Journal of Economics Education and Entrepreneurship
Vol. 5, No. 3, Dec 2024, pp. 165-175
https://ppjp.ulm.ac.id/journals/index.php/jee/issue/view/14168
ISSN: 2746-5438 (Print) | 2745-729X (Online)

Sustainable Performance of Village-Owned Enterprises through Social Capital with an Integrated Quality Management Approach

[1*]Bangun Putra Prasetya, [2]Kristiana Sri Utami
[1.2] Widya Mataram University, Indonesia

Article Info

Keywords:
Integrated quality management
Social capital
Sustainable performance

A B S T R A C T

The sustainability of Village-Owned Enterprises plays a crucial role in mobilizing village potential and supporting efforts to alleviate poverty in rural areas. This study focuses on exploring the mediating role of social capital in the relationship between Integrated Quality Management (IQM) and the sustainability of Village-Owned Enterprises performance. By adopting a quantitative approach, the study seeks to provide empirical evidence on how these variables interact and contribute to the long-term success of Village-Owned Enterprises in achieving their developmental objectives. The study was conducted in Kulon Progo Regency, D.I. Yogyakarta, encompassing 87 Village-Owned Enterprises as recorded by the Community Empowerment and Village Empowerment, Population Control, and Family Planning Office of Kulon Progo Regency. Structural Equation Modeling (SEM) was employed for data analysis to examine the complex relationships among the variables. The findings reveal that social capital plays a significant mediating role in the interaction between Integrated Quality Management and Sustainability Performance. This highlights the importance of fostering strong social networks, trust, and collaborative efforts within the community to enhance the operational and developmental effectiveness of Village-Owned Enterprises. Moreover, the study underscores the relevance of Integrated Quality Management practices in ensuring the sustainability of Village-Owned Enterprises. Such practices, when effectively combined with robust social capital, can drive significant improvements in organizational performance and long-term resilience. These results provide valuable insights for policymakers, practitioners, and stakeholders involved in rural development. Strengthening social capital and implementing effective quality management strategies can serve as key drivers in optimizing the potential of Village-Owned Enterprises to achieve economic empowerment and poverty reduction. This research contributes to the growing body of literature on rural development and offers actionable recommendations for sustaining Village-Owned Enterprises in similar contexts.

This is an open access article under the CC-BY-SA 4.0

Corresponding Author:
Bangun Putra Prasetya
Faculty of Economics, Widya Mataram University
Jl. Tata Bumi Selatan, Banyuraden, Gamping Sleman Yogyakarta, Indonesia
Email: bangunputraprasetya@gmail.com

Submitted 22 Nov 2024; Accepted 28 Nov 2024; Published 31 Dec 2024

How to cite: Prasetya, B. P., & Utami, K. S. (2024). Sustainable Performance of Village-Owned Enterprises through Social Capital with an Integrated Quality Management Approach. *Journal of Economics Education and Entrepreneurship*, *5*(3). pp. 165-175. https://doi.org/10.20527/jee.v5i3.14168.

Copyright © Authors, 2024, ISSN: 2746-5438 (Print) | 2745-729X (Online)

1. INTRODUCTION

The Ministry of Home Affairs noted that in 2013 Indonesia had 72,944 village administrative areas and 8,309 village administrative areas, meaning that the total administrative areas at the village and sub-district levels were 81,253. Based on this number, there are still 39,000 villages left behind, with approximately 17,000 villages being very disadvantaged and 1,100 villages on the border that are minimally touched and still neglected (Sidiq, 2015). Kurniawan (2015) assesses that the birth of Law No. 6 of 2014 concerning Villages will provide a new paradigm and concept regarding village governance policies nationally, where this village law no longer places villages as the background of Indonesia, but as an important part of society. One of the rules listed in the law aimed at improving village welfare is the regulation regarding Village-Owned Enterprises.

Village-Owned Enterprises itself according to Article 87 of Law No. 6 of 2014 is basically an institution formed on the basis of the spirit of kinship and mutual cooperation to utilize all economic potential, economic institutions, as well as the potential of natural resources and human resources in order to improve the welfare of rural communities. In 2018, for example, the village ministry noted that around 61% of all villages in Indonesia already have Village-Owned Enterprises. This percentage is the result of an increase from 2014 where the number of Village-Owned Enterprises was only 1,022 units, which increased to 45,549 units in 2018. Along with this, more than one million, namely 1.07 million workers have been absorbed by Village-Owned Enterprises. Meanwhile, data from the Ministry of Villages, Development of Disadvantaged Regions and Transmigration of 2024, there are 65,941 Village-Owned Enterprises in Indonesia (Antara, 2024).

