

## ENHANCING VILLAGE-OWNED ENTERPRISES PERFORMANCE THROUGH EFFECTIVE GOVERNANCE: THE MEDIATING ROLE OF COMPETITIVE ADVANTAGE

**Sigit Kurnianto**

*sigit-k@feb.unair.ac.id*

**Dina Heriyati**

**Yanuar Nugroho**

**Lailatul Fiyatun Nikma**

**Airlangga University, Surabaya**

### ABSTRAK

*Penelitian ini bertujuan untuk menguji pengaruh Tata Kelola (GV) terhadap Kinerja Organisasi (FP) dengan mediasi Keunggulan Bersaing (CA). Metode analisis yang digunakan adalah pendekatan SEM-PLS dengan software SmartPLS 4. Data primer dikumpulkan melalui kuesioner dengan populasi Badan Usaha Milik Desa (BUM Desa) di Jawa Timur, Indonesia. Sampel yang digunakan dalam analisis adalah 80 manajer BUM Desa. Hasil penelitian menunjukkan bahwa keunggulan kompetitif secara parsial memediasi pengaruh tata kelola terhadap kinerja BUM Desa. Implikasi dari penelitian ini adalah pentingnya meningkatkan tata kelola untuk memperkuat keunggulan kompetitif, yang pada gilirannya akan meningkatkan kinerja organisasi BUM Desa. Penelitian ini juga memberikan wawasan bagi para pengambil keputusan untuk merumuskan strategi yang lebih efektif dalam mengelola BUM Desa.*

*Kata Kunci: tata kelola, kinerja, keunggulan kompetitif*

### ABSTRACT

This study aims to examine the effect of Governance (GV) on Organizational Performance (FP) with the mediation of Competitive Advantage (CA). The analysis method applied the SEM-PLS approach with SmartPLS 4 software. The primary data was collected through questionnaires with a Village-Owned Enterprises (BUM Desa) population in East Java, Indonesia. The samples for analysis were 80 BUM Desa managers. The research result shows that competitive advantage partially mediates the influence of governance on BUM Desa performance. The implication of this study is the importance of improving governance to strengthen competitive advantage, which in turn will improve the organizational performance of BUM Desa. This research also provides insights for decision-makers to formulate more effective strategies for managing BUM Desa.

Keywords: governance, performance, competitive advantage

### INTRODUCTION

Excellent BUM Desa performance is the foundation for building independent villages. BUM Desa has a strategic role in rural economic development in Indonesia. BUM Desa functions as a hybrid organization that combines social and economic missions to meet rural communities' needs sustainably. It performs a social function by providing essential services

and infrastructure to the community. It also functions as a social institution, providing social services to the surrounding community (Ridlwani, 2015; Sudirno et al., 2020). The combination of missions allows BUM Desa to catalyze village selfreliance and create local community welfare.

BUM Desa occupies the highest position in village economic development through various

activities that maximize the potential of local resources and improve the village economy. Performance in BUM Desa must be maximized. Its success in performance can be influenced by governance, communication, accounting information systems, human resources, motivation, work environment, salary, competence, organizational performance, commitment, organizational culture, training, and job satisfaction (Aprillia et al., 2021; Lozano et al., 2016; Vuong & Nguyen, 2022). By considering these factors, BUM Desa can be the primary driver of the village economy, working efficiently and continuously advancing the community.

Excellent and efficient BUM Desa management relies heavily on implementing strong governance principles. BUM Desa managers need to implement the principles of transparency, responsibility, cooperation, involvement, empowerment, and sustainability, in the form of membership. It is fundamentally organized independently, and professionally managed, so that BUM Desa management will be superior and effective (Kurnianto & Iswanu, 2021). Optimal governance encourages the improved performance of village business units by ensuring that all operations are aligned with agreed-upon norms and objectives. With the implementation of good governance, BUM Desa can be more effective in achieving sustainable improvements in the village economy while strengthening its contribution to the welfare of the village community.

