

The Institutional Context Changes of Village-Owned Enterprises in Indonesia Towards the Implementation of Participative Governance and Social Enterprise Business Models

Rudy Suryanto^{1*}, Nafsiah Mohamed², Rizal Yaya¹ and Ayub Md Som^{3,2}

¹Universitas Muhammadiyah Yogyakarta, Indonesia

²Accounting Research Institute (HICoE), Malaysia

³School of Chemical Engineering,

College of Engineering Universiti Teknologi MARA, Malaysia

ABSTRACTS

This research explains how Village-owned Enterprise (VOE) in Indonesia underwent institutional changes as a response to the institutional context changes and local village responses. The objective of this research was to provide evidence if any village has the capacity to interpret and formulate responses to institutional context changes. A detailed case study of VOE Panggung Lestari in Panggungharjo Village, Yogyakarta, Indonesia was documented by interviewing local leader and key actors in the process of VOE establishment and development. In depth interview with the key person in the Ministry of Village was done to understand the context and issues regarding the institutional context changes in VOE. This research provides a conceptual framework to demonstrate how institutional context changes of regulations, social, market failure and culture might trigger the Panggungharjo Village to provide local solutions to the waste problem by implementing the social enterprise business model and participative governance. This finding adds a new understanding of how a village might escape from the embedded institutional environment by interpreting and responding to the institutional changes to find innovative and sustainable solutions for their local problem, which in this case was the waste problem.

Keywords: village-owned enterprise (VOE), institutional context, participative governance, social enterprise business model

ARTICLE INFO

Article History:

Received: 20 December 2021

Accepted: 4 April 2022

Published: 30 April 2022

* Corresponding author: Rudy Suryanto. Email: rdsuryanto@gmail.com

INTRODUCTION

The Indonesian government launched a national wide program to boost the rural economy through the Village Fund in 2014. The purpose of the Village Fund was to increase public services in villages, to eradicate poverty, to boost the local economy, to decrease inequality and to strengthen the village community as development actors (Ministry of Finance, 2017). As mandated by the Law of Village No 6 of 2014, the Central Government of Indonesia must directly transfer to village governments, of minimal of 10% of the state budget attributed to local governments as the Village Fund. The fund was previously transferred and managed by several ministries and local governments, before being disbursed into villages for various programs. Using the Village Fund mechanism, villages receive the fund directly in their account and must prepare a budget and accountability report in the year end. This significant policy marked the shifting of development in Indonesia, as opposed to merely positioning the village as an object of various programs, into positioning the village as the main subject of development planning and actors in their own village.

The Village Fund policy has contributed to a significant increase in the development status of villages in Indonesia. Based on the Index of Village Development 2021 (IDM 2021) prepared by the Ministry of Village, out of 74,957 villages in Indonesia 25.4% are developed villages (an increase from 5.12% in 2015), 51,96% are developing villages (increase from 31,04% in 2015) and 17.49% are less developed villages (decrease from 64.28% in 2015) (Ministry of Village, 2021). There are also changes in rural development with 95.2 thousand kilometers of village roads, 914 thousand bridges, 22,616 clean water installation units, 4,004 of health clinics, 3,106 village market, 14.957 early childhood education centers and 103,405 irrigation facilities (Ministry of Finance, 2017)

Despite the notable achievements, there is unsatisfactory results on poverty, unemployment and inequality in rural areas. Those key statistics are important to measure the welfare of people living in villages. Sadly, all of three key statistics in rural areas are still lagging compared to urban areas. In 2019, the poverty rate of rural areas was 7.88% compared to 4.76% in urban areas (BPS, 2021). The poverty rate in 2019 in rural areas decreased from 8.35% in 2015, but the decrease of 0.07% is considered low compared to 0.97% decrease of poverty in the same period in urban areas.

Unemployment in villages in 2019 was 12.35% (an increase from 11.70% in 2015). This condition is in contrast to the decrease in unemployment in urban areas of 1.1% (2019: 4.37%, 2015: 5.47%). The GINI ratio to measure inequality in rural areas showed only a slight decrease from 0.33 in 2015 to 0.32 in 2019. The decrease of inequality in urban areas was better from 0.43 in 2015 to 0.39 in 2019 (Lokadata, 2021). Therefore, the Village Fund did increase the infrastructure and public service in villages, but not significantly decrease poverty, unemployment and inequality.

Sofyani et al. (2018) indicated the problems of the Village Fund is on the perception that development is equal to infrastructure or physical development. This notion was supported by the facts that in 2018, villages spent Rp56.7 billions (54% of total Village budget) for infrastructure and physical development, and only 11% spent on community empowerment (Ministry of Finance, 2017). This condition was slightly better compared to previous year in which 57% of the village budget was spent on infrastructure and 9% was spent on community empowerment. Based on this condition, the Central Government urged villages to prioritise more on community empowerment. Based on the Ministry of Village regulation no 18 on 2018, the priority of the Village Fund allocation starting in 2019, should shift from physical development into increasing the quality of human resources. The focus of increasing the quality of human resources should be done to create new jobs in villages. This is where VOE plays an important role in aggregating local resources, designing business models and managing its businesses to create more jobs and solve local problems.

