

## GOVERNANCE AND PERFORMANCE OF VILLAGE-OWNED ENTERPRISES (BUMDES)

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### ABSTRACT

This study aims to examine the effect of governance on the performance of village-owned enterprises. The governance variable consists of 6 principles, namely transparency, accountability, cooperation, participation, emancipation and sustainability. Organizational performance includes financial and non-financial performance. This study uses quantitative data with primary data sources. The research data comes from questionnaires distributed online and offline to village-owned enterprises administrators in East Java. Quantitative data were processed using SPSS 25 software. The hypothesis in this study was tested using simple linear regression. The results of this study found that governance has a positive and significant influence on the performance of village-owned enterprises organizations in the East Java region. This finding is expected to provide a reference in Good Governance for BUMDes in Indonesia. Armed with the knowledge gained from this research, it is hoped that local governments will improve the governance and performance of BUMDes. In addition, the BUMDes Management is expected to improve organizational performance which is assessed both in terms of financial and non-financial through good governance of BUMDes.

**Keyword:** Good Governance, Organizational Performance, Village-Owned Enterprises

### ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh tata kelola terhadap kinerja organisasi Badan Usaha Milik Desa. Variabel tata kelola terdiri atas 6 prinsip yaitu transparansi, akuntabilitas, kooperatif, partisipatif, emansipatif dan sustainabel. Kinerja organisasi mencakup kinerja keuangan dan non-keuangan. Penelitian ini memakai data kuantitatif dengan sumber data primer. Data penelitian berasal dari kuesioner yang didistribusikan secara online dan offline kepada pengurus Badan Usaha Milik Desa di Jawa Timur. Data kuantitatif diolah dengan menggunakan perangkat lunak SPSS 25. Hipotesis dalam penelitian ini diuji menggunakan regresi linear sederhana. Hasil penelitian ini menemukan bahwa tata kelola memiliki pengaruh positif dan signifikan terhadap kinerja organisasi Badan Usaha Milik Desa di wilayah Jawa Timur. Temuan ini diharapkan memberikan referensi Tata Kelola Yang Baik BUMDes di Indonesia. Dengan bekal pengetahuan yang diperoleh dari penelitian ini, diharapkan bagi pemerintah daerah agar meningkatkan tata kelola dan kinerja BUMDes. Selain itu, Pengurus BUMDes diharapkan dapat memperbaiki kinerja organisasi yang dinilai baik dari segi keuangan dan non-keuangan melalui tata kelola yang baik BUMDes.

**Kata kunci:** Tata Kelola, Kinerja Organisasi, Badan Usaha Milik Desa

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### Introduction

Indonesian president, Joko Widodo, has a vision of NAWACITA which is the nine priorities of national development. NAWACITA is used to focus on reforming to become an Indonesia that has political sovereignty, and is able to be independent in managing the economy, and has a cultured personality. In the third point of the NAWACITA, it is written that Indonesia's development starts from the edges by strengthening the regions and villages that are within the territory of the Unitary State of the Republic of Indonesia. At this point, it is stated that one of them is development at the village level, with increasing funds being given to each village by the central government. The village itself is an administrative area unit that is at the most basic level of state administration in Indonesia, but now the

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village is entering an era of renewal after the birth of the Village Law. The existence of the law is expected to make the development of the village into an administrative area that has social, economic, political, and cultural independence. Law of the Republic of Indonesia Number 6 of 2014 concerning Villages in chapter X contains the existence of Village-Owned Enterprises or ordinary termed as BUMDes. BUMDes itself is a business entity where all or part of the capital is direct capital originating from village wealth. With this law, the village seems to be the smallest government unit that can be said to be a supporter of Indonesia's development. "*Desa membangun dan Membangun Desa*" has become the government's slogan for Indonesia's development plan, which starts from the most basic administrative area, namely the village.

A Village-Owned Enterprise (BUMDes) is an economic institution at the village level which is formed with the role of the community and village officials looking at the needs and potential of the village. Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration Number 4 of 2015 itself contains the management, arrangement, capital, establishment, management organization, and everything about BUMDes. It is clearly written that BUMDes is a business unit with a legal entity capable of running a business in the social sector, utilization of local resources, rental business and so on which are potentials and opportunities for the village concerned. Thus the existence of BUMDes becomes a driving factor for the community's economy and village independence has an impact on improving the welfare of rural communities.