Although governance has been identified as a key component in determining organizational performance, research on the link between governance and performance of Village-Owned Enterprises still shows varied findings and requires in-depth research. In some studies, governance does not appear to exert a significant positive impact on performance and may, in some cases, have an adverse effect (Al-ahdal et al., 2023; Khan & Liu, 2023; Kurniati, 2019; Roudaki, 2018). Corporate governance disclosure can reduce operational performance because governance practices cannot fully address agency problems between agents and owners (Firmansyah & Damayanti,

2021; Guluma, 2021). It is in line with the findings of (Astuti & Megasyara, 2023; Yuliana & Alinsari, 2022). They show that several governance components, such as participatory, openness, and accountability, have not been successful in supporting the success of BUM Desa. Although governance is recognized as an important element in driving organizational performance, its application to Village-Owned Enterprises requires a more targeted and contextual approach to improve performance significantly.

On the other hand, several studies demonstrate that good governance can have a positive impact on company performance (López-Quesada et al., 2018; Pinteá & Achim, 2021; Sandberg et al., 2023; Wahyudin & Solikhah, 2017; Widnyana et al., 2020). Although transparency is not significant to performance, accountability and integrity contribute positively to performance (Anom et al., 2018; Brusca et al., 2018; Danilov, 2024; Guo, 2022). In the context of BUM Desa, Kurnianto & Iswanu (2021) emphasize that implementing strong governance principles, such as accountability and empowerment, is essential for superior and efficient management. While the impact of governance is not always uniform, implementing certain elements can significantly improve the performance of BUM Desa.

Diversity in implementing governance in each BUM Desa contributes to significant differences in performance achievement. Thus, the governance components such as participation, openness, and accountability may not show similar effects in each BUM Desa environment. As some aspects remain suboptimal, such as collaboration, sustainability, and workforce competitiveness, the success of BUM Desa in developing the quality of life in rural areas may be hindered. So, more in-depth studies are needed to examine other factors that may provide a link between governance and performance to achieve a more comprehensive understanding of the circumstances under which governance works optimally for the advancement of Village-Owned Enterprises.

The research gap highlights the need to consider other variables that mediate the relationship between BUM Desa governance and performance. One of the relevant mediating factors to be studied is competitive advantage, which can support effective management and realize more optimal performance through competitiveness, distinguishing BUM Desa from other entities. By developing a competitive advantage, BUM Desa can improve its competitive capacity, which will support achieving better and more sustainable performance. Based on this gap, the research question arises: What is the role of competitive advantage as a mediating variable in the influence of governance on BUM Desa performance?.

This study introduces competitive advantage as a mediating variable that aims to bridge the relationship between governance and the performance of BUM Desa, thus contributing to the novelty of this study. Good corporate governance is a key driver of sustainable corporate growth and long-term competitive advantage (Carney, 2005). Competitive advantage plays an important role in optimizing governance implementation by creating added value that can drive better performance (Suroto et al., 2025). Competitive advantage has a positive impact on financial performance (Baah et al., 2023; Cantele & Zardini, 2018; Maury, 2018; Saeidi et al., 2015). In addition to examining the direct link between governance and performance, this study explores the role of competitive advantage in strengthening the link. As such, this study offers a more comprehensive understanding of how governance can indirectly influence performance through competitive advantage. Hopefully, the findings will address previous research gaps and provide significant theoretical and practical contributions to the management of BUM Desa to improve efficiency, competitiveness, and sustainability of organizational performance.

This study utilizes primary data, which is analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the aid of SmartPLS 4 software. The PLS-SEM method was chosen because of its ability to handle models with complex relationships (Gunawan & Widodo,

2022; Hair et al., 2021; Sarstedt et al., 2021). His study uses a survey distributed to BUM Desa managers in the East Java region as respondents to obtain information on governance, competitive advantage, and performance of BUM Desa.

The results of this study demonstrate the role of governance in enhancing BUM Desa's performance through the creation of a competitive advantage, aligning with Agency Theory and the Resource-based View (RBV). Agency Theory explains how effective governance mechanisms can reduce conflicts between owners and managers, resulting in better performance. Conversely, RBV shows that well-managed resource utilization, in this case, good governance, can generate a competitive advantage that supports BUM Desa's performance.