In 2019, there was also growing concerns for revitalization of the VOE. After the implementation of the Village Fund in 2015, there was rapid growth in the VOE numbers in Indonesia, from 14.463 in 2015 to 51.091 in 2019 (Ministry of Village, 2021). However, despite the vast numbers of VOE, the performance and direct impact to the village community was considered low. President Joko Widodo himself emphasised the urgency of this matter to his cabinet in December 11, 2019. He cited the finding of the Supreme Audit Board (BPK) in 2018, that out of 8.200 VOE samples, 2.188 VOE were no longer in operation, 1.670 VOE had not contributed to the Village-owned revenue and 1.034 VOE did not submit accountability reports (BPK, 2018). The issue of VOE sustainability triggered the discussion whether VOE has the capacity and ability to develop a new business model and perform good governance.

The problems of the VOE institution and governance has been widely raised by researchers. Budiono (2015) found that a conflict of interest between the village government and the VOE management hindered the development of the VOE. Consistent with the finding, Anggraeni (2016) and Fitriana et al. (2018) explained that the major problems of the VOE were lack of transparency and accountability among the VOE, Village Government and village communities. Harjanti et al. (2019) also highlighted the poor implementation of governance principles in VOEs. However, those researches do not explain the context and roots of problem as to why of why the VOE had such problems and how the village government, VOE management and other local actors should overcome the problems of the VOE especially at the establishment phase.

This research brings an institutional context analysis of the VOE to highlight how exogenous shock, in this case the enactment of the Law of Village no 6 of 2014 and implementation of the Village Fund, triggered institutional changes in the VOE. This research used the work of Ostrom (2005) on Institutional Analysis and Design and the New Institutional Theory (DiMaggio & Powell, 1983) to develop a conceptual framework to analysis the phenomenon of the VOE. Two research objectives were derived from previous research finding and conceptual framework, which were, first, to explain institutional context changes that happened in Indonesian Villages? and second how the Panggungharjo Village interpreted and responded to institutional context changes in the establishment and development of the VOE. This research focussed on the establishment phase of the VOE, since it is the defining moment of VOE to instill values and set up business. A single case study on the VOE was conducted on the best VOE in Indonesia, which is the VOE Panggung Lestari. VOE Panggung Lestari in 2019 had been awarded the 4th ASEAN Rural Development and Poverty Eradication Leadership Award in Nay Pyi Taw, Myanmar. The remaining paper will discuss the literature and conceptual framework, method, result and discussion and conclusions. The contribution of this study is to document the institutional changes resulting from changes in regulations, social problems, market failure and cultural changes in the Panggungharjo Village and how the Panggungharjo Village interpreted and responded to the institutional changes by modifying the VOE toward implementation of participative governance and social enterprise business models. This result provides evidence that a village, contrary to common belief, has the capacity to interpret and respond to institutional context changes.

LITERATURE STUDY AND CONCEPTUAL FRAMEWORK

This study used the Institutional Analysis and Development (IAD) framework introduced by Ostrom (2005). The framework explains that any exogenous shock would be responded to by local actors. To use the framework, firstly there is a need to identify the elements and relationship among these elements. To illustrate the relationships among these elements, the framework borrows the analogy of any game. The general rules of any game consist of a series information such as the number of players, what moves the player can take, what outcomes are available, the order of decisions and how players value moves and outcomes (Ostrom, 2005). This research adopted the framework to illustrate the key participants, the rules, the outcome and the possibility of moves of each participant. The modified conceptual framework is depicted in Figure 1. The modification of IAD framework in this research was done in addition TO market failure and cultural changes in the exogenous shock aspect, the details of local actor response which in this case was the implementation of participative governance and social enterprise business models.

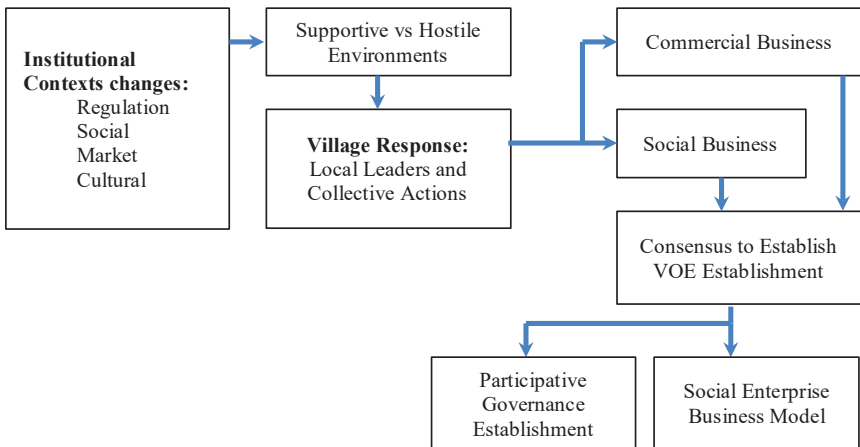


Figure 1: Conceptual Framework of VOE Institutional Context and Changes

The analysis will start with the identification of institutional context changes that are considered as exogenous shock as the precedent of VOE emergence. The institutional contexts are divided to the local village and

wider contexts (national and regional contexts where the villages are located). The justification of introducing the institutional local context is because villages already existed long before Indonesia gained independence. Traditionally, villages had their own customs, norms, regulations and traditions that shaped the beliefs and behavior of the people living in that village. The institutional contexts changes would be divided into regulation, social, market and cultural changes. This research provides an observation of regulation changes regarding the VOE from 2004 to 2014. To explain the nature, context and implication of the regulation changes to VOE, an interview with the key person from the Ministry of Village was carried out. The social context changes in the Village that triggered the establishment of the VOE and defined the VOE functions were identified from interviews with local leaders and the VOE management. Market failure, in this case, was there were no private or public entities that were willing to take the waste problem as their main business. Cultural changes in the Panggungharjo Village happened since the youngsters and non-native residents behaved like urban people who disregarded consensus, cooperation and empathy to solve the common problems.

