

## THE ROLE OF TRUST, NETWORKS AND INSTITUTIONS ON THE PERFORMANCE OF VILLAGE-OWNED ENTERPRISES AND COMMUNITY ECONOMIC EMPOWERMENT IN VILLAGES

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### Abstract

Trust, networks, and institutions as local wisdom in villages are often overlooked, even though local wisdom is social capital that plays a role in bridging the performance of village-owned enterprises or BUMDes in empowering the village community's economy. The purpose of this study was to determine the influence of trust, networks, and institutions, as well as BUMDes performance on the economic empowerment of village communities. The Cluster Sampling technique was used to determine the sample and obtained a sample of 194 as well as being used as a research sample from 30 BUMDes spread across West Sumatra Province that had complete reports to the relevant agencies, then the questionnaire was distributed to supervisors, BUMDes directors, BUMDes employees, and BUMDes customer communities and the questionnaire was assessed using a circle scale. The data were analyzed using SPSS statistical software (version 25), then instrument testing consisting of validity and reliability testing using Smart-PLS software. The results of the study showed a direct positive effect of trust and network variables on BUMDes performance, and the influence of BUMDes performance on community economic empowerment. Institutions do not have a significant influence on BUMDes performance, but have a significant influence on community economic empowerment. The novelty of this research is to investigate the influence of social capital and BUMDes performance on community economic empowerment. The research implications expand the theory of social capital that positively influences the growth of BUMDes performance and has practical impacts for policy makers in increasing rural economic empowerment.

**Keywords:** Economic Empowerment, Social Capital, Village-Owned Enterprises.



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### INTRODUCTION

Progress and development in rural areas of developing countries are closely related to the development of village government institutions, village economic institutions or village business entities that aim to improve the economic welfare of rural communities (Maji and Laha, 2023). The presence of

Village-Owned Companies (VOC) or in Indonesia called BUMDes, where the existence of BUMDes in rural areas can overcome the limitations of large economic institutions or large financial institutions, both government-owned and private institutions, because these institutions have limitations in reaching remote rural areas, this is where the importance of the existence of BUMDes to answer the problem of rural economic empowerment (Nasfi et al., 2023).

As an official economic institution, BUMDes plays a key role in managing BUMDes practices through formal governance (Kusuma et al., 2020; Anroni et al., 2023). However, due to large populations, long distances, limited resources, the isolated and culturally conservative nature of rural communities, and a lack of tangible resources, there are challenges in carrying out BUMDes functions (Alcendor, 2021; Räsänen and Tuovinen, 2020). Anroni et al. (2023) show that BUMDes primarily rely on local resources and capacities to achieve good performance (Anroni et al., 2023). Local resources and capacities are closely related to local culture and community cohesion in improving collective well-being (Karimi et al., 2025). According to Nasfi (2023), local elements such as trust, networks and institutions which are included in social capital can contribute to the success of government programs in rural areas and are important factors in empowering the community's economy in achieving economic prosperity.

Research on the influence of local resources and capacities, such as social capital in the form of trust, networks, and institutions, on the performance of Village-Owned Enterprises (BUMDes) and community economic empowerment is still limited, and has primarily focused on financial issues, village funds, and village government bureaucracy, as supported by studies (Arifin et al., 2020). Trust, networks, and institutions are key components of local wisdom that require attention to achieve economic empowerment in rural communities (Atahau et al., 2020). Social capital is determined based on these three dimensions. Therefore, social capital has the advantage of bridging the relationship between local wisdom and performance in BUMDes. Mutual trust and adherence to norms within a community are forms of social capital and contribute to happiness levels, both in lifestyle and economic aspects (Kislev, 2020). Rudito (2022) argues that social capital serves as a means to achieve economic growth through trust, the application of norms, and networking to enhance the economy (Karimi et al., 2025; Rudito et al., 2022).

Social capital theory can identify and analyze the social resources utilized by organizations to achieve performance (Igalla et al., 2020; Subramony et al., 2020). The main objective of this research is to explain the influence of social capital on BUMDes performance, which has been rarely and insufficiently studied, some individuals, researchers, and decision-makers argue that social capital (trust, norms, and social networks) has little impact on rural economic well-being. However, this assumption is inaccurate, according to numerous empirical studies and development theories. On the contrary, social capital is actually a crucial element that is often a key driver of rural economic development (Algan, 2018), while the influence of trust, networks, and norms on improving BUMDes performance has been extensively researched (Aritenang, 2021). Juniasih (2020) states that BUMDes requires not only financial capital but also trust, networks, and norms from stakeholders to improve performance and positive influence on economic welfare (Antoni et al., 2019; Juniasih et al., 2020). BUMDes faces different challenges compared to urban organizations, where local characteristics have a significant impact (Kusuma et al., 2020), as confirmed by the findings of Basri's study (2021) that strong social capital enhances BUMDes performance (Basri et al., 2021). Rural communities often face limitations (Lowery et al., 2020). The social capital that is not considered by BUMDes is where the research gap lies, the problems and questions that have not been answered in previous research, and this is what contributes to the development of science, especially in solving economic welfare problems in rural areas.

By working BUMDes based on trust, networks and norms there will be no consumer slavery, members of the organization must produce, sell and work according to the will of the company owner to benefit non-organizational and community owners, such as research (Caruana et al., 2021). Consumer slavery is the company as the main regulatory tool, while law enforcement is outsourced to the market (Harris & Nolan, 2022). Consumer slavery can also be eliminated by the role of stakeholders to protect members of the organization or society so that they remain economically prosperous (Smith & Johns, 2020). All of these things can be overcome by trust, networks, and norms from stakeholders to improve BUMDes performance and empower the village community's economy.

