

# Does leadership matter in managing the village-owned enterprise?

***Kumba Digdowiseiso***<sup>1</sup>

Department of Management, University of National, Jakarta, Indonesia  
[kumba.digdo@civitas.unas.ac.id](mailto:kumba.digdo@civitas.unas.ac.id)

***Heru Dian Setiawan***

Department of Public Administration, University of National, Jakarta, Indonesia  
[herudiansetiawan@civitas.unas.ac.id](mailto:herudiansetiawan@civitas.unas.ac.id)

***Eko Sugiyanto***

Department of Public Administration, University of National, Jakarta, Indonesia  
[ekos@civitas.unas.ac.id](mailto:ekos@civitas.unas.ac.id)

***Suharyono***

Department of Management, University Of National, Jakarta, Indonesia  
[suharyono@civitas.unas.ac.id](mailto:suharyono@civitas.unas.ac.id)

## Abstract

The establishment of the village-owned enterprise (Badan Usaha Milik Desa – BUMDes), as stipulated in Law No. 6/2014 on Village, is an effort to increase economic growth, together with the equitable distribution of assets to the village community. It is expected to be a pillar of economic activity in the village that serves as an institution that remains committed to village characteristics. However, the existence of BUMDes has not fully produced satisfactory results in terms of continuation of the programs and profitability. Therefore, this qualitative study aims to determine the factors that influence the village head's leadership. Using Northouse's (2013) concept, this study finds that both task and relationship behaviour are very important factors to achieve success in managing BUMDes in Indonesia.

**Keywords:** Leadership; Management; BUMDes

¿Importa el liderazgo en la gestión de la empresa propiedad de la aldea?

## Resumen

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<sup>1</sup> Corresponding author at Sawo Manila Street, Pasar Minggu, South Jakarta, 12520.

El establecimiento de la empresa propiedad de la aldea (BUMDes), según lo estipulado en la Ley N° 6/2014 sobre la aldea, es un esfuerzo para aumentar el crecimiento económico, junto con la distribución equitativa de los activos a la comunidad de la aldea. Se espera que sea un pilar de la actividad económica en el pueblo que sirve como una institución que sigue comprometida con las características del pueblo. Sin embargo, la existencia de BUMDes no ha producido resultados satisfactorios en términos de la continuación de los programas y la rentabilidad. Por lo tanto, este estudio cualitativo tiene como objetivo determinar los factores que influyen en el liderazgo del jefe de la aldea. Utilizando el concepto de Northouse (2013), este estudio encuentra que tanto el comportamiento de la tarea como la relación son factores muy importantes para lograr el éxito en la gestión de BUMDes en Indonesia.

**Palabras clave:** Liderazgo; Administración; BUMDes

## 1. INTRODUCTION

There are already enough government policies or programs that have been implemented for village empowerment and independence related to social, political and economic aspects. In the past, we have known Farmers' Credit Program (*Kredit Usaha Tani – KUT*), Regional Development Program (*Program Pengembangan Wilayah – PPW*), Integrated Area Development (*Pengembangan Kawasan Terpadu – PKT*), Presidential Instruction on Marginalized Villages (*Inpres Desa Tertinggal – IDT*), Social Safety Net (*Jaring Pengaman Sosial – JPS*), Kecamatan Development Program (*Program Pengembangan Kecamatan – PPK*), Rural Infrastructure Development Program (*Program Pengembangan Infrastruktur Pedesaan – PPIP*), Rural Agribusiness Development (*Pengembangan Usaha Agribisnis Pedesaan – PUAP*), People's Business Credit (*Kredit Usaha Rakyat – KUR*), Development of Smaller Fishermen's and Farmers' Income (*Pembinaan Peningkatan Pendapatan Petani-Nelayan Kecil – P4K*), Joint Economic Enterprises (*Kelompok Usaha Bersama Ekonomi – KUBE*), and National Program for Community Empowerment (*Program Nasional Pemberdayaan Masyarakat – PNPM*). But the implementation of these programs has not yielded the expected results.

There are many factors that cause the lack of success of those programs. One of the most dominant factors is that there is an excessive intervention by the central government (Hidayati, 2015). Consequently, it hampers the creativity and innovation of villagers in

managing and operating the rural economy. In line with this argument, PKDSP (2007) believed that the system and mechanisms of economic institutions in rural areas did not run effectively. Here, rural areas are viewed as being reliance on government assistance.