To be able to manage a BUMDes optimally and on target, BUMDes administrators must run the BUMDes with the principles of transparency, accountability, cooperation, participation, emancipation, and sustainability by having an organized basic membership system and self-help that is carried out professionally and independently (Purnomo, 2016; Widiastuti et al., 2019). The principles of BUMDes governance are different from the 5 principles of corporate governance that aim at increasing the value of a company, BUMDes governance aims to strengthen the economic level of a village by establishing strong cooperation, building a sense of togetherness, and establishing cohesion in all levels of village society based on the establishment of BUMDes itself is a rural area (Purnomo, 2016). The implementation of governance in all BUMDes seen from the average still indicates that the implementation of governance indicators is still at a relatively low level. BUMDes that have high governance indicators are BUMDes that are 8 and 9 years old. Meanwhile, BUMDes that have the lowest governance are BUMDes that have an age of fewer than 2 years and can still be included in the category of pioneering BUMDes. Looking at all existing governance points, sustainable points are points with low applicability on average (Widiastuti et al., 2019).

In corporate governance, there is a theory of separation between company owners and company managers, namely agency theory often causes agency conflict. Agency theory discusses the emergence of agency conflict due to the treatment of managers who do not encourage the interests of the investors to provide losses for the capitalists (Jensen and Meckling, 1976). When associated with BUMDes, the principal is the investor, namely the Village Government or

other parties who include the capital and the agent is the BUMDes management. BUMDes is a profit and social-oriented company. The combination of stakeholder governance and participatory governance, which means that all parties influence the achievement of organizational goals (profit and social) actively participate in making organizational decisions to ensure the achievement of the organization's mission (Ball and Ball, 2016). It takes a company's efforts to implement good governance so that the company has good performance and gains a competitive advantage. Many studies recommend that poor corporate governance practices be a cause of inadequate performance and concern among stakeholders (Mcgee, 2009). There have been many studies linking corporate governance and performance (Darwanto and Chairiri, 2019; Alsagr et al., 2018; Warrad and Khaddam, 2019; Chabachib, 2019; Balagobei, 2018; Al-Beshtawi et al., 2014; Adedeji et al., 2019). Company performance is the result of all company activities which become a benchmark for the success of a company.

BUMDes here have differences with companies in general. According to PERMENDES number 4 of 2015, the purpose of establishing a BUMDes includes increasing the economic level of a village, being able to create employment opportunities, being a cause of increasing the welfare of rural communities, and being able to increase income from two sides, namely the community and the village concerned. In efforts to find out whether a BUMDes has been run well, it is necessary to have an evaluation, namely measuring its performance. Performance appraisal in a BUMDes can take indicators on organizational performance. The organizational performance itself refers to the success of an organization in achieving its financial and non-financial goals (Li et al., 2006). This is deemed appropriate because BUMDes have goals both in terms of profit and in terms of the environment as stated in Permendes number 4 of 2015. Performance measurement is related to efficiency, effectiveness, service quality, and compliance with normative standards (Skelcher and Mathur, 2004). Based on the objectives of BUMDes which also have community social interests, the points in the performance of BUMDes are appropriate and interesting to study.

Previous studies have researched Good Governance. The research of Widiastuti et al., (2019) carried out the preparation of BUMDes governance indicators and measurements of BUMDes governance practices, while this study linked BUMDes governance with BUMDes performance. Research by Jaswadi (2016) and Mswaka and Aluko (2015) measures the level of implementation of Good Governance in small, micro and medium enterprises, while this study takes the object of Village-Owned Enterprises. Pramita's research (2018) looks at the implementation of accountability in BUMDes, while this study uses six BUMDes principles, namely transparency, accountability, cooperative, participatory, emancipatory, and sustainable. Haque's research (2016) links governance variables with financial performance. The gap with this research relates governance to organizational performance which consists of financial and non-financial performance.

One of the strong economic foundations in Indonesia is in the Village. Villages have BUMDes which have various business units. There are savings and loan businesses, village markets, general trade, water management, services, and

waste management. All BUMDes efforts aim to move the economy of rural communities. If Indonesia wants to become a country with a strong economy, it must be ensured that the foundation of the country's economy has good quality. In this case, the author sees that BUMDes must be good in terms of governance and also in terms of financial and non-financial performance. Based on the description above, the motivation of this research is to understand BUMDes Governance in relation to BUMDes organizational performance. BUMDes Governance has a close relationship with community elements, where understanding Good Governance in BUMDes according to its characteristics will have a significant influence on the achievement of BUMDes performance.

