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Governance and Managerial Capacity in Driving BUMDes Success: Evidence in Pesawaran Regency

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ABSTRACT

This study examines the influence of governance quality and managerial capacity on the success of Village-Owned Enterprises (BUMDes) in Pesawaran Regency. As community-based economic institutions, BUMDes are expected to promote local economic development through accountable governance and effective management. A quantitative survey was conducted involving administrators and members of active BUMDes, with data collected through structured questionnaires and analyzed using descriptive statistics and Spearman Rank correlation tests. The findings indicate that the success level of BUMDes ranges from moderately successful to successful. Governance quality (reflected in transparency, accountability, and participatory decision-making) shows a significant positive relationship with organizational success. Managerial capacity, particularly in financial management, leadership, and strategic planning, also contributes significantly to improved performance and sustainability. These results demonstrate that effective governance structures and strong managerial competencies are crucial in enhancing the resilience and long-term success of BUMDes in supporting village economic development. The Spearman Rank Correlation analysis demonstrates that governance quality, managerial capacity, and the strategic role of BUMDes each have significant positive relationships with organizational success.

JEL Classification : H83, L32, M12

Introduction

Village development constitutes a strategic foundation of Indonesia's national development, as a large proportion of the population still depends on rural sectors for their livelihoods. However, development disparities between urban and rural areas indicate that economic growth has not yet been fully equitable and inclusive. Therefore, development strategies are required that no longer position villages as objects of development, but rather as subjects with the capacity, local economic potential, and ability to manage their resources independently and sustainably.

In this context, the Indonesian government has promoted the strengthening of village economic institutions through the establishment of Village-Owned Enterprises (BUMDes). BUMDes are designed as both economic and social instruments aimed at collectively managing village potentials to improve community welfare. Their existence reflects the implementation of economic decentralization at the local level and serves as a community-based economic empowerment mechanism. Strengthening local economic institutions plays a

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crucial role in enhancing rural development resilience, as adaptive institutions enable villages to respond more effectively to economic dynamics, external pressures, and environmental changes (Bebbington et al., 2021).

Previous studies indicate that BUMDes contribute to increasing community income, creating employment opportunities, and strengthening local economic structures (Hadi et al., 2020; Pratiwi et al., 2021). Nevertheless, the level of success varies across regions, influenced by governance quality, human resource capacity, village government support, and the degree of community participation. Most prior research has tended to assess BUMDes performance primarily from a financial perspective or based on their contribution to Village Original Revenue (PADes). As a result, these studies have not fully captured broader aspects such as institutional sustainability, business networking capacity, and the social benefits perceived by the community.

Common challenges faced by BUMDes include limited capital, weak managerial capacity, low professionalism among administrators, and inadequate accountability and business planning systems (Kurniawan et al., 2020; Sari & Hidayat, 2022). Under such conditions, participatory leadership and managerial capacity development become critical factors influencing organizational performance (Mulyani et al., 2023). Furthermore, support from village governments and active community participation are essential for strengthening institutional legitimacy and fostering a sense of collective ownership that supports long-term sustainability (Rahman & Nugroho, 2021).

From a global perspective, BUMDes can be understood as a form of rural social enterprise that requires a balance between economic and social objectives to ensure long-term sustainability (Defourny & Nyssens, 2021). Accordingly, measuring BUMDes success should not be limited to profitability, but should also encompass institutional capacity, business sustainability, network strength, and the level of community satisfaction and perceived benefits.

Pesawaran Regency in Lampung Province provides a relevant empirical setting for examining this phenomenon, as it hosts numerous active BUMDes operating in diverse business sectors with varying levels of development. This variation offers an opportunity to identify context-specific factors influencing BUMDes performance. Unlike previous studies, this research develops a multidimensional evaluation approach that integrates economic, institutional, social, and business network dimensions, while simultaneously analyzing the relationship between the strategic roles of BUMDes (as local economic drivers, community empowerment agents, and contributors to Village Original Revenue) and their level of success. By integrating social enterprise and rural economic resilience perspectives within a local context, this study is expected to contribute academically to the development of a more comprehensive BUMDes performance assessment framework and to provide evidence-based policy recommendations for strengthening sustainable village economic institutions.

