Does Leadership Matter in Managing the Village-Owned Enterprise?

Kumba Digdowiseiso\textsuperscript{a*}, Heru Dian Setiawan\textsuperscript{b}, Eko Sugiyanto\textsuperscript{c}, \textsuperscript{a}Senior Lecture, Department of Management, Faculty of Economics and Business, University of National, Jakarta, Indonesia, \textsuperscript{b}Lecture, Department of Public Administration, Faculty of Social and Political Science, University of National, Jakarta, Indonesia, \textsuperscript{c}Professor, Department of Public Administration, Faculty of Social and Political Science, University of National, Jakarta, Indonesia, Email: \textsuperscript{a*}kdigdowiseiso@gmail.com, \textsuperscript{b}heru.dian.setiawan@civitas.unas.ac.id, \textsuperscript{c}ekos@civitas.unas.ac.id

This study examines the leadership of the village head in the management of the Village-Owned Enterprise (VoE). Specifically, it determines the factors that influence the village head’s leadership. We implemented a qualitative methodology where we gathered a triangulation approach through interviews, observations, and documentation at Gisting Bawah village. Our approach of the study was guided by the theoretical framework from Northhouse (2013). This study found that both task and relationship behaviour were two important factors to achieve success in managing VoE in Indonesia. Based on the results, a village head must always: (1). act as a strong role model for VoE managers; (2). convey high expectations to the managers of VoE and to inspire them through motivation to be loyal and be part of a shared vision in the organisation; (3). stimulate the VoE managers to be creative and innovative, as well as to elevate the beliefs and values of the VoE managers; and (4). provide a supportive climate, where the village head listens carefully to the needs of each VoE manager.

Key words: Leadership, Management, VoE, Indonesia.

JEL Classification: L38, M10, M50.

1. Introduction

The issue of rural development has recently become a major debate among academicians and policymakers. In a bid to enhance the standard of living of the rural society, the central government has specifically designed various development programs and welfare policies. In the past, the Government of Indonesia (GoI) implemented the Farmers’ Credit Program, the Regional Development Program, the Village Development Program, the Rural Infrastructure Development Program, the Rural Agribusiness Development Program, the Income Enhancement Program for
Smaller Farmers and Fishermen, and the National Program for Community Empowerment. But, none of these programs has yielded the expected results.

Hidayati (2015) argued that central government’s intervention has become a major hindrance to the sustainability of those programs. Consequently, such an intervention hampers the creativity and innovation of villagers in managing and operating the rural economy. In line with this argument, PKDSP (2007) believed that the system and mechanisms of economic institutions in rural areas did not run effectively. Here, rural areas are viewed as being reliant on government assistance.

Learning from the past experience, a new approach is expected to stimulate and to drive the wheels of the economy in the countryside through the establishment of an economic institution that is fully managed by the village community. This economic institution is no longer established on the basis of central government directives. But, it must be based on the wishes of the village community, departing from the potential that if it is properly managed, it will generate demand in the market. The existence of this institution is not controlled by certain groups who have large capital in rural area. Rather, the ownership of the institution is jointly controlled, in which the main objective is to improve the living standards of the people's economy.

Such an institution is intended to reduce the role of middlemen which often leads to increased transaction costs between the price of products from the producers to the final consumers. It is expected that every rural producer can enjoy the difference between the selling price of the product and the reasonable cost of production. Here, the consumers do not have to bear the expensive purchase price, which assists the needs of consumers that are categorised as consumptive and productive. Moreover, it can become the main distributor to fulfil the needs of basic commodities. In addition, this institution can grow suburban economic activities in rural areas. Such institutional form is called the Village-Owned Enterprise (VoE).

