RESEARCH ARTICLE

FINANCIAL PERFORMANCE IMPLICATIONS ON 'BUM DESA' INVESTMENT DIVERSIFICATION

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Manuscript Info

Abstract

BUM Desa in Banten Province has not been maximized in improving the economy of the Village community as shown by the many inactive BUM Desa. BUM Desa has not been able to create business diversification that comes from financial performance in this study, namely Return on Investment (ROI). A total of 80 'BUM Desa' were studied as a result of purposive sampling from a population of 688 'BUM Desa' in Banten Province. The criteria for selecting samples were (1) registered BUM Desa (2) BUM Desa is active, and (3) active Village BUM that has capital $\geq$ Rp. 30,000,000. This study uses explanatory and descriptive methods using data analysis tools Partial Least Square Structural Equation Model (PLS-SEM). The results showed that financial performance had a positive effect on the Village-Owned Enterprise Diversification stage with t-value = 4.527, p-value = 0.000 <0.05, meaning that H_a was not enough data to accept Ho and data supporting H_o was rejected. Based on the description of the results and the study shows that good financial performance means being able to generate profits from sales and total assets, as well as capital. Meanwhile, diversification can be created if the turnover of working capital occurs quickly. The faster the working capital rotates, the better the BUM Desa's financial performance will be. Therefore, BUM Desa has high financial performance can diversify investment.

Introduction:-
Diversification is an approach to demonstrate a process of developing business units in companies from their main business to other product markets (Hsu, Chen, & Cheng, 2013). The results of his research revealed that the management of companies / business entities play an important role in diversification activities. Diversification reduces risk by running new products and markets (Higgins &Schall, 2016) and increasing asset placement and productivity (Jayeola, 2017).

The development of investment diversification is based on the law of "large number" by adding various types of businesses with great benefit in reducing business risk. That is, the number of business sectors can be one of the keys in minimizing business risk. The explanation is as done by Suqaier & Ziyud (2011) in the results of his research.

Kahloul and Hallara (2010), Adamu et al., (2011), Shen and Zhongfeng (2011), Yuliani et al., (2012), Mashiri and Sebele (2014), (2017), Krivokapic (2017) stated that diversification has a close relationship with financial

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performance that indicates that the company's stable financial performance will be able to create diversification opportunities. This means that business risk can be minimized through investment diversification.

Financial performance has an impact or influence on investment diversification. In companies that have good financial performance will be able to earn profit in relation to sales, total assets, and own capital (Afrianti, 2011). Meanwhile, diversification can be created if the turnover of working capital occurs quickly. The faster working capital rotates, the better the financial performance of BUM Desa. Thus, BUM Desa will be able to expand the business segment (Diversification).

Based on the preliminary obsevance results conducted by researchers at 'BUM Desa' in Banten Province shows that BUM Desa which has high financial performance has been able to diversify according to its potential. This means that a rapid turnaround of capital will result in high and stable financial performance. Thus, the advanced 'BUM Desa' is able to diversify.

The application of diversification can be seen from the opening of a different business product model than before, it can also be with the expansion of the previous product model in the company and the scope of the consumer market area of the product is also enlarged. In addition, it can also add or open new branch offices and can also merge with other companies or make acquisitions.

The company will experience an increase, if the investment is aimed at a variety of different businesses. The increase will ultimately encourage a company to continue to exist in running its corporate wheels and diversification of investment will be created in the business sectors if BUM Desa performs its management functions and utilization of potential well.

Diversification of Village Owned Enterprises (BUM Desa) is a way to expand the business and expand the market by utilizing the potentials that already exist in each village. Diversification of investment 'BUM Desa' is a form of business development by developing the potential of the existing business sector in the village, it can also be by developing the business sector, expanding the geography of the consumer market, and can also by updating or adding a business product model, with an adequate management control system and has a stable performance over time, with the aim of the company 'BUM Desa' can still actively run in doing its business.