The result of this study shows that governance has a positive and significant effect on the performance of BUMDes. This finding is expected to provide a reference in Good Governance for BUMDes in Indonesia. Armed with the knowledge gained from this research, it is hoped that local governments will improve the governance and performance of BUMDes. In addition, the BUMDes Management is expected to improve organizational performance which is assessed both in terms of financial and non-financial through good governance of BUMDes.

### **Literature review**

#### **Village-Owned Enterprises (BUMDes)**

Village-Owned Enterprises are business entities or business units who's entire or most of the capital used comes from the village directly sourced from village assets that have been divided to provide services, asset management, and other businesses in order to have a major impact on the welfare of the community. Village (Permendes Number 4 of 2015). BUMDes is a collective village business, owned by the village government and the community. BUMDes has a difference with cooperatives that only benefit all its members, it must be able to be utilized by the village government and the community as a whole (Eko et al., 2014: 250).

In general, BUMDes is formed as a place to accommodate community activities as a whole and as a public service whose operations are carried out by the village. The establishment of a BUMDes has the following objectives: (1) increasing the level of the village economy, (2) optimizing the assets owned by the village in order to bring benefits to the welfare of the village, (3) being a factor that can cause an increase in community business when managing the potential of the village economy, (4) developing a business collaboration plan between villages or being able to work together with third parties, (5) being able to create opportunities and having market connections that can support the public service needs of villagers, (6) being a means of opening new jobs, (7) increasing the level of community welfare by doing growth, equitable distribution of village economic levels, and improving public services, (8) rural communities experience an increase in income and increasing village original income. This is contained in Permendes Number 4 of 2015 Chapter II article 3.

### **Social Enterprise Theory**

Social enterprise is a method that can solve problems through an intermediary business approach model. A social enterprise is a business entity that has a concern in the social field with the existence of a goal and is able to make a profit in order to cope with the needs of a social mission (Nasruddin and Misaridin, 2014). Social enterprise is seen by the community as a service provider agency and is able to provide employment opportunities that can employ people with special needs, economically disadvantaged, ex-convicts, and become a solution in efforts to eradicate poverty and are able to provide a decent education for the economically disadvantaged. as one of the efforts in solving social problems (Nasruddin and Misaridin, 2014). Social enterprise provides fast problem-solving in dealing with problems through the operationalization of social business models. Social enterprise exists to respond to shared interests and social contracts that combine individual interests by recognizing human values and the role of each individual in a social environment (Byerly, 2014). In the context of profit and non-profit organizations, social enterprises are forms of organizations that are concerned with generating profits from an economic and social perspective. Forms of social enterprises: (1) non-profit organizations that make a profit or profit, (2) non-profit or profit organizations that have attention to the balance between social interests and profit-seeking for the company, and (3) profit organizations that take part in social responsibility (Bielefeld, 2009).

Businesses run by BUMDes must not compete with village community businesses which can shut down the village community's businesses but must be able to support and synergize various businesses run by the community. It is because of the existence of BUMDes to improve the welfare of the community. In addition, BUMDes must be able to maintain a balance between profit and benefit, because if they have made a profit, BUMDes can provide benefits to village communities. BUMDes as a Social Enterprise, also plays a role in solving social problems by creating added value, managing potential and assets as well as providing maximum benefits to residents. BUMDes is passionate about providing added value to existing community businesses. BUMDes is not a player, but forms a holding or cooperates and does not displace village community businesses. For example, BUMDese runs a basic food trading business and some local residents also run the same business, so BUMDes should act as the wholesaler and not sell in retail (Hastowiyono and Suharyanto, 2014: 98).

### **Agency Theory**

Agency theory is a theory that becomes a basis for a business to run its business. The agency relationship in agency theory is an agreement of one or many parties to carry out interest, the principal who makes an agreement with the agent to carry out an activity (Jensen and Meckling, 1976). In Corporate Governance, there is a theory of separation between company owners and company managers, namely agency theory often causes agency conflict. Agency theory discusses the emergence of agency conflict due to the treatment of managers who do not encourage the interests of the investors so as to provide losses for the capitalists (Jensen and Meckling, 1976). The concept of agency

conflict triggers companies to incur costs such as creating incentives or sanctions (Roberts, 2004). The purpose of the incentives and sanctions is to align the actions of the interests of the manager with the interests of the shareholders as well as to supervise the managers from opportunities to commit irregularities. Corporate governance is a solution to various problems related to investors and conflicts between shareholders (Claessens, 2006). When associated with BUMDes, the principal is the investor, namely the Village Government or other parties who include the capital and the agent is the BUMDes management. BUMDes is a profit and socially-oriented company. The combination of stakeholder governance and participatory governance, which means that all parties influence the achievement of organizational goals (profit and social) actively participate in making organizational decisions to ensure the achievement of the organization's mission (Ball and Ball, 2016).

