Optimization of the Role of Village-Owned Enterprises in Increasing Village Original Income through Financial Good Management (Case Study: BUMDes Ngijo)

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Abstract. This research aims to analyze the management of Village-Owned Enterprises (BUMDes) in supporting village economic development. BUMDes is one of the important instruments that is expected to drive the village economy through the utilization of local potential. This study uses a qualitative approach with a case study method in several villages that have active BUMDes. Data was collected through in-depth interviews, field observations, and document analysis related to BUMDes management. The results show that the success of BUMDes is strongly influenced by leadership factors, community participation, transparency of management, and support from the village government. In addition, the main challenges faced by BUMDes in optimizing their role are limited capital, low managerial skills, and lack of access to broader markets. Therefore, there is a need for institutional strengthening strategies and capacity building of human resources involved in BUMDes to ensure its sustainability and contribution to village economic development. This research provides recommendations for the improvement of BUMDes management so that it can more effectively perform its function as the main driver of the village economy.

Keywords: Village-Owned Enterprises, village economic management and development, Village Original Income

1 Introduction

Village-Owned Enterprises (BUMDes) are economic institutions operated jointly by the government and village residents, with the primary goal of enhancing and developing the local economy, taking into account the specific needs and potential resources possessed by each village [36]. BUMDes is a strategic instrument in the effort to develop the rural economy in Indonesia, established based on Law Number 6 of 2014 concerning Villages. BUMDes is projected to serve as a catalyst for village economic growth and a means to improve community welfare [26]. Village Original Income can be interpreted as one of the indicators of a village's development. The village's efforts to increase income are usually obtained through the management program of Village Original Income (PAD). Based on the statement above, it can be concluded that there

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is a need to optimize the role of BUMDes as an effort to enhance Village Original Income by exploring the village's potential. The increase in the village's original income impacts the rise in cash inflow, which can contribute to the management of village operations, thereby creating independence and the welfare of the community [29]. However, in its implementation, many village-owned enterprises (BUMDes) have yet to optimize their potential in increasing the village's original income. (PADes). This phenomenon raises critical questions about the factors that influence village-owned enterprises (BUMDes) in achieving their objectives. One fundamental aspect that determines the success of village-owned enterprises (BUMDes) is the application of good financial management principles. Transparent and accountable financial governance is a primary prerequisite for village-owned enterprises (BUMDes) to optimally contribute to the increase of village revenue (PADes) [4]. However, empirical observations indicate that many BUMDes still face challenges in this aspect, ranging from limited human resource capacity to the absence of adequate financial management systems.Previous studies demonstrated a positive correlation between the application of good governance principles in the management of village-owned enterprises (BUMDes) and the improvement of financial performance and its contribution to village revenue (PADes) [33]. These findings underscore the importance of implementing good management practices in the operationalization of BUMDes. However, significant disparity in the implementation of good financial management practices across various village-owned enterprises (BUMDes), particularly concerning aspects of transparency and accountability [25]. This gap indicates an urgency to conduct further studies to identify the factors influencing the successful implementation of financial good management in village-owned enterprises (BUMDes). An analysis of the existing literature reveals a research gap in the form of a lack of comprehensive studies that integrate financial good management aspects with the optimization of BUMDes roles in the context of increasing village revenue (PADes). The majority of previous research has tended to focus on specific aspects in a partial manner, without providing a holistic picture of the complex interactions between financial management practices, BUMDes performance, and their contributions to PADes. Therefore, this study aims to fill that gap by adopting an integrative approach that combines the analysis of financial management practices with BUMDes development strategies.