One of the government's major agendas as an effort to improve the economy of the village community is the issuance of Article 87 paragraph (1) of the Village Law, Article 132 paragraph (1) of the Government Regulation (PP) of the Village and Article 4 of the Regulation of the Minister of Villages, Development of Disadvantaged Regions and Transmigration No. 4/2015 concerning the establishment, Management and Management, and Dissolution of Village Owned Enterprises. 'BUM Desa' is a business entity that provides services as well as asset managers and other businesses, whose business activities come from the wealth of the village and are intended for the welfare of the village community.

The establishment of BUM Desa serves as the driving force of local economic development of the village. In its implementation, this development is influenced by the needs, capacity, potential of villages and capital included by the village government whose long-term goal is for the running business entity to be a supply of the needs of the village community whose local resources or potential owned by the village become the focus of the production base (Permendesa, 2015).

BUM Desa are present based on the potential and needs of the village in improving the village economy. In its management, 'BUM Desa' is entirely intended for the villagers, for the villagers and by the villagers. The working principle of 'BUM Desa' is by accommodating the economic activities of the villagers in an institutional forum that emphasizes the principle of professionalism in their business activities. This makes citizens more effective and productive in business. In line with his opinion Tecce (2007) that the Business Entity will survive if it is based on the social environment and the needs of the community.

The phenomenon of BUM Desa in Banten Province is interesting to research because The BUM Desa has not been able to create business diversification that is expected to create a high return rate that will provide a positive value for BUM Desa, this is because the performance is still weak, the performance here is projected as Return on investment (ROI) (still below the Rate of return (ROR) produced from the Cost of Capital , if the cost of capital is

higher than the ROI, 'BUM Desa' tends not to be able to diversify the business. As a village-owned enterprise, BUM Desa has its own characteristics in diversifying. There are four sectors that become classification characteristics of diversification, namely the real sector, brokering, trading and agribusiness.

Figure 1:- Gap phenomenon 'BUM Village' in Banten Province in 2019.
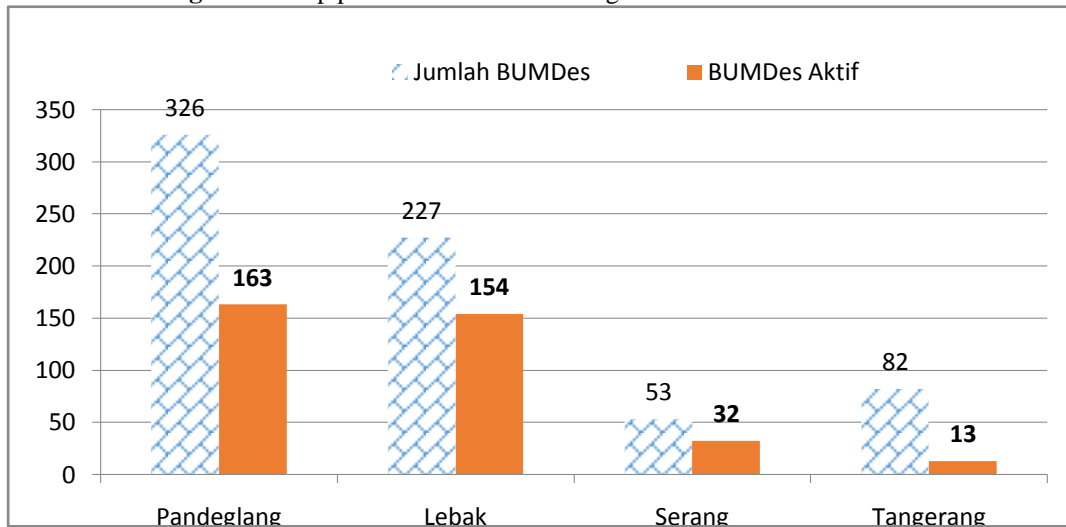
Source: processed from the Office of Community Empowerment and Village Government of Banten Province (2019)

Based on the picture above, it appears that the gap between BUM Desa is active and inactive in Banten Province is very large. Based on data from the Banten Provincial Government, as many as 688 BUM Desa have been established by the decree and spread across four districts with 326 bodies each in Pandeglang, 227 in Lebak, 82 in Tangerang, and 53 in Serang. In its development, BUM Desa that has been running in Banten Province experienced various obstacles faced so that the business run stagnant and in the end, the business run BUM Desa stopped (bankrupt).

