

Why Governance Matters: Success and Failure of Village-Owned Enterprises in Java

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Received: 28 Februari 2026 Revised: 30 Maret 2026 Accepted: 3 April 2026

Abstract:

Indonesia's decentralization has significantly transformed rural development, with the creation of Village-Owned Enterprises (BUMDes) becoming a key development strategy. However, the performance of BUMDes varies widely across regions. Most previous studies have focused mainly on economic performance, administrative arrangements, and operational accountability. These studies often overlook the socio-political factors that influence BUMDes success, such as local governance, political support, and community participation. From a governance perspective, earlier research tends to adopt a narrow approach, concentrating only on the administrative structure of BUMDes as village-owned enterprises. This approach neglects broader governance dynamics, particularly the relationships between local communities, political actors, and government institutions. This study addresses this gap by examining governance practices in both successful and unsuccessful BUMDes across four villages in Java, selected based on the Village Development Index. The findings show that successful BUMDes are typically supported by visionary and participatory leadership, strong political commitment from local governments, and active community involvement. These elements reflect a form of responsible governance and strong civic engagement. In contrast, poorly performing BUMDes tend to have passive leadership and weak political and community support, often limited to symbolic participation. Overall, the study highlights the importance of leadership, political will, and meaningful participation, and proposes an integrated governance framework that situates rural enterprises within their broader socio-political context.

Keywords:

Village Owned Enterprises; rural area governance; leadership governance; civic engagement; comparative analysis

Introduction

In the development policy of Indonesia along the post-reform visitation, decentralization is one of the most important turning points. This change of policy was marked with the enactment of the Regional Government Act No. 22 of 1999, which was

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subsequently revised by the Regional Government Act No. 23 of 2014. This was subsequently supplemented by the Rural Government Act No. 6 of 2014, which gave rural areas far greater self-governance over their local self-governance, plus the associated untapped resources. More recently, the status of BUMDes (Village Owned Enterprises) was changed under the Omnibus Law on Job Creation (Law No. 11 of 2021) which has now made them formal legal entities, further specifying their operational domain and accountability relations (Simamora et. al. 2022).

This change in regulations has three components. The first one is the enlarged village autonomy which enhances the governance development and community empowerment authority of a village. This deepens the spirit of decentralization, placing equities of policy formulation to the villages. Second, community finance and asset management, where legislation specifically commands communities to self-sufficiently control their funds and assets. The funds allocated from the state budget to the community have come to the fore as the central pillar in rural development by completely removing reliance on the central governance. Third, the empowerment of the community and the practice of democratization processes enables the villages to self-manage and create Village Owned Enterprises (BUMDes) and other structures community. Remarkably, village communities democratized the decision making the use of deliberative forums (*musyawarah desa*).

It is in this third point that the BUMDes structures emerged as a new form of institution to deepen the economic base of the rural areas and improve the welfare of the rural population through community empowerment. However, many villages still find it difficult to BUMDes successfully even with the strong supporting policies. The weaker local BUMDes tend to operate with insufficient human capital. These factors include developing local policies and regulations, assessing and selecting appropriate business activities, and managing BUMDes supply chains. The complicated realities illustrate the important issue of whether or not there is the necessary political will to provide training and the other works to the village leaders (Saputra, 2020).

It is undeniable that some aspects of BUMDes are distinctly Indonesian, perhaps because parallels from other places in the world do exist, and are fundamentally different. For example, Township and Village Enterprises (TVEs) in China, and Community-Based Enterprises (CBEs) in some Northern European countries, notably the Netherlands and Sweden, display some similarities. The differences in context at the locality certainly explain this. Thus, it is not unusual that some scholars would like to consider BUMDes as a form of CBEs while others would counter that the very unique characteristics of BUMDes make it difficult to consider as such (Nasfi, Aimon & Sentosa, 2023).

Similar issues arise in the comparison between BUMDes and the Chinese TVEs, which must be approached with caution (Putterman, 1997). Both serve the purpose of advancing the economy of a village, but their history and institutional frameworks are different. In China, TVEs are oriented towards the market and are public enterprises created by the local governments. They were instrumental in the rural industrialization of China and its economic growth in general (Xu & Zhang, 2010). Frequently, TVEs were structured with joint ownership of local entrepreneurs and local governments, which in some market situations was more productive than private ownership (Lu, 2012). Over the years, TVEs were faced with local opportunities and constraints which evolved through different organizational frameworks. Yet, there are clear institutional and functional differences from the Indonesian BUMDes model (in Table 1).