This research conducted in-depth interviews to capture the interpretation among the key participants of how and why institutional context changes, village response, participative governance and social enterprise business models were implemented in the VOE Panggung Lestari in Panggungharjo Village. This research also investigated the perception and interpretation among key participants whether the rules and institutional context changes provided a conducive or hostile environment to the establishment of the VOE. The key participants were divided in two groups, which were the national/local government level and the Village Level.

METHOD

This study used qualitative research methodology, which is a single case study method. The phenomenon of VOE emergence after the enactment of Law No 6/2014 on Village was a recent phenomenon. Yin (2003) stated that a single case study is suitable to investigate recent phenomenon and explain the context of how and why such a phenomenon happened. This is also consistent with Scapen's, (2011) suggestion to use a case study to

understand the practices adopted in any organisation and to make sense why such practices are taken. Why the village decided to establish the VOE and how contextual factors and local actors defined the course of the VOE lacked rigorous and comparative research. Therefore, a qualitative approach and case study was more appropriate.

The subject of this research was the VOE Panggung Lestari in Panggungharjo Village. Panggungharjo Village is a village in the Yogyakarta province, which is located approximately 7 kilometers to the south of the city (Panggungharjo, 2021). Since the location of the village was quite near with the city, the life and problems of the people living in the village are similar to that of the urban people. One of major problems in the Panggungharjo village was waste management. With nearly 8,000 households, Panggungharjo village produced 1 ton of waste per day. The existing waste collector could not absorb the waste volume, therefore the waste was dumped in some corner of the village and created an unpleasant smell, potentially harmful bacteria and conflicts among the people. Based on this problem, in 2003 Panggungharjo village government initiated a business unit working on waste management, which later on transformed into a village-owned enterprise. VOE Panggung Lestari became successful in managing the waste management business unit and expanded its business into agriculture, village tourism, general and e-commerce trading, used cooking oil biofuel processing and tamano oil processing. The VOE Panggung Lestari won several awards and was considered as one of the best VOE in Indonesia.

The data for this research was primary data from interviews. The interviews were conducted with national level policy makers and local village actors. The informants of the national level policy makers were from the Ministry of Village. The Ministry of Village is the leading actor in Village and VOE development. All of the informants from the Ministry of Village were key persons, who were directly involved in the development of the VOE. The informants from the local village were the head of village, the member of Village People Consultative Bod, VOE directors and VOE employees. An interview guideline was derived from the objective of this research. The questions were open form questions. The interview guidelines were used as general guide and follow questions were raised if interesting points were raised by the respondents.

Table 1: Interview Questions

Objectives of Research	Questions
Institutional Context Changes	1.a Do you think the changes of regulation (i.e the enactment of Law no 6/2014) triggered the significant increasing in the number of VOEs established? 1.b. In your opinion, do you think social issues triggered the establishment of the VOE in Indonesia? 1.c. Do you think market failure had an effect on the establishment and development of the VOE in Indonesia? 1.d. Do you think the local culture in the village has an effect on the establishment and development of the VOE?
Village Response	2.a Do you think the village perceived the changes of regulation, social, market and cultural context create a supportive or a hostile environment for the establishment and development of the VOE? 2b. How can a village come up with consensus and collective action to establish and develop the VOE?
Social Enterprise Business Model	3a. Why the village chose the VOE business despite many challenges and weaknesses? 3b. Do you think the VOE is a commercial or social business?
Participative Governance	4.a Can you give any evidence of participative governance implementation in the VOE? 4.b Why do you think participative governance is the best mechanism in managing the VOE?

The interviews results were transcribed and coded using themes derived from the conceptual framework. (Braun & Clarke, 2006) stated that the answers from informants are free perceptions that come from direct experience. The themes used in this research are institutional context changes, village response, participative governance and social enterprise business models. This research used Institutional Analysis and Development to group and classified the interview results to find the pattern of decision making on why the village established the VOE and how the institutional context and local actors interacted in the process. The institutional context

was grouped into regulation, social, market and culture. The interviews at the national level and the local level were used to investigate how and why the institutional contexts drove or altered the decision to establish the VOE. The perception of the head of the village and other local actors regarding the new imperative to establish the VOE were captured during the interviews and presented as a narrative of how local leaders and communities in the village agreed and supported the VOE. How each local actor in the village finally found a common ground and build a consensus on what type of business the VOE should manage and how the governance of the VOE should be setup.