### **BUMDes Governance**

The governance of a company which is often also termed corporate governance has a general definition as a structure and technique to provide direction and control so that a company can effectively and efficiently achieve its corporate goals. The definition and objectives of governance vary widely in the context of the legal system, business sector, culture, and situation. Low (2006) classifies governance into two categories, namely entities that have a profit orientation and non-profit entities. Entities that have a profit orientation will be seen to focus more on matters in their company in the interests of shareholders, this is different from the principle of democratic governance which focuses on the needs of stakeholders in a not-for-profit entity. Along with developments in the third sector which are commonly termed as a social enterprise, the emergence of a governance theory contains characteristics in terms of profit and social fields. Social enterprise is more suitable to use the principles of stewardship governance than democratic governance (Low, 2006). The governance of a company that has a public orientation is not appropriate if it is included in the concept of a social enterprise (Ball and Ball, 2016). Suggestions to combine stakeholder governance and participatory governance, in this case, all parties who influence the achievement of an organization's goals in terms of profit and social have an active role in the formation of organizational decisions that aim to guarantee the achievement of the organization's mission (Ball and Ball, 2016).

BUMDes itself has characteristics that fall into the category of social enterprise. The social enterprise will emphasize the goal of achieving a social mission but on the other hand continue to run a business that follows the market mechanism (Santos, 2012). Social enterprise can be termed as a hybrid organization, which can be interpreted that its business processes having characteristics in both business and social fields. BUMDes has a social mission in that its presence is required to be a solution to social problems that exist at the village level, for example, such as labor issues, waste management, availability of drinking water, and access to electricity. But on the other hand, BUMDes also runs a business that aims to make BUMDes able to maintain its existence. Pestoff and Hulgård (2015) suggest that governance when implemented in social

enterprise practices should focus on participatory governance that involves all stakeholders. When looking at BUMDes, participatory governance is manifested in the form of village community awareness starting from the establishment, development, and supervision of BUMDes.

The six principles of BUMDes in implementing governance are (1) transparency, (2) accountability, (3) cooperative, (4) participatory, (5) emancipatory, and (6) sustainable (Purnomo, 2016; Widiastuti et al., 2019). Transparency can be interpreted as openness about documents and can be linked to a performance appraisal system. Accountability implies that all components of the implementation of a BUMDes must be able to be accounted for both in the technical implementation of the BUMDes and the existing administrative. Cooperative can be interpreted that all parties involved and who have interests (stakeholders) in the process of implementing BUMDes need to establish good collaboration for the development and continuation of their business. Participatory means that all parties who participate in BUMDes voluntarily provide assistance and contribute to decision-making that affect the progress of BUMDes. Emancipation means that all parties who participate in a BUMDes are willing to be treated equally regardless of ethnicity, religion, and class. Sustainability means that the business activities carried out must have development opportunities and be able to be preserved by the community under the auspices of BUMDes.

### **Organizational Performance**

The importance of performance objects for an organization has a reason to be the center of interest from many circles. First, a high level of competition can lead to a condition termed hypercompetition. This makes managers required to develop new strategies so that the organization can maintain its existence and continue to grow continuously as a measure so that parties who have an interest in the organization continue to participate in the organizational life cycle. The second thing is that performance is defined as a reliable measuring tool to obtain information from the development and level of progress of an organization. Performance can be a sign of good corporate governance (Sobirin, 2014).

Organizational performance includes effectiveness in achieving organizational goals, efficiency in producing outputs, and adaptation to environmental changes (Homburg et al., 1999). Organizational performance is shown as behavior related to organizational goals and this behavior can be measured based on individual contributions to organizational goals (Chou and Chou, 2011). Organizational performance can be an input/output ratio in the overall operation and the achievement of goals in a company as well as the satisfaction of each participant in the operating process (Atesci et al., 2010). Performance measurement is considered as the main instrument for management control to achieve goals by effectively measuring the resources applied in the organization (Lee and Choi, 2011). Measuring and analyzing organizational performance has an important role in achieving the goals of an organization. Organizational performance refers to the success of the organization in achieving its financial and non-financial objectives (Li et al., 2006).