Table 1 The Growth of Village-Owned Enterprises

Year	Number of Village-Owned Enterprises
2019	50.199
2020	51.134
2021	57.288
2022	60.417
2023	65.941

The existence of sustainable Village-Owned Enterprises is indispensable to mobilize the potential of the village and help poverty alleviation efforts. Village-Owned Enterprises have sustainable performance assessed by the community, which has an impact on increasing income and providing jobs. However, the existence of Village-Owned Enterprises has not shown an optimal role in improving the welfare of rural communities. Village-Owned Enterprises as a form of implementation of local economic drivers requires professional human resource management, so as to produce sustainable performance (Atuna & Harun, 2019). Achieving sustainable performance requires a leadership and management approach adopted by the company so that it can be profitable and at the same time able to provide social, environmental, and economic results (Kantabutra & Ketprapakorn, 2020). In the process of achieving sustainability performance, some researchers explained that it can be through integrated quality management (Shafiq, 2019).

Integrated quality management and continuous performance are one of the top priorities in a number of organizations and the practice between integrated quality management and continuous performance is equally important for the manufacturing and service industries

(Manatos, 2017). Therefore, many organizations claim to follow the implementation of environmentally friendly programs and sustainable performance in their operations (Cancino et al., 2018). In addition, the results of an empirical study on the influence of integrated quality management on sustainability performance were conducted by Li, et al. (2018); Abbas, (2019) concluded that the characteristics of integrated quality management in achieving continuous improvement are closely related to sustainable performance. Different results were shown by Siva, et al. (2016) that it was not possible to find an empirical study that comprehensively investigated the role of integrated quality management in improving the sustainability of company performance. These results are also supported by Li, et al. (2018) who show that integrated quality management practices hinder sustainable management and performance. The findings of previous research on the influence of integrated quality management on sustainable performance show inconsistent results, causing a research gap in this study. Based on the research gap, a bridge is needed to mediate the difference in the results of the research.

Integrated quality management will support the development of strong relationships between internal and external agents (Structural social capital), trust and commitment (Relational social capital), along with common values and common rules (Cognitive social capital) through teamwork and motivation to achieve common goals (Donate, 2019). Therefore, strong social capital is considered necessary for the growth, innovation and sustainability of companies in a competitive world (Gronum et al, 2012). In addition, with social capital as a relationship that shapes the quality and quantity of social relationships, it can motivate its human resources to always actively participate through social networks (Prasetya et al, 2023). This shows the importance of social capital in the sustainability of small and medium enterprises (Akhtar, 2014). Kulon Progo Regency is one of the districts in the Special Region of Yogyakarta. Kulon Progo itself is recorded as having 87 Village-Owned Enterprises. And there are several Village-Owned Enterprises in Kulon Progo that are national pilots. This proves that Kulon Progo Regency has enormous potential, especially in the management of Village-Owned Enterprises (Utomo, 2023). Therefore, the location of this study uses Kulon Progo Regency as the research location.

Based on the research phenomenon, the difference in research results and previous research, the formulation of this research problem is how the role of Social Capital in mediating Integrated Quality Management towards the Sustainable Performance of Village-Owned Enterprises in Kulon Progo. This research is important because it is related to several things, first, related to the contribution of efforts to achieve the success of government policies on optimizing the local economy through Village-Owned Enterprises, and second, as an effort to achieve the welfare of village communities based on the resources they have.

2. METHOD

The approach in this study uses quantitative. The quantitative approach is a research approach that works with numbers, the data is in the form of numbers, analyzed with statistics to test specific research hypotheses, and to predict the influence of variables between variables (Creswell, 2013). In accordance with the purpose and formulation of the research, this research includes correlational or causality research. Saunders et al. (2009), causality research aims to test the relationship between explanatory research, which is research that seeks to explain the relationship between variables through hypothesis testing.

