

Human Resource Competency, Economic Potential, and Village-Based Enterprises' Productivity: The Mediating Role of Governance

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Abstract

This study aims to investigate the relationship between human resource competency, economic potential, and productivity of village-based enterprises, as well as understand the role of governance in mediating this relationship. This study was conducted in several village-based enterprises in Bali, Indonesia and the data were collected using questionnaires. Furthermore, the collected data were analyzed quantitatively using partial least analysis to confirm the relationship between variables. The findings indicate that human resource competency has an impact on governance, but it failed to explain the productivity of village-based enterprises. In addition, economic potential can have an impact on the governance and productivity of village-based enterprises in Bali, Indonesia. This study also showed a robust link between governance and productivity. Lastly, based on the statistical analysis, it was found that governance can mediate the relationship between human resource competency, economic potential, and productivity of village-based enterprises.

Keywords: village-based enterprises, human resource competency, productivity, economic potential, governance, Indonesia

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There is an increasing interest in village-based enterprises among scholars and policy researchers in the recent decade due to their role in raising village-potential. Some recent scholars also mentioned that village-based enterprises can advance village economy and community welfare (Iqbal & Fridayani, 2020; Purba et al., 2019). In addition, a prior study mentioned that the existence of village-based enterprises can reduce the income inequality between the poor and rich in both cities and villages (Putra, 2022). In a country which consists of numerous villages, such as Indonesia, village-based enterprises play a fundamental role in supporting the national economy by maximizing village potential (Utami & Nugroho, 2019). Therefore, escalating the productivity of village-based enterprises can enhance community welfare.

In the context of Indonesia, the government business and enterprises are divided into three based on its scale: BUMN (*Badan Usaha Milik Negara*)—business entity for national scale, BUMD (*Badan Usaha Milik Daerah*)—business entity for regional scale, and BUMDes (*Badan Usaha Milik Desa*)—business entity for village scale, and this study uses the term village-based enterprises to represent BUMDes. However, the classical problem is government businesses and enterprises have shown less productivity compared to private business (Pramono et al., 2021). Indeed, a preliminary study by Afroh et al. (2022) noted that the main cause of paucity of village-based enterprises is the failure to manage the business in a professional manner. Another study mentioned that the obstacles in managing village-based enterprises are caused by insufficient knowledge of risk management (Jurnali & Siti-Nabiha, 2015). The economic paper also mentioned that business productivity is often linked to human resources (Ogunyomi & Bruning, 2016).

Human resources have the most important potential in village economic development (Wahyudi et al., 2020; Sauw & Djami, 2021). Various rural problems start from the condition of the community, so it has implications for the potential of rural natural resources, economic development, and the welfare of the community (Antlov et al., 2016). Therefore, it is important to prioritize the quality improvement of rural human resources. Community development can be done through mentoring, counseling, empowerment, and education based on application and implementation (Hidayat & Syahid, 2019; Agustina, Winarno, Partikto, et al. 2020). A prior study revealed that the village's potential development can be promoted by human resources and local empowerment (Umanailo et al., 2019).

In addition to human resources, the economic potential of the village is a variable that can also affect the productivity of village-based enterprises. A study by

Yasa and Purbadharmaja (2019) revealed that economic potential has a positive impact on the productivity of village-based productivity. The underpinning rationale is that encouragement of village potential is the raw material for improving the rural economy (Somwanshi et al., 2016). In this matter, the potential must be explored and optimized by rural communities, in areas such as finance, trade, agriculture, fisheries, and forestry. After recognizing the village potential, human resources are needed to manage the existing potential to support sustainable village development, which in turn can affect community welfare (Kunjuraman & Hussin, 2017).

To increase the productivity of village-based tourism, the role of good governance needs to be considered. Hermanto et al. (2021) mentioned that good governance is generally defined as a structure and process to direct and control the company in reaching goals. The application of good governance is needed to present the accountability reports that are made (Azhar, 2020). If governance within an organization is good, then accountability reports can help to avoid fraud (Solomon, 2020; Dasuki & Lestari, 2019). The basic principles of good corporate governance, if implemented properly, will be able to prevent fraud, because the principles of good corporate governance concern transparency, non-discrimination, clear responsibilities, and community control (Tricker & Tricker, 2015).