This research also used document review, internal data of the VOE, observations and other external sources of data to confirm and triangulate the statements and findings of document review and in-depth interviews. Due to lack of memory, the interviewees often had difficulties in citing numbers and date of events. To avoid the error, cross-reference of financial results or date of events were obtained from the supporting documents. The review was done to document the changes in the governance of the VOE from 2004 to 2014.

The reliability of the analysis and finding were obtained by double-checking the result of analysis with the original transcript to avoid misrepresentation. Second the analysis and the result of this research was peer reviewed with team members. This method is sufficient to increase the reliability of the analysis and findings of the qualitative research (Creswell, 2014)

RESULT

This section will discuss the first objective of this research, which is to explain the institutional context changes in Indonesian villages. The explanation would be useful to answer the second objective of this study on how the VOE Panggung Lestari interpreted and responded to the institutional context change. Based on the conceptual framework, the institutional context change was divided into regulation, social, market and cultural change.

The Analysis of Institutional Context Changes in Indonesian Villages

The first institutional context change of VOE is regulation changing. This research studied the laws and regulations concerning villages and the VOE post reformation movement in 1998 until 2020. There were three laws related to villages and the VOE enacted during the period and this research divided it into three periods.

Table 2: Regulation changes of VOE in Indonesia

	Period I Law 32/2004	Period II Law 6/2014	Period III Law 11/2020
Operational Regulation	Ministry of Interior No 39/2010	Ministry of Village No 4/2014	Central Government Regulation 11/2021
Legal Status	Common Legal Status	Common Legal Status	Special Legal Status
Rules of governance and establishment	Local government law needs to be enacted to rule the establishment process and governance of the VOE.	There is no need for specific local government law, since villages had full local authority in establishing and managing the VOE	VOE need to register with the Ministry of Village to obtain special legal status after the establishment of VOE in Village People General Meeting.
Purpose	To increase community's revenue and Village Government Self-Generated Income	To increase Village community's welfare (Financial and Non-Financial)	To Increase Village people's welfare
Function	Business Entities	Business entities with a social mission	Legal entity as a holding of business entities in a village
Business Units	Micro Finance	Tourism, Water Management, Waste Management, General Trading, Various Services and Micro Finance	Digital Business, Digital Marketing, Tourism, Water Management, Waste Management, General Trading, Various Services and Micro Finance
Operational Management	Director, Manager and Head of Business Units	Chief, Secretary and Treasury	Director, Secretary and Treasury

Source: Regulation reviews on VOE during 2004 - 2020

Period I is where the term ‘village-owned enterprise’ was first introduced in Law 32/2004 concerning Local Governments. In this regulation, villages are part of the local government jurisdiction. Therefore, villages must follow the requirements and processes to establish the VOE according to each local government regulation. In Period I, local governments had a significant role in determining the process of VOE establishment and management. The role of the village government was merely just as the operator of local government instructions. In the Aceh Province, all the villages were instructed to form the VOE to manage microfinance businesses. Similar programs also happened in the East Java Province and the Kulonprogo Regency. The top down approach and coercive pressures led to uniformity of VOE’s business units, despite various problems in each village.

During Period I, there were only 1,022 Village-owned Enterprise established (Ministry of Village, 2021). This number is relatively small as it only represents 1.3% of total villages in Indonesia. The top down approach in this period resulted in uniformity of the VOE business model, despite various problems in each village. For example, in the Aceh Province, all of the villages were instructed to form the VOE to manage microfinance businesses. Similar programs also happened in the East Java Province and the Kulonprogo Regency in Yogyakarta Province. The top down approach and coercive pressures led to uniformity of the VOE’s business units.

In Period II, there was significant change on the introduction of recognition and subsidiarity principles in Law No 6/2014 on Villages. The new law granted villages more autonomy in managing their assets and budget. Recognition principle means that the Central Government of Indonesia fully acknowledges that villages had already existed before Indonesian independence, therefore the Central Government guarantee the independency of villages to preserve its norms, culture, institutions and customs. The establishment and management of VOE is one of village local authority, therefore the further regulation by local government concerning VOE was not needed anymore. This policy contrasted the function and position of the VOE from Period I and Period II. In Period I, the VOE was positioned as a mini version of state-owned enterprise at the Village level to increase Village government revenue. But in Period II, the VOE was positioned as an independent entity to provide business or public service to solve local village problems.

The simplicity and flexibility to establish VOE had successfully encourage villages in establishing VOE. In 2015, as the first year of this policy implemented there was addition of 7,123 new VOE established. This trend was continuing until the beginning of 2020 with more than 51,139 VOE established. This period marked the emergence of VOE into the government and public attention.

The interview with key persons in the in Ministry of Village, revealed that the context of the changing regulation in Period II was the awareness that that the conditions and problems that exist in each villages were varied. Therefore, there is a need to separate the VOE from Village government bureaucracy. Efforts being made to avoid the VOE from becoming inactive and just following orders from the central or local government.

“It provides an opportunity for VOE to be managed professionally, which is different with the treatment of the government budget.”
Nugroho Setijo Nagoro, Director of PUED Ministry of Villages
PDIT 2014-2020.

