

Examining Government Support: Dynamics of Innovation and Human Capital in VOEs (BUMDES) Performance

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Abstract

This study investigates the role of government support in enhancing the local economy by examining the effect of government support on the relationship between Human Capital, Innovation Capability, and Village-Owned Enterprises (VOEs) performance. The study involved 25 VOEs that participated in financial training provided by the Community and Village Empowerment Office in Wonogiri Regency, using the entire population as the sample. The data analysis utilizing SmartPLS 3.0 revealed that innovation capability positively affects VOEs performance, while human capital does not. Government support did not significantly influence the impact of innovation capability or human capital on performance. Despite substantial government training initiatives, VOEs performance showed limited improvement, highlighting a gap between training efforts and actual outcomes. The research suggests the need for stricter monitoring, better training standards, and ongoing mentorship to fully realize the benefits of external assistance. Additionally, improving managerial capacity through leadership development is recommended. A limitation of the study is the small sample size, focusing solely on VOEs receiving local government support, suggesting future research should examine a wider range of VOEs.

Keywords: BUMDes; village-owned enterprises; human capital; innovation capability; government support; VOEs performance; local economic empowerment

JEL classification: M53, L31, O31, H75, L25

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1. INTRODUCTION

Village-owned enterprises (VOE) have become a key focus in local economic empowerment attempts, as the village government establishes them based on the initiative of the local community. The formation of VOE is driven by community needs and the village's potential (Hidayah et al., 2020). As a local economic institution, VOEs have an essential role

in improving the welfare of rural communities through the development of various economic businesses at the village level (Larasdiputra et al., 2019). VOE activities positively influence the community, including expanding employment and business opportunities, improving community welfare, and contributing to regional development (Purbasari et al., 2019). As a VOE business institution, it also faces challenges and competition in an increasingly complex market, so the results of VOE performance and competitive advantage are primarily determined by its supporting factors both from an internal and external VOE perspective (Hidayat & Sulastri, 2019). Many researchers and business professionals recognize innovation as a critical factor in gaining a competitive advantage and maintaining competitiveness and growth (Rajapathirana & Hui, 2018). Therefore, the ability and awareness of the importance of innovation greatly influence the performance of VOE (Karadag et al., 2023).

In general, innovation capability is a factor underlying behavior and innovation that can encourage or hinder innovative behavior and innovation (Naranjo-Valencia et al., 2016). For example, innovation capability enables a business to respond quickly to changing customer needs through product or service innovation (Otache & Usang, 2022). Recently, researchers have highlighted the role of innovation capability in saving SMEs and companies during the economic crisis during the COVID-19 pandemic; in previous studies, Otache & Usang (2022) and Shafi (2020) proved that innovation capability is an internal organizational competency that can improve the performance of SMEs during the economic crisis. Based on the results of these studies, it cannot be denied that innovation capability plays an essential role in improving business performance.

When discussing internal factors that affect VOE performance, it cannot be separated from the ability of employees to manage the business itself; this variable is often called human capital. Human capital is considered necessary because of the change in its role, which was initially only tangible assets or tangible assets such as land and buildings. It is now an investment in intangible assets whose role is essential for the organization (Fevriera et al., 2022). Human capital includes knowledge, expertise, ability, and skill possessed by humans as capital or assets of the company (Gaol, 2014). This aspect becomes an internal factor for VOEs in achieving performance optimization. However, the variables that determine VOE performance are not only supported by the internal aspects of the organization. External factors such as support from the government also have a significant role in shaping the environment that supports the growth and development of VOEs (Park et al., 2020). The government supports VOEs depending on their characteristics, as each VOE has a distinct business character (Nihayah et al., 2024). Government support can be in the form of policies that support access to credit and business development through production, processing, marketing, human resources, design, and technology (Persada et al., 2020).