BUMDes Ngijo, which is the subject of this case study, represents a concrete example of a BUMDes that strives to optimize its role in enhancing village revenue (PADes). Located in Ngijo Village, this BUMDes has substantial potential to contribute to the village's economy and is one of the government's priority programs. The selection of Ngijo Village-Owned Enterprise (BUMDes) as a case study is based on the consideration that this entity represents the typical characteristics of BUMDes in Indonesia, so the findings obtained are expected to have broad relevance and applicability. Based on the results of the observation, information was obtained from the Director of the Village-Owned Enterprises (BUMDes) regarding the current condition of BUMDes. BUMDes Ngijo was established on August 27, 2020, based on Government Regulation Number 59 of 2020 regarding the establishment of BUMDes in Ngijo Village through a Village Deliberation (Musdes) together with the Village Consultative Body (BPD) and community leaders. The establishment of BUMDes is an effort by the village government to increase the village's original income through the direct role of BUMDes. The results of the village deliberation show that the entire village community agrees to establish a Village-Owned Enterprise (BUMDes) that will consist of two business units operating in the fields of economy and tourism, namely a public swimming pool and a community café. The entire community of Ngijo Village hopes that the establishment of this Village-Owned Enterprise (BUMDes) can increase the village's original income, stimulate the economy, and create job opportunities for the residents. However, like many other village-owned enterprises (BUMDes), BUMDes Ngijo also faces challenges in maximizing its performance, particularly in the aspect of financial governance. Furthermore, the issues in the management of BUMDes include the legality of the business, which is still in the application process, and the use of personal funds for operational needs. The issue indicates that the implementation of BUMDes has not been carried out optimally in contributing to efforts to increase the village's original income. Therefore, based on that background, the researcher has chosen the title "Optimization of the Role of Village-Owned Enterprises (BUMDes) in Increasing Village Original Income through Financial Good Management (Case Study: BUMDes Ngijo)." This study aims to examine the efforts to optimize the role of BUMDes Ngijo in increasing Village Original Income through the implementation of financial good management. By analyzing best practices, challenges faced, and contextual factors influencing the performance of BUMDes, this research is expected to make a significant contribution to the development of the body of knowledge regarding BUMDes management in Indonesia. As stated by previous research, strengthening the capacity of village-owned enterprises (BUMDes) in financial governance is a strategic step towards achieving economic independence for villages [28]. Through this case study, it is hoped that a deeper understanding can be gained about how good financial management can serve as a catalyst for village-owned enterprises (BUMDes) in optimizing their role as economic drivers of the village and as key contributors to the increase of village original income (PADes). By exploring the dynamics of BUMDes management and its implications for PADes, this research aims to provide valuable insights for policymakers, development practitioners, and academics in formulating effective strategies to empower the village economy through the optimization of BUMDes' roles.

2 Literature Review

2.1 The Role of BUMDes in Increasing Local Revenue

BUMDes (Village-Owned Enterprises) plays a crucial role in driving the increase of Local Revenue (PAD) by managing various economic potentials available in the village [35]. The establishment of BUMDes is a way to utilize and optimize the implementation of existing regulations that grant authority to village governments to innovate in village development, particularly in enhancing the village economy and the welfare of the village community [1]. With the presence of BUMDes, the village government and the community can optimize the existing potentials in the village independently, thereby enhancing the village's economy and improving the welfare of the community. The village government and the community can create programs that align with the potential of the village [10].

The role of BUMDes is as follows [32]:

1. To build and develop the potential and economic capabilities of the village community, generally to improve their economic and social welfare.
2. Actively participating in efforts to enhance the quality of human life and society. Strengthening the people's economy as the foundation of national economic strength and resilience, with village-owned enterprises (BUMDes) as its cornerstone.
3. Striving to realize and develop the village community's economy.
4. Helping the community to increase their income so that it can enhance the income and prosperity of the society.

The discussion above emphasizes that BUMDes (Village-Owned Enterprises) plays a very important role in encouraging the increase of Original Village Revenue (PAD) through the optimization of local economic potential. BUMDes grants village governments the authority to innovate in village development, particularly in the economic sector, which ultimately leads to improved community welfare. With the active role of BUMDes in developing village potential, village governments together with the community can create programs that align with local needs and potentials, thereby not only stimulating the village economy but also enhancing the quality of life for the community. Ultimately, BUMDes strengthens the village economy, which directly contributes to the resilience of the national economy.

2.2 The strategy of BUMDes in Business Development

An appropriate strategy is the key to the development of BUMDes (Village-Owned Enterprises) to achieve sustainable success. As the driving force of the village economy, BUMDes is not only required to utilize local potential but also must be able to implement innovative and adaptive business strategies to face the challenges of the times. According to David [34], strategy is a shared goal with long-term objectives to be achieved. With the presence of a strategy, it serves as a framework for collaboration in reaching the desired goals and objectives. With careful planning, market potential research, and collaboration with various parties, BUMDes can create productive and competitive businesses. This strategy aims to ensure that village-owned enterprises (BUMDes) can contribute maximally to increasing village income and the welfare of the local community.

