

# Implementation of Good corporate Governance Principle in the Management and Accountability of Village-Owned Enterprises

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**Abstract:** The Legal basis of BUM Desa as a legal entity has been stipulated in the laws and regulations in Indonesia, but in its implementation there are still problems that require professional management and accountability and apply the principles of good corporate governance so that BUM Desa can play a role in accordance with the mandate of the Village Law. This study aims to determine how BUM Desa Armada manages and is accountable for the management of BUM Desa in accordance with the general principles of good corporate governance and is analyzed legally. The results of the study indicate that BUM Desa Armada still requires strategic and inclusive arrangements regarding strengthening human resources, management of BUM Desa, selection of types, and business units to accountability in the field of business results. The suggestion that the researcher wants to give to BUM Desa ARMADA is to strengthen the synergy between BUM Desa implementing organizations and form an internal risk management committee so that it can minimize the potential for business losses.

## 1. Introduction

Law No. 6/2014 on Villages (hereinafter referred to as Village Law) is the legal basis for the establishment of Village-Owned Enterprises (hereinafter referred to as BUM Desa) in Indonesia. Article 87 of the Village Law generally states that villages can establish BUM Desa, which aims, among other things, to increase the independence of village communities and Village Original Revenue (PADes). According to the history of BUM Desa management in Indonesia, BUM Desa has experienced several challenges that have significantly affected the existence of BUM Desa in Indonesia, ranging from the unclear legal status of BUM Desa (in the Village Law), whether BUM Desa is a legal entity or not a legal entity, human resource challenges in managing natural resources that are very likely to become BUM Desa business units, selection of business projections that have a direct impact on the community to the expertise of BUM Desa administrators who have not been maximized in managing BUM Desa properly and correctly. This is evidenced by the existence of several BUM Desa that have experienced several problems, such as bankruptcy, corruption of BUM Desa funds and business stagnation.

Achieving success for an organization can be achieved by maximizing the utility of principals and management<sup>1</sup>. Stewardship theory can also be used to explain aspects of organizational performance success and failure. Stewardship theory describes a situation where managers are not motivated by individual goals but are more focused on their main results for the benefit of the organization<sup>2</sup>. The management of BUM Desa is the compliance of the personal responsibilities of all sections to related parties, so that every level of the institution in all BUM Desa activities has their respective responsibilities for each of its activities<sup>3</sup>. In order to support the regulator's policies and the needs of BUM Desa, this article has a case limit that is in line with the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 20 of 2018 in Article 29 where the management of village finances includes accountability activities. The principle of accountability and responsibility is the trigger for improving the regulation in the governance structure<sup>4</sup>.

When examined carefully, BUM Desa has a very strategic role and potential in improving the Indonesian economy globally. With the existence of BUM Desa in Indonesia, the village community has a new spirit and orientation that goes hand in hand with the Village Law that changes the village which was initially only an object of development and is now the subject of development that fully holds the success of village development based on the principles of recognition and subsidiarity. Then, BUM Desa is basically similar to economic institutions that previously existed in the village such as KUD, BUUD and the like, but BUM Desa is slightly different because it is adapted to the characteristics of the village. This is supported by the government policy of one village, one product.

The existence of village characteristics attached to BUM Desa is what differentiates BUM Desa from one another throughout Indonesia if BUM Desa is managed appropriately and efficiently. Finally, the most important advantage of BUM Desa is that it stimulates village economic growth and provides lessons and experiences for village communities indirectly to be able to be independent and manage existing natural resources for the welfare of village communities. BUM Desa need to be managed based on these principles to reach their maximum potential and fulfil public accountability. A few studies have shown that many public organizations have not been able to ensure public accountability. Laws and regulations on BUM Desa do not specify and regulate GCG principles explicitly.<sup>5</sup>

Therefore, in addition to several problems and advantages of BUM Desa that ideally need to be re-regulated which has an impact on the sustainability of BUM Desa in Indonesia, in Law Num-

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<sup>1</sup> Haliah Imran, "Quality of Report, Is There a Management, and Information Technology Role?. Empirical Evidence From West...," *ResearchGate*, January 1, 2015, [https://www.researchgate.net/publication/282380454\\_Quality\\_of\\_report\\_Is\\_there\\_a\\_management\\_and\\_information\\_technology\\_role\\_Empirical\\_evidence\\_from\\_West\\_Sulawesi\\_Province\\_Indonesia](https://www.researchgate.net/publication/282380454_Quality_of_report_Is_there_a_management_and_information_technology_role_Empirical_evidence_from_West_Sulawesi_Province_Indonesia).

<sup>2</sup> Lex Donaldson and James H. Davis, "Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns," *Australian Journal of Management* 16, no. 1 (June 1, 1991): 49-64, <https://doi.org/10.1177/031289629101600103>.

<sup>3</sup> Abdul Rohman, Ika Sasti Ferina, and Ermadiani, *Pengelolaan Administrasi Keuangan Pemerintah Desa: Menuju Pengelolaan Keuangan Desa Yang Tertib Dan Akuntabel*, Edisi pertama (Yogyakarta/ : Unit Penerbitan dan Percetakan Sekolah Tinggi Ilmu Manajemen YKPN, 2018).

<sup>4</sup> David Coy, Mary Fischer, and Teresa Gordon, "Public Accountability: A New Paradigm for College and University Annual Reports," *Critical Perspectives on Accounting* 12, no. 1 (February 1, 2001): 1-31, <https://doi.org/10.1006/cpac.2000.0416>.

