



# **An Entrepreneurial Ecosystems Approach to Encouraging Local Economic Development through a Village-Owned Enterprises Policy (A Case Study of Indonesian Village-Owned Enterprises (BUMDes))**

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## **ABSTRACT**

**Local Economic Development (LED) can be used as a strategy in encouraging the acceleration of regional development. When combined with technological advancements, it presents its own challenges for the development of the local economy. LED focuses on local potential and existing resources, so it needs to identify the needs of local stakeholders and what they can do to ensure that their region reaches its potential in order to trigger the development process. The ability to identify and manage local potentials of the region requires entrepreneurial qualities and these can be gained through entrepreneurial ecosystems. One of the Indonesian government programs to encourage LED is BUMDes - a village-owned enterprise which is a collaboration between villagers and various parties to advance the local economy. This study aimed to find a mapping of the role of actors in the BUMDes Entrepreneurial Ecosystems (EE) to encouraging LED. The results showed that the actors involved in BUMDes EE have different roles in it. BUMDes management, as entrepreneurs, played a role in running the business optimally; Government was responsible for providing infrastructure, policy, and financial access; academicians supported knowledge transfer through research and community service programs; banking provided a link to funding and cash management training; the market had a role as the end customer and business customer; society provided support in shaping a culture that integrated entrepreneurship and was involved in BUMDes management. A constructive collaboration between all these roles in the entrepreneurial ecosystem enhanced the performance of BUMDes.**

**Keywords:** Entrepreneurial Ecosystems; Local Economic Development; Village-Owned Enterprises; BUMDes; Entrepreneurship.

## **INTRODUCTION**

In order to optimize Local Economic Development (LED) in this highly competitive era of globalization, the government's economic development policies [17], especially at the local government level, should be to maximize the potential in the region and adopt a global orientation in order to increase the competitive advantage [23, 33, 50].

It is important to understand the LED concept because it is argued that local economic development programs increase both the extent and quality of local economic development. Local economic development may be defined as an improvement in the local economy's

capacity to create wealth for local residents. Such increases occur when local resources, such as labor and services, are used more productively [5, 6]. LED has emerged globally as a dynamic 'regional-based' planning approach for local and regional economic development [20]. Rural-based LED can be a way of improving and leveling the economic welfare of the community so that it can become the foundation for the formation of a harmonious socio-economic conditions and community culture [45].

One of the Indonesian government's efforts to push LED is to develop entrepreneurship for rural communities through the development of village-owned enterprises (*Badan Usaha Milik Desa*, abbreviated as BUMDes). The establishment of BUMDes is stipulated in Law number 32 of 2004 regarding Local Government. BUMDes is defined as business entities whose capital is entirely or partly owned by the village, and with which the village participates directly. It originates from separating village assets in order to manage assets, services, and other businesses for the greatest welfare of the village community. The establishment of BUMDes aimed to explore and optimize the potential of village entrepreneurs based on Village Law number 6 of 2014. In the Village Law, there are four articles that define BUMDes as follows:

- Article 87 concerning the spirit which underlies the establishment and management of BUMDes
- Article 88 concerning the establishment of BUMDes
- Article 89 concerning the significance of setting up BUMDes
- Article 90 concerning the direction of BUMDes business development that is beneficial to the village community
- The Regulation of Minister of Village number 4 of 2015
- The Regulation of Minister of Village number 5 of 2015

The BUMDes policy is increasingly supported by Government Regulation number 47 of 2015, which states that the village has the authority to manage the resources and direction of its development. BUMDes invites every village to focus on managing a superior product from each village by using village funds from the government. In 2016, these funds reached IDR 46.9 trillion. The existence of BUMDes will be very helpful in improving the level of the village economy and the realization of the One Village One Product Program [24].

One of the considerations in the establishment of BUMDes is to channel the initiatives from the village community as it becomes the driving force of LED at the village level. Economic development in the village is based on the village needs, potential, and capacity, as well as capital participation from the village government in the form of village financing and wealth, with the overall goal of increasing the economic level of the village community. LED had a focus on the local potential and resources, so it is necessary to identify the needs of local stakeholders and what can be done to ensure that the region reaches its potential to trigger the development process [20].