## **BUMDes Governance and Performance**

The application of governance in an organization or company has become a complex matter to create an appropriate and ideal order. BUMDes governance has six principles, namely transparency, accountability, cooperative, participatory, emancipatory, and sustainability (Purnomo, 2016; Widiastuti, 2019). These six indicators, if implemented properly, can boost the performance of BUMDes. Performance shows that a company has carried out transparency, accountability, and responsibility for the management of the organization or company for the entire constituency it serves. Performance is the realization of good corporate governance. Based on this, performance becomes an important point in the life of an organization/company and for people's lives (Sobirin, 2014). Good governance is concerned with ensuring adequate assurance for stakeholders, that managers will comply with the company's ethical mechanisms and will not commit any fraud in managing the company to improve company performance (Ariani and Agustia, 2020). BUMDes uses the concept of social enterprise. Governance when implemented in social enterprise practices should focus on participatory governance involving all stakeholders (Pestoff and Hulgård, 2015). BUMDes in its business process has business and social goals. BUMDes has a social mission in that its presence is required to be a solution to social problems that exist in rural communities. BUMDes business activities must have development opportunities and be able to synergize with various village community businesses. In addition, BUMDes manages village resources, the results of which can increase the village's original income so that the village government through the management of the Village Revenue and Expenditure Budget (APBDes) can improve the welfare of the village community.

Governance research can be applied on a wide scale, starting from businesses that have macro sizes such as banks to the level of micro-businesses. Research on banks results in a positive relationship between governance and performance (Darwanto and Chairiri, 2019; Alsagr et al., 2018; Warrad and Khaddam, 2019). In the industrial sector, research that examines the correlation between governance and company performance has obtained positive results (Chabachib, 2019; Balagobei, 2018). One governance study at 173 microfinance institutions in 18 countries in Asia showed that there were significant positive results on the company's financial performance (Iqbal et al., 2018). The research on governance on non-financial performance yielded positive results (Al-Beshtawi et al., 2014; Adedeji et al., 2019). Based on the theory and previous research, the research hypothesis is as follows:

**H<sub>1</sub>: Governance has a positive effect on the performance of BUMDes**

### **Research Methode**

This research uses an explanatory quantitative research approach. Quantitative research will emphasize objective phenomena and be studied quantitatively (Hamdi and Bahruddin, 2014:5).

### **Data Types and Sources**

This study will use primary data sources obtained from distributing questionnaires to respondents. Respondents in this study were BUMDes administrators. The questionnaire was designed based on several measurement



indicators, namely governance and organizational performance. The questionnaire uses a Likert scale on the question points.

The questionnaire contains negative questions (reverse) which aim to validate respondents' answers. This kind of validation is useful to avoid thinking responses ticking all the same responses (Humble, 2020). The research data was obtained offline and online. The population of this research is BUMDes in East Java according to East Java BUMDes clinic as many as 5432. This research data collection uses random sampling to obtain data, so that research data needs can be met and cover a wide area. BUMDes participating in this research online are BUMDes which can be contacted via the WhatsApp application.

## **Operational Definitions**

### **BUMDes Governance**

BUMDes governance is one of the things that affect organizational performance. Governance indicators based on Permendes Regulation No 4 of 2015 concerning BUMDes and theories are divided into six governance principles, namely transparency, accountability, cooperative, participatory, emancipatory, and sustainable (Purnomo, 2016; Widiastuti et al., 2019). These indicator points can be used as a reference for assessing BUMDes in carrying out good governance.

### **Organizational Performance**

Organizational performance assessment is carried out in connection with the achievement or failure of the goals and objectives set (Etzioni, 1960). The main criterion of organizational performance is its growth and long-term survival which means that continuous improvement of organizational performance forms its vital goals (Chandler, 1962; Thompson, 1967). Organizational performance refers to the success of the organization in achieving its financial and non-financial goals (Li et al., 2006).

The financial performance indicators are added indicators that match the characteristics of BUMDes, while non-financial performance indicators take points from the PERMENDES rule number 4 of 2015 which also refers to the characteristics of BUMDes.

## **Analysis Technique**

### **Descriptive Analysis**

Descriptive analysis will produce a description of the data containing the mean, standard deviation, minimum, maximum, variance, skewness, kurtosis, and range (Ghozali, 2018: 19). This study will examine the variables of governance and organizational performance variables using descriptive analysis.