Literature Review

Theoritical Framework

Recent studies on Village-Owned Enterprises (BUMDes) have increasingly emphasized their strategic role as community-based economic institutions that support rural development, improve welfare, and strengthen local economic resilience. Several empirical findings from the last five years provide important insights into the determinants of BUMDes performance and sustainability.

First, empirical evidence confirms that the existence of BUMDes contributes positively to village development outcomes. A national-level panel study by Ultari and Khoirunurrofik (2024) found that villages with active BUMDes have significantly higher Village Development Index (IDM) scores compared to villages without BUMDes. This indicates that BUMDes play an important role not only in economic activities but also in broader aspects of village development, including social and environmental sectors.

Second, several studies highlight the role of BUMDes in strengthening local economies and increasing community welfare. Ridhowati (2024) shows that BUMDes significantly improve community income, enhance economic participation, and increase access to local economic services. The study also emphasizes that demographic characteristics influence participation levels, suggesting the importance of inclusive and adaptive management strategies.

Third, research consistently identifies governance quality as a critical factor affecting BUMDes performance. Muhith and Widiyarta (2025) demonstrate that the implementation of good governance principles (such as

participation, transparency, accountability, and sustainability) has a direct impact on institutional effectiveness and community welfare. However, many BUMDes still face challenges related to financial independence, limited human resource capacity, and weak digital management systems.

Fourth, the importance of governance is also reinforced by Amiruddin et al. (2025), who find that transparent and participatory management strengthens community trust in BUMDes. Trust functions as an institutional asset that supports long-term sustainability, as communities are more willing to participate and support organizations perceived as accountable and responsive.

Fifth, studies at the local level confirm that BUMDes contribute to economic empowerment through job creation, entrepreneurship development, and local business support. Safitri et al. (2025) show that BUMDes play a significant role in increasing household income and expanding employment opportunities, especially when supported by management assistance and external collaboration.

Sixth, governance effectiveness is also closely related to financial outcomes. Pramesti et al. (2025) find that the application of transparency, accountability, and participatory management enables BUMDes to contribute significantly to Village Original Revenue (PADes), demonstrating the economic potential of well-managed village enterprises.

Overall, previous studies consistently indicate that the success of BUMDes is influenced by multiple interrelated factors, including governance quality, human resource capacity, community participation, institutional trust, and local economic relevance. However, most studies tend to focus on specific aspects such as economic impact, governance, or participation separately. Empirical research that integrates multiple performance dimensions while simultaneously examining the relationship between the strategic roles of BUMDes and their overall success remains relatively limited, particularly at the regional level.

Therefore, this study contributes to the literature by adopting a multidimensional perspective and analyzing how the strategic roles of BUMDes as local economic drivers relate to their level of institutional success within a specific regional context.

The theoretical framework of this study is presented below:

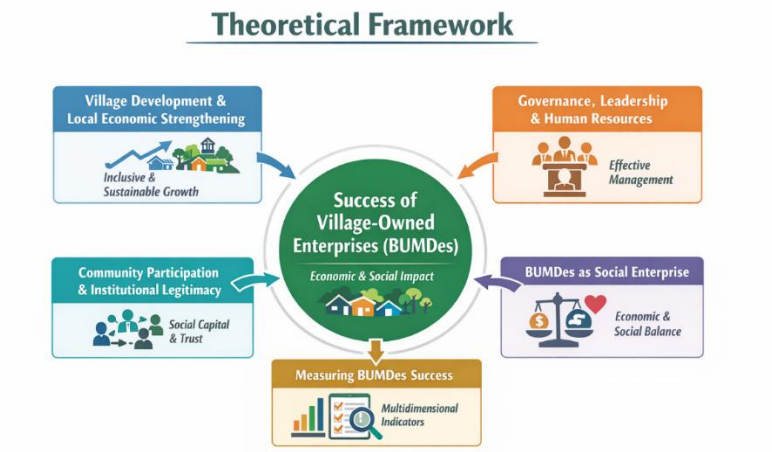


Figure 1. Theoretical Framework
Source : Author, 2026

Village Development and Local Economic Strengthening

Village development has increasingly been positioned as a strategic approach to achieving inclusive and sustainable national growth. Contemporary rural development paradigms emphasize endogenous development, where local resources, institutions, and community participation become the primary drivers of economic transformation. Strengthening local economic capacity is essential to reduce regional disparities and enhance rural resilience against economic shocks. Studies show that rural areas with strong local institutions and diversified economic activities tend to demonstrate higher adaptive capacity and long-term sustainability (Bebbington et al., 2021). In this regard, institutional quality and community engagement are considered key determinants of successful rural development.

