

Governance Dimensions and BUMDes Performance: Evidence from Rokan Hilir Regency

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Abstract

Research aims:

This study aims to examine the effects of accountability, transparency, responsiveness, and the rule of law on the performance of Village-Owned Enterprises (BUMDes).

Design/Methodology/Approach:

This research employs a quantitative approach with an explanatory design. Primary data were collected through questionnaires distributed to 183 BUMDes managers in Rokan Hilir Regency and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Research findings:

The findings reveal that all governance dimensions exert a positive influence on BUMDes performance. The rule of law emerges as the most dominant determinant, followed by responsiveness, accountability, and transparency. These results underscore that robust governance practices enhance organizational effectiveness and sustainability.

Theoretical contribution/Originality:

This study extends the good governance literature by integrating four governance dimensions within the context of BUMDes and reinforces the applicability of agency theory in village-based organizations.

Practitioner/Policy implication:

The findings encourage village governments and BUMDes managers to strengthen governance systems, particularly in terms of regulatory compliance, transparency, and responsiveness in managing village enterprises.

Research limitation/Implication:

This study is limited to a single region and specific variables. Future research is recommended to broaden the scope and incorporate additional variables.

Keywords: Good governance, accountability, transparency, responsiveness, rule of law, BUMDes, organizational performance

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Introduction

Rural development has become a central priority in Indonesia's national development agenda, particularly following the enactment of Law No. 6 of 2014 on Villages, which grants villages broader authority to manage their economic and social resources. To support this mandate, the government established Village-Owned Enterprises (BUMDes) as local economic institutions designed to enhance community welfare through the

independent management of local potential (Keputusan Menteri Desa PDTT No. 7 Tahun 2023, 2023).

BUMDes play a strategic role in stimulating rural economies through a range of business activities, including microfinance services, trading, service provision, and the management of village resources. In practice, BUMDes are not solely profit-oriented; they also carry a social mission related to community empowerment. This dual function positions BUMDes as hybrid organizations that integrate economic and social objectives (Basri et al., 2026; Basri et al., 2023)

Despite their strategic importance, empirical evidence indicates that BUMDes performance remains suboptimal, with only around 30 percent demonstrating meaningful contributions to local economic development (Basri et al., 2021). In Rokan Hilir Regency, governance and performance issues are evident from the distribution of BUMDes across development categories. Of the 159 BUMDes equal to the number of villages 104 are classified as basic and 47 as developing, while only 5 are developed and 3 are advanced (Dinas PMD Dukcapil Provinsi Riau tahun 2021). This indicates that more than 95 percent remain at early stages.

This pattern suggests limited managerial capacity, weak governance practices, and a tendency to establish BUMDes for administrative compliance rather than operational readiness. As a result, many BUMDes operate with low productivity, limited transparency, and weak accountability, which ultimately constrains their contribution to local economic development. These conditions suggest that the challenges faced by BUMDes extend beyond technical constraints and are closely linked to governance quality (Ghofar et al., 2022; Fitriani et al., 2024).

Several factors have been identified as influencing BUMDes performance, including limited human resource capacity, inadequate managerial skills, restricted market access, and low levels of technological adoption (Utomo et al., 2025). More recent discussions, however, highlight governance as a critical determinant of organizational success. The implementation of governance principles such as accountability, transparency, and responsiveness has been shown to contribute to improved performance in public sector organizations (Birdayanthi et al., 2025; Iznillah & Basri, 2019; Asroel et al., 2016).

From a theoretical standpoint, accountability refers to the obligation of an organization to justify its resource management and performance to stakeholders (Pilon & Brouard, 2023). Transparency reflects the openness of information, enabling the public to monitor organizational processes (Mardiasmo, 2021). Responsiveness denotes the ability of an organization to address community needs in a timely and appropriate manner (Djafar et al., 2025), while the rule of law provides a framework that ensures organizational activities are conducted in accordance with established regulations (Pech, 2022; Bhagat & Hubbard, 2022). Collectively, these principles are expected to play a significant role in enhancing BUMDes performance.

However, prior studies report mixed findings. Some studies demonstrate that accountability and transparency positively affect BUMDes performance (Lestari & Sulkiah, 2025; Fitriani et al., 2024; Abdhilla & Narastri, 2025). In contrast, other studies

indicate that governance practices have not been effectively implemented, resulting in no significant impact on performance (Nurjanah, 2020; Syafikri et al., 2021). These inconsistencies suggest that the relationship between governance and performance is not always linear and may depend on contextual factors such as organizational capacity, institutional maturity, and implementation quality.

Moreover, much of the existing literature adopts a general corporate governance perspective, which may not fully capture the distinctive characteristics of BUMDes as community-based organizations. This indicates a limitation in prior research, as governance mechanisms in hybrid organizations such as BUMDes may operate differently from those in purely profit-oriented firms. In particular, the interaction between formal governance structures and community-based practices remains underexplored.

Accordingly, this study positions governance not merely as a set of formal principles but as an integrated system that operates within a specific institutional and social context. By adopting a framework based on Government Regulation No. 11 of 2021, this study provides a more context-sensitive approach to examining accountability, transparency, responsiveness, and the rule of law in BUMDes governance.

Based on this background, this study aims to analyze the effect of good governance comprising accountability, transparency, responsiveness, and the rule of law on the performance of Village-Owned Enterprises (BUMDes) in Rokan Hilir Regency. In doing so, this study seeks to contribute by clarifying the role of governance dimensions in hybrid community-based organizations and by explaining the inconsistent findings reported in prior research.