Although VoE has been set forth in Law No. 6 / 2014 on Villages, in fact VoE has been mandated also in Law No. 32 / 2004 on Local Government. Such regulation can be viewed as an effort to increase economic growth together with equitable distribution of assets to the people in rural areas. Therefore, the management of VoE must be conducted professionally and independently by using local resources in order to increase the village's original income. VoE is also expected to be a pillar of economic activity in the village that serves as a social and commercial institution that remains committed to village characteristics.

VoE as a social institution sides with the interest of the community through its contribution in the provision of social services. As a commercial institution, it aims to seek profits through the supply of goods and services to the market. Every government level has different role in making important contributions to VoE (PKDSP, 2007). On the one hand, central government through provincial and districts government has to raise awareness amongst villagers on the importance of VoE so that the improvement of the people's welfare can be realised. On the other hand, the role of village government
is to build a direct relationship with the community. As part of community development efforts, they have to realise the fulfillment of the minimum standard of services. The existence of VoE has not fully produced satisfactory results, even though the central government disbursed the village funds of approximately 60 trillion rupiah (USD 4 billion) in 2017. According to the Ministry of Village, Development of Backward Village, and Transmigration, there are 6,811 VoEs from 74,910 villages in Indonesia or about 9% of villages that implement VoE program. Moreover, only 4,000 VoEs are considered profitable. Based on such a condition, the central government doubled the village fund to about 120 trillion rupiah (USD 8 billion) last year. Thus, in 2018, each village earned a minimum of 1.6 billion rupiah (USD 106,666). Of course, it requires maximum efforts to reduce and even to eliminate the unsuccessful VoE program.

Many studies concluded that the lack of success in managing the VoE program is caused by several factors, as follows: (1). The lack of competence of human resources in VoE and the low availability of funds in the management of VoE were viewed as problems of VoE (Agungunanto et al., 2016); (2). Budiono (2015) argued that the vested individual interests in the management of VoE could contribute to the failure of VoE, so that the benefits of VoE were captured by the elites; (3). Hidayati (2015) stated that the failure was caused by the lack of community participation, as a result of poor communication in the village meetings and weak socialisation from the central government; and (4). The low performance of the management of VoE was also caused by the inability of managers and the dominant role of village apparatus in the management of VoE (Kurniasih, 2017).

From the above arguments, clearly leadership of the village head plays an important role in VoE, so that community empowerment, as well as the efficiency, effectiveness, and responsiveness of VoE programs can be implemented. However, every head of villages have other difficult tasks. While they primarily serve as a mentor in VoE, at the same time they are responsible for organising the village government. They also participate in the implementation of village development, as well as the community development and empowerment. With these enormous responsibilities, the leadership of the village head is in danger of failing, given many problems that the VoE already had in the past.

In this context, Muryusna (2014) investigated the role of village head at Pekan Kamis and found that such a role could not run effectively. Sholikhah’s (2014) study proved that the process of selecting the head of Kutasari village tended to lead to an affective orientation, without considering their intellectual ability. Sarpin (2017) stated that the head of Genjor village had a weak capacity to provide facilities and infrastructure for the community. Meanwhile, Suroso et al. (2014) concluded that low community participation in the village of Banjaran was due to inability of village head to communicate the programs. In another study, Onibala et al. (2017) stated that the low performance of the village head was due to the lack of socialisation of the development plan on Tolok Satu village.

We believe that although the central government doubled the village fund in 2018, it does not necessarily guarantee the success of VoE management. Instead, it depends on the leadership of the village head. Here, we assume that the management of VoE in Indonesia is often done within the management context, which puts more emphasis only on the regularity and consistency to the
organisation, without producing the change and movement. In addition, to achieve the adaptive and constructive change, most of village heads try too hard to achieve order and stability. Based on such assumptions, this study examines the leadership of the village head in the management of VoE. Specifically, we want to identify the factors that influence the village head’s leadership in the management of the VoE in Indonesia.

2. Literature Review

Leadership is a highly sought after and a highly valued commodity, because many people believe that it is a way to improve their personal, social, and professional lives. In another context, organisations are looking for people with leadership abilities who can lead them in gaining profits and respect.