The need for an environment involving various local stakeholders to assist the economic activity in encouraging LED is worthy to be discussed [27]. This understanding refers to the concept of entrepreneurial ecosystems, a topic that nowadays is often studied by researchers in various countries [37].

In relation to LED, one of the dominant approaches to entrepreneurial ecosystems is regional development literature [1, 27, 46] that focuses on the various elements of entrepreneurship development in a region [9, 18, 53]. The entrepreneurial ecosystem was a component of entrepreneurial system interactions, which encourage the creation of new companies in specific regional contexts [35, 48]. Therefore, profitable entrepreneurial ecosystems are very

important for innovators and entrepreneurs and even for industrial and national development [36]. Mack and Mayer [30] stated that the concept of entrepreneurial ecosystems was needed in order to foster the formation of new companies and support regional entrepreneurial activities.

The entrepreneurial ecosystem approach has a focus on creating aggregate values in certain regions by using regional development literature. Outputs and results can be in the form of productive entrepreneurship concepts [8], leading to the definition of an entrepreneurial ecosystem as a set of interdependent and coordinated actors and factors that allows the creation of productive entrepreneurship in a certain region [44]. The scope of entrepreneurial ecosystems covers local, regional, and national levels [1, 31]. In this study, the level of analysis was at the local or regional level.

To our knowledge, there have been no previous studies of the role of entrepreneurial ecosystem actors in encouraging LED, particularly in the case of a program of village-owned enterprises. This approach is currently popular in many Asian countries, including Indonesia which has the village-owned enterprises program *Badan Usaha Milik Desa (BUMDes)*.

By taking some of the best BUMDes cases in Indonesia, the purpose of our study was to extend the current understanding of the role of the actors involved in BUMDes entrepreneurial ecosystems in an effort to encourage LED. By understanding the role of the actors, the results of this study are expected to be useful for BUMDes practitioners in formulating the policies and strategies related to the implementation of BUMDes programs in Indonesia, as well as providing a roadmap for further research.

## LITERATURE REVIEW

*Entrepreneurial Ecosystems (EE)*. EE represents a set of interrelated and informally coordinated actors that interconnect, mediate, and manage entrepreneurial performance within the local entrepreneurial environment. It is intended to assist entrepreneurial success through all stages of the process, to aid the creation of new businesses, and to help the development of existing enterprises. All these processes are arranged to generate productive entrepreneurship and to improve the competitive advantage of a company, a region, or a nation [11, 26, 32, 39, 43]. Entrepreneurial ecosystems are adequate frameworks for studying the interdependence and relationships between various actors who interact in complex economic systems. These actors include individuals, organizations, entities, local, regional, and national institutions, and policymakers and stakeholders in a regional context [12-14, 54]. Because of the need to manage interactions and interdependence among stakeholders, companies play an important role by shaping the perceptions of existing and future actors [1]. The actors in question are [39]:

1. Policy: The government's role in removing barriers and in providing ideal preconditions for the development of entrepreneurship must be emphasized [26, 32, 49]. These preconditions are related to the reformation of the legal framework, bureaucracy, and regulations pertaining to the business environment [25].
2. Access to banking: Entrepreneurs see this factor as one of the three key aspects of the entrepreneurial ecosystem, the others being markets and human resources (WEF, 2013). Financial resources, whether public or private, should be made available, visible, and accessible to all segments and sectors of the ecosystem [43].
3. Culture: Culture refers to the strengthening of informal institutions and also contributes significantly to the evolution of the ecosystems [25-26, 47]. In most cases, successful entrepreneurs are those who have failed one or more times before succeeding [25-26].

4. Supporting services: This area is divided into three principal categories: infrastructure, non-governmental organizations, and supporting professions. Non-governmental organizations include accelerators, universities, hubs, and incubators. Supporting professions include services such as assistance in business legalization, corporate lawyers, accountants, consultants, suppliers, and funding agencies [25, 40].
5. Human capital: Companies require skilled workers. In the absence of human capital, entrepreneurship education can provide the necessary support to train people in the requisite skill sets [26].
6. Markets: A combination of two elements makes a considerable contribution to the capacity of new businesses in accessing the opportunities offered by the market. The first element is a large company that provides the necessary resources, space, and commercial opportunities in the form of a first contract (initial customer), while the other one is a network which represents a major source of information, resources, and access to domestic and international markets [55].