Literature Review and Hypothesis Development

Agency Theory

Agency theory explains the contractual relationship between principals and agents, in which agents are entrusted with the authority to manage resources on behalf of principals (Jensen & Meckling, 2019). Within public sector settings, including Village-Owned Enterprises (BUMDes), village governments and local communities act as principals, while BUMDes managers function as agents. This relationship inherently involves the risk of information asymmetry and potential conflicts of interest, which may lead agents to pursue objectives that diverge from those of the principals. Consequently, governance mechanisms are required to align interests and ensure accountability in resource management (Eisenhardt, 1989; Panda & Leepsa, 2017).

However, the application of agency theory in BUMDes requires contextual interpretation. Unlike purely profit-oriented organizations, BUMDes operate within a hybrid institutional setting where economic objectives coexist with social missions. This condition increases the complexity of principal-agent relationships, as multiple stakeholders with diverse interests are involved (Basri et al., 2023). As a result, governance mechanisms in BUMDes are not only aimed at controlling opportunistic

behavior but also at maintaining legitimacy and social accountability within the community context.

The adoption of governance principles such as accountability, transparency, responsiveness, and adherence to the rule of law serves as a critical control framework to mitigate agency problems and enhance organizational performance (Al-Faryan, 2024). In the context of BUMDes, managers are expected to administer village resources in a manner that is transparent, responsible, and responsive to community needs, thereby contributing to broader social welfare outcomes.

Nevertheless, prior studies indicate that the effectiveness of these governance mechanisms is not always consistent (Fitriani et al., 2024; Nurjanah, 2020). In practice, governance principles may be implemented formally without being fully integrated into managerial processes, which can limit their impact on performance. This suggests that governance effectiveness depends not only on the presence of formal mechanisms but also on how they are operationalized within organizational practices.

Hypothesis Development

The Effect of Accountability on BUMDes Performance

Accountability refers to an organization's obligation to justify its actions and performance to relevant stakeholders (Mardiasmo, 2021). In public organizations, accountability involves the provision of clear and accessible information regarding the use of resources and the achievement of organizational objectives. Strong accountability practices foster public trust and support more effective and efficient organizational management (Hood, 2014).

From an agency perspective, accountability functions as a monitoring mechanism that constrains opportunistic behavior by agents. Higher levels of accountability reduce the likelihood of mismanagement and enhance alignment between managerial actions and stakeholder interests. Empirical evidence consistently indicates that accountability contributes positively to organizational performance, including within the context of BUMDes (Boyne, 2002; Desmalita & Setyadi, 2025).

However, accountability does not always lead to improved performance. Several studies show that accountability may have limited impact when it is implemented primarily as a formal reporting obligation rather than as a managerial control mechanism (Nurjanah, 2020; Syafikri et al., 2021). Under such conditions, accountability fails to influence decision-making processes, thereby weakening its contribution to performance outcomes. This indicates that the relationship between accountability and performance is contingent upon the quality of its implementation.

H₁: Accountability has a positive effect on BUMDes performance.

The Effect of Transparency on BUMDes Performance

Transparency refers to the principle that ensures public access to information concerning organizational processes and resource management (Mardiasmo, 2021). In public organizations, transparency enables stakeholders to scrutinize decision-making processes and the allocation of resources, thereby strengthening public oversight and reducing the risk of misuse.

From an agency perspective, transparency plays a central role in reducing information asymmetry between principals and agents. When relevant information is disclosed openly and in a timely manner, the opportunity for agents to engage in opportunistic behavior diminishes. Recent empirical studies in the public sector consistently report that transparency improves organizational performance by enhancing monitoring, strengthening trust, and supporting better decision-making (Hanifa et al., 2026; Sipahutar et al., 2025; Sari & Muslim, 2023).

Despite these positive findings, transparency may have limited impact when the information disclosed is not effectively utilized by stakeholders (Fitriani et al., 2024). In some cases, transparency functions merely as information dissemination without contributing to decision-making or organizational learning. This suggests that the effectiveness of transparency depends on the quality, accessibility, and usability of the information provided.

H₂: Transparency has a positive effect on BUMDes performance.

The Effect of Responsiveness on BUMDes Performance

Responsiveness reflects an organization's ability to respond promptly and appropriately to the needs and aspirations of stakeholders (Roh et al., 2022) (Richey et al., 2022). Organizations that demonstrate high responsiveness are more capable of aligning their services and programs with community expectations, thereby improving the effectiveness and relevance of their operations.

Within the agency framework, responsiveness can be interpreted as the agent's capacity to address the demands and interests of the principal (Rijal, 2023). Agents who respond effectively to stakeholder needs are more likely to build trust and strengthen organizational legitimacy. Empirical evidence suggests that responsiveness contributes positively to organizational performance, particularly in public service contexts where adaptability and stakeholder orientation are critical (Lauwo et al., 2022; Nie & Wang, 2023).

However, responsiveness may also face practical constraints, particularly in organizations with limited resources and managerial capacity (Utomo et al., 2025). In such contexts, the ability to respond to stakeholder demands may be uneven, which can reduce its effectiveness in improving performance. This indicates that responsiveness is influenced not only by managerial intent but also by organizational capability.

H₃: Responsiveness has a positive effect on BUMDes performance.