The findings of this study also provide valuable insights regarding the importance of effective governance to BUM Desa managers and related parties in rural areas. By applying transparency, accountability, cooperative, participatory, emancipative, and Sustainability principles in the management of BUM Desa, competitive advantage can be enhanced, which optimizes BUM Desa's performance. BUM Desa's performance stabilizes, and its social contribution increases to support the sustainable improvement of the rural economy.

## **THEORETICAL OVERVIEW**

### **Agency Theory**

Agency Theory explains the relationship between capital owners and agents in organizational governance. In practice, this theory often causes conflicts between owners of capital and agents because agents may act differently from the direction of the owners of capital (Fitriani et al., 2024). In the context of BUM Desa, this happens when capital owners entrust management to BUM Desa managers. The mismatch of goals and interests between the village government and BUM Desa managers can trigger conflicts and challenges in governance that will hinder the achievement of BUM Desa goals. Effective and efficient governance practices can reduce agency costs by aligning the interests of capital owners and agents, which ultimately

improves the performance of BUM Desa in both financial and non-financial aspects.

Agency theory emphasises that BUM Desa, pursuing both social and profit objectives, requires governance mechanisms to balance these objectives. Governance principles such as transparency, accountability, cooperation, participation, emancipation, and sustainability can improve the performance of BUM Desa in terms of financial and non-financial aspects (Kurnianto & Iswanu, 2021). Therefore, building a governance structure based on institutional principles is crucial to ensure alignment between village objectives and management activities, which can ultimately improve BUM Desa performance. Overall, agency theory is relevant to understanding how governance affects BUM Desa performance by promoting alignment between village objectives and management activities.

### **Resource-Based View (RBV) Theory**

Resource-based view theory provides a view of the influence of governance on competitive advantage and further improves organizational performance. RBV theory suggests that dynamic capabilities are a powerful resource for improving companies' responsiveness in a rapidly evolving business environment (Singh et al., 2019). BUM Desa requires governance that can optimize village resources such as local knowledge, community networks, and unique village assets to build and sustain a competitive advantage. This theory asserts that a firm can build a sustainable competitive advantage by optimizing its internal resources and capabilities. However, not all resources are strategic and a source of competitive advantage. This advantage only occurs when there are resource differences between firms, and competitors are constrained in obtaining similar resources (Barney, 1991). BUM Desa must optimize resources through effective governance to build a sustainable competitive advantage. Therefore, RBV theory helps identifying the relationship between governance practices and competitive advantage in BUM Desa, on optimizing internal resources and aligning strategy with community goals.

RBV theory also provides a more detailed explanation of the relationship between competitive advantage and performance in BUM Desa. Under this assumption, BUM Desa's performance, both financial and non-financial, is influenced by competitive advantage from resource optimization and effective governance. Its success depends on implementing good governance and creating a competitive advantage.

### **Hypothesis Development Governance and Performance**

In the context of BUM Desa, good governance plays an important role in improving organizational performance. As agency theory, strong governance ensure that managers act in the owners' interests, in reducing conflicts between the two and strengthening value creation that supports organizational performance (Sari et al., 2022). Appropriate oversight structures and active stakeholder engagement enable BUM Desa to balance its social mission and financial objectives, ultimately improving the welfare of the village community (Masliza et al., 2021). In addition, the principles of governance in BUM Desa: transparency, accountability, cooperation, participation, emancipation, and sustainability. These provide a framework that aids in more purposeful and effective management of achieving long-term goals (Tasia & Martiningsih, 2023; Widiastuti et al., 2019).

