

# **Building Partnership or Competition : Village Business Sustainability**

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## **Abstract**

**Purpose** — *This study aims to understand the reality of Village-Owned Enterprises and their implications for rural communities. The focus of this research is to explore the role of Village-Owned Enterprises in carrying out their role as an engine for driving the economy of people in rural areas. Village-owned enterprises have turned into competitors for small rural enterprises.*

**Design/methodology/approach** — *This research uses a qualitative approach and the informants from Village-Owned Enterprises are the Chairman, Secretary, and Treasurer. Village-owned enterprises become a medium for rural business groups to develop economic potential.*

**Findings** — *The results of the study indicate that the business fields that village-owned enterprises develop have in common with small businesses of rural communities, so it interferes with the sustainability of local communities businesses.*

**Practical implications** — *Provide academic considerations for regulators to evaluate and reorganize the role of Village-Owned Enterprises for the sustainability of small rural businesses.*

**Originality/value** — *The development of Village-Owned Enterprises is based on building a business chain by involving local economic groups so that the sustainability of community economic business activities impacts the economy of rural areas.*

**Keywords:** *Village-Owned Enterprises, Partnership, Competitor, Village Economy, village business sustainability*

## **INTRODUCTION**

Rural areas have gradually changed for the better since the law on villages Number 06/2016 began to be implemented by the government in Indonesia. Several aspects of rural areas have improved, such as the availability of village infrastructure. The community uses village roads to facilitate the mobilization of socio-economic activities. Other public facilities, such as agricultural roads for harvesting produce distribution, are also focused on improving the village government's support of food security (Indraningsih et al., 2021; Zaman et al., 2021). In addition, empowerment and development programs for rural communities are part of the government's attention in implementing human development and social-culture in rural areas (Hariyanto, 2022).

Community economic empowerment based on local village potential is one of the government's orientations to promote the economy in rural areas, such as the development of tourist villages (Trisnawati et al., 2018) and home industry businesses (Raharjana, 2012). The government encourages the

formation of village business units or other designations such as Village-Owned Enterprises to become economic institutions for rural communities. Village-Owned Enterprises are business units with legal entities that receive initial capital from the village government to drive the village economy (Karim et al., 2021). The government hopes that Village-Owned Enterprises can become an engine that drives the economy in rural areas. Therefore, the government encourages every village to have a Village-Owned Enterprise in Indonesia. Data on the development of the number of Village-Owned Enterprises continues to grow from year to year as shown in the following data.

**Tabel 1. Data on the Development of BUMDes in 2014-2018**

<b>Year</b>	<b>Number of Village-Owned Enterprises</b>	<b>Ratio</b>
2014	1.022 Units	1.4 %
2015	11.954 Units	16.1%
2016	18.466 Units	24.9%
2017	39.149 Units	52.8%
2018	45.549 Units	61.5%

Data source : Village ministry

The number of Village-Owned Enterprises has increased from 2014 to 2018. In 2018 the number of Village-Owned Enterprises reached 61.5%, and 38.5% of village areas do not yet have Village-Owned Enterprises. The increase in village-owned enterprises spread across all villages in Indonesia should have encouraged increased economic activity in rural areas.

Village-Owned Enterprises' capital comes from the village government's capital participation. The village government's capital participation follows the village law, which stipulates that the village budget can be used for investment activities in Village-Owned Enterprises. Investment in Village-Owned Enterprises so the village government can stimulate community economic activities through the village business unit.

Village-Owned Enterprises are not just economic institutions but have a Social Enterprise dimension (Muryanti, 2020). The definition of Social Enterprise means that Village Owned Enterprises prioritize rural communities' economic interests rather than institutions' economic interests. Village-Owned Enterprises have social enterprise characteristics and are different from profit-oriented private enterprises. Prioritizing the community's economic interests is a representation of the implementation of Social Enterprise in Village-Owned Enterprises (Setiawan et al., 2021).