In the late 2019, there was growing concern for sustainability of VOE. Audit Supreme Board in 2018 found that there was 2,188 VOE was no longer in operation, 1,670 VOE had not yet contribute to village and 1,034 did not submit accountability report (BPK, 2018). The main issues identified on the Supreme Audit Report are lack of capital, lack of marketing and lack of human resource capabilities. One of the root causes of the problems was the unclear legal status of the VOE. Although the VOE has strong legal basis at the Village level, the Village law, as the legal basis of VOE establishment was not generally accepted outside the Village. This finding caught president attention and urged revitalization program for VOE. This situation leads to an amendment of article 87 in Law No 6 year 2014 concerning VOE definition. The new definition of VOE stated in Law No 11/2020 or known as Omnibus Law states that the VOE is a legal entity. The definitive recognition of VOE as legal entity aims to force banks and financial institutions to treat the VOE the same with corporation or cooperative, especially in accessing financing and loans. The legal entity status of the VOE also aims to boost more cooperation between VOE and big corporations. The cooperation between the VOE and big corporation needed to enhance the VOE market and transfer of knowledge and skills to the VOE staff and management.

The recognition of legal entity of the VOE marked the Period III of VOE establishment and development. VOE gain stronger position not only in local village context, but also in the national context. Following to the amendment, Central Government released Regulation No 11/2021. The key update of the new regulation is the recognition of special legal status of VOE. The new regulation stipulated that all VOE in Indonesia need to register online to Ministry of Villages and subsequent to review and approval of the completion of the supporting documents, they will be passed on to Ministry of Legal and Human Rights to received the legal entity certificate.

The observation of regulation change in Period I, II and III, brought significant changes in the VOE business model and governance. The VOE business models that relatively were uniform in Period I, changed into a more diverse business model in Period II and III. The governance of VOE and centrally regulated in Period I, transformed into a more locally rooted one in Period II. The regulation change was the response of wider environment changes. Indonesia starting in 1998 undertook a series of government reforms towards a more open, democratic and decentralized system. The enactment of Law No 32/2004 gave local governments more autonomy in managing their functions and budget.

The second institutional context change is social values and relationship change. One of the social issues that emerged in Panggungharjo Village was the waste problem. However, based on in-depth interview with Wahyudi Anggoro Hadi, the Head of Panggungharjo Village, there were explanation as to why the problem emerged. First, before his tenure, the Village government did not pay attention to waste problems, since the Village Governments previously positioned themselves only to perform administrative tasks. Second, the waning of the sense of belonging and cooperation among the Panggungharjo Village residents, especially from the new comers. Traditionally, Village communities are known for their strong social bonds and cooperation, which in Indonesia is known as “gotong-royong” spirit. Panggungharjo Village is located near Yogyakarta city with more than 40 thousand people. Out of 50% of inhabitants are newcomers and students who temporally settle to study in two big Universities located near the Panggungharjo Village. Although native resident of Panggungharjo Village still regarded the social values and the “gotong-royong” spirit highly, there was not the case for newcomers and

temporary residents. Therefore, there was lack of a sense of belonging and cooperation, that hindered the community from solving local problems such as waste problem by themselves.

The third institutional context change is market change. After Indonesia was badly hit by the financial crisis in 1998, there were a series of significant changes and reforms in the Indonesian government system. One of approach that gained more traction was the implementation of deregulation and privatization of public services. Starting in 2004, more and more State-owned Enterprises became public corporations and the Indonesian government also actively invited the private sector to be involved in providing education, health, infrastructure, clean water and energy. The deregulation and privatization policy provided many opportunities and new markets for private and third sector. Those market were traditionally monopolized by government or State-Owned Enterprise. As this approach was perceived to be successfully implemented at the state and local government level, the Law No 6/2014 encouraged the same practice to be implemented at the Village level. The VOE was granted permission to provide basic services such as clean water, energy, education, health and waste management. This policy triggered more VOEs, including VOE Panggung Lestari to enter the new area, which was neglected by the private enterprises and the government, which is waste management. From the private sector point of view waste management in Panggungharjo Village only offered a limited profit potential, and from the central/local government point of view, they were aware that they do not have enough resources to provide waste management service for each village.

The fourth and last institutional context change is cultural change. The cultural change in the Village government and communities were towards a more open approach, democratic, easily adopt new technologies and highly regard new innovations. This cultural change in Panggungharjo Villagge enabled Wahyudi Anggoro Hadi to be elected as head of Village. From the first encounter, Wahyudi Anggoro Hadi promised to battle money politics, open public participation and vowed to launch bureaucratic reforms. The culture of openness, public participation and empowerment entangled with the spirit of “gotong-royong” fueled many social innovations in Panggungharjo Villag, including waste management.

The Interpretation and Response of VOE Panggung Lestari toward Institutional Context Change

As the changing of regulation affected all the VOEs in Indonesia, the response of each Village to the change depended on their awareness of the principles of the new regulations and how to interpret those changes to suit the local context. Wahyudi Anggoro Hadi, as Head of Village and ex-officio of Commissioner in VOE Panggung Lestari had demonstrated a deeper understanding of VOE functions to provide public goods and service, so the relationship of Village Government and villagers was not merely “administrative”.

