

# Social Capital and Failure in Village-Owned Enterprises: A Case Study of Cangkudu Village, Balaraja District, Banten-Indonesia

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A Village-Owned Enterprise (VOE) is a commercial institution established for the service of rural communities. This business entity involves a number of people with one common goal. The sustainability of such an institution at the rural level is influenced by many factors, including good relations between government and business entity managers based on strong social capital. This study aims to analyse social capital in the management communications of the VOE in Cangkudu Village, Banten. The results show that the VOE in Cangkudu Village was frozen due to several things, namely: (1) the trust between the management and the village government is low, so institutionally there was a disconnect between the communication and coordination networks in Cangkudu Village; (2) The VOE managers tried to free themselves from the intervention of the Cangkudu Village government; (3) There was a violation of the norm by the manager, especially regarding the loss of communication and coordination or reporting of the VOE activities to the Village Head as the commissioner of the business entity. Thus, the stagnation of the VOE in Cangkudu Village is due to the lack of social capital existing between the village manager and the government.

**Key words:** *Social Capital, Failure, Village-Owned Enterprise.*

## Introduction

The development of rural areas is an integral part of national development. However, in its implementation, rural development still needs improvement so that it can contribute more effectively to national development. Furthermore, qualitatively the implications of rural

development are far from prosperous for the people. This condition has encouraged the central and district governments to design various welfare programs and pursue rural economic development.

Economic development in rural areas has long been carried out through various programs. However, these programs have not produced satisfactory results as desired by the government and the community. Many factors lead to less successful rural development programs. A prominent factor is that government intervention is too dominant. Consequently, this inhibits the creativity and innovation of rural communities when managing and running economic activities in the countryside. The systems and mechanisms of economic institutions in rural areas do not allow for effective operations and have implications for their high dependence on government assistance. This discourages the spirit of community independence.

Based on experience, a new approach that is expected to stimulate and drive the economy in rural areas is the establishment of economic institutions which are managed by rural communities. These economic institutions are no longer established based on government instructions, but they must be based on the wishes of the village community departing from the consideration that if they are managed properly, they will lead to market demand.

The institutional form mentioned above is called the Village-Owned Enterprise (VOE). This business entity has been mandated in Law Number 32 of 2004 concerning the Regional Government (by the previous Law 22/1999) and Government Regulation (PP) number 71 of 2005 concerning Villages. The establishment of the business entity must be accompanied by capacity building efforts and supported by regional policies that facilitate and protect the business from the competitive threat of large capital owners. This business entity is a new economic institution that operates in rural areas and still requires a strong foundation to grow and develop (PKDSP, 2007).

In rural areas the VOE is the main pillar of economic activities that functions as a social and commercial institution. As a social institution, it favours the interests of the community through their contribution to the provision of social services. Whereas, as a commercial institution, it aims to seek profit by offering local resources (goods and services) to the market. In carrying out its business, it has emphasised the principle of efficiency and effectiveness. As a legal entity the VOE is formed based on the prevailing laws and regulations, and following the agreements established in the village community. Thus, the form of VOE can vary in every village in Indonesia. These various forms are aligned with the local characteristics, potentials, and resources of each village.

The Ministry of Villages, Development of Disadvantaged Regions and Transmigration announced that to July 2018, the number of VOEs in Indonesia had reached 35,000 from

74,910 villages throughout the archipelago (Berdesa.com, 2018). This number is six times the target of the Ministry of Villages, which set a figure of 5000 VOE, including VOE in Cangkudu Village, Balaraja District, Tangerang Regency, and Banten Province. The VOE in Cangkudu Village is one of the VOEs that has been active and carrying out various economic activities that have provided income to the village treasury since 2014. Cangkudu Village was once recorded as the recipient of the Village Governance Award from the Ministry of Home Affairs in 2015. Nevertheless, at the end of 2017, it experienced a freeze by the village government. The temporary suspicion behind freezing the VOE of Cangkudu Village was due to the absence of social capital in it. Also, in the village tradition, there is one fundamental idea, namely, that the establishment of the VOE is parallel with the wealth of social capital and political capital as well as influencing the durability and sustainability of the VOE (Putra, 2015).

Based on the description above, the author was motivated to examine the ‘social capital’ that occurred between the VOE management and the village government in Cangkudu Village, because social capital is a collective energy that can facilitate collective action in the development of rural economies. Social capital at the highest level will realise participation and increase community welfare (Handoyo, Setyowati, & Nurkomalasari, 2020).