Some researchers interpret the concept of leadership as nature or as behaviour, while others see it from an information processing or relationship perspective. In the past 60 years, a total of 65 different classification systems have been developed to determine the dimensions of leadership (Bass, 2008). In line with this argument, Bass (2008) shed some light on the concept of leadership and a leader, as follows: (1). Leadership is the focus of the group process, where leaders are at the centre of change and group activities; (2). It is a combination of special characteristics possessed by a number of individuals. This trait allows the individual to ask someone else to complete the task; (3). It is viewed as an action or behaviour, which a leader does to produce change within a group; (4). It is seen in terms of the power relations that arise between leaders and followers; (5). It is a transformational process that moves followers to achieve more than what is expected from them; and (6). Knowledge and skills are two prerequisites that can realise an effective leadership.

Based on some limitations on Bass’s concept, Northouse (2013) argued that there were several components of leadership that can be identified as the centre of the phenomenon, where it involved a process, influence, and the same goals, and took place in groups. In Northouse’s concept, the determination of leadership is a “transaction” that occurs between leaders and followers, not the nature that is in the leader. Here, it takes a process through which a leader influences and is influenced by the followers. This emphasises that leadership is not linear and not a one-way event, but an interactive event and that leadership can be owned by everyone, and not limited to leaders who are officially assigned to a group.

Leadership also includes influence. In this context, it cares about the way leaders influence their followers. In addition, it puts attention to common goals. This gives leadership an ethical additional tone or responsibility as it emphasises the need for leaders to work with certain goals. In this context, both leaders and followers are involved together in the leadership process. It is the leader who often starts relationships, creates communication links, and carries the burden of maintaining relationships. Thus, leaders and followers relationships are two sides of the same coin.

Leadership is implemented through operating styles. Such styles are the way the leader speaks and acts to his or her followers. In this context, there are three approaches. A style approach puts attention
on leader behaviour. While a trait approach focuses on the personality characteristics of the leader, a skill approach emphasises the leader's skills. The style approach provides a framework for assessing leadership in a broad way, such as behaviour with task and relationship dimensions. It mainly focuses on what the leader does and how he or she acts (Northhouse, 2013).

In this study, the concept of leadership that we used is based on the style approach. This can determine the factors that influence the leadership of the village head in managing the VoE, both from task and relationship behaviour. The former helps organisational members to achieve goals. While, the latter helps followers feel comfortable with themselves, others, and the situation where they are. Thus, the objective is to influence followers in a bid to achieve the common ground.

A style approach offers a perspective that can be applied to understand the leadership process. It is an empirical one, where leaders can learn many things about themselves and how they deal with others, by trying to see their behaviour in the dimensions of tasks and relationships. The most effective leadership style is the high-level one (ie. high task and high relationship).

3. Methodology

To achieve the objectives of this study, we use a qualitative methodology with a case study. Considering the large number of VoEs in Indonesia, the research sample was focused on the Gisting Bawah Village of Tenggamus Regency at Lampung Province. Such an instrumental case study is used to seek more deeply the problems of leadership, and to look at the phenomenon in a real-life context, so that the sources used in this study should be varied (Yin as cited in Digdowiseiso et al., 2018).

Gisting Bawah Village is chosen as a case study due to several reasons. First, it is one of 6 (six) villages that have the best management of VoE in Indonesia. Second, its VoE has the fastest development, where in 2 (two) years they have the assets of around 4 billion rupiah (USD 266,667). Last, it has a diversity and unity between the moslem community and other religions.

The research informants were focused on Gisting Bawah Village Head, Gisting Bawah Village Section Head, the Director of VoE, Chairperson of the Village Consultative Body, Chairperson of the Village Community Empowerment Institute and Religious Leaders, and Community Leaders of Tanggamus Regency at Lampung Province.