Village-Owned Enterprises (BUMDes) as Local Economic Institutions

Village-Owned Enterprises (BUMDes) represent a policy innovation aimed at strengthening village economies through community-based business management. Conceptually, BUMDes function as hybrid institutions that combine commercial objectives with social missions. Their primary roles include optimizing village resource utilization, generating local income, providing employment opportunities, and supporting community empowerment. Empirical evidence indicates that BUMDes contribute significantly to improving household income and stimulating local economic circulation (Hadi et al., 2020; Pratiwi et al., 2021).

However, the performance of BUMDes varies considerably across regions. This variation is influenced by differences in institutional maturity, business feasibility, local market conditions, and managerial capacity. Several studies highlight that many BUMDes remain at an early developmental stage and have not yet achieved financial independence or operational sustainability.

Governance, Leadership, and Human Resource Capacity

Institutional governance is widely recognized as a critical factor influencing the success of community-based enterprises. Effective governance includes transparency, accountability, strategic planning, and professional management practices. Weak governance structures often result in inefficient operations, limited business growth, and low public trust (Kurniawan et al., 2020; Sari & Hidayat, 2022).

Leadership also plays a central role in organizational performance. Participatory and transformational leadership styles are associated with improved organizational adaptability, innovation, and stakeholder engagement. In the context of BUMDes, leaders who actively involve community members in decision-making processes tend to build stronger institutional legitimacy and operational sustainability (Mulyani et al., 2023). Furthermore, the competence and professionalism of human resources determine the effectiveness of business planning, financial management, and service delivery.

Community Participation and Institutional Legitimacy

Community participation is a fundamental characteristic of village-based economic institutions. Active involvement of villagers in planning, implementation, and evaluation processes enhances collective ownership and trust. This social capital strengthens institutional legitimacy and reduces the risk of organizational failure. Research shows that BUMDes supported by strong community participation and village government commitment demonstrate better performance and sustainability (Rahman & Nugroho, 2021). Conversely, low participation often leads to weak accountability and limited community benefits.

BUMDes in the Perspective of Social Enterprise

From a theoretical perspective, BUMDes can be classified as rural social enterprises. Social enterprises operate with dual objectives: achieving financial viability while generating social value. According to Defourny and Nyssens (2021), sustainability in social enterprises depends on the organization's ability to balance economic performance with social impact and stakeholder engagement. This perspective highlights that success should not be measured solely by profit but also by broader social outcomes such as community welfare, empowerment, and local development.

Measuring the Success of BUMDes: Toward a Multidimensional Approach

Most existing studies measure BUMDes performance using limited indicators such as profit levels, business growth, or contributions to Village Original Revenue (PADes). While these indicators are important, they do not fully capture the complexity of BUMDes as hybrid socio-economic institutions. Recent research suggests the need for a multidimensional performance framework that includes economic performance, institutional capacity, governance quality, business networks, innovation capability, and community satisfaction (Yuliana & Setiawan, 2023; Sutrisno & Wardani, 2022).

Despite the growing body of literature, empirical studies that integrate multiple dimensions of performance while examining the relationship between the strategic roles of BUMDes and their level of success remain limited. Moreover, context-specific analyses at the regional level are still relatively scarce. Therefore, this study adopts a multidimensional perspective to evaluate BUMDes performance and analyzes how their roles as local economic drivers, community empowerment agents, and contributors to Village Original Revenue relate to their overall success. This approach is expected to provide a more comprehensive understanding of BUMDes sustainability and contribute to the development of a more robust evaluation framework.

Therefore, this study contributes to the literature by adopting a multidimensional perspective and analyzing how the strategic roles of BUMDes as local economic drivers relate to their level of institutional success within a specific regional context.

Based on the theoretical framework and previous empirical studies, the hypotheses of this study are formulated as follows:
H1: Governance quality has a positive and significant relationship with BUMDes success.
H2: Managerial capacity has a positive and significant relationship with BUMDes success.
H3: The strategic role of BUMDes has a positive and significant relationship with BUMDes success.