Table 1. Institutional and functional differences from the Indonesian BUMDes model

Aspect	Village-Owned Enterprises (VOEs)	Township and Village-Owned Enterprises (TVEs)
Management	Village government	Local governments
Legal Status	Legal entities (Indonesia)	Joint ownership (China)
Economic Role	Strengthen village economy	Rural industrialization
Social Impact	Social services and benefits	Employment and local revenue
Challenges	Competition with local businesses	Declining productivity, privatization
Sustainability Focus	Environmental and social benefits	Economic growth and entrepreneurship

Source: author

As mentioned before, scholars have attempted to understand how to classify Indonesia's Village-Owned Enterprises (BUMDes) *vis-a-vis* Community-Based Enterprises (CBEs). Even if there are similarities between the models, the differences in the institutions and cultures means there cannot be a straightforward comparison. Even so, both CBEs and BUMDes aim to stimulate local economic development, alleviating poverty, and improving rural community welfare, and these shared goals, CBEs and BUMDes have are undeniable (Meerkerk et al., 2018).

CBEs are defined as economically active ventures which are managed and owned by a community for the community's benefit. CBEs and BUMDes are similar in the aim of social gain and the level of community involvement. Community initiated enterprise projects in other parts of the world have been shown to uplift and empower local people. One such example is the rise of community businesses in the Netherlands, which developed in response to local, economic trouble in the region as part of self-help initiatives.

These models differ from traditional businesses since they seek to enhance the local quality of life through the cooperative production of goods and services that have utility in the public domain. Such models operate on the principle of active citizenship, which denotes the willingness of the citizens to participate in the beautification and administration of answerable measures towards their surroundings. Having robust local networks fosters sustainability by enhancing legitimacy, collective ownership, and responsiveness at the local level. These models, which demonstrate the ability to attain sustainable socio-economic empowerment through local resource mobilization and civic participation, attest to the wider notion that government and external subsidies do not have to be the first point of call.

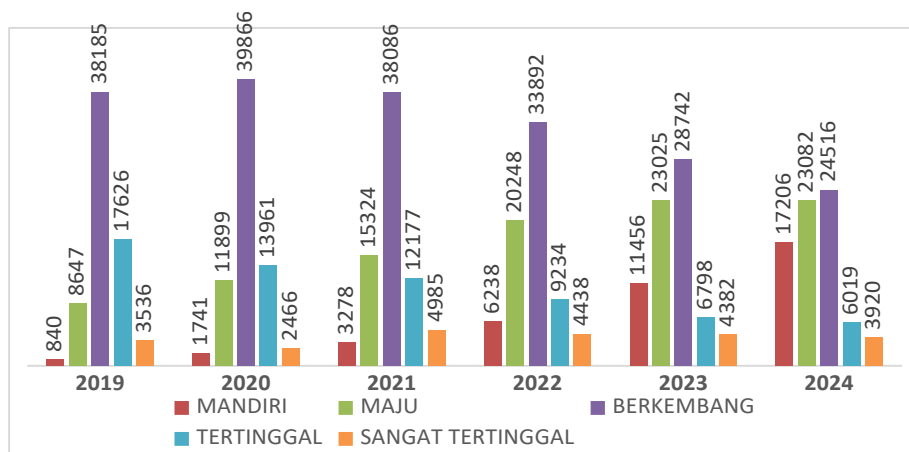
Even though the most notable instances of Community-Based Enterprises (CBEs) are situated in developed nations, and hence, operate in contextually dissimilar environments compared to Indonesia, the philosophy does not change. Both BUMDes in Indonesia and CBEs in developed countries such as the Netherlands and Sweden operate under the same vision of community economic empowerment. The importance of active

citizenship and strong local networking, vital for the success of CBEs in Europe, are also relevant in the case of BUMDes in promoting the socio-economic development of rural Indonesia.

Economically and socially, the BUMDes are of great importance in rural areas because of the promotion of economic self-reliance and active community participation in decision making. They strive to uplift the localities within the framework of a democratic economy based on accountability and transparency in socio-economic activities of the community (Effendi et al. 2024; Kamil and Isnani 2024). What distinguishes BUMDes is their different, what we may say, dual nature: BUMDes are neither completely private businesses nor purely public administration entities, but rather social-business organizations which must declare profit for economic performance measurement and, simultaneously, are accountable to the villagers.

The total impact of BUMDes and particularly their defiance complexity and poor performance have been described as resulting sustainability BUMDes management. BUMDes with some level of transparent governance perform better rural evidence tourism development democracy. Governance capacity and stakeholder trust of different BUMDes have. This assessment needs further work. Enhanced community engagement and participation improve rural development resulting from sustained revenue investment and capital flow (Wontami, 2022).

In contrast to this, field evidence describes performance disparity among BUMDes. Ponggok, Klaten BUMDes is one of the better performing BUMDes and able to generate local economic activity. The rest, however, are passive and destructive, resulting from management, community engagement, and engagement skill deficits (Subehi et al., 2020). In 2019, more than 2,100 BUMDes were reported to be inactive, while around 1,600 others still operating were unable to make meaningful contributions. In 2021, the scenario worsened as the count of untouched BUMDes surpassed 12,000 units, a dramatic surge (<https://mpr.go.id/>, 2024). These results correlate with the outcomes scattered across the Village Development Index (Indeks Desa Membangun/IDM) on the Reflective Documents.