Knowledge about village social capital has been contributed by several previous researchers (Richter, 2019; Atahau et al., 2020), but few studies have questioned how local resources and capacities benefit BUMDes from a social capital perspective (Badaruddin et al., 2021). Social capital facilitates BUMDes in utilizing local wisdom (Kusuma et al., 2020; Nasfi et al., 2023), thereby improving its

performance. Therefore, this study investigates the influence of social capital and BUMDes performance on community economic empowerment, because social capital serves as a tool for achieving economic growth (Rudito et al., 2022), and high levels of social capital are important in analyzing the progress of a country's economic development, as individuals with higher levels of social capital tend to have higher levels of happiness compared to those with lower levels of social capital (Kislev, 2020). Based on the description above, the novelty of this research is to fill the gap in previous research that focuses on financial capital to improve the performance of BUMDes in empowering the rural community economy, then another gap in previous research ignores social capital and the type of qualitative research, with quantitative research, the social capital variable is still ignored by prioritizing financial variables or financial factors to achieve BUMDes performance towards rural economic empowerment (Rahayu et al., 2024). With the gap in previous research, this is where the urgency of this research is by making important variables of social capital and BUMDes performance towards rural economic empowerment as a step to solve the problems in this research and to answer the hypothesis questions and the research objectives to determine the influence of trust, networks and institutions that become social capital of rural communities and BUMDes performance on the economic empowerment of rural communities.

This literature review will discuss three important points. First, the significant role of Village-Owned Enterprises (BUMDes) in community economic empowerment (CEP). Second, social capital and the performance of Village-Owned Enterprises (BUMDes). And third, institutions as elements of social capital responsible for community economic empowerment (CEP). The details of each point will be discussed below;

### **Importance of Village-Owned Enterprises To Community Economic Empowerment (CEE)**

Social capital is a capability that emerges within individuals and arises from trust within the broader community. Meanwhile, Casper-Futterman and DeFilippis (2017) state that social capital consists of a set of shared values or informal norms among members of a related social group, based on trust, norms, and social networks (Casper-Futterman & DeFilippis, 2017). Social capital itself represents informal social control, a tangible form where individuals engage in activities to achieve collective goals (Lagaert et al., 2021).

There is limited theory or evidence showing how organizational performance relates to community well-being, as organizational performance has been the primary focus of studies, such as the research by DE Guest (2017), while community well-being is not the primary concern (Guest, 2017; Xu et al., 2020). On the other hand, Inceglu's research (2018) highlights the importance of improving organizational performance, particularly through leader behavior, while community and employee well-being are not significant outcomes (Inceoglu et al., 2018). To address this gap, the critical elements of Community-Based Enterprise (CBE) theory by Peredo and Chrisman (2017) are used to incorporate community well-being. Nasfi study (2023) in Malaysia shows that well-performing companies are supported by prosperous communities, where a strong economic level of the community positively influences organizational performance (Nasfi et al., 2023).

The underlying assumption of Community-Based Enterprise (CBE) theory is that the more community-oriented a society is, the more its members will feel that their membership is a vital part of an organism, as revealed by Peredo and Chrisman; the more members an organization has, the more the community feels their status and well-being improve (Peredo & Chrisman, 2017). Gurău and Dana's research (2018) indicates that regional togetherness, history, culture, and organizational cohesion lead to shared values and, consequently, create a better quality of life as a social system. This interdependence within the community fosters community well-being (Gurău & Dana, 2018). Individuals will perceive their status and well-being as a function of the reciprocal contributions they provide to the community (Raja et al., 2022).

A recent meta-analysis of 43 studies on the relationship between Village-Owned Enterprises (BUMDes) and community economic empowerment shows a positive influence on the well-being of rural communities (Bagnall et al., 2020). Three mechanisms connect CBE performance to community economic empowerment: (1) community engagement leads to community participation, improving individual well-being, and creating a conducive climate for economic empowerment; (2) strengthening community infrastructure results in interconnected community infrastructure, strong support for economic empowerment; and (3) skill development enhances confidence, individual well-being, better job prospects, and a stronger local economy. Recent studies demonstrate the positive impact of Village-Owned Enterprises on community economic empowerment and the improvement of community well-

being in rural areas (Ramly & Mursyida, 2018; Rasmussen et al., 2018; Badaruddin et al., 2021; Kania et al., 2021).

The author proposes that VOE is a form of CBE. CBE is part of a form of community-based social entrepreneurship that focuses at least in part on generating income from trade. It is often located within the geographic community it serves, for example, neighbors (Kleinhans et al., 2021). Meanwhile, VOE is also community-based entrepreneurship located in a village. In addition, it is also defined that CBE (1) is founded by people who live or work in the community on a clear spatial basis; (2) independent, non-profit, managed, and owned by community members; (3) seeks to provide long-term social benefits to the surrounding community by providing goods or services, (4) aims to generate excess through (at least in part) involvement in trade or other economic activities, and reinvest the excess in business or society, and (5) are locally accountable and strongly committed to engaging local communities and other partners, through participatory decision-making and inclusive governance processes (Kleinhans et al., 2021). Although VOE is not truly independent because it is still tied to village institutions, village institutions themselves are relatively autonomous.

Before the writer proposes a hypothesis, the operational definition in this study is explained first. Operational definition of this research presented on Table 1. All the items used in this research can be found in Appendix.

Table 1. Operational definition.

| Variable             | Definition   |
|----------------------|--|
| Trust                | A condition where every community member views other community members as having consistent honesty    |
| Networks             | A condition where every community member helps each other and is solidarity in achieving a common goal |
| Institutions         | The compliance of community members with the prevailing system of norms                                |
| VOE Performance      | The financial achievement of VOE   |
| Economic empowerment | The economic impact that VOE can have on society   |

Based on the above arguments, the authors hypothesize the following relationship between VOE performance and community economic empowerment:

H<sub>1</sub>: VOE performance has a positive effect on community economic empowerment, and the economic well-being of society.

