

Original Article

# Does Intellectual Capital Role in Improving Bumdes Performance ?

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**Abstract:** *This research aims to test, analyze and find empirical evidence related to the determinants of BUMDes financial performance and intellectual capital as a moderator. The research methodology used in this research is descriptive analysis with a total of 400 BUMDes respondents throughout Indonesia. The data testing and analysis used the Partial Least Square - Structural Equation Modeling (PLS-SEM). The findings showed that business literacy had a positive effect on the financial performance of BUMDes, innovation opportunities had a positive effect on the financial performance of BUMDes, and intellectual capital had a positive effect on the financial performance of BUMDes. The results for moderation show that intellectual capital does not moderate the influence of business literacy on BUMDes financial performance, and intellectual capital strengthens the impact of innovation opportunities on BUMDes financial performance. This research implies that to obtain superior performance, BUMDes must be able to manage resources, especially strategic ones. Intellectual capital is one of the resources that BUMDes must have to create competitive advantages in competitive markets.*

**Keywords:** *Business Literacy, Innovation Opportunities, Intellectual Capital.*

## I. INTRODUCTION

Villages are representatives of the smallest legal community groups that exist and have developed in the history of Indonesian society and are an inseparable part of the fabric of national life. This makes the village's position very important in the government system and becomes the foundation of the state. The definition of a village is a community that has its manufacturing capital and functions as a warehouse for raw materials and as a supplier of labor (Khoiriah & Meylina, 2018).

To implement development programs, the central government has disbursed several funds intended for villages following the mandate of the Village Law. This village fund aims to develop its economy so that the poverty gap in the village can be reduced. Since the initial disbursement of village funds in 2015, the amount of village fund allocation has increased every year. In 2015, the village fund allocation was IDR 20.67 trillion for 74,953 villages, with an average village fund allocation of IDR 280.3 million/village. In 2021, the amount of village fund allocation will reach IDR 72 trillion for 74,961 villages, with an average receipt of village fund allocation of IDR 960.5 million/village.

The Village Law priority is to establish and develop Village-Owned Enterprises (BUMDes). Even though every year the number of BUMDes continues to increase, if you look at the health of the BUMDes business, it is in sharp focus. Based on 2020 bps.go.id-data, the number of villages spread across 33 provinces in Indonesia is 74,961, while the number of active BUMDes based on 2019 data is only 37,861, which means the comparison percentage is only 51%. This number continues to decline in line with the COVID-19 pandemic, which has eroded all economic sectors, including BUMDes. From March 2020 to May 2020, the number of BUMDes recorded as still active was only 10,629, or a decrease of 72% (Kontan, 2020). In 2021, the number of BUMDes in Indonesia will reach 57,273, and those active will be 29,465 or 51.5% (Hartono, 2021).

One of the goals of BUMDes is to increase the Village's Original Income (PAD). In the 5 years starting in 2016, Regional Original Income (PAD) experienced a decline until 2021. In 2016 the amount of PAD realization was IDR 3,535,279,704,000 and experienced a decrease of 12.4% in 2017 or IDR 3,097,424,017,000. However, in 2018, the amount of PAD realization increased by 12.2% or Rp. 3,475,029,612,000, in 2019, it again decreased by 15.5% or Rp. 2,934,913,473,000. In 2020, PAD realization increased slightly by 3.2% or IDR 3,029,051,370,000 and decreased in 2021 by 4.7% or IDR 2,971,911,428. Based on this data, it can be concluded that the performance of BUMDes in Indonesia is still poor, so they have not yet made a significant contribution to PAD.



In 2018, the BPK conducted a pick test on 8,220 BUMDes and found that 2,188 BUMDes were stalled and had not contributed to the PADes of 1,670 BUMDes. Apart from that, 1,034 BUMDes did not provide reports, as many as 871 BUMDes were not supported by a feasibility study, and 864 BUMDes were not yet orderly in administering and reporting BUMDes. Furthermore, as many as 585 BUMDes are not supported by competent management. Apart from that, the business fields of 547 BUMDes do not match the superior potential of the village (Gih & Lav, 2019).