<sup>5</sup> Detania Sukarja, Mahmul Siregar, and Tri Murti Lubis, "The Regulatory Framework of Village-Owned Enterprise in Indonesia: Does It Conform with Good Corporate Governance Principles?," *Proceedings of the International Conference on Law, Governance and Islamic Society*, January 1, 2020, <https://doi.org/10.2991/assehr.k.200306.184>.

ber 6 of 2023 concerning Job Creation (hereinafter the Job Creation Law), BUM Desa is regulated as a legal entity. with the new regulation in the Job Creation Law, all BUM Desa throughout Indonesia also adjust more specific rules in Government Regulation Number 11 of 2021 concerning Village-Owned Enterprises. In general, as a legal entity, BUM Desa has certain criteria and characteristics as a legal entity, namely: (1) separate assets; (2) a specific purpose; (3) a regular organization within the BUM Desa. So that with the strengthening of the government to regulate BUM Desa as a legal entity, ideally BUM Desa can optimize its role at the village level and increase the participation of village communities in order to create village independence.

In order to find out in general how BUM Desa adjusts the new regulations and manages BUM Desa using the principles of good corporate governance, researchers are interested in conducting research in Palaan Village, Ngajum District, Malang Regency. The organization's work culture plays a major role in carrying out the duties and structural authority of BUM Desa. Organizational work culture is a strong instrument in influencing employee behavior and attitudes<sup>6</sup>, so it has the potential to encourage a culture of trust in an organization<sup>7</sup>.

The principle of accountability and responsibility is the trigger for improving the regulation in the governance structure<sup>8</sup>. This activities to show data that can be explained comprehensively to improve the performance of BUM Desa, protect stakeholders, and improve compliance with regulations and generally accepted ethical values in implementing the banking industry guided by good governance, especially the governance structure.<sup>9</sup> Managerial Accountability that emphasis in the managerial aspect is on how to embed the institutional elements of BUMDes that are patterned on administration, reporting, and accountability.<sup>10</sup>

Palaan Village has a BUM Desa called BUM Desa "Arta Makmur Desa" (hereinafter referred to as ARMADA). This BUM Desa has been formed starting in 2016 until now and is still carrying out business activities carried out with the surrounding community and stakeholders. However, according to previous observations, there are several problems that cause BUM Desa ARMADA to not run optimally. Among them are still not optimizing the empowerment of village communities towards BUM Desa, the lack of management in BUM Desa business units, BUM Desa business planning that has not been maximized and the imperfect application of good and professional company management principles in BUM Desa ARMADA.

Similar research has been conducted by previous researchers, including (1) Evaluation of the Management and Accountability of Village-Owned Enterprises (BUMDes) Mukarikaringan Funds in Pangu 2 Village, East Ratahan District, Southeast Minahasa Regency, with the results of the

<sup>6</sup> Ahmed Muayad Younus and Valliappan Raju, "RESILIENT FEATURES OF ORGANIZATIONAL CULTURE IN IMPLEMENTATION OF SMART CONTRACT TECHNOLOGY BLOCKCHAIN IN IRAQI GAS AND OIL COMPANIES," *International Journal for Quality Research* 15, no. 2 (May 19, 2021): 435-50, <https://doi.org/10.24874/ijqr15.02-05>.

<sup>7</sup> Abizar Giffari Thahir, Musa Hubeis, and Anggraini Sukmawati, "Faktor-faktor Yang Memengaruhi Organisasi Dalam Mengadopsi Teknologi Blockchain Di BPJS Ketenagakerjaan," *Jurnal Aplikasi Bisnis Dan Manajemen*, May 31, 2023, <https://doi.org/10.17358/jabm.9.2.536>.

<sup>8</sup> David Coy, Mary Fischer, and Teresa Gordon, "Public Accountability: A New Paradigm for College and University Annual Reports," *Critical Perspectives on Accounting* 12, no. 1 (February 1, 2001): 1-31, <https://doi.org/10.1006/cpac.2000.0416>.

<sup>9</sup> Desak Made Mya Yudia Sari and Ida Ayu Nirma Prameswari, "Implementation of Accountability and Responsibility in Governance Structure on Village Owned Enterprises," *Business Review and Case Studies*, December 22, 2023, <https://doi.org/10.17358/brcs.4.3.251>.

<sup>10</sup> Siti Amerieska, Atik Andhayani, and Novi Nugrahani, "Accountability in Village Owned Enterprises (BUMDes) Based on Sustainable Livelihood Assets," *Journal of International Conference Proceedings* 4, no. 1 (July 22, 2021): 332-44, <https://doi.org/10.32535/jicp.v4i1.1160>.

study showing that the management process of BUMDes Mukarikaringan Pangu 2 Village has fulfilled the 6 principles of BUMDes management. One of the keys to success in BUMDes management is the active contribution of all parties, namely the management as a regulator in business activities, the government as a supervisor and also the community as a party that uses the services of business units.<sup>11</sup>

## 2. Method

This type of research is empirical juridical research or often referred to as field research. This research is legal research in the form of field observations or research that focuses on collecting empirical data found in the field. This research aims to provide a qualitative description related to the problems experienced directly by the community. The location of juridical legal research conducted by researchers is located at BUM Desa ARMADA, precisely in Palaan Village, Ngajum District, Malang Regency for approximately 2 (two) months. The specification of the research conducted is descriptive analysis. The descriptive meant in this research is that the author wants to describe the state of the subject and object of research (in this case it can be people, institutions, and society) and analyze how the problem can be solved by describing the juridical data in the field as the facts appear or as they are.<sup>12</sup> While related to the types and techniques of data collection, this research uses primary and secondary data.

Primary data is data sourced from parties involved in the object of research. Thus, this research was conducted using structured and unstructured interviews. Furthermore, in determining the sample in a population, researchers use non-random sampling techniques with the purposive sampling method.<sup>13</sup> Secondary data used by researchers refers to data obtained from literature and documentation of research results and processing of others in the form of books or related regulations.