We collected all the data and information through observations, in-depth interviews, and documentation. From here, we implemented a triangulation that included data reduction, analysis and conclusion. Such a process was begun from late September 2018 to late June 2019.

4. Results and Discussions

Based on the concept of thought that the leadership in the village head is seen from what the leader does and how he or she acts gives a framework to assess in terms of task and relationship behaviour.
There are 10 (ten) characteristics of Gisting Bawah village head with regards to task behaviour, as follows:

1). Notify about what should be done.

Effective leadership requires the ability to move and motivate others to carry out orders in managing VoE. In this context, the village head often informs their members about the task in organising VoE affairs with respect to their respective duties. As expressed by the secretary of the Gisting Bawah village head that, "He (village head) always intervened directly in the management of VoE. He gave examples to his employees in managing VoE, even though the management of VoE was and still under the authority of the director of VoE.” From here, we observed that village head often positioned his duties and functions to his subordinates to facilitate all matters in managing VoE.

2). Establish performance standards.

The determination of the performance standards always refers to the existing Standard Operating Procedures (SOP). The director of VoE stated that, "The village head always set a work rules and supervision in managing VoE. The Village Head often told his employees that they had to work hard and gave good examples, even if they had to go to the field.” This is in line with Griffin's (2012) opinion that the process of organisational control can run very well due to the high comparison of the implementation of actual performance. Such action must be in accordance with the performance standards that should be achieved.

3). Give advice on how to solve the problems.

The village head always advises the Director of VoE on how to solve the problems encountered in managing VoE. Community and religious leaders, as well as the director of VoE Mandiri Bersatu agreed to say that, “The village head often asked for input from the Village Consultative Body members. Such inputs were responded positively by giving ideas and feedback suggestions that were more appropriate and logical in managing VoE.” This means that the village head carries out the consultation function in the form of two-way communication, which is considered to have various resources materials needed in determining the decision.

4). Make a clear perspective.

The village head of Gisting Bawah has a firm belief in the truth and knows exactly where the direction is going. All section heads of Gisting Bawah Village revealed that, "Our leader was a person who had a very high ability and willingness to build a village by developing VoE programs that were in line with the potential and characteristics of his village.”
5). Develop an action plan for the organisation.

*Gisting Bawah* village head has the ability to plan regularly and continuously. The director of VoE *Mandiri Bersatu*, and caretaker of *Gisting Bawah* Islamic Boarding School agreed to say that, "He was a person who had creative, strategic and conceptual mindset, even without the support from the central and local government. Take the example of developing clean water installation for *Gisting Bawah* Village, development of *Margo Tirto* Dam tourism, and the management of the Waste Bank. Even, there was a MoU at Islamic Boarding School, where students managed multi-purpose stalls at the end of 2017.” In this context, Northouse (2013) argues that the main function of leadership is to produce change and movement. That is, management strives to achieve order and stability, while leadership strives to achieve adaptive and constructive change. Here, the village head is emotionally active, tries to shape ideas and acts to expand the available choices to solve long-standing problems, and he changes the way people think about possibilities.

6). Establish responsibilities for each member.

The *Gisting Bawah* village head often assigns responsibilities to each of its members so that they can continue to develop in accordance with their respective main duties and functions. All section heads of *Gisting Bawah* Village stated that, "The village head’s instructions for the development of VoE *Mandiri Bersatu* and the tasks of the village administration were often given whether at the morning, at the internal meetings, or even informal communication with the Director of VoE *Mandiri Bersatu*.”

7). Explain its role in the organisation.

To improve the management of VoE *Mandiri Bersatu*, the village head always participates directly, and even he does not hesitate to physically go down to the field to help manage VoE. Community leaders, director of VoE, and all section heads of *Gisting Bawah* Village revealed that, ”The participation of village head in the management of VoE created excitement for all employees, including the managers of VoE *Mandiri Bersatu*”. He always said that, “The leader should Ing Ngarso Sung Tulodo (always set an example to others), Ing Madya Mangun Karso (always give affection), and Tut Wuri Handayani (always give moral and strength support when everyone needs it).”