By using the Resource Based View Theory as a framework, this research aims to explore how business literacy and innovation opportunities can influence the financial performance of BUMDes with intellectual capital as a moderator. The object of this research uses Village Owned Enterprises (BUMDes) in Indonesia.

## II. LITERATURE REVIEW

### A) *Resource Based View (RBV)*

Resource-based View (RBV) is a managerial framework used in determining strategic resources and companies utilizing them to achieve sustainable competitive advantage (Ghozali, 2020). Barney first introduced RBV in his journal entitled "Firm Resource And Sustained Competitive Advantage" (Barney, 1991). RBV carries the theory that companies are heterogeneous because they have heterogeneous resources, which is interpreted as the different strategies in each company. The focus of RBV attention is to identify assets, capabilities, and competencies. It has the potential to increase competitive advantage (Ghozali, 2020).

### B) *BUMDes Financial Performance*

According to Rudianto, financial performance describes the success of management functions in managing company assets within a certain period (Rudianto, 2013).. In general, there are five steps in analyzing financial performance (Fahmi, 2014), namely:

1. Review financial report data to ensure whether the financial reports are suitable for Generally Accepted Accounting Principles.
2. Carry out calculations following the objectives of the required financial report analysis
3. The results obtained were compared with other companies using the cross-sectional approach and time series analysis method
4. Interpret the calculation results to identify the problems faced by the company
5. Look for solutions to overcome these problems.

### C) *Business Literacy*

Literacy is a basic skill to empowers humans in the development of reason, logic, systematic thinking and research. The primary requirement for learning capacity and intellectual development is literacy. One cannot access the sources of human knowledge and use them to generate new knowledge without literacy. The degree of literacy and its social growth are essential to the advancement of human civilization (Zare et al., 2017).

### D) *Innovation Opportunities*

According to Holmén et al. (2007), innovative chances stem from shifts in customer preferences, scientific or technological knowledge bases, or the relationships between economic players. These opportunities present a chance to realize an opportunity economic value contained in novel combinations of assets and consumer demands. 7 aspects can be used as a source of opportunities for innovation (Drucker, 2018), namely:

1. Success or failure
2. Customer Rejection
3. People's needs, desires and purchasing power
4. Competition
5. Demographics
6. Change in taste
7. New science and technology

#### a. *The Effect of Business Literacy on Financial Performance*

Several empirical studies explain the effects of business literacy, including (Muir, 2002), which revealed that after carrying out training on business literacy, several companies saw their expenses decrease, cash flow increase and profits increase (Muir, 2002). Additionally, employees express greater trust in their organizations and feel that work processes flow more smoothly and lines of communication are open. Lowhorn & Pittarese (2008) revealed the benefits of business literacy, one of which is increasing financial performance. Cunha et al. The results of his research found that business

people who were given guidance about business earned higher profits, had greater income, served more clients, were more likely to use formal accounting techniques, and were more likely to be registered with the government (Cunha et al., 2013).

#### b. The Effect of Innovation Opportunities on Financial Performance

Resource Base View theory, Barney proposes that companies can control all assets, capabilities, information, knowledge, and characteristics of the company. The aim is to enable companies to understand and implement strategies to increase competitive advantage by creating resources that are different from their rivals, difficult to imitate, and replace with others (Barney, 1991). Justin J.P. Jansen (2006), in his research related to innovation and performance, found that under different environmental conditions, exploitative innovation and exploratory innovation contributed to financial performance as measured by profitability (Justin J.P. Jansen, 2006). Dunk (2022) revealed that if a company uses its budget to innovate products, it will improve financial performance (Justin J.P. Jansen, 2006). Nybakk & Jenssen (2012) revealed that innovation strategies and work climate in manufacturing companies can improve financial performance (Nybakk & Jenssen, 2012).