Furthermore, secondary legal materials are materials that have a close relationship with primary legal materials to help analyze and understand primary legal materials, such as scientific papers in the form of journals. The last is tertiary legal material, which is legal material that provides guidance and explanation of primary and secondary legal materials, consisting of Legal Dictionaries, Indonesian Language Dictionaries, Encyclopedias and the Internet. The method of data analysis in this research is qualitative which means combining field findings with several legal materials and finding general conclusions. From this analysis, inductive conclusions can be obtained, which is a way of thinking in drawing general conclusions based on specific facts.<sup>14</sup>

## 3. Various Relevant Theories

### 3.1. Legal Entity Theori

The following main headings should be provided in the manuscript while pre This The subject of law is everything that has rights and obligations, while the object of law is to support the subject

<sup>11</sup> Feylardi Ngongoloy, Treesje Runtu, and Victorina Z. Tirayoh, "EVALUASI PENGELOLAAN DAN PERTANGGUNGJAWABAN DANA BADAN USAHA MILIK DESA (BUMDES) MUKARIKARINGAN PADA DESA PANGU 2 KECAMATAN RATAHAN TIMUR KABUPATEN MINAHASA TENGGARA," *Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi (EMBA)* April 14, 2023, <https://ejournal.unsrat.ac.id/v3/index.php/emba/article/view/47671>.

<sup>12</sup> Hadari Nawawi, *Metode Penelitian Bidang Sosial*, (Yogyakarta: UGM Press. 1990) 31.

<sup>13</sup> Sugiyono, *Metode Penelitian Pendidikan: (pendekatan kuantitatif, kualitatif dan R & D)*, (Bandung: Alfabeta, 2008) 23.

<sup>14</sup> Soerjono Soekanto, *Pengantar Penelitian Hukum*, (Depok: Universitas Indonesia Press. 2006) 83.

of law. The subject of law has a very important position, especially in the civil sector because it has legal authority. the subject of law in Dutch is called rechtssubject or law of subject (in English).<sup>15</sup> It has been explained earlier that the subject of law is the bearer of rights and obligations in legal traffic. the subject of law consists of humans as natuulijkepersoon or natural humans and legal entities or rechtspersoon consisting of Limited Liability Companies, State Companies, Foundations and Cooperatives. This Rechtspersoon is a rechtfiguur or legal form that can be equated with humans in general because it has rights and obligations, can enter into legal relations with other humans.

E. Utrecht defines a legal entity as a body that according to the law has the power (authority) to be a supporter of rights, which is soulless or more precisely not human. Legal entities as a social symptom, which is real and is a fact that is really in legal relations even though it does not take the form of humans or objects made of iron, wood and so on.<sup>16</sup> Meanwhile, Molengraaff said that legal entities in their nature are the rights and obligations of their members together, and in them there are common property rights that cannot be divided.<sup>17</sup> Rechtspersoon was only introduced in the Burgelijk Wetboek or B.W. at the beginning of the 20th century, namely at the time of the enactment of the law on children (Kinderwetten). In Article 292 paragraph (2) and Article 302 of Book I BW and since the publication of Titel 10 of Book III BW (old) in 1838, there are many provisions on what is meant by rechtspersonen, but the term used is zedelijk licham (moral agency). Then title 10 (Articles 1600-1702) was revoked since the promulgation of Book II N.B.W) on rechtspersoon in 1976.

The N.B.W. Book is divided into 7 titles, namely: a. Title 1, concerning Algemene bepalingen (General Regulations), Article 1025; b. Title 2, Verenihngen (Associations), articles 26-63; c. Title 3, Naamloze vennootschappen (Limited liability companies), articles 64-174; d. Title 4, Besloten vennootschappen met beperkte aansprakelijkheid (Closed companies with limited liability), articles 175-284; e. Title 5, Stichtingen (foundations), articles 285-305; f. Title 6, De jaarrekening (annual accounts), articles 306-343; g. Title 7, Het recht van enquete (Right of Inquiry), articles 344-359. Until 1976, the law of limited liability companies and private companies was regulated in the W.v.K (Commercial Code, articles 36 to 58g) and with the enactment of Book II of the B.W. in 1976, the regulations of NV and BV were transferred in the B.W.

According to Chidir Ali, a legal entity is said to be a legal subject if it includes several things, namely: (1) an association of people (organization); (2) can perform legal acts (rechthandeling) and legal relations (rechtbetrekking); (3) has its own assets; (4) has a manager; (5) has rights and obligations; (6) can be sued or sued before the court. The theory used by the author in this paper is the organ theory initiated by Otto von Gierke (1841-1921) followed by L.G. Polano. His teaching is referred to as leer der volledige realiteit or perfect reality teaching. According to this theory, a legal entity is like a human being, it is a real incarnation in legal association through the intermediary of its tools or organs. So it is just like humans who carry out their activities with the organs in their bodies.

<sup>15</sup> Titik Triwulan Tutik, *Hukum Perdata Dalam Sistem Hukum Nasional*, (Jakarta: Kencana. 2015) 45.

<sup>16</sup> Neni Sri Imaniyati, *Hukum Bisnis: telaah tentang pelaku dan kegiatan ekonomi*, (Yogyakarta: Graha Ilmu. 2009) 87.

<sup>17</sup> Jimly Asshiddiqie, *Perkembangan Dan Konsolidasi Lembaga Negara Pasca Reformasi*, (Jakarta Konstitusi Press. 2006) 65.

### 3.2. Agency Theory

Günter Bamberg and Klaus Spremann say that:

“Agency Theory, in most general terms, can be viewed as the economic analysis of cooperation in situations where externalities, uncertainty limited observability, or asymmetric information exclude the pure market organization. In fact, some scholars who focused on incentive compatibility in the allocation of public goods (as an extreme case of external effects) meant to contribute to the theory of agency.