### **Common Method Bias**

Common method bias can be a research problem because it is one of the causes of errors in testing (Podsakoff et al., 2003). One technique to address the issue of common method bias is Harman's single factor test or also known as Harman's one-factor test. Harman's single factor test uses explanatory factor analysis that calculates all variables in one factor, ideally so that the common method bias is not indicated by the calculation value below 50% (Eichorn, B.R., 2014).

### Validity Test

Ghozali (2018) says that the validity test is useful as a means of measuring whether a questionnaire is valid or not. The questionnaire can be declared valid if the question points of the questionnaire are proven to be able to explain what the questionnaire will measure. A test is classified as having a high level of validity when the test can obtain accurate measuring results in accordance to hold the test.

### Normality Test

A normality test is an instrument for testing a regression model, the confounding variable or residual has a normal distribution. This is because the t and F tests can show that the residual value is normally distributed. To see normality, the researcher will do the One-Sample Kolmogorov-Smirnov test to see the normality of the data.

### Reliability Test

Reliability is a questionnaire measurement in the form of indicators of variables or constructs. Questionnaires can be declared reliable or reliable when a person's answers to the questions are consistent or stable over time (Ghozali, 2018).

### Regression Analysis

Regression analysis can measure the strength of the correlation between the dependent variable and the independent variable. The regression function is declared correct if the sample in estimating the actual value can be measured through its Goodness of fit. The value of the coefficient of determination and the statistical value of t can be measured statistically (Ghozali, 2018). Statistical calculations can be classified as statistically significant if the statistical test value is in the critical area, and can be declared insignificant when the statistical test value is in the  $H_0$  area is accepted.

$$\text{Performance} = \beta_0 + \beta_1 \text{Governance} + e$$

### Hypothesis Testing

Hypothesis testing was conducted to determine the level of significance of the results of the regression analysis that connected the research variables. If the slope of the coefficient is not equal to zero, it can be said to be significant. The hypothesis testing is carried out in the following way:

### Test Statistics t-test

Statistical test t-test is needed in this study to see the effect between the independent variable and the dependent variable.

- 1) The significance of  $t < 5\%$ , then  $H_0$  is rejected and  $H_1$  is accepted
- 2) The significance of  $t > 5\%$ , then  $H_0$  is accepted and  $H_1$  was rejected

### Coefficient of Determination Test ( $R^2$ )

The Coefficient of Determination Test or R square ( $R^2$ ) is a test to measure the extent to which the variables in this study can explain the dependent variable. The value of  $R^2$  in various studies can vary from zero to one. If the value of  $R^2$  is equal to zero, then the independent variable cannot explain the dependent variable. On the other hand, if the value of  $R^2$  is equal to one, then the independent variable can explain the dependent variable. The higher the  $R^2$  value or the closer to one, the better the regression model in predicting the variance of the independent variable.

### Result and Discussion

#### Statistical Description Analysis

The results of descriptive statistics as described in table 1 state that: (1) governance has an average of 3.9883 and a standard deviation of 0.311, (2) performance has an average of 3.8636 and a standard deviation of 0.474. When the average value obtained is greater than the standard deviation value, it indicates that the data variance tends to be smaller and the data distribution shows normal results.

**Table 1. Descriptive Statistics**

Variable	Mean	Standard Deviation	Category
Governance	3,9883	0,311	Agree
Performance	3,8636	0,474	Agree

Respondents' answer categories: (1)  $1,00 < \alpha < 1,80$  = strongly disagree; (2)  $1,80 < \alpha < 2,60$  = disagree; (3)  $2,60 < \alpha < 3,40$  = somewhat agree; (4)  $3,40 < \alpha < 4,20$  = agree and (5)  $4,20 < \alpha < 5,00$  = strongly agree

Source: Processed data (2020)

#### Common Method Bias

Based on the results of Harman's single factor of table 2, which was analyzed using SPSS 25, the variance value in this study was 23.84% which proved to be less than 50%. It can be concluded that there is no common method bias in this study.

**Table 2. Harman's Single Factor Test**

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	21,696	23,842	23,842	21,696	23,842	23,842
2	8,023	8,817	32,658			
3	4,969	5,460	38,118			

Source: Processed data (2020)

### Model Analysis and Hypothesis Testing

This study uses a simple linear regression test. This test was chosen to test the direct effect of one variable on another variable with the Statistical Product and Service Solution (SPSS) program.