### Social Capital And Village Owned Enterprises Performance

This study's basic social capital theory is Coleman's social capital theory (Cachón-Rodríguez et al., 2022). Social capital is a set of social structures and relations based on three primary elements: trust, networks, and institutions (Preece, 2018). Trust is defined as universally accepted trust, which includes interpersonal trust, trust in leaders, and trust in groups (Kim et al., 2018). Trust includes honesty, fairness, egalitarian attitude, tolerance, and generosity. Networks measures willingness to share or distribute the resources that exist to realize and take advantage of the feeling of sharing the fate of fellow individuals or groups (Sørvoll & Bengtsson, 2020). The networks includes a sense of individual participation, solidarity, cooperation, and equality. Institutions are values shared by individuals in groups, norms or sanctions, and rules in the sense of individual behavior indirectly or explicitly to occupy, help, and participate in group life (Livi et al., 2018). Social Capital has particular relevance for VOE. Social capital is related to trust, networks, and social institutions. Social capital is an intangible resource present in social networks relationships structured in society (Peng et al., 2021). If we compare people with substantial social capital with those who do not, people with substantial social capital understand the needs and potential of the village better.

In addition, individuals with high social capital tend to have higher living standards and better facilities (Fornara et al., 2020; Bebber et al., 2021). Harrison's study (2019) found that higher levels of social capital among individuals or communities reduce the level of poverty in a society (Harrison et al., 2019). In short, social capital is an important determinant of the quality of a human organization, not just financial capital alone, in improving the economy of a community (Antoni. Aimon, H. Nasfi. Ramadonna, Y. Subhan, 2019). Communities with high social capital can effectively utilize their resources and

capacities to address performance challenges better and make collectively supported and appropriate choices to achieve their goals (Sforzi & Bianchi, 2020). Therefore, social capital directly shapes the performance of Village-Owned Enterprises (BUMDes), where communities with high social capital can contribute to BUMDes performance by providing services for themselves. This characteristic will inevitably influence BUMDes performance whenever it aligns with the business strategies of BUMDes. From the resource-based theory perspective (Fernandes et al., 2020), Adetoyinbo (2023) emphasizes that organizational success depends on how resources, strategies, and structures are interconnected, mutually supportive, and interdependent (Adetoyinbo et al., 2023).

Trust and mutual trust here encompass honesty, fairness, egalitarianism, tolerance, and generosity. Mutual trust is defined as universally accepted trust, meaning theoretically trust between individuals, trust in leaders, and groups (Kim et al., 2018). Network refers to the presence of participation among individuals, solidarity, cooperation, and equality. Cooperation, solidarity, justice, and social networks involve the willingness of individuals to share or distribute resources within themselves to achieve and utilize a sense of shared fate among individuals or within groups (Sørvoll & Bengtsson, 2020). Institution represents shared values held collectively by individuals within a group, as well as norms, sanctions, and rules. Institution, shared values, norms, sanctions, and rules reflect individuals' implicit or explicit behavioral attitudes to occupy, assist, and participate with fellow individuals in group life (Livi et al., 2018).

Based on this theoretical framework, the authors determine the second to fourth research hypotheses as follows:

H<sub>2</sub>: Trust has a positive effect on VOE performance.

H<sub>3</sub>: Networks have a positive effect on VOE performance.

H<sub>4</sub>: Institutions have a positive effect on VOE performance.

### **Institutions As The Social Capital Element Responsible For Community Economic Empowerment**

Among the three elements of social capital, institutions have their own uniqueness. In the general literature on social capital, institutions are conceptualized as norms, encompassing trust, networks, and institutions (Kim et al., 2018; Livi et al., 2018; Sørvoll & Bengtsson, 2020). The social capital possessed by a specific community group, in the form of trust, networks, and institutions, enhances community empowerment to create well-being for both the community and the group itself (Liang et al., 2021). However, institutions are broader than the norm (Standish et al., 2021). The use of the concept of institutions in social capital began in the 1990s when a new school of thought emerged regarding the determinants of economic development. Initially, this concept was interpreted as a formal institution, which, together with trust and networks, constitutes social capital. Social capital is built by norms, values, and beliefs. Recently, scholars have used norms, instead of institutions, as a companion component of trust and networks. Livi (2018) see that institutions have a broader meaning, including norms, values, beliefs, and formal institutions (Livi et al., 2018). Institutions become a more fundamental part of networks and trusts through this formulation. This view is also used by the World Bank (2009), which defines social capital as "... the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions" (Sternberg, 2022). Livi (2018), Sørvoll and Bengtsson (2020) also emphasized that institutions are macro elements of social capital, distinguished from micro trusts and meso (structural) networks (Livi et al., 2018; Sørvoll & Bengtsson, 2020).

Even if institutions are conceptualized as norms, they are more fundamental than trusts and networks. Norms, especially reciprocal norms, are the basis for forming trust (Kansanga et al., 2020). Similarly, Bourdieu sees exchange norms as the builder and sustainer of networks (Tuominen & Haanpää, 2022), because norms determine what is considered acceptable or unacceptable. Research shows that norms determine trust (Rafi, 2022). In Putnam and Fukuyama's perspective, norms are the building blocks of a good and prosperous society (Son and Feng, 2019; Wu, 2021). In addition, in contrast to networks and trusts closely related to personal attributes, norms are embedded as part of the social structure. It is built and maintained through continuous articulation and taught through socialization from childhood. Some people can undoubtedly violate norms, but they soon get social action to correct them (Martire et al., 2022). Other scholars view norms as the internal enforcement force of behavior (Pagliacci et al., 2020).