Strategy can be defined from five aspects [22], namely:

1. Strategy as a plan, which is a type of action that one intends to take, a set of arrangements made before the action, and constructed consciously with a specific purpose.
2. Strategy as a pattern, which refers to a wave of actions. In other words, strategy is the consistency of behavior, both expected and unexpected.
3. Strategy as a play, which is a way to defeat rivals in a competitive situation or negotiation.
4. Strategy as a position, which is a tool for placing the organization within an environment. From this definition, strategy becomes a force in mediating or adjusting

between the organization and its environment, between the internal context and the external context.

5. Strategy as a perspective, which is an internal goal of the organization regarding how it perceives its environment. This implies that all strategies are assumed to be concepts or abstractions that exist in the minds of the stakeholders.

Three continuous processes of strategy [21], which are:

1. Analysis
   Strategic management emphasizes the analysis of the hierarchy of strategic objectives (vision, mission, and strategic goals) alongside the analysis of the organization's internal and external environment.
2. Decision
   A decision is the result of firmly addressing a problem. In that step, the decision regarding what should be done within the organization itself. Of course, this plays a role as a mediator between the analysis steps and actions.
3. Action
   This step is an implementation of the strategy based on the decisions that have been established beforehand. This requires leaders to allocate the necessary resources and design the organization so that the chosen strategy becomes a reality. The strategy determines the overall direction and focused actions of the organization; its formulation is not merely seen as a generation but as the alignment of programs to meet established goals.

Furthermore, strategy can be viewed as a process that includes a series of interconnected and sequential stages [17]. The main stages in the strategy process generally include situation analysis, strategy formulation, and strategy evaluation. The explanation of the stages in the strategy process is as follows:

1. Situation analysis, which includes detecting and evaluating the organizational context, external environment, and internal environment.
2. Strategy formulation, which encompasses the design and selection of appropriate strategies.
3. Strategy implementation, which is the process of executing the formulated strategy through concrete actions.
4. Strategy evaluation, which is the process of assessing how the strategy was implemented and to what extent it affects performance.

3 Methods

This research employs a qualitative approach with a case study method to examine the optimization of the role of Village-Owned Enterprises (BUMDes) in increasing Village Original Income (PADes) through financial good management, focusing on BUMDes Ngijo. The qualitative approach was chosen because it allows the researcher to gain a deep and comprehensive understanding of the phenomenon being studied in its natural context [7]. The case study method is used as it is suitable for investigating contemporary phenomena in real-life contexts, especially when the boundaries between the phenomenon and the context are not clear [38]. In this case, the case study allows researchers to intensively explore the practices of good financial management in BUMDes Ngijo and its impact on the increase of PADes. Data collection was conducted through in-depth interviews and participatory observation. The interview was conducted with two informants, including the village head and the director of the village-owned enterprise.Data analysis using a thematic approach [6] through the stages of coding, grouping codes, and interpreting data to identify key patterns. To enhance the validity of the research, source and method triangulation techniques were employed [8]. Source triangulation was carried out by comparing data from various informants, while method triangulation involved comparing data obtained from interviews, observations, and document analysis. Research ethics are upheld by obtaining informed consent from all participants, maintaining the confidentiality of information, and providing participants the opportunity to conduct member checking on the analysis results before publication. By using this method, the research aims to produce a deep understanding of how BUMDes Ngijo optimizes its role in increasing PADes through the implementation of financial good management, as well as to identify the factors that support and hinder this process.

4 Results and Discussions

4.1 The Role of Village-Owned Enterprises (BUMDes) in Village Original Income

BUMDes Bumi Wangi Ngijo was inaugurated by the Regent of Malang in 2020. This business entity focuses on the tourism sector and has two lines of business. These business sectors include the Patirtan tourism and the Kopi Rakjat Cafe. BUMDes Bumi Wangi Ngijo is located at Jl. Raya Griya Permata Alam, Perun Gpa, Ngijo, Karang Ploso District, Malang, East Java 65152. Recently, the BUMDes Bumi Wangi Ngijo has not yet obtained legal entity status.

Table 1. Fig **1**. Patirtan, One of Bumi Wangi Ngijo's Business Sector

Village income has declined since the establishment of Village-Owned Enterprises (BUMDes), caused by various factors, including the lack of optimization of local resources and challenges in business management. In addition, the COVID-19 pandemic has worsened the situation by weakening people's purchasing power, disrupting supply chains, and limiting economic activities in villages. The impact of this pandemic has led to a significant decline in the income of BUMDes, necessitating strategic recovery measures, such as business diversification and adaptation to more crisis-resistant business models.

