



**ECONOMIC ANNALS-XXI**

ISSN 1728-6239 (Online)  
ISSN 1728-6220 (Print)  
<https://doi.org/10.21003/ea>  
<http://ea21journal.world>

Volume 198 Issue (7-8) 2022

Citation information: Siskawati, E., Suwito, Yuminarti, U., & Witono, B. (2022). Analysis of the investors' motivation for social investment to the enterprises owned by the village. *Economic Annals-XXI*, 198(7-8), 45-50. doi: <https://doi.org/10.21003/ea.V198-06>



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## Analysis of the investors' motivation for social investment to the enterprises owned by the village

**Abstract.** Village-owned enterprises are expected to become a pillar of national development in Indonesia driven by rural communities. Village-owned enterprises are village businesses managed by the village government to strengthen the village economy. Village-owned enterprises cannot operate without investors who provide matching funds. This study aims to determine the motivation of investors in investing and how they behave in making investment decisions in village-owned enterprises. The research method used is qualitative. This study involved two village-owned enterprise investors and members of the village government in the clear water village of West Sumatra province. Data collection was carried out through in-depth interviews and direct observation of the informants from village officials in 2021. Data analysis used a phenomenological approach. The results showed that the private investment made by investors from the village government was motivated by reasons of power and policy. Social benefits and individual benefits drive investment motivation. Social benefits are obtained from several business activities that can reduce social problems in the community. The impact of this research is the reduction of unproductive land and environmental damage issues.

**Keywords:** Social Benefit; Individual Benefit; Social Enterprise; Social Investment; Village-Owned Enterprise

**JEL Classification:** R1; R11; R51; R58

**Acknowledgements and Funding:** The authors did not use any external funding.

**Contribution:** The authors have an equal role in conducting this study.

**Data Availability Statement:** All data will be provided upon request.

**DOI:** <https://doi.org/10.21003/ea.V198-06>

### 1. Introduction and Brief Literature Review

The social investment aims to prepare people to survive market competition. It focuses on increasing human capital, skills and creativity, and independence through work, all of which are key to achieving economic prosperity. Social investment can contribute because it has not provided financial returns to investors (Steiner & Teasdale, 2019). There are some types of groups on social investment. The first group is referred to as donors, where they aim to improve the quality of life of social

communities and do not expect financial benefits. Social entrepreneurs bridge economic problems through equipping and strengthening communities that provide social benefits (Ge et al., 2019). The social entrepreneur model is increasingly involved as a critical driver in overcoming problems related to sustainable development (Ketprapakorn & Kantabutra, 2019). The focus of social entrepreneurship is not exclusively on profit but also on increasing individuals' ability to survive against the economic competition by providing valuable services for others. The goal of a social entrepreneur is to create social value and local economic growth, contrary to conventional business goals that focus on shareholder prosperity (Raza et al., 2020). Thus, the benefits of the social entrepreneurial model can be enjoyed by the wider community, rather than business profits only enjoyed by certain groups (Peña-Miguel & De La Peña, 2018). The second group is visionary or opportunistic investors, where they invest to solve social problems and hope that the positive social changes they are pursuing can provide economic benefits (Chatzitheodorou et al., 2019). In the context of power and governance, social investment is relatively inclined towards human development. Therefore, social investment aims to improve social welfare by increasing community capital. The success of social investment prioritizes social benefits, such as increased community business as a buffer for economic stability, increased community participation and quality in economic development, increased labour absorption in productive sectors in society. An increase in financial benefits will accompany a good increase in social benefits (Gao et al., 2019). Although social benefits are the primary impact obtained from social investment in the early stages, financial returns are a long-term goal expected by investors.

Village-owned enterprises are established based on village laws to encourage and accelerate village development (Badaruddin et al., 2020). Village-owned enterprises are expected to provide social and economic benefits to the community. For rational investors, social enterprises are not as attractive as investments (Lyon & Owen, 2019). Social enterprises, which seek economic prosperity by providing social benefits, are a precarious place for conventional investors. Currently, village-owned enterprises are highly expected to become a pillar of national development driven by rural communities. Serious efforts are needed to realize the improvement of the welfare of rural communities through the management of village-owned enterprises that are effective, efficient, professional, and independent. Village-owned enterprises, as pilot entrepreneurs, cannot run independently if they only rely on funds from the village government (Pavlenko et al., 2018). An aggressive improvement requires purposeful motivation and substantial leadership by maximizing both intrinsic and extrinsic components of communities. Village-owned enterprises need investment from the community to meet operational capital (Mustafa et al., 2020). Therefore, village-owned enterprises cannot be allowed to operate without investors who provide matching funds. However, village-owned enterprises are considered a high-risk investment. This study aims to understand the motivation of investors in investing and how they behave in making decisions to invest in village-owned enterprises.