#### c. The Influence of Intellectual Capital on Financial Performance

Resources-based view explains how a company can process and use all the resources to achieve a competitive advantage, and companies must be able to utilize and develop the company's capital resources as intellectual capital (Prasetyanto & Chariri, 2013). Chen et al. (2005) have investigated the connection between market value, financial success, and intellectual capital. Their study shows the significance of intellectual capital in boosting business profitability and revenue growth. Ihyaul Ulum, (2015) revealed that companies will create firm value by maximizing their potential (human capital, physical capital and structural capital). Good potential management will create added value for the business, which could enhance its financial performance and benefit stakeholders.

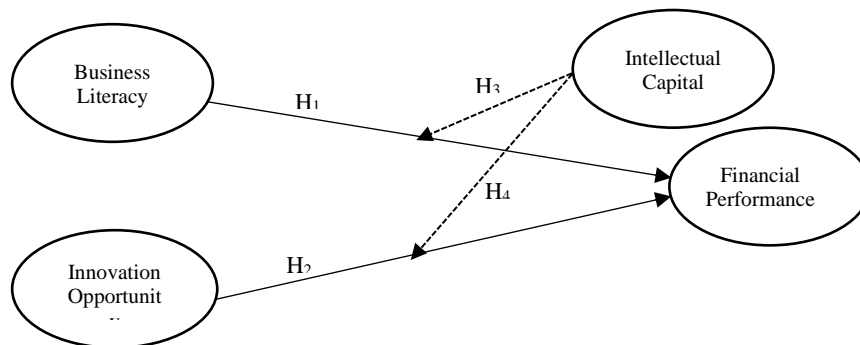
#### d. The Influence of Business Literacy on Financial Performance with Intellectual Capital as Moderation

Literacy is the main prerequisite for intellectual growth and the ability to learn to produce new knowledge (Widarno, 2021). Anatan (2006) said that with good business understanding, companies will further optimize intellectual capital management to increase competitive competition, which ultimately has an impact on improving company performance

#### e. The Influence of Innovation Opportunities on Financial Performance with Intellectual Capital as Moderation

Intellectual capital with certain individual characteristics of entrepreneurs has a positive influence on the success of entrepreneurial projects. In particular, human capital and staff creativity that form a company's human capital influence innovation outcomes and company success (Ugalde-Binda et al., 2014). Firms' distinctive competencies are created by innovative skills (Zerenler et al., 2008).

Figure 1: Research Framework



#### Hypothesis:

- H<sub>1</sub>: Business literacy has a significant positive effect on financial performance
- H<sub>2</sub>: Innovation opportunities have a significant positive effect on financial performance
- H<sub>3</sub>: Intellectual capital strengthens the relationship between business literacy and financial performance
- H<sub>4</sub>: Intellectual capital strengthens the relationship between innovation opportunities and financial performance

### III. RESEARCH METHOD

The research methodology used in this research is descriptive analysis with a total of 400 BUMDes respondents throughout Indonesia. The data testing and analysis used the Partial Least Square - Structural Equation Modeling (PLS-SEM) Dependent variable (Y) is financial performance. Variables measurement see in Table 1:

**Table 1. Variable Measurement**

No	Variable	Dimension	Indicator
1	Financial performance (Weston & Copeland, 1995)	Net Income ( $Y_{2,1}$ )	Ability to earn profits
		Sales growth-net ( $Y_{2,2}$ )	Ability to manage sales
		Working capital ( $Y_{2,3}$ )	Growth rate
2	Business literacy (Cloud, 1993)	Technical competency ( $X_{1,1}$ )	(a). Managerial ability (b). Ability to map village potential
		Marketing competency ( $X_{1,2}$ )	(a). Design and develop products or services (b). Use of marketing technology
		Financial competency ( $X_{1,3}$ )	Budget management and financial report transactions
		Competency in human relationships ( $X_{1,4}$ )	Community support
3	Innovation opportunity (Drucker, 2018)	Success or failure ( $X_{2,1}$ )	Success or failure
		Customer rejection ( $X_{2,2}$ )	Customer rejection
		People's needs, desires and purchasing power ( $X_{2,3}$ )	People's needs, desires and purchasing power
		Competition ( $X_{2,4}$ )	Competition
		Demographic changes ( $X_{2,4}$ )	Demographic changes
		Change in taste ( $X_{2,5}$ )	Change in taste
		Science and technology ( $X_{2,6}$ )	New science and technology
4	Intellectual Capital (N. Bontis, 2000)	Human capital ( $Z_{1,1}$ )	(a). Competence, (b). knowledge, (c). creativity
		Structural capital ( $Z_{1,2}$ )	The organizational structure does not make employees feel distant from other employees.
		Customer capital ( $Z_{1,3}$ )	Lasting relationship
		Social Capital ( $Z_{1,4}$ )	Support from local leadership