In the context of the research, the Wonogiri Regency has provided training support, including training on the preparation of VOEs financial reports by the Decree of the Minister of Villages, Development of Disadvantaged Regions and Transmigration 136 of 2022 (Kepmendesa 136, year 2022) on guidelines for preparing VOEs financial reports. This training is targeted at VOEs in the growing category in Wonogiri Regency that have

specifications that work in the financial sector. This training also brings in VOEs engaged in finance that already have a significant business turnover; this is intended to provide examples to VOEs that VOEs financial transparency and accountability are essential if VOEs want to develop into advanced VOEs. Rachmadani et al. (2023) research shows that the training enhances skills and increases knowledge for future work. So further research is needed on whether the training provided by the government has a good effect on the performance of VOEs.

Research by Otache & Usang (2022) has examined the moderating role of GS in the relationship between innovation capability and SME performance during the economic crisis. This study argues that although strong innovation capability is necessary for rapid and successful innovation and can have a positive impact on SME performance in times of economic crisis, external support from the government in terms of favorable fiscal and monetary policies, as well as financial assistance, can help increase the positive impact of innovation capability on SME performance in times of economic crisis.

Indeed, there have been several studies (Kamukama et al., 2010; Saunila et al., 2014; Tran & Tron, 2023; Zulu-Chisanga et al., 2021) that discuss the effect of innovation capabilities, human capital, and government support in SMEs, but so far, no one has examined the VOEs sector; this is because VOEs have organizations that have business boundaries and are not more flexible than SMEs and VOEs are not only engaged as profit institutions. Therefore, it is essential to research the effect of innovation capability and human capital on the performance of VOEs moderated by government support. Understanding how these internal and external factors interact can provide better insights into developing appropriate strategies and policies to enhance the role and contribution of VOEs in local economic development. Therefore, this study aims to investigate the relationship between innovation capability, human capital, government support, and the performance of VOEs. This study also focuses on government support in the form of training in preparing VOEs financial statements for VOEs engaged in finance, so this study will sample village enterprises that have received financial training provided by the local government. A better understanding of the factors that influence VOE performance is expected to contribute to improving the effectiveness of local economic empowerment programs at the village level.

2. THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES

2.1 Resource Based View Theory (RBV)

The Resource-Based View (RBV) theory, first introduced by Wernerfelt (1984) emphasizes the importance of rare, valuable, difficult-to-imitate, and irreplaceable internal resources as the basis of competitive advantage. According to this theory, firm performance is largely determined by managers' ability to utilize and maintain unique and valuable resources (Barney & Arikan, 2005). Nimtrakoon (2015) states that not all company resources have the same value in creating sustainable competitive advantage. RBV allows companies to achieve sustainable competitive advantage through the use of diverse resources. Companies that have rare and valuable competencies will gain a greater competitive

advantage over their competitors. RBV also states that firm resources are more influential than industry structure in gaining and maintaining competitive advantage. This approach sees organizations as a collection of unique assets and capabilities, where each company has different experiences, assets, capabilities, and cultures that affect the efficiency and effectiveness of its operations. By utilizing the right and optimal resources, companies can achieve sustainable competitive advantage.

Innovation capability, as one form of internal resource, plays an important role in RBV. A company's ability to innovate, create new products, and develop more efficient processes are assets that can provide a sustainable competitive advantage. Continuous innovation enables companies to adapt to market changes, better fulfill customer needs, and face industry challenges. Thus, innovation capabilities that are unique and difficult to replicate can strengthen a company's competitive position in the market. In addition, human capital is also an important component in RBV. High-quality human resources with rare skills and knowledge play a role in the development of innovation capabilities and operational effectiveness of the company. Skilled and dedicated managers and employees can manage the company's assets and capabilities more effectively, create and implement innovative strategies, and maintain competitive advantage through hard-to-replace capabilities.