The contribution of this study is threefold. First, it provides different perspectives on public opinion related to the form of village-based enterprises in Indonesia and the role of human resource competency. This paper also raises public opinion about governance in Indonesia, primarily linked with village-based enterprises. Second, this study also adds insight to the literature on developing village-based enterprises by involving variables of human resource competency, economic potential, and governance practice, which are missing in previous studies. The majority of studies have linked the relationship between village-based enterprises and community welfare (e.g., Safrida et al., 2022; Agustina, Winarno, & Narmaditya, 2021; Alfirdausi & Riyanto, 2019). Lastly, this study will assist policymakers and potential investors in managing village-based enterprises by considering public opinion.

Literature Review

Village-based enterprises are forecasted to raise the village economy by taking opportunities from the resources that exist around the local village. This is enacted in the agenda of the Indonesian government to build Indonesia from the periphery by strengthening regions and villages within the framework of a unitary state (Alti et al.,

2022). As a legal community unit, a village has the authority to regulate and manage local potential in the continuity of the village economy. One of the tasks of the village is to increase community welfare, which in this case is through the realization of an independent village (Rafael et al., 2018). Village-owned enterprises are business entities owned by the village government through direct participation originating from local economic potential (Putra & Erlangga, 2022).

The development of village-based enterprises has two main points, which are economic potential-based development and community participation-based development (Widiyono, 2022; Susanto et al., 2021). In its development, there is a need for support from human resource competence as an actor in this village-based enterprises. Human resource competence is a characteristic skill a person possesses in the form of understanding and education so that the employee can do the job professionally (Sabuhari et al., 2020). The competence of human resources is expected to help realize economic and organizational goals. Human resource competency is essential for village-based enterprises to effectively manage their workforce and maximize the potential of their human capital (Paais & Pattiruhu, 2020). Some previous research (e.g., Agustina, Winarno, & Narmaditya, 2021; Hermanto et al., 2021) found a positive influence of human resource competency on the performance of village-based enterprises and governance. Thus, the following hypotheses are suggested:

H1: Human resource competency has a significant effect on village-based enterprises productivity.

H2: Human resource competency has a significant effect on governance.

In addition to human resources, economic potential can be a predictor of village-based enterprises' productivity. Productivity plays an important role in increasing income, so the orientation of thoughts and efforts is aimed at the sustainability of business activities (Tambunan, 2019). The level of village-based enterprises' productivity is an indicator of how efficient the organization or business is in combining their economic resources. A study by Ekasari and Noegroho (2020) found that productivity is influenced by good governance. In addition, Hermanto et al. (2021) noted that governance is generally defined as a structure and process to direct and control the company to accomplish its goals effectively. The purpose of establishing village-based enterprises is to create an even distribution of business fields while increasing people's income (Ridlwan, 2014).

Some literature (e.g., Ikhwanayah et al., 2020; Kholmi et al., 2020) documented that the principles in managing village-based enterprises cover some matters, including (1) cooperative—the participation of all components in village-based enterprises' management and being able to work together well (2) participatory—all components involved in village-based enterprises' management are required to provide support and contribution (3) emancipatory—all components participating in the management of village-based enterprises are treated equally without distinction of class, ethnicity, and religion; (4) transparent—all activities carried out in the management of village-based enterprises and having an influence on the public interest must be open and all levels of society aware of all these activities; (5) accountable—all technical and administrative activities must be accounted for; and (6) sustainability—the community develops and preserves business activities in village-based enterprises.

Economic potential is a consideration in developing village-based enterprises. A prior study by Zulkarnaen (2016) noted that empowering and developing the community's economy is very effective in improving the welfare of rural communities, especially by bringing out community-based economic potential. Village economic potential can vary, in terms of, for example, tourism potential, yards, livestock, plantations, markets, and natural resources. Thus, optimizing the utilization of economic potential is beneficial to increase community income and the productivity of village-based enterprises. Therefore, the following hypotheses are presented below.

H3: Economic potential has a significant effect on village-based enterprises' productivity.

H4: Economic potential has a significant effect on governance.

The Mediating Role of Governance

Effective implementation of the fundamental principles of good corporate governance, including transparency, non-discrimination, clear delineation of responsibilities, and community oversight, can result in improved organizational governance and fraud prevention through the proper presentation of accountability reports (Solomon, 2020; Dasuki & Lestari, 2019). Preliminary research showed that poor actions in the implementation of organizational governance allow fraud to occur, which will be difficult for related parties to detect, so the implementation of good corporate governance can be a tool to ensure that leaders or management activities are in accordance with existing regulations (Cuomo et al., 2016).