Source: <https://idm.kemendes.go.id/>

Figure 1. Village Development Index (2019 - 2024)

The IDM is a derivative of the Ministry of Village, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia (Kemendesa PDTT) that aims to assess and understand the self-sufficiency and advancement of rural areas across the country. Villages are organized into a five-tier system across three overarching categories: service delivery, the state of the infrastructure, and the state of public service as well as the empowerment of communities (in Figure 1).

Rural development in Indonesia from the year 2019 to the year 2024 fills the gap on the Village development index and shows an upward trend. Positive development in local rural capacity and development programs effectiveness explains the rise of independently classified villages from 840 in the year 2019 to 17206 in the year 2024. The villages classified as advanced also increased from 8647 to 23082 as there was more emphasis on the shift from deploying, Developing villages toward more advanced and established tier. The ease of Developing villages, classified as the backbone tier, falling from 39866 in the year 2020 to 24516 in the year 2024, can be attributed to the direct upgrades to the Advanced and Independent villages. Advanced and Independent villages also increased in number. We also see Affirmative programs and targeted interventions in the remote and badly infra-structured areas of the country serve to alleviate the distressing plight of Disadvantaged villages from 17626 to 6019 and Highly Disadvantaged from 5536 to 3920.

The successful operation of BUMDeses suggests governance systems that are largely community-based, flexible, and locally driven (Judijanto et al, 2025; Prasetya, 2020). However, such successes are outliers, as most BUMDeses continue to close due to elite capture, opacity, mismanagement, and weak results-based accountability. Much of the governance gaps, as shown, rest on outstanding disparities that are part of the deeper issues of governance associated with Village-Owned Enterprises (BUMDes). These anomalies show the need for further progress in dealing with disparities that help to understand the governance of BUMDes. Governance is more than the boundaries of an organization, structure, and strategy; it is also about the thinking and actions, interconnections of power, and systems of accountability. Considering BUMDes within the governance framework means understanding the interaction of governance systems, institutional actors, leadership, public participation, and local linkages of actors on the economic results of rural settings.

Despite the fact BUMDes governance has emerged as a focal point of discussion in the rural development literature of Indonesia, most works are still oriented toward the dimensions of administrative transparency and accountability. Governance in such cases has almost always been unidirectional and market or business oriented (the BUMDes as an enterprise)—the societal and political dimensions of governance are all but absent in such analysis. Much of the literature focuses on the financial reporting, legal obligations, and the internal control systems as the main measures of success of the BUMDes.

For instance, Revida et al. (2023) find that financial transparency significantly contributes to community trust and business sustainability, especially in the case of tourism villages. However, such approaches tend to neglect deeper socio-political dimensions, including the leadership style of village heads, the degree of local political will, and the extent of genuine community participation in decision-making (the interaction between state and society).

Within the framework of decentralization, village heads play a strategic role as primary actors in the governance of Village-Owned Enterprises (BUMDes). However, very few studies have examined the extent to which the BUMDes leadership attributes

and the political will of the village heads as decision makers ‘steer’ BUMDes Direction and Performance. Governance wise, the BUMDes phenomenon cannot be treated as a stand-alone business system, but in relation to its business interactions with government. In fact, a number of cases illustrate to what extent the success or failure of BUMDes can be attributed to the village heads possessing entrepreneurial vision, a deep sense of community development and resource management integrity. Warren and Visser (2016) also illustrate the extent to which local elites manipulate their socio-economic status, to control village system resources, BUMDes in particular, for their political gain. This demonstrates the need to disintegrate governance of BUMDes and examine leadership and political will as core elements.

It is surprising how community involvement alongside other aspects does often remain in the realm of the superficial and the ceremonial. What is of particular concern is how in the case of most village meetings, rather than serving as true, inclusive, deliberative spaces, they often perform the function of legitimizing elite decisions. However, research concerning inclusive governance underlines the imperative of participation of all citizens at all tiers of governance, for the sake of social equity as well as the efficient implementation of local policy. That is to say, all governance analyses that look at the interaction between business institutions and the community in isolation are fundamentally flawed. According to Alves (2024), when community members engage in participation on certain activities on a deeper level, it promotes accountability, and extramural social complexity legitimizes institutions. However, for BUMDes, there is a gap in research on the quality of community involvement in decision making and its impact on the decision-making, governance processes, and long-term sustainability of the enterprises.

Regarding the BUMDes, there is a governance gap illustrates there is still work to be done. Much of the research illustrates there is no integration of the combination of local leadership, political will, and community participation components. Endless discourse centered on the individual characteristics, such managerial capacity, administrative transparency, and participation (Revida et al, 2023) is too simplistic. To theorize and understand the maze of problems related to the success or failure of BUMDes is more complex than this.