Meanwhile, (Cho & Kang, 2019) view social capital as a solid adherence to societal norms. The theory of planned behavior also emphasizes the importance of subjective norms in determining a person's

intention to behave (Ajzen, 2020; Almeida et al., 2021), however, assesses that social norms will only play a significant role in specific contexts. This context can mean a culturally collective society like in Indonesia.

Based on the distinctive characteristics of the institutional component of social capital above, we argue that institutions will also directly influence community economic empowerment. As a result, this study proposes the following hypothesis:

H<sub>5</sub>: Institutions have a positive effect on community economic empowerment.

## RESEARCH METHOD

The research on Village-Owned Enterprises (BUMDes) in West Sumatra Province focuses on studying 30 BUMDes with stakeholders in each BUMDes, resulting in a total of 194 respondents or samples. Stakeholders' view is essential in VOE studies because each stakeholder has a different perspective on an issue (Ngo et al., 2020). Each has different concerns and roles in the networks connecting VOE with its environment (Ofoegbu & Ifejika Speranza, 2021). In addition, stakeholder involvement ensures diversity in the sample so that it can cover similarities and differences between them and be used to generalize results and provide recommendations for further research (Hair Jr et al., 2021). Hence, it is essential to involve all stakeholders in VOE research and gain information about social capital, VOE performance, and community economic empowerment. We target 30 VOE, each with six stakeholders in each VOE (supervisor, village head, director, two employees and two community members). Two village community members and two village staff were used to represent each VOE because they are part of the stakeholders in that VOE.

The first part of the instrument records the demographics of the respondents. The variables covered are village name, VOE name, age, gender, and type of stakeholder. The exogenous variables of this study include trust, networks, and institutions. Trust indicators with grids and question items include how much the community trusts the management of VOE, as well as network indicators with grids on how close and good the VOE has a relationship with the village community according to research by Lagaert (Lagaert et al., 2021) and (Iskandar et al., 2019). The trust and networks indicator was developed by (Lagaert et al., 2021) and (Iskandar et al., 2019). Meanwhile, the institutional indicators were developed by (Iskandar et al., 2019). Twenty-two items were derived from the above sources to measure social capital. The items in this instrument are designed to refer explicitly to VOE. VOE was repeated for each item to keep respondents focused and maximize data accuracy (Ali Aksar et al., 2020). This study uses the dimensions of economic performance from (Staessens et al., 2019). The VOE performance scale consists of six items, while the economic empowerment scale includes ten items. The items in this questionnaire are assessed using a 5-point Likert scale, following the methodology described in the study by Arikunto (2019), as well as in previous research conducted by Putra et al. (2022).

Data were collected from VOEs that had complete reports and were routinely recorded to the relevant agencies. The sampling technique used a multi-stage cluster sampling design to obtain a sample of 194 from 30 VOE research objects with different regional demographics (Egan et al., 2022; Simkus & Simkus, 2023). The VOEs studied had an organizational structure of 5 and 6 people each, plus one VOE member community. Questionnaires were distributed to 194 samples who also served as respondents. Respondents included supervisory stakeholders, directors, employees, customers, community members, and two village staff members as explained in the previous paragraph.

The analysis was conducted using SPSS statistical software (version 25) to gather information about the characteristics of the sample, and Smart-PLS version 3.0 (Hair Jr et al., 2021) to obtain results from the structural equation analysis. Smart-PLS was chosen as it provides accurate results for evaluating the relationship between latent variables in the measurement model (Sarstedt et al., 2021). The Trust variable includes indicators such as honesty, fairness, egalitarianism, tolerance, and generosity (Kim et al., 2018). The Network variable encompasses participation, solidarity, cooperation, and equality (Sørvoll & Bengtsson, 2020). The Institution variable encompasses shared values, norms and sanctions, and rules (Livi et al., 2018).

The first Data Analysis Technique was descriptive analysis with the aim of describing the characteristics of each research variable. By presenting the data in a tabulation table, calculating the average, median (middle value) and standard deviation. The first stage was calculating the total score of respondents' answers for each question item to obtain the Respondent Achievement Level, then processed using SPSS statistical software (version 25) to collect information about sample characteristics, and Smart-PLS version 3.0 to measure manifest variables representing measurable latent variables (Hair Jr et

al., 2021). Then, this instrument test was carried out consisting of validity and reliability tests using SmartPLS software. Smart-PLS was chosen because it provides accurate results for spreading the relationship between latent variables in the measurement model (Sarstedt et al., 2021). Then, to assess the validity and reliability of the model, an outer model test was carried out for each indicator  $\leq 0.70$ , then values  $\leq 0.70$  were removed (Hair Jr et al., 2021). Finally, a hypothesis test was conducted to determine the significance of the hypothesis by comparing the T-statistic and P-value values in the Smart PLS software application. If the T-statistic is higher than 1.96 and the P-value is  $<0.05$ , then the hypothesis is accepted (Hair Jr et al., 2021).

According to Figure 1, this hypothetical model was developed by the author himself, five pathways reflect the five hypotheses proposed in this model. Trust, networks, and institutions reflect exogenous latent variables, while VOE performance and community economic empowerment become endogenous latent variables.