## 2. Methods

The research method used in this research was a qualitative approach. Data were collected using in-depth interviews and observation methods. Interviews were conducted to understand the reality of investment from people who experience it directly. The informants (interviewees) were those who were involved and experienced the natural phenomenon that was being investigated. The informants in the study were investors of the village-owned enterprises and members of the village government in charge of discussing, agreeing on Draft Village Regulations, and supervising the performance of the Village Head. Data analysis used a phenomenological approach. The object was observed then arranged in a pure consciousness so that its substance was visible and was intersubjective.

The research site was a village-owned enterprise established by the village Air Jernih. The Air Jernih village, one of the villages in the province of West Sumatera, Indonesia. The enterprise was established in 2016, based on the deliberation agreement of the village community. The enterprise manages the Agricultural business unit and the Waste Bank business unit. A director and 12 employees lead the enterprise.

## 3. Results

### 3.1. Power and policy

It was found that investors' interest was due to the harmony and compatibility between the spirit offered by the director of the village-owned enterprise and village leaders. These findings support the power and policy context:

«This organization, although based on programs ... there is a match between those upper level and those lower level. This match is the very basis for us who are in the deliberation body.» (Interviewee's opinion).

Harmony and suitability are essential to him because, without harmony, it will be challenging to run a village economic institution. This harmony will create balance, which is very important in running an institution that collaborates between the village government and the community. Also, investment in this village-owned enterprise has shown impressive results; although not yet in the form of financial benefits, investors are still satisfied with these results.

As an element of the Air Jernih Village administration, the first informant has considerable influence in determining policies for the village. However, the policy to increase village participation in village-owned enterprises cannot be implemented at any time. Therefore, investment from the village community is needed for the progress of this organization. The first Informant, as a village leader, said that he was involved in influencing other elements of society to include their capital in village-owned enterprises:

«... No village, what is meant here is the shareholder, what is clear is that we will lobby together» (Interviewee's opinion).

Village-owned enterprises can optimally utilize the village potential in terms of human resources, financial resources, and natural resources, as stipulated in government regulation. The optimal utilization is expected to create results that can be reused as a source of village income and the village community's welfare. The second informant also says that he invites new potential investors and disseminates it. He did this because he was proud of the achievement of the village-owned enterprise, which had brought the good name of the village Air Jernih to the provincial level, although it was still in the pilot stage. The benefits of having a village-owned enterprise are felt directly by the village community, including the informants, on their unused land rented by the village community. Unproductive land has been leased by the enterprise to be used as cornfields under the agricultural business unit. Likewise, the waste bank business unit of the enterprise has contributed to reducing community plastic waste and processing it into other economic products. Although the operation of these business units has not yet resulted in financial benefits for investors, these business units have provided other social benefits for the community. His pride in the performance of village-owned enterprises is evident from his willingness to help this organization obtain additional operational costs from investors. Although this organization has not provided financial benefits, he stated that it is normal because it can still be held accountable for this transparently:

«... for us too, while we can still see the target, it can be accounted for, let alone 200 million ... When it is necessary, we will give 400 million to this enterprise» (Interviewee's opinion).

### 3.2. Current and future motives

The village-owned enterprise currently being initiated is the answer to many of the workforce who have not yet found employment opportunities. The hope that this organization can develop, followed by the increasing number of business units it manages, becomes one of the first informant investment motives. Based on this motive, the first informant explains his willingness to contribute to the development of village-owned enterprises through capital participation:

«... what is clear for us is that with the increasing number of business units in the future, our children will be recruited» (Interviewee's opinion).

Although he had not yet received a financial return on his investment at this time, he explained that the sacrifice was not of any value compared to the long-term benefits he expected. Thus, he considers that the investment capital that has been made cannot be equity participation:

«... to us here, the problem of capital participation, it is not just as capital participation» (Interviewee's opinion).