Previous studies show that good governance positively influences organizational performance financially and socially (Adedeji et al., 2019; Al-Beshtawi et al., 2014; AlSagr et al., 2018; Chariri, 2019; Warrad & Khaddam, 2020). Sound governance principles support management effectiveness and efficiency by providing structured control and oversight, including collaboration with internal and external partners (Ngatno et al., 2021; Sofyani et al., 2020). The effectiveness in management is the primary basis for improving the financial and social performance of BUM Desa. It aims to advance the welfare of village communities. Other researches show that a good governance structure in social organizations can directly contribute to the organization's success (Mswaka & Aluko, 2015). Furthermore, governance that

includes an oversight structure or advisory committee can improve the competitiveness and sustainability of the organization (Chen et al., 2021). With such orientation, BUM Desa can be more focused on achieving long-term goals and the welfare of the village community can supports optimal financial and non-financial performance (Setiawan & Malihah, 2021). Based on theory and previous research, the hypothesis of this study is as follows:

H<sub>1</sub>: Governance has a positive effect on BUM Desa performance

### **Mediating Role of Competitive Advantage**

Implementing effective governance with increased transparency, accountability, and management that supports sustainability and shared value creation can strengthen organizational competitiveness (Masliza et al., 2021; Sari et al., 2022). In the context of BUM Desa, good governance fosters a conducive environment for active stakeholder engagement, enhancing operational efficiency and resource management (Mustofa et al., 2024). According to the Resource-Based View (RBV) theory, a sustainable competitive advantage can be achieved by leveraging internal resources and the organisation's unique capabilities. Research on social organizations and companies in Malaysia shows that ESG (Environmental, Social, Governance) disclosure can increase competitive advantage and performance (Masliza et al., 2021). By implementing strong governance and being responsive to the needs of local communities, BUM Desa is expected to gain a sustainable competitive advantage while building long-term competitiveness amidst evolving social and environmental demands.

Competitive advantage plays an important role as a mediator in improving organizational performance, including in the context of BUM Desa. The organizations with a competitive advantage tend to be able to manage resources more efficiently and meet market needs more effectively. In sustainable supply chain management (SSCM) studies, competitive advantage strengthens the relationship between sustainability practices and organizational performance (Baah & Jin, 2019). It is assumed

that good BUM Desa governance will contribute to achieving a competitive advantage that ultimately improves the financial and non-financial performance of BUM Desa (Ngatno et al., 2021). Thus, the proposed hypothesis is as follows:

H<sub>2</sub>: Competitive advantage mediates the relationship between governance and BUM Desa performance.

## **RESEARCH METHODS**

### **Context of the study**

This study focuses on the role of governance and competitive advantage in improving organizational performance, especially BUM Desa. Improving BUM Desa performance helps encourage village independence. It is important because BUM Desa is at the forefront of driving the Indonesian economy. The population of this study is BUM Desa in East Java that was chosen due to several considerations. One of which is that East Java is ranked as the first to have the most BUM Desa in Eastern Indonesia ([www.beritadaerah.co.id](http://www.beritadaerah.co.id), 2021).

### **Data collection method**

This study used primary data sources from distributing questionnaires. Data was collected by random sampling to obtain an observation sample of 80 respondents (BUM Desa managers). The questionnaire was distributed online and offline. Online distribution was through media such as WA, Instagram, and others. Meanwhile, offline distribution was conducted during a forum attended by BUM Desa managers. The questionnaire consisted of two parts: respondent demographics and research questions, totaling 40 questions.

### **Operational definitions and variable measurement**

This study uses three variables: dependent (performance), independent (governance), and mediation (competitive advantage). Organizational performance is assessed by achieving set goals and objectives. Organizational performance is associated with the organization's success in achieving financial and non-financial goals (Simon et al., 2015). Indicators of

organizational performance variables in this study include the development of research indicators (Qomariyah et al., 2018). This indicator is also compiled by adding performance indicator points to the Regulation of the Minister of Villages and Development of Disadvantaged Regions and Transmigration (PERMENDES) No. 4 of 2015, and adjusting to the characteristics of BUM Desa.

Governance is a set of rules governing the interactions between shareholders, company management, creditors, government, employees, and other related parties, establishing their rights and responsibilities and controlling and managing company operations (Larcker & Tayan, 2020; Mrabure & Abhulimhen-Iyoha, 2020). The variable is measured by six dimensions as principles of good governance, such as: (1) transparency, (2) accountability, (3) cooperative, (4) participatory, (5) emancipative, and (6) sustainable. These refer to the regulation of Permendes No. 4/2015 on BUM Desa and previous governance literature (Purnomo & Infest, 2016; Widiastuti et al., 2019).