Methodology

This study employs a quantitative approach using a survey method. The research location was purposively selected in Pesawaran Regency across four sub-districts that have active Village-Owned Enterprises (BUMDes). The sample consisted of eight BUMDes with a total of 64 respondents, comprising administrators and members (Creswell, 2018).

Data were collected using structured questionnaires. Prior to conducting the correlation analysis, a normality test using the Shapiro–Wilk test was performed. The results showed that several variables were not normally distributed ($p < 0.05$). Therefore, the Spearman Rank Correlation test was selected as an appropriate non-parametric statistical method for analyzing ordinal questionnaire data and non-normal distributions (Field, 2018).

This study analyzes the relationships between three independent variables, namely governance quality, managerial capacity, and the strategic role of BUMDes, with the dependent variable of BUMDes success. Governance quality was measured through indicators of transparency, accountability, and participatory decision-making, while managerial capacity was assessed through leadership, financial management, and strategic planning competencies.

Result and Discussion

Respondent Characteristics

The respondents in this study consisted of BUMDes administrators, village officials, and community representatives involved in BUMDes management in Pesawaran Regency. Most respondents were within the productive age category and had direct experience in village economic activities. The majority of respondents had served as BUMDes administrators for more than two years, indicating that the data collected were obtained from individuals with sufficient institutional understanding and managerial experience.

The educational background of respondents varied from senior high school graduates to university graduates. This diversity reflects the heterogeneous characteristics of human resources involved in village economic institutions. In general, respondents demonstrated adequate understanding regarding BUMDes governance, financial management, and institutional operations.

Table 1. Respondent Characteristics

Characteristics	Frequency	Percentage
Male	38	63.3%
Female	22	36.7%
Age 20–35 years	25	41.7%
Age 36–50 years	28	46.7%
Age > 50 years	7	11.6%
Senior High School	31	51.7%
Undergraduate Degree	24	40.0%
Postgraduate Degree	5	8.3%

Sources : Processed Data, 2026

Descriptive Statistics

The results of the descriptive analysis indicate that the overall level of BUMDes success in Pesawaran Regency falls within the moderately successful to successful category. This achievement suggests that most BUMDes have been able to simultaneously perform their economic and social functions. Such success does not occur instantly but is the result of a continuous institutional development process. These findings confirm that BUMDes have real potential to serve as drivers of village economic growth when managed consistently and adaptively.

Table 2. Result Descriptive Statistics Test

Variable	Mean	SD	Min	Max
Governance Quality	3.87	0.62	2.10	4.90
Managerial Capacity	3.79	0.58	2.25	4.85
Role of BUMDes	3.95	0.66	2.40	4.95
BUMDes Success	4.02	0.61	2.55	4.98

Sources : Processed Data, 2026

Business profit serves as the primary indicator for assessing BUMDes success from an economic perspective. The data show that most BUMDes are able to generate a surplus, although the profit level remains moderate. This condition is consistent with the characteristics of BUMDes, which are generally still in the business consolidation phase. Studies by Hadi et al. (2020) and Sari and Hidayat (2022) also emphasize that early-stage BUMDes profits tend to be modest but stable when supported by sound management.

The stability of BUMDes profits reflects the ability of business units to sustain their economic activities. BUMDes whose business types align with local potential tend to be more resilient to market fluctuations. This finding reinforces the view that the suitability of business activities with village resources is a key determinant of success. It is consistent with the findings of Pratiwi et al. (2021), which highlight the importance of local context in village enterprise development.

From a financial management perspective, BUMDes in Pesawaran demonstrate a relatively good level of transparency. Administrators have implemented basic financial record-keeping practices, although not all systems are fully digitalized. This transparency contributes to increased public trust in BUMDes. Public trust is a crucial prerequisite for the sustainability of village economic institutions.

Validity and Reliability Test

The validity test results indicate that all questionnaire items have corrected item-total correlation values above the minimum threshold of 0.30, indicating that all indicators are valid for measuring the research variables. Meanwhile, the reliability test demonstrates that all variables have Cronbach's Alpha coefficients above 0.70, confirming acceptable internal consistency and reliability.