The Effect of Rule of Law on BUMDes Performance

The rule of law emphasizes that organizational activities must be conducted in accordance with established legal frameworks and regulations (Mahmutovic & Alhamoudi, 2024). Compliance with legal provisions ensures fairness, consistency, and legal certainty, while also protecting the interests of stakeholders involved in organizational activities.

From the perspective of agency theory, the rule of law functions as a formal governance mechanism that regulates the relationship between principals and agents. Clear and enforceable rules reduce ambiguity, limit opportunistic behavior, and enhance compliance. Empirical studies indicate that adherence to legal frameworks and governance standards contributes positively to organizational performance by strengthening accountability and institutional stability (Efunniyi et al., 2024 ;Boufounou et al., 2024).

At the same time, an excessive reliance on formal rules may lead organizations to prioritize compliance over innovation and operational flexibility (Fitriani et al., 2024). This suggests that while the rule of law is essential for ensuring control and stability, its effectiveness in improving performance may depend on how it is balanced with managerial discretion and organizational adaptability.

H4: Rule of law has a positive effect on BUMDes performance.

Research Model

Drawing on the theoretical framework and prior empirical studies, this research examines the effects of four independent variables—accountability, transparency, responsiveness, and the rule of law—on BUMDes performance as the dependent variable. The proposed research model illustrating these relationships can be seen in Figure 1.

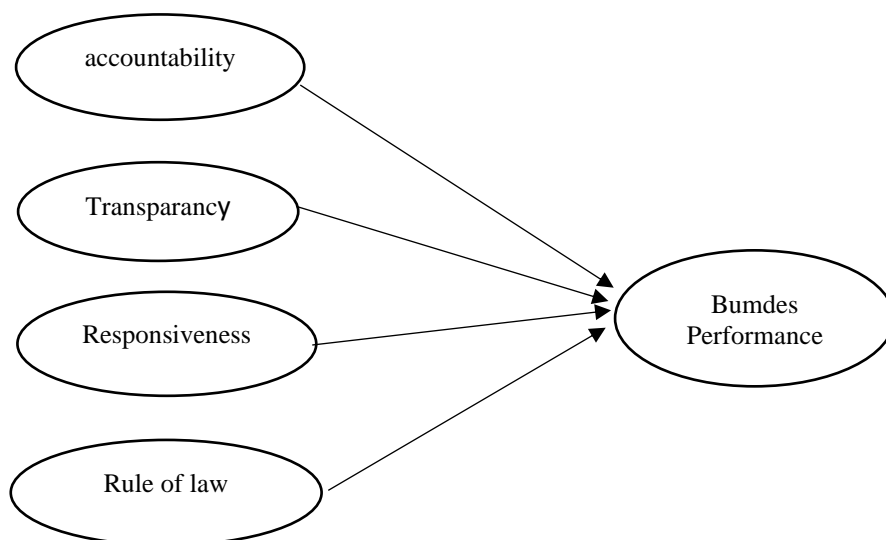


Figure 1. Research Model

Research Method

Research Design

This study employs a quantitative approach with an explanatory design to examine the causal relationship between governance practices and BUMDes performance. Such an approach is widely applied in public sector governance research as it enables the empirical assessment of relationships among constructs (Hair Jr et al., 2021). The analysis focuses on BUMDes in Rokan Hilir Regency, representing village-based economic organizations that face ongoing governance and performance challenges.

Population and Sample

The population comprises all BUMDes registered in Rokan Hilir Regency. A stratified random sampling technique is applied to ensure proportional representation across different levels of BUMDes development. This approach is appropriate for studies involving heterogeneous public organizations (Bell et al., 2022). The respondents consist of BUMDes managers who possess direct knowledge of organizational operations and governance practices, consistent with prior research.

Measurement of Variables

This study measures BUMDes performance as the dependent variable, defined as the extent to which the organization achieves its goals, vision, and mission through the effective and efficient implementation of programs and activities (Yasni et al., 2023; Basri et al., 2022). BUMDes performance is assessed using both financial and non-financial indicators, including profitability, revenue growth, productivity, capital development, customer loyalty, employee satisfaction, community satisfaction, market share, and organizational reputation. All indicators are measured using a five-point Likert scale with an ordinal level of measurement.

The first independent variable is accountability, defined as the obligation of an organization to account for the management of resources and performance to authorized stakeholders (Halim & Kusufi, 2014). Accountability is measured through indicators reflecting the quality of financial management and reporting, including detailed financial reporting, the presence of a management team, team involvement in operations, achievement of financial management objectives, and the preparation of periodic and final reports (Mardiasmo, 2021). These indicators are measured using an ordinal Likert scale.

The second variable is transparency, defined as the availability and accessibility of accurate and adequate public information regarding organizational management (Lacey, 2023). Transparency is measured using indicators such as informativeness, openness, and disclosure, which reflect the extent to which information is made accessible to stakeholders (Mardiasmo, 2021), with an ordinal measurement scale.

The third variable is responsiveness, defined as the organization's readiness and ability to respond promptly and appropriately to community needs, complaints, and aspirations (Parasuraman et al., 1988). Responsiveness is measured through indicators including the availability of complaint-handling procedures, follow-up actions on complaints, trust in

policies, consistency in providing feedback and corrective actions, and community participation in oversight (Yarimoglu, 2014;Staff, 2017), using an ordinal Likert scale.