## **Conceptual Foundation**

### ***The Concepts and Dimensions of Social Capital***

Definitions and the concept of social capital has been written about in various books and journals. Some writers, as quoted by Torrigiani (2016), distinguish between individual and collected social capital, while what is known as social capital is understood as individuals and collectively as a network of actors. However, if social capital is a situational and dynamic concept, as defined by Coleman (1988), we agree not to look at actors, whether individuals or collectives are needed, but at individual or collective actions that are activated by the presence or absence of social capital in each network (Torrighiani, 2016).

When quoting Coleman, Onyx and Bullen (2000) defined social capital as ‘those features of social organisations, such as trusts, norms and networks that can improve the efficiency of society by facilitating coordinated actions’ (Putnam, 1993) or as ‘features of social life — networks, norms and trust — that enable participants to act together more effectively to pursue shared objectives’ (Onyx, 2000).

Torrighiani (2014) summarises several concepts from various writers and researchers, including: (1) social capital refers to the relationship between members of social groups who meet the needs of each actor and contribute to the welfare of society; (2) the social capital at the base of the self-organising ability of the society.

The different aspects of social capital can be brought together into five categories or dimensions (Bertolini and Bravo (2001), in Torrigiani (2016)): (1) Relational dimension: relationship and exchange that binds individuals in a particular context; (2) Normative dimension: norms of behaviour and values internalised by the actors; (3) Cognitive dimension: a set of shared knowledge and information regarding the problems that the actor or group must deal with, including heuristics owned by individuals and the sharing of common meanings; (4) Environmental reliability: relates to the trust in the behaviour of individuals in a given system, reducing uncertainty of the willingness to cooperate of the other actors and transaction costs; (5) Institutions: includes formal and informal institutions, complexes of informal structures, formal rules, and the mechanisms that constitute the rules of human action.

### ***Social Capital, and Economic or Business Organisations***

The term ‘organisation’ or ‘institution’ implies that something tangible encompasses people, relationships and goals. The subjective approach views organisations as activities carried out by people. The organisation consists of actions, interactions, and transactions that involve people. Organisations are created and fostered through the ever-changing contacts people make, and do not exist separately from the people whose behaviour forms the organisation.

From an objective perspective, organisation means structure; while subjectively, organisation means the process of organising behaviour. The emphasis on behaviour or structure depends on which view is adopted. Apart from subjective and objective views, in an organisation, there are several dimensions: involving people, relationships or interactions, goals, behaviour and structure (R. Wayne Pace, 2006).

Subjective and objective perspectives about organisations, if related to the definition and dimensions of social capital, have links with social capital in which there are institutions, relationships, attitudes, and values that govern individual interactions (Slobodan Cvetanović, 2014). Thus, social capital can be said to be objectively categorised as behaviour that must be linked to an economic organisation or institution. In other words, social capital is the main capital and permanent criteria for the operation of economic institutions/organisations in carrying out their functions and roles in realising goals, and to some extent, institutionalising the relationship between individuals and organisations, which facilitates activities and contributes to the creation of economic value and organisational sustainability (Slobodan Cvetanović, 2014).

### **Methodology**

This study employs a qualitative approach. Qualitative research is a research procedure that produces descriptive data in the form of written or oral communication from people along with

behavioural observation. Qualitative research uses data collection perspectives in the form of detailed stories from informants.

Based on this type of data collection, this research is classified into a case study. Case study research is a form of qualitative research that seeks to find meanings, investigate processes, and gain a deep understanding of individuals, groups or situations. Case studies are a type of research that involves research on cases in a context or contemporary real-life setting (Yin, 2013).

This research was conducted between August and November 2018 in Cangkudu Village, Balaraja District, Tangerang Regency, Banten Province. The various stages of this study were carried out by way of several activities, namely: (1) Collection of references or journals relevant to research studies; (2) Preliminary research observations and interviews; (3) Identification of research informants; (4) Researchers compiling interview guides; (5) Post-interview data collection, data processing was carried out, including checking data validity, data reduction, and data analysis using a triangulation method; (6) Research conclusions were obtained after data processing, followed by writing research reports and preparing suggestions. Data was collected through observation and in-depth interviews.

- a. Observations were carried out by making a direct visit to the research location. Researchers directly observed real conditions. Observational evidence provided additional information about the study topic. In this study, observations were made by visiting the Cangkudu village office, the residence of the village head, the VOE management, and related stakeholders.
- b. In-depth interviews were conducted by asking key informants about the facts of an event (Yin, 2013). The interviews were done in a focused and open-ended manner: key informants from this interview were Cangkudu Village Apparatus and VOE Managers in Cangkudu Village.