The population and sample in this study are Village-Owned Enterprises located in Kulon Progo Regency, D.I. Yogyakarta with a total of 87 Village-Owned Enterprises according to data from the Community Empowerment and Village Empowerment, Population Control and Family Planning Office of Kulon Progo Regency. The research respondents were the Director of Village-Owned Enterprises in Kulon Progo Regency. The type of data used in this study is

primary data and data sources are obtained by collecting directly from respondents who fill out questionnaires (questionnaires). The process stage begins with the preparation of a draft questionnaire that will be a research instrument. Before the hypothesis test is carried out, an instrument test is carried out to ensure the level of validity and reliability of each item in the variable embodied in the validity and reliability test. The Structural Equation Modeling analysis tool is used to test the hypothesis. Furthermore, the modeling and analysis of structural equations was carried out into the first seven steps, the development of a model based on theory. Second, compile the path diagram depicted on the Path diagram. Third, Arrange structural equations. Fourth, choose an input and estimation matrix with Maximum Likelihood Estimation (ML). Fifth, Assessing the identification of structural models, Sixth, Evaluating the goodness of fit criteria. Seventh, Interpretation and modification of the model. Eighth, research hypothesis test, ninth, mediation test. Based on these stages, it can answer the formulation of research problems.

3. RESULTS AND DISCUSSION

3.1 Results

The first stage is the testing of the instrument by testing its validity and reliability. Ghozali (2009) stated that validity tests are used to measure the validity or validity of a questionnaire in a study. A questionnaire is said to be valid if the questions on the questionnaire can reveal something that the questionnaire will measure. The validity test uses the validity of the construct by analyzing the results of outer loading and AVE. Meanwhile, the reliability test is tested using *Cronbach alpha* and composite reliability. Based on this, before conducting a hypothesis test at the initial stage, a validity and reliability test is carried out to measure the instrument's feasibility. The validity test consists of a discrimination validity test. The validity test of discrimination is declared good if the construct indicator has the highest loading value in the group or column (Hair et al., 2014). Based on the results of the validity test above, all convergent validity test results showed an AVE value> 0.5 so all constructs in the study were declared valid. The validity test results are presented in Table 1 Validity Test Results.

Table 2. Validity Test

	Average Variance Extracted (AVE)	Information
Integrated Quality Management	0.607	Valid
Social Capital	0.783	Valid
Sustainability Performance	0.665	Valid

Source : Research data, 2024

Based on the results of the reliability test in Table 1, all validity test results show that the AVE value is more than 0.5 so that all constructs in the study are valid and can be used for further testing. Meanwhile, when viewed from the outer loading, the outer loading value of each construct shows a result> 0.5.

In the next stage of this study, a second instrument test was carried out, namely a reliability test. Reliability comes from the word reliability. Ghozali (2009) stated that reliability is a tool to measure a questionnaire which is an indicator of a variable or construct. A questionnaire is said to be reliable or reliable if a person's answers to statements are consistent or stable over time. The reliability of a test refers to the degree of stability, consistency, predictability, and accuracy. Measurements that have high reliability are measurements that can

produce reliable data, reliability tests are tested using Cronbach alpha and composite reliability. In this study, it was measured with a composite reliability value exceeding 0.7 and using Cronbach alpha must be above 0.6.

Table 3. Reliability Test

	Cronbach's Alpha	Composite Reliability	Information
Integrated Quality Management	0.796	0.869	Reliable
Social Capital	0.749	0.874	Reliable
Sustainability Performance	0.679	0.847	Reliable

Source : Research data, 2024

The reliability test in this study was carried out on three variables. In the first variable, namely Integrated Quality Management, it shows that the *Cronbach alpha* value is 0.796 or exceeds the minimum standard value of 0.6 and the composite reliability value in the Integrated Quality Management variable shows that it exceeds the value of 0.7 or 0.869, so this indicates that the research instrument for the Integrated Quality Management variable declared reliable. Furthermore, the Social Capital variable shows a *Cronbach alpha* value of 0.749 or exceeds the minimum standard value of 0.6 and the composite reliability value in the Social Capital variable shows a value of 0.7 or 0.874, so this indicates that the research instrument for the Social Capital variable declared reliable. In the last variable, namely Sustainability Performance, the *Cronbach alpha* value is 0.679 or exceeds the minimum standard value of 0.6 and the composite reliability value in the Sustainability Performance variable shows that it exceeds the value of 0.7 or 0.847, so this indicates that the research instrument for the Sustainability Performance variable declared reliable. Based on the results of the reliability test, it can be seen that the composite reliability value in the research variable is above 0.7. After the validity and reliability test is carried out, a hypothesis test can be carried out.