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

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

Although BUMDes has been set forth in Law No. 6 / 2014 on Villages, in fact BUMDes has been mandated also in Law No. 32 / 2004 on Local Government. Such regulation can be viewed as an effort to increase economic growth together with equitable distribution of assets to the people in rural areas. Therefore, the management of BUMDes must be conducted professionally and independently by using local resources in order to increase the village's original income (*Pendapatan Asli Desa – PADesa*). BUMDes is also

expected to be a pillar of economic activity in the village that serves as a social and commercial institution that remains committed to village characteristics.

BUMDes as a social institution sides with the interest of the community through its contribution in the provision of social services. As a commercial institution, it aims to seek profits through the supply of local resources (goods and services) to the market. Every government level has different role on making important contributions in BUMDes (PKDSP, 2007). On the one hand, central government through provincial and districts government has to raise awareness amongst villagers on the importance of BUMDes so that the improvement of the people's welfare can be realized. On the other hand, the role of village government is to build a direct relationship with the community. As part of community development efforts, they have to realize the fulfillment of the minimum service standards (*Standar Pelayanan Minimal – SPM*).

The existence of BUMDes has not fully produced satisfactory results, even though the central government disbursed the village funds of approximately 60 trillion rupiah (USD 4 billion) in 2017. According to the Ministry of Village, Development of Backward Village, and Transmigration, there are 6,811 BUMDes from 74,910 villages in Indonesia or about 9 % of villages that implement BUMDes program. Moreover, only 4,000 BUMDes are considered profitable. Based on such a condition, the central government doubled the village fund from the original 60 trillion rupiah in 2017 to 120 trillion rupiah (USD 8 billion) in 2018. Thus, in 2018, each village earned a minimum of 1.6 billion rupiah (USD 106,666). Of course, it requires maximum efforts to reduce and even to eliminate the unsuccessful BUMDes program.

Many studies concluded that the lack of success in managing the BUMDes program is caused by several factors, as follows: (1). The lack of competence on human resources in BUMDes and the low availability of funds in the management of BUMDes were all viewed as problems of BUMDes (Agungunanto et al., 2016); (2). Budiono (2015) argued that the vested individual interests in the management of BUMDes could contribute to the failure of BUMDes so that the benefits of BUMDes are captured by the elites; (3).

Hidayati (2015) stated that the failure was caused by the lack of community participation as a result of poor communication in the village meetings and weak socialization from the central government; and (4). The low performance on the management of BUMDes is also caused by the inability of managers and the dominant role of village apparatus in the management of BUMDes (Kurniasih, 2017).

From the above arguments, clearly leadership of the village head plays an important role in BUMDes so that community empowerment as well as the efficiency, the effectiveness, and the responsiveness of BUMDes programs can be implemented. However, every village head has other difficult tasks. While they primarily serve as a mentor in BUMDes, at the same time they are responsible for organizing the village government. They are also participating in implementation of village development as well as community development and empowerment. With these tasks, the leadership of the village head is in danger of being failed, given many problems of BUMDes.

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

We believe that although the central government plans to double the village fund in 2018, it is not necessarily guarantee the success of BUMDes management. This is because the core of the management of BUMDes is the leadership of village head. Here, we assume that the management of BUMDes in Indonesia is often done within the management context, which put more emphasize only on regularity and consistency to

the organization, without producing the change and movement. In addition, rather to achieve adaptive and constructive change, most of village heads are trying so hard to achieve the order and stability. Based on such assumptions, this study examines the leadership of village head in the management of BUMDes. Specifically, we want to identify the factors that influence the village head's leadership in the management of BUMDes in Indonesia.

## **2. LITERATURE REVIEW**

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

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

Based on some limitations on Bass's concept, Northouse (2013) argued that there were several components of leadership that can be identified as the center of the phenomenon where it involved a process, influence, and the same goals, and occurs in groups. In

Northouse's concept, the determination of leadership is a "transaction" that occurs between leaders and followers, not the nature that is in the leader. Here, it takes a process through which leader influences and is influenced by the followers. This emphasizes that leadership is not linear and not a one-way event, but an interactive event. That leadership can be owned by everyone, which is not limited to leaders who are officially assigned to a group.