The number of BUM Desa that has been established has not been able to become a benchmark of the village's original income increases, because the active BUM Desa does not exceed the figure of 53%, this is very far from the government's expectation to make the village in Indonesia into an independent village that in its financing does not always rely on village funds sourced from the State Budget. Allocation of Village Funds (ADD) which is part of the budget received by the district/city, financial assistance from the Provincial Budget, and district/city budget (Sujadi, 2019).

The high capital cost of 'BUM Desa' is characterized by still relying on outside assistance or from village funds, in addition to the weak Management Control System so that all management function tools have not been optimal, still monotonous and there has been no development in its application then the information technology factor as a function of innovation is still weak in its understanding. In line with that, Raza et al. research, (2015) found that diversification is not only a useful strategy in terms of risk management and improving social well-being but can also offer new perspectives for vulnerability, resilience, and rural social adaptive capabilities.

Research by Krivokapic, Njegomir, and Stojic (2017) found that the effect of corporate diversification on returns adjusted to the cost risks associated with geographic and product diversification risks will assist management in designing cost-effective strategies that will facilitate higher corporate performance.

Satoto research (2019) found that companies that expand their business units create an un-positive influence, which may be due to the factors of the poor management control system and also economic environmental factors that are still unstable.

Abbas, Khaize, Sadiqque (2013) research on the average company that implements a non-diversification strategy is better than companies that implement divestment strategies. On the other hand, many opinions say that the increase

in the economic scale of the company is influenced by investment diversification but diversification harms on long-term business continuity (Capar and Katabe, 2003).

In Banten Province, the establishment of 'BUM Desa' is still relatively new on average around 2017 so that 'BUM Desa' can still exist 'BUM Desa' should be able to utilize and manage the potentials of existing villages in Banten province, with the strategy BUM Desa conducted to create business expansion by opening several business units. Diversification of business conducted by the company will provide revenue from various segments. Revenue from these segments can help reduce the potential losses that can be experienced by other business unit models, with the verification of business conducted by a company, can help reduce the potential loss of investment of the company, reduce the potential for bankruptcy and can create opportunities to survive or succeed to become greater.

Companies that effectively and efficiently diversify their business will have an impact on the better the entire process of the company's activities and finally, a company or business entity can survive. Business entity activities require a system that can ensure the efficiency and effectiveness of the performance of the business carried out, where the circumstances and conditions of each adjust to the system because the form and type of business carried out varies according to the concept in contingency theory (Otley, 1980) then it can be said if there is no accounting system model or management system that becomes a reference or applies universally , while the luck depends on the condition of each company is different, as happened to the 'BUM Village' in Banten Province.

Based on the exposure of identification and gaps that occur has implications on the difficulty of BUM Desa in increasing the Village's Original Income. This research aims to obtain in-depth information about the inability of 'BUM Desa' in running business wheels in improving financial performance to maintain existence by adding business sectors based on the potentials of existing villages.

Research Methods:-
The model in this study uses quantitative techniques on non-experimental research types. The method used in this study is descriptive, then researchers will try to obtain actual and valuable information, related to the divergence of investment 'BUM Desa' in Banten Province with data processing using structural methods of explantation and descriptive methods.

The target population is based on geographical boundaries, namely researchers determine the 'BUM Village' that is targeted is all active and stable 'BUM Desa' located in Banten Province. Therefore, this study is the population of all 'BUM Desa' in Banten Province in the period 2019 with a total of 688 'BUM Desa'. The sample in this study is 'BUM Desa' which was selected based on thePurposive Sampling technique with the following criteria: (1) 'BUM Desa' is registered as evidenced by the decree issued by the Village Government; (2) 'BUM Desa' is active as evidenced by the 2019 financial statements; and (3) active 'BUM Desa' which has a capital of $\geq$ Rp. 30,000,000 (Thirty Million Rupiah). So that obtained as many as 80 samples distributed in 4 districts in Banten Province.Researchers divide by a proportion of 80% in each 'BUM Village' in each district, then obtained the number of samples as many as 70 in Pandeglang, 6 in Lebak, 3 in Serang and 1 in Tangerang.