### 3.3. Investment as voting rights and ownership rights over village-owned enterprises

The future of the village «Air Clear» is in the hands of the younger generation. This hope was what the second informant wanted to realize. He did not wish to that the young generation of the village to leave their hometowns. On the contrary, he hopes that the young generation will build their village in the future. The presence of village-owned enterprises, which is getting more robust in the future, with the increasing number of business units being developed, could be one aspect that can absorb the youth workforce of Air Jernih Village. He also likens the village-owned

enterprise in the future as a machine that can run systematically to work automatically in increasing the prosperity of Nagari:

«... like a car, the route is available, and now it is just waiting for passengers» (Interviewee's opinion).

Investments given to village-owned enterprises have become a symbol for the second informant in obtaining their rights. The second informant currently has shares in the enterprise, so that in the future, he hopes that his children can be accepted to work in the enterprises as a reward for his current sacrifice:

«... So with our shares there, the number of business units has increased. Moreover, many of our children work in village-owned enterprises» (Interviewee's opinion).

In other words, the second informant stated that it is as if he is currently building or enforcing a building. The hope is that in the future, the building can be enjoyed by his children:

«... Already standing firmly in the village, in the end, it is a child. Because we cannot possibly give them a job» (Interviewee's opinion).

### 3.4. Social benefits and individual benefits as the reality of investing in village-owned enterprises

As a member of the Air Jernih village community, the first informant also felt the social benefits obtained from village-owned enterprises. He explained that enterprises had used unproductive land as cornfields. He also said that as a member of the waste bank, he feels that the household waste he produces can be used by village-owned enterprises to be processed into more valuable products. Therefore, although he has not received certainty about the financial return on his investment, he is very confident in the performance of the management of village-owned enterprises and business units that he currently leads. The first informant is very optimistic that the enterprise owned by the village Air Jernih will develop under the current director's leadership. Therefore, he never questioned the return of investment because he trusts the leadership of the director:

«... For example, we invest a million and hope to return two million. We never thought of going there. We never thought about it in our participation questioned the profit. Only the social benefits that is what we are looking for» (Interviewee's opinion).

The explanation of the enterprises long term planning also became another reason for the investment decision of the second informant. He became aware of the picture of the potential and benefits that will be enjoyed by the village community Air Jernih in the future. The second informant implies that he agrees with the image of the future explained by the director:

«... what is important is that with a village-owned enterprise, if it is strong in the future, it can recruit many workers, that is what we hope» (Interviewee's opinion).

The findings of our study are illustrated in Figure 1.

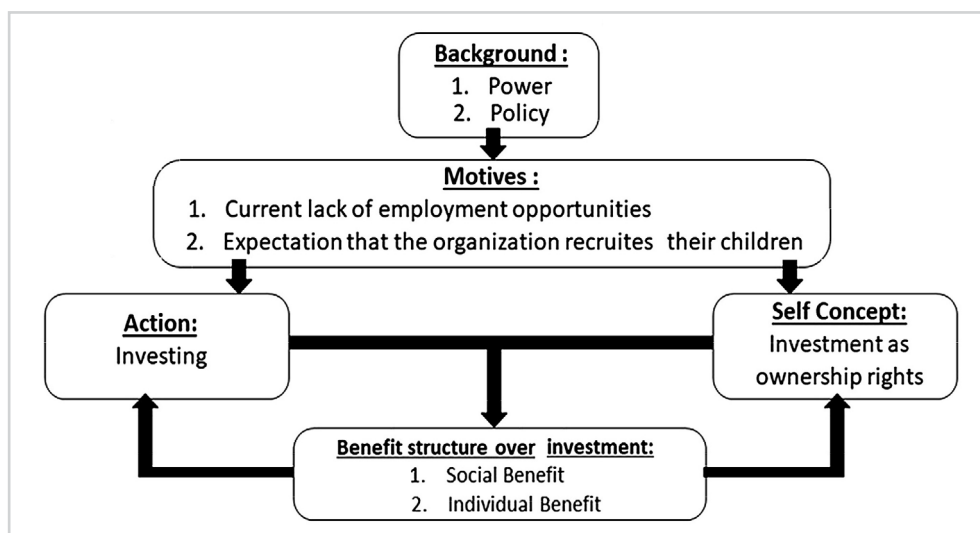


Figure 1:

#### Model of investor motivations on enterprise social investment by village

Source: Compiled by the authors

#### 4. Discussion

Social investment is often used to deal with social problems such as the economy and unemployment through public services. The aim is to improve the welfare of future generations by providing provisions to face social risks in the future (Andersson, 2018). Such as the policy on the formation of village-owned enterprises carried out by the village government. The village-owned enterprises are expected to provide social and economic benefits for rural communities. Also, this enterprise is different from a nonprofit enterprise (Badaruddin et al., 2020). However, the social benefits of this organization outweigh the financial benefits. So, for rational investors, this type of investment is less attractive. Village-owned enterprises, which are expected to be one of the pillars of national development, were established to empower and prosper the village community. However, this enterprise cannot operate correctly if it only relies on funds from the village government. Therefore, the enterprise requires investment and commitment from the village community (Bull & Ridley-Duff, 2019) to support the operational capital. In other words, there is a competing logic between the rationality of investors and the goals of the enterprises. The purpose of this study is to investigate the behaviour of investors who have invested their money in village-owned enterprises.

This business entity cannot run on its own if it only relies on funds from the village government. Although the organization focuses on investing in maximizing employment and increasing public services, the government should not be overly ambitious in implementing social investment strategies to improve social policies (Baranauskiene & Alekneviene, 2019). The social investment strategy aims to achieve the continuation of social welfare. The village government policy to invest in this enterprise is very positive in the first step (Winarsi & Moechthar, 2020). Not only from the village government but investment from other members of the Village community is also essential for the advancement of the enterprises.

The village government used its power to invite new potential investors and disseminate this a policy that results from a complex configuration of intersecting interests (Häusermann, 2018). Meanwhile, government support for village-owned enterprises is a typical cognitive and normative frame of reference from the policy perspective. The common cognitive of policymakers is to publish their understanding of social issues and create and oversee the policy formulation in various social policies (Hemerijck, 2018). Therefore, the government's interest in supporting the smooth running of village-owned enterprises is to participate in providing additional sources of funds as investors, as well as inviting other community leaders to participate. Under power and political viewpoint, social investment encourages community leaders to sacrifice current consumption to reallocate resources to programs whose results are expected to make people's lives better in the future (Razak & Sofyan, 2020). In other words, the aspects of power and policy are the main reasons investors invest in village-owned enterprises. Social attitudes and political attractiveness are direct subjective appearances that reflect psychological motives.

The village-owned enterprise currently being initiated is the answer to many workers who have not yet found work. In the context of conventional investment, these two dimensions can work in harmony. However, in the context of social investment, these two dimensions conflict with one another (Hemerijck, 2018). Even so, the investment given to village-owned enterprises remains a symbol of investor ownership to obtain their rights in the future. If currently, the organization is still focused on social benefits, then when the organization has developed in the future, investors have the right to share in their profits.

The investment reality in village-owned enterprises can be grouped as social benefits and individual benefits. The community enjoys social benefits at the first stage. However, there are no financial benefits currently. Idle land as a cornfield can provide jobs for farmworkers. Likewise, the waste bank business unit can reduce environmental issues from household waste. Although the objectives of the social investment may vary, the policy to develop village-owned enterprise remain consistent (Nicholls & Teasdale, 2019). It implies that investors still expect individual benefits that can be obtained from their investment in the future. It is hoped that the development of a business unit can create more employment opportunities. It is expected that the enterprise prioritizes the recruitment of investor's children as a manager in the future.

#### 5. Conclusions

The social investment aims to increase economic prosperity through increasing human resources, skills, and independence. Social investment has not provided economic benefits in the early stages, but it has provided social contributions. This study found that investors expect

returns on investment in the form of social benefits and individual benefits. Social benefits are non-economic benefits for the operation of village-owned enterprises. These benefits can be felt in the short term by investors. The social benefits enjoyed by the community from the existence of this business entity are the management of idle land into cornfields and the use of household waste into items of economic value.

Meanwhile, individual benefits are benefits that are expected to be enjoyed in the long term. Individual benefits arise from the hope of success of a village-owned enterprise that can add more business units. Investors' expectations arise in the form of a desire to obtain the right to participate in investors to prioritize children of investors in the recruitment of the management of the business entity.

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Received 2.04.2022

Received in revised form 22.05.2022

Accepted 28.05.2022

Available online 20.08.2022