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

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

In this study, the concept of leadership that we used is based on style approach. This can determine the factors that influence the leadership of the village head in managing BUMDes, both from task and relationship behavior. The former helps organizational members to achieve goals. While the latter helps followers feel comfortable with themselves, with others, and with the situation where they are. The goal is all to influence followers in their efforts to achieve goals.

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

### **3. METHODOLOGY**

To achieve the objectives of this study, we use a qualitative methodology with case study. Considering the large number of BUMDes in Indonesia, the research sample was focused on the *Gisting Bawah* Village of Tenggamus Regency at Lampung Province. Such instrumental case study is used to seek more deeply at the problems of leadership, and to look at phenomena in a real-life context where there is no strict boundary between phenomena and the context so that the sources used must vary (Yin cited in Digdowiseiso et al., 2018).

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

The research informants will be focused on *Gisting Bawah* Village Head, *Gisting Bawah* Village Section Head, the Director of BUMDes, Chairperson of the Village Consultative Body, Chairperson of the Village Community Empowerment Institute and Religious Leaders, and Community Leaders of Tenggamus Regency at Lampung Province.

We collected all the data and information through observation, in-depth interviews, and documentation. From here, we implemented a triangulation that included data

reduction, analysis and conclusion. Such process was began from the late of September 2018 to the late of June 2019.

#### **4. RESULTS**

Based on the concept of thought that the village head's leadership in managing BUMDes is seen from what the leader does and how he acts gives a framework to assess leadership in a broad way, such as behavior with task and relationship. There are 10 (ten) characteristics of *Gisting Bawah* village head with regards to task behaviour, as follows:

1). Notify about what should be done

Effective leadership requires the ability to move and motivate others to carry out orders in managing BUMDes. In this context, the village head often informs their members about what should be done, related to the task of organizing BUMDes affairs in accordance with their respective duties. As expressed by the secretary of the *Gisting Bawah* village head that, "He (village head) always intervenes directly in the management of BUMDes. He gives examples to his employees in managing BUMDes, even though the management of BUMDes is under the authority of the director of BUMDes." From here, we observe that village head often positions his duties and functions to his subordinates so as to facilitate all matters in managing BUMDes.

2). Establish performance standards

The determination of the performance standards in the management of BUMDes at the *Gisting Bawah* Village always refers to the existing Standard Operating Procedures (SOP). The director of BUMDes stated that, "The village head always sets a very high work rules and supervision in managing BUMDes. The Village Head often tells his employees that they have to work hard and give good examples even if they have to go to the field if needed." This is in line with Griffin's (2012) opinion that the process of organizational control can run very well due to the high comparison on the implementation of actual performance. Such action must in accordance with the performance standards that should be achieved.

3). Give advice on how to solve the problems

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

4). Make a clear perspective

The village head of *Gisting Bawah* has a firm belief in the truth and usefulness of all the behavior carried out, and knows exactly where the direction is going. All section heads of *Gisting Bawah* Village said that, "Our leader is a person who has a very high ability and willingness to build a village by developing BUMDes programs that are in line with the potential and characteristics of his village.”

5). Develop an action plan for the organization

*Gisting Bawah* village head has the ability to plan regularly and continuously in managing the BUMDes *Mandiri Bersatu*. Director of BUMDes *Mandiri Bersatu*, and caretaker of *Gisting Bawah* Islamic Boarding School agreed to say that, "He is a person who has creative, strategic and conceptual mindset, even without the support from the central and local government. Take the example of developing clean water installation for *Gisting Bawah* Village, development of *Margo Tirto* Dam tourism, management of Garbage Bank, even there is MoU at Islamic Boarding School where students manage multi-purpose stalls at the end of 2017.” In this context, Northouse (2013) argues that the main function of leadership is to produce change and movement. That is, management strives to achieve order and stability, while leadership strives to achieve adaptive and constructive change. Here, village head is an emotionally active who tries to shape ideas

and acts to expand available choices to solve long-standing problems, and he changes the way people think about possibilities.

