

## **Village Owned Enterprises (Bumdes) and Venture Capital Financing Strategy**

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### **Abstract**

Currently, the government is developing the local economy through the development of community businesses such as MSMEs, traders, and others. Local economic development depends on the community's capacity to explore and manage regional potential, especially the potential of villages. The purpose of this research is to find out how bumdes as a village business institution can take advantage of opportunities as well as to help SMEs with financing difficulties. This study provides some theoretical insights into the use of a strategic management approach in the development of "bumdes". The sample of this research is the people of Maguwoharjo Village and the village government. Data were collected using in-depth interviews and focus group discussions. The analysis technique using Triangulation. The result of this research is that "Bumdes" as a village-based enterprise determines alternative strategies to develop Bumdes, namely intensive strategies. The form of implementing Intensive strategies is product development, while the form is in the form of financial services such as the Bumdes Savings and Loans Business Unit. The Bumdes Savings and Credit Business Unit is a micro-finance institution (LKM).

**Keywords:** *Intensive strategies, Moneylenders, Product Development, Market Penetration, Microfinance Institutions*



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### **INTRODUCTION**

Currently, the government is developing the local economy through the development of community businesses such as MSMEs, traders, and others. Local economic development depends on the community's capacity to explore and manage regional potential, especially the potential of villages. In developing their business, MSMEs face barriers, including a lack of business capital. MSMEs are traditionally faced with a number of constraints, including inadequate and timely funding (Venkatesh, Kumari, Thenmozhi, & Balasubramanie, 2016). In addition, limited access to sources of economic progress comprises access to capital, access to production technologies, access to business management, human resource knowledge and expertise, access to market information, and efforts to maintain production (Suriadi, Mahalli, Achmad, & Muda 2015). MSMEs can access financial institutions like banks, but it takes a long time because they need to be audited. At the same time, customers, vendors, distribution partners, and lenders need genuine MSME information and evaluation to establish business relationships (Venkatesh et al., 2016). Finally, the choice is to use traditional debt, like borrowing from high-interest money lenders.

On the other hand, many MSME entrepreneurs have bright ideas but lack capital for investment (Venkatesh et al., 2016). If this is permissible, local economic growth will suffer. Community or MSME entrepreneurs require a business entity that can assist in obtaining low-interest business capital and administrative requirements, which are not that complicated.

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The government has a strong commitment to enhancing the economy in rural communities, so a local village economic institution is formed by looking at the potential of local village wisdom, one of which is the formation of Village-Owned Enterprises (BUMDes), whose legal basis is Law Number 6 of 2014 concerning Villages (Nuak, Djami, and Kase, 2019). Even so, the village government has a strong commitment to establishing a bumdes as an economic institution. Therefore, the purpose of establishing a bumdes is to stimulate a strong village economy. BUMDes is a tool for local economic empowerment with various types of potential that exist in the village so that it becomes the backbone of the economy of the village government to improve the well-being of its citizens (Ramadana, 2013).

To manage bumdes effectively, bumdes managers use a strategic approach. In the process of formulating the strategy, one of the measures taken is an analysis of the external environment. The results of the analysis of the external environment are MSMEs that have business capital constraints and the development of traditional debt businesses that provide high interest. The results of the analysis become opportunities as well as obstacles for bumdes. Therefore, a comprehensive study is needed, which strategies can be used to leverage existing opportunities by minimizing obstacles.