This is why the current research aims to tackle this problem and provide a more contextual and holistic approach. The analysis explains the outcomes of governance by studying the best and worst performing BUMDes. The evidence suggests that integral governance arise from a unique combination of a leader's principle of integrity, constant political backing, and proactive participation by members of society (Ostrom, 1990). These findings reinforce the socio-political dimension as the central pillars of BUMDes’ resilience and sustainability.

This research furthers the literature on governance of rural areas as it extends the analysis beyond the borders of Indonesia. The said framework can be applied to analogous situations, particularly the Township and Village Enterprises (TVEs) in China and Community-Based Enterprises (CBEs) in some developed nations. This research deepens the analysis by addressing the complex and often neglected relations between the state, the private sector, and society. Apart from addressing the theoretical problem, this research is also of great value to policymakers and development practitioners on the ground who are interested in developing integrated approaches to institution building and local actor mobilization.

Methodology

This research employs qualitative comparative case methods to examine the governance issues of BUMDes (Village Owned Enterprises). This approach allows for the comparison of cases with different outcomes to understand the more complex social, political, and even institutional structures. This research intends to understand the determinants and mechanisms for the gaps in performance of both poorly and well performing BUMDes, in order to go beyond explanations that are purely behavioral, in the administrative sense. The complex relationship between community leadership, political will and civic engagement is something that needs to be explained.

The selection of the four villages was made on the basis of the differences in scores on the Village Development Index (IDM) and the BUMDes institutional performance, and thus, capturing the governance complexities of the localities. Ponggok (Klaten) and Semen (Blitar) serve to illustrate the villages labelled Independent and Advanced respectively, and how transformative the change in rural economy is, based on an advanced vision and strong political will, and community engagement. In contrast, Glawan (Semarang) and Dukuh Salam (Tegal) illustrate BUMDes that stagnate or fail, in which passive or subordinate leadership, thin community engagement, and weak institutional support serve as the predominant constraints. The analytical framework utilizes approaches such as those Ostrom (1990) advocated for as institutionalist by adding the leadership political will and participation practice framework.

Employing multiple sources of primary and secondary data strengthens the rigor and validity of the findings. Primary data is based on semi-structured in-depth interviews. The interviews established individualized perceptions and experiences toward BUMDes governance, the different functions of the leaders, the political support available, and how the community members participate. The secondary data included an extensive collection of village documents such as village bylaws, BUMDes activity reports, various financial documents, and other governance-related reports that clarify rural governance performance. This approach provided an in-depth understanding of each case along with verification of pieces of information from diverse angles.

To incorporate various viewpoints and perceptions from different pivotal participants with BUMDes governance, purposive sampling was used for selecting the informants. These were the village heads, the members of the BUMDes administrative team, the members of the BPD, the BUMDes executive, the BUMDes functional community leaders, and the participating community members. These stakeholders were different and the villages were different. By using purposive sampling, the number of informants was proportional to the different saturation levels. The informants included participants with different practical levels of BUMDes governance and operations, thus were the most valuable for data collection.

Results and discussion

Within the academic setting and beyond BUMDes (Badan Usaha Milik Desa or Village Owned Enterprises), they serve sovereign businesses intended to anchor the rural economy to the economic development and wellbeing of the community. BUMDes are faced with severe governance issues such as the lack of robust leadership, civic engagement, and adequate supportive political and rule systems at the village level.

This paper strengthens the argument by ontologically situating the outcomes of this research. The BUMDes, particularly the highly successful Ponggok and Semen cases, case studies are performing the pragmatic application of the collaborative governance

framework. This framework describes the situation that the village government by itself is unable to solve complex development and, therefore, needs the collaborative contribution of a constellation of village government, BUMDes, local community, and other development actors (Ansell & Gash, 2008). The exemplary village governance in this case is a development intermediary, a social broker, who creates and manages social capital to reconcile differing objectives so that all sponsors of the development assume collective responsibility for the process and the outcomes. The outcomes in the failing BUMDes are different. The difference is that the social and economic networks are purely symbolic and absent in these cases.

Interestingly, the findings validate the precepts of New Public Governance (NPG) and the counsels of 'deconstruct' vertical systems of governance for more fluid, networked systems of governance. Our assessment indicates that the successful BUMDes are products of homegrown ingenuity and localized capacity. Visionary village leaders do more than execute top-down policies. They are also policy entrepreneurs who construct opportunity structures, involving the assembling and coordinating of resources, developing strategic partnerships, and more (Osborne, 2006). A policy entrepreneur is the same as an advocate for policy change, though they are central to the actual governance of policy with its cross-cutting elements. Svensson (2019) describes the functions of policy entrepreneurs within public bureaucracies policy meshing at differing vertical and horizontal tiers. The village heads in the BUMDes case illustrate this by using extranets to align local economic policies with global-oriented development frameworks. Such leaders do not only work on the layering of policies. They also amalgamate policy, attaching resources and networks to scaffolds of sustainable development. The example illustrates the case of network governance operating at the local level, which is more effective than classical bureaucratic governance.