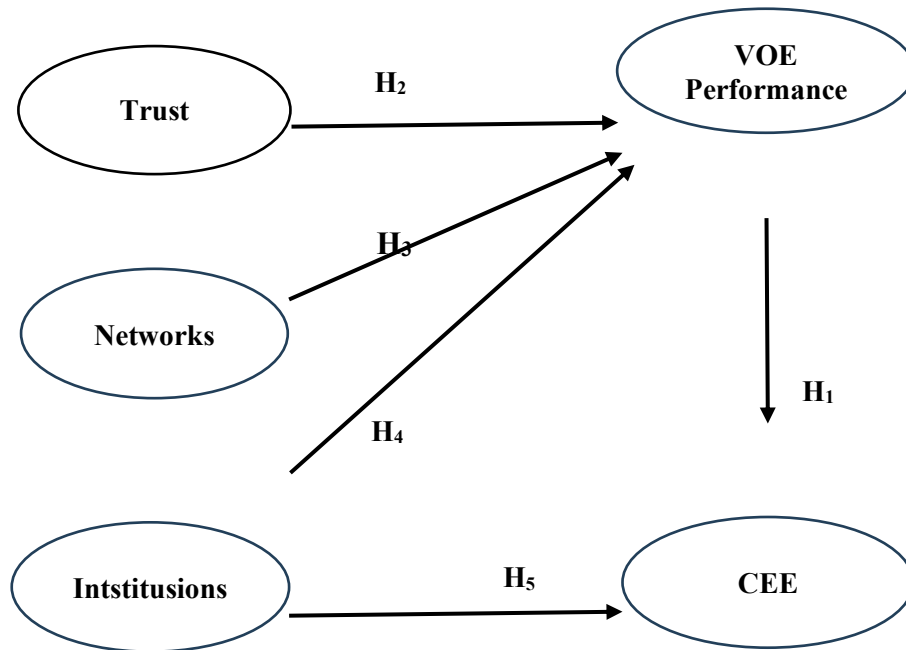


Figure 1. Hypothetical model of social capital effects on VOE performance and CEE

## RESULTS AND DISCUSSION

### Respondents' Profile

Respondent profile and demographic information shows that the proportion of respondents is relatively the same, with around 27-29 stakeholder type individuals including supervisors, directors, employees, customers, and community members, except village staff. Among the respondents, there were 29 directors, although there should have been 30 directors, but one VOE had not yet conducted the selection process for a director. This indicates that a total of 29 VOEs were studied in West Sumatra Province, each with complete representation of community members and customers. Two employee respondents and one village board member respondent did not provide data. Each VOE is also represented by two village staff members, so the data shows that six village staff members did not fill in the data.

The sampling for this study was based on operational BUMDes (Village-Owned Enterprises) that provide continuous reports to the village government and the village community empowerment agency in the district. Operational BUMDes engage in similar activities in each village, known as Nagari in West Sumatra Province, which involve collecting agricultural products, providing agricultural supplies (kiosks), and marketing agricultural products (Tegnan, 2018). Therefore, the respondents in each BUMDes ranged in age from 21 to 80 years. Most BUMDes are managed by young men and women from the local village who are under the age of 40. Those aged 60 and above serve as the BUMDes Supervisory Board, consisting of respected community members. Among the BUMDes respondents, 74% are male, while most females are primarily engaged in household activities or work conducted within the home rather than outside (Chandra et al., 2022). The stakeholders who completed the questionnaires for

each BUMDes included two supervisors, one director, one employee, one customer, one community member, and two village staff members.

In the following table 2, only respondents will be presented, regarding age, gender and stakeholders. For other variables regarding ethnicity, it is not explained where the research is in one province with an economic sector mostly agriculture and village area and climate are almost the same.

Table 2. Respondents demographic segment.

| Respondents' segment  | Number | Percent (%) |
|-----------------------|--------|-------------|
| Age                   |        |             |
| 21-30 years old       | 27     | 14%         |
| 31-40 years old       | 33     | 17%         |
| 41-50 years old       | 66     | 34%         |
| 51-60 years old       | 53     | 27%         |
| 61-70 years old       | 14     | 7%          |
| 71-80 years old       | 1      | 1%          |
| Gender                |        |             |
| Male                  | 144    | 74%         |
| Female                | 50     | 26%         |
| Stakeholder type      |        |             |
| Directors             | 29     | 15%         |
| Employees             | 27     | 14%         |
| Community members     | 29     | 15%         |
| Customers             | 29     | 15%         |
| Village staff         | 52     | 27%         |
| Village board members | 56     | 14%         |

### Descriptive Statistics

Comprehensively, the results of the descriptive statistical test of the research explain. All items, except two, have skewness values and kurtosis values between -1 and +1. Skewness and kurtosis are measures to see the normality of the data so that it can be concluded that the data are generally normally distributed. Mainly for two items with kurtosis greater than 1, the value shown is still very close to 1, so we can still consider it to be normally distributed; moreover, their skewness value is still within the normal range.

### Outer Measurement Model

The evaluation of the outer measurement model aims to calculate the reliability and validity of the observed and unobserved variables. Observed variables with an outer loading of 0.7 or more are acceptable, while items with an outer loading of less than 0.7 should be discarded (Buitrago R et al., 2021). The indicator with the lowest outer loading is the N\_7 indicator with an outer loading of 0.712.

Table 3. Cronbach/s Alpha, CR, and AVE . values

| Constructs | Items | Outer Loading | Cronbach's Alpha | CR    | AVE   |
|------------|-------|---------------|------------------|-------|-------|
| Trust      | T_1   | 0.736         | 0.900            | 0.919 | 0.588 |
|            | T_2   | 0.809         |                  |       |       |
|            | T_3   | 0.766         |                  |       |       |
|            | T_4   | 0.723         |                  |       |       |
|            | T_5   | 0.819         |                  |       |       |
|            | T_6   | 0.816         |                  |       |       |
|            | T_7   | 0.733         |                  |       |       |
|            | T_8   | 0.726         |                  |       |       |
| Networks   | N_1   | 0.738         | 0.894            | 0.914 | 0.541 |
|            | N_2   | 0.754         |                  |       |       |