The same is true for other researchers who analyzed risk sharing in the presence of moral hazard. Likewise, those who studied the design of self-selection schemes to induce individuals to reveal their utility function through choice, contributed to the theory of cooperation under asymmetric information. Agency Theory, Information, and Incentives consequently covers a field of economic research much broader than the simple relation between two individuals, called principal and agent. Nevertheless, this principal and agent relation can serve as an elementary and basic cooperative unit.”. Klaus Spremann explains that what is meant by the principal-agent relation is approaching risk sharing, hidden effort, monitoring, hidden characteristics, screening and self-selection.<sup>18</sup>

According to Jensen and Meckling (1976), agency theory is a design that explains the contextual relationship between the principal and the agent, which is between two or more people, a group or an organization. The principal is the party who has the right to make a decision for the future of the company and assigns responsibility to another party (agent). Principals and agents have their own interests, which often do not coincide.

The reason for the conflict of interest between the principal and the agent will continue to increase, because the principal rarely or even does not monitor the agent’s activities every day. Conversely, it is certain that agents can have a lot of important information about their abilities, work environment and even the organization as a whole. Agents are expected to participate in the budgeting process and provide specific information about the state of the organizational unit, thus minimizing the agent to act on information asymmetry that can harm the company or organization. But the will of the principal will not always be the same as the agent so that this can trigger conflict. Agents who tend to provide incorrect information so that the budget can be easily achieved so that rewards will be given in accordance with the achievement of the budget.

Recent developments in agency theory can be categorized into two streams, namely: principal-agent research and positivist agency theory. The principal-agent approach assumes that principals and agents will seek to maximize their positions through individual interpretations of contracts. This approach is based on economic research and widely adopts mathematical modeling to establish relationships. In contrast, positivist agency theory adopts descriptive logic to interpret real-world behavior using agency logic and assumptions.<sup>19</sup> Therefore, agency theory is a theory that explains the relationship that occurs between the management of the company as an agent and the owner of the company as the principal. The principal is the party that gives orders to other parties, namely the agent, to carry out all activities on behalf of the principal.

<sup>18</sup> Günter Bamberg and Klaus Spremann, *Agency Theory, Information, and Incentives* (Springer Science & Business Media. 2012) 21.

<sup>19</sup> Emanuela Delbufalo, “Agency Theory and Sustainability in Global Supply Chain,” in *SpringerBriefs in Business*, 2018, 33-54, [https://doi.org/10.1007/978-3-319-72793-6\\_3](https://doi.org/10.1007/978-3-319-72793-6_3).

### 3.3 Concept of Good Village Governance

The topic of governance is an interesting one to discuss. Governance is different from government. Governance refers to government, while government refers to government. Governance is the main foundation for a country to organize and direct people to get their basic rights through the governance of a country. A country is successful when all citizens can fulfill their needs properly without neglecting the rights and obligations of the state and society. The concept of good governance refers to government organizations that are well managed in accordance with the interests of the community. There are three elements that are important to realize good governance, namely government elements, private elements and civil society elements.

The need to synergize these three elements to strengthen the quality of good governance in Indonesia. According to LAN (State Administration Institute) in Sedarmayanti, the meaning of good in good governance contains two meanings, namely: (1) Values that uphold the wishes / will of the people and values that can increase the ability of the people in achieving (national) goals of independence, sustainable development and social justice; and (2) Functional aspects of effective and efficient government in carrying out its duties to achieve these goals. According to the United Nations Organization (UN) there are 8 criteria related to a country that has implemented good governance, namely: participation, rule of law (the law becomes the commander to uphold the civil rights of society in general), consensus oriented (the government seeks to bridge different interests to produce policies that are in accordance with the needs of the community, equality or non-discrimination; effectiveness and efficiency (government policies are taken as well as possible and as effectively as possible); accountability (all elements in the government place public interests above personal interests); transparency and responsiveness (responsive in responding to public interests). In addition, in 1997, UNDP formulated 9 principles in running good governance including: Participation; Transparency; Law Enforcement; Consensus Oriented; Justice or equality; Transparency; Efficiency and Effectiveness; Strategic vision; and Accountability.<sup>20</sup>

When talking in the context of Indonesianness, it is closely related to the geographical conditions of Indonesia which has many islands so it is called a unitary state. To regulate diversity, of course Indonesia has adopted several principles of good governance and spread in several laws and regulations, which in essence want to strengthen the government by involving the aspirations and participation of the community. Today, considering that Indonesia has many regions and is mainly still divided into villages which are the milestone of national development, the villages are also adapted to the principles of good governance, which the author hereinafter calls good village governance or good village governance. Village regulations are specifically contained in Law No. 6/2014 on villages, which is a regulation that marks the village to be more independent and able to process natural resources and develop village human resources. Good village governance refers to best practices in managing and leading a village or rural community. It involves the active involvement of the community in the decision-making process, transparency, accountability, fairness, and efficiency in village governance.

<sup>20</sup> Diah Woro Ayuningtyas, "Penerapan Good Governance Dalam Meningkatkan Pelayanan Publik Keimigrasian," *Journal of Administration and International Development* 1, no. 1 (April 6, 2020): 1-13, <https://doi.org/10.52617/jaid.v1i1.223>.

In line with this, Law No. 6/2014 on Villages also directs villages to fulfill several elements and parameters in the Village SDGs. The Village SDGs are an integrated effort for economic, social, environmental, legal and community governance development at the village level. (Village SDGs | Village Information System, n.d.) The Village SDGs Goals are derived from the Goals of the National SDGs so that they become 18 areas of development focus. To clarify the Village SDGs score is 0 to 100. Which means that the greater the score, the more the goals of the Village SDGs are achieved.