Good governance, such as community participation, can be implemented for

village-based enterprises in decision-making, either directly or through legitimate representative institutions that represent their interests (Henry et al., 2020). The existence of laws for village-based enterprises is beneficial in providing the basis of open information that can enhance productivity (Adhinata et al., 2020). In addition, all the business information can be accessed by interested parties, and the information available must be adequate so that it can be understood and monitored. For this reason, there is a concern for stakeholders where institutions and all government processes must try to serve information to all interested parties (Purba et al., 2018). Therefore, the following hypotheses are suggested.

H5: Governance has a significant effect on village-based enterprises' productivity.

H6: Governance can mediate the relationship between human resource competency and village-based enterprises' productivity.

H7: Governance can mediate the relationship between economic potential and village-based enterprises' productivity.

Methodology

Study Design

This study adopted a quantitative approach with partial least square structural equation modelling (PLS-SEM) to examine the connection between human resource competency, economic potential, and village-based enterprises, as well as to understand the mediating role of governance (see Figure 1). This study was conducted in several regencies in Bali, Indonesia. The basic rationale is that Bali is currently committed to developing village-based enterprises or BUMDes, and Bali is well-known as an international tourism destination in Indonesia. To support this, the government provides strategic policies, including development that positions the community as the subject of development programs intended for their interests, involving the community in the stages of planning, implementation, supervision, control, and evaluation.

Data Collection

The population in this study was 588 village-based enterprises in Bali, Indonesia. The sample for this research was 233 village-based enterprises in some areas in Bali using non-probability sampling (convenience sampling). This method is widely used and popular because it is less costly, less time-consuming, and appropriate to use during the implementation of the restriction policy due to COVID-19. The data

were collected using questionnaires directed to participants of the study to avoid any bias in completing the questionnaires. The questionnaires were provided to 233 respondents, and 210 valid responses were analyzed. The sample was determined employing the Raosoft sample size calculator with a significance level of 95%. In detail, the demographic information about respondents involved in this study is presented in Table 1. The majority of respondents were male (70%). The most common age for managers involved in this research was between the ages of 30-40 (40%), followed by respondents over 40 years old (31%). From the educational level, most respondents are graduates from senior high schools.

Table 1
Characteristic of Respondents

Criteria	Classification	n	%
Gender	Male	147	70
	Female	63	30
Age	< 30 Year	60	29
	30-40 Year	84	40
	> 40 Year	66	31
Educational level	High School	117	56
	Bachelor	93	44
Total		210	100

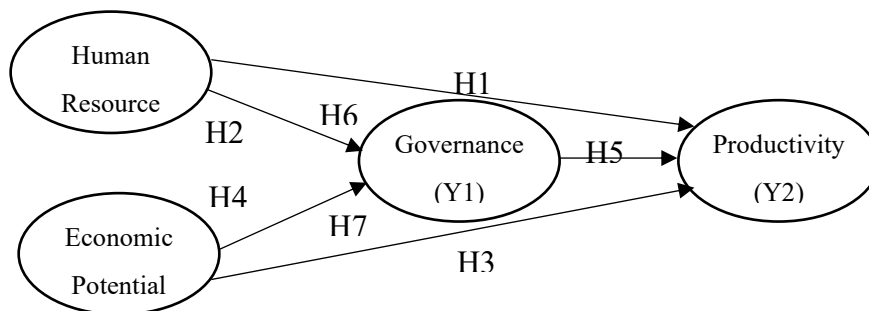
Measurement

The variables involved in this study were measured by adopting those found in relevant literature. Human resource competency was estimated using items from questionnaires developed by Stone et al. (2020), while economic potential was measured using items from Zulkarnaen (2016). In addition, governance was calculated using items from questionnaires developed by Jia et al. (2019), while productivity was adopted from Dwipayati and Kartika (2020). To assess the appropriateness of instruments to measure each variable, we also employed two experts' judgment from the policymakers and three experts from the universities. Further, the feedback was analyzed using content validity index. The study adopted a quantitative approach using

a survey. The data obtained will be analyzed using the PLS (Partial Least Square) analysis technique. In the analysis with PLS, there are two things to do. First, assessing the outer model or measurement model is an assessment of the reliability and validity of research variables. The next step is to assess the structural model. The structural model is the part of the PLS that examines the relationships between the latent variables in the model.