Many companies want to achieve a competitive advantage to maintain their business continuity. Barney (1991) describes competitive advantage as the extent to which a company can reduce its costs, capitalize on opportunities, and mitigate threats. The indicators of this variable are based on research (Arsawan et al., 2022). Furthermore, researchers modified them by adjusting them to the context of BUM Desa

### Data analysis approach

Data were analyzed using PLS-SEM with SmartPLS 4.0 software. Partial least squares is a structural equation modeling (SEM) approach with a variant basis and can jointly test both the measurement and structural models (Hair & Alamer, 2022). The reflective measurement model based on Hair is evaluated by assessing reflective indicator loadings, Internal consistency reliability, convergent validity, and discriminant validity (Hair et al., 2019). The structural model was evaluated by assessing Collinearity (VIF), R2 value, Q2 value, and PLSpredict. Robustness checks are also performed to see if there are linearity, endogeneity, and unobserved heterogeneity problems (Hair et al., 2019).

## RESULTS

### Respondent Characteristics

Table 1 summarizes the characteristics of the respondents in this study. Of the 80 respondents managing BUM Desa in East Java, 93.75% are male, and 6.25% are female. The majority of respondents (38.75%) are aged 36-45. Half of the respondents have a Bachelor's degree educational background, 55%, and 42.5% are high school graduates.

**Table 1**  
**Sample Characteristics**

Variables	Distribution	Frequency	%
Gender	Male	75	93.75
	Female	5	6.25
Age	<25	6	7.5
	26-35	10	12.5
	36-45	31	38.75
	46-55	25	31.25
	>55	8	10
Education	Senior high school	34	42.5
	Associate degree	2	2.5
	Bachelor's degree	44	55

*Source: Developed by Author*

**Measurement model**

The first step in assessing the measurement model is to evaluate the outer loading. Hair argues that the indicator loading value can be considered valid if it is  $\geq 0.708$ . However, other studies suggest that a value of  $>0.5$  is sufficient (Hair et al., 2019). In this study, all outer loading values show a significant value, namely, with a value of  $> 0.5$ , so it is sufficient to carry out the subsequent analysis. Internal consistency reliability shows the instrument's consistency,

accuracy, and accuracy when measuring the construct. A good construct reliability value is indicated by a Cronbach's alpha value of  $> 0.7$  and a composite reliability value between 0.70 and 0.90. Table 2 shows that all values are met, so the reliability is met. The table also shows the AVE value used to assess convergent validity. Except for the governance variable (GV), all items meet the minimum AVE of 0.50.

**Table 2**  
**Internal consistency reliability**

	<b>Cronbach's alpha</b>	<b>Composite reliability (rho_a)</b>	<b>Average variance extracted (AVE)</b>
CA	0,867	0,901	0,649
FP	0,900	0,907	0,558
GV	0,747	0,780	0,444

Source: Developed by Author

Furthermore, discriminant validity is measured by evaluating the Fornell-Larcker criterion and Heterotrait-Monotrait (HTMT) values. The Cornell-Larcker criterion is used to ensure that the square root of the AVE of each construct is greater than the correlation between constructs. At the same time, Heterotrait-Monotrait (HTMT) evaluates the ratio of

correlations between different constructs to the same construct, with discriminant validity being met if the HTMT value is  $<0.85$  or  $0.90$ . Table 3 shows that the Fornell-Larcker criterion and HTMT meet the criteria, so that discriminant validity is met.