In contrast to Village Owned Enterprises, small businesses managed by rural communities, such as trading businesses and home industries, operate with limited capital. Capital constraints and limited use of the latest technology make small businesses owned by villagers face many business obstacles. Marketing local products' reach is a fundamental obstacle for small businesses in rural areas. The distribution network of local products from the village to the market center is still experiencing difficulties, so the optimization of sales of small business actors in rural areas has not been achieved as it should. This situation makes local village businesses have not developed

optimally, so they have not made a significant contribution to the family economy and rural economic independence.

Village-Owned Enterprises and small business actors run similar businesses and operate in the same area. The similarity in the business fields between the two causes business competition and unfavorable disruption for local business actors. The similarity of business fields creates a sharing market that leads to business competition between Village Government Owned Enterprises and small businesses owned by villagers. Village-Owned Enterprises with the initial goal of becoming a driving force for the community's economy have turned into competitors for micro-enterprises owned by villagers.

### **Restricting the problem**

This study focuses on the role of Village-Owned Enterprises located in the Bandung Regency area in carrying out their role as an engine for driving the economy of the community in rural areas.

### **Research question**

How is the reality of the business practices of village-owned enterprises and their implications for the sustainability of small rural business.

### **Research purposes**

It understands the business reality of village-owned enterprises and their implications for the sustainability of small rural businesses.

## **LITERATURE REVIEW**

### **Relevant Theories and Research Results**

Village-Owned Enterprises are economic institutions that aim to improve the village economy. Economic institutions belonging to the village government have the authority to manage the village's potential to improve the rural economy. Village-Owned Enterprises have the authority to manage village economic potential for the benefit of rural communities. Village communities have an economic interest in Village-Owned Enterprises, so this economic institution should apply the sharing economy principle. The sharing economy view means that the community keeps the main priority in providing economic benefits.

Community-based development is a model that provides opportunities for the community to participate in rural development (Dewi et al., 2013). The participation of community elements in village business development can encourage a sense of shared responsibility. According to Timothy (1999), community participation in business development is divided into two perspectives: first, local community participation in the decision-making process. Second, community participation participates in developing and enjoying the benefits of the existence of Village-Owned Enterprises.

Community participation in village business development aims to safeguard the community's interests in the activities of Village Owned Enterprises. Adiyoso (2021) stated that community participation in the development of Village-Owned Enterprises is an effort to empower and create economic growth in rural areas. Thus, the awareness of all parties in

strengthening community participation in rural local economic development is essential, especially for village-owned companies to consider.

Community participation is an element of rights that every villager should be able to enjoy properly. The community is not only an object that receives development benefits but also has the capacity as a subject, namely, part of the implementer of development. Ito et al. (2018) argues that community participation is a right or subject, not an obligation. Community involvement in rural economic development is part of the rights that Village Business Entities need to pay attention to for the sustainability of rural businesses.

## **Research Methodology**

### **Types of research**

Rural economic exploration focusing on the economic activities of Village-Owned Enterprises and household-scale micro-enterprises is an effort to understand the economic reality in the rural environment. Understanding rural socio-economic realities require a methodology that can critically parse the actual situation in the socio-economic activities of the community. In this context, this study uses a critical qualitative approach by trying to understand the economic activities of village business entities that potentially have negative implications for household-scale micro-enterprise activities in rural areas.

Sources Empirical data comes from the Village Community Empowerment Service, Bandung Regency Government. The data is from Village Business Entities profile data operating in Bandung Regency until 2019. This secondary data contains quantitative information that researchers will use to enrich the analysis and understand the economic reality of Village Owned Enterprises. In addition to secondary data, this study also uses qualitative data obtained by researchers through direct observation so that researchers obtain information directly from visible facts.

Researchers conducted field observations on Village-Owned Enterprises "Mandiri" and Village-Owned Enterprises "Mandalamekar." At this stage, the researcher made direct observations of the business activities of the two business entities. Direct observation aims to obtain direct information on the reality of how the "Mandiri" Village-Owned Enterprises and "Mandalamekar" Village-Owned Enterprises carry out business activities in rural areas.