Figure 1

Conceptual Framework



Data Analysis

The procedures of data analysis in this study consist of the measurement model, structural model, and hypothesis development. The measurement model is carried out to assess the validity and reliability of the model. The measurement models with reflexive indicators were evaluated through convergent and discriminant validity for indicators forming latent constructs, as well as through composite reliability and Cronbach’s alpha for indicator blocks. The convergent validity test of the reflection indicator can be seen from the recommended loading factor value that must be greater than 0.7 for confirmatory research and the loading factor value between 0.6 to 0.7 for exploratory, and the value of the loading factor is still acceptable (Hair et al., 2020).

The measurement model also estimates the discriminant validity of the construct. Discriminant validity relates to the principle that the measurement (manifest variable) of different constructs should not be highly correlated. The way to test discriminant validity with reflexive indicators is to see that each variable’s cross-loading value must be higher than 0.7 (Hair et al., 2020). In assessing the structural model with PLS structural, it can be seen from the value of R^2 for each endogenous

latent variable as the predictive power of the structural model. The value of R^2 is a goodness fit model test. R^2 values of .67, .33, and .19 for endogenous latent variables in the structural model indicate a strong, moderate, and weak model, respectively. For hypothesis testing, the criteria to meet the acceptance of the hypothesis is when the t -statistic is higher than 1.96 and the p -value is less than .05 (Hair et al., 2020).

Results and Discussion

Measurement Model

The results in Table 2 show that the loading factor of each variable is above the threshold, indicating they meet convergent validity. In addition to considering the loading factor value, the convergent validity can be determined by comparing the Average Variance Extracted (AVE) which should be higher than 0.5 (Hair et al., 2020). As shown in Table 3, the AVE score ranges from .64 to .72, implying convergent validity.

Table 2

Convergent Validity Test

Indicator	Human Resource Competency (X)	Economic Potential (X2)	Governance (Y1)	Productivity (Y2)
X1.1	.76			
X1.2	.82			
X1.3	.85			
X2.1		.77		
X2.2		.90		
X2.3		.82		
Y1.1			.80	
Y1.2			.89	
Y1.3			.75	
Y1.4			.80	
Y1.5			.75	
Y2.1				0.82
Y2.2				0.88
Y2.3				0.85

Table 3

Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
HR (X1)	.65
Economic Potential (X2)	.69
Governance (Y1)	.72
Productivity (Y2)	.64

From Table 4, it can be seen that all cross-loading values for each indicator on each variable are greater than 0.7. Thus, it can be stated that the data in the study are

valid and meet the discriminant validity. Furthermore, the composite reliability needs to be calculated to determine outer model fit. The criteria to meet composite reliability is when Cronbach's alpha and the composite reliability values in each variable are greater than 0.7 (Hair et al., 2020). The data in Table 5 indicates that all Cronbach's alpha and composite reliability values in each variable are higher than 0.7. Thus, it can be stated that the data in the research is reliable.

Table 4

Discriminant Cross Loading

Indicator	Human Resource Competency (X1)	Economic Potential (X2)	Governance (Y1)	Productivity (Y2)
X1.1	.76	.65	.76	.64
X1.2	.81	.58	.56	.57
X1.3	.85	.65	.67	.68
X2.1	.47	.77	.50	.51
X2.2	.60	.90	.67	.69
X2.3	.73	.82	.72	.68
Y1.1	.62	.59	.80	.72
Y1.2	.73	.80	.89	.77
Y1.3	.74	.51	.75	.68
Y1.4	.65	.63	.80	.68
Y1.5	.59	.52	.75	.72
Y2.1	.66	.69	.69	.82
Y2.2	.64	.64	.80	.89
Y2.3	.70	.62	.79	.85

Table 5

Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Human Resource Competency (X1)	.73	.85
Economic Potential (X2)	.78	.87
Governance (Y1)	.81	.89
Productivity (Y2)	.86	.90

The results of the PLS R^2 values represent the number of variants of the construct described by the model. Based on Table 6, the R^2 's value for the governance variable (Y1) is .75, which indicates it has a strong influence. The R^2 values for the productivity variable (Y2) is .82, which indicates it has a strong influence (see Table 6).

Table 6
R² Test Results

Variable	R ²	Adjusted R ²
Governance (Y1)	.75	.74
Productivity (Y2)	.82	.80

In addition, the Q² value of .95 is more than 0 and close to 1, so it can be concluded that the model has a predictive relevance value, or the model deserves to be said to have a relevant predictive value of 95%. This shows that the variation in the productivity variable (Y2) can be explained by the human resource competency (X1), economic potential (X2), and governance (Y1), while the remaining 5% is explained by other variables outside the model.

