

# Factors Affecting the Failure of BUMDes in Magelang

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## ABSTRACT

BUMDes are always faced with the potential risk of failure that may arise in the future. In an effort to minimize existing risks, BUMDes needs to implement an effective and comprehensive internal control and have competence of human resources. In 2021 the number of BUMDes reaches 57.273 consists of 45.233 active BUMDes and 12.040 inactive BUMDes, (Kemendes PDTT, 2021). There are still 2.188 BUMDes neglected and not operating, while as many as 1.670 BUMDes have not been optimal and contributed. The purposes of this study are to find out and analyze the competency factors of human resources and internal control that affect the failure of BUMDes. The research method in this study is a quantitative approach. The population is all employees in BUMDes Magelang Regency, while the sample is selected by the convenience sampling method. The results of the analysis that the competency of human resources and internal control have a negative effect on the failure of BUMDes.

**Keywords:** of BUMDEs; Human Resources Competence; Internal Control

## 1. INTRODUCTION

There are 56.7 % Indonesian residents live in urban area and this number is predicted to continue to increase to 66.6% in 2035 [1]. This condition explained that there are still around 43.3 % of Indonesian residents living in rural areas, therefore it is necessary to prioritize development to improve the village economy, which later can increase community independence. The community becomes independent through community empowerment [2]. The form of an independent community is the formation of a business entity or an institution that is used to manage resources efficiently. The village government can establish a village-owned enterprise (BUMDes) to increase the economy, independence, and welfare of the village community. The formation BUMDes is also entrusted in law 6/2014 about the village. BUMDes is a village business established by the village government, where the capital ownership and the management are carried out by the village government and community. BUMDes try to strengthen the village economy. It also forms based on village needs and potential. However, BUMDes is always faced with the potential risk of failure, which may arise in the future in achieving these goals.

In 2021 the number of BUMDes reaches 57.273 consists of 45.233 active BUMDes and 12.040 inactive BUMDes [3]. In the last five years, the government has spent a budget of about 330 trillion rupiahs for the village

fund program. However, these funds have not been used optimally by BUMDes. There are still 2.188 BUMDes neglected and not operating, while as many as 1.670 BUMDes have not been optimal and contributed [4]. The Existence of BUMDes needs the government's participation and support from the village community as supervisor of BUMDes activities and part of BUMDes internal control. However, in reality, the implementation of internal control does not work. It can be seen that there are 4,8 % BUMDes is not working and 36% is not contributing [5]. There is an obstacle faced by the regional government, both village government and district government. That is a lack of control toward management. It is caused by a lack of existing resources and control from the government and the community.

Business failure factors are caused by the ratio of working capital/total asset, current asset/current liabilities, and quick asset/inventory [6]. The minimum ratio that is used indicates the limit functions and utilization of other sources of capital for the contribution of performance. There are other obstacle factors to the success and sustainability of BUMDes. Those are influenced by aspects of institutional, capital, human resources [7]; [8]; [9]; [10]. Some of inhibiting factors of BUMDes are BUMDes does not participate in the realm of inclusive politics, where the village head does not have any authority to establish and control the BUMDes inclusively. BUMDes does not have the strong leadership of the village head and board member of BUMDes. There

is a poor internal managerial capacity of BUMDes. The low ability of BUMDes to build a wider outbound network, including support from stakeholders [11]. For BUMDes to come out of failure, it must have functional requirements. Some of the functional requirements are an adaptation of a mindset, policy, technology, and new habit which are out of the box, creative, innovative, and multi-party cooperation to strengthen institutional, the capacity of human resources, finance and market access, the actualization of mutual cooperation values, solidarity, mutual trust, transparency, democracy, and other values/norms [12].

This research will look from the nonfinancial side of BUMDes failure factors that is factors of human resources and internal control. Therefore, this study related to BUMDes failure is important to be done so that BUMDes can improve BUMDes organization performance. So, it can improve the economy of the village. This research will review and reanalyse how competence is human resources and internal control influence BUMDes failure. The purposes of this study are to find out and analyse the competency factors of human resources and internal control that affect the failure of BUMDes. This research contributes to the role of human resources and internal control as well as business failure. We hope that this research will be helpful for all stakeholders, namely village government apparatus and board members of BUMDes related to effective business continuity.

**Table 1** Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
HRC	32	3.00	6.00	4.8125	0.82060
IC	32	3.00	6.00	5.3750	0.79312
F	32	2.00	6.00	4.2500	1.27000
Valid N (listwise)	32				

Source: Primary Data, 2021

Based on Table 1 showed the minimum value is 3 for variables of human resources competency, internal control, and for BUMDes failure is 2, and the maximum value is 6. The average value of the variables of human resources competency and internal control are 4.8 and 5.4, for the variable of BUMDes failure is 4.2. It means that 32 respondents answered agree to the statement of the variables of human resources competency and internal control. While for the variable of BUMDes failure, the respondents answered neutrally.