*Local Economic Development (LED)*. LED refers to a process by which local governments and community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and to stimulate economic activity in a well-defined economic zone. It is the process by which the public, business, and non-governmental sectors partner together to create better conditions for economic growth and employment generation, with the aim of improving the public quality of life [20]. Trousdale [51] assumed that LED was a participatory process, in which local people from all sectors work together to stimulate local commercial activities, resulting in a resilient and sustainable economy.

The term 'local' in the LED concept refers to the process of appreciating the endogenous potentials and optimally exploring the existing local capacities. While, the term 'economic' is directed towards the identification of investment opportunities which support entrepreneurial activities and facilitate the access to new markets. Finally, the term 'development' is concerned with the process of promoting the improvement of living and working conditions in the region, through the creation of new jobs, the retention of existing jobs, and the generation of income [20].

## METHODS

This study used a literature review and contextual techniques with regard to the development of BUMDes in Indonesia. The mapping of the role of the actors involved in BUMDes entrepreneurial ecosystems was done by using the five best BUMDes programs in 2016–2017, according to the Ministry of Village, Development of Disadvantaged Regions, and Transmigration (Kemendes PDT) of Indonesia. The BUMDes chosen were BUMDes Tirta Mandiri (Ponggok Village, Klaten, Central Java), BUMDes Karya Jaya Abadi (Kotawaringin Barat Regency, Central Kalimantan), BUMDes Tamangalle Bisa (West Sulawesi), BUMDes Desa Tamansari (Banyuwangi Regency, Central Java), and BUMDes Bondowoso (Bondowoso Regency, East Java). The results of the mapping and the roles of each actor in each BUMDes were examined and analyzed. A triangulation process was carried out by using data from previous studies, online news, and government documentation related to BUMDes, EE, and LED.

## RESULTS AND DISCUSSION

The entrepreneurial ecosystem (EE) is generally defined as an area in which culture, supportive policy and leadership, human capital, abundant finance, and various institutions and infrastructure cooperate in constructing new businesses [15, 25, 42,]. The characteristic of

every entrepreneurial ecosystem is a symbiotic relationship between different stakeholders. It is not just about trade, rather it is a solution to economic and social problems [54]. This study tried to examine the role of each stakeholder in the BUMDes EE (which had been assessed and recognized for its success in building the local economy). Furthermore, the role of each stakeholder in each of the five BUMDes was mapped for analysis. Based on the results of the mapping, it was found that there were actors who were involved and had roles in the EE.

1. BUMDes management, as entrepreneurs, played a role in running the business optimally.

BUMDes management ran the business by empowering the communities and prioritizing cooperative partnerships with villagers. The business activities were aimed at increasing the welfare and income of rural communities through economic independence and encouraging livelihood sustainability as well as community and social responsibility and village infrastructure development (insurance of education, health, the elderly, and improvement and construction of village infrastructure) [22]. The performance of BUMDes management was monitored internally and objectively by the Supervisory Board using standard administration tools. Supervision was also undertaken periodically, as arranged in the annual work program of the Supervisory Board [38].

The activities in BUMDes Management included system management, start-up building, digital platform and e-commerce use, funding for business development and legality requirements, BUMDes business units or legal entities, comparative studies and capacity building for administrators, local, national, and international online marketing, products/services development and upgrading, collaboration with funding institutions (banking and NBF, a Non-Bank Financial Institution), cooperation with government programs, human resources upgrading, and investment in rural communities [22].

BUMDes management not only empowered the communities as the managers of BUMDes, but also empowered the business actors to help encourage sales and broaden market access through product exhibitions and social media networks. This empowerment was also intended to increase the product and packaging quality in order to enter the national market. BUMDes management involved large companies or factories in the area as a market for products. The role of BUMDes in the supply chain was to mediate the business of the residents and the factories so that residents as business actors did not incur the large interest charges from distributors [24].