“The existence of VOE is one of the steps to lay the foundation for bureaucratic reform. There are stages, which are fundamentally related to how to build a new pattern of relations between the village government and villagers, so that it is not administrative. What is being done is to expand the dimensions of public services, not only dealing with administrative services but also (providing) public goods and services. Then when there are children who cannot go to school, a pregnant mother cannot access health services, there is a lot of garbage scattered about, and so on, that when the community cannot solve it then it becomes a state matter, the hope is to build a new pattern of relationships by expanding the dimensions of service. to the public.” Wahyudi Anggoro Hadi (Head of Panggungharjo Village 2012-2018).

The interpretation of VOE’s function to perform wider roles in the Village allowed by Law No 6/2014. Based on Village’s perspective, as outlined by Wahyudi Anggoro Hadi, the Head of Panggungharjo Village, the VOE should be used as creative solution to solve complex social problems, such as waste management. In Wahyudi’s view, the presence of the VOE is not just a business entity, but further than that, the VOE can become an agent of change in the village.

Wahyudi, as the new Village Head, broke old patterns of seeing the Village as merely an operator of central government programs. The general practice of the village that just followed orders from the central government did not cause substantial changes in the village and led to short term result.

This situation is possible because the village now has the authority and budget (based on Law No 6/2014), but few utilized the preference to make significant changes. There is a space that can be played by the VOE to improve quality of life and the village people's welfare. Panggungharjo continues to make adjustments to align the VOE with state regulations to utilize the new institution for increasing the welfare of Panggungharjo residents.

Based on the discussion above, this research found the important roles of local leaders in interpreting the meaning of the new law and utilizing it to solve local problems. The ability of the local leader to find meaning, communicating to wider communities and mobilizing support is very essential to build the foundation of the VOE. The ability and supportive environment would enable the VOE to grow. The supportive environment of the VOE is the combination of strong social bonds, cooperation among Village communities, market failure that hinders future competitor and an open-participative-empowering culture.

The Implementation of Participative Governance and Social Enterprise Business Models in VOE Panggungharjo

From the beginning, the central government tried to separate the management of the VOE from the very complex bureaucratization of Local and Village governments. The efforts being made to avoid the VOE becoming slow and just following orders from the central government. The village government understood that the conditions and problems that existed in the villages were varied. In Period I, VOE was designed similar to State-Owned Enterprise business and governance. In Period II, Law of Village No 6/2014 gave village full authority to establish and manage VOE. This authority and flexibility enable VOE Management designs business models and governance that suits to local context and needs. Some of villages chose to run commercial business for VOE business units, some others chose social business.

“Political perspective distinguishes between VOE and cooperatives. VOE carries out the functions of the village government. It is the village government that is given the power of assets. Entities outside the village that are given authority

over part of the separated village assets are VOE. VOE must be able to become a political tool for the village government for at least 2 things. A political tool for educating the Village, becomes a political tool for the village government as an arena for local democratization.” Wahyudi Anggoro Hadi (Head of Panggunharjo Village 2012-2018).

This governance arrangement is ideal for a village that has the capacity to design and manage its potentials into sustainable business. VOE Panggung Lestari since its inception has been consistent to promote an open and participative governance. As the regulation stated, the formation of the VOE must be based on the results of the residents’ agreement in the Village People General Meeting and stated in the Village Regulation (Perdes). Other important decisions, for example for the appointment of VOE managers, must also go through the Village People General Meeting. This is the key difference of the VOE with a Cooperation and Limited liability.

Table 3: The Comparison Between VOE, Foundation, Cooperative and Limited Liability Partnership

Aspect	Foundation	Cooperative	Limited Liability Partnership	VOE
Supreme power holder	Board	The annual member meeting	General Meeting of Shareholders	Village General Meeting
The main purpose	Benefits	Profit & Benefits	Profit	Profit & Benefits
Profit distribution	Undistributed	Distributed	Distributed	Limited Distributed
Owner	Boards of founder	Member	Shareholder	Village Government & Community
Ultimate decision making	Board	One Man One Vote	One Share One Vote	Village General Meeting consensus

Source: Regulation reviews on VOE during 2004 - 2020

As a VOE is different from cooperative, foundation or limited liability partnership, the VOE needs to be categorized as a special legal and business entity. The VOE should be categorized as a hybrid organization, which has characteristics of both a public and private organization. The public characteristic is due to the VOE being established by Village People General Assembly and mostly funded by Village Fund, which is from the state

budget. The private characteristic was due to the VOE having business units which perform business just like the other private enterprises. This notion is in line with the statement of Anwar Sanusi, the Secretary General of Ministry of Village that stated that VOE had dual function as public and private entity.

“The term VOE is a business entity that has two faces, representing the public interest, and second it must also be managed privately and professionally.” Anwar Sanusi. Secretary General of the Ministry of Villages PDTT 2014-2020.

VOE Panggung Lestari in Panggungharjo met the criteria of a hybrid organization, and to be more specific met the criteria as a Social Enterprise. The VOE in Indonesia has the discretion to choose a business model either to choose entirely commercial business models, public service or combination of both. The VOE Panggung Lestari from the beginning chose to provide public service as its main business. The consideration was not that this action would provide the VOE with maximum profits, but because the waste problem was a critical problem and was neglected by private and public agencies. A hybrid organization is a mixture of public organizations and business organizations. The VOE has a public organizations characteristic due to the formation of the VOE through People General Meeting and the Village Government holds the majority of ownership. The VOE also received funds from State Budget as an initial investment, and the legal status and regulations are influenced by the policies of the central government. VOE cannot be separated from the regulatory context and socio-culture of the community, where VOE is located. As this research detailed the checklist as depicted in Table 4 based on social enterprise criteria outlined by Alter (2007).