Table 7
Hypothesis Test Results

Hypothesis	Variable	Original Sample	M	SD	t	p	Decision
1	X1 → Y1	.59	.58	.11	5.26	.00	Supported
2	X1 → Y2	.07	.06	.15	0.51	.61	Rejected
3	X2 → Y1	.33	.34	.12	2.85	.00	Supported
4	X2 → Y2	.17	.15	.14	1.79	.03	Supported
5	Y1 → Y2	.70	.73	.15	4.78	.00	Supported

From the statistical results in Table 7, it can be seen that almost all of the connectivity between variables has a t-statistic value above 1.96, except for the second hypothesis. Indeed, the p-value of each hypothesis is under the thresholds, except for the second hypothesis. It indicates that the second hypothesis, that human resource competency has a significant effect on governance, is rejected. Human resource competency was found to have a significant effect on village-based enterprises productivity, supporting H1. Economic potential had a significant effect on both village-based enterprises' productivity and on governance, supporting H3 and H4, and governance had a significant effect on village-based enterprises' productivity, supporting H5. Furthermore,

Table 8
Mediation Variable Test Results

No.	Variable	Effect				Mediation
		A	B	C	D	
1	X1 → Y1 → Y2	.000	.000	.611	.001	Yes
2	X2 → Y1 → Y2	.004	.000	.234	.021	Yes

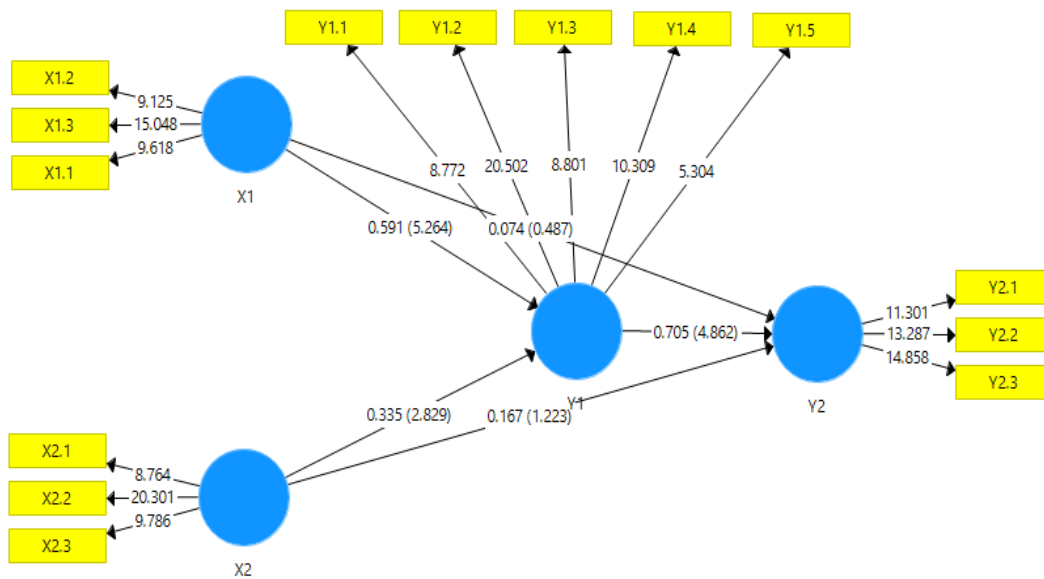
Note. X1 = Human resource competency; X2 = Economic potential; Y1 = Governance; Y2 = Productivity;

A = The direct effect of X and Y1; B= The direct effect of the Y1 on Y2; C = The direct effect of the independent variable on Y2; D = The indirect effect of X and Y2

Table 8 shows how H6 and H7, regarding the mediating role of governance on human resource competency and village-based enterprises' productivity (H6) and economic potential and village-based enterprises' productivity (H7), were both supported. The final model of this study is illustrated in Figure 2.

Figure 2

Final Construct Model



Note. X1 = Human resource competency; X2 = Economic potential; Y1 = Governance; Y2 = Productivity

Discussion

The first finding indicates that human resource competency has a significant effect on governance. The finding supports some prior studies (e.g., Arulrajah, 2016; Antlov et al., 2016), which confirmed this relationship. In addition, Hermanto et al. (2021) mentioned that the principles of village-based enterprise management are important to be understood by all groups, both the government and the community. The principles of good governance are guidelines that need to be implemented so that all stakeholders in village-based enterprises meet the organizational goals (Putri & Dwija, 2015). Their relationship with the current quality of human resource competency shows that the apparatus is working in terms of managing regional finances. Factors that can affect human productivity in determining the success of an organization, according to Sunyoto (2012), include knowledge, skills, abilities, attitudes, and behavior.