The result of the validity test shows that in the variable of human resources competency, two statements

## 2. METHOD

The research method in this study is a quantitative approach. The population of this research is the board member of BUMDes at Magelang regency. The sampling method is a non-probability sampling with convenience sampling. It is sampling done by taking an observation unit that is easy to be obtained [12]. There are around 189 BUMDes at Magelang Regency [13]. The questionnaires were distributed through a google form. There were 32 respondents who returned and could be processed. The data analysis technique used in this research is regression analysis [12]. Measurement of the variable with the Likert 7 scale used to measure the competency of human resources and internal control toward the failure of BUMDes. The research model is:

$$K = a + b_1KSDM + b_2PI + e$$

Notes:

K; Failure of BUMDEs;

KSDM: Competency of Human Resources;

PI: Internal Control

## 3. RESULT AND DISCUSSION

### 3.1. Research Results

The descriptive statistical analysis can be seen in Tabel 1.

are not valid, namely numbers 1 and 14, and in the variable internal control contains two invalid statements, namely numbers 1 and 2. While the variable of BUMDes failure contains one invalid statement number 4. The invalid statements were excluded from the analysis. The result of the reliability test states that all the variables are reliable. The variable of human resources competency with Cronbach's alpha value of 0.926, the variable of internal control with Cronbach's alpha value of 0.933, and the variable of BUMDes failure of 0.858. All the results have value above 0.70 which mean all the variables meet the reliability requirements [14]. The regression analysis can be seen in Table 2.

**Table 2** Regression Analysis

Variable	Estimated Coefficient	Standard error	t-statistic	p-value
Intercept	77.446	10.055	7.702	0.000
HRC	-0.578	-0.578	-5.132	0.000
IC	-0.285	-0.285	-2.838	0.008
Model				
Adj R2		0.484		
F Statistic		15.520		
Sig F		0.000		
N		32		

Source: Primary Data, 2021

Based on table 2, the regression equation is  $F = 77.446 - 0.578HRC - 0.285IC + e$ , where the decrease in the competency of human resources and internal control will reduce the BUMDes failure. The result of the determinant coefficient shows that human resources competency and internal control affect the failure of BUMDes by 48.4%, while 51.6% are influenced by other factors not examined. The hypothesis test result with regression analysis shows a significant value for the first and second hypotheses of 0.000 and 0.008, where the value is smaller than the significances of 0.05 with t count of -5.132 and -2.838. This means that the first and second hypotheses is accepted. The result of the first hypothesis shows that the competency of human resources has a negative effect on the failure of BUMDes. The result of the second hypothesis shows that internal control has a negative effect on BUMDes failure.

### 3.2. Discussion

Based on the result of the study, shows that the competency of human resources has a negative effect on the failure of BUMDes. It means that the better the human resources competency, the lower BUMDes failure. Human resources have the main role in the development and improvement of BUMDes. The management of BUMDes has the knowledge, skills, and good attitude about government regulations related to the standard of the financial report so that it is decreasing financial problems that caused a deviation and a decline in the development of BUMDes business. Competency of human resources is a basic characteristic of an individual who has a causal relationship as effective references in doing the job. Human resources competency is measured from the knowledge which is owned by looking at the suitable of education and the length of experiences. The skills aspect can be seen in the ability of somebody to apply the rules. The majority of BUMDes administrators are undergraduate and have a working period of more than three years. The result of this research is consistent with [15], that two aspects caused the failure of BUMDes. Those are the professionalism of the management and a lack of coaching and supervision. According to [16] states that

one of BUMDes' failures is seen from education, age, and work experiences, while the factors of BUMDes success are influenced by communication accounting information system, leadership style, motivation, salary, and human resources.

The result of internal control research has a negative effect on the failure of BUMDes. The better internal control, the smaller BUMDes failure. If BUMDes has good internal control and is implemented, so the failure can be minimized. A business failure can be minimized properly if it has an effective internal control system [17]. A good internal control system will give a guarantee that the business doing well. An entity that has a strong internal control system is expected to have a better performance than an entity that has a weak system [18]. An entity with a weak internal control has a lower market value [18]. An internal control system is a vital managerial tool in an organization [19]. That a good internal control system in the government apparatus will increase the village government's performance. A good internal control system gives the manager a reasonable guarantee that the basic purpose of management will be achieved [20]; [21] and [22]. The internal control implemented by all village governments in the activities of managing BUMDes will increase the village government's performance.

### 4. CONCLUSION

Based on the result of this research, it can conclude that BUMDes, which has a good competency of human resources, can increase the success of BUMDes or minimize the failure. The role of human resources competency becomes the key of BUMDes in minimizing failure. Furthermore, if BUMDes has good internal control, so it will be avoided from a failure. The existence of good internal control means that there is good supervision and the activities of BUMDes go well. The limitation of this research is a low response rate because many respondents did not fill out the questionnaires through a google form. First, the suggestion for further research is expected to be able to develop other variables that affect the failure of BUMDes. Second, the method of

distributing the questionnaires that can be used is not only by using a google form but also by adding direct distribution because not all respondents can use these facilities or lack of facilities in their phones.

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