The analysis tool used is PLS-SEM to know and describe a relationship between latent variables. The data used also does not need to be normal multivariate distribution and the number of samples does not have to be large. By using this PLS analysis tool researchers can determine the value of latent variables so that the purpose of explaining the existence or not of the relationship between latent variables is easier.

Result:-
The results of the study are divided into several stages of analysis, namely outer model evaluation, inner model evaluation, and hypothesis test.

Evalusi Outer Model
The first thing to do is evaluate the outer model by looking at the loading factor of all variables. Loading Factor test results on indicators of financial performance variable 'BUM Desa' based on output coefficient of track as described below:

Table 1:- Loading Factor Test Results.

Statement Item Code	Loading Factor (LF) Value	Result
Financial Performance	1,000	Valid
Diversification	1,000	Valid

Source: Output from Smart PLS 3.0 report 2020

Based on the data feed of LF test results can be seen that the existence of each variable indicator in this study has a lot of outer loading value > 0.7. So it can be explained that the indicators on the variables of this study can be said to be valid data and can be directly analyzed further.

Furthermore, the discriminant test validity with the stages of doing a comparison of the root AVE with the relationship between constructs.

Table 2:- Comparison of AVE with AVE root.

Variable	Average Variance Extracted (AVE)	Ave Root
Diversification of 'BUM Desa' Investment	1,000	1,000
Financial Performance	1,000	1,000

Source: Output from Smart PLS 3.0 report 2020

Based on the comparison table of AVE with AVE root, states that AVE value AVE Diversified Investment 'BUM Village' 1,000 with AVE root of 1,000. Financial Performance has the same AVE and Root AVE values of 1,000. So the size of the convergen validity is good, because it can explain several variants of indicators on variables so based on the results of data and data analysis, then the value of Discriminant validity in this dissertation research results describe a good value.

Next test the reliability value of each indicator with composite reliability.

Table 3:- Composite Reliability.

Variable	Composite Reliability
Diversification of 'BUM Desa' Investment	1,000
Financial Performance	1,000

Source: Output from Smart PLS 3.0 report 2020

The values in each variable in this study, such as the table above show all research variables have a value of > 0.6. So, it can be said that every indicator on the variables used in this study has met composite realibility, so that each indicator on the variable used in this study has a high realibility value.

Then continued on the concept of Cronbach Alpha can be used to strengthen the process of testing the value of reliability on research variables.

Table 4:- Cronbach Alpha.

Variable	Cronbach's Alpha
Diversification of 'BUM Desa' Investment	1,000
Financial Performance	1,000

Source: Output from Smart PLS 3.0 report 2020

Each Cronbach Alpha value in each variable used in this study > 0.7. it can be stated that the overall variables in this study have a high level of reliability, as they meet the requirements of the Cronch Alpha value.

Evaluasi Inner Model
In the section testing the influence of independent variables on dependent variables, researchers use Path Coefficient.With the concept of coefficient Path test researchers can get the big picture or whether the influence of independent variables on dependent variables in this dissertation study. Based on the results in the picture above, shows that the value of coefficient path on the variable influence of financial performance on investment

diversification 'BUM Desa' which is 4,527.Variables in this study have a positive number value, because it has a large value on independent variables used against dependent variables, based on the Coefficient Path Test.

The results of the model goodness test (Goodness of Fit) obtained the following results:

Table 5:- R Square Structural Results Model.

Variable	Path Coefficient	R square
Financial Performance → Diversification of 'BUM Desa' Investment	0,378	0,462

Source: Output from Smart PLS 3.0 report 2020

To test with this goodness of fit assessment should know the results of the Q-Square value. If the result of Q-Square value is higher, then it can be said that the better or more fit with the data. The calculation result of Q-Square value is as follows:

Q-Square $= 1 - [(1 - R21) \times (1 - R22)]$
$= 1 - [(1 - 0,462) \times (1 - 0,218)]$
$= 1 - (0,538 \times 0,782)$
$= 1 - 0,421$
$= 0,579$

The Q-Square value obtained in this study was 0.579. It can be said that to illustrate the diversity of this research data by, 57.9%.