The Role of Leadership as a 'Facilitator' in Collaborative Governance Networks

The performance and progress of BUMDes is attributed to the leadership at the top. Institution performance is a function of the leadership attributes of BUMDes directors and village heads. Prior research indicates that BUMDes transformational leadership is the most dominant and effective style. Such leaders do more than manage because they inspire and cultivate a work ethos that respects creativity and innovation and participatory citizenship (Rachmawati et al., 2021).

Determined transformational leaders such as those within the BUMDes framework pursuing operational strengthening of the organization while simultaneously enhancing operational community trust as presented in case studies transformational vision carrying out participation operational activities relationship community productivity and manager (Yasni, 2023).

Across the democratic village community, BUMDes operational effectiveness hinges decisively on the leaders nurturing the entrepreneurial zeal, as well as carrying out the governance, and transparent systems of accountability epitomized in the case studies, Wahyono 2025. Phenomena such as BUMDes operating within Ponggok exemplifying leadership, governance, and partnership ecosystems, as well as innovations within the structuring and design frameworks in Purnomo 2020.

Complexities around the vision development in BUMDes Tirta Mandiri, in the commencement of the operational phase, within the population of Ponggok, were centred around the perception gaps of the capability gaps in resident welfare sponsoring and resource gaps available. This meant that the village government could BUMDes manager

collaborative synergies and show community optimizations.

There is no way the village head would. His responsibility is the systemic dislocation and mobilization of the entire ecosystem: the officers, the people, and the outside people who are all together working on BUMDes Tirta Mandiri. BUMDes leaders who are innovative, purposeful, and at times, willing to take immoderate risks, such as the development of water-based tourism that taps the local and prudent village resource and the responsible and timely constructed cross sector partnerships, exemplify this kind of leadership.

This case shows the impact of transformational leadership, especially their ability to develop and foster commitment at much higher levels. The Ponggok village head managed to consolidate the social, economic, and institutional strengths of the village under an inclusive governance framework. Consequently, BUMDes Ponggok was the first case in the country to illustrate the bottom-up transformation of the rural economy. The integration of community aid and involvement through local leadership is essential in the forming of a BUMDes identity, which is crucial for its endurance (Hertel et al., 2019).

Thus is the case in Semen Village, Blitar District, although in this case the leadership tends to be more operationally tactical and flexible. The village leader is not limited to the regulatory framework and budgetary provision, but also sets the focus of BUMDes Berkah Abadi's investments on local agriculture, and on water and irrigation technology. The village head also demonstrates a form of democratic leadership in encouraging participatory citizenship.

Such involvement establishes organizational legitimacy not only in legalistic confines, but in social recognition. The aptitude of BUMDes leaders towards innovative practices allows the institution to be proactive in forming collaborations with external partners such as Bank Mandiri and the Ministry of Village, Disadvantaged Regions and Transmigration. From within the community, the village head ensures that there is more than mere participation, reflecting real deliberation, which fosters the impression that the village enterprise is owned by the people. The village head also plays a key role in the formulation and enforcement of village by-laws which govern BUMDes. These by-laws are usually the outcomes of village assemblies (or meetings) with the participation of a variety of community members (Kania et al., 2021).

The shortcomings in the governance of BUMDes show the consequences of passive and tokenistic local leadership, in this case, the village head's inability to strategically assume the role of the guide, mentor, and protector of the institution's integrity. Data collected in Glawan Village show that the lack of management skills and the inaction of the village head caused BUMDes to lose its institutional orientation and, as a consequence, informal authorities emerged and took over without any accountability. In Dukuh Salam, the village head untethered all management responsibilities to the BUMDes board and, in return, received no supervision and no policy reinforcements, which produced a situation in which social acceptance of the operations, and hence community involvement, was undesirable. One of the BUMDes managers even stated that, due to the village head's passive style, the board was devoid of the leadership and guidance which was necessary to the accomplishing the tasks that they considered to be the next in line.

This illustrates that the absence of leadership results in social stagnation and a deficit of social legitimacy. BUMDes, in such a case, does not serve the role of the empowering institution and instead, represents the epitome of stagnation with regards to administrative activity of little to no economic and social value.

This evidence also reaffirms the notion that the Village-Owned Enterprises (BUMDes) success relies on the quality of the local chief's leadership. The cooperative leadership of the village heads and participatory leadership styles are instrumental to the formation and sustainance of rural enterprise ecosystems in Indonesia (Effendi et al., 2024). BUMDes are likely to stagnate and even collapse due to structural dysfunction and the decay of public trust, especially in the instances where heads of the villages do not actively participate in the strategic decision-making and institutional oversight. Hence, to avoid institutional failure and to ensure that BUMDes operate as instruments of inclusive and sustainable development, it is vital to enhance the capacity and the moral standing of the village leadership.