For East Java itself, the score obtained is 44.88 which is taken from the average score of 18 Village SDGs Goals from 4161 villages per day/date. Referring to the achievement of the Village SDGs, according to the author, the implementation of good village governance can be concluded in general as follows: a. Community involvement: Good village governance involves the active and inclusive participation of village communities in the decision-making process. This includes gathering community opinions and aspirations, involving them in the planning and implementation of village programs and projects, and facilitating public dialogue and consultation; b. Transparency and Accountability: A good village administration must be transparent in the way it conducts village activities and finances. Information related to village policies, budgets, and resource management should be easily accessible to the community. In addition, accountability for actions and decisions taken by the village government is also important, so that the community can monitor and evaluate the performance of the village government; c. Fairness and equality: Good village governance should promote fairness and equality in the provision of public services and village development. Every villager should be treated fairly and equally, without discrimination based on gender, ethnicity, religion, or social status.

This includes ensuring fair access to health services, education, clean water, sanitation, and other basic infrastructure; d. Efficiency and Good Management: Good village governance should be efficient in resource management and policy implementation. Planning and budgeting processes should be well organized, prioritizing the effective and efficient use of village funds. In addition, good management involves professionalism, adequate capacity, and close monitoring of village government performance; e. Finally, the realization of sustainable development: Good village governance must pay attention to aspects of sustainable development. This includes environmental protection, responsible utilization of natural resources, and sustainable development of the local economy.

Development must take into account current and future needs, and ensure the survival and welfare of village communities in the long term; f. Through the implementation of good village governance, it is expected that villages can achieve sustainable development, improve the quality of life of village communities, and encourage their active participation and empowerment in the decision-making process in accordance with the needs of village communities.

### **3.4 Concept of Good Corporate Governance**

Good corporate governance (GCG) in Indonesia refers to the principles of good corporate governance applied by companies to create transparency, accountability, fairness, and compliance with the law. GCG aims to improve operational efficiency, reduce risk, and protect the interests of



all stakeholders, including shareholders, employees, customers, and society in general. There are many expert opinions that explain GCG, including: a. The opinions of James E. Post, Anne T. Lawrence and James Weber<sup>21</sup> explain GCG as: “The term corporate governance refers to be the overall control of a company’s actions”; b. World Bank’s opinion, “Corporate Governance (CG) concerns the system by which companies are directed and controlled. It is about having companies, owners and regulators become more accountable, efficient and transparent, which in turn builds trust and confidence. Well-governed companies carry lower financial and non-financial risks and generate higher shareholder returns. They also have better access to external finance and reduce systemic risks due to corporate crises and financial scandals. Reliable financial reporting, timely disclosures, better boards and accountable management also facilitate the development of stronger capital markets. They improve a country’s ability to mobilize, allocate and monitor investments and help foster jobs and economic growth. Better supervision and monitoring can detect corporate inefficiencies and minimize vulnerability to financial crises”<sup>22</sup>; c. OECD: “The internal means by which corporations are operated and controlled [...], which involve a set of relationships between a company’s management, its board, its shareholders and other stakeholders.

Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders, and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently”.

Some important GCG principles include information transparency, board responsibility, protection of minority shareholder rights, and effective law enforcement. Good GCG enforcement can help create a healthy and sustainable business environment, promote inclusive economic growth, and increase the confidence of both domestic and international investors in Indonesian companies. Shidqon concluded that from several definitions of GCG, there are several things that need to be understood by various business circles, namely:<sup>23</sup> a. There is a balance of relationships between the organs of the company between the General Meeting of Shareholders (RUPS), the Board of Commissioners, and the Board of Directors. Related to the balance are matters that include the institutional structure and operational mechanisms of the three organs; b. The fulfillment of the company’s responsibilities as a business entity in society and to all stakeholders, including the responsibilities of company management, management, supervision, and accountability to shareholders and other stakeholders; c. The rights of shareholders to obtain accurate and correct information; d. Equal treatment of all shareholders.

<sup>21</sup> James E. Post, Anne T. Lawrence, and James Weber, *Business and Society: Corporate Strategy, Public Policy, Ethics* (McGraw-Hill Companies. 2002).

<sup>22</sup> World Bank Group, “Corporate Governance,” *World Bank*, August 8, 2017, <https://www.worldbank.org/en/topic/financialsector/brief/corporate-governance>.

<sup>23</sup> Muhammad Shidqon Prabowo, *Dasar-dasar Good Corporate Governance*, (Yogyakarta: UII Press. 2018) 75.



**Figure 1.** The Corporate Governance System

Source: IMF, March 2014 dalam *The Indonesia Corporate Governance*, First Edition.

#### **4. The existence of the village-owned enterprise “Arta Makmur Desa” or ARMADA in Palaan Village, Ngajum District, Malang Regency.**

Palaan is a village in Ngajum sub-district, Malang Regency, East Java Province, consisting of two hamlets, namely Palaan Hamlet and Sukoyuwono Hamlet, each led by a Hamlet Head and divided into 10 Rukun Warga (RW). Geographically, Palaan Village is located at 721’-731’ south latitude and 11010’-11140’ east longitude. The total land area of Palaan village is 246.10 ha. The area of paddy fields is 105.10 Ha. Dry land is 141.00 Ha, which consists of 1). Residential land/yard is 123.60 Ha, 2). Tegal or garden is 8.60 Ha, 3). Other land is 8.60 Ha (BPS: 2018). The topography of this village is in the form of moderate land, which is around 194 m above sea level.