2.2 Human Capital and Village-Owned Enterprises Performance

The literature about Village-Owned Enterprises in Indonesia, governance, and accounting information systems are widely recognized as foundational to their operational success. Research by Sabilla et al. (2022) demonstrates how robust governance practices, characterized by transparency and accountability, significantly enhance the performance of these enterprises. This aligns with broader findings in the field, which suggest that well-governed organizations are more efficient and effective in their operations Sofyani et al. (2019). Additionally, integrating sophisticated accounting information systems is crucial, as Sabilla et al. (2022) highlighted, for providing timely and accurate financial data, facilitating informed decision-making, and maintaining fiscal accountability.

The performance of VOEs is also significantly influenced by human factors such as team member engagement and leadership. Sofyani et al. (2019) identify the patriotism and passion of employees, motivated by a strong sense of community and commitment to local welfare, as key drivers of organizational success. Furthermore, transformational leadership is pivotal in VOE performance, where leaders who inspire and foster innovation can elevate organizational effectiveness. These factors suggest that a comprehensive approach that combines effective management practices with a supportive and motivational human resource strategy is essential for the sustainable success of VOEs. Human capital is a critical determinant in the performance of VOEs, playing a pivotal role in shaping their effectiveness and sustainability. A study conducted in middle-income countries found that disparities in human capital have contributed to income inequality (Mohd Arshad & Ab Malik, 2015). In the context of VOEs, human capital refers to the attributes, knowledge, skills, and experiences that employees bring to their roles within these enterprises (Saroj et al., 2024). The quality of human capital directly influences how these organizations manage their

resources, execute operational strategies, and fulfill their economic and social objectives in rural areas.

Training and education are the cornerstone for enhancing employees' capabilities within VOEs. The landscape in which these enterprises operate often involves complex socio-economic dynamics due to their deep integration within local communities. This integration demands a versatile skill set from employees, spanning technical knowledge to nuanced community engagement strategies. Continuous professional development programs tailored specifically for VOEs can address these needs by providing training that enhances the technical skills required for specific industries, such as agriculture or crafts, and soft skills, such as leadership, communication, and conflict resolution (Roh et al., 2021). This multifaceted training approach ensures that employees are proficient in their technical roles and adept at fostering relationships within the community, which is vital for the success of any community-centered business (Prasetya et al., 2023).

Furthermore, specialized training programs can focus on specific areas crucial for the operation and growth of VOEs, such as financial management, digital literacy, and marketing strategies. These training programs help bridge the gap between traditional business management methods and modern techniques that leverage technology and innovative business practices. For example, educating VOE employees on e-commerce platforms can open up new market opportunities that were previously inaccessible. This not only enhances the business prospects of VOEs but also brings them into the larger digital economy, substantially boosting their competitiveness and market reach (Ihsan et al., 2021). Based on the background and literacy that has been mentioned, the hypothesis proposed is:

H1. Human Capital is positively related to Village-Owned Enterprises Performance

2.3 Innovation Capability and Village-Owned Enterprises Performance

The capacity for innovation within Village-Owned Enterprises significantly impacts their performance and sustainability, shaping their ability to respond to environmental changes and meet community needs effectively. Innovation capability in VOEs is developing new products, services, or processes that enhance the enterprise's competitive advantage and community value. This capability is crucial as it enables VOEs to exploit local resources creatively and introduce solutions well-adapted to the unique challenges and opportunities of rural economies (Huang et al., 2020). One of the primary drivers of innovation in VOEs is the adoption of technological advancements. By integrating new technologies into their operations, whether in agricultural practices, product development, or customer service, VOEs can improve efficiency and expand their market reach. For instance, leveraging digital tools for better inventory management or online marketing can open up new sales channels and improve the visibility of their products beyond local boundaries (Prasetya et al., 2023).

However, the challenge often lies in accessing these technologies, given the limited infrastructure in rural areas, which calls for targeted support from governmental and non-governmental organizations. Collaboration is another crucial aspect that enhances the innovation capabilities of VOEs. By forming partnerships with local universities, research institutions, and other businesses, VOEs can tap into a wider pool of knowledge and

resources. These collaborations can lead to the development of new products tailored to local tastes and resources or innovative business models that address specific community needs, such as cooperative marketing systems or community-based tourism initiatives. Such collaborative efforts drive innovation and strengthen the community's social fabric.