**Table 3**  
**Discriminant validity**

	<b>CA</b>	<b>FP</b>	<b>GV</b>
<i>Fornell-Larcker criterion</i>			
CA	0,806		
FP	0,683	0,747	
GV	0,499	0,630	0,666
<i>Heterotrait-Monotrait ratio</i>			
CA			
FP	0,718		
GV	0,573	0,717	

Source: Developed by Author

**Structural Model**

After the validity and reliability of the research model have been checked, the next step is to assess the constructs using a structural model according to the methodology proposed by Hair et al. (2022). First, the VIF values should

be evaluated for the collinearity problem (Hair et al., 2019). VIF values  $>5$  indicate a collinearity problem (Becker et al., 2015). However, other studies propose that  $VIF <10$  is acceptable (Babajide Atoyebi & Obilade, 2024). In this study, excepting for item Z1.4 (5.085), all items

showed VIF values <5. The item is still acceptable because the value is below ten and not far from the value of 5, so the impact of collinearity is still acceptable.

Figure 1 summarizes the results of hypothesis testing in this study. Governance variables (GV) have a significant and positive influence on performance (FP), with a path coefficient and significance value of  $\beta = 0.385$ ,  $p$ -value = 0.000 ( $p < 0.001$ ), supporting H<sub>1</sub>. The

mediating effect of the competitive advantage (CA) variable on the GV and FP relationship is presented in Table 4. The results show that the GV variable has a significant and positive indirect effect on FP ( $\beta = 0.245$ ,  $p$ -value = 0.001,  $p < 0.001$ ). The mediating role of CA in the relationship between GC and FP is complementary (partial mediation) (Hair et al., 2021). Thus, supporting H<sub>2</sub>.

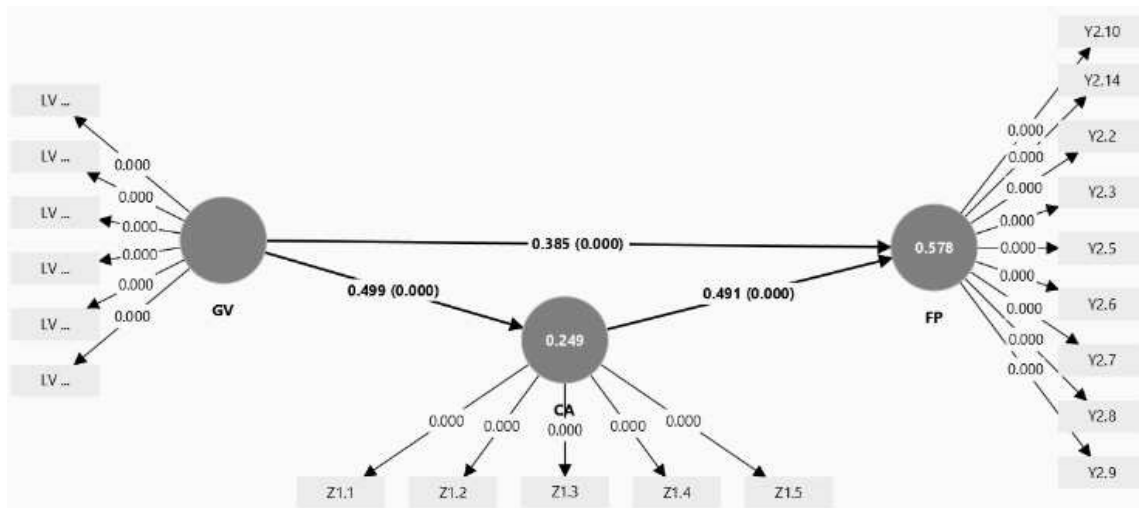


Figure 1  
Results of the model tests

Source: Data Processing Result, 2024

Table 4  
Path coefficients

	Original sample (O)	T statistics	P values
CA -> FP	0,491	5,089	0,000
GV -> CA	0,499	5,129	0,000
GV -> FP	0,385	3,782	0,000
GV -> CA -> FP	0,245	3,447	0,001

Source: Developed by Author

R-squared was used to assess the strength of the explanatory model. The R-square for the FP variable is 0.578, which indicates that the CA and GV variables can explain 57.8% of the change in FP. According to Hair et al. (2021), this effect is considered moderate. Predictive relevance, or the ability of exogenous variables to predict endogenous variables, is assessed through Q-square. The Q-square for the FP and CA variables has a value > 0, so the exogenous

constructs are predictive of the endogenous constructs.