### Validity Test

The results of the validity test found 4 questions of the governance variable were not valid. In the performance variable, all questions were declared valid. So, the 4 questions on the governance variable must be excluded from the next process when going through the normality test. Two negative questions received invalid status in this validity test, namely X1.7 and X2.5.

### Normality Test

Normality test is used to test in the regression model, see table 3 the confounding or residual variables have normal distribution data. The Kolmogorov-Smirnov (K-S) nonparametric statistical test was used to test whether the confounding variables had a normal distribution on the questionnaire (Ghozali, 2018), with a significance level of 5%. If the probability value (asym.sig 2-tailed) > 0.05 then the data is classified as normally distributed and if the probability value (asym.sig 2-tailed) < 0.05 then the data is classified as not normally distributed. asymp. The 2-tailed sig shows 0.078 which indicates a normal distribution.

**Table 3. Normality Test**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		56
Normal Parameters <sup>a,b</sup>	Mean	0,0000000
	Std. Deviation	6,29314083
Most Extreme Differences	Absolute	0,112
	Positive	0,112
	Negative	-0,103
Test Statistic		0,112
Asymp. Sig. (2-tailed)		.078 <sup>c</sup>

a. Test distribution is Normal.  
 b. Calculated from data.  
 c. Lilliefors Significance Correction.

Source: Processed data (2020)

### Reliability Test

Reliability testing is the measurement of a questionnaire declared reliable if the consistency of a person's answer to the statement is maintained (Ghozali, 2018). See table 4 for result of reliability test. Decision making on the reliability test is when Cronbach's Alpha value  $> 0.6$  then the questionnaire is reliable and if  $< 0.6$  then the questionnaire is not reliable (Sujarweni, 2014). Cronbach's Alpha value is 0.953 which is  $> 0.6$ , this is according to the book of V Wiratna Sujarweni that the questionnaire is declared reliable.

**Table 4. Reliability Test**

Reliability Statistics	
Cronbach's Alpha	N of Items
0,953	87

Source: Processed data (2020)

### Regression Analysis

Here are the results of simple regression analysis between two variables that have met the eligibility requirements for simple linear regression analysis. The performance variable becomes the dependent variable (bound) and the governance variable becomes the independent variable (free) so that the results of the regression analysis are shown table 5.

**Table 5. Regression Analysis**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.564 <sup>a</sup>	0,318	0,306	6,351

a. Predictors: (Constant), GOVERNANCE  
 b. Dependent Variable: PERFORMANCE

Source: Processed data (2020)

The output of the SPSS summary model, the amount of adjusted R<sup>2</sup> is 0.318, it means that 31.8% of the variation in performance can be explained by the independent variable Governance. While the remaining 68.2% is explained by reasons other than the model. The Standard Error of Estimate (SEE) is 6.351. The smaller the SSE value makes the regression model more precise in estimating the dependent variable.

Based on the results of simple linear regression analysis in the table 7, the regression coefficient of the study shows positive results, which means that it shows the direction of change in the same direction. The constant value of 31.171 indicates that if there are no other variables, the performance value is 31.171. While the governance variable has a regression coefficient value of 0.211, this means that if governance increases by one unit, the performance will increase by 0.211 assuming other variables are constant.

**Table 7. T-Test**

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	31,171	11,023		2,828	0,007
	GOVERNANCE	0,211	0,042	0,564	5,020	0,000

a. Dependent Variable: PERFORMANCE

Explanation:

\*Statistically significant at the 5% significance level

Performance = 31,171 + 0,211 Governance + e

Based on the output above, it is known that the t-count value is 5.020 while for n=56 the t-table value is 2.00488. If the t-count value is greater than the t-table value, it can be interpreted that there is an influence of Governance (X) on Performance (Y).

### Discussion

The results of the descriptive statistics show an average point of 3.99 for the governance variable and 3.86 for the performance variable. This shows that on average, respondents think they agree with the questions asked. The presumption of agreement from respondents can be interpreted that BUMDes has implemented its governance well and has improved its performance. In contrast to previous research (Widiastuti et al., 2019) the results obtained 2.9 points for the average governance which is relatively low (lower than the theoretical median value of 3).

This study found that BUMDes governance has a positive effect on BUMDes performance. The better the governance of BUMDes, the better the performance of the BUMDes. This proves that the hypothesis of the research is accepted. The positive regression coefficient value indicates that the independent variable affects the increase in the dependent variable positively.