## **Results**

In achieving its goals, the success of an organisation does not occur instantly but is a result of many factors. From a communications perspective, organisations can be seen to be comprised of multiple diverse elements that influence their success. If an organisation is a system, communication is part of the organisational system which is the main determinant of its success.

In Indonesia, villages represent the lowest level of government structure in the country. A successful country can be seen according to the ability of the lowest government level in

carrying out its functions properly so that it can realise economic growth in the countryside through increasing rural income.

Cangkudu Village is one of the communities in Balaraja Sub-district, Tangerang, Banten City, which can be viewed as progressing and developing. The progress in Cangkudu Village is supported by its success in developing the VOE through steel industry waste management. However, at the end of 2017, the development of the VOE experienced an institutional freeze by the government due to friction and a communication blockage in the management within the business entity. Starting from the time of the freeze, the results of this study explain the social capital that works in the VOE in Cangkudu Village.

As previously mentioned, the success of an institution is due to many factors. Thus, the factors described in the results of this study revolve around the unique elements of social capital that exist in the VOE organisation in Cangkudu Village. The importance of social capital is explained in the results of this study, given that social capital in organisations is such a powerful resource for improving organisational performance. Also, the organisational structure can strengthen or weaken the effects of social capital, by providing greater or fewer opportunities for growth (Andrews, 2010). Social capital is used as one of the indicators of sustainability and the fundamental principles of the VOE (Putra, 2015).

Social capital generally refers to trust, concern for one's peers, willingness to live with one's community norms and punishment for those who do not (Bowles, 2002). Putnam argues that social capital has a positive impact on governance because it allows community members to overcome the dilemma of collective action and encourages working together to improve social life. Social capital, in short, refers to social connections as well as norms and beliefs (Putnam, 1995). Coleman proposed that there were at least three forms of social capital. The first form includes the structure of obligations, expectations, and trust; the second form relates to information channels; and the third form comprises norms and effective sanctions (Coleman, 2000).

The results of this study show that the social capital that is located and operating in the management of the VOE in Cangkudu Village includes the following elements:

**a. *Trust***

The VOE is a village economic institution in which there is a group united by common interests. Thus, the sustainability of the institution and the success of the institution depend upon the level of trust of each member. Trust is often seen as a lubricant, which oils the wheels of various social and economic transactions, and without which it would be very expensive, bureaucratic and require much time (Field, 2011). The results of this study indicate that the

freezing of the VOE in Cangkudu Village is institutional because of the loss of the village government trust in the manager or administrator of the VOE. In this context, it can be emphasised that the success of business institutions requires a culture of trust, which Fukuyama termed as ‘spontaneous sociability’ (Fukuyama, 1995). Therefore, the sustainability of a business institution needs lasting trust amidst the institution. Based on this, Fukuyama establishes trust as the basis of the social order: ‘The community depends on mutual trust and will not appear spontaneously without it’ (Fukuyama, 1995). In the case of a country, trust can be the main basis for building the economy, as shown in the case of Poland, namely, that social capital in the form of trust and a network of relations between the government and all levels of society are the main keys to the smooth implementation of economic development. Fukuyama further states that trust arises when people have a set of moral values that are sufficient to foster honest behaviour towards citizens. The survival of the organisation and large economic institutions is also determined by a healthy and dynamic civil society, which in turn depends on customs and ethics. These are aspects of life that can only be formed indirectly by the willingness to do so, and with a great awareness and respect for culture (Syahyuti, 2008).

Starting from Fukuyama's argument, as outlined above, it can be emphasised that in order for the VOE to run efficiently and play a role in becoming a pioneer of economic development of the community in Cangkudu Village, it must structurally and culturally respect the values of mutual trust. This is because the sustainability of institutions depends on the health of the system and the actors in the institution. Therefore, the freezing of the VOE in Cangkudu Village in 2017 was due to the loss of structural and cultural trust between the functional elements of the institution.

## **b. Norm**

When a norm exists and functions effectively, the norm reflects a form of strong social capital, although sometimes it can be fragile, for example, effective norms that hinder crime and deviant behaviour in an organisation or institution. A community with strong and effective norms regarding the behaviour of young people can take care of society when in an atmosphere of ‘having fun’ (Coleman, 2000).