Table 4: VOE Panggung Lestari and Criteria of Social Enterprise (Alter, 2007)

No	Criteria of Social Enterprise	Applicable?	Field Evidence (from Interviews and Observations)
1	They use business tools and approaches to achieve social objectives	Yes	Business Tools: set up Waste Management Business Unit using subscription-based business model. Social Objectives: To create livable and healthy livelihood in Panggungharjo
2	Blend social and commercial capital and methods	Yes	Blend the source of fund from State Budget (for initial investment) and non-State Budget (operating revenues, CSR, Loan)
3	Create social and economic value	Yes	Social Value: increasing the quality of lives, decreasing disease, increasing community participation, Economic Value: Addition of Village Government Revenue, Increasing VOE Revenue, Increasing Household Income (by selling the waste).
4	Generate income from commercial activities to fund social programs	Yes	The constitution stated that 10% of net income of VOE must be distributed for Social Programs, such as renovate house of poor family, give healthy food to the poor and providing scholarship.
5	They are market-driven and mission-led	Yes	VOE of Panggungharjo consistently pursued business opportunity and set up new business, but hold still value to increase Village people welfare
6	They measure financial performance and social impact	Yes	VOE of Panggungharjo reported annually to People General Meeting the financial and non-financial performance.
7	Meet financial goals in ways that contribute to the public good	Yes	The cleanliness and healthy livelihood are the public good that can be enjoyed by all of people in Panggungharjo.
8	Enjoy financial freedom from unrestricted income	Yes	The revenue and profit from business activities are unrestricted income of VOE.
9	Incorporate enterprise strategically to accomplish mission	Yes	VOE Panggung Lestari prepared a five-year strategic plan to incorporated all of resource to achieve the strategic goals.

The participative governance and social enterprise business models implemented in the VOE Panggung Lestari proved to be effective in balancing multiple goals and creating sustainable value creation. although

initially funded from government funds, once formed the VOE must be independent and may not burden the village government. Assets managed by the VOE are separate assets from the village government. The VOE organization is a separate organization from the Village Government Organization. In order to be independent, the VOE must be managed according to sound business principles. To manage these two very different things, the VOE needs a special model of governance, which in this research is to adopt social enterprise governance, which emphasizes on participative governance.

In term of creating sustainable value creation, VOE Panggung Lestari through waste management had successfully increased the quality of lives; decreased diseases cause from waste or pollution, and increased people awareness and community participation in creating clean and healthy livelihoods. On the other hand, VOE Panggung Lestari also successfully achieved business goals to increase financial performance through increasing of VOE revenue and profit. VOE Panggung Lestari also directly increased Village Government Revenue from VOE profit sharing portion. Simultaneously, VOE Panggung Lestari, increased household income by selling waste and unused cooking oil to VOE. As stated in the VOE constitution, VOE Panggung Lestari must distribute minimum of 10% of annual net income for social programs. VOE Panggung Lestari had used the fund to launched social programs such as to fund poor family house renovation, providing healthy food for elders and poor family and providing scholarship to meet target of “one house one bachelor degree”.

Table 5: Analysis of Key Participants, Rules and Outcome of VOE

Key Informants	National Level	Village Level
Key Participants	President Parliament Ministry of Village Local Government	Head of Village Village People Consultative Body VOE Directors Business Units Management Employee
Position	Supportive, Skeptics, Neutral	Supportive, Skeptics, Neutral
Rules	Law of Village No6/2014 Ministry of Village regulation	Village Law VOE Internal Regulations Informal Rules (Norms / Customs)

Outcome	Decreasing of poverty, unemployment and inequality	better public services, increasing of Village-owned revenue, increasing people revenues, jobs opening for local people, legitimacy/public trust, popularity,
Moves	Incentives Coercive Direct Indirect	Initiative Follow the order Creative Routine Commercial Social

Source: Interview and primary data

At the national level there are still diverging views of VOE roles. The view of BAPPENAS and the Ministry of Finance emphasizes that VOE should fill the institutional void by serving the public good and service needed by Villagers, and yet was not available. The view of the Ministry of Village and Ministry of Interior emphasised the opposite that VOE should bring revenue to the Village by bringing the Village commodities to the market outside of Village. This is the result of low awareness of the transition of VOE from period I, II and III. Although the regulation of the VOE had change several times, the perceptions of the VOE as mini SOE and focussing only in business was still strong. This misperception caused legitimacy issues for the VOE.

The focus group discussion at the national and local level revealed that the principles of a sustainable VOE a transformative local leader, a supportive ecosystem, public trust, innovative business models, and good governance were present. Those key principles are consistent with the practice of VOE Panggung Lestari. Maintaining public trust in VOE is as much important as maintaining financial performance. The VOE cannot avoid political, social and environmental aspects to sustain in the long run. By the implementation of participative governance and social enterprise business models, the VOE Panggung Lestari proved to be able to maintain public trust whilst achieving business and financial goals.