### **Informant**

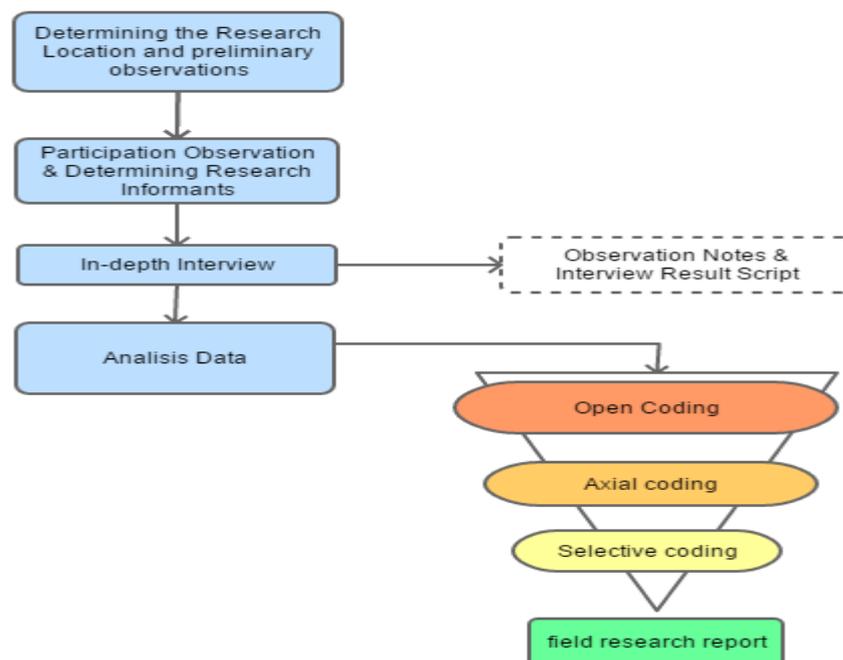
This research method uses data collection through direct observation techniques and in-depth interviews. Researchers conducted in-depth interviews with village business entities based on the Village Head's Decree on the Structure of Village Owned Enterprises Management. The management of the Village-Owned Enterprises consists of the Chairperson, Secretary, and Treasurer. The interview method uses depth interview techniques or unstructured interviews that researchers use to obtain more in-depth information about the economic activities of Village-Owned Enterprises.

## Data analysis

Interview data scripts are material for researchers to conduct a research analysis. Analysis technique with Open Coding is a stage where researchers try to find and classify certain concepts or themes in the interview scripts. In the next stage, the researcher tries to understand each theme from several groupings of interview scripts. In data analysis, this process is an open coding analysis stage. Each theme is then described in more detail into specific sub-themes by applying open coding analysis. In the context of this research, the sub-theme relates to the facts of managing village-owned enterprises.

The results of the description of the theme became sub-themes. The researchers combined all the information to find an interpretive view of the reality of the management of the "Mandiri" Village-Owned Enterprises and "Mekarmanik" Village-Owned Enterprises. The interaction of sub-themes with other sub-themes in Selective Coding Analysis becomes a series that will form a relationship pattern and become a causal relationship with logical reasoning. This analytical tool is a researcher's effort to produce a proposition grounded through exploring phenomena to understand the noumena.