Local leadership is active, and goes beyond the boundaries of managerial responsibilities, though to an extent, it is embedded within one of the level structures of power, which is itself a major component of every system of governance. In the sphere of governance for instance, the village level is such that, the village heads are not mere administrators of the regulations and the policies. They are, and must be, political and social actors, who are able to boundary the policy and its boundaries through sponsorship, and boundary the local development discourse, and local resources. In the case of Ponggok and Semen, the village heads also displayed certain entrepreneurial policy leadership (Mintrom & Norman, 2009) by formulating and advocating development agendas, which they did through the fostering of collaborative networks that spanned diverse domains. This made it possible to integrate the efforts and resources of the village government, the people, and the private sector in establishing inclusive, flexible, and competitive BUMDes. Such leadership styles engender forms of institutional legitimacy that emanate from social, as opposed to merely legal, regulations.

On the contrary, the absence of authoritative leadership in the case of Glawan and Dukuh Salam enabled the informal power hierarchies to seize control of BUMDes. With the failure of the village heads to play their role as guides and institutional custodians, the BUMDes structure became susceptible to the capture by local elites or particular internal groups whose operations were devoid of any external accountability. The possible outcome actively nurtures governance that is elitist, opaque and lacking in the necessary popular approval. This corresponds to the network governance theory (Agranoff & McGuire, 2001) and rather relates to the operational functionality of local institutions vis-a-vis the leader's skill in forging and managing relationships with the different players.

In the case of Ponggok and Semen, the success of visionary leadership within these communities was the ability to construct a cooperative ecosystem, while the unsuccessful examples were limited due to a failure to construct strong networks that stifled growth. The findings suggest that in addition to institutional configurations and frameworks, the success of BUMDes hinges on the concentration of power and social relations at the local level. Visionary and communicative BUMDes leaders, it is argued, go beyond the exercise of administrative control to take on the role of social trust intermediaries who integrate divergent advocacy into a shared platform of collaborative effort. This is why the success, or failure, of BUMDes is both an administrative concern and a manifestation of the social and power dynamics of the area.

Community-Based Governance and Citizen Engagement through Participation

The involvement of the locals is one of the vital aspects when thinking about the success of Village Owned Enterprises (BUMDes). The formation and development of Bumdes is the result of village discussions involving the village apparatus, BPD, and

some social leaders (Azheri & Anggunsuri, 2018). Such a policy is adopted in order to ensure that the requirements and potentials of the locals are incorporated in such decisions.

The case of participatory governance in the management of BUMDes Tirta Mandiri in Ponggok Village is seen as integrated and inclusive democracy in action. During the BUMDes Development Cycle Evaluation Phase, as BUMDes development team members, the residents take part in the discussions during every stage of the BUMDes Development Cycle and hold evaluations at the end, and do not just consider the talks as paperwork, but as idea-generating sessions, where they try to reach a compromise on the pros and cons of business development. Such willingness to take part in the development of BUMDes can be ascertained through the residents' feelings of possession over BUMDes (active citizenship in its nascent forms starts to appear).

Meaningful participation, in this case, is an essential pillar of social legitimacy and the sustainability of BUMDes, because it creates a foundation of collective trust. The Javanese administrative practice of *musyawarah* as a social *gotong royong* is used in the decision-making process which broadens the ownership and commitment that the residents have over BUMDes. The residents do not only passively benefit from BUMDes, but rather, they also take on roles as participative managers, employees, business partners, and social capital contributors. The model shows that active citizenship which is beyond consulting, to collaborating, and decision making, enhances social legitimacy and the sustainability of the institutions.

Semen Village in Blitar had a lower level of participation in the tourism sector compared to what was attained by Ponggok. Community participation in this case refers to the active role of members in managing clean water and organic farming community enterprises in democratically formed community groups. Village consultation assemblies conduct business to understand the problems of the community and to reconcile the business goals of BUMDes with the aspirations of the local residents. For instance, through such forums, residents learn how the financing of activities is done and how these funds are disbursed. Hence residents who understand the process of financing and the disbursement of funds tend to trust the BUMDes managers. The dwelling populace does not view managers as being engaged in embezzlement or corrupt activities.

This single case illustrates how both participation and transparency can mutually reinforce each other. In the context of community driven governance, the Semen case is an illustration of proper balance between institutional capture and community agency. There is community trust in leaders made possible through participatory democracy and the openness of the community to the financial records of the BUMDes strengthen the community-institution relationship. The improvement of the business unit's performance and the improvement of the societal ethos regarding the local economy governance are both the results of such participation.