Table 2. Value of Profit Sharing for BUMDes Bumi Wangi Ngijo 2020-2023

Year	Budgeting	Realization	+/-
2020	Rp4.750.000	Rp0	Rp4.750.000
2021	Rp5.000.000	Rp0	Rp5.000.000
2022	Rp5.275.000	Rp0	Rp5.275.000
2023	Rp7.000.000	Rp0	Rp7.000.000

Based on the data obtained from the Village Revenue and Expenditure Budget (APBDes) of Ngijo for the years 2020-2023, it shows that the realization of the profit-sharing from BUMDes amounts to Rp0. This indicates that the BUMDes Bumi Wangi Ngijo has not yet been able to contribute to the Village's Original Income. On the other hand, BUMDes was established to play a role in increasing the village's original income [9]. This aligns with the hopes of the Ngijo Village Government for the BUMDes Bumi Wangi Ngijo. However, BUMDes Bumi Wangi Ngijo has not contributed to the Village's Original Revenue since the COVID-19 pandemic. The COVID-19 pandemic has reduced the profitability of companies [13], including BUMDes Bumi Wangi Ngijo. Decreasing profitability is caused by a decline in productivity and revenue [24]. In addition, the issue is also caused by minimal management in innovation. Minimal management in innovation can reduce a company's profitability [39]. Companies that are lacking in innovation will face competition in competitive advantage, thereby reducing their market share in the industry [2]. This is in line with the statements of the sources, namely interviewee 1 and interviewee 2.

”*Sampai saat ini yang saya tahu belum kita setor ke sana gitu. Jadi dalam konteks ini karena infonya itu kan rugi aja gitu ya rugi aja. sempat naik berapa gitu (laba perusahaan) Terus udah down lagi termasuk waktu covid kemarin. Udah ya udah itu wis mulai down terus*” Interviewee 2

”*Itu masih belum saya (pimpinannya), Kemudian jalan di tempat. Jalan di tempat artinya ya gak ada progres maju ke depan, Itu tetap gitu dong, Jadi malah tekor (merugi).*” Interviewee 1

4.2 Management of BUMDES Finances

A good financial report is a comprehensive report that accurately reflects the financial condition and performance of the organization, allowing for effective evaluation and comparison over time. []. According to PSAK 1 on the presentation of financial statements, financial statements must at least include the statement of financial position, the income statement, the statement of changes in equity, the cash flow statement, and notes to the financial statements [30]. Based on the results of the interview with the source, the village-owned enterprise (BUMDes) does not yet have good finances. This is evidenced by the absence of financial reports that comply with accounting policies. BUMDes only uses simple bookkeeping to record income and expenses. On the other hand, financial reports are important for companies [27]. Financial reports can be beneficial for internal decision-making, assessing financial performance, and long-term planning of the company [5][16]. In addition, financial statements are needed by external parties to make investment decisions or to provide capital loans [11]. Meanwhile, during the new leadership period, the village-owned enterprise (BUMDes) is preparing financial reports that comply with accounting policies. In its preparation, the BUMDes collaborates with a university in Malang that specializes in accounting. From an operational perspective, the village-owned enterprise (BUMDes) generates its funds independently through operational activities. The village's income is derived from two business sectors, namely Patirtan, which is a bathing tourism site, and Toko Kopi Rakjat. According to the statement from the informant, both of these businesses can only cover the company's operational costs. This has resulted in BUMDes Bumi Wangi Ngijo not being able to contribute to the local revenue. Bumdes also struggles to expand due to the limited capital it possesses. Capital contributes to company growth by enhancing productivity through investments in asset capital, human resources, and intellectual capital [37]. On the other hand, based on Government Regulation No. 11 of 2021 concerning Village-Owned Enterprises (BUMDes), BUMDes can obtain funds from village capital participation. However, BUMDes Bumi Wangi Ngijo has not received funds from the village because it has not yet obtained legal entity status.