The development of BUMDes had a positive impact on the lives of local communities. A community that relied on certain sectors had the opportunity to develop new businesses. The success of BUMDes made the local economy much more prosperous (berdesa.com) because the investment of each Neighborhood Association (*Rukun Tetangga*, abbreviated as RT) and Residents Association (*Rukun Warga*, abbreviated as RW) in the village meant that revenue sharing funds could be used to finance health, education, and social insurance programs. The economic impact from the success of BUMDes was seen in the form of increased locally-generated revenue at rural level, increased tax revenues for the government, increased income from the surrounding community (through the opportunity to gain more income than the regional minimum wage), the opportunity to build businesses in tourist areas, passive income for the residents as investors, improved facilities and infrastructure (which supported the village economy), as well as the distribution of goods/services [22, 38]

The presence of BUMDes also encouraged the surrounding community to be more active and creative in participating in BUMDes business and community activities. The community's creativity was also manifested in the job creation, encouraging the development of economic activities and business opportunities for the village community. The availability of new jobs for residents helped to improve their standard of living and also helped finance the construction of facilities and infrastructure in the BUMDes business area. Moreover, the new jobs also facilitated partnerships with available businesses in the area (prioritizing partnerships with villagers and community empowerment) [22].

Regarding the entrepreneurial activities of BUMDes management in managing the local economy, many previous studies have shown that entrepreneurship was a catalyst for economic growth [2, 10] the creation of new companies, job opportunities, innovation, and productivity [29]. In particular, the role of entrepreneurship was to increase employment and GDP; this was emphasized in the research conducted by Audretsch and Belitski [2] and Minniti [34].

2. The Government was responsible for providing infrastructure, policy, and financial access.

As village-owned enterprises, the BUMDes development policy acted to develop the entrepreneurship of rural communities and demonstrated the government's recognition of the importance of entrepreneurship for sustainable economic growth and community welfare. The emergence of the BUMDes development policy was consistent with the research from Auerswald [4], who showed that the emergence of many non-organizational government grants and increased efforts by governments around the world to find strategies that could encourage entrepreneurial initiatives and support, by launching policies and programs that support entrepreneurship.

Therefore, the Government had an important role in supporting the success of BUMDes in developing the local economy. A BUMDes (Village-Owned Enterprises) that had a variety of superior products often became a place for comparative studies in the field of public services.

In terms of community empowerment, the government has a role in socializing innovations in the community [7, 16, 19]. The village government through the Village Community Empowerment Agency (*Badan Pemberdayaan Masyarakat Desa*, abbreviated as BPMD) socialized, motivated, and facilitated villages to form BUMDes and promoted BUMDes cooperation in government management programs [22, 41]. The government through regional regulation also played a role in conducting village government capital that was budgeted by the Regional Budget and Expenditure at the rural level. This was done, together with the BPMD, by managing village meetings and establishing BUMDes, drafting statutes and bylaws, selecting managers, compiling SOPs and determining business units, monitoring and evaluating BUMDes management performance, as well as injecting capital every year [41].

The village government also had a role as a mediator in providing training and motivation for the BUMDes Board. In the management, the village government had an active role in implementing the village development program and in providing information to each BUMDes manager based on their duties and responsibilities. The village government should manage BUMDes according to the SOP [52]. In addition to that, the village government had a role in teaching people to start selling the product

through social media (online); the village government should assist the promotion through social media like YouTube, Instagram, and Facebook.

However, for most BUMDes, the Community Empowerment Agency (*Badan Pemberdayaan Masyarakat*, abbreviated as Bapermas), which was the representative of the Government that monitored and evaluated the program, was not able to function optimally. This happened because Bapermas only contributed at the beginning of the establishment of BUMDes by assisting the financial needs or the administration needs and in facilitating the Provincial Government programs.

3. Academicians supported the transfer of knowledge through research and community service programs

Academicians had a role in the activities related to the transfer of knowledge through research and community service. Some BUMDes cooperated with the Research Institutions and Community Service of Universitas Gadjah Mada (*Lembaga Penelitian Dan Pengabdian Kepada Masyarakat Universitas Gadjah Mada*, abbreviated as LPPM UGM) in providing understanding of passive income to the community, in order to encourage community investment, and through capital participation by the community and the Village Government [22].