The fourth variable is the rule of law, defined as the organization's compliance with legal norms and regulations governing its activities (Tyler, 2006). This variable is measured through indicators such as the clarity of legal rules, the firmness of legal subjects, the effectiveness of law enforcement, the availability of credible institutions, and the implementation of policies based on sound legal principles (North, 1990), using an ordinal scale.

Data Analysis Technique

Data analysis is conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM). This method is selected due to its ability to handle complex models and relatively small sample sizes (Hair Jr et al., 2021). In addition, PLS-SEM is widely applied in governance and organizational performance research because of its flexibility with respect to data distribution assumptions .

The analysis proceeds in two main stages: evaluation of the measurement model (outer model) and the structural model (inner model). The outer model assessment examines construct validity and reliability, while the inner model evaluates the relationships among variables through path coefficients and R^2 values (Sholihin & Ratmono, 2013).

Hypotheses are tested by examining path coefficients and their significance levels (p-values). A hypothesis is supported when the p-value is ≤ 0.05 , indicating a statistically significant relationship between variables (Sarstedt et al., 2017). This approach allows for the simultaneous testing of all relationships within the research model, providing comprehensive and robust results.

Research Results and Discussion

Respondent Profile

This study applies a quantitative approach using WarpPLS 7.0 to examine the effect of governance on the performance of Village-Owned Enterprises (BUMDes) in Rokan Hilir Regency. Data were collected through an online questionnaire distributed via Google Forms using a five-point Likert scale.

Of the 228 questionnaires distributed, 183 were returned and deemed valid, resulting in an 86% response rate, which indicates strong participation from BUMDes managers. Respondents were categorized based on gender, age, education level, tenure, and position, as summarized in Table 1.

The analysis proceeded through the evaluation of the measurement model (outer model), structural model (inner model), and hypothesis testing to assess the significance of the relationships.

Table 1. Respondent Characteristics

| Sex | Frequency | Percentage |
|--------------------------|-----------|------------|
| Male | 122 | 67% |
| Female | 61 | 33% |
| Total | 183 | 100% |
| Age | | |
| 11-20 year | 6 | 3% |
| 21-30 year | 98 | 54% |
| 31-40 year | 53 | 29% |
| 41-50 year | 17 | 9% |
| >50 year | 9 | 5% |
| Total | 183 | 100% |
| Education | | |
| Primary School | 1 | 0,5% |
| Senior High School | 150 | 82% |
| Diploma (D3) | 3 | 2% |
| Bachelor's Degree (S1) | 28 | 15% |
| Master's Degree (S2) | 1 | 0,5% |
| Total | 183 | 100% |
| Length of Service | | |
| <1 year | 6 | 3% |
| 1-5 year | 176 | 96% |
| 6-10 year | 1 | 1% |
| Total | 183 | 100% |
| Position | | |
| Director | 61 | 33% |
| Secretary | 49 | 27% |
| Treasurer | 47 | 26% |
| Unit Head | 4 | 2% |
| Supervisor | 22 | 12% |
| Total | 183 | 100% |

The respondent profile in Table 1 shows that BUMDes management is predominantly male (67%), although female participation (33%) is notable. Most respondents are in the productive age range of 21–30 years (54%), indicating a relatively young managerial structure.

In terms of education, the majority hold a senior high school qualification (82%), with limited representation from higher education levels, suggesting moderate managerial capacity. Most respondents have worked between one and five years (96%), reflecting that BUMDes management is still in an early developmental stage.



Structurally, key positions are fairly balanced among directors (33%), secretaries (27%), and treasurers (26%), as presented in Table 1, indicating the presence of basic governance roles within the organization.

Descriptive Statistics

Building on the respondent characteristics presented in Table 1, the analysis proceeds to descriptive statistics to provide an overview of the distribution and central tendencies of the research variables. These statistics offer an initial understanding of how respondents perceive governance and BUMDes performance before further model testing is conducted.

As reported in Table 2, the descriptive statistics summarize the mean values, standard deviations, and variability of each construct, allowing for a preliminary assessment of data patterns and consistency across responses.

Table 2. Descriptive Statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|-----|---------|---------|-------|----------------|
| Performance | 183 | 34 | 60 | 53.50 | 5.705 |
| Accountability | 183 | 18 | 30 | 27.39 | 2.537 |
| Transparency | 183 | 27 | 45 | 41.19 | 3.774 |
| Responsiveness | 183 | 15 | 25 | 22.61 | 2.223 |
| Rule of Law | 183 | 22 | 40 | 35.92 | 4.331 |
| Valid N (listwise) | 183 | | | | |

The descriptive statistics in Table 2 indicate that all variables exhibit relatively high mean scores, suggesting generally favorable perceptions among respondents. BUMDes performance shows a high average (mean = 53.50) with moderate dispersion, indicating that most respondents perceive performance to be consistently strong.

Among the governance dimensions, accountability records a high mean (27.39) with low variability, reflecting relatively uniform perceptions. Transparency and responsiveness also demonstrate high average values (41.19 and 22.61, respectively), suggesting that these practices are perceived to be well implemented. Meanwhile, the rule of law variable shows a slightly wider dispersion (SD = 4.331), indicating more varied perceptions regarding legal compliance and enforcement.

Overall, the relatively low standard deviations across variables imply that responses are fairly homogeneous, providing a stable basis for subsequent model analysis.