The capability of Village-Owned Enterprises (VOEs) fundamentally determines their effectiveness and sustainability, influencing their ability to adapt and respond to the changing economic and social landscapes of rural communities. Capability in this context encompasses various dimensions, including operational efficiency, innovation, community engagement, and strategic resource management (FarC`nik & IsteniC`, 2020). These capabilities are crucial as they enable VOEs to utilize local resources optimally and develop solutions that effectively address specific community needs. Operational efficiency is a crucial capability for VOEs, ensuring that these enterprises can manage their day-to-day activities to maximize resource use and minimize waste. This involves adopting effective business practices, streamlined processes, and utilizing productivity technologies. For instance, VOEs might implement advanced agricultural techniques in farming communities or introduce efficient logistical systems to improve the distribution of goods and services. By improving operational efficiency, VOEs increase their profitability and ability to deliver value to the community sustainably (Nugroho, 2020).

Innovation is another critical capability that allows VOEs to stay relevant and competitive. This includes developing new products or services, implementing new business models, and adapting processes that meet the community's and market's evolving demands. Innovation in VOEs often requires a deep understanding of local challenges and opportunities, encouraging culturally and contextually appropriate solutions. Whether through developing new agricultural products, leveraging digital technologies for market access, or creating sustainable tourism offerings, innovation helps VOEs generate significant social and economic impact (Sabilla et al., 2022).

Community engagement capability is vital for the success of VOEs, given their community-centered missions. This capability involves effectively communicating with community members, understanding their needs and preferences, and involving them in decision-making. VOEs with strong community engagement practices are better positioned to build trust and secure community buy-in, essential for the smooth implementation of projects and initiatives. Moreover, active community participation can provide VOEs with valuable insights and ideas, fostering a collaborative approach to local development. Strategic resource management is another essential capability, enabling VOEs to allocate and utilize their financial, human, and natural resources efficiently. Effective resource management ensures that VOEs can sustain their operations over the long term while maximizing the benefits delivered to their communities. This might involve financial planning, talent development, and the strategic use of natural resources, all aligned with the enterprise's goals and the community's well-being (Asmawanti et al., 2022). Based on the background and literacy that has been mentioned, the hypothesis proposed is:

H2. Innovation Capability is positively related to Village-Owned Enterprises Performance

2.4 Moderating Role of Government Support

The moderating role of government support in the operational success and sustainability of Village-Owned Enterprises (VOEs) is increasingly recognized as vital, especially in rural areas where economic activities face numerous constraints. These constraints often include limited market access, inadequate infrastructure, and a need for more investment. Government interventions can profoundly influence the effectiveness of these enterprises by providing the necessary resources, frameworks, and incentives that foster growth and innovation. In rural settings, where VOEs primarily operate, the challenges can be particularly daunting. Infrastructure deficits, such as poor road networks, unreliable power supplies, and inadequate digital connectivity, can severely limit the operational capacity of VOEs. Government support in this context can take several forms, including physical infrastructure development. By improving transportation networks, enhancing electricity accessibility, and expanding internet coverage, governments can significantly reduce the operational hurdles faced by VOEs. This infrastructure development not only supports the current needs of VOEs but also attracts external businesses and investors to rural areas, thus creating a more dynamic economic environment (Sofyani et al., 2019).

Subsidies or grants from the government enhance the financial stability of VOEs, helping alleviate capital constraints and enabling these enterprises to scale operations or invest in new technologies. Such financial support is essential during the early stages of a VOE's development, where risks and financial burdens can impede growth. Additionally, government programs aimed at training and building capacity equip VOE managers and employees with the skills and knowledge needed to manage operations and compete in broader markets effectively. These training programs cover crucial areas such as financial management, marketing, and strategic planning, which are fundamental for the long-term sustainability of VOEs. Moreover, supportive government policies that create favorable regulatory environments can dramatically reduce the administrative burden on VOEs. These policies include simplifying licensing processes, providing tax incentives, or offering benefits designed for rural and community-based enterprises. Such a regulatory framework enables VOEs to focus more on core activities than bureaucratic hurdles (Carvache-Franco et al., 2022).