Administratively, Palaan Village is located in the ngajum sub-district of Malang Regency and is bordered by neighboring villages. To the north, it is bordered by ngajum village in ngajum sub-district. To the west, it borders ngajum village, to the south it borders talangagung village in kepanjen sub-district, while to the east it borders ngasem village in ngajum sub-district. Palaan village has several advantages due to the conditions of the village community, most of whom are farmers and gardeners (rice and sugar cane). In line with this, the Palaan Village Government saw the potential and decided to establish a BUM Desa on December 1, 2016 and was named Arta Makmur Desa (ARMADA) with the hope of utilizing the potential and assets of the village in order to build the welfare of Palaan villagers.

The vision of BUM Desa ARMADA is to realize an independent self-sufficient village. To realize the vision, BUM Desa ARMADA has several missions, namely: a. Develop BUM Desa as a locomotive for economic activities and village community empowerment to improve the welfare of Palaan villagers in realizing independence in all fields; b. To increase Palaan’s original village income (PADES) to improve the development and improvement of Palaan village services; c. Exploring and empowering the potential of the village to be utilized in an effort to improve the welfare of the community; d. Strengthening institutions and expanding networks through cooperation both internally and externally to the village by sharing the potential of the community and various par-

ties and synergizing with government institutions to strengthen the economy of Palaan village. If further detailed, the organizational structure of BUM Desa ARMADA can be described as follows:

**Table 1.** BUM Desa ARMADA Management Structure

Name of BUM Desa Arta Makmur Village	Arta Makmur Desa
Date of Establishment	1 December 2016
Organization Structure	
Commissioner	Subronto (Kepala Desa)
Director	Mukhamad Rifa'i
Unit Coordinator	M. Ali Mahrus
Secretary	Yuyun Alifa
Treasurer	Rohmatul Muiza
Supervisor	Ngateno
Tourist Unit Manager	M. Zainal
Trade Unit Manager	M. Ali Mahrus
Fresh Fish Cultivation Unit Manager	Ali Syafak
Clean Water / PAMSIMAS Unit Manager	M. Zainal

Source: Accountability Report of BUM Desa ARMADA for Financial Year 2022

Since BUM Desa ARMADA was established, all BUM Desa administrators have mapped the potential and business opportunities to optimize BUM Desa in Palaan Village. It is intended that BUM Desa ARMADA can be an appropriate tool for the economic growth of the Palaan village community without reducing the utilization of natural resources in the village. Some of the efforts that have been made are as follows: a. Potential Exploration, The beginning of BUM Desa ARMADA's business activities were goat raising operations without preparing business mapping and careful planning so that the results were not optimal. With the failure of the business, the BUM Desa management made a re-mapping of potential for about 1 month between November and December. From the mapping of potential, some data were obtained which were finally intended to create a concept map and make semaca, pilot projects in several areas by taking into account natural resources and human resources; b. Establishment of a Business Unit, Related to business formation, BUM Desa ARMADA is based on a concept map that has been made during the exploration of village potential. The formation of the business unit consists of increasing cooperation with stakeholders, namely in collaboration with PT Greenfields Indonesia, Bank Rakyat Indonesia (BRI) as one of BRILINK agents, product marketing cooperation with BUM Desa throughout Malang Regency and Palaan Village Community.



**Figure 2.** Kampong Nanas Wisata Center

Source: Youtube Arafat Kiki; <https://www.youtube.com/watch?v=PottT30-wvg>,2021.

Furthermore, the empowerment of village potential means that the potential in Palaan Village is identified and then managed together to improve the welfare of the village community. Some of the village potentials in question include: (1) Food or beverage potential which is carried out by employing several villagers who do not have permanent jobs; (2) village tourism which is directed to become an educational package for tourism villages. Palaan Village utilizes village tourism with pineapple kampoeng tourism which is used as local tourism that aims to accommodate food and beverage production and will later be used as nanasan educational tourism; (3) Village Shop or Smart Village which is directed as a wholesale place for small shops in the village and accommodates food production from residents' homes; and (4) social independence. The intended social independence is that BUM Desa ARMADA collaborates with the village government to conduct human resource capacity building activities through several sustainable trainings, especially in the household-scale industrial sector; c. *Implementation of Management, Problems, Work Programs and Finance*, In carrying out operational activities in BUM Desa ARMADA, all administrators uphold decision-making by means of complete and thorough coordination.

This aims to maintain transparency of activities and improve professionalism in the aspect of periodic business accountability. In addition, BUM Desa ARMADA also increases business independence by considering 3 (three) principles consisting of: (1) the principle of increasing competence; (2) the principle of increasing collaboration; (3) the principle of minimizing competition. In addition to strengthening coordination and independence, BUM Desa ARMADA also maintains accountability for business management, which is realized by reporting the accountability of the management to the community and business stakeholders to monitor the extent of business success at BUM Desa ARMADA. Furthermore, BUM Desa ARMADA conducts accountability that is adjusted to the laws and regulations and the principles of good business management. In addition to making periodic reports to the village head, a year-end accountability is also made as an evaluation of activities that have been running in the previous fiscal year.

The last is fairness, which means that in conducting business activities, BUM Desa ARMADA conducts business with reasonable principles, not made up or not engineered. All forms of reports, business activities are carried out as they are (real). It is intended that the community has full confidence in BUM Desa ARMADA and strives to build together BUM Desa which is essentially an economic institution owned by the village community, used for the welfare of the village community. Based on the BUM Desa accountability report in 2022, there are several crucial issues being faced by BUM Desa ARMADA, namely the lack of understanding of BUM Desa business management and management, inadequate human resources in advancing BUM Desa businesses and the existence of a professionally managed accountability system.