Outer Model Assessment

Before testing the structural relationships, this study evaluates the measurement model (outer model) to ensure that each construct is measured with adequate validity and reliability. This step is essential in variance-based structural equation modeling, as it confirms that the indicators accurately represent their underlying latent variables (Hair



Jr et al., 2021). A well-specified measurement model strengthens the credibility of subsequent hypothesis testing and reduces the risk of biased estimates.

Convergent Validity

Convergent validity assesses the extent to which indicators of a construct share a high proportion of variance. An indicator is considered to demonstrate good convergent validity when its factor loading exceeds 0.70 (Hair Jr et al., 2021). However, in early-stage research, factor loadings between 0.50 and 0.60 are still acceptable, as they can adequately capture the construct under investigation (Ghozali & Latan, 2017).

Based on the estimation results using WarpPLS 7.0, the output of the convergent validity test is presented as Table 3.

Table 3. Factor Loading

| Construct | Factor Loadings | Critical Value | Criteria (Factor Loadings > 0.60) |
|-----------|-----------------|----------------|-----------------------------------|
| X11 | (0.844) | 0.60 | Valid |
| X12 | (0.784) | 0.60 | Valid |
| X13 | (0.668) | 0.60 | Valid |
| X14 | (0.647) | 0.60 | Valid |
| X15 | (0.728) | 0.60 | Valid |
| X16 | (0.791) | 0.60 | Valid |
| X21 | (0.722) | 0.60 | Valid |
| X22 | (0.811) | 0.60 | Valid |
| X23 | (0.645) | 0.60 | Valid |
| X24 | (0.741) | 0.60 | Valid |
| X25 | (0.637) | 0.60 | Valid |
| X26 | (0.727) | 0.60 | Valid |
| X27 | (0.770) | 0.60 | Valid |
| X28 | (0.780) | 0.60 | Valid |
| X29 | (0.797) | 0.60 | Valid |
| X31 | (0.804) | 0.60 | Valid |
| X32 | (0.840) | 0.60 | Valid |
| X33 | (0.726) | 0.60 | Valid |
| X34 | (0.702) | 0.60 | Valid |
| X35 | (0.617) | 0.60 | Valid |
| X41 | (0.759) | 0.60 | Valid |
| X42 | (0.836) | 0.60 | Valid |
| X43 | (0.810) | 0.60 | Valid |
| X44 | (0.753) | 0.60 | Valid |
| X45 | (0.782) | 0.60 | Valid |
| X46 | (0.872) | 0.60 | Valid |
| X47 | (0.883) | 0.60 | Valid |
| X48 | (0.774) | 0.60 | Valid |
| YA1 | (0.757) | 0.60 | Valid |
| YA2 | (0.753) | 0.60 | Valid |
| YA3 | (0.776) | 0.60 | Valid |
| YA4 | (0.688) | 0.60 | Valid |
| YB1 | (0.644) | 0.60 | Valid |
| YB2 | (0.785) | 0.60 | Valid |
| YB3 | (0.562) | 0.60 | Valid |
| YB4 | (0.747) | 0.60 | Valid |



| | | | |
|-----|---------|------|-------|
| YB5 | (0.729) | 0.60 | Valid |
| YB6 | (0.763) | 0.60 | Valid |
| YB7 | (0.731) | 0.60 | Valid |
| YB8 | (0.822) | 0.60 | Valid |
| YB4 | (0.747) | 0.60 | Valid |
| YB5 | (0.729) | 0.60 | Valid |

The results in Table 3 indicate that all measurement indicators meet the required threshold for convergent validity. Factor loadings range from 0.562 to 0.883, exceeding the minimum criterion of 0.60. This suggests that each indicator is sufficiently correlated with its respective construct and contributes meaningfully to its measurement (Sarstedt et al., 2017).

Most indicators demonstrate strong loadings above 0.70, reflecting robust construct representation. Although a few items (e.g., X14, X23, YB1, and YB3) fall within the moderate range (0.60–0.69), they remain acceptable, particularly in exploratory research contexts (Sarstedt et al., 2017). No indicators fall below the minimum threshold, indicating that all items are retained in the model.

Overall, these findings confirm that the measurement model achieves adequate convergent validity, providing a reliable basis for subsequent structural model evaluation.

Discriminant Validity

Discriminant validity assesses whether each construct is empirically distinct from other constructs within the model. This evaluation ensures that a latent variable captures a unique concept and does not overlap substantially with others (Hair, 2021).

The assessment is conducted using the Fornell–Larcker criterion by comparing the square root of the Average Variance Extracted (AVE) with the correlations among constructs. The results of this evaluation are presented in **Table 4**.

Table 4. Discriminant Validity Values

| | X1 | X2 | X3 | X4 | Y |
|----|----------------|----------------|----------------|----------------|----------------|
| X1 | (0.747) | 0.891 | 0.871 | 0.836 | 0.764 |
| X2 | 0.891 | (0.739) | 0.874 | 0.849 | 0.738 |
| X3 | 0.871 | 0.874 | (0.742) | 0.878 | 0.775 |
| X4 | 0.836 | 0.849 | 0.878 | (0.810) | 0.826 |
| Y | 0.764 | 0.738 | 0.775 | 0.826 | (0.733) |

The results in Table 4 indicate that discriminant validity has not been achieved. The square root of AVE values (diagonal elements), ranging from 0.733 to 0.810, are consistently lower than the correlations between constructs (off-diagonal elements), many of which exceed 0.80. This pattern suggests that the constructs share a high degree of overlapping variance and are not sufficiently distinct from one another.