As a point of comparison, Glawan in Semarang has extremely limited active participation. While the village meetings are held formally, they rarely result in any decisions that are in any way relevant to the populace. There are no designed participatory structures that would enable the community to be active in the operational management of BUMDes. As a result, the community is expected to perceive BUMDes as an organization that is opaque and, to a large degree, inaccessible.

This runs counter to the tenets of community governance which argue that there ought to be active participation of the people in the design and execution of policies at the local level. The lack of participation in Glawan is a hindrance to social, cultural and

economic progress and at the same time exacerbates the dysfunction of the BUMDes due to the over concentration of informal decision makers. Once the process of decision-making transforms to a point where the deliberation no longer serves the purpose of discussion, the level of public trust diminishes.

An even worse situation exists in Dukuh Salam Village, Tegal, where the community does not take part at all in the management of the BUMDes Arya Luhur. Village meetings have been turned into mere administrative exercises in which no room is left for the expression of original opinions or criticism. Principle decisions, along with the village head and BUMDes Board, are made in isolation, without any engagement at all with the residents or the other village representative institutions. In this instance, it appears that the local practice of 'musyawarah' has not been augmented, but rather replaced with more elite forms of decision-making. This disengagement results in losing social legitimacy and, in effect, BUMDes are seen as the project of a siloed small group. This example illustrates that the less engagement people have, the more likely BUMDes are to become weakly institutionalized social administrative shells.

Analysis of the four villages shows that unlike the other functions, community participation in BUMDes governance is the central pillar of both democracy and sustainability. Community governance is direct, social, and deliberative. As long as it is not just for compliance, and is conducted in a manner that is inclusive and transparent, 'musyawarah desa' (village level deliberation), as a form of local wisdom, has a place. As evidenced in the successful BUMDes in Ponggok and Semen, when the people have a sense of ownership and power in the decision-making processes, BUMDes can become a productive and well-integrated socio-economic entity.

Active engagement is important for social resilience as well. Community ownership of BUMDes positively correlates with the willingness to defend the institution when there are challenges or a crisis to grapple with. The sense of unity generated through active participation means that the community can face challenges more effectively. In support of community-based enterprises social identity must be sufficiently developed (Hertel et al., 2019). Community participation is BUMDes greatest weakness as it renders informal actors as predominant. Alienation from governance renders community members more susceptible to authoritarian rule which is more than likely to occur when governance is secretive. The lack of public participation in governance BUMDes means there is governance which has no collective directions. Internal rules stipulate pursuing self-interests instead of cooperation.

The case of the villages show that community engagement is a metric of the democratic corporate governance of the BUMDes. The governance of participation is a form of social contract that is based on confidence. Local governance systems such as Musyawarah desa offer the best strategies for realization of such governance. Participation in policy formulation for BUMDes needs to help the participation to go beyond opportunism. Community members are too often treated as passive recipients and need a substantial shift in the perception of their role. Training in the field of governance should help the community members develop the necessary tools which promote a participative governance.

Comparative Analysis of Success and Failure Cases

This research has spelled out political will, community participation, and the roles of local leadership as the critical elements, and then continues to analyze the other dimensions of BUMDes governance as the 'properly BUMDes managed features of the

interactions between the state and the society. This is the missing dimension for explaining the governance BUMDes most BUMDes is bothering to understand. The research then elaborates on performing and under-performing BUMDes. The table below captures the results of the governance case studies of the four villages, Ponggok and Semen as the positive governance examples, and Glawan and Dukuh Salam as the negative governance examples.

This explanation seeks to reveal the rationale and the processes of the varying performance outcomes of BUMDes. For this purpose, community leadership styles, the extent of political will, and the community participation factor are assessed and juxtaposed to determine the combination of these elements for either the rural economy to be activated or stagnated. The table is an impressive visual mechanism intended to strengthen the notion that one element alone cannot explain the success of BUMDes. Rather, one must consider the complex interplay between multiple governance elements (in Table 2).

Table 2 complex interplay between multiple governance elements

Aspect	Ponggok (Klaten)	Semen (Blitar)	Glawan (Semarang)	Dukuh Salam (Tegal)
Leadership Style	Visionary & Transformational	Strategic & Innovative	Symbolic & Subordinative	Passive & Administrative
Involvement in BUMDes	Active as a Collaborative Leader	Directive yet Supportive	Absent in Decision-Making	Fully Delegated to Management
Political Will	Very High, Regulatory Support & Infrastructure Investment	High, Budget Allocation & Cross-Sector Partnerships	Weak, Tends to Avoid Conflict	Minimal, No Affirmative Policies
Impact on Community Participation	Increases Ownership & Trust	Expands Involvement to Operations	Community Alienated from the Process	Participation is Only Formal