Infrastructure development also plays a crucial role in the success of VOEs. Government investment in infrastructure such as roads, telecommunications, and utilities can significantly enhance the operational capabilities of VOEs (Sebayang & Sebayang, 2020). For example, improved transportation networks facilitate more accessible market access, while enhanced internet connectivity opens digital avenues for business expansion. It is crucial for VOEs looking to broaden their market reach and operational scope. The government can foster partnerships between VOEs and critical stakeholders like private companies, non-governmental organizations, and academic institutions. These collaborations can provide VOEs access to additional resources, expertise, and networks, facilitating innovation and diversification of their operations. Government facilitation of such partnerships enhances the competitiveness and impact scope of VOEs.

Government initiatives to promote Village-Owned Enterprises (VOEs) through public campaigns and other marketing strategies are essential for enhancing the visibility and credibility of these entities. When governments actively engage in promoting the successes of VOEs, they help create a positive public perception, which is crucial for building trust and support among the community (Saygılı & Özdemir, 2021). Public campaigns can highlight success stories, showcase the benefits of VOEs to the local economy, and demonstrate their role in promoting sustainable development. Such promotional activities increase community support and encourage other regions to adopt similar models, thereby broadening the impact of VOEs. Targeted marketing initiatives can help VOEs attract new customers and enter previously inaccessible markets. By leveraging traditional and digital media, governments can effectively broadcast the unique products or services offered by VOEs to a broader audience. This can include features on local news channels, articles in major publications, and active social media campaigns highlighting specific products, seasonal offers, or the unique aspects of VOEs that appeal to socially conscious consumers. Such exposure is invaluable for VOEs, opening new business opportunities and diversifying their customer base. Based on the background and literacy that has been mentioned, the hypothesis proposed is:

H3. Government Support is positively related to moderating the relationship between Human Capital and Village-Owned Enterprises' Performance.

H4. Government Support is positively related to moderating the relationship between Innovation Capability and Village-Owned Enterprises Performance

Based on the hypothesis proposed, the research framework can be seen in Figure 1.