PLS predict is used to assess the model's ability to project the value of endogenous variables based on exogenous variables. Evaluation of this value is usually used to determine the predictive power of the out-of-sample model (Shmueli et al., 2016). If all RMSE or MAE values of the PLS model are lower than the Naive LM (Linear Regression Model)

comparison model, then the model has a high level of predictive accuracy. Overall, the model exhibits moderate predictive power, as indicated by a total of 28 RSME and MAE values, 6 of which exceed those of the Naive LM.

### **Robustness check**

Robustness checks are conducted to assess three things: non-linear effects, endogeneity, and unobserved heterogeneity (Hair et al., 2019). Non-linear effects are known by conducting a quadratic effect test. The results show that all relationships in QE are insignificant, indicating no non-linear effect in the relationship between these variables. Furthermore, the results of endogeneity testing conducted with the Gaussian copula approach show that, except for GC (CA) → FP, all possible relationship combinations are insignificant. Endogeneity only appears in one such relationship, so that the structural model can be robust. Finally, we assessed unobserved heterogeneity using FIMIX-PLS. The analysis conducted using the EN, AIC3, AIC4, BIC, CAIC, and MDL5 values showed that it did not explicitly identify a solution for a particular segment; therefore, we assume that unobserved heterogeneity is not at a critical level, which supports the overall data analysis results.

## **ANALYSIS AND DISCUSSION**

### **The Influence of Governance on Village-Owned Enterprises (VOEs) Performance**

Hypothesis testing results indicate that governance has a positive and significant impact on BUM Desa's performance. This finding is consistent with previous research that states that effective governance implementation can strengthen organizational performance through improved transparency, accountability, risk management, and resource efficiency (AlSagr et al., 2018; Darwanto, 2019; Warrad & Khaddam, 2020). This study suggests that applying sound governance principles in BUM Desa can encourage optimal performance. In contrast, low governance implementation can potentially hinder achieving good performance in BUM Desa. The implementation of good governance is related to agency theory, in which

the management or agent must maintain the principal's trust (Jensen & Meckling, 1976). Therefore, good governance helps to reduce conflicts of interest between management and owners, allowing BUM Desa to operate more efficiently and responsively to the needs of various stakeholders.

Another research suggests that governance practices incorporating the principles of transparency, responsiveness, professionalism, legal compliance, and strategic vision can positively impact the performance of Village-Owned Enterprises (BUM Desa) (Sofyani et al., 2020). In addition, institutional governance, which encompasses principles such as transparency, accountability, and professionalism, is a significant factor in determining business success in various types of BUM Desa (Darmaileny et al., 2022). As a refinement, by applying governance by the characteristics of BUM Desa, which includes six main principles, namely: (1) transparency, (2) accountability, (3) cooperation, (4) participation, (5) emancipation, and (6) sustainability (Widiastuti et al., 2019). As a result, BUM Desa management can be aligned with the interests of the Village Government and the community, which ultimately improves BUM Desa performance.

### **The Role of Competitive Advantage Mediation in Strengthening Village-Owned Enterprises (BUM Desa) Performance**

The interaction test results indicate that competitive advantage involvement partially mediates the influence of governance on performance. These findings align with previous research, which suggests that the pillars of governance applied in general significantly influence competitive advantages and contribute to achieving good performance (Suroto et al., 2025). Competitive advantage is an organisation's advantageous position that enables it to generate more benefits and outperform its competitors (Smith et al., 2011). This condition is related to the RBV theory, which states that organizational governance is about creating competitive advantages that support optimal performance.

Sustainable competitive advantage is a significant factor in ensuring the long-term resilience and success of Small and Medium Enterprises (Arsawan et al., 2022). BUM Desa strives to establish good governance to gain a competitive edge and enhance performance. Organizations that have the right business strategy and can be implemented with good governance can provide a competitive advantage, thereby improving the organization's business performance by meeting the set targets (Farida & Setiawan, 2022). Therefore, BUM Desa implements the pillars of good governance, such as transparency, accountability, cooperation, participatory, emancipative, and sustainability, which can create a competitive advantage by more effectively utilizing resources that contribute to improved performance in order to compete with other entities in the local and regional economic sectors.