Nevertheless, the role of the academicians was still very limited in most BUMDes. Academicians can provide development support related to information technology and innovation that can accelerate the progress of BUMDes, through the process of knowledge transfer.

According to the entrepreneurial ecosystems approach, business performance does not only depend on the company's internal behavior (e.g. workforce skills, level of investment in innovation strategies, marketing and internationalization, etc.) but also on the quantity and quality of interactions with external stakeholders (i.e. companies, investors, public sector organizations, universities, research institutions, etc.) [32]. Moreover, universities often become the center of entrepreneurial ecosystems and with local knowledge, they provide a talent of labor and invention that can be commercialized through entrepreneurship [3]. The university functions as a producer and transmitter of knowledge and provides leadership for the creation of entrepreneurial thought, actions, institutions, and 'entrepreneurial capital' [21]. University performance is a relevant factor in shaping a region's capacity for innovation and its competitiveness [21]. Thus, universities and educational institutions should contribute to the success of BUMDes in Indonesia, especially through knowledge transfer, in order to accelerate the development of BUMDes.

4. Banking provided a link to get funding and cash management training.

Banking had a role in funding the development of joint ventures with funding institutions (banks and non-bank financial institutions) and in partnering with banks through the implementation of e-wallet, payroll, pick up service, and cash management [22].

Similar to the issue in the academic sector, the role of banking was still very limited in most BUMDes, especially in terms of capital [41]. According to Stam [43] financial resources, whether public or private, should be available, visible, and accessible to all segments and sectors of the ecosystems.

5. The market had a role as an end customer and business customer. BUMDes markets were mostly end consumers and helped in the promotion through word of mouth. The market for most BUMDes was business consumers, consisting of individual entrepreneurs, factories, and large companies.

Based on the opinion of Spigel Ben [42] BUMDes, as a village entrepreneurship program sponsored by the government, requires a business network that strengthens and creates new successful businesses, by building networks with other entrepreneurs as normal business activities. Therefore, the market becomes a necessity that can help the success of BUMDes businesses. One way this can be realized is by building a business network.

6. Society provided support by shaping a culture that integrates entrepreneurship and was involved in BUMDes management. The surrounding communities supported BUMDes by being involved in the program management and by being determined to develop the economic independence of the village. The development of BUMDes had a positive impact on the lives of local people. Communities that had previously only relied on certain sectors had the opportunity to develop new businesses. BUMDes also motivated the local community to be more active and creative in participating in BUMDes business and community activities. The creativity of the community can create a job, that encourages the development of economic activities in the village community as well as improving community business opportunities [22].

Community participation can maximize various potentials in the village and ensure optimal management of resources and the development of village-owned potential in an effort to improve the economy of the village [24]. By being involved in BUMDes management, the quality of the economy and public education increased. There were many people who transferred professions and took part as the manager of BUMDes or the business.

Previous research regarding entrepreneurial ecosystems highlighted the importance of entrepreneurial culture in the ecosystems [25-26, 28, 35] that form and grow in the community environment. In general, the high participation and enthusiasm of the community towards the existence of BUMDes showed that the culture of entrepreneurship supported the success of BUMDes.

### **CONCLUSION**

The entrepreneurship strategy of the Indonesian BUMDes consisted of BUMDes managers, village government, banking, academics, markets, and the community. Each actor had its own role which strongly affected the success of BUMDes. Close collaboration between all the actors in the entrepreneurial ecosystem is needed to improve the BUMDes performance. By looking at the benefits of BUMDes, the government should continue to improve the BUMDes policy by providing more facilities, especially in terms of capital and market access. The government also needs to improve the governance and accountability of the village government. Academicians and banking were the least influential actors in supporting the success of BUMDes. However, it is important to note that BUMDes managers certainly need knowledge transfer in developing competitive products and services, and this can mainly be obtained from the academic sector. This can be used as the material for future research to increase the role of the researchers in advancing the economy of the rural community.



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