| Constructs      | Items | Outer Loading | Cronbach's Alpha | CR    | AVE   |
|-----------------|-------|---------------|------------------|-------|-------|
| Institutions    | N_3   | 0.741         | 0.844            | 0.889 | 0.616 |
|                 | N_4   | 0.754         |                  |       |       |
|                 | N_5   | 0.726         |                  |       |       |
|                 | N_6   | 0.756         |                  |       |       |
|                 | N_7   | 0.712         |                  |       |       |
|                 | N_8   | 0.726         |                  |       |       |
|                 | N_9   | 0.714         |                  |       |       |
|                 | I_1   | 0.725         |                  |       |       |
|                 | I_2   | 0.738         |                  |       |       |
|                 | I_3   | 0.803         |                  |       |       |
| VOE Performance | I_4   | 0.836         | 0.917            | 0.936 | 0.708 |
|                 | I_5   | 0.817         |                  |       |       |
|                 | VP_1  | 0.831         |                  |       |       |
|                 | VP_2  | 0.845         |                  |       |       |
|                 | VP_3  | 0.883         |                  |       |       |
|                 | VP_4  | 0.854         |                  |       |       |
|                 | VP_5  | 0.808         |                  |       |       |
| CEE             | VP_6  | 0.826         | 0.931            | 0.942 | 0.619 |
|                 | CEE_1 | 0.743         |                  |       |       |
|                 | CEE_2 | 0.741         |                  |       |       |
|                 | CEE_3 | 0.798         |                  |       |       |
|                 | CEE_4 | 0.775         |                  |       |       |
|                 | CEE_5 | 0.776         |                  |       |       |
|                 | CEE_6 | 0.805         |                  |       |       |
|                 | CEE_7 | 0.842         |                  |       |       |
|                 | CEE_8 | 0.828         |                  |       |       |
|                 | CEE_9 | 0.803         |                  |       |       |
| CEE_10          | 0.75  |               |                  |       |       |

Cronbach's alpha and Composite Reliability (CR) were used to measure construct (Al-Mekhlafi et al., 2021). Table 2 shows that all constructs' Cronbach's alpha and CR are greater than 0.80. This value is higher than the minimum threshold of 0.70, so Cronbach's alpha and CR values indicate that the scale used is reliable. The average variance extracted (AVE) was used to measure the convergent validity of the variables (Al-Mekhlafi et al., 2021). The latent construct should take at least 50% of the variance of the observed variables. This value corresponds to a minimum AVE value of 0.50. From Table 3, it can be seen that all AVEs for all constructs are above 0.50. These results indicate that convergent validity is met and the measurement model has good internal consistency.

The subsequent evaluation was carried out on the discriminant validity. Discriminant validity was evaluated using Fornell and Larcker criteria and cross-loadings (Al-Mekhlafi et al., 2021). In order to meet the discriminant validity requirements, the AVE for each latent variable must be squared and compared with its correlation with other latent variables. Based on Table 4 then all correlations (non-diagonal components) have values less than the square root of AVE (diagonal components), indicating satisfactory discriminant validity.

Table 4. Fornell-Larcker criterion test

|              | Trust | Networks | Institutions | VOE Performance | CEE |
|--------------|-------|----------|--------------|-----------------|-----|
| Trust        | 0.767 |          |              |                 |     |
| Networks     | 0.704 | 0.736    |              |                 |     |
| Institutions | 0.616 | 0.714    | 0.785        |                 |     |

|                 |       |       |       |       |       |
|-----------------|-------|-------|-------|-------|-------|
| VOE Performance | 0.534 | 0.578 | 0.503 | 0.842 |       |
| CEE             | 0.518 | 0.618 | 0.523 | 0.560 | 0.787 |

### Inner Srtuctural Model

#### Measuring The Value Of R<sup>2</sup>

The coefficient of determination determines the overall effect size and variance explained in the structural model's endogenous construct and measures the model's predictive accuracy. The inner path model in this study for VOE performance is 0.374, while for CEE is 0.391. These results show that the three social capital variables explain 37.4% of the variance in the VOE performance, while VOE performance and institutions explain 39.1% of the variance in the CEE. According to Hair Jr et al. (2021), the R<sup>2</sup> value of 0.500 is considered moderate, while the R<sup>2</sup> value of 0.26 is considered weak. Hence, the R<sup>2</sup> value in this study was moderate. So table 5 below shows the Coefficient of Determination.

Table 5. Coefisien of Determination

|                            | R <sup>2</sup> | R <sup>2</sup> adjusted | Conclusion |
|----------------------------|----------------|-------------------------|------------|
| Social Capital (SC)        | 0,752          | 0,751                   | Strong     |
| Community Involvement (CI) | 0,700          | 0,699                   | Moderate   |
| VOE Performance (VP)       | 0,776          | 0,773                   | Strong     |
| Community Well-being (CW)  | 0,896          | 0,894                   | Strong     |

#### Estimation Of Path Coefficient (B) And T-Statistics

The  $\beta$  value determines the significance of the hypothesis being tested. The greater the value of  $\beta$ , the more significant the impact is given from one variable to another. The bootstrapping procedure was used to evaluate the significance of the hypothesis (Buitrago, 2021). Table 6 shows the results of bootstrapping using 500 sub samples.