Hypothesis testing in this study was carried out using the Structural Equation Modeling (SEM) method, with the help of the SmartPLS program. Partial Linear Square (PLS) analysis is a multivariate statistical technique that makes comparisons between multiple dependent variables and multiple independent variables. PLS is one of the variation-based SEM statistical methods designed to solve multiple regressions when specific data problems occur, such as small research sample size, missing values and multicollinearity (Jogiyanto and Abdillah, 2009). Based on the results of data processing from the distribution of questionnaires, the results are obtained in table 3.

Table 4. Hypothesis Test

	T Statistic	P Values	Information
Integrated Quality Management -> Social Capital	2,973	0.009	Significant
Integrated Quality Management -> Sustainability Performance	3,454	0.001	Significant
Social Capital -> Sustainability Performance	2,867	0.006	Significant

Based on table 3, it shows that Integrated Quality Management affects Social Capital. This is shown by a P-Value of 0.009 or below 5%. So in this study it shows that Hypothesis 1 is accepted. Furthermore, in the second hypothesis, Integrated Quality Management affects

Sustainability Performance. The results showed that the P-Value of the results obtained by the data was 0.001 or below 5%. Then it can be concluded that Hypothesis 2 is accepted.

As for the third hypothesis, namely Social Capital affects Sustainability Performance, based on the data, the results are obtained that the P-Value is 0.006 or below 5%, this also indicates that the third hypothesis is accepted.

Table 5. Mediation Test

	P Values	Information
Integrated Quality Management -> Social Capital -> Sustainability Performance	0.002	Significant

Based on table 4, it shows that Social Capital can mediate between Integrated Quality Management and Sustainability Performance. This is shown by the P-Value value from the calculation results with a score of 0.002 or less than 5%. Therefore, this study shows that this indicates that individuals with good self-restraint from money will have an impact on good financial management skills as well. This is because the ability to hold money is the beginning of developing a financial attitude to be more careful when making decisions related to expenses

3.2 Discussion

Integrated Quality Management has an effect on Sustainability Performance. The results showed that the P-Value of the results obtained by the data was 0.001 or below 5%. Therefore, it can be concluded that it has a significant effect. This shows that integrated quality management is an integrated effort designed to improve quality at every level within the company (Bergman and Klefjso, 2010). This conception is in accordance with the theoretical study put forward by Robson, et al. (2002) arguing that the achievement of sustainability in organizations can realistically be achieved through integrated quality management. Mahmood et al., (2014) stated that integrated quality management has largely been recognized as a mechanism that has the ability to improve the performance of organizations and individuals. Due to its focus on continuous improvement, integrated quality management aims to follow environmentally friendly practices by consuming the least resources in operations (Qasrawi et al., 2017). The results of this study reinforce the previous empirical study put forward by Abbas (2019) that integrated quality management practices have a significant impact on sustainability. Kang *et al.* (2015) emphasized that integrated quality management has a significant and positive impact on sustainability. The improvement in the sustainability performance of Village-Owned Enterprises in Kulon Progo Regency is influenced by integrated quality management. This means that Village-Owned Enterprises in implementing integrated quality management which is interpreted as the integration of all functions of the organization into a holistic philosophy built based on the concept of resource development.

Integrated Quality Management has an effect on Social Capital. This is shown by a P-Value of 0.009 or below 5%. So that this study shows that Integrated Quality Management has a significant effect on Social Capital. This is in accordance with the theory that shows that the success of integrated quality management does not only depend on the search for internal cohesion between individuals and groups in the company, but also through intra and inter-organizational relationships that have a direct impact on the development of social capital (Craciun, 2013). The results of this study reinforce the previous empirical study put forward by Hammer A, (2013) which shows that social capital is influenced by integrated quality management. In addition, there is a positive relationship between sustainability and social capital (Akhtar, 2014). Integrated quality management facilitates the networking of people and knowledge within groups, leading to an increase in social capital (Ruiz, E, 2018). The success

of Village-Owned Enterprises in Kulon Progo Regency in creating a social model is manifested in information disclosure, as well as the participation of the management of Village-Owned Enterprises about organizational programs with colleagues in the management structure of Village-Owned Enterprises. The philosophy of integrated quality management will support the development of frequent and strong relationships between and between internal and external agents, trust and commitment, along with common values and shared rules (*Cognitive social capital*) in achieving sustainable performance goals.