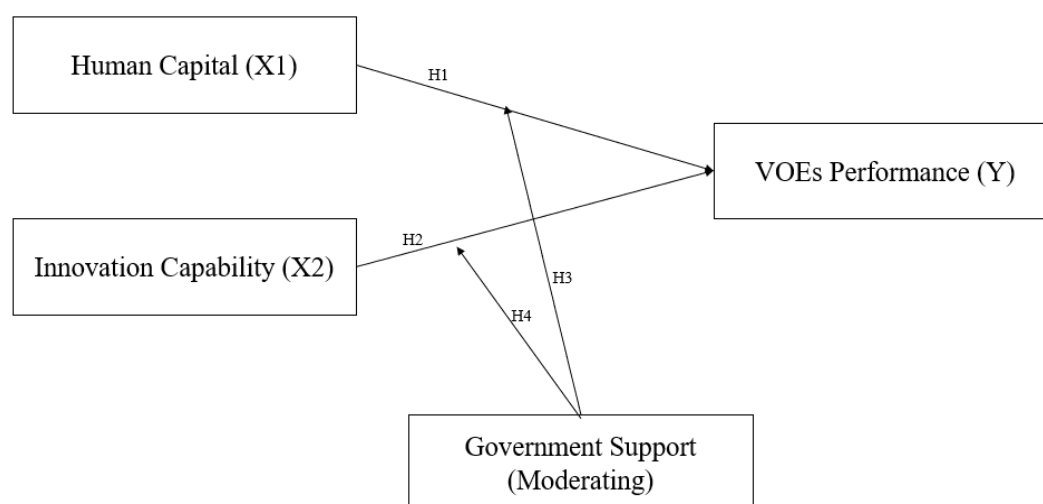


Figure 1. Research Framework

3. RESEARCH METHOD

This study is quantitative and descriptive in nature, aimed to give a more detailed picture of a symptom or phenomenon that occurs and is carried out on VOE in Indonesia. A saturated sample was used since the population consisting of 25 VOEs who attended financial training provided by the Wonogiri Regency Community and Village Empowerment Office was the sample used as a whole. Data was collected using a questionnaire, with a measurement of Likert scale 1-5. With 1: strongly disagree, 2: disagree, 3: neutral, 4: agree, 5: strongly agree. Partial Least Square (PLS) analysis approach was utilized with the SmartPLS software (Hair et al., 2024). Evaluation of the Partial Least Square (PLS) model was carried out with evaluation outer model and evaluation inner models.

4. RESULTS AND DISCUSSION

4.1 Data Analysis

Outer Model

Testing the outer model in this study focuses on the relationship between the relationship of each indicator to the research variables. Outer model analysis is to ensure that the measurements used are suitable for measurement. Outer Model is a measurement model consisting of indicators and the paths that connect them to their respective factors. The validity test involves evaluating outer loadings and Average Variance Extracted (AVE), while the reliability test is conducted using Composite Reliability (CR) and Cronbach's Alpha (CA). Together, these tests assess the accuracy and consistency of the measurement model (Hair et al., 2024).

The validity test is shown in the results of the outer loadings test and the AVE test, the indicator is declared valid when outer loadings are greater than 0.70 while the outer loadings value of 0.60 is considered moderate/sufficient, based on these criteria, outer loadings below the value of 0.6 is discarded or dropped from the model. Meanwhile, Average Variance Extracted (AVE) is used to test the validity of variables. A variable is considered to have a good level of validity if it has an AVE value ≥ 0.50 (Hair et al., 2024). Meanwhile, a Reliability test is carried out to ensure that there are no problems related to measurement. The reliability test was carried out using Composite Reliability (CR) and Cronbach's Alpha (CA). Composite Reliability and Cronbach's Alpha testing aims to test the reliability of instruments in a research model. Variables can be said to be reliable if they have a Cronbach's Alpha value is equal and greater than 0.6 or a composite reliability of 0.7 (Hair et al., 2024). The results of the validity and reliability test are in Table 1.

Table 1. Validity and Reliability Test

Variable	Indicator		Loadings Factor	AVE	CR	CA
Government Support	I feel that the government provides the necessary technical support for VOEs.	GS1	0.720	0.572	0.873	0.888
	The government always provides financial support to VOEs	GS2	0.752			
	The government helps VOEs to obtain raw materials and equipment needed for operations	GS3	0.816			
	The government allocates special funds for VOEs	GS4	0.633			
	The government always provides support to VOEs	GS5	0.860			
	Government assists in the form of training VOEs employees (for example; financial training)	GS6	0.735			
Human Capital	In carrying out its activities, VOEs always involve active participation from all employee members when making decisions related to VOEs development.	HC1	0.891	0.699	0.855	0.902
	Our VOEs have high work effectiveness.	HC2	0.881			
	VOEs support the welfare and happiness of community members as well as the VOEs members themselves.	HC3	0.810			
	Every employee is always involved in the operational and management activities of the VOEs.	HC4	0.755			

Variable	Indicator		Loadings Factor	AVE	CR	CA
Innovation Capability	VOEs can generate new ideas and innovations to update products in order to improve the services and economic potential of the village.	IC1	0.816	0.623	0.899	0.920
	VOEs often seek knowledge and information from external parties (such as government agencies, academics, or other organizations) to support development and innovation in the village	IC2	0.858			
	Individual initiatives from community members or VOEs members are encouraged and valued in the VOEs development process	IC3	0.819			
	VOEs keep abreast of the latest developments in fields related to VOEs i.e. such as village development, financial management, or marketing of local products	IC4	0.754			
	The average VOEs employee has specialized skills or experience that can be contributed to improve the performance of the VOEs	IC5	0.758			
	VOEs managers have the ability to plan and implement activities that support VOEs development	IC6	0.771			
	VOEs employees have good skills so that they can adjust to the demands and changes in the VOEs environment	IC7	0.740			