**Figure 2. Field Research Procedure**



## FIELD FINDINGS

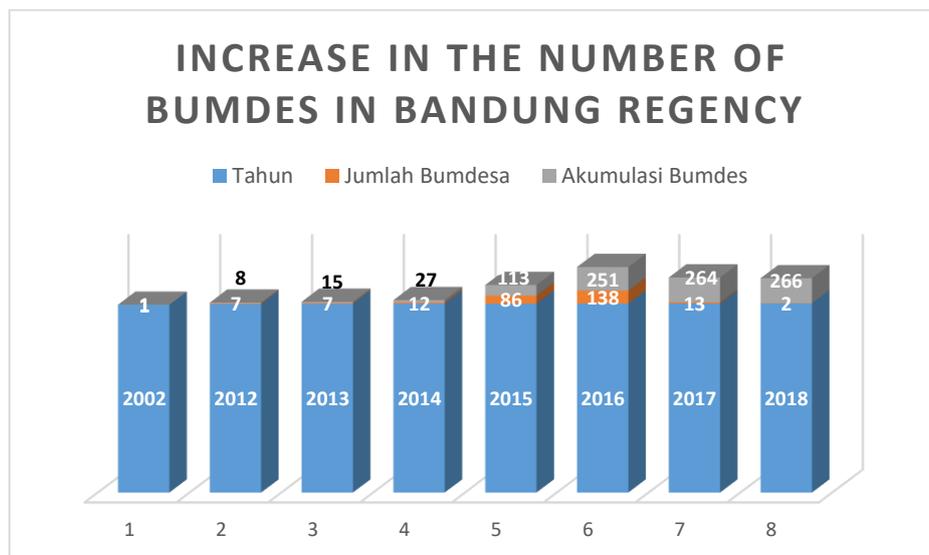
### Research Site Profile

The establishment of Village-Owned Enterprises is part of the village community empowerment activities. Village-Owned Enterprises obtain working capital from the village government and are part of village community empowerment activities. Capital participation from the village government aims to empower the economy of rural communities through Village Owned Enterprises and social enterprises (Widiastuti et al., 2019). Village funds from

the central government to the village government continue to flow to the village so that the existence of the Village-Owned Enterprises institution can have implications for improving the economy in rural areas.

Empirically, data on village-owned enterprises spread over the Bandung district has increased in quantity. The number of Village-Owned Enterprises increased from 1 unit in 2002 to 266 units in 2018. This number continues to increase in line with government policies that require every village government to form a Village-Owned Enterprise in Indonesia. Village-Owned Enterprises are the engine of the economic sector of rural communities.

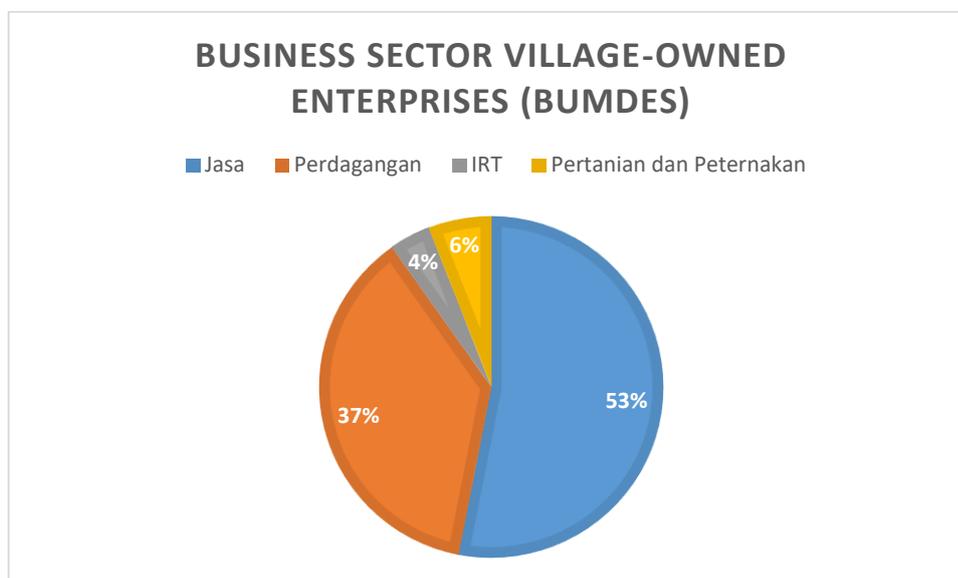
### Infographics 1. Number of BUMDes in Bandung Regency in 2018