Based on previous research studies, it is known that BUMDes has played a role in the implementation of the creative economy in the context of empowering rural communities. In addition, BUMDes has strengthened village income so that villages are able to independently finance village activities. As a result, that they can achieve a higher standard of living levels while preserving the customs and culture of the community (Nyoman and Romi, 2017). On the other hand, there are problems in Bumdes savings and loans, such as poor communication and operations, no binding rules, and recording and bookkeeping that are not in accordance with borrower deposits (Nuek et al., 2019). The results of other studies suggest using the Integrated and Intensive Partnership strategy to develop Village Credit Institutions (LPD) in Denpasar Bali (Wiagustini, 2015). Based on previous research studies, it is known that bumdes can strengthen people's income. However, the other result is that the management of bumdes savings and loans is not successful. This demonstrates the existence of gap research so that it becomes the basis of this research to find out which strategies can be used to increase people's income, and these strategies can solve the problems that exist in the community. In this study, it will be known whether the Village Credit Institutions (LPD) strategy in Denpasar Bali will be the same or different from the strategy that will be carried out by Bumdes in Maguwaharjo Village, Sleman Regency, DIY so that the strategy generated in the strategy formulation process will be a novelty in this study.

The purpose of this research is how bumdes as a village business institution can take advantage of opportunities as well as help MSMEs that are experiencing funding difficulties. This study provides several theoretical contributions to understanding the use of this approach strategic management in developing bumdes. First, this study develops a theoretical framework related to choosing the right strategy to overcome problems that occur in the field. Second, reviewing appropriate alternative strategies so that they can generate profits. This result also contributes to the bumdes in order to formulate a strategy for developing the bumdes. Third, this research expands the existing understanding of the strategic management process for bumdes.

## **LITERATURE REVIEW**

### **Village Owned Enterprises (Bumdes)**

Village enterprises are business units in which all or most of the capital is held by the village by direct participation in villager assets separate from their management. assets, services, and other businesses for the welfare of the villagers [Kamaroesid, 2016]. Villages can establish BUMDes, BUMDes

can be managed in a spirit of brotherhood and cooperation, BUMDes can run businesses in the economic sector and public services with the provisions of laws and regulations (Law Number 6 of 2014).

### **Strategy Management**

Strategic management refers to a process or set of basic and comprehensive decision-making activities designed by organizational leaders and their implementation procedures for all its members to achieve organizational goals (Mainardes, Ferreira, and Raposo, 2014; Athapaththu, 2016). The strategic management process consists of several stages, including environmental observation, strategy formulation, strategy implementation, and strategy evaluation (David, 2011). The strategic management process can be explained as follows: The environmental observation phase is carried out to identify various environmental events, developments, and changes that affect the condition of the organization. The strategy formulation stage is the decision selection stage in the selection of alternative strategies that will be used by the organization. The strategy chosen is the result of observations of the organizational environment. The next stage is the strategy implementation stage, namely the strategy implementation stage that has been formulated or planned.

The strategy formulation process will produce an alternative strategy. The strategy represents the actions that will be taken to achieve long-term goals (David, 2011). The success of a strategy is usually not a single decision but an interrelated network of strategies, substrates, sub-strategies, policies, and tactics (Steiner and Milner, 1997). The success of the organization will depend on how well the organization formulates its policies/strategies in its developing environment, how well the organization defines its policies/strategies in writing, and how well the organization ensures its implementation (Steiner and Milner, 1997).

### **The Ansoff matrix**

The Ansoff matrix considers a business' product portfolio from a different perspective with models such as product life cycle analysis and the Boston matrix. Instead of focusing on profitability or sales, the Ansoff matrix outlines the options open to businesses if they want to grow, with a view to increasing profitability and revenue (Ansoff, 1988). These options show how to manage product suite development by viewing options by 'product' and 'market'. The matrix can help businesses define their strategy.

### **Intensive strategies**

Market penetration, market development, and product development are often called intensive strategies because they require intensive efforts if you want to improve the competitiveness of the company with existing products (David, 2011). The explanation is as follows:

#### *Market Penetration*

A market penetration strategy is intended to increase the market share of existing products or services on the current market through increased marketing efforts. Market penetration includes increasing sales, increasing advertising expenditures, offering promotional items, or increasing advertising efforts.

#### *Market Development*

Market development involves the introduction of a current product or service into a new geographical zone.

### *Product Development*

Product development is a strategy designed to increase sales by enhancing or modifying existing products or services. Product development usually involves major research and development expenses.