8). Provide a plan for how to carry out the work.

The *Gisting Bawah* village head provides a plan on how to carry out the work. The director of VoE *Mandiri Bersatu* said that, "If we as managers of VoE experienced the difficulties in managing VoE, such as how to tackle the problems at the Waste Bank, he always gave the direction to plan and endorsed the action to the VoE managers about what should be done, both in terms of licensing or management.”
9). Provide work criteria.

The Gisting Bawah village head always provides work criteria in managing VoE Mandiri Bersatu. All section heads of Gisting Bawah Village and director of VoE Mandiri Bersatu stated that, "The village head always utilised the competencies of the local people who were unemployed to help manage the VoE Mandiri Bersatu." Such actions are in accordance with Jones and George’s (2011) argument that the quality of leader, the performance standards, the current and future targets will be used to evaluate the overall performance of the organisation as a whole. These are a means to measure several characteristics, such as efficiency, quality, customer responsiveness, and innovation.

10). Encourage to do high quality work.

The Gisting Bawah village head always cooperates with others stakeholders. The Director of VoE Mandiri Bersatu and community leaders felt that, "The village head had a very high ability and willingness to work in the management of VoE, even if he was not re-elected to be the village head in the future. Thus, the most important thing was the desire to build a prosperous village for Gisting Bawah community."

Taking into account the point (1) to (10) above, the task behavior of Gisting Bawah village head in managing VoE Mandiri Bersatu is very high. This indicates that the capacity of the village head to influence the beliefs, attitudes and actions of members and managers of VoE Mandiri Bersatu is also very high.

Moving to the relationship behaviour, there are also 10 (ten) characteristics of Gisting Bawah village head, as follows:

1). Always friendly.

In a bid to create a conducive organisational climate, the village head is always friendly with his subordinates. All section heads of Gisting Bawah Village and Director of VoE Mandiri Bersatu stated that, "The friendliness of the village head was marked by the absence of arrogance and discrimination, both in formal and informal activities."

2). Help to feel comfortable.

The village head always helps his subordinates and the managers of VoE Mandiri Bersatu to feel comfortable at work. All section heads of Gisting Bawah Village and director of VoE Mandiri Bersatu revealed that, "There was an action by the village head to fix the facilities and the infrastructure of the head office and the VoE, which were deemed inadequate."

3). Respond happily.

To create high work commitments, the director of VoE Mandiri Bersatu and section heads of Gisting Bawah Village stated that, "The village head always responded happily to suggestions made by his
subordinates and the managers of VoE, as long as the given suggestions were constructive to improve the performance of village government organisations and VoE. He responded to these suggestions both through formal and informal activities.”

4). Treat members fairly.

To create a high level of encouragement or morale, the director of VoE Mandiri Bersatu and section heads of Gisting Bawah Village felt that, "The village head always treated the managers fairly, especially those related to income and profits received by VoE."

5). Be assertive.

To create high discipline, the director of VoE Mandiri Bersatu and section heads of Gisting Bawah Village said that, "The village head always showed a firm attitude to the managers of VoE with the aim to increase income or profits received by VoE.”

6). Communicate actively.

To improve organisational communication effectively, the director of VoE Mandiri Bersatu and section heads of Gisting Bawah Village stated that, “The village head communicated actively with all parties, both formally and informally, especially in relation to the management of VoE.” Such actions support the argument of Pace and Faules’s (1994) study, where the leader must create an environment that supports open exchange of information. This is because complex new problems arise incessantly in the process of modern organisations.

7). Demonstrate concern for welfare.

The director of VoE Mandiri Bersatu and section heads of Gisting Bawah Village felt that, "The village head always showed concern among others regarding on the welfare of his subordinates and the managers of VoE. An exemption of building rent and the fair distribution of profits from the managers of VoE were the two examples of how the village head demonstrated attentive behaviour.