6). Establish responsibilities for each member

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

7). Explain its role in the organization

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

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

The *Gisting Bawah* village head provides a plan on how to carry out the work. The director of BUMDes *Mandiri Bersatu* said that, "If we as managers of BUMDes experience difficulties in managing BUMDes, such as how to tackle the problems at the Waste Bank, he always gives direction to plans and actions to the BUMDes managers about what should be done, both in terms of licensing or management."

9). Provide work criteria

The *Gisting Bawah* village head always provides work criteria for managing BUMDes *Mandiri Bersatu*. All section heads of *Gisting Bawah* Village and director of BUMDes *Mandiri Bersatu* stated that, "The village head always utilizes the competencies of the local people who have not worked to help manage the BUMDes *Mandiri Bersatu*." Such actions are in accordance with Jones and George' (2011) argument that the quality of leader, the performance standards, the current and future targets will be used to evaluate the overall performance of the organization as a whole. These are a means to measure several characteristics, such as efficiency, quality, customer responsiveness, and innovation.

10). Encourage to do high quality work.

The *Gisting Bawah* village head always cooperates with the director of BUMDes *Mandiri Bersatu* in the development of the management. The Director of BUMDes *Mandiri Bersatu* and community leaders stated that, "The village head has a very high ability and willingness to work in the management of BUMDes, even if he is not re-elected to be the village head in the future. The most important is the desire to build a prosperous village for *Gisting Bawah* community."

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

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

1). Always friendly

In a bid to create a conducive organizational climate, the village head is always friendly with his subordinates and the managers of BUMDes *Mandiri Bersatu*. All section heads of *Gisting Bawah* Village and Director of BUMDes *Mandiri Bersatu* stated that, "The

friendliness of the village head is marked by the absence of arrogance and discrimination, both in formal and informal activities.”

2). Helps to feel comfortable

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

3). Respond happily

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

4). Treat members fairly

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

5). Be assertive

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

6). Communicate actively

To improve organizational communication effectively, the director of BUMDes *Mandiri Bersatu* and section heads of *Gisting Bawah* Village said that, "The village head always communicates actively with all parties, both formally and informally, especially in relation to the management of BUMDes." Such actions support the argument of Pace and Faules' (1994) study, where the leader must create an environment that supports open exchange of information. This is because complex new problems arise incessantly in the process of modern organizations.

7). Demonstrate concern for welfare;

The director of BUMDes *Mandiri Bersatu* and section heads of *Gisting Bawah* Village felt that, "The village head always shows concern among others regarding on the welfare of his subordinates and the managers of BUMDes. An exemption of building rent and the distribution of profits from the managers of BUMDes are two examples on how village head demonstrates an attentive behaviour.

8). Demonstrate flexibility in making decisions

To create a dynamic organizational performance, the director of BUMDes *Mandiri Bersatu*, religious and community Leaders, chair of the Village Consultative Body, and chair of the *Gisting Bawah* Village Community Empowerment Institute agreed that, "The village head always shows flexibility in making decisions about the management of BUMDes. This is evidenced by the flexibility of the village head towards decisions about the problem of clean water services, garbage, and tourism management issues." Generally, such flexibility of making decisions is done quickly, where at initial, they all make a discussion in coordination meetings with relevant parties.

9). Expressing thoughts and feelings

The director of BUMDes *Mandiri Bersatu*, religious and community leaders, chairman of the Village Consultative Body as well as chair of *Gisting Bawah* Village Community Empowerment Institution felt that, "The village head always expresses thoughts and feelings to all parties on public service issues. All organizational problems and constraints

are generally expressed by the village head, so that all parties know what he wants and hopes to achieve in managing BUMDes.”

10). Associate positively

The director of BUMDes *Mandiri Bersatu*, religious and community leaders, chairman of the Village Consultative Body as well as chair of *Gisting Bawah* Village Community Empowerment Institution stated that, "The village head always positively interacts with all parties in managing BUMDes, especially on informal activities." Such finding confirms our observation where his behavior is very helpful in generating enthusiasm and optimism, which stimulate the management of BUMDes in achieving the stated goals.

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

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

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

than what the BUMDes managers will do for the personal benefit of the BUMDes managers.

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

## **5. CONCLUSION**

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

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

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