### **RESEARCH METHOD**

The research location is Maguwoharjo Village, Sleman Regency, DIY. The location selection was based on the consideration of the Bumdes of Maguwoharjo Village, Sleman Regency, DIY. This study used qualitative research methods. The research intends to understand the phenomenon of what is experienced by the research subject. The sample of this research is the people of Maguwoharjo Village and the village government. The data used in this study are qualitative data obtained from primary sources and secondary data. Primary data were obtained by means of observation, FGD, and in-depth interviews. While secondary data was obtained from the village office, sub-district office, and other relevant agencies. The data analysis technique used in this study was carried out qualitatively, namely by analyzing data and information collected in-depth and thoroughly. According to this qualitative analysis, the relationship between existing phenomena is sought based on the data that has been collected and based on the theoretical basis that forms the basis of the analysis. Data analysis in this study was carried out through the following steps Nasution (2002): Data reduction, Data Display, and Drawing Conclusions from Verification.

### **FINDINGS AND DISCUSSION**

Bumdes Maguwo Village, Klaten Regency, DIY has carried out the strategy formulation process in 2 stages. The first stage is like determining the vision. Mission and objectives have been done. Furthermore, this article describes the second strategy formulation process, namely determining alternative strategies in the selection of alternative strategies using the Ansoff matrix because the Ansoff Matrix is a strategic tool used by businesses to achieve growth. The Ansoff matrix is one of the tools used to conceptualize the options available to an institution such as the bumdes. The use of the Ansoff matrix can assist institutions in reviewing appropriate strategic options.

In using the Ansoff matrix, consider whether the marketing strategy is targeted at existing customers or new customers and if existing products should be used or alternatively, new products should be developed. Bumdes Maguwoharjo Village is a newly established business entity, so that it does not yet have products offered to the community (potential market). Village Bumdes Maguwoharjo using the matrix below, shows that Bumdes that want to grow have four options (strategies). A bumdes can use a number of these options depending on the product and product range to be offered.

Table 1. Ansoff Growth Matrix in the Bumdes Sector

	Existing products	New products
Existing markets	Market Penetration	Product Development
New markets	Market Development	Diversification

Source: Adapted from Ansoff (1988), Corporate Strategy.

Based on the Ansoff matrix, the chosen strategy is product development. The alternative strategy chosen is also in accordance with the existing opportunities and obstacles, namely MSMEs that have business capital constraints and the development of traditional debt businesses that provide high interest.

MSMEs that have business capital constraints are an opportunity for bumdes so that bumdes can offer products that can overcome this problem. The development of traditional debt businesses that provide high interest becomes an obstacle for the Bumdes to direct people to switch to the products offered. Even though it is an obstacle, it can be an opportunity because it will be a challenge for the BUMDes in providing products and services so that they become satisfied and can improve the community's economy.

Based on the results of the Ansoff matrix, it is determined that the alternative strategy is a product development strategy, namely developing new products for existing markets. The strategy was chosen because there are many opportunities that can be utilized by BUMDes and can fulfill them by creating new businesses (products). One of them is developing a financing business for MSMEs or other types of community businesses. The financing business is in the form of a savings and loan business or known as the Bumdes savings and loan business unit. The Bumdes savings and loan business unit is a Microfinance Institution (LKM) formed by the village through deliberation to manage the Village Business Fund (DUD) and funds originating from the savings and loan activities of the Maguwoharjo Village community. The savings and loans business is one type of business that is able to create multiple effects for the rural economy. This is because savings and loan businesses are able to support the capital system of village economic actors and support all types of community businesses. In addition, the establishment of the Bumdes savings and loan business unit to prevent villagers from borrowing money from moneylenders.