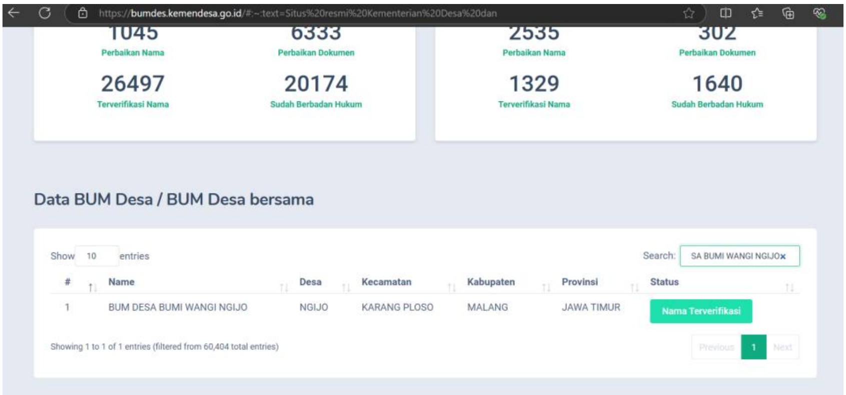

Fig. 1. The status of BUMDes Bumi Wangi Ngijo on the website bumdes.kemendesa.go.id.

Based on the findings from the website bumdes.kemendesa.go.id, BUMDes Bumi Wangi Ngijo is still classified as "name verified." The "name verified" status is used for BUMDes that are registered but have not yet attained legal entity status. This has resulted in the village-owned enterprises (BUMDes) not receiving funds from village capital participation, thus being unable to enhance their business productivity. Therefore, the issue of legal entities has become the main target that will be addressed by the village-owned enterprises (BUMDes) in the near future, so that they can obtain capital from the village government. It is undeniable that the legality of a business is an important aspect because without legal status, a company risks facing illegitimacy that can affect its legal standing and operations [3]. In addition, the management of BUMDes also requires transparency within BUMDes. Every fund obtained or used by the village-owned enterprise (BUMDes) in its business activities must be reported in the village meeting. Transparency is very important for companies as it can foster trust among stakeholders and enhance corporate governance [19]. The efforts made by BUMDes are also strengthened by improvements in internal management. In internal management, stakeholders will be filled by competent individuals in their respective fields. The competencies of leaders are crucial for the success of an organization because leadership competencies encompass measurable characteristics that directly influence effectiveness and performance in the workplace [14]. Asset management is also a concern for the BUMDes Bumi Wangi Ngijo. Based on the statement from the source, the lack of financial report documentation has resulted in poor management and recognition of BUMDes assets. The assets used by the village-owned enterprises (BUMDes) so far are assets owned by other parties. Meanwhile, BUMDes Bumi Wangi Ngijo and that party are two separate entities. Therefore, the BUMDes Bumi Wangi Ngijo is reviewing asset ownership. A review is an effort made by the Village-Owned Enterprises (BUMDes) to fulfill the assumptions of a business entity in accounting. The assumption of economic entities is very important because it describes the financial activities of a company's business that are separate from other entities and ensures clarity in financial reporting and accountability [40].

"*Nah, Terkait juga dengan aset yang di patirtan atau kolam renang itu itu juga ada lahannya. Kalau lahannya pdam bagaimana saya masih belum clear bener gitu ya.... Ya masih banyak persoalan dari sisi internal terkait dengan diperoleh karena aset, kemudian lahan yang dipakai*" Interviewee 2

4.3 Management Strategy for Village-Owned Enterprises (BUMDes)

As an initial step in efforts to increase Village Original Income (PAD), the village head hopes that strong support for Village-Owned Enterprises (BUMDes) can encourage the development of more effective management strategies. The strategy will include optimizing resource allocation, management training for BUMDes managers, and maximizing the utilization of local potential. The Village Revenue and Expenditure Budget (APBDes) is a crucial element in realizing good village governance [20] the synergy between the village government, the community, and the management of BUMDes. Active participation from all stakeholders is key in building mutual understanding regarding the priorities for rural business development that align with local needs and potential. In this regard, proactive policy support from the village government, such as clear regulations and financial incentives, can provide a strong foundation for the sustainability of BUMDes enterprises.

The realization of welfare is primarily achieved through planned, comprehensive, and long-term development strategies [18]. The goal is that after a comprehensive revitalization, the Village-Owned Enterprises (BUMDes) will be able to provide a significant increase in the Village Original Income (PADes). This revitalization aims to strengthen institutions, enhance the effectiveness of business management, and optimally utilize local potential. With a more targeted strategy, such as innovative business development and the sustainable utilization of village natural resources, the Village-Owned Enterprises (BUMDes) are expected not only to substantially increase the village's original revenue (PADes) but also to serve as the main driver of village economic development and improve the living standards of the community.