According to the Fornell–Larcker criterion, a construct should exhibit a higher square root of AVE than its correlations with other constructs to confirm discriminant validity (Sholihin & Ratmono, 2013). Since this condition is not met, the measurement model indicates potential multicollinearity or conceptual redundancy among constructs, requiring further refinement.

Reliability Test

Following the validity assessment, the measurement model is further evaluated through reliability testing to ensure the internal consistency of each construct. Reliability reflects the extent to which indicators consistently measure the same latent variable. In this study, reliability is assessed using Cronbach’s Alpha and Composite Reliability. A construct is considered reliable when both values exceed the recommended threshold of 0.70 (Hair et al., 2021).

The results of the reliability test, obtained using WarpPLS 7.0, are presented in Table 5

Table 5. Reliability Test

| Latent | Cronbach Alpha | Composite Reliability |
|----------------|-----------------------|------------------------------|
| Accountability | 0.839 | 0.882 |
| Transparency | 0.895 | 0.915 |
| Responsiveness | 0.792 | 0.858 |
| Rule of Law | 0.925 | 0.938 |
| Performance | 0.920 | 0.932 |

The reliability results in Table 5 show that all constructs meet the recommended thresholds for internal consistency. Cronbach’s Alpha values range from 0.792 to 0.925, while Composite Reliability values range from 0.858 to 0.938, all exceeding the minimum criterion of 0.70.

These findings indicate that each construct (accountability, transparency, responsiveness, rule of law, and performance) demonstrates strong reliability, reflecting consistent measurement across indicators. The relatively high Composite Reliability values further confirm that the constructs are measured with satisfactory precision and stability (Sarstedt et al., 2014).

Overall, the measurement model exhibits good internal consistency, supporting its suitability for subsequent structural model analysis.

Structural Model Assessment

The next stage involves evaluating the structural model, which aims to examine the relationships among latent constructs and assess the overall model quality. This evaluation includes model fit assessment, coefficient of determination (R^2), predictive relevance (Q^2), and effect size analysis.

Model fit is assessed using three key indices: Average Path Coefficient (APC), Average R-squared (ARS), and Average Variance Inflation Factor (AVIF). The model is considered acceptable when the p-values for APC and ARS are below 0.05, and the AVIF value is less

than 5 (Sholihin & Ratmono, 2013), indicating that the model is free from multicollinearity issues and demonstrates adequate explanatory power.

Model Fit Evaluation

To assess the adequacy of the structural model, several model fit indices are examined to ensure that the proposed model is supported by the data. These indicators provide an overall evaluation of how well the model explains the relationships among constructs and whether it meets the required statistical criteria. The results of the structural model fit assessment are presented in Table 6.

Table 6. Model Fit and Quality Indices

| Model Fit Indicators | Criteria | Results | Interpretation |
|--|--|------------------|----------------|
| Adjusted R ² | Strong ≤ 0.70; Moderate ≤ 0.45; Weak ≤ 0.25 | 1.091 | Strong |
| Q ² Predictive Relevance | Q ² > 0 = predictive relevance; Q ² < 0 = no predictive relevance | 0.744 | Predictive |
| Average Path Coefficient (APC) | p < 0.05 indicates good fit | 0.329; p < 0.001 | Good |
| Average R-squared (ARS) | p < 0.05 indicates good fit | 1.089; p < 0.001 | Good |
| Average Block VIF (AVIF) | AVIF < 5 indicates good fit | 8.550 | Poor |
| Average Adjusted R-squared (AARS) | p < 0.05 indicates good fit | 1.091; p < 0.001 | Good |
| Average Full Collinearity VIF (AFVIF) | AFVIF < 5 indicates good fit | 5.733 | Poor |
| Tenenhaus Goodness of Fit (GoF) | 0.10–0.24 = Small; 0.25–0.35 = Medium; > 0.36 = Large | 0.788 | Large |
| Simpson’s Paradox Ratio (SPR) | SPR > 0.70 indicates good fit | 1.000 | Good |
| R-squared Contribution Ratio (RSCR) | RSCR > 0.90 indicates good fit | 1.000 | Good |
| Statistical Suppression Ratio (SSR) | SSR > 0.70 indicates good fit | 1.000 | Good |
| Nonlinear Bivariate Causality Direction Ratio (NLBCDR) | NLBCDR > 0.70 indicates good fit | 1.000 | Good |

The results in Table 6 suggest that the structural model has strong explanatory and predictive power, as reflected in the high Q² value (0.744) and significant APC and ARS (p < 0.001), indicating that the relationships among constructs are statistically meaningful (Sarstedt et al., 2017).

In line with this, the R² value of 1.091 indicates a very strong level of explanatory power, implying that accountability, transparency, responsiveness, and rule of law jointly explain the variance in performance to a substantial extent. Referring to (Chin, 1998), this value clearly falls within the “strong” category. However, since the R² exceeds 1.00, which is theoretically implausible, this result should be interpreted with caution and requires further verification.

Despite the strong overall fit, the AVIF (8.550) and AFVIF (5.733) values exceed the recommended threshold, indicating multicollinearity among the predictors. Nevertheless, the model demonstrates a large GoF (0.788) and meets other fit criteria (SPR, RSCR, SSR, NLBCDR), suggesting that, overall, the model is acceptable, albeit with some limitations that need attention.