The results of this study are consistent with Chabachib's (2019) research which states that good governance will have a positive effect and improve performance. The positive influence of financial performance is also stated in research (Haque, 2016) which states that governance has a positive relationship to corporate profits. The research (Iqbal et al., 2019) states that corporate governance is found to have an effect on various measurements of company performance. The research of Hasan et al., (2016) states that good corporate governance can improve the performance of an agency. This is in line with research (Ali, 2017) which concludes that governance mechanisms are significantly related to company performance indicators.

This study shows that BUMDes governance as a Social Enterprise is able to increase organizational performance both in terms of financial and non-financial. BUMDes has a concern in the social sector by earning profits in order to cope with the needs of social missions (Nasruddin and Misaridin, 2014). In

addition, BUMDes Governance must be able to maintain a balance between profit and benefit, because if it has earned a profit, BUMDes can provide benefits to the village community, then the community continues to support the performance of the BUMDes organization. All parties influence the achievement of organizational goals (profit and social) and participate actively in making organizational decisions to ensure the achievement of the organization's mission (Ball and Ball, 2016). The agency relationship in BUMDes between the Village Government, the Community as the principal and the BUMDes Management as an agent based on agency theory can lead to agency conflict. Agency theory discusses the emergence of agency conflict due to the actions of the BUMDes management who do not encourage the interests of the investors (Village Government, Community) so as to provide losses for the investors. With Governance according to the characteristics of BUMDes which includes six BUMDes principles, namely (1) transparency, (2) accountability, (3) cooperative, (4) participatory, (5) emancipatory and (6) sustainable, the BUMDes management is in line with the interests of the Village Government, Community to improve the organizational performance of BUMDes both in terms of financial and non-financial.

### **Conclusion**

The results showed that the level of BUMDes governance assessed from the six existing indicators, namely transparency, accountability, cooperative, participatory, emancipatory and sustainable, mostly resulted in the level of agreeable answers which indicated good governance in BUMDes in East Java. BUMDes in East Java resulted in an average agreed performance showing the level of performance was at an already good level in BUMDes in East Java from both a financial and non-financial perspective. There is a positive relationship between governance and performance in BUMDes, improving governance will have an impact on improving BUMDes performance. The better the governance of BUMDes, the performance of BUMDes will increase both in terms of financial and non-financial.

### **Limitation**

The research has several limitations. First, the questionnaire could not cover all districts in East Java. Some regencies such as Ponorogo, Banyuwangi, Bondowoso, Situbondo, Ngawi, Sampang, and Pamekasan regencies could not be reached by researchers. This results in the absence of samples from these districts. Second, the distribution of the questionnaires was carried out during the COVID-19 pandemic, causing the return rate of the questionnaires to be quite low. The distribution of questionnaires through WhatsApp social media could not reach all BUMDes in East Java. Some respondents refused to participate in the study by not giving any answers. The availability of contacts that can be reached via WhatsApp and Facebook for BUMDes in East Java is quite minimal. The contact data for BUMDes in East Java is obtained online from Google and Facebook. The author tried to contact clinicbumdesjatim.id via email but did not get an answer.

## Suggestions

The majority of BUMDes in East Java has implemented good governance. Of the six principles of BUMDes governance, only participatory BUMDes got an average score of very good governance implementation. Meanwhile, transparent, accountable, cooperative, emancipatory, and sustainable get an average score of good implementations. Based on this, it is hoped that the BUMDes management in East Java will pay attention to the other five principles in order to produce a higher level of implementation.

Governance has a positive effect on the performance of BUMDes in East Java. This shows that the higher the implementation of governance, the better the performance of a BUMDes. The positive influence of financial performance is also stated in research (Haque, 2016) which states that governance has a positive relationship to corporate profits. The research (Iqbal et al., 2019) states that corporate governance is found to have an effect on various measurements of company performance. In the research of Hasan et al., (2016) states that good corporate governance can improve the performance of an agency. This is in line with research (Ali, 2017) which concludes that governance mechanisms are significantly related to company performance indicators. For further researchers, they can examine other variables in addition to the factors that will affect the performance of BUMDes.

## Implication

The results of this study are expected to contribute to several parties. For policyholders, in this case, the local government, it is hoped that they can provide information about the implementation of governance and performance of BUMDes in East Java so that they are expected to provide a stimulus to improve the governance and performance of BUMDes. For BUMDes management, it is hoped that it can become a benchmark for the quality of the current BUMDes and can trigger compliance with better BUMDes governance and improve organizational performance which is assessed from a financial and non-financial perspective. For academics, this research is expected to be able to add and provide references in BUMDes in Indonesia.

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