The development plan for the Village-Owned Enterprise (BUMDes) of Ngijo Village focuses on the active involvement of the villagers. Awareness and community participation are key factors for the success of development; in this case, the realization of development goals needs to be demonstrated through government policies [31]. Therefore, through various activities aimed at introducing and enhancing the brand awareness of BUMDes, this is done to increase the number of visitors, which is why brand awareness is necessary. Brand awareness is the ability of a consumer to recall a brand within a specific category [23]. One of the planned steps is to collaborate with schools to organize outdoor learning activities, such as education on waste management and gardening for children. By making the Village-Owned Enterprises (BUMDes) the center of activities, it is hoped that the potential of the village can be explored more broadly, generating additional sources of income beyond those two main sectors. Considering that most of the Ngijo Village area consists of plantations and agricultural land, there are many economic opportunities that can be harnessed from the various vegetables and rice that thrive in this region.This approach will not only strengthen the position of BUMDes within the community but also make a tangible contribution to the village economy through the optimization of local resources.

BUMDes plans to collaborate with various parties, including youth organizations and private companies, as a strategic effort to enhance business progress and expand its business reach. Although the Village-Owned Enterprises (BUMDes) are government-owned entities, many stakeholders need to support them [15]. It is difficult for village-owned enterprises (BUMDes) to develop internally due to poor business and institutional management, while externally, the biggest obstacle is competition in product marketing [12][23]. One external solution to this problem is the utilization of the potential of the village's natural resources. By involving the Youth Organization, the Village-Owned Enterprises hope to empower the village youth through skills training, business innovation, and participation in local economic activities. In addition, collaboration with private companies will open up opportunities to access greater resources, technology, and capital, thereby effectively supporting the development of BUMDes businesses. This collaboration is expected to create positive synergy, accelerate the economic growth of the village, and enhance the contribution of the Village-Owned Enterprises (BUMDes) to the Village's Original Income. (PAD).

With the establishment of this organizational structure headed by the director of the village-owned enterprise, it is hoped that a more solid organizational framework and clearer operational system can be created. This step is taken to ensure that the village-owned enterprises (BUMDes) have certainty in their operations, including in terms of planning, financial management, and performance evaluation. With better-organized management, BUMDes can ensure that every aspect of the business operates efficiently, transparently, and accountability, thus being able to contribute more significantly to the increase of Village Original Income (PADes) and the welfare of the community. In alignment with the vision and mission of the village head, which is to ensure that the Village-Owned Enterprises (BUMDes) provide benefits for the village and its residents. They are committed to developing the existing Village-Owned Enterprises (BUMDes), exploring new potentials, and making significant contributions to increasing the Village's Original Income (PAD). The smooth communication between the BUMDes director and the village head strengthens their collaboration, with regular discussions held weekly or monthly to discuss plans and developments in the management of BUMDes. Good corporate governance, supported by adequate infrastructure, is an important factor that can determine the success of Village-Owned Enterprises. (BUMDes). In addition, the presence of competent human resources is also crucial to support effective operations. In this regard, the director of the village-owned enterprise (BUMDes), who has a background in economics, works as an academic and researcher, and is elected through the Village Deliberation (Musdes), is expected to lead the BUMDes with the right strategies, so that it can achieve business development targets and improve the welfare of the village community.

5 Conclusions

With the establishment of this organizational structure headed by the director of the village-owned enterprise, it is hoped that a more solid organizational framework and clearer operational system can be created. This step is taken to ensure that the village-owned enterprises (BUMDes) have certainty in their operations, including in terms of planning, financial management, and performance evaluation. With better-organized management, BUMDes can ensure that every aspect of the business operates efficiently, transparently, and accountability, thus being able to contribute more significantly to the increase of Village Original Income (PADes) and the welfare of the community. In alignment with the vision and mission of the village head, which is to ensure that the Village-Owned Enterprises (BUMDes) provide benefits for the village and its residents. They are committed to developing the existing Village-Owned Enterprises (BUMDes), exploring new potentials, and making significant contributions to increasing the Village's Original Income (PAD). The smooth communication between the BUMDes director and the village head strengthens their collaboration, with regular discussions held weekly or monthly to discuss plans and developments in the management of BUMDes. Good corporate governance, supported by adequate infrastructure, is an important factor that can determine the success of Village-Owned Enterprises. (BUMDes). In addition, the presence of competent human resources is also crucial to support effective operations. In this regard, the director of the village-owned enterprise (BUMDes), who has a background in economics, works as an academic and researcher, and is elected through the Village Deliberation (Musdes), is expected to lead the BUMDes with the right strategies, so that it can achieve business development targets and improve the welfare of the village community.

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