8). Demonstrate flexibility in making decisions.

To create a dynamic organisational performance, the director of VoE Mandiri Bersatu, religious and community Leaders, chair of the Village Consultative Body, and chair of the Gisting Bawah Village Community Empowerment Institute agreed that, "The village head showed the flexibility in making decisions about the management of VoE and in solving the problem of clean water services, garbage, and tourism management issues.” Generally, such flexibility of making decisions is done quickly, where initially, they all make a discussion in coordination meetings with relevant parties.
9). Express thoughts and feelings.

The director of VoE Mandiri Bersatu, religious and community leaders, chairman of the Village Consultative Body, as well as chair of Gisting Bawah Village Community Empowerment Institution felt that, "The village head always expressed the thoughts and feelings to all parties on public service issues. All organisational problems and constraints were generally expressed by the village head, so that all parties knew what he wanted and hoped to achieve in managing VoE.”

10). Associate positively.

The director of VoE Mandiri Bersatu, religious and community leaders, chairman of the Village Consultative Body, as well as chair of Gisting Bawah Village Community Empowerment Institution stated that, "The village head interacted positively with all parties in managing VoE, especially on informal activities.” Such finding confirms our observation, where his behaviour was very helpful in generating enthusiasm and optimism, that stimulated the management of VoE in achieving the stated goals.

From point (1) to (10), the relationship behaviour of the village head in managing VoE Mandiri Bersatu is very high. Such behaviour gives an indication that the capacity of the village head to influence the beliefs, attitudes, and actions of its members is very high.

Based on the overall description above, the leadership of the village head in managing VoE Mandiri Bersatu is categorised as very high task and relationship behaviour. Such leadership is closer to transformational leadership, where a process that changes the managers of VoE, that includes an extraordinary form of influence, drives the VoE managers to achieve more than what is normally expected from VoE managers.

With transformational leadership, the Gisting Bawah village head is required to act as a strong role model for VoE managers. That is, he must have very high standards of moral and ethical behaviour, and can be relied upon to do the right thing. In addition, the village head is required to convey high expectations to the managers of VoE and to inspire managers of VoE through motivation to be loyal and be part of a shared vision in the organisation. In this context, he can use symbols and emotional appeal to focus on the efforts of the VoE managers. Such action will produce a greater result than what the VoE managers will do for the personal benefit of the VoE managers.

Moreover, the village head is required to stimulate the managers of VoE to be creative and innovative and to respect the beliefs and values of VoE managers. In this context, the village head can support the VoE managers when they are trying new approaches and are developing innovative ways to deal with organisational problems. This encourages the VoE managers to think things independently and engage in careful decision making. Also, the village heads are required to provide a conducive climate, in which he/she listens carefully to the needs of each VoE manager. In this context, he/she
can act as a coach and an advisor, while he/she attempts to assist the VoE managers to really realise what they want.

5. Conclusion

This study investigates the village head’s leadership in managing VoE in Indonesia. We also identify the factors that influence the leadership of the village head in the management of VoE. We take an instrumental case study approach on the Gisting Bawah Village, considering the performance of VoE and the dynamic of the community.

In order to give a lesson learned to other VoE in Indonesia, a village head is required to have very high task and relationship behaviour. Such leadership must be transformational, which is required to always: (1). act as a strong role model for VoE managers; (2). convey high expectations to the managers of VoE and to inspire them through motivation to be loyal and be part of a shared vision in the organisation; (3). stimulate the managers of VoE to be creative and innovative, as well as to elevate the beliefs and values of the VoE managers; and (4). provide a supportive climate, where the village head listens carefully to the needs of each VoE manager.

Acknowledgements

We would like to convey a big gratitude to our fellow lectures at Department of Public Administration and Management, University of National for their valuable comments.
REFERENCES