The Bumdes of Maguwo Village opened the Bumdes savings and loan business unit to overcome the existing capital problems in the community. The next step is for the manager to carry out the strategy formulation process to determine what kind of savings and loan Bumdes business unit is appropriate to develop. The first step in the strategy formulation process is to analyze the internal and external environment and determine the vision, mission, and goals of the Bumdes savings and loan business unit. The vision, mission, and goals of the Bumdes savings and loan business unit are an elaboration and one of the steps to achieve the vision, mission, and goals of the Bumdes in Maguwoharjo Village. If the alternative strategy has been determined, it is also necessary to conduct a feasibility study and a business plan before the business unit operates (before the strategy is implemented).

The Bumdes savings and loan business unit has been carried out in other areas with different growth and development. Many Bumdes savings and loan business units have gone bankrupt or bear losses due to various factors. The Bumdes savings and loan business unit in Maguwo Village can learn from other Bumdes so as not to experience the same problem. The factors that cause loss are poor management, manual bookkeeping, inadequate human resource competence, no SOP on the distribution of interest percentages (not based on data and analysis), or customers who do not pay loan money on time and have not found innovations, such as supporting technology to facilitate the work of Savings and Loans Village Owned Enterprises (BUMDes).

The Bumdes savings and loan business unit in Maguwo Village can take experience from the Village Owned Enterprise Savings and Loans (Bumdes) Sumber Mulya Kab. Lamandau to overcome technical problems in helping work. Bumdes Sumber Mulya created a website-based information system to help present more organized data management and more efficient report management (Sahay, Sylviana, and Trianto, 2019).

The steps taken by the Bumdes of Maguwo Village to prepare the Bumdes savings and loan business unit include:

1. Make a plan for the Savings and Loan Business Unit.
2. Conduct savings and loan SOPs, including distribution of interest percentages, analysis of prospective customers, etc.

3. Develop savings and lending products that will be publicly available.
4. Development of an information system for management and financial services (development of an accounting information system)
5. Utilization of digital marketing.
6. Prepare human resources that have capacity according to their area of expertise.
7. Management conducts socialization activities with the community and customers to avoid problems such as loan repayment delays, and business capital is used for other activities (such as daily needs and tuition), etc.

The steps for business management of the Bumdes savings and loan unit in Maguwoharjo Village to succeed are:

1. Service quality. The savings and loan business unit is a type of service business that is closely related to trust, so that it must be able to provide quality services. Quality of services such as performance, technology and speed, education, readiness to serve, empathy and concern, and discipline.
2. Capital sources must also be considered in order to ensure business continuity. Sources of capital can be based on independence, involve external capital, based on member development/expansion.
3. Use of technology-based marketing strategies (digital marketing).
4. Develop superior human resources.
5. Implementation of good governance in the management of the savings and credit business units.
6. Monitor and evaluate while operating a savings and lending business.

One of the objectives of the establishment of the Bumdes Savings and Loans Business Unit in Maguwo Village is to help the community's business capital, and management must have the right mechanism both when analyzing prospective customers and monitoring the use of funds. This means that the borrowed funds are actually used for business or can be said to be right on target. Accuracy in the use of loans must be considered because it will affect the smooth and non-fluent returns of loan money (Ibrahim and Kadarisman, 2019).

The bumdes experience that can be imitated and learning for the bumdes of Maguwoharjo village is BUMDes Kemenuh, District Sukawati Gianyar Bali. BUMDes Kemenuh has a savings and loan business by providing business capital to take advantage of opportunities so that people's incomes increase. Another strategy is to provide loan interest which is considered quite small and very helpful and provides relief to borrowing communities by Bumdes Satu Hati, Naimana Village, Central Malaka District, Malacca Regency. The savings and loan business unit of Maguwoharjo Village can provide loan interest that is lower than the interest that villagers get from village moneylenders or conventional banks.