Hypothesis Test
The hypothesis test was conducted using t-statistical measurements with the following results:

**Table 6:-** Results of measurement of t-statistical relationships between variables on model structure.

Relationships Between Variables	t value	P Value	H_o	Result
Financial Performance → Diversification of 'BUM Desa' Investment	4,527	0,000	Rejected	There's a Positive Influence

Source: Output from Smart PLS 3.0 report 2020

The results of the Financial Performance test are based on 'BUM Desa' Investment Diversification, obtaining a t-count value = 4,527, with a value of p-value = 0.000 < 0.05 means ha is not enough data to receive Ho and the data supports then Ho is rejected. Thus, Financial Performance has a positive contribution to the Diversification of Investment 'BUM Desa'. The coefficient of the line between Financial Performance and investment diversification value 'BUM Desa' is 0.378. So the Disvergible Investment 'BUM Desa' will be able to increase by 0.378 if the Financial Performance increases by 1 unit and if the other variable is constant.

Discussion:-
Financial Performance has a positive impact on 'BUM Desa' Investment Diversification. The results of roi calculation on 80 'BUM Desa' in Banten Province show the average roi value owned by 'BUM Desa' which diversifies investment. Here is a comparison of ROI value between 'BUM Desa' diversified and 'BUM Desa' is not diversified.

Figure 2:- Roi Comparison of Diversified 'BUM Village' with 'BUM Desa' Is Not Diversified.
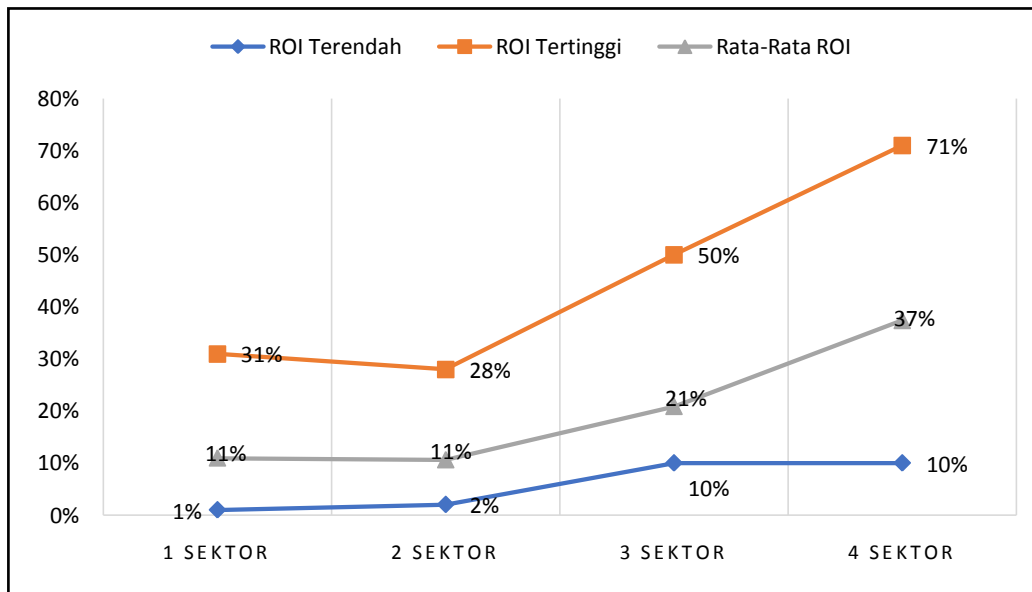
Source: Processed from the Office of Community Empowerment and Village Government of Banten Province (2019).

Referring to the comparison chart above, 'BUM Desa' which conducts Investment Disvergence has a high roi average, even 'BUM Desa' that diversifies also has the lowest ROI of 2% and the more businesses are taken then the lowest ROI will also be greater, then the highest ROI value can go up. Therefore, with a large ROI value, the Company will be able to divest even though the risks that can be experienced by 'BUM Desa' will be higher.

Furthermore, 'BUM Desa' with more diversified sectors will be directly proportional to the high ROI level. This is the case with Tunas Mandiri 'BUM Desa' in Domas village, Pontang Subdistrict, Serang Regency which has a ROI of 71% with a profit of Rp. 92.300.000,-. The amount of ROI can be by opening a business in four sectors, namely Rill, Brokering, Trading and Agribusiness.