Table 6. Path coefficient and T-statistics

| Hypothesized Path               | $\beta$ | SE    | t-value | p Values | Results       |
|---------------------------------|---------|-------|---------|----------|---------------|
| VOE Performance -> CEE          | 0.398   | 0.077 | 5.173   | 0.000    | Supported     |
| Trust -> VOE Performance        | 0.221   | 0.097 | 2.279   | 0.023    | Supported     |
| Networks -> VOE Performance     | 0.327   | 0.100 | 3.278   | 0.001    | Supported     |
| Institutions -> VOE Performance | 0.133   | 0.111 | 1.199   | 0.231    | Not Supported |
| Institutions -> CEE             | 0.322   | 0.084 | 3.817   | 0.000    | Supported     |

The effect of VOE performance on CEE has a large path coefficient value, which is 0.398 and is positive. This value is in line with the t-value of 5.173 which is greater than 1.96 and the p-value is very significant ( $p < 0.000$ ). These results support the research's first hypothesis, VOE performance has a positive effect on community economic empowerment, and the economic well-being of society. Similarly, the second hypothesis of the study is also supported, Trust has a positive effect on VOE performance. The effect of trust on VOE performance has a coefficient of 0.221 and a t-value of 2.279. Furthermore, the influence of the network on VOE performance is proven to be significant with a t-value of 3.278 and a path coefficient of 0.327, giving a significance degree of 0.001. On the other hand, the path coefficient linking institutions with VOE performance is only 0.133, in line with the degree of significance which is only 0.231 (t-value 1.199). These two findings indicate that H<sub>3</sub> is supported while H<sub>4</sub> is rejected. Finally, there is a very significant influence of institutions ( $p < 0.001$ ) on CEE, confirming the fifth hypothesis, Institutions have a positive effect on community economic empowerment.

Furthermore, by looking at Figure 2, it can be found that from the social capital element, the network element has the highest path coefficient, which is 0.327, indicating that networks are the dimension of social capital that has the strongest effect on VOE performance. Figure 2 shows the graphical representation of all path coefficients of the model.

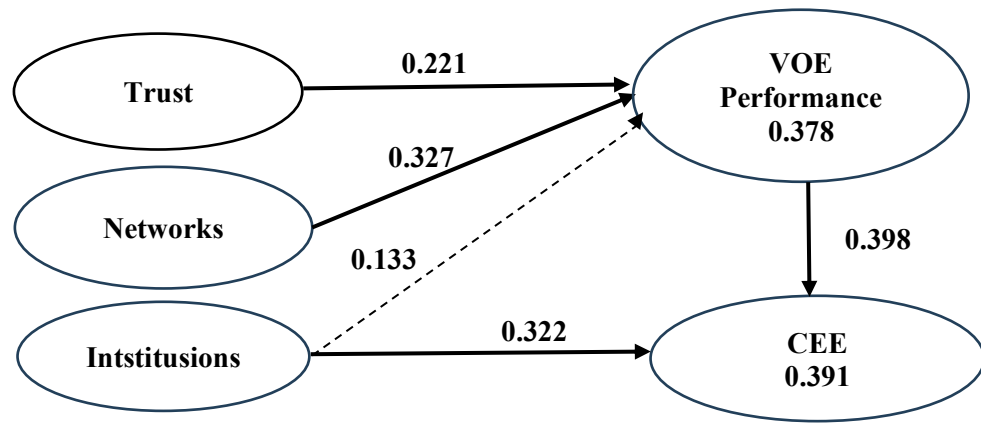


Figure 2. Assessment of the structural equation model

The research results indicate that trust and network have a significant impact on BUMDes performance. Trust in this context includes honesty, fairness, egalitarianism, tolerance, and generosity. Trust here is defined as universally accepted trust, meaning theoretically trust between individuals, trust in leaders, and groups (Kim et al., 2018). Network here includes a sense of participation among individuals, solidarity, cooperation, and equality. Cooperation, solidarity, justice, and social networks represent individuals' willingness to share or distribute resources to realize and utilize the shared fate of individuals and groups (Sørvoll & Bengtsson, 2020). Therefore, network and trust are the necessary social infrastructure to connect communities in building the economy and supporting community economic empowerment (Bagnall et al., 2020). In the context of VOEs in Indonesia, performance is determined by stakeholders' perception of the quality of the economic infrastructure provided by VOEs.

Meanwhile, the research results show that the Institution variable does not have a significant impact on BUMDes performance. Institution here refers to the shared values held collectively by individuals in a group, as well as norms, sanctions, and rules. Institution, shared values, norms and sanctions, and rules represent individuals' behavioral inclinations, both implicitly and explicitly, to occupy, assist, and participate with fellow individuals in group life to improve BUMDes performance (Livi et al., 2018). The Trust variable, which includes honesty, fairness, attitudes, tolerance, and generosity, was found to have a positive and significant impact ( $\beta = 0.221$ ) on VOE performance. Trust is a prerequisite for mobilizing community-based organizations (Lee et al., 2021). Establishing a VOE requires trust as it necessitates agreement and approval from stakeholders before allocating the budget for its formation. This trust enables the smooth operation of the VOE without experiencing conflicts among its stakeholders.

Accordingly, the creation and maintenance of trusts on a long-term basis is fundamental to developing economic activities such as VOE (Sforzi & Bianchi, 2020). Furthermore, various studies such as Alaaraj et al. (2018), Ali et al. (2021), Hang et al. (2022), Igalla et al. (2020), and Subramony et al. (2018), in line with the finding that trust has an influence on organizational performance. The findings of this study are also in line with research conducted by Javed et al. (2018). regarding the role of trust on perceptions of organizational performance in project managers and top management in project-based organizations. Furthermore, networks have a significant effect on VOE performance with a significance value of 0.001. Social networks determine the viability of VOE to thrive. VOE with weak social networks cannot smoothly carry out activities in the community. On the other hand, a VOE with a strong social network can expand its type of business and create a resilient VOE. A good social network can also encourage the community's active and participatory role in maintaining VOE facilities or assets, making it easier for VOE to improve its performance. The current literature postulates that social networks allow coordination and communication, encouraging continuous cooperation, such as managing VOE (Aritenang, 2021; Badaruddin et al., 2021).