Social Capital affects Sustainability Performance, based on data obtained that the P-Value is 0.006 or below 5%. This conception is in accordance with the theoretical study put forward by Bennet and Bennet (2010) revealing that social capital is an intangible asset of an organization consisting of networks, trust and reciprocity that exist between employees and between organizations, and this linkage not only helps employees and organizations to share knowledge but also helps in the development of competencies needed to achieve sustainability performance. Strong social capital is considered necessary for the growth, innovation and sustainability of small and medium-sized enterprises in a competitive world (Fanfan, Y. 2011; Gronum, et al.2012; Schebesch, 2012). The results of this study corroborate the previous empirical study put forward by Akhtar, (2014) in a study showing the importance of social capital in business sustainability. In addition, Fernando, (2018) explained that the achievement of sustainability in an organization or company requires one of the main factors, namely social capital.

The results of data processing showed that the role of social capital in mediating the influence of integrated quality management on sustainable performance showed a P-Value of 0.002. Based on the results of the analysis, it is proven that social capital is able to mediate the influence of integrated quality management on sustainability performance. The productivity of the company is highly dependent on cooperation among business partners and other members of the business social network. At the same time, collaboration is very important in creating new knowledge as a social process through social networks as part of realizing social capital embedded in the network to achieve sustainability of company performance.

4. CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that Integrated Quality Management has an effect on Sustainability Performance. In addition, Integrated Quality Management also affects social capital. Meanwhile, Sustainability Performance is also influenced by social capital. So in this study about the role of social capital in mediating two variables between Integrated Quality Management and Sustainability Performance, it shows that social capital is able to mediate the two variables. This shows that the productivity level of the organization is highly dependent on cooperation among business partners and other members of social networks. At the same time, collaboration is very important in creating social processes through social networks as part of realizing social capital embedded in the network to achieve sustainable company performance.

In addition, this study underlines the relevance of Integrated Quality Management practices in ensuring the sustainability of Village-Owned Enterprises. These practices, when effectively combined with strong social capital, can drive significant improvements in organizational performance and long-term resilience. These results provide valuable insights for policymakers, practitioners, and stakeholders involved in rural development. Strengthening social capital and implementing effective quality management strategies can be the main drivers in optimizing the potential of Village-Owned Enterprises to achieve economic empowerment and poverty alleviation.

ACKNOWLEDGEMENTS

This journal article was written by Bangun Putra Prasetya and Kristiana Sri Utami who serve in the Management Study Program, Faculty of Economics, Widya Mataram University based on the results of a research entitled Sustainable Performance of Village-Owned Enterprises Through Social Capital with an Integrated Quality Management Approach which is fully financed by the Ministry of Education, Culture, Research and Technology through the National Competitive Research Scheme, Research for Beginner Lecturers in 2024.

REFERENCES

Abbas, J. (2019). Impact of total quality management on corporate green performance through the mediaMason role of corporate social responsibility. J. *Clean. Prod*. 242 https://doi.org/10.1016/j.jclepro.2019.118458,118458

Abdillah., W & Jogiyanto. (2009). Partial Least Square (PLS) Alternative SEM in Business Research. Andi Publisher: Yogyakarta

Akhtar,C,S., Ismail,K., & Hussain, J. (2014). Social capital and Organizational Sustainability: Case of Malaysian SMEs. Conference: 2nd International Conference on Business Administration, Marketing and Economics (BAME'14) At: Athens, Greece Recent Advances in Environmental Sciences and Financial Development. ISBN: 978-1-61804-255-2.

Atuna, R., & Harun, N. I. (2019). Capacity Building of Village-Owned Enterprises and Challenges of the East Sumalata Government. Gorontalo *Journal of Public Administration Studies*, 2(2), 61-77. http://jurnal.unigo.ac.id/index.php/gjpads/article/view /769

Cancino, C.A., La Paz, A.I., Ramaprasad, A., Syn, T. (2018). Technological innovation for sustainable growth: an ontological perspective. *J. Clean. Prod*. 179, 31e41.