CONCLUSION, LIMITATIONS, AND CONTRIBUTIONS

Based on regulation review and in-depth interviews, this research analyzed the institutional context changes in Indonesian villages. The institutional context change of the VOE consist of regulation, social, market and cultural changes. This research found the regulation change was the strongest factor for shaping the VOE institution. The regulatory context change is a change of formal rules of the VOE. However, this research also noted that the social and cultural context, which is an informal rule played instrumental role in for VOE establishment and development. The social and cultural context in Village, which in this case was the principle of kinship and cooperation or known in Indonesia as “gotong-royong” provided the spirit and foundation of a sustainable VOE.

Through carefully and detail analysis of VOE Panggung Lestari characteristics, this research concluded that VOE Panggung Lestari met the criteria of a hybrid organization. This research contribution is adding a political, social and environmental perspective to a distinct VOE with cooperative or private companies. This new perspective requires a unified view of the village with all of opportunities and problems or known as one village one goal. This contribution from Panggungharjo is genuine and often missed in the general discussion of how to strengthened the function and performance of the VOE. VOE Panggung Lestari gave evidence of the ability of VOE to extract the social problems of a village, and provided creative and sustainable solution to village local problems.

The implementation of participative governance and social enterprise business models in VOE Panggungharjo, proved to be effective in achieving business and social goals. The finding is an important contribution to the study of hybrid organisation’s challenge to balance multiple goals. Participative governance and social enterprise business models were identified as key factors to establish and develop sustainable VOE. VOE Panggung Lestari had provide evidence how a VOE might deliver sustainable value creation of economics, social, and environmental values.

In general, this research provides some evidences that villages through the VOE have the capabilities to interpret and response to institutional context changes. This finding is contrary to the general belief that a village

cannot avoid the wider institutional environment, and will automatically follow the instruction of the Central Government. This research also provided evidence, in the case of external shock such as changes of regulations or market shift, there would be new issues arising. VOE post the enactment of Law No 6/2014 might be considered as a new institution, since it implemented distinct governance and unique business models. VOE in Panggungharjo Village showed evidence that local institutions might escape the isomorphism due to coercive pressures, as DiMaggio and Powell, 1983 suggest, by find meaning, communicating and mobilizing local communities toward business models and governance that suit to local context.

The limitation of this research is inherent with limitation of a single case study. The result of this study does not intend to be generalized into wider VOE and villages in Indonesia. However, this research finding might be transferable into a village which has similar context and characteristics with Panggungharjo Village. The other limitation is the level of investigation of certain issues, such as how to balance the role of head of Village with the VOE management, is not explain into details. This research hopefully explains the VOE phenomenon in Indonesia. The recommendation of future research is on the sustainability issues of VOE and the suitable business models and performance measurement of VOE multiple goals.

REFERENCE

- Anggraeni, M. R. R. S. (2016). Peranan Badan Usaha Milik Desa (Bumdes) Pada Kesejahteraan Masyarakat Pedesaan Studi Pada Bumdes Di Gunung Kidul, Yogyakarta. *Modus*, 28(2), 155-168.
- BPS. (2021). *BPS*. <https://bps.go.id/>
- Budiono, P. (2015). Implementasi Kebijakan Badan Usaha Milik Desa (Bumdes) Di Bojonegoro (Studi di Desa Ngringinrejo Kecamatan Kalitidu Dan Desa Kedungprimpen Kecamatan Kanor). *Jurnal Politik Muda*, 4(1), 116-125.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Research in Psychology*, 3(2), 77-101. <https://doi.org/10.1097/00005053-199205000-00001>

- Creswell, J. W. (2014). *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Thousand Oaks, California: SAGE Publications.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160. <https://doi.org/10.2307/2095101>
- Lokadata. (2021). *Gini Ratio Indonesia Menurut Tempat Tinggal*. <https://lokadata.id/data/gini-ratio-indonesia-menurut-tempat-tinggal-2011-2019-1579849726>
- Ministry of Finance. (2017). *Buku Pintar Dana Desa*. <https://www.kemenkeu.go.id/media/6749/buku-pintar-dana-desa.pdf>
- Ministry of Village. (2021). *Index of Village Development*. <https://idm.kemendesa.go.id/>
- Ostrom, E. (2005). (2009). Understanding institutional diversity. In *Understanding Institutional Diversity*. Princeton University Press.
- Panggungharjo. (2021). *Bertahan Dalam Badai Semacam Pendahuluan Atas Laporan Pertanggungjawaban Pengelolaan BUMDES Panggung Lestari 2020-2021*. <https://www.panggungharjo.desa.id/bertahan-dalam-badai-semacam-pendahuluan-atas-laporan-pertanggungjawaban-pengelolaan-bum- desa-panggungharjo-2020-2021/>
- Scapens, R. W. (2011). The case study as research method: A practical handbook. *Qualitative Research in Accounting & Management*, 8(2), 201-204.
- Sofyani, H., Suryanto, R., Wibowo, S. A., & Widiastuti, H. (2018). Management and governance practices in Dlingo village in Bantul regency: Learning from the pilot village. *Jati: Jurnal Akuntansi Terapan Indonesia*, 1(1), 1–16.
- Yin, R. K. (2003). *Case study research – Design and methods*. Thousand Oaks, California: Sage.