Hypothesis Testing Results

Hypothesis testing in this study is conducted using path coefficients, t-values, and p-values to assess the direction, strength, and significance of the relationships among variables. In variance-based SEM, statistical significance is primarily determined based on p-values, which indicate whether the proposed relationships are supported empirically (Kock, 2015).

This study adopts a significance level of 5% as the decision threshold. Accordingly, a hypothesis is accepted when the p-value is ≤ 0.05 and rejected when the p-value exceeds 0.05. The relationships among variables specifically the effects of X1, X2, X3, and X4 on Y are illustrated in Figure 2, which presents the structural model and the corresponding path coefficients.

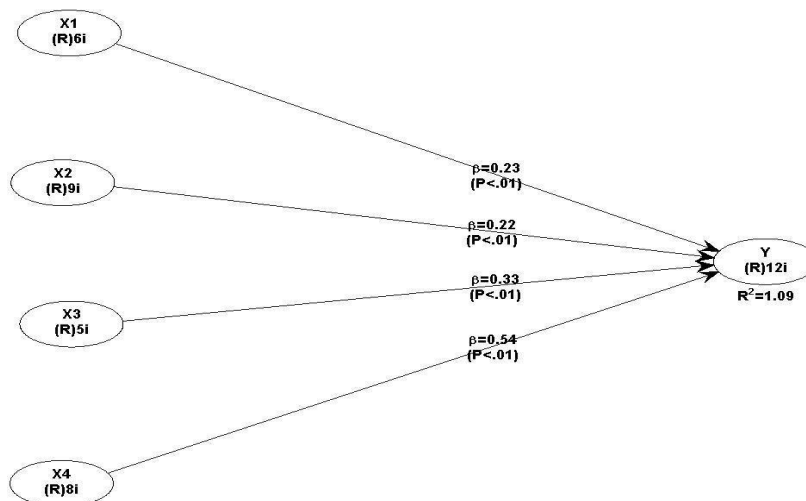


Figure 2. Structural Model Estimation Results (SEM-PLs)

Table 7 reports the results of hypothesis testing, providing empirical evidence on the significance and direction of the relationships among the study variables based on the structural model estimation.

Table 7. Summary of Hypothesis Testing Results

| Hypothesis | Relationship | Path Coefficient | P-value | Decision |
|----------------|--------------|------------------|---------|----------|
| H ₁ | X1 → Y | 0.235 | <0.001 | Accepted |
| H ₂ | X2 → Y | 0.217 | <0.001 | Accepted |
| H ₃ | X3 → Y | 0.326 | <0.001 | Accepted |
| H ₄ | X4 → Y | 0.538 | <0.001 | Accepted |

The PLS-SEM results reveal that each governance dimension has a positive and statistically significant association with BUMDes performance. Accountability shows a

meaningful contribution to performance ($\beta = 0.235$; $p < 0.001$). indicating that strengthening accountability mechanisms is linked to improved organizational outcomes. Similarly. transparency exerts a positive and significant effect ($\beta = 0.217$; $p < 0.001$). implying that more open and accessible information enhances performance.

Responsiveness also emerges as a significant predictor ($\beta = 0.326$; $p < 0.001$). suggesting that the organization's capacity to promptly address community needs plays a vital role in driving performance. Among all variables. the rule of law demonstrates the largest effect size ($\beta = 0.538$; $p < 0.001$). highlighting that adherence to regulations and the presence of clear institutional rules are central to achieving superior performance.

Taken together. these findings confirm that the effective implementation of governance principles substantially strengthens the performance of BUMDes.

Discussion

The findings demonstrate that all governance dimensions—accountability. transparency. responsiveness. and the rule of law—exert a positive influence on BUMDes performance. This result reinforces the argument that governance quality serves as a central determinant of organizational effectiveness in community-based public entities. From the perspective of Agency Theory, these findings underscore the critical role of governance mechanisms in mitigating information asymmetry and aligning the interests of agents (BUMDes managers) with those of principals (village governments and communities), as emphasized in prior literature (Jensen & Meckling, 1976; Eisenhardt, 1989).

However. these results should not be interpreted as evidence that each governance dimension operates independently. The empirical pattern suggests strong interrelationships among governance variables. indicating that accountability. transparency. responsiveness. and the rule of law function as an integrated governance system. This interdependence helps explain why previous studies have reported inconsistent findings. as the effectiveness of each governance dimension is contingent upon the presence and alignment of other governance mechanisms.

Empirically. accountability emerges as a significant driver of performance. indicating that robust reporting and financial responsibility mechanisms enhance organizational effectiveness. This finding aligns with prior arguments that accountability functions as a monitoring device that constrains opportunistic behavior and strengthens stakeholder trust (Hood. 2014; Mardiasmo. 2021). In the context of BUMDes. improved accountability enables stakeholders to evaluate managerial performance more objectively. thereby fostering disciplined resource management. This result is consistent with earlier studies demonstrating that accountability contributes to improved public sector performance (Boyne. 2002; Desmalita & Setyadi. 2025). although variations in implementation quality may explain inconsistencies observed in prior research.

At the same time. accountability in practice may not always operate as a substantive control mechanism. In some BUMDes. accountability is implemented primarily as a reporting obligation rather than as a tool for managerial decision-making. Under such

conditions. accountability may have a limited impact on performance. indicating that its effectiveness depends on how deeply it is embedded within organizational processes.