Based on the results of the study, the Bumdes of Maguwoharjo Village, in opening a savings and loan unit business, went through a strategy formulation process. This is because the implementation of strategies such as strategic planning, strategic formulation, strategic capabilities, marketing strategies, and generic strategies have an influence on the development of SMEs (Hamdani and Susilawati, 2018). The savings and loan unit business is an application of the Bumdes product development strategy. The product development strategy was chosen because it can improve business performance (Koks and Kilika, 2016). The product development strategy will later help the business to improve the competitive status of the

bumdes (savings and loan business unit) and determine business performance (Wheelen and Hunger, 2012). Therefore, growth is a must for savings and loan business units to survive in a growing industry (bumdes). Even so, the savings and loan business unit needs to be in a continuous process of change and development to make progress so that it can grow rapidly. Choosing a product development strategy and establishing a savings and loan business unit for the bumdes Maguwoharjo is a very important process for the bumdes to decide to grow and choose the right growth strategy (Durmaz and Ilhan, 2015).

The product development strategy allows Bumdes to grow (experience growth) by developing new products for existing markets. Product development strategy is a form of intensive growth strategy (Timothy, Parpairis, MacDonald, and Tosun, 2005). The savings and loan business unit of Bumdes in Maguwoharjo Village is right to use the incentive growth strategy because it is the right strategy for businesses that have not been able to take advantage of opportunities in the market with available products. (Erkoç, 2006). This is because the savings and loan business unit of Bumdes in Maguwoharjo Village has just been established and has just designed the mechanism of the savings and loan business unit and is looking for potential markets for its products.

In implementing the strategy, the management of the savings and loan business unit can implement good governance. Good governance emphasizes transparent, participatory, and accountable business operations. The main principles as the embodiment of good governance are participation, the rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness, accountability, and strategic vision (Cheema and Rondinelli, 2007).

## **CONCLUSION**

Based on the analysis of the external environment, it is known that the problem is experiencing difficulties in working capital and the spread of loan sharks to meet the community's need for business capital. As a village enterprise, Bumdes monitored the results of the analysis by determining alternative strategies, i.e., intensive strategies. The form of implementing intensive strategies is product development, whereas the form is in the form of financial services such as the Bumdes Savings and Credit Business Unit. The Bumdes savings and loan business unit is a Microfinance Institution (LKM). The Bumdes of Maguwoharjo Village, in the setting up and further development, uses a process of strategy formulation (strategic management approach) and professional management.

## **Suggestions for Bumdes Maguwoharjo Village**

The Maguwoharjo Village Bumdes have developed the Savings and Loan business unit and compiled a plan and SOPs. for the management of the savings and credit business unit, it is necessary to be able to work well to succeed to support the success of the Savings and Credit business unit, in addition to being supported by a good mechanism, it must also recruit people with the required capabilities. The management of the Savings and Credit Business Unit ensures monitoring and evaluation so that working capital can be used properly on the target. The challenge for savings and credit units is not to suffer losses so that they can develop businesses in other industries.

## **Limitations**

Some of the limitations of the research described here can be presented as a reference for future researchers in order to conduct better research. The results of this study indicate that, in general, the program carried out by the bumdes in Maguwoharjo village is the same as the bumdes in other villages. However, each BUMDes has different management features due to different internal and external

environments, so the results of this study cannot be applied conclusively to BUMDes in other fields. Second, Focus Group Discussion (FGD) and in-depth interviews are instruments for obtaining large-scale data.

### **Further Research**

In order to improve the quality of research contributions, further research may use research samples from several other savings and loan units so that they can find out best practices from the management of other savings and loan business units. In addition, further research can use the theory of entrepreneurship to manage Bumdes Organization so that it can become a social organization simultaneously can provide benefits. To further enrich the findings, other research can analyze opportunities that can be leveraged by the community to grow new entrepreneurs and businesses. With numerous studies on the development of savings and credit enterprises, it will add to the theory of strategic management for village enterprises because currently, researchers are studying many strategic management approaches in the pure enterprise. Further research may examine the appropriate model for managing the Savings and Lending Business Unit and may be used by Bumdes generally.

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