#### IV. RESULTS AND DISCUSSION

##### A) Result

The quantitative research was used as the design of this research. The data collection method was used by literature review and survey method. The questionnaires were distributed using Google Form media to 400 BUMDes spread throughout Indonesia. This research uses data analysis methods with Partial Least Square - Structural Equation Modeling (PLS-SEM) using SmartPLS Version 3 software.

##### B) Convergent Validity Testing

After removing invalid indicators, all reflective indicators met the valid category because they had an outer loading value of more than 0.5. A reflective indicator is said to be valid if the outer loading value is greater than 0.5 (Chin, 1998). Thus, it has met the validity requirements, which means that all reflective indicators are valid in measuring the construct (see Table 2).

**Table 2 Convergent Validity Test Results**

Financial Performance Indicator (Y)		Business Literacy Indicator ( $X_1$ )		Innovation Opportunity Indicator ( $X_2$ )		Intellectual Capital Indicator as Moderation	
KU1	0,505	LIB1	0,672	INO1	0,720	CAP1	0,705
KU2	0,606	LIB3	0,585	INO2	0,843	CAP2	0,767
KU4	0,591	LIB4	0,892	INO4	0,905	CAP3	0,877
KU5	0,694	LIB5	0,870	INO5	0,898	CAP4	0,503
KU7	0,633	LIB6	0,879	INO6	0,911	CAP5	0,780
KU8	0,668	LIB7	0,821	INO7	0,707	CAP6	0,808
		LIB8	0,811			CAP7	0,759

Source: data processed, 2024

### C) Discriminant Validity Testing

The discriminant validity test was carried out by looking at the AVE (Average Variance Extracted). It is stated that the construct meets discriminant validity if the construct's AVE value is more than 0.5 or less than 0.5, provided that the construct's value is higher than 0.7 (Fornell & Larcker, 1981). The following are the results of the discriminant validity analysis in this study (Table 3):

**Table 3 Discriminant Validity Test**

Variable	Composite Reliability	Average Variance Extracted (AVE)	Conclusion
Financial Performance	0,787	0,383	Reliable
Business Literacy	0,923	0,636	Reliable
Innovation Opportunity	0,932	0,698	Reliable

### D) Reliability Testing

Good reliability or a questionnaire is used as a reliable and consistent research tool if the Composite Reliability value is more than 0.70 (Hair et al., 2019). The statistical results of the reliability test can be seen to show that all variables have a Cronbach's Alpha value of more than 0.70 and a Composite Reliability value of more than 0.7, so it can be concluded that all constructs have met the required reliability (Table 4).

**Table 4 Reliability Test**

Variable	Cronbach's Alpha	Conclusion
Financial Performance	0,674	Reliable
Business Literacy	0,901	Reliable
Innovation Opportunity	0,911	Reliable

Source: Data Processed, 2024

### E) Goodness of Fit Model

The goodness of fit model test results show that the SRMR model value in the saturated model is 0.069, and in the estimated model is 0.072. The Standardized Root Mean Square Residual (SRMR) value of the PLS model indicates how well it fits data. If the SRMR value is less than 0.1, the PLS model is considered to have met the goodness of fit model criterion; if it is less than 0.08, the model is considered to have a perfect fit (Hair et al., 2019; Hu & Bentler, 1999). Therefore, based on Table 5, it can be said that the model is deemed appropriate and fit for use in testing the study hypothesis.