The geographical condition of Serang Regency is really utilized by 'BUM Desa' Tunas Mandiri where Serang Regency which is close to the capital's economic support area has a variety of market opportunities, in addition to its strategic location to conduct business in the Rill, Brokering, Trading, 'BUM Desa' Tunas Mandiri sector also utilizes the potential of agribusiness because there are still many rice fields and plantation lands in Serang Regency. , especially in domas village.

Thus, it can be drawn a preliminary conclusion where the diversity of the business sector or investment diversification can increase when supported by good financial performance although it can increase business risks. In addition, referring to the description of objective conditions above, the condition of the analysis of village potential also has an important role in determining the sectorization of the business. This is reinforced by the existence of 'BUM Desa' which is not diversified but has a large ROI of 31% experienced by 'BUM Desa' Hegar Manah, District Cibeber Labak Banten. By utilizing this organic tea garden is managed by PT. Harendong Green Farm certification USDA (USA), IMO (Switzerland), JAS (Japan), Indonesia Agriculture, really used to be a sectorization of business in the field of tourism.

This research is in line with the results of Jumingan research (2006) which mentions the process of implementing financial performance in a company is an overview of the financial condition of the company. In relation to investment diversification, financial performance has a significant impact or influence on investment diversification.

Financial performance has a positive influence on investment diversification. This is because in companies with good financial performance means able to generate profit from sales and total assets, as well as manage capital. Meanwhile, diversification can be created if the turnover of working capital occurs quickly. The faster working

capital rotates, the better the financial performance of 'BUM Desa'. Thus, 'BUM Desa' will be able to expand the business segment (Diversification).

According to Harto (2005) stated that by making evalusion for businesses on the impact of the economic crisis, businesses must have a strategy to be able to survive and minimize the risks that occur to changes in economic conditions. Strategies that can be used by businesses for economic change by verified businesses. This means that diversification as a form of business sectorization expansion positively affects financial performance. With these conditions, researchers understand that a healthy financial performance with high profitability will have an impact on diversification of the company's investment as a step to minimize weak financial performance. In the 'BUM Desa' scope as a village tigkat business entity, investment diversification depends on financial performance (which in this case is capital).

The analysis described above in accordance with the results of research from Harmiati and Zulhakim (2017) states that in order to improve the national economy, it can be done by improving and developing the economic efforts of rural communities, comprehensively, then in tandem the national economy will develop.

Based on the results of obsevation conducted by researchers on 80 'BUM Desa in Banten Province shows that 'BUM Desa' which has high financial performance is able to diversify investments. This means that a rapid turnaround of capital will result in high and stable financial performance. Therefore, 'BUM Desa' will be easy to diversify investment. The observations are in line with Eukeria and Favourate (2014) in a study conducted found that the conglomerate's desire to diversify is driven by synergistic resources, growth, motive-based and financial. Economies of scale and scope, shared skills, resources and competencies and reduction risks are some of the motives behind the adoption of diversification.

The results of this study are different from the results of research conducted by Adamu (2011) showing that there is no difference in financial performance between the un diversified group and the fairly diversified group. The findings in this study show a link between financial performance and diversification rates. The implication is that high financial performance will increase investment diversification. It is understood that financial performance is not only concerned with profitability but the rapid turnover of capital flows and liquidity with the faster the turnover of capital flows, the better the financial performance as the implication is that the company 'BUM Desa' is able to easily diversify investments.

The level of development in an investment, on the placement of assets on a particular asset in the hope of obtaining a positive rate of return. In this case the profit is divided by investment, meaning that the higher the positive rate of return will affect its financial performance. The higher the level of performance, the 'BUM Desa' will be able to create a new business segment called investment diversification.

Conclusion:-
Financial performance has a positive influence on investment diversification. With a large capital ownership will make it easier for 'BUM Desa' to open new business segments.

'BUM Desa' which has high financial performance is able to diversify investments. This means that a rapid turnaround of capital will result in high and stable financial performance. Therefore, 'BUM Desa' will be easy to diversify investment.

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