Transparency also shows a significant contribution to BUMDes performance. suggesting that open access to information enhances governance effectiveness through social monitoring. As discussed in earlier sections. transparency reduces information asymmetry and strengthens public oversight. thereby limiting managerial discretion (Hanifa et al.. 2026; Sipahutar et al.. 2025). In practical terms. greater transparency facilitates community participation in monitoring and decision-making processes. which in turn supports more efficient and accountable management practices. However. consistent with previous findings. the effectiveness of transparency remains contingent on the availability of information systems and the maturity of organizational culture .

Beyond its informational role. transparency in the BUMDes context also reflects a relational mechanism that strengthens interaction between managers and the community. Through participatory processes such as village meetings. transparency contributes to trust-building and social control. which are essential elements of governance in community-based organizations.

Responsiveness further plays a critical role in shaping BUMDes performance. The results indicate that the ability of BUMDes to respond promptly to community needs significantly enhances organizational outcomes. This finding supports the notion that responsiveness reflects the extent to which agents align their actions with stakeholder expectations. thereby strengthening legitimacy and trust (Roh et al.. 2022; Richey et al.. 2022). In line with prior empirical evidence (Lauwo et al.. 2022; Nie & Wang. 2023). responsive organizations are better positioned to adapt their services and programs to local demands. ultimately improving both service quality and performance. Nevertheless. the effectiveness of responsiveness is often influenced by human resource capacity and institutional support systems.

This indicates that responsiveness is not solely determined by managerial willingness but also by organizational capability. In BUMDes with limited resources and managerial competence. responsiveness may not be fully realized. which can reduce its contribution to performance.

Among all governance dimensions. the rule of law exhibits the strongest effect on BUMDes performance. This finding underscores the critical role of regulatory compliance and institutional clarity in shaping organizational outcomes. As highlighted in the literature. adherence to legal frameworks provides a formal control mechanism that limits opportunistic behavior and ensures consistency in organizational practices (Mahmutovic & Alhamoudi. 2024; Efunniyi et al.. 2024). In the BUMDes context. clear regulations—such as village statutes and operational guidelines—offer a structured foundation for decision-making and resource management. However. practical challenges remain. particularly in the enforcement of rules and the application of sanctions. which may weaken the overall effectiveness of this governance dimension.

The dominance of the rule of law also suggests that formal institutional mechanisms are particularly important in the early stages of BUMDes development. In such contexts. clear

rules provide stability and reduce uncertainty. However, excessive reliance on regulatory compliance may limit managerial flexibility and innovation, indicating the need for a balance between formal control and adaptive management.

Taken together, these findings provide strong empirical support for the argument that the implementation of good governance principles significantly enhances BUMDes performance. The study extends the application of Agency Theory to community-based hybrid organizations, demonstrating its relevance beyond conventional corporate settings.

More importantly, this study shows that governance mechanisms in BUMDes operate as an interconnected system rather than as isolated factors. This finding contributes to the literature by highlighting that governance effectiveness depends on the interaction, alignment, and contextual implementation of multiple mechanisms.

Conclusion

This study finds that all governance dimensions—accountability, transparency, responsiveness, and the rule of law—make a significant contribution to BUMDes performance. These results underline the central role of governance quality in shaping the effectiveness of village-based organizations. Accountability and transparency strengthen openness and public trust, responsiveness improves service quality and community engagement, while the rule of law provides a critical foundation for consistency, certainty, and orderly operations. Taken together, the findings suggest that a comprehensive application of good governance principles can enhance BUMDes performance in a sustained manner.

These findings also indicate that governance-performance relationships are not purely linear but depend on the integration and interaction of multiple governance mechanisms. This highlights the importance of adopting a holistic governance approach rather than focusing on individual dimensions in isolation.

This study is subject to several limitations. First, the analysis focuses exclusively on BUMDes in Rokan Hilir Regency, which may limit the generalizability of the findings to other regions with different institutional settings. Second, the explanatory power of the model remains modest, indicating that other relevant factors—such as organizational characteristics, cultural dynamics, or institutional pressures—have not been fully captured. Third, the reliance on perceptual data introduces the possibility of subjective bias in measuring the study variables.

Future studies should consider expanding the geographical scope and increasing sample size to improve the robustness and generalizability of the findings. Further model development is also recommended by incorporating additional variables, such as organizational culture, organizational commitment, human resource capacity, and institutional pressures, to provide a more comprehensive explanation of BUMDes performance. Methodologically, combining perceptual data with secondary or archival data would help strengthen the validity of the results.

This study reinforces the relevance of Agency Theory in the context of village-based public organizations by demonstrating that governance mechanisms function as effective control instruments to reduce information asymmetry and align the interests of managers and communities. It also contributes to the broader literature on good governance by offering empirical evidence from the BUMDes context, which remains relatively underexplored.

Furthermore, this study extends Agency Theory by showing that governance mechanisms in hybrid organizations operate in an interconnected and context-dependent manner, rather than as independent control tools.

From a practical standpoint, the findings highlight the importance of strengthening governance practices in BUMDes management. Managers and village authorities should prioritize improving accountability, transparency, responsiveness, and regulatory compliance as key strategies to enhance organizational performance. In addition, developing managerial competence and strengthening communication capacity are essential to ensure the effective implementation of governance principles. These insights can also inform policymakers in designing capacity-building programs that emphasize governance strengthening as a pathway to achieving sustainable rural economic development.

Importantly, policymakers should balance formal regulatory compliance with efforts to strengthen managerial capacity and community engagement, ensuring that governance practices are not only implemented formally but also function effectively in practice.

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