**Table 5 Standardized Root Mean Square Residual (SRMR)**

	Saturated Model	Estimated Model
SRMR	0,069	0,072

Source: Data Processed, 2024

### F) Adjusted R Square coefficient of determination

The adjusted R Square of the financial performance variable is 0.754 (see Table 6), which means that the variability of the financial performance variable that can be explained by the intellectual capital variable, innovation opportunities and business literacy is 0.754 or 75.4% while other external factors model explains the remaining 24.6%.

**Table 6 Adjusted R Square**

Endogen Variable	Adjusted R Square	Conclusion
Financial Performance (KU)	0,754	strong

Source: Data Processed, Year 2024

### G) Hypothesis Test

**Table 7 Hypothesis Testing on Direct Relationships between Variables**

Hypothesis	Path	Original Sample	T Statistics	P Values	Conclusion
H <sub>1</sub>	Business Literacy -> Financial Performance	0,403	7,056	0,000	Accepted
H <sub>2</sub>	Innovation Opportunity -> Financial Performance	0,368	6,332	0,000	Accepted

Source: Data Processed, 2024

Table 7 informs that business literacy has a significant effect on financial performance with a P value <0.05; it can be concluded that Hypothesis Ha2 is accepted. Innovation opportunities have a significant effect on financial performance with P Value < 0.05; it can be concluded that Hypothesis Ha3 is accepted.

**Table 8 Hypothesis Testing on Moderating Variable**

Hypothesis	Path	Original Sample	t-Statistics	P Values	Conclusion
H <sub>3</sub>	Business Literacy*Intellectual Capital -> Financial Performance	-0,051	1,268	0,103	Rejected
H <sub>4</sub>	Innovation Opportunity*Intellectual Capital -> Financial Performance	0,180	5,137	0,000	Accepted

**Source:** Data Processed, 2024

Table 8 informs that intellectual capital has not moderated the relationship between business literacy and financial performance with a P value >0.05, it can be concluded that Hypothesis H3 is rejected. Intellectual capital has moderated the relationship between innovation opportunities and financial performance with P Value < 0.00; it can be concluded that Hypothesis H4 is accepted.

## H) Discussion

### a. The Influence of Business Literacy on the Financial Performance of BUMDes

The results obtained state that business literacy has a positive and significant relationship with financial performance or it could be said that business literacy has a significant influence on financial performance with a positive relationship direction. The results of this research indicate that the better business literacy of BUMDes managers, which includes an understanding of technical, marketing, financial and human relations competencies, will have a positive influence on improving the financial performance of BUMDes. Business activities cannot be separated from business functions, namely marketing functions, production functions, financial functions, human resources functions and information systems. The various business cases and threats posed by the financial crisis must be adequately addressed. The existence of BUMDes as a business entity begins with mapping village potential. Here, BUMDes must understand what business model is needed by village communities as the main BUMDes customers. For this reason, the business literacy of BUMDes managers must be used to accurately target the business model that will be run by BUMDes, which has the potential to increase income.

### b. The Influence of Innovation Opportunities on BUMDes Financial Performance

The results obtained state that innovation opportunities have a positive and significant relationship with financial performance or it could be said that innovation opportunities have a significant influence on financial performance with a positive relationship direction. This means that the more BUMDes managers take advantage of opportunities to innovate that are obtained from the success/failure process, customer rejection, needs, desires and purchasing power of the community, competition, demographic changes, changes in tastes and new science and technology, the more it will have a positive influence on financial performance. The development of BUMDes performance is of course, inseparable from the utilization of village wealth and potential, which can encourage entrepreneurship and improve the economy in rural areas. Innovation is one strategy that can encourage BUMDes to continue running and survive in market competition. Of course, BUMDes managers must be able to capture innovation opportunities based on natural resources and local village wisdom and utilize them to become a competitive advantage. Apart from that, BUMDes that can take advantage of innovation opportunities will have the opportunity to collaborate with external parties as business partners or as investors for their innovative products.