Variable	Indicator		Loadings Factor	AVE	CR	CA
VOE Performance	VOEs employees are able to complete the work well because they have good skills in doing VOEs tasks	P1	0.843	0.701	0.893	0.921
	VOEs employees work well because they can complete their work faster than the specified time limit	P2	0.824			
	VOEs employees are always on time in going to work and in completing the work assigned to them.	P3	0.855			
	In conducting its operational activities, our VOEs make good use of existing resources (such as human resources, technology, capital, etc.)	P4	0.882			
	Our VOEs employees always work well and do not need to be supervised and can carry out their own tasks without asking for help and guidance from others.	P5	0.781			

Source: Smartpls 3.0 data processing, 2024

Table 1 shows that the results of the validity and reliability test of the research instrument are valid because all indicators have loadings factor greater than 0,7 and AVE greater than 0,5. Moreover, all indicators are reliable since all latent variable values have a composite reliability value of equal or greater than 0.7 and Cronbach's alpha of equal or greater than 0.6. Therefore, it can be concluded that the questionnaire used as a research tool is valid dan reliable.

Inner Model

1) R-Square

The R-square value is a value that will show how much influence the simultaneous independent variables used in and outside of this study have on the dependent variable. Hair et al. (2024) provide criteria for R² values of 0.67, 0.33 and 0.19 as strong, moderate, and weak consecutively. An R-Square value below 0.33 - 0.19 is declared to have a low value, then 0.33 - 0.67 has a moderate value, while a value of 0.67 and above it has a strong value.

Table 2. R-Square

Dependent Variable	R Square	Dec
VOE Performance	0,851	Strong

Source: Smartpls 3.0 data processing, 2024

Based on the results shown in Table 2, it can be concluded that the simultaneous influence of Innovation capability, human capital, and government support on VOE performance is 0.851 which classified as strong.

2) Hypothesis Testing

After testing the outer model and inner model, the next step is to test the hypothesis by examining the T count and P value values, following the testing of the outer and inner models. If $t\text{-count} > t\text{-table}$ and $P\text{ Value} < 0.05$ (sig. 95%), the hypothesis is deemed accepted. The path coefficient of the bootstrapping approach in the SmartPLS program shows the hypothesis testing findings as follows.

Table 3. Hypothesis Test

Path coefficient	Original Sample	T Statistics	P Values	Dec
Human Capital -> VOE Performance	0,168	0,896	0,371	Rejected
Innovation Capability -> VOE Performance	0,656	4,059	0,000	Accepted
Moderating Effect GS x HC -> VOE Performance	0,477	1,896	0,059	Rejected
Moderating Effect GS x IC -> VOE Performance	-0,374	1,704	0,089	Rejected

Source: Smartpls 3.0 data processing, 2024

4.2 Discussion

Based on the results of this study, the effect of Human Capital on the performance of Village-Owned Enterprises (VOEs) was found to be positive but not significant. This suggests that although an increase in Human Capital slightly improves VOE performance, the effect is not strong enough to be considered statistically significant. This finding is consistent with existing literature, such as Mohd Arshad & Malik (2015) study which states that the quality of human capital has a direct impact on the effectiveness of an organization's resource management and operational strategies. However, this influence may not be maximized in VOE if it is not supported by other factors, such as technical support and adequate resources. Previous research by Saroj et al. (2024) also emphasized that human capital, which includes knowledge, skills and experience, is critical to VOE performance. However, in this study, it is evident that simply increasing employee participation and work effectiveness is not enough to significantly improve VOE performance if there is no strong support in the form of training or additional resources. These results indicate the need for a more comprehensive approach, which relies not only on human capital but also on other aspects of operational support.