Table 3. Result Validity and Reliability Test

Variable	Corrected Item-Total Correlation	Cronbach's Alpha	Interpretation
Governance Quality	> 0.30	0.82	Reliable
Managerial Capacity	> 0.30	0.79	Reliable
Role of BUMDes	> 0.30	0.84	Reliable
BUMDes Success	> 0.30	0.81	Reliable

Sources : Processed Data, 2026

These findings indicate that the research instrument is sufficiently robust for analyzing the relationships among governance quality, managerial capacity, the role of BUMDes, and institutional success.

Correlation Analysis

Table 4. Spearman's Rank Correlation between Governance Quality and BUMDes Success

Correlation Coefficient	Sig. (2-tailed)	α	Interpretation
0.612	0.001	0.05	H1 Accepted

Sources : Processed Data, 2026

The results of the Spearman's Rank Correlation analysis indicate a significant positive relationship between governance quality and BUMDes success ($p < 0.05$). This finding suggests that stronger governance practices contribute significantly to institutional sustainability and organizational effectiveness.

Governance quality is reflected through transparency, accountability, and participatory decision-making processes. BUMDes with transparent financial systems and accountable management structures tend to gain stronger public trust. Public trust is an essential foundation for sustaining village economic institutions. Participatory governance also strengthens institutional legitimacy because village communities feel directly

involved in organizational decision-making. This finding supports Rahman and Nugroho (2021), which emphasize that participatory governance models improve institutional effectiveness at the village level.

Table 5. Spearman's Rank Correlation between Managerial Capacity and BUMDes Success

Correlation Coefficient	Sig. (2-tailed)	α	Interpretation
0.587	0.003	0.05	H2 Accepted

Sources : Processed Data, 2026

The findings indicate that managerial capacity has a significant positive relationship with BUMDes success. Administrators with stronger managerial competencies are better able to organize business activities, manage financial resources, and formulate strategic development plans. The managerial capacity of administrators is an internal factor that significantly influences institutional performance. Most administrators are considered to have a sufficient understanding of their respective roles and responsibilities. However, limited managerial capacity remains a challenge that needs to be addressed. Mulyani et al. (2023) emphasize that improvements in human resource capacity are directly associated with better BUMDes performance.

Table 6. Spearman's Rank Correlation between the Roles of BUMDes and the Level of BUMDes Success

Correlation Coefficient	Sig. (2-tailed)	α	Interpretation
0.527	0.043	0.05	H3 Accepted

Sources : Processed Data, 2026

The results of the Spearman's Rank Correlation test indicate a significant relationship between the role of BUMDes and the level of BUMDes success ($p < 0.05$), as shown in Table 6. This finding suggests that the more optimal the roles performed, the higher the level of success achieved. The relationship is positive and unidirectional. Thus, the role of BUMDes can serve as an early indicator of institutional success.

Table 7. Hypothesis Testing Result

Hypothesis	Statement	Result
H1	Governance Quality → Success	Accepted
H2	Managerial Capacity → Success	Accepted
H3	Role of BUMDes → Success	Accepted

Sources : Processed Data, 2026

Beyond economic aspects, BUMDes success is also reflected in their capacity to generate social impacts for the village community. BUMDes that consistently perform their social functions tend to gain stronger legitimacy at the community level. This social legitimacy becomes an important asset in maintaining business sustainability, particularly when facing market pressures or internal constraints.

The role of BUMDes in improving the village economy is evident through their contribution to local economic circulation. BUMDes provide alternative income sources for rural households and reduce community dependence on external economic actors. This condition demonstrates the strategic function of BUMDes as instruments of village economic self-reliance. The optimization of village assets is another important role of BUMDes that contributes to their success. Previously underutilized village assets have become new sources of revenue after being managed by BUMDes. Effective asset management creates additional economic value.

The role of BUMDes in supporting community enterprises is realized through the provision of capital access, production facilities, and marketing support. These initiatives encourage small-scale rural entrepreneurs to expand their business scale. However, the intensity and coverage of such assistance still need to be expanded to ensure that the benefits of BUMDes are more evenly distributed. The creation of new business opportunities by BUMDes has contributed to employment generation at the village level. Although the scale of job absorption remains limited, the contribution remains meaningful for rural communities. Market networks established by BUMDes also play an important role in improving business performance. BUMDes that actively build partnerships with other business actors tend to have stronger competitiveness and broader market access.