### c. The Influence of Intellectual Capital on the Financial Performance of BUMDes

The results obtained state that intellectual capital has a positive and significant relationship with financial performance or it could be said that intellectual capital has a significant influence on financial performance with a positive relationship direction. These results indicate that the better BUMDes manage intellectual capital will improve BUMDes' financial performance. Conversely, if BUMDes cannot manage intellectual capital well, it will decrease BUMDes' financial performance. The results of this research support the Resources based view theory, that BUMDes can process and use all the resources they have to achieve a competitive advantage by utilizing and developing the company's intellectual capital. If BUMDes can maximize its potential (human capital, physical capital, and structural capital), then BUMDes will be able to create added value for its business and improve its financial performance.

**d. Intellectual Capital Moderates the Relationship between Business Literacy and BUMDes Financial Performance**

The results state that the intellectual capital variable as a moderating variable has no relationship with business literacy in influencing financial performance. The results of this research do not support the resource-based theory, which assumes that companies can achieve a competitive advantage if they utilize and develop capital resources. BUMDes have lower-scale businesses that cannot yet control the efficiency of intellectual capital to create a competitive advantage. Most of the BUMDes selected as respondents are BUMDes who are developing/growing and are under 5 years old. This means that BUMDes is in the process of creating value. This indicates that BUMDes are in the process of creating value through intangible assets such as gaining knowledge about markets, products, sales, and good governance elements while building distribution channels and raising capital. Calvo, in his research also revealed that young companies will spend more to carry out innovation activities and learn how to survive in an environment full of uncertainty (Calvo, 2006).

**e. Intellectual Capital Moderates the Relationship between Innovation Opportunities and BUMDes Financial Performance**

The results state that the intellectual capital variable as a moderating variable has a significant relationship with innovation opportunities in influencing financial performance. So, it can be concluded that intellectual capital moderates (strengthens) the influence of innovation opportunities on financial performance. These results show that intellectual capital, which is an intangible asset, can encourage BUMDes to increase productivity and create creativity and innovation to create a competitive advantage, which ultimately improves BUMDes' financial performance. The study's findings are consistent with the resource-based perspective, which holds that businesses can gain a sustained competitive edge by effectively leveraging and nurturing their intellectual capital. This indicates that the innovation strategy used by BUMDes can increase BUMDes performance if supported by adequate intellectual capital.

**V. CONCLUSION**

Based on the results and discussion, it can be concluded that business literacy has a positive effect on the financial performance of BUMDes. The results of this research indicate that the better business literacy of BUMDes managers, which includes an understanding of technical, marketing, financial, and human relations competencies, will have a positive influence on improving the financial performance of BUMDes. Innovation opportunities have a positive effect on financial performance. BUMDes managers, as the main actors in developing BUMDes, must be able to seize opportunities to carry out innovations that can create value for the BUMDes so that they can compete in a competitive market. BUMDes' ability to capture innovation opportunities can transform village potential into a source of village income. Innovation is needed to differentiate BUMDes from other BUMDes, attract customers, and improve BUMDes' financial performance. Intellectual capital has a positive effect on financial performance. BUMDes can process and use all the resources they have to achieve a competitive advantage by utilizing and developing the company's capital resources, one of which is intellectual capital. If BUMDes can maximize its potential (intellectual capital), then BUMDes will be able to create added value for its business, which can improve its financial performance. Intellectual capital does not moderate the influence of business literacy on financial performance. BUMDes, which have medium to lower-scale businesses, cannot yet control the efficiency of intellectual capital to create a competitive advantage. The weakness of most BUMDes is that human resources are still weak and unable to manage BUMDes optimally. Intellectual capital strengthens the influence of innovation opportunities on the financial performance of BUMDes. These results show that intellectual capital, which is an intangible asset, can encourage BUMDes to increase productivity and create creativity and innovation to create a competitive advantage, which ultimately improves BUMDes' financial performance. To obtain superior performance, BUMDes are required to be able to manage resources, especially strategic resources. These resources include tangible assets and intangible assets. Managing these two assets is something that must be done by BUMDes who want to win the competition in a competitive market so that they can improve financial performance. If one of these two assets is neglected it will cause the performance of BUMDes to be disrupted. Intellectual capital is an intangible asset that comes from the process of intangible activities which in this research has been proven to be able to strengthen financial performance.

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