Institutions were found significantly influence community economic empowerment ( $\beta = 0.322$ ). Institutions are generally conceptualized as norms and are the most fundamental part of the concept of social capital. Institutions are builders and anchors for trusts and networks. Community members tend to obey institutions because institutions can apply sanctions to force their members to obey. These sanctions come from formal institutions and social sanctions in society. Therefore, institutions are seen as macro aspects of social capital. Darменова and Koo (2021) sees institutions as the building blocks of a good

and prosperous society. In line with this, institutions that support economic empowerment can also determine the intentions and behavior of the community that are positive for the economy.

The study's findings demonstrate that institutions play a crucial role in enhancing the economic empowerment of rural communities through village-owned enterprises, which operate primarily within rural areas. Village-Owned Enterprises or BUMDes can be seen as an institutional form within the context of social capital, thereby supporting the hypothesis of "empowerment through institutions" (Blay-Palmer et al., 2021; Marsden et al., 2020). The research results provide evidence that both rural communities and rural institutions, largely engaged in family farming and small businesses, benefit from economic opportunities and the effects of institutional mechanisms, such as the establishment of Village-Owned Enterprises.

However, the findings indicate that institutions had no significant relationship with the performance of Village-Owned Enterprises (VOEs) ( $\beta = 0.133$ ). In contrast to existing literature suggesting that institutions can support the performance of rural enterprises with limited operations (Sforzi & Bianchi, 2020), this study reveals that the institutions of Village-Owned Enterprises in Indonesia do not participate in large-scale or wide-ranging operations. Instead, Village-Owned Enterprises operate within limited rural contexts. This outcome may be attributed to certain practices of Village-Owned Enterprises that are not easily translated into normative assessments. In this manner, the institutional framework of Village-Owned Enterprises operates internally with a restricted network of actors, and some actors may not adhere to the broader societal norms (Zhang & Huang, 2022). Institutions typically function within homogeneous and general environments, and their role may not apply effectively in the context of Village-Owned Enterprises, which have narrower and more heterogeneous scopes of operation.

Social capital is a type of social resource present in the social network relationships embedded in a community. Comparing communities with strong social capital to those without, communities with strong social capital have a better understanding of village needs and potential. Furthermore, communities enjoy a better standard of living and better access to amenities. In short, social capital is a crucial determinant of the quality of human organizations. Communities with high social capital can more effectively utilize their resources and capacities to address performance issues and choose appropriate, collectively supported actions to achieve them. Therefore, social capital directly shapes the performance of BUMDes with communities with high social capital being able to contribute to the performance of BUMDes in providing services for themselves.

Whenever these characteristics align with the BUMDes business strategy, they will inevitably impact BUMDes performance. Therefore, BUMDes that operate businesses based on social capital as their resource, strategies that involve the community, and structures rooted in the role of *ninik mamak* (elderly elders) will achieve better performance than BUMDes that do not. Furthermore, there is a number of empirical evidence confirming how social capital positively influences organizational performance. Therefore, social capital is important and contributes to BUMDes performance, as demonstrated in the analysis.

## CONCLUSION

The research findings demonstrate a direct positive influence of trust and networks on the performance of Village-Owned Enterprises (VOEs). Trust variables encompass honesty, fairness, egalitarianism, tolerance, and generosity, while network variables include participation, solidarity, cooperation, and justice. Therefore, trust and networks serve as essential infrastructure in rural communities for economic development and support the empowerment of rural communities. On the other hand, institutions do not have a significant impact on VOE performance, highlighting the need for community leaders to enhance VOE performance to promote economic empowerment. This research contributes to the utilization of the Community-Based Enterprise (CBE) theory in explaining the relationship between VOEs, social capital, and community economic empowerment. As discussed in the literature review section, VOEs are not identical to CBE, suggesting the importance of developing a specific theory for VOEs. Based on the research findings, recommendations to improve VOE performance in achieving rural economic empowerment focus on enhancing institutions, which involve shared values, norms, and rules that govern community interactions in rural areas. This is crucial for improving VOE performance and fostering economic empowerment in rural settings. Attention should be given to all elements of social capital: trust, networks, and institutions, meanwhile, the research by Smas et al (2025) focused on finance as the main variable in encouraging rural economic empowerment,

not using social capital variables. However, Aritenang (2021) research examined the variables of social capital, VOE and rural economic empowerment, but this type of research is qualitative, while this research is quantitative. VOEs should prioritize accountability and transparency to build trust among stakeholders. Furthermore, in terms of networks, VOEs can engage their members in training and development programs, actively participate in community meetings, and establish relationships and access to business clubs, associations, and other VOEs in neighboring villages. Lastly, in terms of institutions, VOE managers should engage in formal events, religious and cultural ceremonies, and promote the belief in the benefits of VOEs and community economic empowerment. The theoretical implications of the research results expand existing theories by delving deeper into social capital with indicators of trust, institutions and networks that have a positive influence on encouraging the growth of VOE in order to increase rural economic empowerment. In practical implications, it will have a direct impact if used by policy makers, especially in rural areas by village governments in increasing trust in VOE in achieving rural economic empowerment as the results of this study. The novelty of this research with Social Capital and VOE variables with quantitative research types, This research is limited in social capital and VOE variables will be more in-depth to include financial variables, perhaps further research will be developed. Recommendations for future research include financial variables and add other indicators with quantitative research types with a wider population.

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### AUTHOR CONTRIBUTIONS

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### CONFLICTS OF INTEREST

The author(s) declare no conflict of interest.

### USE OF ARTIFICIAL INTELLIGENCE (AI)-ASSISTED TECHNOLOGY

The authors declare that no artificial intelligence (AI) tools were used in the generation, analysis, or writing of this manuscript. All aspects of the research, including data collection, interpretation, and manuscript preparation, were carried out entirely by the authors without the assistance of AI-based technologies.

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