Business capital shows a positive relationship with the role of BUMDes. BUMDes with adequate capital have greater flexibility to develop business units, while limited capital often constrains innovation in village enterprises. Support from village governments, in the form of regulations and affirmative policies, contributes to strengthening the role of BUMDes. Village governments act as facilitators and supervisors, while synergy between village governments and BUMDes creates a conducive business environment.

The main challenges faced by BUMDes in Pesawaran Regency include limited human resources and a lack of business innovation. Some BUMDes still rely on conventional business types, indicating that business diversification remains necessary to improve adaptability to market changes. The utilization of information technology in BUMDes management remains relatively low, despite the potential of digitalization to improve efficiency and expand market reach. Therefore, digital transformation should become a key agenda in future BUMDes development.

From an institutional perspective, BUMDes can be positioned as social enterprises that integrate economic and social objectives. This approach requires a balance between profit generation and public service to the village community. The sustainability of social enterprises depends on maintaining such a balance. Within the framework of sustainable village development, BUMDes hold a strategic position as a linkage between public policy and local economic practices. The success of BUMDes in Pesawaran Regency demonstrates that village-based development approaches can be effective when supported by strong institutional capacity.

Overall, the development of BUMDes in Pesawaran Regency shows a positive trend but still requires strategic strengthening. BUMDes success results from the interaction of various structural and cultural village factors. A holistic approach is therefore necessary to ensure that BUMDes function optimally and sustainably.

Conclusion

Based on the research findings and discussion presented above, it can be concluded that the level of success of Village-Owned Enterprises (BUMDes) in Pesawaran Regency falls within the moderately successful to successful category. This success is reflected in the ability of BUMDes to generate business profits, manage resources institutionally, build market networks, and provide economic and social benefits to village communities. These findings confirm that BUMDes have functioned as strategic instruments in supporting the strengthening of village economies.

The success of BUMDes does not stand alone; rather, it is strongly influenced by the optimal execution of their roles, including improving the village economy, optimizing village assets, developing community enterprises, and creating business opportunities and networks. The correlation test results indicate that the greater the role performed by BUMDes, the higher the level of success achieved. Therefore, strengthening the institutional function of BUMDes as community-based economic entities becomes a fundamental prerequisite for enhancing performance and ensuring the sustainability of village enterprises.

In the context of Indonesia's current economic conditions (characterized by global uncertainty, inflationary pressures, and economic slowdown in several sectors) the existence of BUMDes has become increasingly relevant and strategic. BUMDes have the potential to serve as local economic buffers capable of maintaining village economic stability through job creation, strengthening micro-enterprises, and the productive utilization of local resources. Under these circumstances, BUMDes management should be directed not only toward achieving short-term profits but also toward reinforcing long-term village economic resilience.

Nevertheless, the findings also indicate that BUMDes success still faces several challenges, particularly related to limited human resource capacity, low levels of business innovation, and suboptimal technology adoption. These challenges may hinder the sustainability of BUMDes if not addressed systematically. Therefore, BUMDes development should be viewed as a dynamic process that requires continuous adaptation to economic, social, and technological changes.

Implication

In line with these conditions, the management of BUMDes in Pesawaran Regency needs to be focused on strengthening the managerial and entrepreneurial capacities of administrators and members through structured and continuous training programs. Enhancing management professionalism is essential to enable BUMDes to respond effectively to macroeconomic challenges, such as price fluctuations and changes in community consumption patterns. In addition, BUMDes should be encouraged to undertake business diversification and innovation based on local potential while remaining adaptive to market developments, including through the utilization of information technology and business digitalization.

Support from village governments and local governments is a crucial factor in strengthening the role and sustainability of BUMDes. Such support should be realized not only in administrative forms but also through access to capital facilitation, the development of supportive regulatory frameworks, and the promotion of

business partnerships. Synergy among government institutions, BUMDes, and local business actors will create a more resilient and competitive village economic ecosystem.

At the same time, community participation needs to be continuously strengthened as a key form of social capital in BUMDes management. The community should not only be positioned as beneficiaries but also as active actors in decision-making, management, and supervision processes. Strengthening participation and transparency mechanisms is expected to enhance public trust while ensuring the sustainability of village enterprises. More broadly, the findings of this study are expected to serve as a reference for the formulation of BUMDes development policies at both regional and national levels, particularly in positioning BUMDes as an integral part of an inclusive, sustainable, and equitable village economic development strategy.

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