board		
Cooperative (90.72% = (80% + 92.5% + 91.25% + 94.94% + 94.94%) / 5)							
1	Is there cooperation in social and business activities between the management of the village-owned enterprise and the village community?	Yes	33	14	17	64	80.00%
		No	9	4	3	16	20.00%
2	Is village-owned enterprise a social institution that favors the interests of the community?	Yes	41	17	16	74	92.50%
		No	1	1	4	6	7.50%
3	Do the administrators, village government and village communities in village deliberations (musdes) already have a link in the development and survival of the village-owned enterprise business?	Yes	40	18	15	73	91.25%
		No	2	0	5	7	8.75%
4	Do you think that village-owned enterprise can become a forum for social and economic activities?	Yes	41	17	18	76	94.94%
		No	1	1	2	4	5.06%
5	The establishment of village-owned enterprise as a legal entity is in accordance with the wishes and agreements of the community.	Yes	40	17	18	75	94.94%
		No	2	1	2	5	6.33%
Participatory (67.85% = (91.14% + 83.54% + 53.16% + 86.08% + 25.32%) / 5)							
1	Has there been support and contribution from the management, village government and village communities that have encouraged the progress of village-owned enterprises? (Example: contributions in the form of funds or capital or participation in village-owned enterprise activities)	Yes	38	16	18	72	91.14%
		No	4	2	2	8	10.13%
2	Does the community participate in village-owned enterprise management activities?	Yes	35	15	16	66	83.54%
		No	7	3	4	14	17.72%
3	Has village-owned enterprise been able to realize a strong and independent community economic institution to provide services to the community's needs?	Yes	27	7	8	42	53.16%
		No	15	11	12	38	48.10%
4	Can village-owned enterprise create business opportunities and reduce unemployment in villages?	Yes	37	14	17	68	86.08%
		No	5	4	3	12	15.19%
5	Has village-owned enterprise been able to apply for capital loans to outside parties or third parties?	Yes	11	1	8	20	25.32%
		No	31	17	12	60	75.95%
Emancipatory (61.52% = (74.68% + 26.58% + 51.9% + 96.2% + 58.23%) / 5)							
1	Has the village community contributed to the process of increasing the village?	Yes	30	14	15	59	74.68%
		No	12	4	5	21	26.58%
2	Do all village communities understand the management of village owned enterprises?	Yes	12	2	7	21	26.58%
		No	30	16	13	59	74.68%
3	Has the village-owned enterprise in its operational activities fully involved the village community?	Yes	21	10	10	41	51.90%
		No	21	8	10	39	49.37%
4	Has village-owned enterprise been implemented regardless of class, ethnicity and religion?	Yes	42	17	17	76	96.20%
		No	0	1	3	4	5.06%
5	Has training been carried out for stakeholders with an interest in improving the living standards of rural communities?	Yes	23	10	13	46	58.23%
		No	19	8	7	34	43.04%

Table A.1. The application of the governance principle of village-owned enterprises in Cilacap regency (Part 2)

No	Question	Answer	Position			Amount	Percentage
			Village-owned enterprise manager	Head of village	Village supervisory board		
Transparency (76.9% = (91.145% + 83.54% + 98.73% + 34.18%) / 4)							
1	Are there regular reports on funds obtained for the development of village-owned enterprises?	Yes	39	17	16	72	91.14%
		No	3	1	4	8	10.13%
2	Is there any information for the village community about obtaining funds at the village-owned enterprises?	Yes	34	15	17	66	83.54%
		No	8	3	3	14	17.72%
3	Is there a village regulation (Perdes) in the formation of village owned enterprises?	Yes	40	18	20	78	98.73%
		No	2	0	0	2	2.53%
4	Has the performance of village-owned enterprise been able to make a significant contribution to improving the welfare of citizens?	Yes	13	7	7	27	34.18%
		No	29	11	13	53	67.09%
Accountability (62.9% = (60.76% + 92.41% + 22.78% + 75.95%) / 4)							
1	Has the management of the business entity been running effectively, efficiently, professionally, independently and responsibly?	Yes	30	9	9	48	60.76%
		No	12	9	11	32	40.51%
2	Does the village government involve the community in planning deliberations to accountability for village-owned enterprises?	Yes	38	16	19	73	92.41%
		No	4	2	1	7	8.86%
3	Do the public know about the monthly routine reports that can be accessed via the internet or information media?	Yes	10	3	5	18	22.78%
		No	32	15	15	62	78.48%
4	Is there information disclosure regarding the results of the implementation of village owned enterprises to the public?	Yes	33	15	12	60	75.95%
		No	9	3	8	20	25.32%
Sustainability (74.68% = (39.24% + 91.14% + 93.67%) / 3)							
1	Are there other business entities that can increase real income besides village-owned enterprise?	Yes	21	3	7	31	39.24%
		No	21	15	13	49	62.03%
2	The existence of village-owned enterprises can be used for economic empowerment of rural communities.	Yes	40	14	18	72	91.14%
		No	2	4	2	8	10.13%
3	Can the village-owned enterprise used as a forum to encourage the economic development of rural communities independently and sustainably?	Yes	41	16	17	74	93.67%
		No	1	2	3	6	7.59%