Creswell, W., John. (2013). *Research Design Qualitative, Quantitative, and Mixed Approaches*. Yogyakarta : Student Library

Donate, M.J., Ruiz-Monterrubio, E., Sánchez de Pablo, J.D. and Peña, I. (2019), "Integrated quality management and high-performance work systems for social capital development: Effects on company Innovation Capability", *Journal of Intellectual Capital*, Vol. 21 No. 1, pp. 87-114 https://doi.org/10.1108/JIC-07-2018-0116

Fanfan, Y. (2011). *Insights into Social Network Theory and Entrepreneurship*. Paper presented at the International Conference on Management and Service Science (MASS), 12-14 August, Wuhan, China

Ghozali, Imam. (2009). Application of Multivariate Analysis with SPSS Program". Semarang: UNDIP

Gronum, S., Verreynne, M.-L., & Kastelle, T. (2012). The Role of Networks in Small and Medium Enterprise Innovation and Firm Performance. *Journal of Small Business Management*, *50*(2), 257-282

Hair, J.F. Sarstedt, M., Hopkins, L., and Kuppelwieser, V.G., (2014). Partial least squares structural equation modeling (PLS-SEM). *European Business Review*, 26(2), pp.106–121

Kang, J.-S., Chiang, C.-F., Huangthanapan, K., Downing, S., (2015). Corporate social responsibility and sustainability balanced scorecard: the case study of family owned hotels. Int. J. Hosp. Manag. 48, 124e134.

Kantabutra, S., K. N. (2020). Toward a theory of corporate sustainability: A theoretical integration and exploration, Journal of Cleaner Production, Volume 270, ISSN 0959-6526, https://doi.org/10.1016/j.jclepro.2020.122292.

Kurniawan, Boni. (2015). Independent Village, Building Village. Ministry of Villages, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia. Jakarta

Li, D., Zhao, Y., Zhang, L., Chen, X., Gao, C., (2018). Impact of quality management on green innovation. *J. Clean. Prod*. 170, 462e470

Manatos, M.J.P. (2017). The Integration of Quality Management in Higher Education. Universidade de Lisbon, Lisbon. *Thesis*

Prasetya, B. P., Wijayanti, R., & Aisjah, S. (2023). Innovation capacity and social capital as mediators of relationships in integrated quality management with sustainable performance of village-owned enterprises in Klaten district, Central Java, Indonesia. *International Journal of Applied Economics, Finance and Accounting*, *17*(2), 454-468.

Qasrawi, B.T., Almahamid, S.M., Qasrawi, S.T. (2017). The impact of TQM practices and KM processes on organisational performance: an empirical investigation. Int. *J. Qual. Reliab. Jan*. 34, 1034e1055

Saunders *et al*. (2009). *Research Methods for Business Students 5th*. Italy. Pearson

Schebesch, K. B. (2012). *Enabling IC Formation in Composite Organizations - The Action of Trust and Reputation Mechanisms*. Paper presented at the 4th European Conference on Intellectual Capital: ECIC 2012, 23-24 April, Helsinki, Finland

Shafiq, M., Lasrado, F., Hafeez, K. (2017). The Effect of TQM on Organizational Performance: Empirical Evidence from the Textile Sector of a Developing Country Using SEM. *TQM & Business*. Excellence 1e22

Sidik, F. (2015). Exploring local potential to realize village independence. JKAP (Journal of Policy and Public Administration), 19(2), 115-131.

Siva, V., Gremyr, I., Bergquist, B., Garvare, R., Zobel, T., Isaksson, R. (2016). The support of Quality Management to sustainable development: a literature review. *J. Clean. Prod*. 138, 148e157.

Utomo, H (2023). 100 Village-Owned Enterprises Must Know the Potential, Commission V of the House of Representatives of the Republic of Indonesia Working Visit to Kulon Progo," https://radarjogja.jawapos.com/. Accessed: Jul. 07, 2023. [Online]. Available: https://radarjogja.jawapos.com/news/651738588/100-Village-Owned Enterprises-must-know-potential-commission-v-dpr-ri-visit-work-ke-kulon-progo