## **5. Management and Accountability of Village-Owned Enterprises based on Government Regulation No. 11 of 2021 concerning Village-Owned Enterprises**

In accordance with the Job Creation Law, BUM Desa is determined to be a legal entity. According to Brinz and van der Heijden, every legal entity has wealth that aims to be used for certain interests, the wealth is managed and used for certain purposes, and the purpose of the legal entity is an object protected by law<sup>24</sup>. Legal entities consist of (3) three forms, namely Limited Liability

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<sup>24</sup> Abdulkadir Muhammad, *Hukum Perusahaan Indonesia*, (Bandung: Citra Aditya Bakti. 1999) 45.

Companies, Foundations and Cooperatives. A business entity that is a legal entity in essence is a supporter of rights and obligations like a natural human being (*natuurlijkpersoon*), can conduct legal relations with other parties, has rights and obligations, has its own assets which are separate from the assets of the founders or administrators. All legal obligations are owned by its wealth so that, if its wealth cannot fulfill or cover its obligations with other parties, it cannot be fulfilled from the personal wealth of the founders or administrators.

This is because a legal entity is attached to the limited liability of the shares owned<sup>25</sup>. In relation to the regulations governing BUM Desa, Government Regulation No. 11 of 2021 on Village-Owned Enterprises (hereinafter referred to as PP BUM Desa) has been promulgated. This PP BUM Desa was established to implement the provisions of Article 117 and Article 185 letter b of Law Number 11 of 2020 on Job Creation (before amendment). BUM Desa consists of BUM Desa and Joint BUM Desa which in realizing its objectives, BUM Desa is implemented with a spirit of kinship and mutual cooperation with several principles, namely professional, open and responsible, participatory, priority of local resources and sustainability. BUM Desa/BUM Desa together has the characteristics of being able to run businesses in the economic sector and/or public services in accordance with the provisions of laws and regulations.

In addition, Article 5 of the BUM Desa Regulation states that there are several BUM Desa function developments that can be carried out as an achievement of the BUM Desa/BUM Desa objectives, namely: a. Consolidation of village community goods and/or services; b. Production of goods and/or services; c. Receiver, buyer, marketing of village community products; d. Incubation of village community businesses; e. Stimulation and dynamization of village community economic businesses; f. Service of basic and general needs for the village community; g. Increasing the usefulness and value of the economy, cultural wealth, religiosity, and natural resources; and h. Increasing the added value of village assets and village revenue. As the first step in managing the pre-existing BUM Desa, the BUM Desa/BUM Desa together must adjust to the new regulations, one of which is registering the BUM Desa/BUM Desa together with the Minister through the Village Information System which is further regulated by Ministerial Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration Regulation Number 3 of 2021 concerning Registration, Data Collection and Ranking, Guidance and Development, and Procurement of Goods and/or Services of Village-Owned Enterprises/Joint Village-Owned Enterprises. After obtaining legal entity status, the BUM Desa/BUM Desa Bersama must make Articles of Association and Bylaws. If there are changes, they will be discussed and determined in the Village Consultative Meeting/Inter-Village Consultative Meeting.

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<sup>25</sup> Ibid



**Figure 3** Example of BUM Desa ARMADA Accountability Report Activity for Financial Year 2022  
Source: Author, personally processed, 2023.

In addition, when examined from the perspective of business management, it will not be separated from the role of the management or implementing organization of BUM Desa / BUM Desa Bersama and also the accuracy of planning in the selection of BUM Desa / BUM Desa Bersama business units.

Based on several findings at the research location, there are several things that the author wants to emphasize in this research, namely on how BUM Desa ARMADA conducts business management and accountability. The author focuses on several things, namely on the management stage consisting of the fulfillment of BUM Desa management principles, the development of BUM Desa ARMADA's business functions, the capacity of BUM Desa management and the accuracy of business unit selection. Only then, the author also analyzes how BUM Desa ARMADA conducts business accountability. Juridically, BUM Desa is specifically regulated in Government Regulation Number 11 of 2021 concerning Village-Owned Enterprises. Article 1 of PP BUM Desa explains that BUM Desa is a legal entity established by the village and/or together with villages to manage businesses, utilize assets, develop investment and productivity, provide services, and/or provide other types of businesses for the greatest welfare of the village. Therefore, BUM Desa consists of BUM Desa and BUM Desa Bersama, because BUM Desa Bersama is basically BUM Desa established by several villages.

BUM Desa ARMADA after there is an adjustment to the norms in the Job Creation Law Number 6 of 2023 as a legal entity, BUM Desa ARMADA immediately registers BUM Desa in order to obtain the status of a legal entity, by completing several requirements, such as filling out the form electronically in the Village Information System (SID), if approved or fulfilling the meal provisions, the Minister's approval will be issued electronically with the output of documents containing name submission documents, usable names, applicant names, submission dates and expiration dates. From the date of submission, the output is from the Village Deliberation and/or Inter-Village Deliberation. Furthermore, an electronic form is filled out which includes the approved name submission number, BUM Desa name, BUM Desa type, village administration name and business

field (appears automatically). In addition, the BUM Desa also uploads supporting data such as minutes of village deliberations, Village Regulations, AD and ART and Work Programs for the following year.