However, the second hypothesis showed that human resource competency

failed to enhance productivity in village-based enterprises. This finding is in contrast with some previous studies (Susiawan & Muhid, 2015; Bassey & Tapang, 2012), which stated that human resources are the most important asset in organizations both large and small, as they are the source that moves and directs the organization and maintains and develops the organization. Human potential, which will later be shown in aspects, one of which is quality, can only be achieved by developing human resources (Armstrong & Taylor, 2020). This is necessary because human resource competency is the most influential factor in a level of success. Therefore, existing human resources should be developed in such a way as to achieve prosperity. The rationale to support this finding is that in village-based enterprises where some people were not given adequate training, they may not have been able to use their competency to enhance productivity.

The next hypothesis is that economic potential affects the governance of village-based enterprises. This implies that the economic potential in the village will lead to an increase in the quality of governance which optimally utilizes the potential in the village. The existence of the village's potential can be managed and developed by village-based enterprises to be more organized, thereby increasing the village economy (Madjodjo & Dahlan, 2020). In addition, the fourth hypothesis indicates that economic potential can explain the productivity of village-based enterprises. The finding confirms some studies which mentioned this connectivity. The rationale to support this finding is that the concept of village-based enterprises maximizes the local economic potential. In its development, village-based enterprises seek the local potential in the village. It is understandable because Indonesia consists of numerous islands and villages.

Furthermore, this study also noted that there is a robust link between governance and the productivity of village-based enterprises. As the development of village-based enterprises continues to increase public trust, good governance is needed (Fkun, 2019). In its application, good corporate governance acts as a norm or rule that regulates all interested stakeholders in the company (Sianggono, 2018). In carrying out its business activities, village-based enterprises are obliged to be able to improve development and public services and carry out good financial management, transparency, and accountability. Village-based enterprises that have good corporate governance will be able to increase the productivity of the company. According to Suyono (2017), the application of good corporate governance will make the business grow and become more professional.

In addition, human resource competency affects productivity through governance. This shows that the better quality of human resources owned will increase productivity and be accelerated by the quality of governance in village-based enterprises. In this case, governance plays an important role in increasing the productivity of village-based enterprises. Thus, the efforts made by managers to improve the quality of their human resources can be provided through socialization and training that supports the competence of managers. In addition, governance covers establishing policies and processes for performance management. Human resource competency can help in creating an effective system that includes setting clear organization goals, providing feedback, and providing opportunities for productivity. This finding is in agreement with a prior study which mentioned that the village-based enterprises depends on the ability of each member to be independent in meeting their needs and wants, both for the sake of production and consumption (Ramadana et al., 2013).

Lastly, economic potential can affect productivity through good governance in the village-based enterprises. This finding implies that more economic potential of village-based enterprises will increase productivity and it can be accelerated by the quality of governance owned by village-based enterprises. This result supports a prior study, which noted that the initial step in developing village-based enterprises is mapping the village's economic potential (Harani et al., 2017). The economic potential will make it easier for village-based enterprise managers to manage and innovate to produce unique products in the market. The products produced by village-based enterprises increase business productivity supported by good governance.

Conclusion

This study examined the nexus between human resource competency, economic potential, and productivity of village-based enterprises, as well as investigating the mediating role of governance. The findings indicate that human resource competency has an impact of governance, but it failed to explain the productivity of village-based enterprises. In addition, economic potential can have an impact on the governance and productivity of village-based enterprises, as shown in Bali, Indonesia. This study also showed a robust link between governance and productivity. Lastly, based on the statistical analysis, it was found that governance can mediate the relationship between human resource competency, economic potential, and productivity of village-based enterprises. Since the role of governance can mediate the relationship between

economic potential and its productivity, it has a practical implication in which the rural local administration can implement good governance principles to support village-based enterprises.

This study also provides implications on public opinions toward implementing village-based enterprises and governance in Indonesia. It raises the concern for investors to consider the governance model to support the development of village-based enterprises. These findings encourage policy researchers to pay attention to improving human resources to foster the performance of village-based enterprises. Future scholars can expand the governance principles from another point of view in driving village-based enterprises. In addition, it is suggested to enhance the educational level of managers both through formal and informal ways. To update knowledge, it is advisable to take accounting training to gain knowledge in making financial reports. Further research can extend the study of factors related to the productivity of village-based enterprises.

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