The results show that Innovation Capability has a positive and significant influence on VOE performance. This means that VOE's ability to create new ideas, innovations, and encourage individual initiative has a strong impact on improving performance. This finding is in line with the Resource-Based View (RBV) theory by Barney & Arikan (2005), where innovation is one of the valuable and difficult-to-imitate internal resources, which can be a sustainable competitive advantage. Previous research by Huang et al. (2020) also found that high innovation capabilities enable organizations to adapt to market changes, as well as better meet consumer needs. Thus, VOEs that can continuously innovate will be more responsive to environmental changes and market demands. For example, in the context of VOEs, innovation in local product development and the application of digital technology can help open new markets and increase competitiveness at the national and international levels (Prasetya et al., 2023).

This study also shows that government support is not able to significantly moderate the influence of Human Capital and Innovation Capability on VOE performance. This indicates that although government support in the form of technical, financial, raw materials, and training exists, it is not strong enough to strengthen the influence of Human Capital and Innovation Capability on VOE performance. Previous research by Sofyani et al. (2019) also highlighted the importance of government support, especially in the form of infrastructure development and human resource training. However, this research confirms that such support should be more focused and relevant to the specific needs of VOEs to make its impact more pronounced. Roh et al. (2021) suggested that training programs tailored to the needs of VOE industry sectors, such as agriculture and crafts, would be more effective in improving employee competencies. Sabilla et al. (2022) highlighted that government support in the form of training and infrastructure is crucial to the success of VOE in Indonesia. However, if this support is not targeted or intensive enough, its impact on VOE performance may be limited. This research emphasizes that government support needs to be more strategic and relevant in order to truly strengthen the influence of Human Capital and Innovation Capability.

The results of this study demonstrate that, despite the training's clearly defined goal and the best possible government support, government assistance is insufficient to raise VOE performance by enhancing the impact of human capital and innovation capability. This is evident from the fact that despite the training, there was no discernible increase in performance. The lack of a defined standard to guarantee that the training is truly applied by VOE staff is one of the primary causes of the lack of effect that government support has on the organization's performance. Even though the training is perhaps highly beneficial and educational, its effect on VOE performance cannot be assessed in the absence of a system to track and measure its implementation. Furthermore, the VOEs staff members themselves must be willing and committed to putting the training outcomes into practice. The efficacy of training is contingent upon the employees' strong motivation to apply the acquired knowledge and abilities. The training won't significantly alter daily procedures or, ultimately, the VOE performance if the staff members lack a strong drive to do so.

5. CONCLUSIONS

This study shows that Innovation Capability has a positive and significant effect on VOs Performance, while Human Capital has no significant effect. In addition, government support does not moderate the effect of these two variables on VOs performance. This finding emphasizes the importance of innovation capability in improving VOs performance and shows that government support does not necessarily strengthen the influence of other variables on VOs performance. The findings show that although the government has made extensive training support available, such as financial report preparation in line with Kepmendesa 136 of 2022, this has little effect on VOs performance on its own. The study draws attention to a critical gap, there are no systems in place to guarantee that VOs staff members are using the training correctly. The potential advantages of this kind of training are not completely realized in the absence of precise benchmarks and ongoing oversight. Furthermore, training results in better performance largely depends on the drive and dedication of the VOs personnel.

The study offers suggestions for a more targeted and methodical approach to assisting VOs, both in terms of enhancing internal resources and raising the standard of outside assistance. Suggested steps include implementing rigorous monitoring and evaluation mechanisms, enhancing employee motivation through incentives and continuous training, and offering ongoing mentorship. Furthermore, strengthening management capacity through leadership and strategic decision-making training is essential. The limitations of this study are that it only focuses on examining village enterprises that receive financial training from the local government so the sample taken is limited, it is hoped that further research will examine village enterprises widely.

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