Transparency, one of the key pillars of good governance, refers to openness in decision-making and management of information relevant to stakeholders. With transparency, BUM Desa can ensure that information conveyed to the public or community is clear, accurate, and easily accessible, increasing public and business partner trust in the organization. Accountability relates to clear responsibility for every decision and action taken within the organization. BUM Desa, which implements accountability well, will find it easier to account for the resources it manages to stakeholders, including the government and the community. It allows the organization to ensure that every action is oriented towards positive results, which strengthens the organization's competitive position. While, cooperative and participatory principles are also very instrumental in creating competitive advantage. Cooperative refers to the importance of mutually beneficial cooperation between BUM Desa and various parties, including the government, community, and private sector. The close cooperation can create synergies that leverage various external resources, such as knowledge and broader market access, allowing BUM Desa to innovate and develop more effectively.

On the other hand, the participatory principle ensures that all stakeholders, especially village communities, can contribute to the decision-making process. The approach strengthens the community's sense of ownership of the BUM Desa. It enriches strategic decisions with a broader perspective, making them more relevant and impactful to its long-term success.

The application of emancipative principles that focus on community empowerment will also strengthen the position of BUM Desa. By creating equal opportunities for all individuals to engage and benefit, BUM Desa contributes to individual development and strengthens the social foundation that supports competitiveness. In addition, sustainability is a crucial factor in ensuring that the competitive advantage achieved can be sustained in the long term. The principle of sustainability, encompassing economic, social, and environmental aspects, enables BUM Desa to manage resources wisely, reduce negative impacts on the environment, and ensure positive contributions to the community's social welfare. By integrating sustainability in every aspect of its operations, BUM Desa can create a business model that is not only financially profitable but also environmentally and socially friendly, further strengthening its competitiveness in local and regional markets. With these sound governance principles, BUM Desa can build a sustainable competitive advantage, allowing it to survive, thrive, and compete effectively in the face of market changes and global challenges.

## **IMPLICATION**

This research has important implications for the management and development of BUM Desa. The results show that implementing good governance, such as transparency, accountability, cooperation, participatory, emancipative, and sustainability, can increase stakeholder trust, reduce conflicts of interest, and strengthen operational efficiency. With good governance, BUM Desa can respond more to local community needs and contribute to sustainable village economic development. The implications are also relevant for the government, which can

use these findings to formulate policies and training programs that support BUM Desa managers in implementing effective governance. Theoretically, this study enriches the literature on the relationship between governance and organizational performance through competitive advantage. It confirms the relevance of agency theory and the Resource-Based View (RBV) in the context of public sector organizations and small businesses in rural areas. It also emphasizes the importance of tailoring governance principles to the unique characteristics of BUM Desa, which can serve as a model for similar entities in other regions to improve their performance and sustainability.

#### CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

This study examines the effect of governance on the performance of BUM Desa organizations with the mediating role of competitive advantage. The results show that governance directly affects performance, and competitive advantage partially mediates the relationship between governance and BUM Desa performance. It has several limitations, including the geographical context limited to BUM Desa in East Java, so the results may not fully apply to BUM Desa in other regions. This study did not account for other variables that may impact BUM Desa's performance, such as government support or managerial capacity. Furthermore, the quantitative approach may not capture the complex and contextual dynamics thoroughly, given that the data collection was conducted during the COVID-19 pandemic, which resulted in a low return rate of questionnaires, thus affecting the representativeness of the sample and the completeness of the data used.

Future research may explore other variables affecting BUM Desa's performance, such as external factors and the socio-economic environment. In addition, the governance dimension can be expanded by considering other aspects, such as governance structures and processes, to provide a more comprehensive picture. Research also differentiates BUM Desa performance between financial and non-

financial aspects, allowing for more in-depth analysis. Finally, the use of a broader sample will increase the generalizability of the findings and provide better insight into the influence of governance on organizational performance in various contexts.

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