“BUM Desa ARMADA has followed the existing procedures and tried to harmonize all existing regulations related to BUM Desa. Currently, ARMADA has carried out the BUM Desa legal entity registration process and is still awaiting the issuance of a legal entity registration certificate. Later when ARMADA’s legal entity certificate has been issued, then I as the BUM Desa director can direct BUM Desa ARMADA to be more professional in its management and accountability”. (Source: Interview Rifa’i- Director of BUM Desa ARMADA, June 26, 2023)

While waiting for the issuance of a legal entity certificate, BUM Desa ARMADA manages its business in accordance with the BUM Desa business principles, which are managed with a spirit of kinship and mutual cooperation with the principles of professionalism, openness and responsibility, participation, priority of local resources and sustainability. In more detail, some of these principles are in line with the general principles of good corporate governance and can be explained through the following table:

**Table 2** Principles of BUM Desa ARMADA Management based on Good Corporate Governance

No	Management Principles	Explanation
1	Professional	BUM Desa ARMADA has an executive board or organization that focuses on BUM Desa business development.
2	Open and responsible	Every year, BUM Desa ARMADA organizes an annual report.
3	Participatory	Periodically also includes the community in the formulation of BUM Desa work programs.
4	Prioritization of Local Resources	BUM Desa ARMADA has several business units that directly utilize the village's natural resources, such as the original pineapple from Palaan village farmers. Utilizing the land as a nanasan tourism village in which there are several café business units, swimming pools and game businesses.
5	Sustainable	Nanasan tourism village is idealized by the Palaan village community as an 'opening' village tour for tourists who want to travel in Malang Regency, especially on the slopes of Kawi. This is a strategic potential for Palaan to generate a sustainable business potential.

Source: Author, personally processed, 2023.

Related to the development of BUM Desa business units, BUM Desa ARMADA has also developed its business function as a consolidation of village community goods and/or services as well as a container, buyer, marketing of village community products. This is evidenced by several BUM Desa ARMADA business units that are currently being developed, including swimming pool and game tours, cafes and developing nanasan processed products. “For business units there are 3 items, first the café, swimming pool and game rides. For the management system in the café, it is profit sharing. The swimming pool is still free for the community because it is still in the development and construction stages. Because in the future nanasan tourism is directed to have a waterboom and two swimming pools. While game rides such as toy cars are supported by a second party whose system is profit sharing “. (Source: Interview Muh. Mahrus Ali - Trade Division of BUM Desa ARMADA, June 26, 2023)



**Figure 4** Café BUM Desa ARMADA  
Source: Author, personally processed, 2023.

Furthermore, the capacity of the BUM Desa management, which is one of the important elements of the implementation of Good Corporate Governance principles, has been highly pursued by BUM Desa ARMADA. Each BUM Desa management currently consists of several people who are competent in their fields. Indeed, according to the fact that no effort is perfect, there are still some shortcomings in management due to the lack of experience in managing BUM Desa. This has caused BUM Desa to be a little slow in developing business units. Regarding the accuracy of business selection, based on interviews with the BUM Desa director, it is undeniable that BUM Desa has also made wrong decisions in planning work programs, such as fish processing and trading. The last element studied by researchers is the issue of business accountability.

Business responsibility can be seen from whether the business is stagnant, business losses are caused by the negligence and deliberation of the management (corruption) or purely from BUM Desa losses. BUM Desa ARMADA, in its financial accountability for 2022, has also described what elements caused BUM Desa ARMADA to experience losses, but it needs to be emphasized that the losses incurred were purely due to business losses, precisely in the realm of savings and loans. Because, before BUM Desa ARMADA conducted a thorough mapping of potential, there were people who borrowed some funds from BUM Desa. However, until now there are still a number of funds that have settled in the community or have not been returned to BUM Desa ARMADA.

Thus, if examined more deeply using the concepts of good village governance and good corporate governance, there are several things that can be conveyed, namely: a. There is a balance in the fulfillment of rights and obligations between BUM Desa organs and stakeholders such as the community and several companies that cooperate with BUM Desa ARMADA; b. There is openness between BUM Desa organs in reporting business activities, as well as to stakeholders; c. Between the supervisor, village deliberation and/or village deliberation and advisors have a very good relationship when formulating work programs and also meeting community needs through BUM Desa ARMADA's business units; e. There is reporting and active participation from the community to determine the direction of BUM Desa policies and BUM Desa work programs. The weaknesses of GCG implementation at BUM Desa ARMADA are as follows: a. The lack of capacity of



BUM Desa management and management, especially in determining the priorities of professional BUM Desa work programs and business units; b. Lack of knowledge about business risk management, which should be very important to be studied further for the sustainability of BUM Desa ARMADA's business.

Therefore, the strengths and weaknesses of BUM Desa ARMADA's current management and accountability are material for study to develop BUM Desa in the future. In accordance with agency theory, to create a good relationship between business managers, there must be a balance of interests, which in this case prioritizes the interests of business objectives and functions for the success of BUM Desa and the welfare of the village community.

## 6. Conclusion

The implementation of good corporate governance in the management and accountability of Village-Owned Enterprises (BUM Desa) is crucial to ensure transparency, accountability, and business sustainability at the village level. Through good corporate governance, BUM Desa can adopt the principles of integrity, responsibility, fairness, and openness in decision-making and activity implementation. Good management will lead to the formulation of measurable policies, transparent decision-making processes, and effective supervision of the use of BUM Desa funds and assets.

The management and accountability of BUM Desa ARMADA has optimally applied the principles of good corporate governance, but there are several things that do occur outside the control of BUM Desa administrators due to limited BUM Desa management knowledge, including risk management and mapping of appropriate business potential for BUM Desa. Thus, indirectly the management of BUM Desa also experienced a slowdown. Meanwhile, in terms of accountability, BUM Desa ARMADA has taken an active and participatory approach to stakeholders and the community. This is evidenced by the existence of a regular reporting system to the community and the decision-making process when determining BUM Desa work programs that are tailored to the needs and opportunities of the village community in general.

Suggestions that the author would like to give to BUM Desa ARMADA include; (1) forming an internal audit committee unit and a management risk committee to minimize potential losses; (2) increasing empowerment programs for BUM Desa administrators both in the fields of law and management and business management; and (3) increasing the insight of BUM Desa administrators and village communities related to the importance of collaboration and active participation in order to realize the function of BUM Desa as a consolidation of products and services from local village communities.

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