Source: author

In this regard, the study significantly enhances the existing literature on BUMDes governance by specifically incorporating those socio-political dimensions that are often neglected—local leadership, political will, and community engagement—together with the dominant governance triad of the state (local leadership), market (BUMDes), and society (active citizenship). In contrast to previous studies that have overwhelmingly

concentrated on administrative and financial issues, our comparative analysis illustrates the extent to which the quality of relationships among local actors, together with the dynamics of informal power, influence the effectiveness and sustainability of BUMDes. Such theory is certainly lacking in the literature, especially the governance of rural areas, and the use of the Javanese case study adds an important element in the discourse explaining relative success in BUMDes economic transformative initiatives compared to stagnation or failure. Such findings are in tune with the wider perspectives of governance, which argue that particular context and informal aspects of institutions are crucial in explaining the critique issues of development (Grindle, 2004) within the developing nation paradigm.

Nevertheless, despite the illuminating contributions of this study, many research problems remain to be solved. First, future research could adopt quantitative or mixed-methods approaches to test the hypotheses emerging from these qualitative findings on a larger scale, involving more BUMDes across various regions in Indonesia. As recommended by Creswell and Plano Clark (2017), this approach would allow for the generalization of findings and the identification of broader patterns in the relationship between leadership, political will, participation, and BUMDes performance.

Second, it would be interesting to examine the impact of other variables, such as the assistance of provincial or federal government, as well as the framework of regional economic networks, on the performance of BUMDes. This 'multi-level governance' approach (Liesbet & and Gary, 2003) will assist in understanding the balance of policies and support from upper levels of government that aid or counter the opportunities of BUMDes at the village level. This research could further explore the connections of BUMDes with the macroeconomy, including regional and more advanced multipliers, and the governance and performance transformations that result from such connections.

Third, research that looks at the evolutionary trajectory of BUMDes will be helpful in the capturing of changes in governance practices and the context in which such practices are performed. Furthermore, the feedback from the socio-institutional adaptive response indicates the foretold outcome of such internal and external phenomena towards the examined sub-phenomena. Hence, the outcome of extensive research is the examination of the interrelationship of political and institutional leadership practices, the willingness to act, and the patterns of community engagement over time including their impact toward the resilience and sustainability of BUMDes.

Conclusion

The study explores that the accomplishments and the pivots of BUMDes in Indonesia are not simply financial and administrative in nature and are beyond the scope of these functions. The results are highly contingent upon the concern that local governance shows in local leadership, political will, and the availability of the local populace. Our comparative study of the four villages in Java exhibited a remarkable pattern of outcome. It is under the visionary and transformational leadership of the village head in Ponggok and Semen, with strong political will in the form of supportive regulation and allocation of resources, community engagement in BUMDes, that I observe better-performing enterprises.

In stark contrast to the above scenario, the failure cases in Glawan and Dukuh Salam serve as archetypes of the consequences of having leadership as a passive facilitator and a lack of drive to take personal responsibility, helpless participation that is a mere formality, and a lack of desired political will to resolve issues and take the soft

option. Under these scenarios, the BUMDes lose their social legitimacy and their capacity to meet the socio-economic constructive needs of the community and subsequently fall prey to informal domination. These findings indicate that the effective governance parameters are formal and include the will of right persons and the participation of the people.

This study expands the existing literature on community-based governance and the rural development network governance systems. Besides the leader's ability to generate trust and cooperation, the system interplay of formal and informal mechanisms is crucial for sustainability. Political will is not only a personal trait as we contend, but a multi-layered institutional and psychosocial ecosystem, interfacing with policy purpose, policy intent, and policy execution on the ground.

The results of this study are of great importance to the rural development policy makers and practitioners. At the country level, in order to improve the performance of BUMDes, the position of village level center for BUMDes, the stubborn political will to support BUMDes, and more effective community mobilization frameworks should be strengthened. Sustainable and resilient BUMDes will not be achievable without a governance model that combines institutional architecture with socio-political relations.

Indeed, BUMDes could transform the welfare of rural areas in Indonesia. To realize this potential, governance must be built on strong political will, integrity-driven leadership, and active civic engagement. This study seeks to remind us, it is the people, their vision, will, and participation that determines the success of any development program.

The study undertakes BUMDes governance analysis. This is how BUMDes type institutions can succeed or fail, in isolation and in relation to an ecosystem made up of the state (local government) and the society (civic engagement). This ecosystem perspective makes it possible to explain the operation of local governance systems to the level of community participation in BUMDes. It also shows that the governance systems of BUMDes can be benchmarked to other countries, such as BUMDes in relation to China's Township and Village Enterprises (TVEs) and the Community-Based Enterprises (CBEs) Global South-Global North cross-country flows. It is reasonable to argue that the governance of BUMDes can improve the performance of rural enterprises in different regions of the world.

Acknowledgments

I would like to thank Universitas Diponegoro which supported this study

Disclosure statement

No potential conflict of interest was reported by the author(s).

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