Data source: DPMD Kab. Bandung

Village Business Entities spread over rural areas in Bandung Regency are engaged in the business sector with varied business fields. Service businesses, trade, home-scale industries, agriculture, and livestock sectors are the business sectors of the Village Business Entity. Businesses in the service sector, such as renting chairs and tents, sports arena buildings (GOR), clean water management, savings and loans, and managing village tourism objects, are several types of businesses from village-owned enterprises. The trading sector, such as village stalls, selling necessities, gas businesses, office stationery, and photocopies, is a form of trading from the Village Business Entity. Other Village Business Entities are engaged in selling agricultural fertilizers and distributing building materials. The household-scale industrial sector (IRT), including the manufacture of handicrafts, the culinary industry, and convection, is part of the Village Business Entity. The last sector of the Village Business Entity's business is the business of breeding and cultivating mushrooms, as well as fattening sheep. The business sector infographic of the Village Business Entity is shown in the following image.

## Infographics 2. village-owned enterprises Business Sector



Data source: DPMD, Bandung Regency

### Discussion

Village business entities are engaged in several business fields. This situation makes village business units resemble holding companies by engaging in several business sectors. The business in the village business unit differs from that in the private business sector. Village business entities are social enterprise institutions, while private businesses are profit-oriented to accommodate stockholder interests. Social enterprise institutions place village communities as stockholders in managing village business entities. Village business entities accommodate the community's economic interests beyond their economic interests. They are prioritizing profitability for rural communities while improving the internal performance of the village business entity itself. Therefore, the management of village business entities needs to make business decisions to place village communities at the forefront of goals.

However, the Village Business Entity is engaged in several business fields, as shown in the infographic (Figure 4), indicating that the community has not yet received the central position and economic benefits. The village business entity runs the service business and general trade, similar to a small community business, giving rise to business competition between the two. The formation of village business entities that should be the engine of the rural economy has become a competitor for small business actors to seize the local market. Village-owned small businesses compete with village government-owned enterprises because they run similar businesses. Without realizing it, village business entities position themselves as competitors, disrupting the sustainability of small businesses in rural areas.

Village-Owned Enterprises and small businesses owned by rural communities have different sources of capital. Several studies reveal that

community micro-enterprises are sourced from internal household funding (Atika & Sukoco, 2019; Riawan & Kusnawan, 2018; Chakraborty et al. 2021). Some business actors convert family savings funds into household-scale business capital. The capital element is one of the causes that make it difficult for a household-scale business to develop. On the other hand, Village-Owned Enterprises labeled as formal legal entities obtain village government capital participation, making it very easy for managers to operate businesses. The village-owned enterprise capital from the government does not necessarily make the business unit perform well, especially concerning the rural economy's size.

The application of social entrepreneurship in Village Owned Enterprises has not resembled the actual situation. The nature of social enterprise in Village Owned Enterprises means building partnerships with micro business groups to improve rural communities' economies. Supposedly, village-owned enterprises become a medium for rural business groups to develop the economic potential of rural communities. Small business groups become partners for Village-Owned Enterprises to build the economic independence of rural communities.

However, the actual situation is not yet so; village-owned Enterprises run businesses similar to business activities owned by villagers, which have been the economic base of local communities' households. Village-Owned Enterprises have become competitors, thus disrupting the sustainability of small rural businesses. Ideally, Village-Owned Enterprises become economic partners for rural community economic groups because of their position as the driving force for the rural economy. However, it is still not running as it should. The existence of Village-Owned Enterprises in certain village areas has not shown sustainable economic development for rural communities. Village funds play more of a role in encouraging the increase in the number of Village-Owned Enterprises but have not been able to provide an impact on the rural economy (Arifin et al., 2020).

## **CONCLUSION**

The sustainability of rural-based small businesses is a priority to build economic independence in rural areas. Village-Owned Enterprises have a strategic role in realizing these expectations, so the management needs to evaluate business activities not to create competition with local small business actors. Returning the role of Village-Owned Enterprises to its initial role is an effort to maintain the stability and sustainability of rural economic business groups. Village-Owned Enterprises are the economy's pillars and become the rural economy's engine.

The manifestation of *soko guru* in village economic activities encourages Village-Owned Enterprises to build economic synergy and work together (simultaneously) with village business groups. Village-Owned Enterprises focus on building business links by involving community groups based on the rural economy.

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