Social capital is fashioned from informal norms in the form of rules that are deliberately made to support the occurrence of cooperation between two or more individuals. The norms that make up social capital can vary from reciprocal relationships between two friends to more complex relationships. Besides being formed by written rules (for example, in social organisations), establishing cooperation in social interactions is also related to traditional values. These values are honesty, maintaining commitment, fulfilling obligations, and other

reciprocal ties. These types of social values are actually unwritten in a social system which regulates people to behave in their interactions with others (Lendesang, 2014).

Regarding the norms that bind the behaviour of the VOE managers in Cangkudu Village, the results of this research indicates that there were violations committed by the managers around the internal rules of the institution and Ministerial Regulation No. 4 of 2015 concerning the VOE. Due to these violations, the VOE in Cangkudu Village was frozen by the village government because the manager did not comply with the norms mutually agreed upon by the institution.

Normatively, the VOE has rules that have been established at the ministerial level, as well as at the Cangkudu village level. The legal basis was established with the Cangkudu village regulation. Both the village and ministerial regulations are operational guidelines stemming from the establishment, management, and the dissolution of the village-owned enterprises. This means that the success of the VOE can also be supported by the ability of the village economic institution managers to accommodate or implement according to the norms set by the central and village governments.

### *c. Network*

Putnam, Coleman, and Boudieu provide a theoretical framework for the study of the impact of networks on people's life opportunities (Field, 2011). In China, workers who quit their jobs and get other jobs often find success by using their social capital (Zhao, 2002 in Field, 2011).

Social capital is different from other types of capital because it is not the property of any individual or entity. It only exists in interactions between individuals. So, at the group and organisational levels, social capital can be considered collective property. Therefore, as a consequence, if a relationship is terminated, social capital derived directly or indirectly from the interaction is likely to be lost. This leads to a fundamental question, namely, whether social capital is within the actor or within the relationship between individuals (Waldstrøm, 2003). The answer is the network is built through relationships rather than actors.

The creation of social networks does not occur spontaneously but is introduced by the value of trust. Networks with high trust will function better and easier than networks with low trust. Those who experience betrayal from close partners will know how difficult it is for two people to work together when their behaviour is not based on trust.

In the case of the institutional freezing of the VOE in Cangkudu Village in 2017, it was seen in the perspective of social capital from the aspect of the network. A discontinuation of the communication networks that occurred between the VOE managers/administrators and the

government of Cangkudu Village was found to have occurred. VOE managers were found to have rarely built communication or coordination with the village government. Furthermore, the VOE management tried to free itself from the control of the Cangkudu village government. This was one reason why the Cangkudu Village Chief froze the institution.

## **Conclusion**

The establishment of the VOE is a mandate of the law that emphasises the promise of fulfilling demands in the context of village-level developments. The VOE is a pillar of economic activities in the village and functions as a social and commercial institution. VOEs were established with the aim of (1) improving the village economy; (2) increasing village income; (3) improving the processing of village potential, in accordance with the needs of the community; (4) establishing the backbone of rural economic growth and equity. The realisation of these goals is achieved by way of social capital, both structurally and culturally.

Cangkudu Village was categorised as the first village to succeed in establishing a VOE since 2014. However, on its way it stagnated, causing the VOE to be frozen by the end of 2017. Research findings show that the VOE in Cangkudu Village was frozen due to low trust among VOE managers and the village government, where institutionally the communication network between the Cangkudu Village government and the management occurred, the VOE operated to escape the government intervention of Cangkudu Village.

The breakdown in the communication network was due to the low level of trust of the village government towards the VOE management, and it has been established that trust contributes an energy that drives the optimal performance of the institution. Networks with high trust will function more efficiently than communication networks with low trust.

The management of the VOE is bound by the rules, including Ministerial Regulation No. 4 of 2015 concerning VOEs, while at the level of Cangkudu Village, village regulations were also made. The institutional freezing of the VOE in Cangkudu Village also found violations of the norms by the management, especially the loss of communication and coordination or reporting of VOE activities to the village head as the commissioner of the institution. In addition, there was an error in the legalisation of the business, where ideally the VOE business unit is designated as a PT (Limited Liability Company), not a VOE.

Thus, in the establishment of the VOE or business entities engaged in the economic sector, in particular, social capital should function as a lubricant for the interaction and activities of the institution. The success of institutions can be supported by the vital establishment of trust, a good communication network and acting in accordance with existing values or norms.



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